



17th February, 2021

The Secretary

BSE Limited

Phiroze Jeejeebhoy Towers,

Dalal Street, Fort,

Mumbai – 400 001

BSE Code: 500645

Listing Department

National Stock Exchange of India Ltd.

Exchange Plaza,

Bandra - Kurla Complex, Bandra (E)

Mumbai – 400 051

NSE Code: DEEPAKFERT

Subject: Management Transcript of Q3 FY 2021 Earnings Conference Call

Dear Sir / Madam,

We would like to provide the Management Transcript of Q3 FY 2021 Earnings Conference Call, which was held on **5th February, 2021**.

The transcript of the Q3 FY 2021 Earnings Conference Call is also available on below mentioned Youtube video link: <https://youtu.be/DtnDH8-jCHw>

We request you to take the same on your record.

Thanking you,

Yours faithfully,

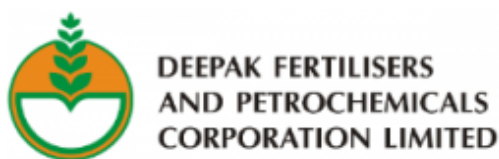
For **Deepak Fertilisers**

And Petrochemicals Corporation Limited

Ritesh Chaudhry

Company Secretary

Encl: as above



Earnings Conference Call

Q3 FY2021

February 5, 2021

Management:

Mr. Sailesh Mehta – Chairman & Managing Director

Mr. Amitabh Bhargava – President and Chief Financial Officer

Mr. Mahesh Girdhar – President, Crop Nutrition Business

Mr. Suparas Jain – Vice President Corporate Finance

Mr. Deepak Balwani – Associate Vice President, Investor Relations

Mr. Debasish Kedia – General Manager, Corporate Finance



Moderator: Ladies and gentlemen, good day and welcome to Deepak Fertilisers and Petrochemical Corporation Limited Q3 FY2021 earnings conference call hosted by Dolat Capital Market Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Archit Joshi from Dolat Capital. Thank you and over to you Mr. Joshi!

Archit Joshi: Thanks, Neerav. Good evening one and all on behalf of Dolat Capital, I would like to welcome all the participants for Q3 FY2021 conference call of Deepak Fertilisers and Petrochemical Corporation. We have with us today Mr. Sailesh Mehta, Chairman & Managing Director, Mr. Amitabh Bhargava, President & Chief Financial Officer, Mr. Mahesh Girdhar, President of Corporate Nutrition Business, Mr. Suparas Jain, VP - Corporate Finance, Mr. Debasish Kedia GM - Corporate Finance and Mr. Deepak Balwani, Head Investor Relations. Thanks a lot gentlemen for giving us this opportunity. Without further ado, I would like to hand over to the floor to Mr. Sailesh Mehta for his opening remarks post which we can have the floor open for Q&A round. Thanks and over to you Sir!

Sailesh Mehta: Thank you. A very good afternoon to all of you. I hope you all and your family are safe and healthy. I am hoping that in the next few months, we all will get our vaccines and we will be able to meet each other in person and looking forward to that pleasure. I also take the pleasure of welcoming you all for the Q3 and 9 months FY2021 earnings call of DFPCL. I hope you all have had the chance to look at the consolidated financial statement and Q3 result presentation, which have been uploaded onto the stock exchanges.

I am extremely pleased to share with you that we have achieved possibly the highest ever, in the Deepak fertilizer history, our nine-month performance despite various challenges imposed by COVID. Very broadly speaking, if I give you the headline, at the consolidated level for the nine months there has been sustained transformative shift, so our operating EBITDA has virtually doubled quarter-on-quarter and even year-on-year. Net profit grew from Rs.30 Crores to Rs.89 Crores for the quarter-on-quarter and Rs.67 Crores to Rs.291 Crores for the nine months. Margins also grew from 2.6% to around 6% quarter-on-quarter and for nine-month from 1.9% to around 6.8% and the 9-month we have crossed the top line of Rs.4000 Crores already.

Now if I look at it in terms of what are the undercurrent aspects that have led to this positive change and let me share with you, at a very broad level, few macro aspects and few micro aspects that have helped. At the macro level, as we see it all three of our sectors now seem to be beautifully aligned with the country's growth story and are getting a lot of tailwinds which is certainly a good help at the macro level. Our fertilizer business is well aligned with the mid income group growth in foods and vegetables, horticulture and crop requirements. Our industrial chemicals are very well aligned with the country's pharmaceutical sector and fine chemical sector and now of course the hygiene needs for hand sanitizers. Our mining chemicals are also beautifully aligned with the country's need for power for which



it needs coal or the country's need for cement for which it needs limestone or infrastructure for roads. One key thing, that we are seeing at the macro level, Deepak Fertilisers businesses have beautifully aligned with the fundamental country's growth story.

Second that happen at the macro level, it was peculiar. The rains were good. Peculiar in the sense, that initially during Kharif there was an impact but then for the Rabi it ended on a positive note. The third aspect at the macro level that we are seeing is that with some bit of the China shift, some bit of push towards Atmanirbhar, a huge support in the budget for the agriculture sector; all of it has been positive for us at the macro level. Going forward, the reforms that we are seen in terms of commercial mining, the reforms that we feel are around the corner in terms of agriculture fertilizer sector of direct benefit transfer to the farmers, and drive and push for doubling the farmer income and the steps in those directions, which had been taken in which we see around the corner all of it at the macro level are going to be supporting the businesses that we are in.

Now at the micro level at Deepak Fertiliser level, one aspect that has certainly helped is that capacity that we had put up in the last, I would say three to four years whether it is the NPK fertilizers or the acids and now all of them are firing away, all of them are going strong. Dahej has also performed very well and that has also contributed to this kind of a positive trend. The second at the micro level, which is the most critical one, is that our strategic drive from customer to consumers and climbing the value chain from product to solutions that focus is really bearing fruits whether it is for the fertilizer business where we have made a major shift in our thinking process, in our marketing efforts, in our reach where instead of focusing on the products we have started focusing on a crop specific strategy.

Similarly, for our TAN project, we are focusing on our customer's industrial explosives firm, we have now begun a very strong focus at the mines level itself so this strategic drive is certainly something that has very positively helped. The third and the most important aspect is that we have taken a very strong drive on cost efficiencies, systems controls digitalization and each of those are now reflecting into much better tracking, much better cost optimization.

Broadly, I might share that in the quarter that cement and infrastructure which support to TAN business, did not reach its pre-COVID levels and so that is something that we are now looking forward to as we gradually to come out of it, and that would have a positive impact for TAN even further going forward. As far as our IPA goes for the hand sanitizer business, we did see a huge upswing in the first quarter and since then it has mellowed down. IPA is not somewhere what it was a year-and-a-half back with the Chinese dumping so today in another situation is somewhat better but of course Q1 was bonanza, which has mellowed down.

As we go forward, we do see that the fundamentals as far as fertilizer food industrial chemicals with health sector, fine chemicals, mining activities, the Atmanirbhar drive and above all it still certain extra capacities that we have all of it is going to fundamentally give us a very positive traction even going forward.



So, with these opening remarks, I would now hand over to Mr. Amitabh Bhargava, our CFO, President and Finance for a detailed financial overview and insights in the operation performance and also then address queries if you have any.

Amitabh Bhargava:

Thank you. Mr. Mehta. Thank you very much. Good afternoon, ladies and gentlemen, and thank you for joining the Deepak Fertiliser and Petrochemicals conference call to discuss the Q3 FY2021 results.

Our Q3 and 9 months financial performance clearly demonstrates the depth of our core business model and product diversity leading us to a best ever performance even during challenging times. We are confident of maintaining this growth momentum as Chairman mentioned earlier. Certain fundamentals are certainly now very clear and very clearly in place. The strong financials were backed by remarkable performance by all the three key sectors. strong demand for our products and better capacity utilizations; all the efforts that we had played in last few quarters on debt reduction, cost optimization and efficiency measures through transformative initiative have started bearing fruits.

During Q3 FY2021 we reported total operating revenue growth of 29% Y-o-Y to Rs.1,447 Crores operating EBITDA increased by about 100% Y-o-Y to Rs.217 Crores. Operating margins increased to 15% in Q3 FY2021 as compared to 9.7% in Q3 FY2020, net profit increased by 3x Y-o-Y to Rs.89 Crores in Q3 FY2021. Finance costs reduced by nearly 29% Y-o-Y in Q3 FY2021. We achieved reduced finance cost by putting significant efforts towards improving collections and better working capital management thereby reducing the short-term borrowings.

In chemical segment, manufactured chemical business reported revenue of Rs.685 Crores in Q3 FY2021, manufactured IPA revenues increased by 78% Y-o-Y to Rs.131 Crores in Q3 FY2021. IPA demand remains robust in Q3 and manufacturing sales volume increased by nearly 20% Y-o-Y. Softening in IPA prices are being witnessed as chairman also mentioned. Manufactured acids sales revenue increase by nearly 16% Y-o-Y in Q3 FY2021, robust performance in assets business was mainly driven by a strong demand and resultant better realizations.

We feel Nitric acid plant at the Dahej delivered an outstanding quarter with over 100% capacity utilization in concentrated nitric acid and nearly 95% in the dilute nitric acid segment. After facing severe challenges in the last two quarters due to COVID, our TAN showed significant recovery in line with the opening of the consumers industries. TAN sales increased by 14% Y-o-Y in Q3 FY2021, strong demand of TAN product experienced both Q-o-Q and Y-o-Y growth driven by improvement in the end users sectors.

Pricing improved significantly aided by the demand supply issues in the market particularly for HDAN and our AN Melt. Although demand for LDAN increased compared to Q2 and Q1 FY2021, weak performance of infrastructure, cement and steel related sectors has resulted in lower than expected volumes as many of the cement plants are still sort of operating at below pre-COVID levels of capacity utilization. Chemical trading business registered Rs.110 Crores of revenue in Q3 FY2021 up about 11% Y-o-Y.



Fertilizer segment continued its strong performance for fifth consecutive quarter led by higher sales volume supported by good rains in the core command area and demand for recently launched Superfast Bensulf. Overall, margins improved significantly due to high proportion of differentiated Smartek NPK in the product mix. Manufactured fertilisers reported revenue increase of 39% Y-o-Y to Rs.562 Crores in Q3 FY2021, nitro phosphate NP sales volumes in Q3 increased by 13.6% Y-o-Y and NPK by nearly 52% Y-o-Y. Fertilizer trading business increased by 28% Y-o-Y to Rs.85 Crores in Q3 of FY2021. We remain confident as Chairman mentioned both the macro and micro factors are helping us in that direction and we remain confident of continuing our growth trajectory while extending full support to our customer's supplies and other valued stakeholders in these testing times.

With these we would be happy to take your questions. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Lokesh Manik from Vallum Capital Advisors. Please go ahead.

Lokesh Manik: Thank you for the opportunity. Couple of questions from my end, one is on the nitric acid side. Realization has shot up by about 20% Q-o-Q and Y-o-Y from about 20,000 metric tonnes of 25000. Is this temporary in nature or due to demand supply mismatch, or do you view expected to continue going forward?

Amitabh Bhargava: One is, definitely, there is a strong demand we are seeing and to the extent that we sell a part of our products in the spot market that has helped realize better prices but on the long-term end, some of the contracts that had come up for a revision. We also have negotiated price increase in those contracts. So, a part of it I would say is sustainable and for remaining, it depends on the spot market but we are seeing a very strong demand in nitric acid sector so we are hopeful that these margins will sustain.

Lokesh Manik: The second question was on the Project's the capex so in your earlier presentation that you mentioned about expansion of IPA and TAN. So is that back on the table. I understand put on hold for so that is back on the table and if you can share what would be a timeline tentatively by when you can commission it and second was the ammonia project if you can provide a status update on that?

Amitabh Bhargava: As far as TAN project is concerned. I do not think at any stage we said that it is on hold. With TAN project, we have been in the process of getting all the required approvals, environmental approvals and other regulatory approvals. There are certain development activity that is required before you start investing on the ground. That process is on and therefore the timing of that, let's say, the capex construction and the rest of procurement would depend on that. We are hopeful that in next two quarters should be in a position to get most of the approvals but like I said, it depends the capex would depend on all the regulatory approvals that we get. As far as IPA is concerned again, we are watching the environment and the situation in terms significant volatility of IPA prices. The raw material prices whether it is RGP or acetone have also seen volatility. So for us, we are closely watching the situation before we make up our mind on whether we go ahead or not. We want to sort of wait and wait for the equilibrium to establish in some sense because there are too many factors right now sort of moving and shaking. So, from that perspective IPA for the time being, we are waiting, waiting and watching. Ammonia project



we have got our consent to establish, which means, we can start the construction now. The land acquisition is behind us. We have acquired all the land. We are just in the final phases of negotiating our contracts and we would then resume the progress of ammonia project.

Lokesh Manik: Okay, but any timeline as to when can you expect maybe 2023 that be?

Amitabh Bhargava: 2023 first quarter calendar year we expect that we would be able to commission to plan.

Lokesh Manik: For Ammonia and TAN?

Amitabh Bhargava: Ammonia. TAN is let us say anywhere between 26 to 30 months from the day we start.

Lokesh Manik: That is it from my side. I will come back for more questions. Thank you

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

Deepak Poddar: Thank you very much. Sir you spoke about the momentum in the growth trajectory as well as the future fundamental and all, in terms of outlook that you want to share for the next year?

Amitabh Bhargava: I did not get your question, is it specific to a product that you are asking or you are saying in general outlook?

Deepak Poddar: In general?

Amitabh Bhargava: See first of all you would appreciate that some of our sectors are cyclical in nature and raw material does play an important role in terms of margin so to that extent, giving a prognosis or an estimation on numbers is something that we would want to stay out. Chairman also mentioned earlier, which is the macro and micro factors, so you need to and we need to concentrate on some of those aspects and there I would say if you look at product by product in nitric acid, we are seeing significant demand coming from downstream sectors while this year so far. I would say our capacity utilization because of Q1 and Q2 issues that we faced on the production size overall capacity utilization have been in the range of 60%-65%, so we have I would say significant sort of operating leverage sitting there. It is just a question of having the production streamline and that itself would give us the volumes because the demand is not an issue. Likewise in IPA again, we are as a country are a net importer and despite capacity coming from some of the other players, we continue to import so demand is not an issue. We will have to see what the prices how IPA and RGP prices behave and this is again a typical sector where it is very difficult to predict. Fundamentally, if you look at TAN business, this year the capacity utilization because of what we faced in Q1 and Q2 have been more in the range of 80%. There is TAN demand and is not a question mark at all. We are again a net importer in fact with certain restrictions on imports. We have seen the demand supply situation again more in favor of the supply side so we have got good realization and given that capacity utilization can be further improve, we have nowhere close to what we achieved in FY2019. For example, we see that there is good headroom left there in terms of further sort of getting the volumes and the margins in TAN business. Fertilizer is where we have clearly, despite all the



challenges we faced, significantly better than last year. We are looking at capacity utilization of about 74% that we have got utilized in this year 9-month. This means that farmers accepted our products and we are coming up with new product variants. We are quite confident that this additional sort of operating leverage sitting in our capacity particularly in NPK train and we would be able to utilize them well. If you look at all of the fundamentals on the demand side and the fact that we are still sitting on capacities unutilized capacity, we do see a good traction going forward.

Deepak Poddar: That is quite elaborate explanation. Thank you so much Sir and just last thing, when you are talking about growth mainly the growth momentum, are we talking about like last two to three quarters we have been maintaining about 20%-25% kind of revenue growth and Y-o-Y business so is that the momentum we are talking about?

Amitabh Bhargava: I have given you a sense on the capacities and unutilized capacities so as far as capacity utilization is concerned like I said demand is not a constraint and once pandemic is behind us, we do not see challenges in utilizing our capacity. What happens to prices is something that we need to watch out for and to that extent I would want to predict. I think, you are aware that there is general inflationary trend that we are seeing in all commodities and then the question is, what happens to relative prices of finished goods and raw materials that would also in a way decide what kind of margins we are able to secure in coming quarters. But we are seeing like, demand is not a challenge capacity utilization is something that we are quite confident that today we are underutilized, and we would utilize them better.

Deepak Poddar: That is my side. Thank you so much.

Moderator: The next question is from the line of Nishit Shah from Aequitas Investment Consultancy Private Limited. Please go ahead.

Nishit Shah: Congratulation on great numbers Sir I wanted to understand on subsidy front how much is outstanding?

Amitabh Bhargava: There is by December end Rs.460 Crores, but what I can confirm to you that in January month, we have received roughly about Rs.210 Crores so this number would have come down, but December end number is Rs.460 Crores.

Nishit Shah: Okay, and with the higher budget reallocation, do you feel that the pending subsidies so basically, there would be no pending subsidies for this year end?

Amitabh Bhargava: That is our estimation as well. But let us see.

Nishit Shah: Okay, Sir and this phos acid and ammonia prices have been on a rising trend. So, can you give me the current prices and also I wanted to understand will be able to pass on this prices to the consumers?

Amitabh Bhargava: Phos acid prices have gone up by about \$100 and while ammonia prices today we are looking at about \$270 - \$280 CFR prices. Now again it is very difficult to answer that question. We will have to see how other players in the market react to prices increase. In last several quarters, the demonstration that we



have done at the farm level and the number of farmers who have now tested our differentiated product and the fact that we have compared to the competition our variance, Smartek variants are commanding premium that gives us a confidence that farmer would be willing to pay for that for that differentiation and that gives us a better ability to pass on the price. But a lot also depends on how the market and rest of the players also react to this.

Nishit Shah: Sir so is the channel inventory normalized by now or is it at a lower level?

Mahesh Giridhar: The channel inventory is at the normalized level because channel inventory started coming down, because there were some supply challenges in the first half and demand this year the consumption this year first half was about 40% more than last year. So that has depleted the inventory and inventory is quite normal now.

Nishit Shah: Sir, can you give me the breakup of EBIT for tan and nitric acid? I want EBIT of TAN and nitric acid separately is that possible?

Amitabh Bhargava: One is we report at the Deepak standalone we report EBIT, which has both IPA and acid numbers. At the consolidated level, we report the chemical segment which has TAN, IPA and acid so as such we do not sort of report a split between IPA and the acid.

Nishit Shah: Our realizations for tan and nitric acids have gone up. Some input cost would have also gone up so has EBITDA margins for these per tonne basis has gone up then what you were experiencing in the past those have been stable?

Amitabh Bhargava: If you see, the overall EBIT numbers have gone up for chemical segment and TAN was significant contributor to that, like I said, we do not report EBITDA product wise because some of our costs are also common and to that extent they appear below the segment EBIT number. We do not report it and would not want to break up the costs which are below segment EBIT into respective sort of products.

Nishit Shah: Sir now coming to our debt so how much have we reduced debt, gross and net in this quarter?

Amitabh Bhargava: This quarter debt I would say roughly about 50 odd Crores net debt reduction so by and large it has remained flat, so I think September end we were roughly about Rs.2,050-odd Crores and we are now down to Rs.2000 Crores.

Nishit Shah: Sir and the interest cost has been stable quarter-on-quarter so do we see that reducing going forward?

Amitabh Bhargava: We have in fact reduced the interest cost what are you saying is quarter-on-quarter, there has been stability. Yes, I think fundamentally, like I said, through better working capital management and collections we have significantly reduced the short-term debt. On long-term debt, it is most the earlier capex that we are done. Out of Rs.2000 Crores, nearly Rs.870 Crores debt is on account of ammonia project. As far that is concerned, long-term debt will remain, the normal amortization would apply there while we are also looking at reducing some of that long-term debt interest rates, but given that we have



significantly achieved efficiency on the short end, interest on short end unlikely to go further but on long end we will see what better efficiency we can bring in. I think this level of interest should sustain.

Nishit Shah: Sir my last question any direct impact on us from this budget?

Amitabh Bhargava: There is no direct impact, I mean there are cascading impacts in terms of what happens to infrastructure sector or the expected reforms in the fertilizer sector that Chairman earlier spoke about, but if your question is more around any change of duty etc. no, I think there is no.

Nishit Shah: There was some change in ammonium nitrate duty will that affect us?

Amitabh Bhargava: The net effect there is nil because I think the two component is part of a new component has been introduced as part of the import duty but earlier 7.5% it is down to 2.5% but we now have 5% agriculture and infrastructure cess so net effect is zero.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments Managers Private Limited. Please go ahead.

Sachin Kasera: Good afternoon Sir. Congrats for a good set of numbers. I had two to three questions one was a follow-up on this debt part so you mentioned in the current debt is around Rs.2000 Crores of which 800 Crores is for ammonia so how do we see the overall debt number maybe in the next one to two years you think it will remain at this level or you think we can bring it down that could be one way of looking at it or are we looking it more as a debt to EBIT or debt to equity if you just give us your thoughts on how you are looking at the overall debt?

Amitabh Bhargava: If you look at consolidated debt again that did not completed the year so it is difficult to compare debt to EBITDA if one were to just apply a proportionate increase. We are on a nine-month basis, we are nearly at debt to EBITDA of may be 2.1 to 2.2 thereabouts. As far as capex is concerned to the extent, we are going ahead with our ammonia projects. It would add the debt incommensurate with the progress that project would be. As far as other operating debt is concerned, like I said on the short term we have quite large achieved all the efficiency so I do not expect that the short-term debt would go significantly down. On the long end of the debt, we are sort of there would be a normal amortization so that debt will come down. What is also reflecting in debt is some of the optionally convertible bonds and compulsorily convertible debentures in our book. As and when this convert because these have long five to six and a half years of investment period, which is the investment done by IFC, to the extent these debt or today what is appearing and debt in the book from accounting purpose as and when we convert it to equity or they exercise the option of converting them into equity that would also result in better debt to EBITDA or debt to equity ratio. In summary, I think the capex debt will go up at least on ammonia because that is the project we are clearly going ahead. TAN I had mentioned earlier that the timing depends on us getting all the approvals and the operating debt would get amortized because some of it is for capex that we have already done and we are now generating healthy EBITDA from those capacities.



- Sachin Kasera:** Sir as a follow-up on the ammonia projects so you mentioned that Rs.800 Crores is the current debt you are carrying, how much we have spent totally on this project and how much more we need to spend and what according to you could be tentative timeline till when this project could be completed?
- Amitabh Bhargava:** We have spent nearly Rs.1500 Crores. The numbers in terms of the going forward capex would get frozen with once we finalize our contracts, EPC contracts etc., timing wise, I have already mentioned that we expect that project to get completed in Q1 of calendar year FY2023 so by March and April of 2023 we are looking to complete the process.
- Sachin Kasera:** Sir one just last question on the manufacturing side with the existing capacity what is sort of for like peak revenue we can achieve on the manufacturing side both on fertilizers and chemicals?
- Amitabh Bhargava:** That depends on what happens to the prices of each of finished products which I mentioned that look at in some cases there is cyclicity. What you need to maybe look at is how much additional volumes can we generate or sell in each of the product and to that effect I have mentioned earlier what kind of capacity utilization has happened so far in this nine months period and what kind of additional capacities are sitting because demand we do not see to be a challenge in almost all of our product so volume is coming that you can take what you want very difficult for me to give your view on.
- Sachin Kasera:** Next year we could look at very healthy utilization across all products in the manufacturing side Sir.
- Amitabh Bhargava:** Yes, that is what we are in.
- Sachin Kasera:** Sure. Thank you very much and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities and Finance Ltd. Please go ahead.
- Rohit Nagraj:** Thanks for the opportunity and congratulations. So, the first question is not exactly question, but the slide on the sales volume this time is looking instead of that. We have provided volume growth on Y-o-Y basis for nine months and Q3 so if you could provide the sales volume, I think that would be better really in the next quarter so just a suggestion on that part? Secondly question is in terms of dilution so what would be the dilution which will happen post our IFC conversion and the bonds, which are currently under conversion.
- Amitabh Bhargava:** We reported earlier to stock exchange as well is that IFC and FCCB have a conversion option at Rs.195 per share. The option at what stage do they exercise because it is difficult for me to say what kind of price, they will look for more than 195 level before they exercise that option, but as such the conversion is at Rs.195 levels per share and they have \$30 million of shares that FCCB have invested so rest is you can do the maths.
- Rohit Nagraj:** That is the only thing which is there in terms of conversion or dilution if you have right.



- Amitabh Bhargava:** At Deepak level yes, there are other instruments that they have invested are at the Smartek at the subsidiary level.
- Rohit Nagraj:** Thanks that helps. In terms of any imports probably getting impacted in our existing segments IPA or any other segment that we have seen in this particular quarter or is there any benefits because of the overall container situation and shipping rates going up so as there be any positive or negative impact on our business during Q3 and how are we expecting the payment in Q4?
- Amitabh Bhargava:** As far as the container is concerned, the shortage of container has to some extent that to some extent affected TAN export but that again is not a significant volume and given the domestic demand is not as that product cannot be placed we can always that product can be sold domestically because exports in any case is something that we do to maintain a certain level of market and get certain additional margins that we get and then export work is domestic expand but today we are seeing a strong demand from on AN Melt and therefore even if you are not able to export TAN we do not see any significant impact. We marginally export IPA and to an extent FNA which is a blend between CNA and DNA those are very, very small volumes and but those are in any case I think container wise the only commodity that gets affected is TAN export. As far as import is concerned again most of the import that we have is a bulk and therefore to that extent barring some specialty fertilisers that we trade into the other import significant part of our importing is in bulk and therefore does not affect us much.
- Rohit Nagraj:** Thanks Sir. Just one last clarification so I think we had intention of monetizing property so if you could throw some color on that? Thank you.
- Amitabh Bhargava:** I think we will wait for the right opportunity also as and when let us say funding requirement also we will be assessing on a real time basis so any monetization would be the function of both.
- Rohit Nagraj:** Thanks a lot, and best of luck.
- Moderator:** Thank you. The next question is from Hardik from Prospero Tree Financial Service LLP. Please go ahead.
- Hardik:** Thank you for taking my question. I just wanted to know what is the dividend distribution policy of the company?
- Amitabh Bhargava:** The Board has to decide the dividend based on profit and the internal requirements to some extent, board does want to maintain certain level of track record as far as dividends are concerned but it is entirely board decision which I would not want to comment on.
- Hardik:** Another thing why is the employee cost significantly up during this quarter?
- Amitabh Bhargava:** Couple of things one is there is given the performance that we are seeing in the business and we wanted to wait for the third quarter based on that some of the incentive variable pay, the management remuneration all of that may have to be as far the company policy may have to be on the higher end and therefore when we tried it up for in this quarter. We have not provided for them in first and second quarter as numbers that we are looking at we were not anticipating at that stage and to that extent it



is all come into third quarter, but one needs to look at last three quarters numbers and trued them up on a quarterly basis.

Hardik: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Dalal & Broacha Stock Broking Private Limited. Please go ahead.

Abhilasha Satale: Thank you for taking my question. I just wanted to know if you could take us through how IPA realization has moved on quarter-on-quarter basis and how has been the profitability because as you said even the raw material prices have also gone up so I am not asking for the exact numbers, but if you could just whether there is line with raw material whether there is increase or decrease in profitability?

Amitabh Bhargava: Broadly and I do not share margins that making in each of products but what I can mention is that immediately after the lockdown in April 2020 IPA prices shot up from let us say about 900-odd level \$1,250-odd level went all the way up to \$1,490 or nearly \$1500. This is IPA CFR for India prices so on an average Q1 if you could get all three months, the average price of about \$1,575 US dollars per tonne and came down to nearly let say \$1,100 per tonne in Q2 and was again marginally up to about \$1,130 - 1,140 but month on month again there has been fluctuations, so we started two to three quarter with somewhere around \$990 ended the quarter with \$1,280, odd so again significant sort of change within the quarter itself. In January we are looking at something like \$1,100 to \$1,150 kind of number CFR. As far as RGP is concerned this is dependent on crude prices so as such you have seen upsurge in crude prices so the prices that we had in Q1 so definitely those prices have moved up on the RGP front. A part of our volume we have even some bit of hedging on those prices, it is done only to the extent of part of our raw material price so that would also cause final impact in terms of profitability but like I said, prices are down from \$1,375 down to about \$1,100 while the crude prices have gone up as such that company would be aware in terms of what happen to Brent prices.

Abhilasha Satale: Sir could you just tell me what was the IPA realization in Q3 FY2020?

Amitabh Bhargava: You are talking about total?

Abhilasha Satale: Year-on-year basis if you could just tell me what was the IPA pricing Q3 FY2020 last year during the same quarter?

Amitabh Bhargava: You can see MFTs website we report MFT on our product.

Abhilasha Satale: Thank you.

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



- Lokesh Manik:** Coming to the fertiliser capacity, we have installed that 9-lakh tonne, we are operating at about 78% plus. What is the maximum, can we go to and what are the challenges we are facing to go up to that capacity if you can share a little bit on that?
- Amitabh Bhargava:** Practically, capacity utilization could be closer to 100% and some of the fertiliser plant if you see in urea for example more than 100% nameplate capacity but if it would be fair to say we can touch 100% capacity to the extent there is product change over because we produce different grades some bit of a loss that can happen, capacity utilization that lost but then I would assume that and Deepak Balwani can confirm later but even with that we should be in a position to touch anywhere between 95% and 100% utilization. What is stopping it actually; honestly, there is nothing that is coming in the way. There is as you know, the pandemic started in Q1, we were running one train, we had planned for one train we saw a very strong demand coming from the market particularly the kind of response that we saw our smartek product that gives us confidence that today on a full-year basis if you were to run the plant at 100% in market it will absorb the product if you see Q3 itself we have run a total capacity utilization is overall YTD 74% but Q3 is 89% and to that extent those challenges we saw in the pandemic period on evacuation and from the raw material sites as maintenance therefore ports breakdown today given the response that we have received on our NPK Smartek product, we do not see much challenge in utilizing our capacity to full extent.
- Lokesh Manik:** There is no technical issue as such which is preventing you from ramping up and we have some teething problems two to three quarters back when the NPK has just come on line if I am not mistaken?
- Amitabh Bhargava:** At that time, there was some raw material related challenges I think which was felt by many other players because phos acid, the suppliers are limited and few, to the extent we got affected, others were affected as well but a lot has changed on phos acid supply since then so we do not see any of those challenges.
- Lokesh Manik:** The second question is on the non-core asset so if you can provide any update on the divestment of the Australian subsidiary, there was some talk going on there; we were planning to divest our stake in there, one of the subsidiaries out there for reasons so any update on that?
- Amitabh Bhargava:** No update. As and when we reach level which we need to report to the stock exchange and the market we shall come back.
- Lokesh Manik:** Again, on the real estate part again we are still wait and watch mode?
- Amitabh Bhargava:** Yes.
- Lokesh Manik:** That is, it from my side Amitabh. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Svan Investments Managers Private Limited. Please go ahead.



- Sachin Kasera:** In the press release, we have mentioned that one of the reasons for margin improvement in fertilizer segment is the high share of Smartek NPK portfolio, so could you give us some sense what percentage of revenues volumes are coming from Smartek and secondly what is the type of profitability is it like significantly better than the one tonne of Smartek vs the normal?
- Amitabh Bhargava:** So, in Q3 we have sold bulk fertilizer that is our ANP and NPK Smartek about 1,73,000 tonne out of that 1,08,000 tonnes were Smartek and about 65,000 tonnes are nitrophosphate and on nine month basis we sold 504,000 tonnes out of which Smartek was 3,20,000 and ANP was 1,81,000. Now 320,000 is as compared to 143,000 in FY2020 nine months so nearly more than double in terms of volumes.
- Sachin Kasera:** Could you just comment for something able to profitable Smartek vis-à-vis normal fertilizer?
- Amitabh Bhargava:** Normal fertilizer in the sense, I did not get.
- Sachin Kasera:** Bulk versus Smartek, if you could give us some sense on the profitability?
- Amitabh Bhargava:** As such we were earlier selling the NPK plain product and assuming again because that we almost discontinued that product so I cannot compare the prices but assuming that the competition or the nearest competition is a proxy to the price that you would have sold NPK at and today's Smartek is getting anywhere between 8% and 10% price premium over the competing sort of grade which represents of what we would have sold at as NPK. Mahesh would you want to add that, or do you think that is a fair representation?
- Mahesh Girdhar:** We are not producing non-Smartek at all in our NPK II line trains anymore so nitro phosphate continues to be nitro phosphate and rest of the NPK is now a 100%. So we are no more producing any commodity product both these four grades we have under Smartek now all these grades are providing significant value proposition to the farmer and we have conducted about 25,000 field demonstrations by now in the last three years and we have data of about 2,000 field demonstration whereby about 9% to 12% yield increase in happening that is about Rs.3500 to Rs.5000 per acre is the benefit so when we are creating additional value we are able to capture part of that value and hence improve our premium depending on premium depends on different crop geography and geography size so I think the key part here is that there is certainly definitely better premium than we would have been doing as a commodity price.
- Sachin Kasera:** My second question is regarding the return ratios if we compare our returns ratios with the leading peers both on the fertilizer as well as chemical side today we are at much lower than TAN. Part of it could be because of this investment in ammonia and certain product they are not giving many returns but if you can give us your thoughts on how do you look at the return ratio, is that something which is very closely monitored from medium terms three to four years perspective where you would see return ratios to be ROCEs, and ROCs?
- Amitabh Bhargava:** One is at this stage as you look at fertilizers for example since we were so far our capacity utilization last year for example, they were 54% or thereabouts, we have now moved up to 73%-74%. Now till you attain a certain level of capacity utilization which at least industry is attaining your return on capital



employed, return on equity at least on that segment would obviously look inferior. Also since we have completely changed our strategy in the market from NPK plain or the commodity product to specialty product now and differentiated product now, the realization that therefore margins and whether you look at EBIT or EBITDA level have significantly moved up so therefore again we were earlier as the numbers were but not representative of the kind of return on capital employed that we needed to generate on that but going forward with the capacity utilization and to some extent increasing the premium if there is still a value that is there which Mahesh was just mentioning that anywhere between 9% and 12% kind of yield improvement. Now, we will have to see how we go up in terms of return on capital employed, but I think the other which is the chemical segment we are both on TAN acid and IPA. It is difficult to have like-to-like comparison in terms of return on capital employed because some of the chemicals companies for us IPA and acids are more a part of let us say TAN is more of specialty chemical or comparable to that while IPA and acids being the input for specialty chemical margins there are cannot be compared with specialty chemicals so you are essentially looking at three different segments within our portfolio. One is a basic chemical, other is specialty chemicals, and the third one is fertiliser and therefore comparison that when we look at internally, we look at comparison vis-à-vis the sector and at times it is difficult to get the data but it is needless to say that we are the idea overall on a consolidated basis if you were to remove capex that we are today if we remove that capital employed then we are certainly looking at kind of return on capital employed and therefore accordingly depending on leverage, the return equity should also be reflecting that.

Sachin Kasera: Fair to assume that 20% plus return on capital is something that you would be happy to aspire for medium term perspective?

Amitabh Bhargava: Yes.

Sachin Kasera: Thank you so much.

Moderator: Thank you. The next question is from the line of D N Parekh from Individual Investor. Please go ahead.

D N Parekh: Good afternoon. Thank you very much for giving such a wonderful result where PAT is almost 3x. Sir my concern is related with your plan for our pledged share. What are the future plan the same? Sir almost 75% of promoter share is already pledged. Have you any plans for that?

Amitabh Bhargava: I think we have clarified this time and again on our website as well as stock exchange notices that we have given. That's a wrong interpretation, what we have is non-disposal undertaking so which is basically we have committed to our banks and to some of the investors like IFC that we would not dispose of our shares and somehow the way it works in the format in which we have to fill up that information that seems to be reflecting or that reflects by default as pledged but that is not the case so it is more of nondisclosure. There is a very small portion of share which is, I would say, very, very small portion of promoters out of overall 54% odd stake as they have is pledged but that is in a way reflects that new shares that they have acquired through right issue and through earlier preferential allotment but erstwhile shareholding which is roughly for 50% or more is only there is non-disposal, there is no pledged share.



- Moderator:** Thank you. The next question is from the line of Nitin Kumar, Individual Investor. Please go ahead.
- Nitin Kumar:** There is one question on the press release which was released on the company recently on the data center side which is that the data center that the company is operating general database has it undergone an upgradation. My question to the management is there cost arbitrage we manage own data centers versus the cloud if there is cost arbitrage can the management exploit for most of the plants in the near future?
- Amitabh Bhargava:** I just not got your question, what data center are you talking about?
- Nitin Kumar:** There is this press release wherein one of the President Mr. Deepak Keni went to the press and said that new data centers in which the company is operating and has undergone an upgradation to manage the data.
- Amitabh Bhargava:** I think, that must be in reference to our ERP software that we are in the process of implementing a good part of that is already got implemented and that is the aspect Chairman was also we are referring to that we have done a number of transformation initiatives whether it is a SAP implementation of the new edge SAP or certain other tools which will bring efficiency in terms of demand estimation and then correspondingly planning our production all of those whether it is delegation of authority whether it is standard operating procedures so all of that is a transformative initiatives that we have been taking for the last six to eight quarters and I think Deepak Keni actually perhaps mentioned that but the larger aspect is that many of those have improved our efficiency significantly and that is the point the Chairman was mentioning has started reflecting in our numbers by way of better efficiency, by way of certain cost reduction and so on and so forth.
- Nitin Kumar:** My second question is on realty business. As I understand that Ishanya as a mall is for the lifestyle products, but there was also press report which stated that 91 Springwood has had some space in the mall, so is it like realty business is also undergoing some form of transformation?
- Amitabh Bhargava:** Our Creativity mall has three segment, there is, an F&B segment, there is a segment which caters to essentially to architects as well as the homemakers in terms of furnishing furniture, and the third one is entertainment. Within these three segments, you would find there could be a report of additional sort of lease taken by one of the players in one of the three segments.
- Moderator:** The next question is from the line of Sameer Joshi, Individual Investor. Please go ahead.
- Sameer Joshi:** Thanks for giving me opportunity. Can I know what is the percentage of capacity utilization only in Q3 across chemical business and what is the average cost of borrowing for the year?
- Amitabh Bhargava:** I think I mentioned all of these numbers but just to repeat in Acid segment, we have YTD the capacity utilization has been more around 69%, in TAN 81%, fertilizer segment in the bulk 74% and CNB in the specialty segment, which is there or themselves and water-soluble fertiliser is about 51%.
- Sameer Joshi:** Okay but for Q3?



- Amitabh Bhargava:** Q3 acid are up to about 81% compared to overall 69% YTD, 95% in TAN compared to 81% YTD, 89% in CNB bulk compared to 74% YTD and 68% in CNB specialty compared to 51% YTD.
- Sameer Joshi:** What is the average cost of borrowing?
- Amitabh Bhargava:** Average cost of borrowing actually it is I may have to go back to that number because the interest obviously as far as ammonia project is concerned gets capitalized. I do have difference in operating numbers but overall, I would have to come back to you.
- Moderator:** The next question is from the line of Chirag Seth, an Individual Investor. Please go ahead.
- Chirag Seth:** This is more to do with your capex actually so I think the company will undergo a huge capex for next three or four years. So what is the outer limit of the capex that you are looking at and the normal capex for the next three or four years considering, you have some non-core assets which will be sold at an appropriate time considering cyclical nature of the business however we are confident that you will increase the utilization levels and hence cash flow can remain stable for the next three four years. So is there further dilution lightly in the company or the priority will be internal accrual, debt, non-core assets and dilution and could you just give the figure for outer limit, the worst case scenario capex for the next three to four years including normal capex? Thanks a lot.
- Amitabh Bhargava:** One is yes, I think the priority would be to fund this capex through internal generation through debt, bank debt and through monetization of our non-core assets. That said, we have been seeing interest from certain strategic investor in participating in our capex plan. It is too early to make any comment or any sort of announcement on that. But if we do find some of these proposals from strategic investors effective then what you would also see is in our capex plan, we would see certain participation from strategic investors. So idea is to make sure that while banks in any case would be prudent in terms of debt to equity ratio and debt to EBITDA ratios and therefore debt would have its own limitations and we ourselves would want to ensure that the leverage ratios particularly the debt to EBITDA ratios are not beyond prudent now. We have to that extent build in that in recent last two or three quarters you see the debt reduction and that we are trying to and the idea is also to create headroom as the new capex that is taken the ratios remain within the prudent limit. So I think that the overall commentary I can give on that. Like I said priority would be internal generation and certain non-core assets that we have we can monetize and fund on the strength of it.
- Chirag Seth:** Outer limit of the capex for the next three to four years including normal capex, any figure that you would like to give.
- Amitabh Bhargava:** Normal capex is specifically about Rs.80 Crores to Rs.100 Crores on a yearly basis. As far as capex is concerned, on the outer capex the timing of that I am not able to therefore comment it depends on whether TAN projects at what stage we start the TAN project, equally like we said that we put IPA project on hold. We are watching the IPA prices and so what I can tell you that this ammonia project is certainty, and we are going ahead with that project having got all the approvals and clearance while other projects it would depend on getting statutory approvals and financial closure approvals. It is



difficult for me to put a number to it. Equally the existing debt is TAN we have taken debt, we have taken debt for NPK expansion that is getting amortized over the next three to five years so even that number will keep coming down. I think therefore we would ensure that the peak debt and leverage ratio compared to that peak debt at point in time in terms of EBITDA compared it we would be making attempt to keep it within the prudential norms.

Chirag Seth: Just a follow-up question like these prudential norms like is just behind or we see still there is ratio deteriorating going forward one is that. Second you replied that you may look at some strategic investor in few capex's so this would be basically you will be selling some stake right in some subsidiary or in some debenture, would it be right assumption?

Amitabh Bhargava: Participation would amount to that. We have ammonia project in step down subsidiary of Smartchem, which is our 100% subsidiary. If there are strategic players interested in participating in that capex given the level of development we have done on the ground, we would be able to get the capital and we would like to believe that disproportionate higher capital compared to the stakes that we dilute given the level of progress we have made on this project.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today. I will now hand the conference over to Mr. Amitabh Bhargava for closing comments.

Amitabh Bhargava: Thank you everyone for participating. I am glad that there were very high quality questions that we received from all of you. For any further queries or clarifications please do get in touch with our Investor Relations team. Wish all of you a safe and healthy times going ahead.

Moderator: Thank you. On behalf of Dolat Capital Market Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

Note: This transcript has been edited to improve readability



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