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DEEPAK FERTILISERS AND PETROCHEMICALS CORPORATION LIMITED

2 December 2019

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 Q2 FY 2020 Earnings Conference Call

Dear Sir / Madam,

We would like to provide the Management Transcript for Q2 F.Y.2020 Earnings Conference Call, which was held on 18th November, 2019.

The transcript of the Q2 F.Y.2020 Earnings Conference Call is also available on below mentioned Youtube video link: https://youtu.be/_6QRboD-GfY

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

Earnings Conference Call

Q2 FY2020

November 18, 2019

Management:

Mr. Sailesh Mehta – Chairman & Managing Director

Mr. Amitabh Bhargava – President and Chief Financial Officer

Mr. Deepak Balwani –Associate Vice President, Investor Relations

Hosted by Elara Securities Private Limited

Moderator: Ladies and gentlemen, good day and welcome to the Deepak Fertilisers & Petrochemicals Corporation Limited Q2 FY2020 earnings conference call hosted by Elara Securities Private Limited.

As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by entering '*' then '0' on your touch-tone telephone.

I now hand the conference over to Mr. Pratik Tholiya from Elara Securities Private Limited. Thank you and over to you, sir.

Pratik Tholiya: On behalf of Elara Securities, I would like to welcome all the participants who have logged into this conference call of Deepak Fertilisers to discuss the Q2 results. From the management side, we have Mr. Sailesh Mehta – Chairman & Managing Director, Mr. Amitabh Bhargava – President & Chief Financial Officer, and Mr. Deepak Balwani – Associate Vice-President, Investor Relations. At the outset, I would like to thank the management for giving us this opportunity to host this conference call. I would like to request Sailesh sir to begin with his opening remarks followed by which Amitabh sir can walk us through the quarterly numbers. Thank you and over to you, sir.

Sailesh Mehta: A warm welcome to all of you. It is my great pleasure to welcome all of you for Deepak Fertilisers Q2 results conference call. I hope all of you have had a chance to go through our results that were uploaded but I will give you some of the broad highlights as I see and then of course, Amitabh can take us through the details. In a nutshell, it has been a very challenging Q2, and from an overall economic perspective also, as you would be aware, the infra, mining, manufacturing all of them have been at their lowest levels. We also were seeing overall climate change going really peculiar and impacting in a very peculiar manner. First, the rains were delayed by a month and then there have been incessant rains extended and as a result, initially the fertiliser sector saw a lot of pileup of inventory. Then we had a break and the season began briskly, then again the farmers have lost a lot of crops and things at the end of Q2 were into a very peculiar zone. What we now understand is the government has announced its keen desire to bring in subsidies for the losses that the farmers have suffered. On the other hand, what we see is that all the water dams are also full, the ground level water is of course much higher, and as a result, there is expected to be a larger acreage under cultivation going forward. We expect, the rabi season right up to the next kharif to be a better in comparison to the earlier years.

This incessant rains also impacted the mining activity. As you are aware, mining activities typically in the monsoon are low, but this kind of an extended rain and some of the flooding in some of the mines also has impacted the mining activity at larger extent during the quarter. And with the broad slowdown in terms of the real estate, cement infrastructure being impacted. All of it put together, we saw also its impact on technical ammonium nitrate, one of our major product line. Of course, now we see gradually over the next 2 quarters that also climbing back to normalcy but Q2 was certainly challenging.

We also had a very large dumping of cheap Chinese IPA and that impacted our IPA products. Currently, things have somewhat bounced back where our raw material to finished product delta has somewhat improved. And we have also filed for safeguard duty protection.

In the quarter, we were also adversely impacted with unjustified wrong water cut by MIDC. As a kind of a blanket, 50% water cut on all companies in Taloja MIDC area and this had impacted almost 42 days of our production and roughly around Rs.15 crores odd impact. By considering this aspect, of course, the logic of it has been accepted by the Supreme Court who then put a stay and the water has been restored.

There was also, again, a forced closure at the Dahej facility because of the GPCB aspect where again we felt that it was too harsh a step and where again we got hit by 3 weeks but whatever were the requirements have been completed fully and now, of course, the plant is in full swing back.

We also saw a certain degree of underutilization on the fertiliser side because of the flip-flop and high inventory because of the way the monsoon behaved, and which brought in also a certain kind of margin erosion. Having said that, we are also seeing some good positives that are emerging and they also to us trigger the early green shoots for the next 12 months. There have been good declines in the key raw material prices – phosphoric acid, ammonia, propylene – and all of it we see as a positive trend.

As far as the fertiliser side goes, we were seeing some very good trends. As you all know that we have moved more and more towards a speciality product rather than the commodity NPK, and in this product line, we have now a much greater confidence. This is derived from the fact that we had almost 13,000 to 14,000 demo plots which could conclusively prove that the efficacy of our speciality NPK is something that clearly at a ground level was well proven. And that aspect reflected in the confidence that the channel – the wholesalers and the retailers – showed plus we have had a good pickup of the speciality fertiliser from a perspective of the farmers accepting even at a premium price to our product. We have seen a very positive traction for speciality fertiliser and sold almost 1,50,000 tonnes and which would mean that almost a million farmers are the ones who have utilized the fertiliser and found its benefits. So, the marginal cost benefit ratio that we were seeing and which we are talking about now seems to have also percolated to ground level where the farming community has seen the benefits and despite the premium that we had charged, there was a positive traction in terms of both sales and liquidation.

The other aspect that we see is that in terms of our production at Dahej, we have now proven 100% capacity utilization of both the concentrated nitric acid and weak nitric acid products, which establishes the fact that Dahej is now fully in good shape.

At the Creativity Mall also, our occupancy levels have reached 83% and with a 30% year-on-year improvement in the footfall.

We have also somewhere kick-started our efforts on monetizing the non-core where the investments that we had made in the agri venture were monetized and also some of the surplus land that has been monetized. And going forward, we will be continuing those efforts.

We have also had IFC Washington disburse their first tranche of and CCD and FCCB and that has also come in as reconfirming the confidence in Deepak Fertilizers' operations and growth plan. And from the promoters' side also, further investments of Rs. 25 crores against the total preferential allotment further came in at around Rs. 309 per share.

From a system perspective, we have also made a lot of efforts and moved from SAP to SAP HANA. We have brought in other IT-driven systems in terms of sales and operations planning and ensured that the system in process backbone of the company is further strengthened. Going forward, all these would be bringing in a much stronger crux in the marketplace that we have planned.

This is broadly the overview. I now request Amitabh to take you through the details and explain a variety of aspects in financial terms plus of course then he can take in the question & answers for any clarifications that you may need.

Amitabh Bhargava: Welcome ladies and gentlemen. During the quarter Q2 FY20, we have reported a total revenue of Rs. 1,151 crores. Operating EBITDA stood at Rs. 117 crores with operating margins of about 10.1%. In Q2 FY20, operating margins were about 6.5% in Q2 of FY19 and about 10.7% in Q1 FY20. Net profit stood at Rs. 25.5 crores in Q2 FY20.

In chemical segment, manufactured chemical business reported revenues of Rs. 524 odd crores in Q2 FY20 as compared to Rs. 670 crores in Q2 FY19. The segment performance was impacted primarily due to relatively lower economic activity in the country and certain flooding situations at customer's site at Dahej.

During the quarter, acid volumes increased by about 6.3% YOY, and during the quarter, MIDC though the point that Mr. Mehta was mentioning earlier that MIDC curtailed the inlet water to all the industries in Taloja industrial area in the first week of September which kind of continued till the end of the month resulting in production volume loss of various products. The water supply was restored in October 2019 after stay from honorable

Supreme Court. On a positive note, we have tested operations at our Dahej plant for 100% capacity utilization.

In IPA business, despite IPA products coming into positive zone, the impact of dumping from Chinese continues to affect IPA margins. During Q2 FY20, IPA volumes were lower by 11% YOY, although volumes have increased by about 72% compared to Q1 of FY20. Despite the recent softening in RGP prices, IPA margins remained impacted due to reduction in IPA import prices.

Our TAN business also reported subdued performance during the quarter. TAN sales were impacted mainly on account of reduction in sales volume of low-density ammonium nitrate by 27% and high-density ammonium nitrate by 23% owing to incessant and extended rains in the mining regions, stagnant growth in cement production, and weak infrastructure development and some bit of degrowth in Coal India's coal production during the quarter. The volume loss was offset to some extent by sales volume gain of TAN solution by nearly 37% and better price realizations of HDAN and TAN solutions during the quarter. The situation is expected to improve over the H2 FY20.

As per the strategy, we are consciously reducing chemical trading business and it has been reduced from Rs. 409 crores in Q2 FY19 to Rs. 105 crores in Q2 FY20. Going forward, the company will continue to consolidate its trading portfolio and focus on high-margin products.

Our manufactured fertilizer business reported revenue growth of 18% YOY to Rs. 420 crores in Q2 FY20. Sales volume of NPK increased by 22% YOY and NP grew by 25% YOY. However, the segment profitability was impacted on account of high channel inventory and abrupt price disruption in our core command area. This has been partially offset by decline in the prices of key raw material compared to Q1 FY20 and Q2 FY19.

The business is now well on course with the strategy of product differentiation and becoming a crop nutrient solution provider whereas Smartek as a percentage of NPK sales increased from 37% in H1 FY19 to 57% in H1 FY20. The company has also increased Smartek premium on MRPs in Q2 FY20 from Q1 FY20 with increased focus on Smartek products. We have shifted 100% production to Smartek products now with effect from September 2019. Under crop-specific water-soluble grade fertilizers, we have introduced 3 crop-specific products for pulse, flowering, and sugarcane.

Fertilizer trading business was reduced from Rs. 325 crores in Q2 FY19 to Rs. 92 crores in Q2 FY20. The reduction in traded revenue in CNB was in line with the strategic decision to move towards differentiated NPK grade.

As on September 30th 2019, our total debt of the company declined to Rs. 2,994 crores compared to Rs. 3,032 crores at the end of March 2019. Short-term debt declined to Rs. 1,064 crores in September 2019 from Rs. 1,176 in March 2019. Long-term debt was Rs. 1,845 crores and net debt was down to Rs. 2,868 crores. Net debt-to-equity stood at 1.34x in September 2019 compared to 1.26x in March 2019. Our ICRA long-term debt rating is A+ with stable outlook while short-term debt rating is A1.

As Mr. Mehta also mentioned, International Finance Corporation (IFC) has successfully subscribed to the first tranche of $30 million, i.e., approximately Rs. 210 crores by way of compulsorily convertible debentures and foreign currency convertible bonds into Deepak Fertilisers & Petrochemicals (DFPCL) and its wholly owned subsidiary Smartek Technologies Limited. The investment by IFC in the company is part of its $60 million investment commitment by way of CCDs and FCCBs. The second tranche of USD 30 million is expected to be subscribed in the next 3 months. The proceeds of the issue would be utilized for funding Capex including expansion projects and working capital requirements of the business.

With this entrusted confidence in the business of the company, the promoters have also recently infused Rs. 25 crores into the company towards conversion of warrants into equity shares and this was done at Rs. 309 a share.

We have also embarked on the path to sort of monetize our non-core assets and flow back the capital into our core business. As part of these efforts, the company has recently sold 75% of its holding in Desai Fruits & Vegetables Private Limited to Contract Farming Mauritius Private Limited for Rs. 28.2 crores. This was done in July 2019. Desai Fruits has business of growing banana plantation and supplies to domestic as well as international markets. Furthermore, as a strategy to divest non-core investment, the company is in the process of monetizing its other non-core assets including real estate assets.

Management is focused on tight cost control measures for optimizing workflows and implementing operational improvements to enhance profitability. Mr. Mehta mentioned about our transition from SAP to SAP HANA. We would continue to focus on our leadership position in core products and develop markets for the newer value-added products which will help us to sustain and scale up our profitability.

Going forward, with expectations of good rabi season, gradually improving business dynamics and various strategic initiatives undertaken by us. We are quite confident of maintaining positive momentum in the coming quarters.

With this, we would be happy to take your questions.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We have the first question from the line of Rachit Jain from RJ Investment Studio. Please go ahead.

Rachit Jain: My question is for Mr. Amitabh. What is the current blended cost of financing, sir?

Amitabh Bhargava: I would say our short-term cost of funding is about 9.5%; long-term would be roughly about say ~10.6%; and blended cost would be about 10.2%.

Rachit Jain: One more thing I wanted to ask was, what is the amount of outstanding subsidy as on 30th September 2019?

Amitabh Bhargava: Our outstanding subsidy is about Rs. 263 odd crores. It was about Rs. 396 crores at the end of March 2019. So, it is down by roughly about Rs. 130 cores in this period.

Moderator: We have the next question from the line of Nityanand Pradan, an investor. Please go ahead.

Nityanand Pradan: My question is to Mr. Mehta. Sir, can you please provide reasons behind lower sales volume and impacted profitability of IPA during quarter 2? Going forward, what is the outlook for IPA in FY20 considering the excess IPA supply from China?

Amitabh Bhargava: In IPA as you know, in Q1 FY20 we were in the negative zone in some sense because our raw material prices were yet to correct while IPA prices had corrected sharply. In Q2, we have moved to positive zone primarily because the RGP prices also corrected in Q2, though as far as IPA prices are concerned, the domestic prices continued to remain subdued. In fact, they went further down in Q2 vis-a-vis Q1. Now what is happening is that as such, the international prices of IPA have started moving up and the new import that is coming into the country, as even in Q2, had been priced better than Q1 and we are seeing the prices further going up in Q3, but because of certain inventories which were imported earlier, at least in Q2, we did not see the price correction – IPA upwards correction. We believe that with these inventories getting exhausted, the prices of IPA would start reflecting the recent hike in international prices of IPA. And we believe that H2 would be definitely a better half than H1.

The other aspect that Mr. Mehta mentioned was that we have kind of also applied for certain safeguard duties given that there has been a dumping from China. And if that application and government takes certain measures there, then we believe that if not in H2 but in quarters after that, we should get the positive impact of both the price correction as well as any safeguard mechanism that government may decide to impose.

Nityanand Pradan: My next question is, during the quarter, we have also seen acid business performance remaining subdued. Can you please share the factors affecting the same?

Amitabh Bhargava: Generally, Q2, relatively among the quarters, is a weak quarter for both acid and TAN, primarily because the downstream TAN capacities as well as the other capacities are running at lower utilization level. So, there is more acid in the market. What did happen is other than the normal cyclical factor of Q2, we also saw a certain flooding situation is some of our customers' plants. So, the offtake from Dahej was weak. Also, to an extent, we saw evacuation even on certain highways like Mumbai-Bengaluru highway was interrupted because of flooding situation. And Mr. Mehta was also mentioning that GPCB also had taken certain measures which we believed were harsh measures, and as a result, our Dahej plant was also down for a period. So, I think, a combination of all these 3-4 factors, the acid was even weaker than what it normally is in Q2.

Nityanand Pradan: Sir, there are some news floating around EC of NPK. Could you please highlight what is the status of EC of NPK plant?

Amitabh Bhargava: EC of NPK, we had the application pending with Ministry of Environment and Forest but they have given us the approval for 11.25 lakh MTPA. That is already obtained. It was done during this period, in July.

Moderator: We have the next question from the line of Rahul Anand from 108 Valuations. Please go ahead.

Rahul Anand: Sir, I have 3 questions. First is, you have mentioned in the presentation that the company is making good progress on monetization of other non-core assets. Can you please throw some light on that issue?

My second question is that in your presentation, you mentioned that gross debt has come down from Rs. 3,500 from March of 2018 to Rs. 3,000 crores in September of 2019. Can you provide guidance on a debt-to-equity ratio for going forward for the next 2-3 years how it would be?

My third question is there have been recent changes in the corporate tax regime. Does that have any impact on Deepak Fertilisers and subsidiary and how that impact will be visible?

Amitabh Bhargava: To your first question on monetization, we mentioned that the DFV which is the subsidiary that we have already sold our 75% stake. Also we sold one other land parcel that we had in Gujarat. Of course, that process is underway, but we have got all the required approvals as such. The other couple of assets that we are progressing – of course, it is very difficult to commit any timeframe right now – but one land in Odisha, we have land parcel in Pune, and we have another subsidiary of Smartkem, an overseas subsidiary, all these three we are at different stages. We are taking the help of some intermediaries also in this. This is something which the whole process is on, but it is very difficult to commit any time, and we will come back to the investors and stock exchange once we have any concrete step taken on any of these monetization initiatives.

On your second question on gross debt and your question was on debt-equity ratio going forward, normally we would not want to give any prognosis or any projections of future debt-equity but like you are aware that we have our ammonia project where nearly I would say about 40-45% of debt is already reflected in our books. The balance debt would be taken over the next say 2 to 2.5 years but equally we would start repaying and we are already repaying NPK debt. We would start repaying Dahej and the other long-term debts. As far as the working capital debt is concerned, it all would depend on the capacity utilization of CNB business. Put together, I would see that while the long-term debt would grow because of our Capex and would also equally come down because of the repayment on our existing long-term debt that we have started repaying but it is very difficult to predict right now on working capital which way it would move. So, we would not like to give any sort of guidance as such on that.

Your last point on corporate tax; we are aware of the new regime and we are still in the process of evaluating its long-term impacts on tax liability. As such, there are factors that we need to consider. Of course, once we opt for the new tax regime, there is no room to come out of it in the future. There are brought-forward losses pertaining to exemptions and investment allowances under section 80-IA and 35-AD, etc., that will also have to be forfeited, and I would say that there would also have to be a forfeiture of carried-forward MAT credit. Given that there are these elements, we are still in the process of evaluating whether to opt for the new tax regime or not. Moreover, I think there is still a little bit of an uncertainty around depreciation because they had, I think, said that depreciation rate may be prescribed, and we are awaiting those details. Once we have clarity on what depreciation rate would be applicable for the new tax regime, we would take that view in due course.

Moderator: We have the next question from the line of Renu Bajaj, an investor. Please go ahead.

Renu Bajaj: I have a couple of questions. First is, what is the impact of water cut by MIDC in 2nd quarter on production of ammonia, TAN, and acids?

Amitabh Bhargava: I don't have those figures and normally we don't talk about our production numbers. So, I wouldn't be able to say in terms of quantum what was the loss but Mr. Mehta did mention that. Overall I would say about 30,000 to 33,000 tonnes of various products put together there was that production loss. I wouldn't be able to share a split of that in terms of various products that you are asking.

Renu Bajaj: Another one, despite higher sales volume, fertiliser segment's profitability during the quarter impacted significantly. Can you please share factors impacting profitability?

Amitabh Bhargava: One is, there was a price disruption in Maharashtra in our core command area where on one hand while the raw material prices went down, there was also a price reduction by competition. So, we also had to follow suite. Now, the other thing that happened which as such while the overall inventory in the market remained high, in our case, our inventory was actually lower because we sold our bulk fertiliser. Q2, obviously, volumes went up but our overall closing inventory was lower vis-a-vis our opening inventory. And I would say in a downward correcting market where MRPs are coming down, some of this reduction in inventory also reflects in your P&L. So, a combination of price reduction and I think inventory valuation loss, I think these two were the reasons why we lost overall volumes. Also, our trading was much lower as you would see which was consciously done, and to an extent, there were trading margins last year but there were no trading margins this year. So, a combination of that reflected in our overall margins.

Renu Bajaj: Another one, what is our strategy for trading in chemical business going forward?

Amitabh Bhargava: We will continue to trade in IPA. And as you have seen, we have substantially reduced the volumes of overall trading and within other products. IPA is the only product that we are trading in. We will continue to do that trading. But overall, I think volumes have already been reduced and by and large our run rate for IPA volumes would be similar to what you saw in this quarter.

Renu Bajaj: My last question is, Other Income in Q2 FY20 was Rs. 30 crores compared to Rs. 13 crores in Q2 FY19. What is the reason?

Amitabh Bhargava: We had capital gains on account of DFV sale and that reflected in this quarter.

Moderator: We have the next question from the line of Pravin Sinha, an investor. Please go ahead.

Pravin Sinha: Sir, coming to our fertiliser business, since the monsoon hasn't relatively good this year, should we expect our fertiliser plants to ramp up the production in the coming quarter?

Amitabh Bhargava: Yes. I think it's a combination of two. One is, of course, there are market inventories that continue to be high of bulk complex fertilisers. Second is, like we mentioned, we are only producing Smartek now. So, to that extent, we don't plan to sell plain vanilla bulk and therefore our production going forward would be a combination of market inventory, our own Smartek production plan. But it is fair to say given H2 is looking a good rabi season and then running into the next kharif, most of our sales in the 1st quarter, we expect that the volumes would be better than H1 and to that extent, our capacity utilization should improve.

Pravin Sinha: This seems to be a positive news. So, have you given any additional discounts to clear the inventories in Q2? Were there huge inventory piled up, sir?

Amitabh Bhargava: Overall industry inventory was high and likewise our inventory was also high. As such, whatever discounts we have given in the market for collection are in line with what industry was offering. That's a normal business situation in any quarter as such. To an extent, we need to also be at par with the industry on such discounts.

Pravin Sinha: Also can you please provide some more details about this IFC funding? It seems a bit complicated to understand. How much is in Deepak and how much is in Smartchem?

Amitabh Bhargava: USD 30 million; USD 15 million is in Deepak and USD 15 million is in Smartchem. Smartchem, it is compulsorily convertible debenture while in Deepak, it is foreign currency convertible bond where the conversion price is Rs. 250 a share. Both of these are for a period of on an average about 6 odd years.

Pravin Sinha: I have two more questions. You have mentioned that raw material prices have declined compared to Q2 FY20. Can you share how much it has decreased compared to Q2 FY19?

Amitabh Bhargava: Normally, we don't indicate the prices, but I think all raw material prices, whether it is RGP, phosphoric acid, ammonia, and I think gas, all of them were down vis-a-vis YOY as well as QOQ. We don't normally disclose the numbers as such.

Pravin Sinha: My last question to you, sir. Can you please share your thoughts on our strategy towards manufacturing of methanol and what is the current scenario of raw material prices and methanol prices?

Amitabh Bhargava: Methanol is a swinging capacity for us. We produced only to the extent we have gas and methanol delta positive. We don't normally budget any fixed capacity utilization for the year. It is very-very opportunistic. Last year was the only case where we had taken a view on prices of methanol which sharply tanked, and to an extent, in Q3, I think we incurred losses in manufacturing. Going forward, we by and large would plan to produce methanol so long as we have back-to-back commitment from buyers.

Moderator: The next question is from the line of Raj Shah, an investor. Please go ahead.

Raj Shah: Congratulations on such a great set of numbers. My question was, there is a substantial reduction in the Other Expenditure. Is there some one-off or is it more or less sustainable?

Amitabh Bhargava: Essentially there were certain operating provisions that we keep reviewing on a quarter-on-quarter and 6 monthly basis along with our auditors. As such, we take provisions for various operating expenses whether it is inventory or transportation loss of our bulk raw material or certain damages or transportation cost. To an extent, both could be under provisioning or overprovisioning in certain quarters. We keep correcting that on a quarterly or 6 monthly basis. And this is part of that.

Raj Shah: Because I understand that last quarter, there was a spike in Other Expenditure due to some litigation cost, right?

Amitabh Bhargava: Yes, we had also earlier given a guidance that we had a number of performance improvement initiative that we had taken, whether it is SAP to SAP HANA. We were also working on a couple of other initiatives like sales and operations planning where we had consultants working for us. So, some of the fees which was there last year has substantially come down. There is an element of variable fee also for some of these consultants. While some of it, in the beginning, on a quarter on quarter we may provide to an extent they don't become due. We also do not provide on a going-forward basis. As such, there is a reduction in Other Expenses because of some of the consulting assignments have come to an end and also some of the fee that we had anticipated may not materialize.

Raj Shah: Maybe going forward, we might see an increase in Other Expenditure?

Amitabh Bhargava: On an average, compared to last year, there will be a reduction.

Raj Shah: And for the realty business, you are saying that the occupancy levels have increased, and the footfall has increased but it is still generating loss. It is more or less the same; from Rs. 3.7 crores to Rs. 3.4 odd crores loss. I don't really see change happening when it comes to numbers in the realty business.

Amitabh Bhargava: Yes, your observation is correct. As such, right now in the short-term, we are coming only closer to, I would say, a breakeven or where we don't incur EBITDA losses, but I think it will take us some time before it moves into positive domain. Given that our capacity utilization is also fairly good, 80% plus, the positive margin has to come from further sales as such and our share of revenues from the various other businesses where there is a sharing arrangement. But I think Mr. Mehta did mention and which I also mentioned in a little bit of more detail that we are looking at monetization of all our non-core including our Pune real estate. This, over a period of time, I think we need to, while we parallelly pursue the monetization strategy….

Raj Shah: But do we have a pie of the market for such a huge realty business?

Amitabh Bhargava: It is very difficult to say but the point is the land as such that we have in Pune is at a very opportunistic place which is very close to the airport opposite golf course.

Raj Shah: If I am not wrong, that land is basically valued at some Rs. 800-900 odd crores, right? The entire land with the mall, right? How difficult is it for you to find a buyer who can actually make an upfront payment of such an amount?

Amitabh Bhargava: First of all, it need not be 1 single parcel of land that has to be sold. There is an option and possibility of within that land, it could possibly be sold to more than one potential buyer. So, the transaction size could actually be lower than that. Having said that, if there are buyers who are looking at that larger size, we also have that option. It is too early at this stage to say what kind of valuation and how soon we would be able to conclude this, but we have commenced the process and we will have to see based on initial response.

Moderator: We have the next question from the line of Govind Saboo from IndiaNivesh Portfolio Management Securities. Please go ahead.

Govind Saboo: Sir, what is the status of our upcoming ammonia plant? Have we received the EC and all those things?

Amitabh Bhargava: We got a clarification that for our ammonia plant, we don't require MoEF approval. We now only require a consent to establish from the Government of Maharashtra, which application was lodged. We have got the clarification from MoEF just prior to, I would say, when the code of conduct had come in. We had filed our application, but we are now awaiting in some sense government to form and to take a view on our application. But given that MoEF approval is not required, we don't expect the process to be a long-drawn process.

Govind Saboo: Now we have IFC money also plus we have loan financial closure also tied up for the project. This delay will not have any impact on the financial closure in terms of the loan repayment and all those things?

Amitabh Bhargava: Financial closure is already achieved. We have drawn a part of the funds, and in our overall debt, nearly about Rs. 850 odd crores of ammonia project debt also reflects in our overall consolidated debt. Now, as such, given that the initial phase which is a long lead item where some of the large equipments can take time or engineering and some of the initial work can take time in a normal project cycle, we have completed all of that. Nearly 60-65% of our equipments are already there with us in warehouse and the balance are in different stages of transit. So, we expect the construction as such to be a much faster activity. We don't anticipate much delays as such.

Govind Saboo: Any timeline for the commencement of production?

Amitabh Bhargava: Commencement of production, we are looking at 3rd quarter of 2021.

Govind Saboo: So, 2 years from now. Secondly, what was the capacity utilization of our nitric acid plant?

Amitabh Bhargava: You mean Dahej nitric acid plant?

Govind Saboo: Yes, the one which was recently started.

Amitabh Bhargava: In H1, our capacity utilization was about 45%.

Govind Saboo: When can we expect a ramp up?

Amitabh Bhargava: Just to answer your question, at a run rate on a per day basis, we are currently running almost at 90% capacity. Of course, there were issues of rains, initial teething problems and the GPCB issue that we mentioned. Going forward, we expect that the capacity utilization would be significantly better than what we saw in the 1st half.

Moderator: We have the next question from the line of Hardik Shah from Prospero Tree. Please go ahead.

Hardik Shah: In the press release, we mentioned that the prices of raw materials are down on a quarter-on-quarter basis and YOY basis but as a percentage of sales if we see, it is 68% for this quarter compared to 62% in Q1 FY20.

Amitabh Bhargava: Are you looking at the figures including the change in inventory?

Hardik Shah: Our change is almost the same for Rs. 1,150 crores and Rs. 1,122 crores but the raw material costs for this quarter is Rs. 840 crores compared to Rs. 755 crores. So Why there was increase in the raw material cost on a quarter-on-quarter basis?

Amitabh Bhargava: I think you have perhaps not looked at the inventory adjustment. If you include it along with inventory adjustment, the numbers should compare.

Hardik Shah: Another is on the Other Expenses side. What is the normal Other Expenses that we should consider? Because it is fluctuating too much, for this quarter Rs. 110 crores versus last quarter Rs. 167 crores. What should we consider going ahead the Other Expenses? Can you guide on that?

Amitabh Bhargava: It is difficult to give any guidance on Other Expenses, but I think this would be the range; Rs. 110 to Rs. 130-140 odd crores.

Moderator: We have the next question from the line of Nishit Shah from Aequitas. Please go ahead.

Nishit Shah: Sir, I want an outlook on fertiliser segment. Do we see margins improving going forward in Q3 and Q4?

Amitabh Bhargava: Q3 and Q4, one is, the MRPs have stabilized as against what we saw in Q2 where because of competition, we had to also slash our MRPs. The overall raw material prices, I would say, there is a possibility that phosphoric acid prices may come down further marginally and as such, overall, our Smartek as a percentage of our total sales has seen an improvement from 37% up to 57% and our MRPs are also in August we improved our premium from, 5% over competition to nearly 10% over competition in MRP in Smartek. So, a combination of all these 3 factors, I would leave it to your judgment but I think it should result in better margins vis-a-vis H1.

Nishit Shah: Sir, in TAN segment, how have October and November panned out?

Amitabh Bhargava: I can't give you any guidance on that, I am sorry.

Nishit Shah: But going forward, are we bullish that the segment will perform better?

Amitabh Bhargava: The TAN segment saw, like I said, a little bit of a setback. It was also because of flooding situation in Coal India mine. Obviously, with rains coming to a halt, the production in Coal India mine should come back. In general, H2 compared to H1 is nearly 30% to 35% higher in terms of volume. So, I would say if everything remains normal, we should see similar increase of volumes in H2 compared to H1.

Nishit Shah: Sir, you said that we are going to monetize the land in Gujarat. What kind of amount can we get from this?

Amitabh Bhargava: We are yet to give this guidance to the stock exchange. We will shortly be giving that and you could gather this as part of our stock exchange guidance.

Nishit Shah: Sir, what is the current price of ammonia and phosphoric acid?

Amitabh Bhargava: Phosphoric acid, the international pricing is $625. Ammonia prices changes almost every week, but we would be about $250 FOB Middle East.

Moderator: Ladies and gentlemen, that was the last question. I would like to hand the floor back to Mr. Pratik Tholiya for closing comments. Please go ahead.

Pratik Tholiya: On behalf of Elara Securities, I would like to thank all the participants who have logged into this call. Thanks to the management also for giving us the opportunity to host this call. I would request Amitabh sir to make his final comments.

Amitabh Bhargava: Thank you everyone for your participation and patient hearing. For any further queries or clarifications, please feel free to get in touch with our Investor Relations team. Deepak Balwani would be happy to answer your questions. Thank you all again.

Moderator: Ladies and gentlemen, on behalf of Elara Securities Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability

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