



03rd August, 2023

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 Q1 FY 2024 Earnings Conference Call

Dear Sir / Madam,

Pursuant to the Regulation 30(6) read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find enclosed the Management Transcript of the Earnings Conference Call held on 28th July, 2023 to discuss the financial results of the Company for the first quarter ended 30th June, 2023.

The transcript of the Q1 FY 2024 Earnings Conference Call will also be made available on the website of the Company i.e. <https://www.dfpc.com/>.

We request you to take the same on your record.

Thanking you,
Yours faithfully,

For **Deepak Fertilisers
And Petrochemicals Corporation Limited**

Gaurav Munoli
Company Secretary

Encl: as above



Earnings Conference Call

Q1 FY2024

July 28, 2023

Senior Management:

Mr. Sailesh Mehta – Chairman and Managing Director

Mr. Deepak Rastogi – President and Chief Financial Officer

Mr. Amitabh Bhargava – President and Chief Strategy Officer

Mr. Tarun Sinha – President, Technical Ammonium Nitrite

Mr. Suparas Jain – Vice President, Corporate Finance

Mr. Deepak Balwani – Head, Investor Relations



Hosted by PhillipCapital



Moderator: Ladies and gentlemen, good day, and welcome to the Deepak Fertilisers and Petrochemicals Limited, Q1 FY24 Earnings Conference Call, hosted by Phillip Capital (India) Private Limited.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Harmish Desai from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

Harmish Desai: Thank you, Seema. Good afternoon and welcome to the Q1 FY24 Earnings Call of Deepak Fertilisers and Petrochemicals Limited, hosted by PhillipCapital.

From the management we have Mr. S C Mehta - Chairman and Managing Director; Mr. Amitabh Bhargava - President and CFO, recently designated as President and Chief Strategy Officer with effect from August 1st, 2023; Mr. Tarun Sinha - President, Technical Ammonium Nitrate; Mr. Suparas Jain - Vice President, Corporate Finance; and Mr. Deepak Balwani - Head, Investor Relations.

Also, I would like to welcome Mr. Deepak Rastogi who was recently designated as President and Chief Financial Officer of the Company with effect from August 1st, 2023. I would like to thank the management for giving us the opportunity to host this call.

We will begin the call with opening remarks from Mr. S C Mehta followed by Mr. Amitabh Bhargava for details on financial performance post which we will have a Q&A session. Thank you and over to you sir.

S C Mehta: Thank you. Good afternoon to everyone. I extend a very warm welcome to each of you for the Q1 FY24 Earnings Call of Deepak Fertilisers.

I trust that you have had the opportunity to review the Financial Statements, Press Release and Earnings Presentation already made available on the stock exchange and our website. This quarter as you would have seen, we have had a severe drop in our bottom line, and the obvious questions that could have arisen in your mind would have been what is led to this drop? And are there some fundamentals that have shifted, or it is a temporary abrasion? So, let me share some of these undercurrents as we saw them, and here are four or five undercurrents that I would like to share.

Firstly, post-COVID, swing back on the raw material and finished good prices in comparison to the huge jump that we had seen last year, the swing back was expected. We had also envisaged that for a quarter or maybe two there was likely to be a mismatch in the sense, in terms of the sequence that sometimes the raw material prices remain the same, finished good prices drop first and sometimes the other way round. So, these were expected and we had thought too in our



budget when we had set it up also and we expect these to settle back into a fair and balanced equilibrium matching to the typical long-term average.

Second impact especially for our TAN sector came from the dumping of cheap Fertilizer Grade Ammonium Nitrate (FGAN) from Russia. Now here what we saw was initially the embargo from various countries and global players for the Russian products post the Ukraine war made India a very convenient dumping ground for whether it is Russian oil or Russian FGAN and others. Now combined with this the government, because of an earlier fear of not having sufficient ammonium nitrate for the mining activities, coal mining in particular they had also put a ban on exports of TAN. So, on one hand, the import floodgates opened up with cheap Russian FGAN and exports were banned. Now as we see the scenario the embargo is somewhere getting readjusted in terms of the global need and we also learned that the government is actively considering lifting the export ban on TAN.

The third dimension that emerged is where we saw that a major global Phos-Acid supplier to India decided to virtually withdraw from the Phos-Acid market and move to a finished fertiliser supply. Now here we in the industry and we as Deepak also what we have done is, we have encouraged and nurtured a lot of new Phos-Acid suppliers from other sources and have fine-tuned our plants to accept the acid from multiple sources. So, that front also should be something that should now be on a comfortable levitate.

The fourth interesting negative impact that came in was due to the reduction in the fertiliser subsidies. Now normally as the raw material prices come down, there is a resultant subsidy reduction but in this case the government was delayed in announcing and they had to retrospectively announce the reduction for the first quarter. So, two quarter reduction came in simultaneously in this current quarter, adding up to almost Rs. 160 crore of impact.

And for us and everyone in the industry the material that was there in the pipeline, the pipeline inventory that got hit because that pipeline had finished products manufactured with the earlier raw material prices. So, now of course we have approached the government to somewhere consider this factual aspect and see whether some relief can be given, particularly for the pipeline inventory.

Internally we also had somewhere an extended shutdown in one of our nitric acid plants, but the long delivery repairs and all are now behind us.

Lastly the rains were also somewhat delayed probably due to the Adhik Maas. And now good rains and adequate kharif sowing has happened all over, particularly in Maharashtra.

So, while we see the typical lull that is expected in the mining activity during this monsoon now, I am talking about this quarter with its typical impact on the TAN business. The fertiliser season should certainly be brisk.



So, having said that on the positive side, we are very happy to share that for our new ammonia project we have seen a successful trial production emerge and very soon we should be declaring complete commercial production and that will be something that will be giving us a long-term very good risk mitigation on our key raw materials for all our three businesses.

Lastly, I might share that at the fundamental level our critical strategy of moving from commodity to specialty continues to be a very strong and positive strategy and we are continuing to work on that front for all three businesses and we are finding in each place a very positive traction.

So, on the fertiliser side while the one-time subsidy hit came in, at the product level we are continuing to see a good margin and that is emerging of course because we have now shifted more and more to crop specific nutrients rather than commodity fertilizers.

Similarly in the case of Technical Ammonium Nitrate more and more we are looking at a holistic offering, what we call as TCO (Total Cost of Operation) offering as required for the end user where product plus unique services put together as a holistic solution is what we are offering, and that is having very positive traction.

Also in the case of our industrial chemicals where we are seeing that the unique offered products are pharma grade, small pax and hospital grade products including in case of nitric acid, the solar grade and the steel grade acid where we are addressing the requirements of specific segments, those are all giving very positive traction.

So, for more details I would now invite Amitabh to share with you in terms of figures and the rest of the details and of course we would then be available to answer all your questions. Thank you, Amitabh.

Amitabh Bhargava:

Thank you, Mr. Mehta. Good afternoon ladies and gentlemen and thank you for joining the Deepak Fertilisers and Petrochemicals Corporation Limited conference call to discuss Q1 FY24 Results.

During Q1 FY24 we achieved a total operating revenue of Rs. 2,313 crore representing a decrease of 24% compared to the same period last year. This was of course largely due to the raw material prices going down and commensurate with that there was also a reduction in finished good pricing.

Our operating EBITDA for Q1 FY24 amounted to Rs. 281 crore with a margin of 12%. Despite the challenging quarter, we recorded a net profit of Rs. 114 crore with a margin of 5%.

During the quarter our chemical segment had a revenue of Rs. 1,238 crore a decrease of 30% on YoY basis, IPA sales volume increased by 87% YoY in Q1 FY24, with manufactured IPA generating revenue of Rs. 154 crore.



Manufactured acids for the quarter recorded a revenue of Rs. 319 crore, a decrease of 25% compared to the previous year. The volumes were up 7.5%.

The manufactured TAN business had a revenue of Rs. 541 crore which represented a decrease of 50% YoY during the quarter. Though, volumes as such were down 15%.

As far as the fertiliser segment is concerned, Q1 FY24 revenue decreased by 15% YoY to Rs. 1,069 crore, manufactured nitro phosphate and NPK inclusive of our crops set recorded a sales degrowth of 34% YoY to Rs. 737 crore. Though, as such volumes were down by 8% which was largely because of delayed rains as our MD was alluding earlier. Bensulf sales decreased by 59% YoY to Rs. 21 crore.

During the quarter our IPA plant operated at a capacity utilization of 111% and both acid and TAN operated at 83% and 87% respectively. In the Crop Nutrition segments, NP and NPK plants operated with a utilization of 76% and the Bensulf plant operated at a 51% utilization level. The available capacity across our plants gives us additional headroom for future growth potential.

We recognize the challenges that lie ahead but remain committed to our long-term vision and growth objectives. With a dedicated and resilient team, we are confident we will navigate through these uncertain times and achieve sustainable growth.

With this, we are happy to answer your questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Mr. Madhav Marda from Fidelity International. Please go ahead sir.

Madhav Marda: My question was on the ammonia facility, now that is about to ramp up, could you give us an update in terms of how the spreads are looking currently given there are RM costs for the gas and then the end market pricing? If you could just share that, please that will be helpful.

Amitabh Bhargava: So, we are currently looking at FOB Middle East prices of about \$230 to \$250 odd in that range and given the current gas prices, I think overall we would somewhere be between \$125 to \$150 odd negative in terms of our import parity prices versus the prices at which we would be producing ammonia. That said I think there are two other points I want to make one is that while the import parity prices of ammonia are obviously derived from \$230 to \$250 odd FOB Middle East, the domestic prices of ammonia, the ammonia that is created domestically we are still seeing significant premium over import parity and that reflects the cost of production because for all the producers of ammonia who trade into surplus ammonia, the gas prices still remain elevated and that gives us an opportunity to place part of our ammonia in the domestic market.

Also, the quarter gone by we saw almost 18, 20 days of disruption in ammonia and that's again one uncertainty that we would once our plants start operating commercially that uncertainty around therefore the production of our downstream products like TAN and acid, that uncertainty



in some sense would also be taken out. So, those are the factors that we need to sort of look at from the point of view of once our own production of ammonia begins.

Madhav Marda: And then given that this was like essentially a backward integration project for the company. So, in this scenario where it seems like it could be better to buy the imported ammonia rather than produce it in-house. So, would we look to run the plant at a lower utilization initially or would we still look to ramp it up just to get your thoughts and I am not very clear how that plays out going ahead?

Amitabh Bhargava: So, one is we have tied-up long-term gaps which have certain minimum off tick commitments. To that extent, within that flexibility that we have we would keep production at that level and the balance we always have the choice of continuing to import. So, that's really the way we would approach it, but there is also a factor that the capacity utilization as higher capacity utilization, our cost of production is also lower. So, we need to balance between reducing our capacity utilization and sort of looking at balance importing through the import channel but in such cases the cost of production we may have to compromise because these plants as they run on 100% capacity, their energy efficiencies are significantly better than at lower capacity utilization.

Madhav Marda: So, basically you know if we do end up running the plant at high utilization, essentially is it fair to assume that the spreads that we make in our downstream products that TAN or nitric acid will get impacted because if we don't like basically we will be producing more expensive ammonia in-house than we can buy from outside. Would that mean that it has a negative impact on our EBITDA as this plant ramps up?

I know that this is a very cyclical margin and we are probably at the other end of the extreme on the margins, so this has to normalize at some point but given where we are today just wanted to get your thoughts on how that would impact our P&L?

Amitabh Bhargava: So, as such we are going to transfer the ammonia from our ammonia plants, which is into a separate legal entity Performance Chemiserve at the arm's length prices to our downstream products but to that extent whatever downside we would see at PCL level which is at ammonia plant level, that from a consolidation point of view yes it would have an impact on our margins but individually speaking for each of our products because they would get ammonia at the arm's length price there is not going to be any impact as such.

Madhav Marda: And just for the TAN business, the other question was again like you indicated that there has been a dumping by Russia as they are like trying to kind of resupply to India because of geopolitics. How do you see this playing out in the next one or two years because will the government come in and step into protect domestic manufacturers, because dumping clearly should have some response from the government, right?

Amitabh Bhargava: So, it is difficult to predict what the government would do but what we can definitely say is that in the past, there has been antidumping duty has been imposed by the government in the TAN



sector. So, at least the history suggests that there could be a case for antidumping, but we would not like to hazard a guess as to what government would do in such a scenario.

Overall while, one aspect is of course the, let's say in this season there was cheaper import that came from Russia because of the factor that Russian product was not finding outlet elsewhere but there was also a larger overhang of nitrates globally in terms of the price reduction because European season and demand was on the lower side and there were channel inventory.

Now we are already seeing that because of certain incentives that European governments are giving to farmers as well as, we are seeing uptick a much better uptick in this new crop season in Europe, we expect that in general nitrate prices will recover and that should have a barring also on even if the imports continue to come from Russia, it could obviously some at the price parity with the nitrates in rest of the global market.

Moderator: Thank you. We take the next question from the line of Mr. Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: This is regarding the fertiliser subsidy reduction that the government did and we have to take it in our books. Just to get an understanding of it, whether this lower subsidy is extended for the second and the third quarter? And what is the possible impact that we could see because of this just to get an idea of how does this pan out for the rest of the year?

Amitabh Bhargava: So, as such the revised subsidy announced by the government is valid or rather applicable from April 1st to September end. The impact that we saw was about Rs. 161 crore odd is because of channel inventory. So, going forward as much as the NBS has come down or will be lower NBS it would be applicable, even if the raw material prices have commensurately come down and as our MD was earlier mentioning that overall if you look at the product by product, per ton margins compared to what we saw last year, if we remove the impact of this subsidy reduction and the impacts that we have taken on our inventory, the margins are better, per ton margins in our products are better. So, the impact could be a better sort of positive sort of traction both in terms of volume and margins going forward in the coming quarter.

Vignesh Iyer: Ok, and in the case of ammonia, let's assume what the price that is running FOB \$230 to \$250, at what utilization level would we probably match this cost, I mean if we have to match the cost for our production what would be the utilization level that we would need to operate the plant at?

Amitabh Bhargava: The point I was making is that as opposed to running the plant at 70%, 80% it would always be better to run the plant at 100% capacity utilization, because the energy consumption norms are quite sort of perceptively better at 100% vis-à-vis 80%, but at 100% also current prices of gas and ammonia, we are in that negative sort of domain and to that extent the prices of ammonia need to recover for us to breakeven.



As I was mentioned the nitrate and nitrogen prices in general have seen weakness in this quarter and as those recover, ammonia is expected to recover and even the cost of production of ammonia, marginal cost of production of ammonia in places like Europe is still high because the gas prices,, TTF prices are high. So, we expect that the ammonia prices will recover in a matter of time and with that we should be in a position to breakeven and make positive margins.

Moderator: Thank you. We will take the next question from the line of Mr. Naushad Chaudhary from Aditya Birla Sunlife. Please go ahead sir.

Naushad Chaudhary: Some clarification, firstly on as you mentioned that we are moving from commodity to specialty, especially on that TAN side of the business you said total cost offering kind of services we are now providing. So, just wanted to understand the thought process behind it and what exactly we do here and what is the size of the opportunity we see in this kind of services?

Tarun Sinha: So, talking about the Technical Ammonium Nitrate business and the journey from commodity to specialty and the concept called Total Cost of Ownership. So, there are two components of the term specialty, the way we look at it in our TAN business. One is specialty products which are not commodity products and secondly is the customized solutions which make it special in terms of our offering to our consumers and the consumers being the mining industry, the mine owners, the mine operators, infrastructure projects so on and so forth. So, those are the two components of specialty.

Now the concept of Total Cost of Ownership in simple terms means, if the cost of extraction of minerals or cost of extraction of rocks depending on whatever the case that's what we are attempting to improve through these customized solutions and the way we are approaching that is there are essentially five value streams, the way we look at it in any mining operations, they are being drilling, blasting, excavation, hauling which is same as transport and then crushing if applicable. So, these are the five value streams and the sum total of all the cost becomes the cost of mineral extraction for the mine operator.

So, we have started to build in capabilities in the form of tools, software, people capability, all of that over the last one and a half years to try and attempt to bring about improvements in each of these five value streams of a mining operation and thereby reducing the Total Cost of Ownership or Total Cost of Mineral Extraction for the mine operators which is going to be beneficial for them. So, that's in summary this whole solution based and specialty-based transformation journey of the Technical Ammonium Nitrate business riding on the concept of Total Cost of Ownership.

Naushad Chaudhary: And what is the size of opportunity we see here and how big can this be for us at least in the next two, three years?

Tarun Sinha: So, in terms of the opportunity the universe is quite large. Effectively every single mine in India and every single infrastructure project in India has opportunities, if not in all those five values streams then at least in some of those value streams and you can just imagine how big is the



opportunity and we have just started the journey as I said one and a half years ago. We are very excited about it as we go along in terms of the growth potential for the business and equally importantly for us to be able to add value to the consumers which are the mining companies and the infrastructure project owners.

Naushad Chaudhary: Any global benchmark kind of companies you have which offers this kind of services or is it something new we have thought about and we don't have any benchmark of these kind of services?

Tarun Sinha: So, internationally the leading explosives manufacturing companies, some of them not all they do have this business model in place. Certainly, in the Indian industry, I think we are going to be more or less the pioneer, because if I may add one more point to make it you know Mr. Mehta and his initial address also talked about holistic solutions. One part of the holistic solution for our Technical Ammonium Nitrate business and TCO is just a part of it, but if you look at the overall part, you see how integrated we are in terms of being able to provide the solutions for the mining companies, for example, we have our own ammonia, we have our own ammonium nitrate, we are having forward integration initiatives in the explosives areas and then we are investing in blasting technology which I was talking about. All this unique chain starting from ammonia going up to blasting technology, we are the only company in India, you know to have this holistic and complete value chain as in our offering. So, it's very unique from an Indian point of view.

Naushad Chaudhary: And any particular numbers we are targeting in the next two to three years in terms of revenue from this?

Tarun Sinha: So, as I said the potential is huge and we are starting from a small base because we started this journey just about a year and a half ago. So, we definitely see some good momentum picking up in the coming months and years and hence quite a bit of growth both in the top-line and bottom-line through this business model.

Naushad Chaudhary: And when are we planning to commercial production of ammonia plant or has it started yet?

Amitabh Bhargava: Currently the trial productions are on, we are monitoring the performance parameters and as the performance parameters and the plant operation stabilizes by and large we would be in a position to declare commercial operations.

Moderator: Thank you sir. The next question is from the line of Mr. Deepak Poddar from Sapphire Capital. Please go ahead sir.

Deepak Poddar: First, I wanted to understand the ammonia, our new plant. Now you mentioned we are having \$125 to \$150 per ton of negative carry as compared to import parity prices, right. So, as we stand, I mean on our overall capacity of 0.5 million tons if I have to just calculate so a Rs. 500 crore kind of an annual EBITDA impact could be there, because of this negativity with the import parity prices?



Amitabh Bhargava: I don't think we have done an annual calculation. We will see as the ammonia prices and we are confident that the way overall nitrogenous fertiliser demand is picking up and overall nitrogen prices are going up there has to be a recovery for ammonia in the second half of this year.

Deepak Poddar: Incremental impact on depreciation and interest will be about Rs. 300 crore and Rs. 200 crore respectively from this plant on an annual basis?

Amitabh Bhargava: So, in terms of interest, we are restricting our overall debt on this project to about Rs. 2,000 crore, if you recall earlier, we were looking to waive almost Rs. 2,600 crore but we have funded it from our own internal accruals. So, Rs. 2,000 crore debt we are looking at about 9 to 9.50% kind of interest rate so you can do that calculation. As far as depreciation is concerned it's roughly about Rs. 200 crore annually.

Deepak Poddar: How much?

Amitabh Bhargava: Rs. 200 crore.

Deepak Poddar: Depreciation is Rs. 200 crore.

Amitabh Bhargava: Yes.

Deepak Poddar: And in one of the comments earlier you mentioned that TAN profitability should improve, I mean did I hear correct I mean going forward.

Amitabh Bhargava: Yes, the point I was making is that in general the nitrate prices have seen weakness because of the Europe season and in general there were channel inventories of nitrates and we are already seeing in Europe the offtake of nitrates has been quite good in the new season also overall I think that there have been farmer incentives as such in Europe and that is reflecting in terms of not just the offtake of nitrate but even recovery of nitrogen in general nitrogen as fertiliser and that should reflect because if you look at overall fertiliser grade ammonium nitrate is part of the overall basket of nitrate including urea, ammonium nitrate and as those prices recover from a parity perspective the prices of fertiliser grade ammonium nitrate should also recover.

And I must also mention that we believe that we have seen the bottom there is already some recovery that we have seen in FGAN prices in recent times.

Deepak Poddar: But the pressure that you mentioned because of the dumping from Russia as well as the export ban, so those pressures I mean are easing out in that sense?

Amitabh Bhargava: So, as far as the export is concerned, the narrative of having import, the export ban at a stage where India was reeling under pressure that you know there would not be enough ammonium nitrate from a coal production point of view that has certainly eased out and the import that has happened from Russia project that there is enough ammonium nitrate available and with that



view we are quite hopeful that the government would lift the ban on TAN. So, that is certainly the case.

Deepak Poddar: And my final question is on your duty, you mentioned that this quarter we had a two quarters impact of subsidy reduction. So, what would be normal run rate of this subsidy impact for quarter going forward?

Amitabh Bhargava: So, like I mentioned that this impact is on the channel inventory, but the NBS prices have come down commensurate with the raw material prices, so going forward it's business as usual meaning that you are now on a new NBS regime and you are also going to be producing at the lower or new prices of raw material. So, this one time I would say the impact that comes in channel inventory as and when NBS changes that aspect is not going to be there and we would be back into a normal margins that we would make and there I was mentioning and our MD also made that point that per ton kind of margins in each of our products, we are seeing better margins compared to a similar period last year.

Deepak Poddar: So, this Rs. 160 crore would be considered as a one-time impact, right at this, it will not react.

Amitabh Bhargava: In a sense, yes, I mean as and when NBS changes there can always be an impact but right now we are into the new NBS which is effective from April to September, that impact we have taken on our channel inventory.

Moderator: Thank you sir. The next question is from the line of Mr. Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: So, most of my questions have been answered, but I just have one more question. So, have we signed any contract for gas pricing and if so what is the gas price that we have finalized on?

Amitabh Bhargava: So, we have signed contracts for the next three years of gas. These are three different buckets of contract some contracts are related to Brent prices and therefore the prices of gas would depend on the Brent movement. There are, balanced are linked with Henry Hub prices and also JKM, Japan Korea Marker, this is the domestic gas which is also capped by the government

So, a combination of these three is going to determine our prices. So, effectively we are, one is taking a view on Brent, Henry Hub and JKM put together. So, it is difficult to say which way it could move. What we have also done is we have taken a certain hedging position to ensure that if some of these commodities go up, we do have protection on the upper side.

Jainam Ghelani: And can we expect this to be the bottoming out of ammonia prices

Amitabh Bhargava: I think in our view the point I was mentioning about nitrogenous fertilisers and nitrates in general having seen the bottom, we are seeing demand recovery. Also, the inventory which was there with producers is now getting exhausted. So, nitrate prices in general nitrogen prices will go up from here and should go up from here and as the demand recovery happens the incremental cost



of production of ammonia in Europe is still very high. So, the prices of ammonia obviously have to somewhere reflect these fundamentals.

Moderator: Thank you. We will take the next question from the line of Mr. Viraj Parekh from JMP Capital. Please go ahead sir.

Viraj Parekh: Couple of questions on the debt side so what would be our gross and net debt as on date?

Amitabh Bhargava: Net debt is about Rs. 2,600 crore end of June and we were holding roughly Rs. 1,300 crore of cash, balance is about Rs. 3,950 crore odd of gross debt.

Viraj Parekh: And since we have seen a significant spike in the finance cost for the quarter gone by for Q1 vis-à-vis the previous periods should we work on this run rate in terms of the finance cost for the rest of the financial year?

Amitabh Bhargava: In general, there is an increase in NCLR and to the extent loans do get adjusted to or get reset because of the new NCLR on reset dates. There is an increase or there would be an increase in interest cost, but incidentally for us compared to March 23, in June 23 our average cost of borrowing we have reduced by about 40 basis points. We were earlier holding slightly expensive loans on ammonia projects which we repaid completely in this quarter and we are refinancing those loans with cheaper loans.

Viraj Parekh: So, just another one on this, so by the end of March 24 what should be our gross debt number, should we be at similar levels or there will be a spike?

Amitabh Bhargava: See fundamentally the ammonia project is now complete and particularly complete from the debt standpoint, whatever debt we needed to draw we have drawn an ammonia project. The debt which would get added from hereon would be the debt on TAN in Gopalpur, roughly I would say Rs. 400 crore to Rs. 500 crore odd should get added on Gopalpur till March, equally through the year we roughly pay about Rs. 250 crore to Rs. 300 crore, we amortize the debt, and for the balance period whatever is the pro rata number that should come down. I think that's how we should look at the gross debt numbers and net debt would also in some sense would depend on how the business performs in the next three quarters.

Moderator: Thank you sir. We will take the next question from the line of Mr. Aditya Bagaria from Vision Capital. Please go ahead sir.

Aditya Bagaria: Just want to get a brief overview on how the ammonia cycle works. Now from what I understand there is a demand shortfall and because of that the markets are down. But essentially all the in the world right now selling ammonia at a loss, because how does the ammonia end up being at the rate in spite of the gases being at the rate that they are. So, if you can shed light on that, it would be helpful.



Amitabh Bhargava: See one is ammonia cycle in the past and we have spoken about it that when we look at our own imported cost in last 10 to 15 years, we have seen an average of \$420 to \$430 FOB Middle East prices which landed cost basis would be in the range of \$500 to \$510 so that's how average of ammonia import cost has moved for us.

Now in that average, we have seen lower cycle the way we are seeing right now which is \$220, \$230, \$240, \$250 odd, but we have seen the higher end of \$1,200 as well, in fact in the recent past the whole of last year the average cost of or average FOB Middle East prices would have been somewhere in the range of \$650 odd with the upper side of \$1,200 odd. So, that's the kind of cycle that you would see.

Now globally ammonia that gets traded and procured by the players who are not integrated with ammonia, they depend on the global trade or the surplus capacities which either come from integrated plants or certain ammonia merchant plants which trade into the market. That we have seen in the past and the numbers are no different currently, just roughly while the increase on the demand side has been about 1.5% or so, 1.5% to 2%. The supply side is somewhere between 0.5% to 1% in terms of the addition as you look at CAGR or per annum addition and that gives us assurance that the supply side is remaining somewhere behind in terms of the demand side and that should sooner or later reflect on the ammonia traded prices.

Now what happens is in all of this, there are global players who have access to the cheaper cost of gas because these are gas producing or gas surplus countries or locations. However, the prices of ammonia would always like in any other commodity will get recommended by this incremental cost of production, because if the demand goes up it's the last plant that produces ammonia to cater to that demand is what would determine the prices of ammonia and that is where I was mentioning earlier that in Europe given the TTF prices of gas are still high and will perhaps go higher as the winter progresses the cost of producing ammonia in Europe will remain high.

Today because the demand side is lower or nitrogenous fertiliser demand is weak some of those incremental plants are shut and therefore ammonia demand is lower, there is also maybe a channel inventory. As that equalizes, we are going to see again the demand supply fundamentals playing out and there should be the lower end of these commodity prices that we have seen, where we should see recovery from here.

Aditya Bagaria: Another small aspect although it's nothing compared to our balance sheet at this point, but the real-estate division, in onset of the interest rates going up and also the property market picking up, why aren't we trying to basically get done with the sale that we have been trying to do for the past several quarters now. It will also help us ease out the increasing debt in our balance sheet, so is there any update on that end?

Amitabh Bhargava: So, fundamentally any non-core assets that we have been reviewing that closely, we have recently started selling some of our non-core real-estate plants not necessarily in Pune, but we had some land outside of Pune we have sold that and therefore directionally we are looking at



coming out of Nagpur. The timing of when we take a decision on our Pune land and then how do we really go ahead with that because even that has more than one parcel of land. We will inform as and when Board takes a view on that.

Moderator: Thank you sir. The next question is from the line of Pinaki Banerjee from AUM Capital. Please go ahead.

Pinaki Banerjee: I would like to ask some question on the Isopropyl Alcohol segment, in the presentation have mentioned because of that imposition of import restrictions by the Government of India has been one of the kind reasons for the significant jump in volumes this quarter and if you go back FY22, you had about 64,900 which had fallen drastically to 43,900 in FY23. So, how much are we expecting to produce for this fiscal considering the fact that all these import restrictions have come?

Amitabh Bhargava: So, this quarter our production has been around 19,000 odd tons, and our capacity utilizations were about 111%, and we produced about 19,467, we are quite hopeful that our run rates this year should be I would say extrapolation of what we have seen in Quarter 1.

Pinaki Banerjee: So, basically you are expecting to surpass your FY22 levels?

Amitabh Bhargava: I don't know what the FY22 level as such but --

Pinaki Banerjee: It is around 64900

Amitabh Bhargava: Yes, I think that should be possible, though we will have to see how the prices on propylene prices vis-à-vis acetone prices also the overall demand side, we will have to see what happens in the next three quarters, but you know the signs in terms of what has happened in Q1 on turnaround in IPA are very positive.

Pinaki Banerjee: Actually, can you give us a breakup of in the segment with the ratio of B2B or B2C, is there any segregation in this segment --?

Amitabh Bhargava: We are largely or significantly still in B2B because pharma remains almost 80% plus volumes go into the pharma segment as solvent. Even the other sectors that we service through IPA are largely B2B, which is the segment which in a sense is of the disinfectant we are focusing on institutional customers. There is obviously there are product portfolio which cater to the retail customers, but our focus is also going to be in hospital segment as in disinfectant for our hospital segment.

Pinaki Banerjee: Just one last question regarding the TAN segment, actually since it is being used for manufacturing of explosives, are you supplying this products to any defense company?



Taran Sinha: So, as far as TAN is concerned there is a very small proportion of TAN in our business which goes to some ordinance factories, which is then used for converting into some sort of products which eventually get used in the defense sector, so we are couple of steps away from that.

Pinaki Banerjee: Yes, considering the fact that the defense there is a huge expectation from the defense segment, so are you planning to further increase this exposure?

Tarun Sinha: So, I can talk from a Technical Ammonium Nitrate perspective and certainly Amitabh can add more from a group strategy point of view. At this stage you know the Technical Ammonium Nitrate business is focusing more on our transformation journey that I talked about which consists of a complete value chain starting from ammonia, ammonium nitrate, forward integration into explosives and then into blasting solutions and finally mine productivity improvement so that's what we will be focusing on as part of the core strategy for our business.

Moderator: Thank you. We will take the next question from the line of Mr. Meet Vora from Emkay Global. Please go ahead.

Meet Vora: My first question was, what would be our cost of producing ammonia, dollar per ton, including the current gas cost and the conversion cost versus the Middle East prices, where we breakeven, if we exclude the freight and customs duty that we pay while importing?

Amitabh Bhargava: I have already answered that question.

Meet Vora: The current gas prices including it should be around \$380, our cost of producing ammonia?

Amitabh Bhargava: I mentioned that overall from an import parity versus our cost of production, we are in that \$125 to \$150 odd range depending on the prices fluctuation we are seeing in ammonia that's the negative we are seeing currently.

Meet Vora: Secondly in terms of the contracts that we enter into, for our TAN and nitric acid business, how do we fit the pricing are these formula linked to ammonia or if you could just give a broad sense on what will be our spot, what will be our long term and how do we fix the pricing?

Amitabh Bhargava: Prices typically of any product, there is a combination of contractual customers and spot customers. Contractual customers are typically on the basis of certain margin protection where we pass on increase and decrease in cost. As far as the spot is concerned, we look at each of our customer locations, what is the next best alternative they have and typically our prices are to some premium over the other alternative given the quality of our product, given the kind of reach we have, the turnaround time in terms of reaching these products to our customers. So, largely that's the way any spot commodity or commodity we price on spot basis and we are not different.

Meet Vora: And what will be our ROCE for ammonia project that we would have initially worked on versus what would have changed now or just to know what will be the payback of this project that we were initially expecting versus what will be it now?



Amitabh Bhargava: Ammonia, see you can't look at it in one quarter, I mean if you asked me this question in the previous quarter or the quarter before that, based on that quarter's price the number could be very different. So, therefore you need to look at these 20 year or 30 year projects on the basis of the average commodity cycle and that's where I just explained that in the last 10, 15 years we have seen prices of \$420 to \$430 FOB Middle East and that's the basis on which we conceptualize the project and we don't see the commodity prices are going to be any different. In one quarter you may see \$1,000 in another quarter you are seeing \$250. Now you can't keep changing your payback based on what happens in that quarter.

Moderator: Thank you sir. We will take the next question from the line of Mr. Pallav Garg from Start Health. Please go ahead sir.

Pallav Garg: The first question I wanted to know was the CAPEX plans that you have for FY24 and FY25, the TAN project is a one where you would be putting in most of your CAPEX, but apart from that is there any debottlenecking projects or assignment and apart from that any maintenance, so how should we look at?

Amitabh Bhargava: So, as of now the projects that we are working on after ammonia completion, TAN Gopalpur project is the only project that we are working on. So, as such based on whatever decision Boards have taken so far that these are the projects, these two are the main projects that we are undertaking.

Pallav Garg: So, practically whatever remaining CAPEX for this project and additionally some maintenance CAPEX is what we should be expected, I hope my understanding is right?

Amitabh Bhargava: Yes, that's correct. See in the past if you would recollect we have also our MD has also made that point that the next round of growth that we see is also going to be from a potential opportunity that we would see in Brownfield expansion in Dahej acid project. The timing of it or when does that happen, as and when that takes place, we would bring it to the investors but as of now these are the two projects we are working on.

Pallav Garg: And you mentioned a very interesting point that you have been taking some hedging positions to cover up for any spike in the raw material prices. If you can divulge some details around what are these products, what index, what kind of percentage of your whole consumption menu and pricing levels if you can talk anything on that?

Amitabh Bhargava: Right now, we have taken position on Brent related contract. We are evaluating the positions in other contracts as well.

Pallav Garg: And I believe the subsidy impact which we had for this quarter, Rs. 161 crore this is in a way there is not resulting in like any cash outflow rather it is just the impact on the P&L accounting statement items. So, practically what the portion of the income which we registered for the fourth quarter of the last fiscal and one which is for this quarter, that is the impact which we have to bear, right?



Amitabh Bhargava: Yes, see to the extent channel inventories are yet to be sold. The realization that both from trade and subsidy has to still take place but since you have booked the sales at a particular value and that NBS has come down, if you need to take that accounting there is no outgo of the equivalent amount as such.

Pallav Garg: So, let's say if we kind of imagine ourselves in the world where the NBS subsidies are getting repriced every now and then based on the prevailing raw material prices, this impact would never have been there because that differential could have been built in, in the price itself when commodities were, when we were placing our products right?

Amitabh Bhargava: I am not sure if I got your question, but fundamentally anything that we are going to sell going forward will be at the new subsidy regime. To the extent you have sold and collected, you have collected; to the extent your inventory which you have earlier booked at a particular value and on that subsidy has come down, we need to revise that we need to sort of take that impact on that general inventory.

Moderator: Thank you sir. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Amitabh Bhargava for closing comments.

Amitabh Bhargava: Well, thank you everyone for your insightful questions, for any further queries or clarifications please do get in touch with our Investor Relations team. Have a good day and thank you so much.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.



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Note: This transcript has been edited to improve readability



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