



February 11, 2022

The Secretary

BSE Limited

Phiroze Jeejeebhoy Towers,

Dalal Street, Fort,

Mumbai – 400 001

BSE Code: 500645

Listing Department

National Stock Exchange of India Ltd.

Exchange Plaza,

Bandra - Kurla Complex, Bandra (E)

Mumbai – 400 051

NSE Code: DEEPAKFERT

Subject: Management Transcript of Q3 FY 2022 Earnings Conference Call

Dear Sir / Madam,

We would like to provide the Management Transcript of Q3 FY 2022 Earnings Conference Call, which was held on **31st January, 2022**.

The transcript of the Q3 FY 2022 Earnings Conference Call is also available on below mentioned Youtube video link: https://youtu.be/fWY5_IAaBB0

We request you to take the same on your record.

Thanking you,

Yours faithfully,

For **Deepak Fertilisers**

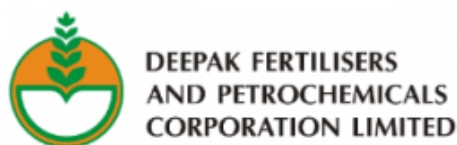
And Petrochemicals Corporation Limited

Ritesh Chaudhry

Company Secretary

Encl: as above





Earnings Conference Call

Q3 FY2022

January 31st, 2022

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 Systematix



Moderator: Ladies and gentlemen good day and welcome to the Q3 FY22 Earnings Conference Call of Deepak Fertilisers and Petrochemicals Corporation Limited hosted by Systematix Institutional Equities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Tholiya from Systematix Institutional Equities. Thank you and over to you sir.

Pratik Tholiya: Thanks a lot. Good afternoon, everyone. On behalf of Systematix Institutional Equities, I would like to welcome all the participants to this call of Deepak Fertilisers and Petrochemical to discuss the third quarter and 9 month ending FY22 results. From the management team today, we have joined by Mr. Sailesh Mehta – Chairman and 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 – Head - Investor Relations.

At the outset would like to thank the management for giving us this opportunity to host this conference call. I would like to invite Mr. Mehta for his opening remarks after which I would like Mr. Bhargava to take through the financial performance post which we'll open the call for Q&A. Thank you and over to you Mr. Mehta.

Sailesh Mehta: Thank you Pratik. A very good afternoon to all of you. I hope all of you are taking the Omicron, variant in your stride and hopefully all of us will have this behind us as we get completely immunized. I take the pleasure of welcoming you all for the Q3 FY22 Earnings Conference Call of Deepak Fertiliser. I hope you have had a chance to look at the financial statements and earning presentation that were uploaded on the exchanges and on our website.

I'm very happy to share that in the Q3, we delivered a 35% jump in the top line, a 62% improvement in the EBITDA and handsome doubling of our net profits. This Q3 performance was despite a tsunami like virtually every single of our raw material price hike, ammonia jumped up 115%, Phos Acid by 78%, RGP by some 76%, potash, coal, you name it. Some areas besides the price hikes were also faced with availability bottlenecks.

Now despite the challenges, the good Q3 results indicate the following five fundamentals. Number one is while some products did have some struggle. From an overall basis our end customer industry has shown the resilience of our raw material pass through and more. This is indeed somewhere we see a good risk mitigation, I would say, available piece for us. It once again reaffirms the strong positive linkages all the three sectors that we are in, meaning agriculture, specialty chemicals and mining chemicals, all the three sectors have a beautiful alignment with the India growth story. This is the second aspect that gets reaffirmed through the Q3 results.

The third aspect that we see is our strategy to move up the value chain into more specialty customer segment-based products in all the three sectors is indeed in the right direction, be it IPA for the



pharma, crop tech fertilisers for crop specific segments in the Fertiliser sector and the like. So, this strategy to move from commodity to specialty also bearing the good fruits is one second reaffirmed.

The fourth aspect that we see is our drive to bring technology and digital based tools is also bearing strong fruits. As we connected with almost 70 million farmers digitally or we are doing drones and technology-based products in our mining chemical sector, all of it bring a reaffirmation that that is also a right strategic drive.

Lastly as we see our new CAPEXs of a global scale ammonia plant and a TAN plant are all going to deliver much greater and stronger fundamentals. From this broad kind of an overview in terms of what the Q3 signifies, I now hand you over to Amitabh – our CFO and President Finance, who can take you through sector wise financial details.

Amitabh Bhargava:

Thank you Mr. Mehta and good afternoon, ladies and gentlemen and thank you for joining the Deepak Fertiliser and Petrochemicals conference call to discuss the Q3 FY22 results. Our financial performance during the quarter remained strong. During Q3 FY22 we reported a total operating revenue of Rs. 1,956 crores, an increase of 35% compared to same period last year. Our operating EBITDA increased to Rs. 352 crores compared to Rs. 217 crores in Q3 FY21. Operating EBITDA margins grew to 18%, an increase of almost 300 basis points. Our net profit doubled to Rs. 181 crores with a margin of about 9.2%. Finance cost reduced considerably by 15% YOY during Q3 FY22 driven by amortization of operating term loans, better working capital management and reduction in interest rates. Depreciation increased YOY due to onetime accelerated depreciation taken in some equipment's anticipating reduced useful life of these assets. In Q3 FY22 revenue increased by 49% to Rs. 1,182 crores in chemical segment comprising mining chemicals and pharma and specialty chemicals. Segment profit increased from Rs. 173 crores in Q3 FY21 to Rs. 319 crores in Q3 FY22, an increase of 84% YOY. Chemical segment contributed about 93% of total segment profit.

During the quarter our manufacturing specialty chemicals business recorded a revenue of Rs. 381 crores, an increase of 36% compared to Q3 FY21. Despite significant increase in ammonia prices, nitric acid demonstrated improvement in margin supported by both volumes. That's about 6% and the net sales price, it is about 56% grew YOY. Shift of global supply chain trend towards India is resulting in improved demand from nitroaromatic segment which are used as intermediate in pharma and agro industry. Manufactured mining chemical business delivered an outstanding quarter with revenues of Rs. 660 crores, an increase of 122% YOY during the quarter. The volume growth was about 43% YOY and they were also better margins. Company continues to take advantage of flexibility in its product mix to maximize the margin. HDAN volume grew by 32% YOY basis. The low density that is LDAN sales volume in domestic market improved by 9% on YOY basis. Our value-based business model in crop nutrition business resulted in Q3 FY22 revenues growth of 19.1% to Rs. 769 crores, Fertiliser segment profitability was impacted due to unfavourable movement of key raw material prices. NP and NPK recorded sales of Rs. 515 crores and bensulf sales increased by 77% to Rs. 32 crores in Q3 FY22.

During the quarter our TAN plants operated at 110% capacity utilization, both acids and IPA operated at 86% and 88% respectively. In the crop nutrition segment that is in NP and NPK plants, they operated



with utilization levels of 47% and bensulf plant operated at 36% utilization level. The available capacity across our plants provides us a headroom for future growth potential. We remain confident in continuing our growth trajectory on the back of our businesses and which is strongly aligned with overall India's economic growth.

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

Moderator: Thank you very much. We will now begin the question answer session. The first question is from the line of Naresh Vaswani from Sameeksha Capital.

Naresh Vaswani: My first question is on the raw material absolute cost which you have accounted in this quarter. So, if I compare that with last quarter there is hardly any increase of 17 to 20 crores while you have mentioned in your presentation and also in opening remarks that the material costs have gone up substantially, all the materials and also the volume if I club all the volumes, it is flat or slightly negative. Even after that the absolute cost should have gone up substantially given what you have mentioned. What explains this because the end products prices have already increased which is reflected in your realization in TAN and nitric acid. So, what explains this flat number for raw material cost?

Amitabh Bhargava: What you are referring to is quarter-on-quarter, I suppose. While quarter-on-quarter the raw material prices continue to go up between Q2 and Q3, some of the increase that we were mentioning in terms of the percentage whether it is ammonia. Phos Acid, MOP, coal, and others the substantial jump was YOY while quarter-on-quarter also there was a jump but in quarter-on-quarter what also happened is the volumes particularly in the NP-NPK segment were lower. That was primarily because of as Mr. Mehta was also mentioning that we also faced challenges of availability of raw material in this period. As a result, from a consol standpoint since the volumes in NP-NPK segments reduced, it had an impact in terms of keeping the overall, if you're looking at the overall cost of materials consumed, from that perspective they were quarter-on-quarter, that number may not have gone up as it has gone up from YOY. So, I think that's the reason. I'm not sure if there is more to the question that you asked. But it's the quarter-on-quarter and also certain volumes on the NP-NPK segment which were on the lower side.

Naresh Vaswani: It's not that we had some old inventory which was low cost and which why you benefitted and then in Q4 that would have some impact, so that is not the case. You're saying the increase from material has already been accounted except that volumes have declined that is okay. But the increase which was utilized in this particular quarter, those prices have already been reflected. Is that right?

Amitabh Bhargava: Yes.

Naresh Vaswani: This increase in margins in TAN, the proportion of increase in realization is much larger that is what explains the increase in margin in TAN. So, what is happening structurally because the realization in TAN has gone up almost like 70%-80% if we compare with like it was around 24-25 on a stabilized basis, now it has almost reached 47%. What explains this and how much sustainable this trend is in coming quarters?



Amitabh Bhargava: One, is fundamentally the volumes went up YOY. So, almost if you look at overall TAN, there was an increase in volume by almost 24%, within that HDAN was up 32% YOY and even the melt was up 43%. So, one effect was of the volume. The second of course is that while the raw material prices went up, we also saw increased finished goods prices. Finished goods prices in fact for us are typically the price points in TAN which we keep ourselves aligned to typically, is one is the import prices of Fertiliser grade ammonium nitrate. Also, the domestic other domestic players who sell TAN in melt form, they also increased their prices. They have increased their prices as the ammonia prices went up. A combination of the finished goods prices both internationally as well as domestic prices of TAN they went up and our ability to or rather if you look at from overall margin perspective despite increase in ammonia prices, the finished goods prices saw even better improvement. Overall, I think the factor of demand growth in the quarter also was reflected in the way Coal India's overall overburdened productions. It recorded a growth of almost 8% YOY, 43% quarter-on-quarter. Singreni, for example their overburden production grew by 49% quarter-on-quarter and 26% YOY. So, the effect of the domestic demand, our volumes growth and then prices, international as well as domestic prices from other TAN players. Their increase resulted in these kind of margins. Now to the point that on the sustainability, look one other aspect that we've been working on and as I think we you mentioned in previous calls as well somewhere in January early, we had also done a detailed presentation to our investors which was done by our TAN business head. The aspect that we are now also going downstream in terms of directly reaching our customers or in fact the consumers in a sense who are the end consumers of these explosives, mainly mining companies, mining contractors, infrastructure companies, infrastructure contractor. So, we've also commenced our journey to move from product to solution and therefore we hope to garner overall per ton of TAN, we hope to garner better margins through our approach of not just product but product plus solutions. To that extent while finished goods and raw material prices would go through their cycles. Our ability to get better margins progressively by going further downstream is what we believe is going to continue to have the effect of improved margins in TAN business.

Moderator: The next question is from the line of Kumar Saumya from Ambit Capital.

Kumar Saumya: My question is on the IPA side, like we were cracking the IPA refinery, then propylene to IPA, so how is this process different from someone, like Deepak Nitrite who is going through the whole phenol acetone route, if you could help some understanding this process?

Amitabh Bhargava: The raw material used for production of IPA is different. In our case our raw material is propylene, refinery-based propylene while in case of Deepak Nitrite it is acetone. So, fundamentally two different raw materials to produce the same IPA. I'm not sure if there is anything more that you wanted to ask as such but fundamentally two different processes.

Kumar Saumya: How it is if someone is using from acetone to IPA, their yield would be better from propylene to IPA? So, for Deepak the trade between acetone and IPA is guiding the margin but for us it would be propylene and IPA, so that I want to understand that how this process is delivering if it is delivering better margin and better profit?



Amitabh Bhargava: Fundamentally IPA and propylene as well as acetone, all three products have their own price cycle, so to say and that depends on while IPA can be made either from propylene or from acetone but the prices of propylene and acetone would depend on their own demand supply equation. Acetone in turn goes into downstream product, so depending on the demand that comes from downstream sectors, the production of phenol and therefore production of acetone could have a different sort of demand supply situation in the market. That could mean that acetone prices and IPA prices delta in certain period could be high or low. Again, like I said if both these are products that would have their own demand supply cycle and therefore pricing cycle. Likewise for propylene, refinery grade propylene also, the factors that decide propylene prices are, one is of course the petrochemical cycle and the downstream usage of propylene but propylene is also from a refinery grade propylene perspective, it is used as a substitute or the alternate to that propylene is to mix it with LPG and therefore prices of LPG, propane and butane could decide the prices of refinery grade propylene. So, given that each one of these products have their own demand supply cycle and therefore the pricing, the deltas between propylene and IPA and acetone could vary pretty much on a real-time basis. Therefore, one cannot say that the margins from one is better than the other. It all depends on a particular period and in certain period you may have better margins through propylene route and other period you may have better margins through acetone route.

Kumar Saumya: On the steady state, so what is the margin that we get from our process given the steady state normal ballpark number, not particular for this quarter?

Amitabh Bhargava: We don't report product margins separately. To that extent what you would see is, for example last year our IPA margins were significantly better. This year more or less in nine months that we've seen IPA prices have remained subdued while the RGP prices have gone up. So, therefore, margins are under pressure. What we are doing though, again from moving away from this specific question which is where the margins are not steady and to that extent they could vary from quarter to quarter or year to year. What we are doing is progressively, we are using our IPA in end user segments where the margins are better, namely for pharma, for pharmacopoeia or certain products which meet the pharmacopoeia requirement. Therefore, there is a premium in the IPA that goes into certain segments of pharma. Likewise, we have our own disinfectant product by the brand name of Cororid. A part of the IPA is going into Cororid and Cororid in turn is also being used or we are finding markets where there are better margins available because the efficacy of the disinfectant made through our IPO through the IPA route is getting better prices compared to the ethanol-based disinfectants particularly given the application of these into hospitals segments or the segments where the disinfection or efficacy is important. So, from that perspective our idea of while we would always have competition with the imported IPA and even with the local IPA with end user application of our IPA given the certain characteristics of the IPA that gets produced from our plant which is through propylene route, we are trying to find and we are working on various applications where the margins of IPA are better than the margins that we get to be commodity IPA.

Kumar Saumya: Do we try to add capacity when the IPA import is still going very strong?



- Amitabh Bhargava:** So, in IPA we are evaluating the option of acetone-based IPA but there is nothing that right now has reached a stage where we have approved any CAPEX.
- Moderator:** The next question is from the line of Niraj Pahlajani from Reliance Industries.
- Niraj Pahlajani:** I have only one question regarding TAN business. Basically, this is being used in explosives in the mines for coal extraction and all. It is majorly used for coal extraction only or for other minerals also like nickel and cobalt or any other minerals. So, where all exactly it is being used apart from coal extraction?
- Amitabh Bhargava:** This is going for both coal and non-coal segment. In non-coal practically all the minerals, all the metals wherever there is a requirement of removal of overburden, TAN or TAN based explosives are the cheapest form of chemical energy that can be used to remove the overburden. It doesn't really differentiate in terms of what the mineral is, so long as there is an overburden removal requirement the TAN would typically be used for blasting solution. Also, in the limestone mines which essentially then goes into cement, likewise various stone quarries which there are practically thousands of stone quarries. It's a sector which is highly localized and disintegrated, so all the stone quarries which essentially remove the stone chip for any construction activity, particularly the infrastructural segment, there also TAN is used as the explosive or basically TAN based explosives are used for blasting solutions. So, its infrastructure, cement, steel, other minerals, coal, it's across all of these mining segments.
- Niraj Pahlajani:** Just one follow-up question on this. What percentage approximately would be used on a coal versus non-coal extraction, any ballpark idea, or numbers on that?
- Amitabh Bhargava:** It's very difficult because we also sell, we TAN to the dealer segment and in turn dealer segment would be catering to both coal and non-coal. It's always difficult to trade every molecule of TAN to really assess where exactly it's going. Ballpark I think 55% to 60% would go into coal and rest in non-coal.
- Moderator:** The next question is from the line of Abhijit Akela from IIFL Securities.
- Abhijit Akela:** First of all, just wanted to get the current gross and net debt numbers if you have them handy with you and also what the cash from operations has been YTD?
- Amitabh Bhargava:** We have reduced the debt by another roughly 240 -250 odd crores compared to March '21, so there is that much of reduction.
- Abhijit Akela:** One last thing and I'll come back in the queue. Just wanted to get your outlook for the Fertiliser and the IPA business. Margins going forward, should we expect those to remain under pressure for at least the foreseeable future and then conversely in TAN, I know right now the market situation is very tight but if we take a slightly more medium-term view, what kind of spread should we work with, margin should we work with and a normalized margin I mean and by when do you think it would return to that sort of normalcy?



Amitabh Bhargava: The million-dollar question is when do we expect the raw material prices and what happened to for that matter even the gas prices in Europe, spot prices in Europe to normalize. I think these are some of the factors that would continue to keep everyone guessing in terms of what happens to raw material prices and therefore consequently even to various finished goods prices which are impacted by these raw materials like gas and ammonia. That said I think fundamentally as far as the Fertiliser is concerned, we had as you know barring the last quarter before that almost six to eight quarters, we are actually numbers at EBIT level, segment level in fertilisers continued to show improvement. But in the last quarter there are two impacts that happened that is availability of raw material itself and also then because there were sharp increases in the raw material prices, the ability to pass them on in the product and product is also limited and therefore that can only happen with certain lag. So, to that extent we believe that once this kind of aberrations are over in the raw material prices in the sharp practically week to week increase in the raw material prices, we are going to get back to our earlier trajectory in terms of our EBIT numbers. In fact, there some of the initiatives that we've taken in last quarter and we are further sort of working on those initiatives in this quarter from a medium to long-term perspective would improve our margins because now last quarter we had launched Croptek which is crop specific nutrient in the last quarter. We are further launching variants of those Croptek for different crops in the coming quarter and this quarter as well as the quarters in the next year. To that extent we are moving more and more in terms of value-added products, differentiated products where in general the idea is also as much as these products will provide additional benefits to the farmers in terms of the yield and produce quality. We are hopeful that we would also be able to get better margins in these products. The journey in terms of differentiation has continued and the few steps that we've taken last quarter and this quarter would go and further strengthen that strategic drive. But the raw material price aberrations that we saw last quarter, hopefully once those aberrations are over, we are back to our EBIT trajectory that we had shown in previous six to eight quarters. And mind it that volumes wise we this year again in a way nine months I think where numbers are by and large similar to last year. But we had the capacity which we could not utilize because of not having enough access to raw material or those disruptions. The capacity utilization aspect of margins, that journey will continue as we also parallelly move our product portfolio to more and more differentiated product portfolio.

Moderator: The next question is from the line of Parin Gala from SageOne Investments.

Parin Gala: One is that one of the competitors have just announced a new TAN capacity of 2,20,000 a couple of days back. So, just wanted to understand, now in FY25 rather with our capacities coming plus are we looking at the scenario of bit of an oversupply going forward?

Amitabh Bhargava: One is, if you look at overall demand supply situation in Indian context, given the kind of, we are seeing the growth as far as overburden removal requirement in coal sector is concerned or for that matter the likely growth in cement, steel, and infrastructure. We believe that TAN demand will remain strong. Now if you see almost every 3 year or so roughly about 2 to 2.5 lakh tons of additional TAN demand gets created. Basically, if you look at every 4 to 5 years, there is one additional TAN, world-class TAN capacity needs to be created in the country. As such I have no understanding of when the capacity that was announced by the competition that as you were mentioning, what is the timeframe



for that? But as far as our capacity expansion is concerned, we are on track to bridge the demand by which time like I said given the growth that we are seeing in each of these end user segment. There would be the gap that would start getting created again. In foreseeable future I don't see a situation where a country would completely stop importing TAN and I don't anticipate that there would be an excess supply kind of a situation. Even if it does, we have in the past and we continue to export TAN to neighbouring countries and therefore given we are a coastal plant as far as Gopalpur is concerned, the new capacity is concerned; our ability to export to the neighbouring markets for any temporary access that is there in the country, continues to be strong and particularly when we have established our product in the international market from the point of view of the marketing network, the logistics chain and even the quality of that product. So, it's very difficult in that sense of what timeline the other players have for their capacity. Beyond this, I am not able to give any commentary.

Parin Gala: How much is our import right now of TAN in the country?

Amitabh Bhargava: Typically, it varies from 2,00,000 tons to 2,50,000 tons; depending on the demand-supply or a particular year-to-year it can be in that range.

Parin Gala: One of your end-user industries, the explosives one of India's largest guys had a call in the morning and they have guided a volume growth of 15% for FY23. I mean that was very heartening to hear. So, are you getting that kind of a sense for the year from your clients and the end-user industries? Could these volumes that we are talking about could exceed actually the expectations?

Amitabh Bhargava: We also track the end-user segment and like I was earlier mentioning that we have seen in the last quarter, the overburden removal requirements coming from CIL and its subsidiary has been quite encouraging. As of now the effect of and again this is from the point of view of TAN, the effect of infrastructure growth or investments that the country is talking about; it has not yet started reflecting in the infrastructure segment of our end-user segment. That is one gap in a way which we believe in a matter of time, that gap would get bridged and therefore we would start seeing the effects of that coming into the overall demand. Cement, steel, again both these sectors would also require blasting solutions. Other than infrastructure today we are right now seeing the effect of this demand coming from all other end-segments and once the infrastructure starts showing that upturn, there is certainly a possibility of a strong demand coming from end-user segment. We are already seeing that and we saw that even in this last quarter and that trajectory could continue.

Moderator: The next question is from the line of Kenil Mehta from Omkara Capital.

Kenil Mehta: My question is, was the TAN demand increasing due to the increase in production by Coal India due to shortage of coal inventory at power plants across the country which would have led to a power shortage across the country?

Amitabh Bhargava: I didn't get your question. Was that a statement or you were asking the question? I didn't really catch your question.



Kenil Mehta: I was asking the question. Was it due to the decrease in inventory of coal at power plants, which led to increase in production for Coal India? So, it could be a one-off event for us also in TAN capacity utilization?

Amitabh Bhargava: One is fundamentally if you have been and being watching Government of India's self-reliance initiatives, even government is encouraging a higher coal production and reduce dependence on the imported coal in general. Now that would mean that Coal India and its subsidiaries will continue to have higher targets as far as the coal production is concerned. The second aspect that is driving the demand of TAN within coal is also the overburden removal requirement. Even for the same per ton of coal production, the overburden removal requirement would continue to grow because you are now getting into deeper and deeper mine's. The second aspect that, I am sure you must also be keeping track of is that even government is now looking at coal mining in the private sector where private sector has been now allowed to mine coals for commercial purposes meaning that beyond one's own captive purpose, it is now also being allowed for commercial purposes. That is going to see increased requirement of blasting solutions from private sector in the mining segment. So, as such that is of course that I am only talking about the coal aspect of it but the other segments which I also mentioned earlier that it caters to all minerals, cement as well as the infrastructure segment. It is not just coal but it's the non-coal is as much as 40% or (+40%) in the TAN demand and TAN demand we continue to be quite bullish about the demand of the TAN.

Kenil Mehta: But do you think this 110% utilization level is being maintaining Quarter 4 and upcoming few quarters because over last few years we have never maintained 100% more than one time?

Amitabh Bhargava: The last 2 years have also been, first of all within the year, second quarter is a lean quarter and because the mining activities are subdued, we see Q3 and Q4 are the quarters when the TAN demand peaks. The second aspect is that as far as FY19 and FY20 are concerned or for that matter '20 and '21; in '20 we saw significant flooding in Coal India mines and therefore the production which normally starts by October, started only by mid-December or end-December. We saw some demand getting lost in the coal segment in FY20. In FY21 saw the effect of COVID and therefore in the first quarter particularly from infrastructure and cement segment, the activities were very low. These 2 years had exceptional situations but if you go back to year before that, that is FY19, we did almost, I don't recollect the number but somewhere around 5,10,000 odd or 5,06,000 tons odd of production. So, if there are no Force Majeure or exceptional situation, more than 100% capacity utilization for TAN is pretty much would be the norm.

Kenil Mehta: Also, the major margin driver from this quarter will be TAN because of operating leverage?

Amitabh Bhargava: In this quarter you are saying?

Kenil Mehta: Yes, in this quarter.

Amitabh Bhargava: Yes, in this quarter TAN has contributed significantly to overall margins.

Moderator: The next question is from the line of Manish from Hansraj Virendra Capital.



Manish: I would like to know more about the environment friendly initiatives if you are taking any like a water treatment system in your plants or a waste management system?

Amitabh Bhargava: One is the new CAPEX that is coming up in Taloja that is ammonia. We are going with zero liquid discharge therefore practically there would not be any liquid discharge that would be going out of the plant. Also, as far as our Taloja existing plant is concerned, while we do kind of link our discharge with the Centralized Effluent Treatment Plant, the outlet of our plant actually is well within the norms or below norms and therefore, the discharge that we send it to Central Effluent Treatment Plant in a way dilute overall discharge that goes on the downstream of CETP. In a way as far as our current operations or even the future operations that is going to come as liquid discharge is pretty much something that we are perhaps we follow the norms which are better than the norms that are statutorily applicable to us. As far as the air emission norms are concerned, we have taken certain initiatives in terms of, though the regulation doesn't mandate, we are taking certain CAPEX initiatives to reduce the NOx emission from our acid plants and that process is on. We would start with one plant and then gradually move to the other plant. That's the second aspect. I think other than that, like I said we are even over a period of time our water requirement per ton of production of our Taloja manufacturing facility, our water requirement, we have gradually improved whether it is the leakages, whether it is the zero liquid discharge or any of those measures. So, we as a manufacturing facility not just remaining within the statutory norms but we are going beyond statutory norms. As we know IFC is also one of our investors in our company and IFC as you might be aware that they typically also look at the emission norms or the environment norms way beyond what is there as per the local regulation. In some sense the fact that we have been there IFC, it's gone through the detailed due diligence on environmental issues, it only puts another stamp of approval that our norms or our standards are almost global standards from the point of view of emission norms.

Moderator: The next question is from the line of Mayur from Profitmart Securities.

Mayur: I just want to ask what are the short-term and the long-term goals for company and are we planning anything for the next quarter and year which will help in business for more growth?

Amitabh Bhargava: I think Chairman did mention, Mr. Mehta did mention a few aspects which he said are in effect, those are the initiatives that we have been working on and we would continue to work. And some of the numbers that you are seeing are part of or as a result of some of those initiatives. One aspect that we have been discussing with investors and in our earning calls as well as otherwise is overall on one hand there is a backward integration through ammonia project; the second is the expansion of our TAN capacity. These are two CAPEXs that we are immediately working on and completing these projects within the time and cost that we have set for ourselves is one of the key objectives that we are currently working on. The second aspect that Chairman also mentioned is that we are gradually going down the route of differentiating our products more and more from an end-user segment perspective as well as moving from product-to-product plus solution. That's the journey also that is on in each of these product segments. In Fertiliser for example the launching of Croptek, in Technical Ammonium Nitrate where we are looking at providing blasting solutions to our consumers directly. And in case of IPA for example moving to more and more high margin end-user segments. So, this



whole movement or transition from commodity to specialty or from product-to-product plus solution is another strategic objective that we are working on. The third one that Chairman also mentioned is that we are trying to bring in more and more technology into our operations, be it artificial intelligence or drone-based work that we are doing with our consumers in the mining segment or for that matter various new products that we are coming up with which are very crop specific with inclusion of micronutrients, catering to specific crops. These are the other initiatives where our interaction with our customers are becoming more and more digital. Of course, there are some digital initiatives within the organization where we are doing some business process re-engineering to improve all our various functions whether it is finance or the Sales & Marketing or Smart Factory. So, these are various digital initiatives that we have taken internally also to improve our efficiency.

Moderator: The next question is from the line of Aditya Chheda from InCred Asset Management.

Aditya Chheda: Two questions from my end, one what has changed in the working capital where we have significantly improved on the working capital days? Second, I would like to understand the TAN business better as to what are the raw materials which are used like in percentages if you can describe and what is the cycle of sourcing and subsequently selling the finished goods products?

Amitabh Bhargava: One is fundamentally in each of our product segments or across, first of all given that a lot of our operations are integrated; the raw material sourcing is common and from a working capital standpoint, getting better credit from our supplier is one initiative that we have worked on. The second is in the marketplace as far as finished goods are concerned, we are (a) more and more moving towards I would say reducing the credit as much as in some of the raw material there are challenges today in terms of supply side, we are also requesting our end- consumers to reduce the overall credit cycle. So, there in terms of increasing our overall cash sales, increasing the sale that is based on LCs from our customers, these are some of the aspects where overall we are on one hand trying to improve our overall credit that we get from our supply, at the same time improve the overall working capital cycle in each of these products that we supply to the market. What was your second question related to raw material?

Aditya Chheda: On the TAN, I just wanted a breakdown of the raw material in percentages? And for example, how is the sourcing strategy and subsequently for example when we source and whatever price we have; how do we pass it on, the timeline of sourcing to finished goods? And the percentages of bifurcation of raw materials used for TAN?

Amitabh Bhargava: No, one is typically in TAN today, our cash conversion cycle would be somewhere in the region of 15 days. So, overall again like I said the raw material sourcing is common. The ammonia that we consume or source gets utilized for nitric acid, for TAN and for Fertiliser. To that extent there is common sourcing of raw material and any credit terms that we get in a way apply to all the sectors but in all of these sectors the cash conversion cycle or the credit period extended to our customer is different, depending on whether it's a B2C kind of market or B2B market.

Moderator: The next question is from the line of Resham Jain from DSP Investment Managers.



- Resham Jain:** I have just one question on the raw material which is used for TAN. I actually used both ammonia as well as RLNG and the competition who is planning to put up a plant might be using the pool gas. If you can explain in terms of competitiveness, how are you in terms of like the material, how are you placed versus the new player?
- Amitabh Bhargava:** Like I said, I do not have the visibility on the project that has been announced by the other player and it's not fair for me to comment on what is the basis or what are the raw material and sourcing. But what I can comment on is that as far as we are concerned, we produce part of our ammonia ourselves, we have about 1,30,000 tons odd of capacity in-house. Once our ammonia project comes up, we would have the capacity of 0.5 million ton per annum and our Taloja facility, for requirement of ammonia in Taloja and Dahej would be completely produced in-house. Today other than our own production through the in-house ammonia plant, we also import ammonia and our ammonia as a raw material is a combination of our own production and import and our own production is based on our LNG that we buy from gas aggregator. In TAN and therefore whatever ammonia that goes at a point in time is a weighted average or a function of both domestic, our own in-house production cost and imported landed cost of ammonia. Now like I said I have absolutely no idea what is the basis or the raw material sourcing strategy that the competition would have for the capacity that they have announced.
- Resham Jain:** For this quarter, what is the gas cost for manufacturing these 1,30,000 ammonias? The gas cost for this 3Q?
- Amitabh Bhargava:** Just to answer your question, I can come to our gas contracts are a combination of spot gas as well as some long-term contracts. These long-term contracts could be linked with Brent prices as well as Henry Hub, that is a US gas price benchmark. As such it could be a combination of these three and these three, all three prices can move slightly different from each other. But if I look at let's say December quarter, the prices of gas are roughly about Rs. 34 per standard cubic meter.
- Resham Jain:** Rs. 34 or \$34 USD?
- Amitabh Bhargava:** No, rupees per standard cubic meter. US dollars would be one will have to translate that into US dollars as per annum BTU.
- Moderator:** The next question is from the line of Sharan, an individual investor.
- Sharan:** I would like to know what's our current capacity utilization of TAN and till the new CAPEX which is inaugurated recently that gets completed? Is Deepak in a good shape to accommodate the growth in that sector?
- Amitabh Bhargava:** The capacity utilization in TAN, in this year, nine-months has been overall I think 100% and Q3 it was 110% odd if you divide the capacity proportionately for the quarter but on a full-year basis 100% capacity utilization. We do have some capacity or headroom sitting in the existing capacity itself. We have also indicated in our earlier discussions that we are currently also working on debottlenecking



of our TAN plant and that should free up additional capacity. So, till the Gopalpur capacity comes up, we would see certain freeing up of capacity or debottlenecking of capacities from our Taloja plant.

Sharan: In the last con-call or in the media I think Mr. Sailesh mentioned that you have a non-core asset in the Pune of worth of if I am not wrong of 700 crores and there is a plan to liquidate that. Is that plan still on and any progress on that?

Amitabh Bhargava: I think I have answered this question earlier. As of now, since the last discussion, there is no further progress. But that is pretty much something that as a non-core it's an asset that we at the right time would like to bring that capital back into the core business.

Sharan: Last question on the agricultural sector. It looks like the Deepak Fertiliser is pretty much very famous in the Maharashtra region and other, I am not sure exactly in other states. What are the plans to extend your products to other states where your products are not so much familiar? Are there any efforts going on in that direction?

Amitabh Bhargava: See Maharashtra is definitely our core state but our core command area the way we define ourselves is Maharashtra, Karnataka, Gujarat. We have strong presence in these three states. We are also now present in other states like Andhra, Telangana, MP and even in the Northern states. The thing is in Fertiliser as you know the overall transport economics play a significant role as far as your net margins are concerned. To that extent if you are able to send your volumes closer to your production facility, you have better transportation economics and therefore as we increase our capacity utilization; since we already have now presence in states other than these three states of Maharashtra, Karnataka, Gujarat into AP, Telangana, MP, and other states, we would obviously more and more products will find its routes to these states as well.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference. Mr. Pratik, please go ahead.

Pratik Tholiya: Thanks. On behalf of Systematix, I would like to thank the management for this call and also to all the investors who had logged in. I would like to hand it over back to Mr. Bhargava for his closing comments.

Amitabh Bhargava: Thank you everyone for your participation. For any further queries or clarification, we are available. Please do get in touch with our Investor Relationship team. Wish all of you a safe and healthy times going ahead. Thank you so much for the participation. Thank you.

Moderator: Thank you. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.



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Note: This transcript has been edited to improve readability



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