



June 8, 2021

The Secretary

BSE Limited

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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 Q4 FY 2021 Earnings Conference Call

Dear Sir / Madam,

Please find enclosed the Management Transcript of Q4 FY 2021 Earnings Conference Call, which was held on **May 31, 2021**.

The transcript of the Q4 FY 2021 Earnings Conference Call is also available on below mentioned Youtube video link: <https://youtu.be/fz4RdkxldJs>

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

Q4 FY2021

May 31, 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. Debashish Kedia – General Manager, Corporate Finance

Mr. Deepak Balwani – Associate Vice President, Investor Relations



Hosted by Ashika Stock Broking Limited



Moderator: Ladies and gentlemen, good day and welcome to Deepak Fertilisers and Petrochemicals Corporation Limited Q4 FY 2021 Earnings Conference Call hosted by Ashika Stock Broking 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 at 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. Ashutosh Mishra from Ashika Stock Broking. Thank you and over to you, sir!

Ashutosh Mishra: Thank you, Nirav. Good evening, everyone. And welcome to Deepak Fertilisers and Petrochemicals Corporation's Q4 FY 21 Earnings Conference Call.

Today we have with us, Mr. S. C. Mehta -- Chairman and Managing Director; Mr. Amitabh Bhargava - - President and Chief Financial Officer; Mr. Debasish Banerjee -- President (Strategic Projects); Mr. Mahesh Girdhar -- President (Crop Nutrition Business); Mr. Suparas Jain -- VP (Corporate Finance); Mr. Debasish Kedia -- GM (Corporate Finance); and Mr. Deepak Balwani -- Head (Investor Relations).

Without further ado, I would like to hand over the floor to Mr. Sailesh Mehta for his opening remark. Post which, we can have the floor open for Q&A round. Thank you and over to you, sir.

S. C. Mehta: Thank you, Ashutosh. Very warm, good afternoon, good evening to all of you. I hope you and your families are staying safe and healthy. All my prayers for your safety. I would like to welcome you also to the Q4 and full year earnings conference call of the Deepak Fertilisers. I hope you all had a chance to look at the financial statements and earnings presentation uploaded on the exchanges and our website.

Our performance during the year has indeed been heartening. During the year, we recorded revenue growth of over 24% over the previous year and our EBITDA doubled and net profit grew by over 4.5x compared to a FY2020. This robust performance was driven by profitable growth in both the chemicals as well as Fertiliser business verticals, with chemicals contribution about 80% of our profitability.

So, in a sense Deepak Fertilisers is a little bit of a misnomer with 80% contribution coming from chemicals. Better working capital management and better profitability generated almost Rs. 1,248 crore of cash flows and the net debt we could also pare it down reduce it by almost Rs. 840 crores during the year.

So, now, as I was looking at while the details, our CFO, President (Finance) -- Amitabh would be sharing with you. I thought I could touch upon at I would say a strategy level what I think worked and touch upon those aspects, which would be giving you a broader picture. So, if I ask myself what worked, and I further asked myself will it sustain? And here are the thoughts I was wanting to share.



One is the last year two years, but last year, we had a huge focus on cost optimization and also building some very, very robust system. We have invested time and energy on to creating a raw material prognosis system to usually improve the logistics management. A lot of focus on energy and raw material efficiency improvements.

We as a team invested a lot of time energy on an end-to-end S&OP system with the sales and operations planning, where right from demand generation to raw material planning is all integrated on an IT platform. We also invested into getting and analysing the big data from farmers as a part of our fertiliser improvement system and lots of other work. So, this is one area, which I feel helped. And over the years, it will continue to help in terms of a backbone.

Second aspect that we saw was a certain shift from China to India and in particular, we saw that for our customers of nitric acid, this came out to be a positive trend. And that, in turn has given us a positive current in the nitric acid business, which also I see as a trend are likely to sustain and continue.

The third aspect that we saw was that the key investments that we had made in the last three - four years. Initially, if you recall, the tripling of our fertiliser capacity a couple of years back, what we are invested into, the Dahej acid complex. These investments have begun bearing fruits. And these have validated what we had visualized in terms of benefits.

The fourth aspect is that we saw, IPA demand in pharmaceuticals and hygiene and hand sanitizer needs continue. Of course, we did have some unplanned downtime because of catalyst change and that shipment got delayed because of COVID. But otherwise, IPA remains now in a good stable phase.

But the most important thing that I feel as an undercurrent that we saw getting validated. And we also see its positive current sustaining is that we saw all our three businesses – the industrial chemicals, the mining chemicals and fertiliser all of them have been beautifully aligned with the country's growth story.

And as we see India grow, whether in terms of its power needs derived from coal or its cement needs derived from limestone or the other infrastructure needs all the requirements of the pharmaceutical sector, where India continues to play a good role in the global pharma sector. Mining chemicals, industrial chemicals will have some excellent tailwind for further growth. Also, as India's middle-income group grows, the need for quality fruits and vegetables, horticulture and the other food security requirements are only going to grow.

So, all the three sectors that we are into are gaining positive traction from their beautiful alignment with the country's growth story and that is something that panned out last year and I believe it will sustain over the years to come. The other aspect and other question that could come to anyone's mind is will the margin sustain? Particularly because of the large raw material hike that has happened, and we have seen, I would say in this early part of the fourth quarter.



There what we see is that certainly the cost optimization efforts and initiatives that we have made are going to continue and are going to further make inroads in the current year which will help us to contain and insulate the margins.

Second more important thing that we see that we still have capacities as potentials, which we still need to tap in some of the plants where which 80% - 85% and we have another 10% - 15% available capacities for upside. Plus, with a little bit of I would say marginal investment by way of de-bottlenecking, we could further enhance capacities and that of course, would help lowering the fixed costs.

The third aspect that we are seeing is that demand for our finished products are all good. And with that positive current in demand a certain degree of pass through of the costs is also something that we see quite workable, quite palatable.

The fourth aspect that we are looking at when it comes to sustaining the margins, we are seeing that the product differentiation and the segment-based strategy that we have now implemented not just in fertilisers, but in even TAN and other businesses is certainly allowing us to somewhere have a good elbow room for premiums. And that is also something that is going to help insulate and sustain the margins.

Above all, we also see that one large impact of costs increase came in the fertiliser sector as the global players increase the prices of phosphoric acid DAP hugely. Now that part of it was sitting heavy on us as everyone else in the industry. But we are happy to share that the government has taken quick and effective steps where they announced a huge hike in the DAP phosphoric acid, P subsidy, almost 200% kind of addition.

And that is going to somewhere mitigate a large chunk of the cost increase that emerged because of the raw material increase to the fertiliser business. What it also does is it will allow us in the industry to continue to provide fertilisers at a reasonable price to the farmers. And the worry that there could be any demand destruction because of price hikes is also something that is behind us now.

As you are also aware a number of weather apps, Skymet and others have predicted normal standard monsoon. So, that is also going to be something that is going to help bridge this moment in the fertiliser business. So, with that, I do feel that what had worked for us in the last year has strong grounds to continue and sustain in the current year. The margin that we saw somewhere along despite the height in raw material prices, we are seeing you know a decent mechanism to deal with that.

Now, going forward, and this stretching beyond the next 12 months from a larger picture perspective, how do I see things panning out? So, number one is that certainly the available capacity headroom will further help to bring the upside in the years ahead. Second aspect that is there is that the balance



profitable CAPEX plan that we have in mind is going to be hugely leveraging 40 years of our industry knowledge.

It will risk mitigate thanks to the backward integration and standalone itself we are seeing very good 18% to 20% IRR. So, that is going to be going forward, also another thing that is going to have a very positive impact as we go forward. But above all, one aspect that we are seeing, which is going to transform and change the very face of the companies and businesses is our strategic drive to move from commodity to Speciality or to change our business model and refocus from product to total solution.

I will give you one example of the success story as we see it emerging and we got a very good taste of it a very good validation of it in the fertiliser business. In the fertilizer business Smartek, the unique NPK that we make, we could raise its sale from around 2,20,000 tonnes to 4,38,000 tonnes. As you are aware, and Amitabh will explain more the top line and bottom line both have had a very heartening upliftment in the fertiliser business.

Now, for the last year, with this kind of Smartek product going in the market, we are very happy to share that we have now garnered almost two and a half million farmers as our repeat customers and that is giving me the satisfaction and validation that pricing, value proposition yield, focus on quality, focus on service levels at the field level all of it as a business model is getting validated.

Now, even during the COVID period the team had almost 18,000 webinar touch points with farmers. We touched almost 10 lakh farmers through social media. Additionally, we are looking at now a pipeline of crops specific unique products. We have invested heavily now in creating an IP knowledge base not just on the basis of the applied R&D for the products.

But intensively looked at a new organization structure training, IT tools, big data analytics and creating a marketplace that appreciates value rather than just focusing on price. Now, this aspect of moving from commodity to Speciality or from product to holistic services is going to be something that in the next few years will deepen and widen in all the three segments and it promises to somewhere change the very face and transform the company from what it is today to what we see it emerging in the next few years.

So, with that positive note and a broad strategy outline. I will now hand over to Amitabh to take you through the details. And then, of course, be available for any questions and any clarifications that you may seek. Thank you and take care be healthy, be safe. Amitabh?

Amitabh Bhargava:

Yes. Thank you, Mr. Mehta. Good afternoon, ladies, and gentlemen. And thank you for joining the Deepak Fertilisers and Petrochemicals conference call to discuss the Q4 and full year FY 2021 results. I was planning to cover some ground, but I think Mr. Mehta has covered a lot of ground in his opening remarks. So, very quickly I think I will skip some of my speech and I will just come back to the fact that during the year our manufactured chemical business recorded a revenue of Rs. 2,657 crores in FY



2021 and this was an increase of 17.4% compared to FY 2020 manufactured IPA recorded growth of 50% to Rs. 586 crores. Manufactured acids business for the year recorded a revenue of Rs. 530 crores, which is increase of 13.25% compared to last year. And the strong growth in nitric acid, it was mainly driven by a substantial increase in demand and result and better realization.

In addition, Dahej plant operated at the full capacity during Q4 FY 2021, which resulted in an increase of CNA sales volume up by almost 51% compared to last year. Manufactured TAN recorded and outstanding quarters supported by strong demand for low density ammonium nitrate and AN Melt. These are the two TAN products. We achieved highest ever quarterly AN Melt volumes during the quarter, the revenue of TAN business was Rs. 1,138 crores during the year.

In line with the improvement in cement and steel related sectors in the domestic market in Q4, demand for LDAN also improved. The improved domestic demand resulted in a better price realization for AN Melt and HDAN. And the same helped us to record robust profits in TAN business this year, despite lower volumes which were largely impacted in H1 due to lockdown.

I think fertiliser aspects of this was already covered. The other small part that I might mention is that other than our NP and NPK Smartek product Bensulf, which is another product that we have the sales increased by 27.13% to about Rs. 70 crores in FY 2021 primarily driven by differentiated superfast Bensulf we had launched in Q1 of FY 2021.

So, during the year, our IPA plant operated at a capacity utilization of 79% and both Acids and TAN operated at 74%. In the fertiliser segment NP, NPK plants operated, utilization levels were 73%; Bensulf operated at 51% utilization, and I think that is the point Mr. Mehta was mentioning earlier, that we have sufficient headroom in terms of capacity utilization to help us meet the demand that we are seeing very strong in each one of our segments.

So, I think, we remain confident of continuing our growth trajectory while extending full support to our customers, suppliers and other valued stakeholders in these testing times. With this, I am happy to take your questions. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Priyank Gupta from Guardian Advisors. Please go ahead.

Priyank Gupta:

So, my question is the ongoing expansion in both the businesses the ammonia and TAN, what kind of top line and bottom line can we expect to be added in FY 2023 and FY 2024 when they start operations as I see investment in investor presentation that they shall be on stream in FY 2023 and FY 2024, respectively?

Amitabh Bhargava:

So, in ammonia, it is a half a million-tonne capacity. And by in large we are confident of utilizing these capacities fairly close to 100% right from the beginning, because that is pretty much our own captive requirement is there. Now ammonia, we have seen that in last 10 years - 15 years, we bought



ammonia anywhere between USD 370 to USD 390 of FOB Middle East. And add to that it is roughly at about USD 80 to USD 90 by the time it lands at our plants.

So, if those prices remained, in fact, today's prices are even stronger than those prices. But we are going by what we have seen in last 10 years - 15 years in terms of the average price of ammonia. So, the prices of ammonia let us say the history repeats then we are looking at anywhere between I would say USD 450 to USD 470 to USD 480 per MT ammonia price for half a million tonne. I think you can do that calculation.

As such, again, from EBITDA margin perspective after considering gas costs and also the cost of let us say conversion we are again, anywhere between USD 160 to USD 200 of per tonne margins can materialize from EBITDA margin perspective. So, that is the broad range in which the top line and the EBITDA levels should vary for an ammonia plant.

As far as the TAN business is concerned, I guess one can extrapolate our current capacities we have done this year of about 4,27,000 tonnes and this new capacity is about 3,76,000 tonnes. So, you could maybe apply a ratio in terms of what kind of top line the business would regenerate.

Priyank Gupta: For ammonia we can assume further of sales of USD 450 of tonne and USD 150 tonne of EBITDA ballparks as a thumb rule?

Amitabh Bhargava: Yeah, as you know that ammonia prices it being a commodity that is sort of susceptible to volatility. So, to that extent, the prices we will have to make certain assumptions based on last 10 years or 15 year kind of that. The aspect maybe I just wanted to clarify that ammonia as such given that it is going to be used for our own consumption, per se, it would not add top line at a console level.

But margins are pretty much what you would then as opposed to sort of buying ammonia from outside, since we are producing our own our own ammonia, so margin should add to our bottom line. I was talking about the top line of ammonia plant as such, at console level it will get merged, so it would not add top line as such.

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

Lokesh Manik: Amitabh, just continuing on the previous question, so just a clarification that cost of production for ammonia with the new plant would be around USD 160 to USD 200 and then you add about USD 90 logistics cost when you add conversion margin, so you reach about USD 400 - USD 450 is that understanding correct, broadly?

Amitabh Bhargava: See the ammonia landed price if you assume anywhere between USD 350 to USD 380 of FOB Middle East. Today, at that price, the landed price of ammonia, you add about USD 80 to USD 90 to it. If FOB Middle East prices, you are assuming that that is the price that at which you will transfer ammonia from our new plant to our downstream products then that is the kind of top line that we would have.



As far as cost is concerned, cost of courses, is a function of gas prices. And to that extent, so as against USD 450 of the ammonia landed prices from this plant, we see the gas, cost of anywhere between USD 220 to USD 240 per tonne of ammonia. Add to it about let us say about another USD 40 - USD 45 in terms of conversion costs. So, you are looking at USD 260 to USD 280 or there about in terms of the cost of production and that is the number that I was saying that anywhere between USD 160 to USD 200 is the margin EBITDA that we would have.

Lokesh Manik: Right because your cost gets fixed at USD 260. So, relatively you will have margins of USD 160

Amitabh Bhargava: That is right.

Lokesh Manik: Understood. The second question was just one more clarification, I have read in the news the increase by the government in subsidy has been announced on the DAP front and the DAP is essentially competing products in non-urea segment. So, is there clarification from the government that they are also increasing for NPK as well?

Mahesh Girdhar: Yes, yes. So, they have in NPK and NP component government has kept at the same level. The P component which is in sync with the way the DAP prices have gone up, they have also increased P component which is roughly by 200% increase in P component. So, for NPK also the same P component and then applied depending on your in the product that you have whatever is the N, P and K component, the P component would have that higher P subsidy.

Moderator: Thank you. The next question is from the line of Pratik Tholiya from Elara Capital. Please go ahead.

Pratik Tholiya: Firstly, a couple of clarifications in the opening remarks Mr. Mehta has admitted that we are already at 80% capacity utilization and the demand looks very strong. So, just wanted to understand, how much more can our capacity utilization go up from here? He also talked about some debottlenecking that we can do. But broadly if we talk about say three years to four years down the line, we would be already in next one to two years consider a strong demand that he is talking about. You should be at you know 90% - 95% utilization. So, what after that? Because if we have to cater to this rising demand then some planning has to be done from now onwards, so that the next two years we already have that plants up and running. So, we wanted to understand on the broader thought process on the capacities going forward.

Amitabh Bhargava: So, I think if you look at segment-by-segment, starting with NPK. NPK, we are currently at about 70 odd percent or 72 odd percent. Now, this of course, last year was as low as 46%. We are up to 73%. This is on a 6,00,000-tonne capacity. So, within 6,00,000 we have headroom available of almost 20% - 25% of almost 27%, for that matter. Now, in NPK with a little bit of a debottlenecking particularly on the raw material storage and on the evacuation side 6,00,000 tonne capacity can be increased to 8,00,000 tonnes because the process plant itself is capable of handling 8,00,000 tonne it is the raw material and evacuation that needs to be upgraded. So, that is the kind of scope that is there in NPK.



In NP, our capacity utilization was about 78%. In the past, we have been ball parking in the range of 70% to 80%. But we have done some work on the plant side, so that would allow us to improve the capacity utilization, so 78%. I would say that over a period of time, we could obviously take it closer to 100%. But that that could be a few quarters, it might take two to do that.

TAN capacity this year, we have done 88% roughly and TAN in the past, in 2018 - 2019 if you see our capacity utilization was 105%. So, we have done 105%. But this year, (a) because the cement plants in Q1 were by and large shut, there were also challenges on the infrastructure side. We ourselves face certain challenges from a maintenance perspective.

So, the overall capacity utilization this year was low, but it can definitely be taken to what we have already achieved in 2018 - 2019. We are we are studying technical studies are currently on the progress to see how much can we do and what would it take to do that. But TAN does have that debottlenecking capacity.

The Taloja acid, again, we face challenges in terms of maintenance of capacity utilization was low about 74%. While in the past, not in the immediate past, but earlier we have touched capacities upwards of 85% or 90%, there about. So, that does have the headroom there. And IPA again because of maintenance challenges, because of COVID situation, our capacity utilization was 79%, while in the past, last year itself was 86%; previous years it was upward of 90%; closer to 100%.

So, there is a headroom sitting in the current capacity and after that, I guess once these capacities are exhausted our TAN expansion on East Coast is the only one that we currently have in terms of board approved projects. If there is a case for expanding our capacities in acid or IPA that is something that would be taken up at the right time, but there is no such decision as yet.

Pratik Tholiya:

Sure, sir. Thanks for the detailed explanation. Sir, secondly, on the margin front in the chemical you have probably reported one of the best ever margins. And a big, big jump from what we have seen in the past. So, sir, broadly I mean, you definitely said that, we can sustain on this margin. But considering that the raw material prices are going up, how should one look at these margins from the near-term perspective, six months to eight months. Do we have that much ability to pass on the pricing to the customers or there will be some sort of hit on the margin?

Amitabh Bhargava:

Actually, as far as acid is concerned, we are seeing strong demand, as Mr. Mehta was also mentioning that a lot of the intermediate product supply chains are looking at India and we are seeing that, that demand or expansion sort of coming up in our downstream customers as well as some new players that have come in terms of requiring nitration for their downstream chemical production.

As far as acid is concerned there is that demand and so long as the demand is strong, one would expect that any increase in the cost, raw material cost would have a lot more ability in terms of to pass it on to the customer. Some of our assets, of course, also, with long term customers, we do have



arrangements of raw material pass through. So, to that extent, even that plays a role in passing our raw material prices.

Your point was on the chemical, in IPA, well in IPA as much as the, I think the RGP, that the your refined grade propylene prices have gone up. We have seen to an extent IPA prices have also come up from the bottom that we saw in the last year itself. But IPA prices, it will be fair to assume that IPA margins will not remain to the levels that we saw, the last full year because Q1 was very, very strong and that is reflected in our full year margins.

But IPA long term average margin should sustain, what we saw our destruction of margins in 2019 - 2020. That is certainly behind us, because IPA is seeing some new segments coming in terms of demand. But IPA, again, you need to look at that overall from our consolidated profit perspective at a gross margin level or the contribution margin level. IPA contributed only 15% - 16%. So, it is an important segment. But we have other engines of growth as far as our console margins are concerned.

Pratik Tholiya:

So, even IPA can we expect the demands to sort of taper down because I think there are other players who have also entered plus ethanol companies, I mean sugar company who is also making ethanol and catering to the hand sanitizer demand. So, to that extent, can there be some impact on the demand as well as on the pricing?

Amitabh Bhargava:

The effect of ethanol being one of the ingredients for hand sanitizer has in some sense has already come into the demand side. So, demand from sanitizer segment has by and large stabilized whatever methanol prices were to or rather ethanol as a component or one of the ingredients of hand sanitizer is concerned that part has already mature. But if you see more than 75% almost 80% of demand for IPA comes from pharma segments and pharma segments continues to remain strong.

Overall, earlier we were the only producer, until the Deepak Nitrite capacity came in, we were the only producer. But even with the capacities that they have brought into the market, we are still looking at huge gap between our demand and the domestic production. So, the import will continue. And to that extent, domestic manufacturers, ourselves and the others would not face any demand challenge as such.

Prices are not just a function of I would say sanitizer segment like I said most of the demand comes from pharma segment and so long as that continues prices would have a little bit of a different dynamics in terms of whether IPA. So, IPA is produced from two different sources that is propylene and acetone. And depending on what the commodity prices of acetone IPA and propylene are in terms of relative terms; you may see some obviously volatility in IPA prices.

But we are seeing that the long term and this is the point I was making that last year's margins may not sustain. But long-term average margins that we have seen in this business are definitely something that are here to stay as we see.



Pratik Tholiya: Sure, that is very helpful. Also in fertilizer space, the margin because you have done some 7.5% in FY 2021 despite healthy volume growth. But this again is considered that we have blended product like Smartek and we have definitely a good market share in Maharashtra. But our other competitors in the industry are doing much better than that in terms of the margin. So, what is the driver for margin in fertilizer space? What could be over the next two years?

Amitabh Bhargava: So, fertiliser segment, our strategy as Mr. Mehta was also mentioning, our strategy is more in terms of differentiation, which is what has reflected in our volumes that we have seen in NPK. Now, the way margin for us per tonne margins would have two components, one is as the capacity utilization would improve from current 73% to closer to 100% and even from 6,00,000 tonne to 8,00,000 tonne we would be able to spread our fixed costs over a larger volume.

And to that extent, we believe that the capacity utilization, our margin should also improve. Also, what we are seeing is a differentiation that we have brought about in the market. We are also bringing in more products which are crop specific. We are also into nonsubsidized segment that is Bensulf and water-soluble fertilizer. We are looking at bringing in products in those segments also. And a combination of all of that should reflect in our in our margins.

So, it is not fair for us to compare ourselves with our competition in a sense, because they have a different strategy in the market, maybe volume strategy or whatever is that strategy. But for us, the differentiation is what we are trying to bring and trying to bring the new products, some are stable through our in-house R&D. And that is the basis on which we believe our margins going forward should be better.

Pratik Tholiya: Sure, sir. Sir, just lastly, in the opening remarks, Mr. Mehta mentioned that you want to move away from the commodity sort of business and towards Speciality and other than just products move onto solution sort of business model. So, he spoke about the fertiliser space, can you help us understand on chemicals especially in something like acids, there are a lot of companies who are using our acid in their value addition and getting more margin. So, is that kind of thing. We are also planning to enter into or maybe in some other chemicals, maybe since we are putting up a big ammonia plant. So, can we think of some value-added products from ammonia as well going forward?

Amitabh Bhargava: So, as of now, there is no such plan has been announced by us. So, I would not go in that zone. As far as acid are concerned, what we have tried doing over a period of time is to segment the market because acid also, depending on the concentration of acid finds its application and different end user segments. What we have tried to cover through differentiation is to cater to each one of these segments rather than giving only one or two types of only a concentrated or a dilute nitric acid.

We have we have looked at different concentrations. Understanding the requirement of certain segments, in terms of their concentration, in terms of their any other features that they require in acid. So, that is the way acid we have done the differentiation. As far as TAN is concerned within TAN as you are aware that there are three different products that is ammonium nitrate, melt, low density



ammonium nitrate and high-density ammonium nitrate, here the low density ammonium nitrate is something that largely the public sector, all had so far not used LDAN it was restricted to limestone infrastructure and private coal.

But a lot of the work that we have done with public sector coal mines, we are establishing the value that our LDAN based explosives or LDAN brings it to their overall mining costs. And we are to that extent trying to expand our LDAN segment also LDAN based explosive segment and also trying to bring not just the product. But to provide certain services right at the mind mouth to our customers, so that we can give them a better blasting experience. And that is what he meant when he said that we are on one hand in chemicals, we are trying to differentiate or segmentize our products, but also, trying to move away just products to maybe products plus services.

Likewise, in IPA also we have tried bringing in differentiation to pharma grade IPA and the IPA for other end usage. That is what we are we are trying to do in each of our products, which allows us to cater to different segments and also be able to give them better, better products and services and affordably price these products.

Moderator: Thank you. The next question is from the line of Kumar from Systematix Group. Please go ahead.

Kumar: Sir, just a couple of basic clarification. You mentioned that Bensulf revenue contribution was Rs. 20 crores in the crop protection segment. So, the remaining Rs. 2,100 crores would be composed of like what is the breakup across NPA and NPK?

Amitabh Bhargava: I think overall, break up, I think some of these break ups you will be able to see it on our website. But overall, if you look at, let me very briefly try to give you a breakup. Your question is about Bensulf and an NP and NPK.

Kumar: Bensulf Rs. 20 crores.

Amitabh Bhargava: You are talking about the quarter or the full year number?

Kumar: Full year number, sir.

Amitabh Bhargava: Deepak, would you have the full year number breakup in terms of the Bensulf and NP and NPK?

Deepak Balwani: I will share shortly.

Amitabh Bhargava: Okay. if you move to the next question, I will come back to you.

Kumar: Sir, would it be fair to assume that this Rs. 2,100 crores that NPA NPK is there, so that is totally subsidy-based revenue for us?



Amitabh Bhargava: No, the Bensulf would not be to an extent we have some water-soluble fertilisers that would also not be. But a big part of it which is our NPA and NPK is the subsidy base for fertiliser.

Kumar: Okay. And sir, in the Rs. 450 crores traded product that we have, so what are the products that we are trading?

Amitabh Bhargava: In fertiliser you mean?

Kumar: Yes, sir.

Amitabh Bhargava: So, fertiliser basically when we trade, we look at our customer's requirement sometimes our dealers and retailers do look for a wider basket of products from us. So, to that extent, DAP could be one of the products that we may opportunistically to meet our customer's requirement, we may take. Sometimes certain NPK products which we ourselves do not manufacture or in a certain period there is a higher demand, but we are not able to cater to that we also produce that or rather trade that.

And then of course, we also trade into water soluble fertilizers and certain Speciality fertilizers, which are different micronutrients. So, those are the other fertiliser that we trade into.

Kumar: Okay. And sir, in chemical segment, so we have around Rs. 1,140 crores of TAN; Rs. 530 crores of Nitric Acid and Rs. 586 crores IPA. So, the remaining about Rs. 400 crores is coming from which product, sir?

Amitabh Bhargava: Some of it would be this year, we have carbon dioxide, we have of course this year methanol was perhaps there was no methanol this year. But we sell propane, we sell dyes, we also have our subsidiary, I think this is also consolidation of our subsidiary which is Platinum Blast, which is an Australian subsidiary where we have 65% stake. So, a combination of all of these.

Kumar: Okay, sir. And sir, we have a trading revenue in the chemical segment as well. So, you have been dealing in the same or different products?

Amitabh Bhargava: We mainly trade in IPA. And to an extent we have certain surplus ammonia, it can also be opportunistic trading of ammonia. That is only to the extent that there is surplus.

Moderator: Thank you. The next question is from the line of Naresh from Samiksha Capital. Please go ahead.

Naresh: Sir, first question is in the fertilizer segment, if we see the blended realization of NPA and NPK then from a FY 2020 and FY 2021 end it has been around Rs. 30 per kg. And this is despite your smartek product growing in the three years. So, why has our realizations stayed at the same level despite you mentioned that it is a premium product and realizations also helped you grow your top line and margins as well? So, that was the first. And second, what was your requirement for ammonia for FY 2020 and FY 2021 in terms of quantity I wanted to know.



- Amitabh Bhargava:** So, your first question is that why our realization low in terms of bulk fertiliser.
- Naresh:** Not low, question was that it has remained at around Rs. 30 rupees per tonne despite your Smartek product growing from FY 2019 to FY 2020 and then in FY 2021. So, why the realization has not increased in line with the premium product which we sold?
- Amitabh Bhargava:** First of all, when we say premium product, the prices to an extent better than the prices of same grade NPK products by competition. But between NPA and NPK prices, the prices can vary depending on the raw material prices and this subsidy on NPK that is given by the government.
- So, as such, by certain components or certain product, the share of NPK going up into our overall product basket, it is not necessary that the prices also have, or the realization has to commensurately grow up. I mean, where have you picked up the Rs. 30 rupees per tonne number? I am not clear.
- Naresh:** No. So, I am just adding the revenues of NPA and NPK and dividing it by the volume of NP and NPK which we have reported. So, that is how I have calculated.
- Amitabh Bhargava:** So, my colleague, Mahesh is there, he is President fertiliser. Mahesh would you like to take this question?
- Mahesh Girdhar:** Yeah. Sure. Thank you, Amitabh and thanks for our question. I think if you are looking into only simply by dividing value by amount by the quantity, rupee per tonne or per kg, the data, you will find that the prices keep changing so, raw material prices keep changing. The raw material price change, the base price also will change. You will not be able to get the right reflection based on that on the let you say apple-to-apple comparison cannot happen, because as you know that last year in the Q1 the Phos-Acid price was USD6 or USD 7 per tonne, now, it is USD 998 per tonne . So, with respect to same volume, the price the amount will significantly change.
- However, coming back to your main portion of what is happening for our margins, I think that is reflected in our improvement of segment results, it is moving up to 7.1% now from previous quite significantly low. So, that is coming from both (a) improvement in the margin, that is coming because of the launches of the value-based product where we have certainly been able to charge let us say premiums based on the value under our reasonableness clauses and as well as increase in the in the volume. So, both has driven the segment profit this quarter.
- Naresh:** Okay. And on the ammonia quantity, how much was the requirement for FY 2020 and FY 2021?
- Amitabh Bhargava:** Deepak, would you like that question?
- Deepak Balwani:** So, basically for quarter four, the ammonia production instantly was roughly about Rs. 21,000 whereas, the consumption was 1,10,000. Similarly, if we look for the full year for FY 2021 then



ammonia production internally which is roughly about 86,000 although, the consumption was roughly about three 3,87,000.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investment. Please go ahead.

Sachin Kasera: I had two - three questions, regarding the CAPEX, so your presentation has given the number of CAPEX for the ammonia, could you share just other than ammonia, the CAPEX for the TAN as well as the other divisions, what is the CAPEX you are planning to incur for 2022 and 2023?

Amitabh Bhargava: As far as TAN is concerned, you are still in the process of getting our statutory approvals, land acquisition and the other basic on the ground project development that is progressing. At this stage, we do not have a definite plan, it also depends on when we would start these CAPEX. Other than that, we do not have any other CAPEX plans. Of course, the regular maintenance CAPEX that happens in the plant, we only have a CAPEX that we have.....

Sachin Kasera: What is the total spend approximately going to be for the TAN plant as and when we will do it?

Amitabh Bhargava: One is we have the land to be acquired, so the construction costs would depend on the site also we have detailed engineering etc., that we would do with the help of our engineering consultant. Once they do the tendering from various contractors, then we would have a sense of what the broad numbers are going to be like?

Sachin Kasera: Sure. My second question was on the leverage. So, this year we had done a great job of repaying almost Rs. 800 crores of debt and bringing on the net below Rs. 2,000 crores. But as we spend close to around Rs. 2,700 crores - Rs. 2,800 crores on the ammonia, preferably in next two years. How do you see your balance sheet and debt equity? And do you have any plans in terms of raising some other resources so that you can keep the debt equity or the leverage under control or you will be comfortable in terms of it going up further?

Amitabh Bhargava: See, one is as much as we would take debt for ammonia, we have roughly Rs. 240 crores to Rs. 250 crores of debt repayment that happens every year. So, simultaneously we would also have the debt which is the current debt which would get amortized. That is number one. Number two part of the debt or what you see in the debt numbers is also the foreign currency convertible bond that we have from IFC and they have a compulsorily convertible debenture at STL level accounting terms, these are also clubbed with the debt.

So, but CCD obviously, being a compulsively convertible debenture after six years to seven years that will convert it into equity. Likewise, FCCB depending on the conversion price and the option exercise, by IFC may also there is a strong possibility of it getting converted into equity. So, that is as far as the way debt if it could move even if nothing changes. But on top of it, obviously, with the CAPEX ammonia, we would add that.



The second aspect is that it will see this year we have done almost Rs. 1,250 odd crores of net cash accruals. Now, while I am not going into the area of making any sort of future prognosis, but all the discussions we had in terms of sustainability of our business and the capacity utilizations that are sitting with us, it does give one, a sense of what kind of internal cash generation is possible.

So, even after incurring those cost or adding that debt, we have the ability to generate cash internally, that is one. Number two, we have non-core assets, (a) form of land in the heart of Pune. Also, we have a subsidiary in Australia where we have 65% stake. In some sense these are non-core to our core business of industrial chemical, mining, chemical and fertiliser. And these have the value based on different estimates upwards of Rs. 700 crores to Rs. 800 crores. So, at the right time, we also have the ability to unlock this capital and use it for these projects or for repayment of debt. So, those are the other means of generating internal cash. But we are we are obviously mindful that we do not want the leverage ratios to go out of prudent norms. And that is what we will try to attain.

Sachin Kasera: Sir, this Rs. 700 crores to Rs. 800 crores that you mentioned ballpark, will two and a half years be fair timeframe estimates in terms of unlocking this Rs. 700 crores - Rs. 800 crores of non-core assets or it could take even much longer?

Amitabh Bhargava: It could take, it could be even earlier.

Sachin Kasera: Okay. Because I was thinking that since we are almost **22 crores** of CAPEX lying in the next two years in ammonia, we may try and do it before that.

Amitabh Bhargava: it could be even earlier. Yes.

Sachin Kasera: Okay. And so, no plan as of now for raising any QIP or equity or right issue nothing like that?

Amitabh Bhargava: Board has not taken any call. As and when they do, we will inform you.

Sachin Kasera: Okay. Just come to understand, since this heavy CAPEX of ammonia say in the next two years, will we also look in terms of deferring it 12 months to 18 months till the time the ammonia CAPEX will turn?

Amitabh Bhargava: No, there is no such plan, we would be completing this in next 24 months. That is the plan we have.

Moderator: Thank you. The next question is from the line of Nishit Shah from Aequitas Capital. Please go ahead.

Nishit Shah: Sir, most of my questions are answered. One thing I wanted to understand is what is the impact of the second wave for us in terms of demand and in terms of pricing for our industrial chemical segment?

Amitabh Bhargava: Well, as of now, as far as our own plant operations are concerned, we are much better prepared in the second wave. As far as our customers are concerned, there could definitely be disruptions at their



end. But, as so far we are seeing IPA, acid and TAN and as you would see in the last quarter's numbers we are seeing those the demand from each of these three segments remaining strong.

In fact, what I had mentioned earlier and Mr. Mehta also alluded to that with a lot of this intermediate chemical supply chain showing interest in Indian manufacturing facilities, we are seeing not just the potential expansion from our key customers, but some of the new customers have come up in the nitric acid segment. So, we do see that there is in fact going to be a shortage of nitric acid in foreseeable future and the prices should also reflect that demand for price fluctuation.

Nishit Shah:

Okay. Sir, my second question is I wanted to understand the current price of phos acid and ammonia? And what is our take, will we be able to achieve our 8% to 9% margins back this year?

Amitabh Bhargava:

So, phos acid prices are USD 998 to a tonne. Ammonia prices are hovering between USD 450 to USD 480 per tonne FOB Middle East and you can add to that the other components as far as our landed price is concerned. So, these are the prices. Now as we discussed earlier that as far as the phosphoric acid prices are concerned government has almost tripled the subsidies, 200% increase in P subsidy, which in a way provides a huge relief to the industry as much as to us in terms of a potential part of increase in fee.

The other raw material prices ammonia would have some implication as far as the fertiliser is concerned, but fertiliser as we mentioned earlier that it will be the lag, the raw prices do get in a way passed on to in the finish good prices. But that lead that effect can always be possible in fertiliser segments.

In other segments, there are we are seeing also the counter forces in a sense the whole demand supply situation and in Acids for example, would we believe that it would have the ability to take or absorb the increase in ammonia costs. Likewise, a part of our segment in acid as cost plus kind of

pricing mechanics and TAN as much as the ammonia prices have gone up, the TAN prices have also gone up to reflect that.

So, I guess, the strong demand on the finish good products seems to have the ability to absorb these raw material prices. The lead of lag effects could always be there in certain quantity.

Moderator:

Thank you. The next question is from the line of Nikhil Gada from Abakkus Asset Manager. Please go ahead.

Nikhil Gada:

Sir, my first question is sort of relating to the nitric acid market, if you could give some qualitative aspects as to how the market is? How is the market size? And since we are seeing such strong demand is there any element of imports that also we can see in the market?



- Amitabh Bhargava:** So, I am not at the numbers and I am mindful of the time shortage. A lot of these numbers you would find in our corporate presentation in terms of the demand-supply situation. As such to the last part of your question, nitric acid generally is not amenable to huge import because of it being corrosive and it requires different specialized metallurgy to transport to tankers. So, generally speaking, the domestic demand is met by domestic production there is a very little import.
- Nikhil Gada:** And sir, just the on the competitive aspect in nitrite acid is there any larger domestic player who operates in this market?
- Amitabh Bhargava:** There are two or three public sector fertilizer companies they also produce the nitrite acid.
- Nikhil Gada:** And sir, just on continuing on this margin aspect and the pricing as per the nitric acid. So, this increase in ammonia prices is that also pricing also reflected in the Q4 prices of nitric acid or this purely based on demand aspect and the improve sentiment?
- Amitabh Bhargava:** In Q4 the prices of ammonia has not gone up as much as they have gone up in Q1 this year.
- Nikhil Gada:** Yeah, so, exactly that is the reason.
- Amitabh Bhargava:** so 11% - 12% now, that to a limited extent, some of our contracts which have raw material passed through kind of mechanism it would reflect, but a good part of the realization in nitric acid in Q4 reflects demand supply situation.
- Nikhil Gada:** Then do we see these realizations improving even further so that as we price hike and everything in nitric acid specifically?
- Amitabh Bhargava:** Realization may certainly because of raw material pass through I would not comment on the margin
- Nikhil Gada:** Once when we have achieved in the prices for phosphoric acid, we have seen some slump especially in April and the fertiliser sales. Now with this subsidy coming through, do we believe that this should solve the issue at least on the demand aspect and do you really see the demand now from here onwards?
- Amitabh Bhargava:** Mahesh, would you take that question?
- Mahesh Girdhar:** Yeah. I can answer, Amitabh. Thank you very much for the question. I see the Kharif season picked up from May onwards and this is timely action by government of India and is a right and still till the May middle actually, most of the company, supplies were supplying on the old pricing because they themselves have. So, at that time the demand was steady and then as the pricing start going up from middle of May already in such we have been announced. So, we are not expecting any demand destruction, we are seeing a solid Kharif season going forward. It already started actually with the good forecast of rainfall; demand growth rather goes up



- Moderator:** Thank you. Ladies and gentlemen, we will take one last question from the line of Nihil Parekh from Tamohara Investment Managers. Please go ahead.
- Nihil Parekh:** I had one question on the IPA front. Sir, as you mentioned that even realizations are sort are right now. But initially, we had a plan of an expansion of about 1 lakh metric time. So, I think we are not going ahead with the CAPEX plan there?
- Amitabh Bhargava:** No, we are not.
- Nihil Parekh:** Okay. Actually, I miss the opening comment, if you can just share the value number the revenue numbers from the IPA front? IPA and acid the Q4 revenue?
- Amitabh Bhargava:** Deepak, would you like to take that question please? Your question is on IPA revenues in Q4?
- Nihil Parekh:** Yes, sir.
- Debasish Kedia:** Sir, it is Rs. 110 crores.
- Nihil Parekh:** Rs. 110 crores and for acids and TAN, sir?
- Debasish Kedia:** IPA is Rs. 110 crores; acid is Rs. 186 crores.
- Debasish Kedia:** And TAN was Rs. 395 crores, sir.
- Nihil Parekh:** All right, and just one last question, sir, on standalone, the employee expenses for the quarter look little lower, sir, any one-off there?
- Amitabh Bhargava:** I think what had happened is up to we had made certain assumptions on management remuneration post, which we got shareholders' approval. So, that was trued up in Q3. But by Q4, management remuneration has been lower than what we had anticipated. So, Q4 numbers of what you see in Q4 standalone is in a way lower. And it is not an apples-to-apples comparison with previous quarters.
- Moderator:** Thank you very much. Ladies and gentlemen, that will be the last question for today. I will now hand the conference over to Mr. Amitabh sir for closing comments.
- Amitabh Bhargava:** Well, gentlemen, thank you so much for joining the call. It was a record year for us. And we hope to be able to continue our performance going forward. So, I wish all of you a safe and healthy period ahead. Please take care. And thank you very much for joining.
- Moderator:** Thank you very much. On behalf of Ashika Stock Broking Limited, that concludes this conference. Thank you for joining us. 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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