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10 July 2020

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

Subject: Management Transcript for Q4 FY 2020 Earnings Conference Call

Dear Sir / Madam,

We would like to provide the Management Transcript for Q4 F.Y.2020 Earnings Conference Call, which was held on 3 July 2020.

The transcript of the Q4 F.Y.2020 Earnings Conference Call is also available on below mentioned Youtube video link: https://youtu.be/GBQkuksfP2Y

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 Petrochemical Corporation Limited Q4 FY2020 Earnings Conference Call"

July 03, 2020

ANALYST:	**MR. KARAN SHAH – EMKAY GLOBAL FINANCIAL SERVICES**
MANAGEMENT:	**MR. SAILESH MEHTA – CHAIRMAN & MANAGING DIRECTOR**
	MR. AMITABH BHARGAVA – PRESIDENT & CHIEF FINANCIAL OFFICER
	MR. MAHESH GIRDHAR – PRESIDENT & CORPORATE NUTRITION BUSINESS
	MR. SANJAY GUPTA – EXECUTIVE VICE PRESIDENT & CORPORATE STRATEGY
	MR. DEEPAK BALWANI – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY2020 Earnings Conference Call of Deepak Fertilisers and Petrochemical Corporation Limited hosted by Emkay Global Financial Services Limited. We have with us today Mr. Sailesh Mehta, Chairman & Managing Director, Mr. Amitabh Bhargava, President & Chief Financial Officer, Mr. Mahesh Girdhar, President & Corporate Nutrition Business, Mr. Sanjay Gupta, Executive Vice President & Corporate Strategy, Mr. Deepak Balwani, Head - Investor Relations. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Karan Shah from Emkay Global. Thank you and over to you Sir!

Karan Shah: Thanks Nirav. Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I now hand over to the call to Mr. Sailesh Mehta, Chairman and Managing Director for his opening remarks. Over to you Sir!

Sailesh Mehta: A very good afternoon to all of you. During this challenging COVID time, I hope all of you and your families are in good health. I do hope that you are all maintaining the safety norms that have been recommended by the Government for the safety of all of us. I also believe you would have received Q4 FY2020 results which have been uploaded. While our CFO Mr. Amitabh Bhargava will be taking you through the detailed financials as usual. I thought I could share with you from a larger business perspective, how do I see the year that has gone by and how do we see the year that is now emerging and share some of the strategic, I would say, undercurrent that I have seen.

Now let me first share what could be the biggest concern, query, anxiety that all of us would be having that how it has been like during COVID. Basically all our products, which is like IPA, technical ammonium nitrate and also fertilizer, all of our products were allowed under essential commodity act because fertiliser is the required for the farmers, IPA as you know is required for the hand sanitizer requirements and technical ammonium nitrate for the coal mining. So, all of them are essential, so we were back in stream probably in that first week itself and then on you know, we have been hovering around 65% to 75% in terms of operations.

Having said that, like all others we have been struggling on getting maintenance people, truck drivers, so the supply chain had been on and off giving us some challenges and I think what brought in a certain degree of impact on operations. At the plant, since we were allowed this operations, we have made very strong control mechanisms to make sure that health and safety of our people are as best as possible controlled. We have institutionalized temperature controls, mask, certain critical area the PPE suits, social distancing of course, and we also had a disinfectant spray tunnel, and we have been testing the oxygen levels and all that and yet there have been some cases, but lot of them have asymptomatic and this is I think a gradual aspect that we all will have to accept till I guess the vaccine comes out or till we all built up an immunity. As far as our contribution goes, we have donated ambulances large number of face masks, large number of PPE suits to hospitals. We also provided our IPA and hand sanitizer to state government authorities. We donated food packs to some of the migratory workers. We were also helping Taloja Manufacturers Association with various safety norms and SOP and of course all of us and gave one day salary which we donated to the CMs funds. Of course, this is in our small way in whatever best that we could help the society. As far as COVID goes, the key takeaway is that indeed the COVID has not impacted our operation that much and looking at the kind of alignment with the country's requirements we are in a decent shape.

Coming to the various businesses, I will give some insights in terms of how we saw last year and a little perspective of how we see the current year coming up. As far as chemical business goes, let us say, if one were to take the acid segment last year, we saw the Dahej plant stabilizing - the new investments that were made in the new complex of Dahej and we could reach almost up to 65% odd of capacity utilization. But more than that also in a lot of areas, the key efficiency norms were something that we could achieve and so in the current year, we will see now the full scale I would say positive impact of Dahej operation. In Q1 during the COVID period, while CNA had been doing reasonably well. As far as weak nitric acid goes, that has indeed been impacted because the downstream users of WNA have been impacted by COVID. We are seeing a gradual kind of pick up as the lockdown and other things are being removed. Then in the chemical business, as we look at IPA, Isopropyl Alcohol, as you all will recall, last year probably was the worst year, when we were severely impacted with the Chinese dumping and it had a massive impact in terms of the overall chemical business, of course of the IPA sector and so also for Deepak Fertiliser as a whole. As we see, Q1 there is very smart and complete I will say turn around because the worldwide requirement of IPA into the hand sanitizer and of course, even for the pharma sector has had a positive upliftment. Additionally, we have also begun some baby steps in climbing up the value chain where we are ourselves looking at entering the hand sanitizer market and other B2C products and though these are small baby steps, we have was very short presentation today also in terms of how we see that market.

The second is mining chemicals technical ammonium nitrate. Last year we did have an impact emerging out of one was the flooding that happened because of the heavy rain that you may recall. Also, we saw that some of the infrastructure projects were impacted because of paucity of government funds for those infrastructure project. Some bit of the sluggishness continues in Q1 where we find that some of the large infrastructure project somehow the government funds are still not reaching, but going forward, we see that since the government is looking at reviving the whole economy, they would be looking at much more stronger flow of funds to the infra project to revive not only the project but to revive the economy and that in turn will have a positive impact on the sales. Similarly while in Q1 because of COVID cement sector and its impact through limestone for us was impacted but since I would say now a few weeks we are seeing that there also that is revival coming back to normal.

The third and most important segment where we are seeing a good change has been the fertiliser or our crop nutrition business, CNB business. Now as you recall even last time what I shared I am happy to share that Q3 and then of course Q4 we could establish our new strategic business model. There are three pillars on which the new models stand, one is moving from the commodity fertilisers to crop specific specialty. Second pillar is transition move from customers to consumers meaning that instead of just focusing on the channel, the dealer segment, we have a much stronger interaction at the farmer level, the consumer end. The third I would say key principal that we brought in as a part of the strategy was to move from competitive pricing to value pricing and at value pricing link to what kind of an improvement in yield and quality that we can bring specific to the crop and whether we can start pricing on that basis. So this aspect of it is a key change from bulk commodity orientation and with a lot of web store and with a whole lot of drive, we had been pushing this and I am very happy to share that we now see its positive reflection right from invoicing, liquidation, collection and above all, premium pricing in comparison to somewhat similar products of competition. This actually impact in Q3, Q4 that we saw to me is a fundamental shift and it is a basic brand building that we are establishing and that is something which we are seeing sustaining.

Now for the current year while we see the rains which are normal and of course last year also the rains were very good, so the water levels have been good. So that has somewhat resulted into brisk sale and again, I am happy to share that the premium pricing that we had established from Q3, Q4 now we are seeing actual evidence that it is sustaining. Those are the aspects about the three businesses. As far as manufacturing operation goals again, we have been pushing for very strong TQM based approach, so that there is a far greater degree of focused ownership right up to the lowest level and it is a decided improvement in terms of maintenance practices and other areas thus we have also driven a lot of cost optimization efficiency drive which have all contributed finally to the bottom line and we see its sustenance in the current year also.

Finally, as far as the project goes, we did have an impact from COVID because of certain delays in the government bodies to clear some aspects and somewhere along non-availability of people impacting. However, what we see positive is that the fall in the gas prices has also shown a very positive impact in terms of the potential project IRR and return and other is we are seeing for the continued good trend in terms of the mining needs which we see a long-term good strong prospect. So broadly this is what I would like to share from larger strategic perspective. I will now hand over to Amitabh Bhargava, our CFO who can take you through the more specific figures and then of course your questions are most welcome. Like I said, we will then end up with a small presentation on the hand sanitizer market and B2C market move that we see and like I said, while they are baby steps we thought it is something interesting so we have drawn in Mr. Sanjay Gupta to share those thoughts with you. So once again, be safe and be in good health. Thank you.

Amitabh Bhargava: Good afternoon ladies and gentlemen. Thank you for the joining Deepak Fertitliser conference call to discuss the Q4 and full year FY2020 results. During the fourth quarter of FY2020, we reported a total revenue of Rs.1293 Crores and at a consolidated level with operating EBITDA of Rs.120 Crores. Operating margins increased to 9.2% in Q4 FY2020 as compared to 6.8% in Q4 FY2019. This was primarily driven by improved fertiliser business performance as Chairman also mentioned and cost optimization initiatives. Net profit increased from Rs.5 Crores in Q4 FY2019 to Rs.23 Crores in Q4 FY2020. For the full year total revenue for FY2020 was Rs.4685 Crores compared to Rs.6742 Crores in FY2019. The reduction in the revenue was mainly on account of strategic reduction in chemicals and fertilisers which we have been keeping everyone abreast of in our various calls. The company cautiously consolidated trading portfolio with focus on high margins products. The chemical trading consciously reduced by almost Rs.1400 Crores Y-o-Y and fertiliser trading also reduced to Rs.490 Crores Y-o-Y. Operating margins increased to 9.9% in FY2020 as compared to 6.8% in FY2019. As on March 31, 2020, total debt of the company marginally declined to Rs.2927 Crores from Rs.2994 Crores at the end of September 2019. Short-term debt level declined to Rs.719 Crores from Rs.1064 Crores. Strategic reduction and trading business as mentioned earlier and also better working capital management in fertilizer segment primarily helped in reduction of short-term debt. Long-term debt end of March of 2020 increased to Rs.2084 Crores from Rs.1845 Crores at the end of September 2019. Overall net debt to equity improved to 1.25X in March 2020 from 1.34X in September 2019 and our external ratings have been recently reaffirmed by ICRA long term back facility rating in A+ stable and short-term bank facility rating is A1.

During FY2020, as you are aware that it has been extremely volatile on the foreign exchange side due to various global issues and with rupee appreciating by 9.36% more particularly in Q4 when it was a steep 5.9% as COVID-19 outbreak had to the financial markets globally. We review our hedging policy regularly and the same is followed to hedge our foreign exchange exposure to minimize the fluctuation impact.

In the fertilizers, the delayed monsoon and lower Rabi crop impacted the famers leading to slower demand in the first half of the year. However, a strong retrieving monsoon and higher water reservoir level demand recovery in the second half of the year. Even as the market remained subdued, company remains focused on demand generation. It embarked on crop specific market development campaign including promotional activities, crop seminar, and farmer meeting and product demonstration in farmer fields. Fertilizer reported a revenue of Rs.421 Crores in Q4 FY2020, sale volume of nitrate phosphate ANP increased by approximately 19% Y-on-Y in Q4 FY2020 although NPK volumes decreased by about 9% Y-o-Y. Despite this decrease, overall margins improved significantly due to highest Smartek in our product mix, which is a premium product. Fertilizer segment margins improved from negative 7.4% in Q4 2019 to positive 9.5% Y-o-Y in Q4 FY2020. Segment margins expansion also achieved on full year basis. Good Rabi sentiment in core command area and good price realization in key cash crops such as onion has helped the company with better margins during the quarter. Increased ground water level in the core command area also supported the margins. COVID-19 impacted production of NP/NPK at Taloja for few days during March 2020. In line with our strategy during the quarter, the Company has successfully moved its entire sales through differentiated products almost 90% of total bulk sales was market focused. Trading revenues of fertilizers business for FY2020 declined to Rs.325 Crores from Rs.744 Crores for FY2019, this reduction is in line with the strategic decision to move to differentiated NPA/NP risk.

In the chemical business manufactured chemical business reported revenues of Rs.583 Crores in Q4 FY2020 as compared to Rs.629 Crores in Q4 FY2019. Chemical trading business was about Rs.482 Crores in FY2020 compared to Rs.1886 Crores in FY2019. This of course, like I mentioned earlier, is due to consolidation of trading portfolio. For the full year 2020, despite subdued domestic demand owing to extended monsoon affecting the coal industry, lower production and off take in infrastructure consumption, the Company maintained it contribution margins of business vertical by servicing alternative market value addition, price responsiveness to market reality and declining the raw material prices. Our TAN business was reported muted performance during the quarter with total TAN revenues decreased by 22% Y-o-Y to Rs.274 Crores. TAN solid volumes declined by 18% and AN melt volumes were lower by 25% on Y-o-Y basis resulting in lower revenues. LDAN volumes in Q4 FY2020 were lower by almost 40% Y-o-Y mainly due to liquidity issues and stalled large-scale infrastructure projects. Restrictions on movement and lockdown situation in the month of March due to the COVID-19 pandemic has also impacted the domestic TAN business as well TAN exports.

Acids revenues decreased by 4% Y-o-Y to Rs.103 Crores in Q4 FY2020. COVID-19 impacted has production of Nitric Acid as well. Our Nitric Acid plant at Dahej has completed its first full year of operation and achieved overall capacity utilization of approximately 65%. All WNA and CNA plants at Dahej have stabilized and proved running at beyond 100% rated capacity. During Q4 FY2020 IPA production was at 18.8 KT and our IPA facility operated at 100% capacity. IPA revenues increased by 30% Y-o-Y to Rs.141 Crores in Q4 FY2020. During the quarter, both NSP and cost adversely impacted IPA margins though we have started seeing some bid of decrease in terms of Chinese import in the beginning of quarter, but overall due to unfavourable market dynamics we saw the overall margins in IPA have been subdued although the outlook of IPA has improved significantly towards the end of the quarter.

Chemical trading business was at Rs.172 Crores in Q4 FY2020, up by 17.4% Y-o-Y. Strong demand for IPA resulted into the higher trading volume in Q4. However, unlike Q4 FY2020, chemical trading business declined to Rs.482 Crores in FY2020 compared to Rs.1,886 Crores in FY2019. Continuing positive momentum which we have gained during the last quarter, we are confident of attaining our business goals and maximize the shareholder wealth in the coming quarter. As an effort to support government to combat COVID-19 pandemic, we have recently forayed into alcohol-based sanitizers and disinfectant. Here I would request my colleague Mr. Sanjay Gupta to share more insights on our new sanitizer business. Thank you very much right from my side and will be opened to questions after Sanjay, he will take us through our initiatives on sanitizers and disinfectants.

Sanjay Gupta: Good afternoon everybody I am Sanjay Gupta here. So as Mr. Bhargava mentioned we have started manufacturing of IPA based hand sanitizers and all the necessary permissions from the FDA and the state authorities have been taken. We will be producing in the various pack sizes right from 50 ml to tanker loads which we can offer in various segments like B2C, B2B and even to small sanitizer repackers. We are right now working on developing the distribution network for these various segments. Historically, sanitizer has been a very small category and right now it is in a state of chaos because there is a huge pull for the product and there is also a mushrooming of lot of small manufacturers in their segments. We have also registered our brand in the name of Cororid and going forward, we will definitely be looking at complementing this product range with other product range in disinfectant categories. We have put a panel of experts from various industries, like hospital and marketing to work on this project and of course, we will be looking at developing some contract manufacturers who could help us ramp up this business. That is all from my side. Thank you. Over to you Deepak!

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Ritika Gupta from Aequitas Investment. Please go ahead.

Ritika Gupta: I wanted to know regarding the IPA business. What will be the industry size? How much would be the imports from China, currently we are not the sole manufacturers anymore of IPAs so like how are we seeing the prices over there? And how much of our IPA is going into the sanitizer business?

Amitabh Bhargava: Before COVID, I would say that the market size was about 180,000 to 190,000 tonnes, we have seen obviously a huge spurt in demand because of disinfection requirement so today as we speak the demand as high as 200,000 tonnes. Of course, this could fluctuate and depending on how the situation emerge on the COVID, but we believe that some of this increase in demand is here to stay because in general IPA as preferred disinfection ingredients has a lot of push even from various medical agencies There is demand which should stay in-between 180,000 tonnes to 230,000 tonnes. I will come back to you exactly in terms of what proportion what exact number are we selling today of disinfection or to hand sanitizer category, but I think about 70% - 80% of our product is still going to the pharma segments because overall the hand sanitizer segment is still quite a small segment in terms of the overall IPA usage. In terms of prices, while as such what I would share with you what has happen to prices in terms of CFR India because our prices are by and large track on CFR India basis. Before the COVID, we were looking at about $780 to $820 of CFR prices of IPA. This is seen during the quarter as high as $1600 per tonne prices and today I think CFR prices lay somewhere $1300 to $1400 per tonne so the prices of CFR India will not only track the demand in the Indian context, but I think the global demand in Europe, US and therefore a lot of Asian product would also get diverted so long as they get healthy margins in Europe and in fact Europe prices have been even higher than the CFR India prices during the quarter. So as such I think we would track the prices to pharma segment. As you know out of whether you take 180,000 tonnes or 220,000 T or 230,000 T whatever is the final range of demand, our own production is about 70,000 to 74,000 tonne and new capacity that have come domestically are also in the range of about 30,000 tonne. So, that still leaves a huge market for import and because the prices we do not see actually that the consultation or prices getting affected because of domestic dynamics it will be more driven by the international dynamics of IPA prices and therefore CFR India IPA prices will by and large be the deciding factor for the prices we see in the domestic market.

Ritika Gupta: And Sir can you give us color on the raw material used for IPA and prices as well?

Amitabh Bhargava : The energy prices also came down during this quarter and crude prices were down of course they recovered from low but Propane, Butane, as we know are other derivatives of crude and to that extend there has been a softening of even RGP prices which find our track to combination of Propane and Butane prices. I would say, there have been by and large at a lower level than what we saw in pre-COVID norm.

Ritika Gupta: And Sir how sustainable do you think that these prices for IPA and I mean the spread between your RGP and IPA is?

Amitabh Bhargava : So I think in short to medium term of let us say it is very difficult for anyone to take a guess and see how long the pandemic situation will continue and in some of these statements from WHO seems to be worrying in a sense that they saying that worst is yet to come. Now to that extent, it is very difficult to say how long and so long as the pandemic situation globally remain active, we will continue to see demand of IPA from hand sanitizer and disinfectant segment and until then I think prices will remain high. Now, it is very difficult as you can remember that pre-COVID we were at $800 dollars now we are at $1300 to $1400; huge difference is what has happened now. One thing, that our business also has to see, by and large that some of these demands globally and also in India will remain high for the hand sanitizer segment. How much of it is sustainable or long-term demand is also something that is very difficult to guess and RGP on the other hand you know, I would say it would track by and large crude prices. Now crude prices also appears that there is general softening in energy prices, be it gas or fuel but you know how crude prices also get affected not just by demand supply but a lot of geopolitical issues.

Ritika Gupta: So on the long-term what are sustainable margins for the IPA business I understand that these are extraordinary times?

Amitabh Bhargava : So we have in the past if you see before the cycle in last six to eight quarters, we had seen on an average Rs 15000 per tonne to somewhere in Rs. 18000 - 19000 per tonne of contribution margin, we have by and large, we were in at that level until the whole Chinese dumping also took place. As we briefed earlier, that we were in that kind of situation for six to eight quarters, we filed an application for quantitative restriction and safeguard duty, now today of course the environment is such that all the fundamental have changed. But if it is again situation like earlier then we believe there is a reason for us to go back to the government and request for making sure that there are quantitative restriction or duty to avoid any kind of dumping that is likely to affect the domestic industry. I think we have the price aspects and looking at demand supply, but even we would keep all the measures and options open if that situation that we saw in last six to eight quarters were to repeat itself.

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

Anurag Patil: Sir, can you throw some update about this ammonia project we were planning to go ahead with?

Amitabh Bhargava: Like Chairman had mentioned briefly that we are seeing some relief in terms of government approval. Also, in today's situation, there is huge uncertainty of labor and heavy logistics and transportation that is required for implementation of project of this size and scale, so we are also at a stage where we are trying to assess the impact of the whole environment and how soon can contractors get comfortable in committing that labor and logistics is available for them to start the implementation part. So, from that point there is a level of uncertainty that we are facing, but that said I think one aspect that which Chairman also briefly mentioned that we have seen fairly good improvement in the gas prices because of not just there is more domestic gas has auctioned and we have seen some auction prices at which the gas has got sold, but even the imported LNG prices have got corrected severely and we have right now discussions with two or three large gas suppliers and aggregator and some of the initial terms that we have received from them, there is some indication that the gas prices that we had assumed when they had conceptualized the project versus gas prices that they have realization in the next five to eight years there would be a substantial sort of saving on the raw material side. And, to that extent, the viability of the project will be improved, does not remain the way it was when we commenced, but there is in level of uncertainty that we have to go through because of Covid situation.

Anurag Patil: One more question of fertilizers margin, so it has improved in this quarter, so next couple of years what kind of improved margins you are targeting in this segment?

Amitabh Bhargava: This is forward-looking kind of a statement. I do not think, I can give you any sense on that number, but what we can mention is that the initiative that they taken in last two quarters, they are sustainable in the sense that there is a lot of work that has happened at the farmer level where the efficacy of our fertilizer or the Smartek product has got well established at the farmer at this field level and that has given us a confidence that the premium that we have in the market today over similar product, it is not just sustainable, but there is a scope for further improvement. So that is from the market side the price and the kind of premium that we are getting gives us a level of confident, equally we did some bit of work our plant side in the organization as a whole marketing and sales organization and we have done what we believe are sustainable improvements on the cost side, so what we see today Q4 numbers, which first place we said, is the combination of these two. The other aspect which we have not yet fully utilized.

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

Lokesh Manik: Good afternoon to everyone. My question is regarding again the fertilizer segment. Last year also in the same quarter, we had good amount of sale of products under the Smartek brand and despite that there will be issues at that time that we faced the channel inventories were higher, we have to offer discount and improve our receivable. So just to get some clarification on sustainability of these margins, if in future if we see the competitive intensity revise again, do we expect the margins to go back down?

Amitabh Bhargava: I missed your last sentence.

Lokesh Manik: I am just trying to understand that the competitive intensity revised again, I am assuming the competitive intensity was low this quarter given the good off take and good monsoon and water reservoir levels, I am assuming the competitive intensity was low this time, I am just trying to understand that when the competitive intensity increases, do we need to resort to discounting again to close the pricing gap to make sure we generate enough sale?

Amitabh Bhargava: One is, I think we are operating to that extent the prices that competition sets that become benchmark and you cannot completely ignore that, what has happened and what we have at least said to ourselves that in Q3 and Q4 to the extent. Let us say, raw material prices went down and there was a reduction that is expected in the MRP, we could still in several market while we may not have faced competition across our margins, in certain segments we did not face the competition. We could still keep our sales at that level, purely because the demand or the pull from the farmers after they have seen the marginal cost benefit ratios to them has given us that confidence that even if they were to be a competition there have been instances where market, the competition gives discounts for collection we did not. We still managed to collect good amount, because there were dealers that wanted material and they were happy to pay us for our cost so that we know the credit line open up for us to sell more product to them. There is definitely a confidence in the team that these margins are sustainable and even if this competition were to intensify or the raw material prices were to take a reverse trend we will still be in a position and our business margins still we believe will be there. We have not yet fully priced of the product and there is a possibility of doing better on product and of course there are certain cost aspects which we are still working on both on the plant and on the logistics which should help to start yielding the result.

Lokesh Manik: Right and the products that are converted to Smartek out of the government regulation in terms of pricing under the NBS scheme or they are not?

Amitabh Bhargava: No, they are not.

Lokesh Manik: Okay, Sir just one last clarification in the consolidated P&L statement, there is an entry of purchase of goods or stock in trade, which is showing negative Rs.108 Crores, so if you can just clarify what is that exactly in it, has it been mixed up with changing inventory or something of that sort?

Amitabh Bhargava: I think what has happened in nine month members is that and this is…

Lokesh Manik: Q4.

Amitabh Bhargava: I will come to that point, Intra Group Company between STL and Deepak Fertilisers, we have taken off some finished product, those products were manufactured in one unit, but they get sold out at the other unit. There was sort of a entry error in terms of what goes into raw material and what goes into cost of traded good, there was an excess entry that had gone earlier and cost of traded good which has been corrected now, so nine months has been corrected in full year so that is how it is appearing.

Lokesh Manik: Okay Q3 is the one which should have been, Q3 would have been the one?

Amitabh Bhargava: For Q1 to Q3 in all quarters, there was an entry, it should have passed in cost of traded good, it got passed in raw material and to that extent raw material and cost of traded goods, and the number remains the same and also for EBITDA is same.

Lokesh Manik: That I am just clarify because it usually comes under change in stocks, so I just thought there may be a typing error or something of that sort.

Amitabh Bhargava: This is change in inventory of finished goods and that is a separate entry.

Lokesh Manik: I understand that usually the negative number appears there and the number is always positive…

Amitabh Bhargava: Question is absolutely perfect, normal course there is never a negative entry in cost of traded goods.

Lokesh Manik: Thank you so much. I will come back in the queue.

Moderator: Thank you very much. The next question is from the line of Abhijit Akella from India Infoline. Please go ahead.

Abhijit Akella: Good evening. Thank you so much for taking my questions. Just on the IPA business, just wanted to understand 15000 to 19000 contribution margin you spoke about, at what level of average prices would that have been in the past?

Amitabh Bhargava: Average prices, we have seen about $900 to $1000 of CFR prices which went down to as low as $650 in this period where there was a lot of Chinese items coming, so basically I would say this was anywhere between $900 to $1100 CFR prices of IPA then we would have seen this kind of margin, of course margin is function of both where in the IPA price and the raw material propylene prices and propylene prices have also got fluctuated because of the crude prices are gone up and down, but on an average before these six to eight quarters of margin squeeze that we saw, we were depending on what is happening to IPA and RPG prices, we saw that contribution to this product.

Abhijit Akella: Got it, that is helpful. Second thing, just to understand in terms of the capex plans for FY2021, is there a budget we are working with and given the fact that the IPA business should be doing much better, the fertilizer business should also be doing much better in terms of profitability. The additional cash flow that we generate will that be going primarily into capex or would be consider sort of slowing down the capex or using these cash flows to pay down debt in the interim?

Amitabh Bhargava: Debt as such in the interim depending on what additional capex we are doing and what is the generation of internal cash accrual. We would have in short term the debt will come down, that we have a capex program out of which the ammonia project is in a fairly advanced stage, so as far as the ammonia project is concerned, we would continue with our capex plan. At this moment like I said, because of uncertainty around when construction can come in, contractors are unable to make commitment because of labour and logistic issue. There is a level of uncertainty around how much capex could go into this year, but in short term yes, whatever internal accruals that we do, will go towards reducing the debt.

Moderator: Thank you very much. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Good evening. Just a couple of questions from my side. When I look at the balance sheet almost Rs.2100 Crores of long term debt and about Rs.700 Crores of short term debt on a gross level, how much of it is attributable to the chemicals business and how much of it is attributable to the fertilizer business?

Amitabh Bhargava: Long term roughly about Rs.850 Crores is on account ammonia project and the balance we have taken one term loan for our Dahej project which is roughly about Rs.430 Crores odd, other than that in the chemical segments we do not have any term debt, rest of the term that there is after removing the Dahej that is Rs.430 Crores and Rs.850 Crores odd that is ammonia, rest of the debt is buy and large for the fertilizer business. As far as the short term debt is concerned again if I am not wrong about Rs.170 Crores odd of short term that was in the chemical segment that is in the industrial chemical segment which is in Deepak Fertiliser. We had marginal debt of about let us say about Rs.80 Crores to Rs.90 Crores of working capital debt for chem and that is for the short term debt is again related to fertilizer.

Tarang Agrawal: And what was your trading volumes in the fertilizer business for the full year?

Amitabh Bhargava: Any of my colleagues on the call, Deepak do you have the figure readily with you?

Deepak Balwani: I am just pulling it out.

Tarang Agrawal: Generally what is the margin that you make in your fertilizer's trading business range of margins may be?

Amitabh Bhargava: So in the speciality segment which is sort of regular segment that we trade in as it goes as a part of our overall basket. There the margins can be in lower level, in the bulk, normally also enter into bulk segment either to meet the demand, because we are not able to produce which was the case at some stage when we did not have enough suppliers or if we are able to produce such we typically enter that segment only at the contribution level with it almost let us say margin to lower than what we make in place of bulk of NPK. The Smartek of course are the higher margin, so long as the pricing of bulk manufacture if you were selling that versus that we could get in the trading are equal then we typically go with other additional bulk trading otherwise we normally built. Also, at times, the market demand certain products as far as overseas basket I think that typically the rational for using for bulk trading, otherwise our preference is to have Smartek market and more of manufacturers bulk market and avoid bulk trade as much as possible unless the market demand requires it.

Tarang Agrawal: So,bulk fertilizer trading only to meet demand otherwise your trading business would be restricted to speciality trading where you make lower level, would my understanding be correct?

Amitabh Bhargava: Yes.

Tarang Agrawal: Okay and I just wanted to your thoughts on the thought process Rs.180 Crores right issue?

Amitabh Bhargava: We are not supposed to given that, board has approved and we have been advised not to speak on right issue I think we will keep communicating what we communicate to stock exchange etc.

Tarang Agrawal: Okay, I just wanted the trading number in the fertilizer segment?

Amitabh Bhargava: Deepak, do you have that number?

Deepak Balwani: It was 86kt Sir.

Amitabh Bhargava: 86000 tonnes.

Tarang Agrawal: Okay, thank you. All the best Sir.

Moderator: Thank you very much. The next question is from the line of Sunil Jain from Nirmal Bang Financial Services. Please go ahead.

Sunil Jain: My question is related to TAN, you said that your factories were operating at 60% - 65% is that applicable to TAN as well?

Amitabh Bhargava: Since we were facing challenges in recent times, so as Chairman said 65% - 70% is an overall capacity utilization across manufacturing, we are facing challenges because the downstream customers were not operating, and so there was a lower capacity utilization particularly in Dahej. We had certain challenges in capacity utilization on the fertilizer side, because these evacuation rates were high because of the lack of availability of labour and cost etc. We had to choose either the plant at lower capacity or shut totally. TAN also is facing evacuation issue, but I would say TAN also by and large, it is very difficult for me to say that 65% - 70% or more, but this is the average that present in terms of across the product segment.

Sunil Jain: Are we seeing some improvement in June, capacity utilization or how should that have improved in TAN?

Amitabh Bhargava: Overall demand on the infrastructure segment is weak, I think there is perhaps it is going to take a little longer for it to recover. Lot of the infrastructure projects which were needing the TAN are facing slowdown and in such cases complete stoppage of those plants. As far as coal segment is concerned, again the demand right now seen some deterioration in demand because overall power requirement and therefore Coal India production were getting affected because of the liquidity challenge. We have seen that now recovering and business post monsoon which is again a lean period as far as TAN is concerned, hopefully we should see better demand from coal and cement segment. In fact, we saw cement plant was shut for a period and therefore that demand has gone up, but both cement and coal should be back from two previous level, but this is any case of lean period. We are also trying to see some export as we can as well as demand on the import side. If that happens overall Q3, Q4 should be reasonable or a normal quarter. A lot of those we will have to see from month to month what is happening on the demand side.

Sunil Jain: Second question related to fertilizer, we saw very good profitability improvement in this quarter, so you had taken a lot of effort to improve fertilizer division, but there could be some gain on account of pricing of raw material and all, so how much support you look from the pricing of raw material and in this particular which is more of can continue for some time, but key thing is how much is your benefit from your operational improvement which can sustain for a longer time?

Amitabh Bhargava: Price of raw material does help in this business, you would see that whenever the prices of raw material are lower, fertilizer company will benefit and vice versa, and to that extent, we cannot take away the credit from raw material supply or raw material prices. But, the point is that, to some extent raw material prices have gone down, our prices on the MRP side have not necessarily gone down to that extent. Likewise, our ability to continue to not give discounts on the dealer segment or overall on the marketing side also is a function of how the demand is. Demand not just for overall fertilizer, but for our market products and as long as we continue to get this kind of a demand that we had generated through our efforts at the farmer level if that remains and we believe that even at the prices of raw material were to go up, we would continue to see our margin. Of course, like I said, the raw material does play a key role, but our ability to sustain that price or not reduce the prices to the extent or increase the prices to the extent of raw material prices are increasing that pricing power is certainly better for us.

Sunil Jain: That is good to hear Sir. Last small question, about this debt whether we used to moratorium benefit offered by the banks?

Amitabh Bhargava: We have only in our ammonia project, but in all other our existing long term or short term both in the operating company, we have not offered moratorium.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint that was the last question for today. Karan Shah would you like to give any closing comments.

Karan Shah: Thank you to the management for this opportunity to host the call.

Moderator: Thank you very much. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

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Note: This transcript has been edited to improve readability

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