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DEEPAK FERTILISERS
AND PETROCHEMICALS
CORPORATION LIMITED

August 25, 2021

The Secretary	Listing Department
BSE Limited	National Stock Exchange of India Ltd.
Phiroze Jeejeebhoy Towers,	Exchange Plaza,
Dalal Street, Fort,	Bandra - Kurla Complex, Bandra (E)
Mumbai – 400 001	Mumbai – 400 051
BSE Code: 500645	NSE Code: DEEPAKFERT

Subject: Management Transcript of Q1 FY 2022 Earnings Conference Call

Dear Sir / Madam,

We would like to provide the Management Transcript of Q1 FY 2022 Earnings Conference Call, which was held on **August 12, 2021.**

The transcript of the Q1 FY 2022 Earnings Conference Call is also available on below mentioned Youtube video link: https://youtu.be/ZgLEWpvoKHs

We request you to take the same on your record.

Thanking you,
Yours faithfully,

For **Deepak Fertilisers**
And Petrochemicals Corporation Limited

RITESH CHAUDHRY
Digitally signed by RITESH CHAUDHRY
Date: 2021.08.25 10:52:09 +05'30'

Ritesh Chaudhry
Company Secretary

Encl: as above

Earnings Conference Call

Q1 FY2022

August 12, 2021

Management:

Mr. Sailesh Mehta – Chairman & Managing Director

Mr. Amitabh Bhargava – President and Chief Financial Officer

Mr. Mahesh Girdhar – President, Crop Nutrition Business

Mr. Suparas Jain – Vice President Corporate Finance

Mr. Debashish Kedia – General Manager, Corporate Finance

Mr. Deepak Balwani –Associate Vice President, Investor Relations

Hosted by IIFL Securities

Moderator: Ladies and gentlemen, good day and welcome to Deepak Fertilisers and Petrochemicals Corporation Limited Q1 FY2022 earnings conference call hosted by IIFL Securities 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 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. Abhijit Akella from IIFL Securities Limited. Thank you and over to you Mr. Akella!

Abhijit Akella: Thank you Nirav. Ladies and gentlemen, good afternoon and thank you for joining us on the 1Q FY2022 earnings conference call of Deepak Fertilisers & Petrochemicals Corporation Limited. It is my pleasure to introduce the company's senior management team who are here with us to discuss the results. We have with us Mr. Sailesh Mehta, Chairman and Managing Director, Mr. Amitabh Bhargava, President & CFO, Mr. Mahesh Girdhar, President, Crop Nutrition Business, Mr. Suparas Jain, VP, Corporate Finance, Mr. Debasish Kedia, GM Corporate Finance, and Mr. Deepak Balwani, Head of Investor Relations. We will begin the call with opening remarks by the management team and thereafter we can open up for a Q&A session. I would now like to hand the call over to Mr. Mehta to take proceeding forward. Thank you and over to you Sir.

Sailesh C Mehta: Thank you Abhijit. A very good afternoon to all of you. I hope you and your family have taken the second COVID shots and are all safe and sound. I take the pleasure of welcoming all of you for the Q1 FY2022 earnings conference call and I also hope you have had a chance to look at the financial statements and earnings presentation that was uploaded on the exchanges and our website. At the outset, I am quite happy to share that the top line grew by around 37.6%. The EBITDA moved up by 6.7% and the net profit by 7.8% and I would like to share that this is indeed a very good performance in light of the fact that in our raw materials, ammonia shot up by 102%, phos acid jumped up by 49%, our RGP propylene that shot up by 50% and despite such huge hikes, thanks to better capacity utilization, cost optimization, product differentiation that we have been working at that we could enhance the margins and improve the fixed goods pricing to pass on a good chunk of these I would say price hikes. Typically, the finished good pricing reflects the higher costs normally over one or two quarters and so we see that positively play out in the following quarters also. Now the industrial chemicals (manufactured sales NA + IPA) grew by 12% and broadly, I would say, shift that is happening of specialty chemicals from China to India continues to provide a good boost to our acids business though at our Dahej facility, we preponed our scheduled shut down maintenance because we found a good pocket and so that while this quarter had an 18 days kind of plant shut down, in the next few quarters, we will be seeing the advantage emerging. As far as IPA goes, there was a certain impact emerging out of the COVID related disruptions, but fundamentally we see that for the pharmaceutical sector, IPA demand and requirement will continue to grow as the pharma sector grows. As far as mining chemicals goes, we recorded a growth of 54% and LDAN which is our top grade premium product also has improved, but we are seeing that the cement and infrastructure sector is yet to kind of recovery back to the pre-COVID days, but it is a matter of I think little time and we are seeing that possibly the second half of the year post the monsoons will be something where we will see a positive traction. Monsoons in any case it is a little low season for the mining sector.

As far as the crop nutrition business goes, here we are seeing indeed another very good quarterly performance and the segment grew by 66.6% and of course this is the seventh consecutive quarter of profitability that we had gone through a tough patch and with the highest ever our nitrophosphate and our NPK production and despite all these lockdowns because of COVID we could manage over 4,000 digital webinars and reaching out to over 60,000 farmers with our product value proposition and more and more we are now feeling confident as we see the resonance on the market place that our conviction in our differentiated product strategy and the way we have put in various other strategies go to market strategies that this is indeed something that is playing out and it will be something on a sustained basis that we will see good results. As far as our overall capex plan goes, the ammonia plant that we have planned and TAN plant in the East Coast - both are all in good control running as per schedule and both these additions once implemented is going to solidify these strong foundations of the company and help sustain and enhance our leadership that has been built over 40 years. Now from a larger perceptive, I might share that the four-prong strategy that we have put in place are something that we are working hard and we are seeing very, very positive traction. One is to get our size right and now with our fertiliser expansion already done behind us and doing very good, acid that we enhance our capacities there we are seeing it turn very positive and similarly it will be tan and all these beautifully aligned with the India growth story so getting our size right was the first strategy that we had planned that is something that is bearing fruits. The second is that we have invested a lot of energies into building a strong backbone of best-in-class systems, procedures, and processes based on digital and IT powers and that is giving us a stronger grip on cost optimization as well as the grip on the marketplace. That is, I would say strong strategic drive that we have brought in. The third, that we have been working on is this backward integration which will ensure that we bring more value into the whole chain which is something that we have taken up in terms of the ammonia facility and that is going to be again something that will help enhance the leadership that we have in the downstream over the last 40 years and lastly and the most important one is the shift from commodity to specialty that we have started or from just products to holistic solutions to the final end consumers and so that in all the three businesses that we are into industrial chemicals, mining chemicals and the crop nutrition business, all the three drive to move from customer to consumer and providing them holistic solutions that we are seeing a very strong and a very positive traction and that promises to unfold an exciting future so on that note I would like to hand over to Mr. Amitabh Bhargava, our President and CFO for a more detailed explanation on the performance of the quarter. Amitabh.

Amitabh Bhargava: Thank you Mr. Mehta. Good afternoon ladies and gentlemen and thank you for joining the Deepak Fertilisers & Petrochemicals conference call to discuss Q1 FY2022 results. Our performance during the quarter as Mr. Mehta was explaining remains strong despite pandemic related challenges and significant adverse movement of input prices. This was supported by differentiated product value proposition, operational efficiencies, increased capacity utilization and proactive marketing strategy. During Q1 FY2022, we reported a total operating revenue of Rs.1902 Crores an increase of 37.6%

compared to last year. Our operating EBITDA stood at Rs.290 Crores an increase of about 7% Y-o-Y. Our net profit for the year recorded a growth of over 7.8% to Rs.131 Crores with margins of 6.8%. There has been sharp increase in key raw material prices Y-o-Y and even sequentially quarter on quarter, but Y-o-Y if you see ammonia prices have gone up 102%, phos acid prices is up 49%, propylene that is RGP 50% and MOP up 7%. In the short term these higher raw material prices have created a headwind that we expect to stabilize over the next few quarters. Now here the government has also been taking proactive initiatives to support fertiliser manufactures and farmers for example increasing NBS subsidy and allocating additional budget. Overall, our net debt we further reduced it by approximately another Rs.240 Crores during the quarter. Finance cost reduced by 22% Y-o-Y driven by continuous reduction of short-term debt due to better working capital management and our focus on liquidation of products in the fertiliser business from retailer shelves supported working capital efficiencies during the quarter.

Manufactured mining chemical business recorded a revenue of Rs.389 Crores compared to Rs.253 Crores same period last year. Then volume grew by 11% Y-o-Y and reduced 12% sequentially quarter on quarter and demand was subdued as the second wave of COVID affected demand from coal, from cement and infrastructure sector. During the quarter our manufactured industrial chemical business recorded a revenue of Rs.318 Crores compared to Rs.283 Crores same period last year. The revenue grew despite having a high base on account of increased IP realization last year, which was an aberration. The growth was supported by 34% increase in nitric acid volumes. IPA sales volumes declined by 11.2% Y-o-Y. Due to the first COVID impact as you know IPA prices in the Q1 FY2021 saw an unprecedented spike and as expected the current quarter has seen an overall softening of IPA prices. Now nationwide pandemic related restrictions affected the industry operations and thereby demand of nitric acid products particularly for the spot market customers. The Dahej facility also has, Mr. Mehta was explaining earlier we advanced the scheduled maintenance shutdown for a period of 18 days, which resulted in lower volumes in Q1.

Our crop nutrition business segment continued its growth momentum and in terms of volume it delivered 25% increase in bulk volumes Y-o-Y differentiated NPK that is smart tech the volumes went up 39% Y-o-Y to 1.31 lakh tonne. That by again continued market development activities to create demands from the farmers. Overall Q1 FY2022 CNB revenues increased by 66.6% to Rs.993 Crores. During the quarter our IPA plant operated at a capacity utilization of 93% and both acids and TAN operated at 86% and 103% respectively. In the crop nutrition segment NP and NPK plants operated with utilization levels of 92% and the bentonite sulphur plant operated at 76% utilization level. The available capacity across our plants as we been also mentioning earlier it gives us head room for future growth potential. Overall, we remain confident of continuing our growth trajectory while extending full support to our customers, suppliers, and other valued stakeholders. Industry is gradually opening with reduction in new cases of COVID as a result demand scenario is likely to improve going forward. I think with this, we will be happy to take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Naresh Vaswani from Sameeksha Capital Private Limited. Please go ahead.

Naresh Vaswani: Sir congratulations for a good set of number in tough times. The first question on the raw material side, I am assuming that the cost would have increased during this so whole impact of this higher raw material prices would be reflected in probably Q2 and Q3 as well so I wanted to understand realistically how much of this steep price in raw material prices can we pass it on to our customers and in the fertiliser segment these margins is it high due to the subsidiary hike? What would be the normalized range which we can work with in the fertiliser segment?

Amitabh Bhargava: As far as the pass through of raw material prices are concerned as you know typically one quarter and I would say within one quarter also towards the end of the quarter or second half of the quarter raw material prices hiked very sharply. In short term it is very difficult to pass on the raw materials prices. In fact, even the contract which has provision of pass on of raw material prices typically tends to take the raw material prices of the previous month. As such in the finished goods it is difficult to get reflection of raw material prices in such a short time. In longer horizon, I would say it is typically when you look at Y-o-Y numbers in any of the products you would typically see that if there is Y-o-Y increase has happened and not in a manner that most of the increase happens in a very short time frame. If it has happened over a period of one year, typically the pass on of raw material prices also reflects in the finished goods prices. This time it has been an exceptional case in Q1 so we are quite hopeful, and we are seeing that in finished goods prices, particularly where the prices are also linked with the international prices or import parity gradually the refection of raw material prices is beginning to show and to that extent over the next few quarters we should be in a position to get that passed through I would say of our raw material prices. With that said, it is also right now it is difficult to predict what happened to raw material prices itself and to that extent it is difficult at this stage to put any number to it, but it will be sufficient to note that at such sharp hikes in raw material prices it typically would take a little bit of a time to pass through. As far as the subsidy part is concerned what happened during the quarter, one is the subsidy of course went up, but equally the raw material prices went up as the government had increased the subsidy post subsidy increase, we also reduced our MRP so a combination of all of that is what is getting reflected in our numbers. Going forward given the kind of increase that has happened industry is also in discussions with government so while the government has increased the P subsidy the N and K component has also gone up and to that extent our discussions or industries discussion with the government on the lines of looking at possibility of increased subsidy on the other component is also currently under way so depending on what stand government take and what happens to also the raw material prices going forward you would see that impact in coming quarters. The situation is so very dynamic that it is right now difficult to put any number or any trend to it.

Naresh Vaswani: So in absolute terms actually our EBIT margins, EBIT number in fertiliser is very good so I was just wanting to know that is it something which is due to our product mix gain and internal costing measures which we are taking in and operating leverage, which you spoke about and is this something which is sustainable regardless, obviously government is supporting on the raw material price hikes as well, but I was just thinking that is it sustainable increase which has happened due to our internal factors?

Amitabh Bhargava: It is both. As you see the volumes have gone up and as we have been saying that with volumes going up per tonne margins improve, also the general efficiency of plant, manufacturing efficiencies go up so there is an impact of that certainly that with increase in volumes. There is partly also an impact of subsidy increase. It is a combination of both.

Naresh Vaswani: Sure, and last question in terms of growth our capacities are now close to optimal utilizations overall if we see so how do we plan to grow? The ammonia project is there obviously, but in each of the segments if you can briefly explain how will growth come over-the next two years?

Amitabh Bhargava: As far as fertiliser is concerned, we still have head room not just in bulk but even the specialist fertilisers that is the bentonite sulphur segment so there is some bit of a capacity utilization that is yet to be exploited. Also as we have been mentioning that with marginal debottlenecking both on the raw material storage and the evacuation side the NPK capacities can be enhanced from 6 lakh to 8 lakh tonnes so vis-à-vis 6 lakh tonnes while our capacity utilizations are now inching up closer to 90% or thereabout, but 8 lakh tonnes there is head room available so that bit of debottlenecking, which is marginal in terms of any capex that may be required so that is as far as fertiliser. In fertiliser, the other aspect also is that we are also launching crop specific formulations and nutrients, which is where in terms of what we would still be restricted by the 8 lakh tonnes, I would say but that is a value enhancement product that we are going to be launching from this Rabi season and that should result in better margins even though volumes may again remain restricted to 8 lakh tonnes. Maybe I will ask my colleague Mahesh also to add a few words to this. Mahesh would you like too just.

Mahesh Girdhar: Sure, Amitabh thank you very much for the question and I will refer to what Amitabh has said, I will just give you perspective of the key question here was how you see sustainability of such a great financial performance so first us reflect in the last seven quarters we have continuously grown our fertiliser business. It is basically based on our launch of differentiated NPKs and utilization of our capacities. We also have space the capacity of NP, we have also increased our NP share. We also enhanced our specialty business. What has helped us is that now we are becoming a kind of a not a minor player, but a major player in terms of market share like in this quarter itself we grew our market share by six points. In Maharashtra, we went up from 15% to 21% so number one we can expand volume. Number two we have been able to stabilize the growth of our differentiated products based on its value. So, this I see going forward sustainable because this is what we have demonstrated in the last six to seven quarters. Going forward as we have already mentioned about our new formulation, so we are going to launch complete nutrition balanced products going forward coming in the next couple of months. We already got approvals and these projects will be launched in some specific crops. They are suited for specific crops better than others and they would be also completely differentiated in the market. They will help us further enhance value as well as utilization of our plants. In the same way even on our specialty side we have already launched crop specific products in grapes, in pomegranate and in tomato so our strategy of going into differentiation and then consumer-based crop specific product is on the ground and we are not just talking. We are launching these products and can scale up. I cannot make any specific comment on the financial outlook, but this is the strategic outlook of the business based on differentiation and based on solutions of the crops and based on our working engagement with the consumers. As our chairman already mentioned that we already established a good business model. Even in the COVID period we are reaching to lakhs of farmers, we are able to engage. We can demonstrate so we set up a complete go to market strategy and a portfolio strategy well and based on these three factors that we mentioned. Thank you very much.

Amitabh Bhargava: As far as the other segments are concerned TAN as you are aware we are looking for an expansion on the East Coast 3,76,000 tonne capacity. As far as IP is concerned as of now there is no plan for expansion. We are working the IP the entire environment in terms of whatever the sustainability of long-term margin. In acids, we are obviously at this stage while there is no capacity announced any expansion announced but there is obviously the demand growth that we are seeing in the nitric acid downstream segments that opens the way of opportunity for expansion of nitric acid. We have sufficient sort of land available in Dahej to do that but as of now we have not taken any decision, but there are growth opportunities on the nitric acid side given what is happening on the demand.

Moderator: Thank you. Sir the line for the participant dropped. We move on to the next participant. The next question is from the line of Nishit Shah from Aequitas Investment Consultancy Private Limited. Please go ahead.

Nishit Shah: Good evening Sir and congratulations on a good set of numbers. Sir I wanted to understand that, so I understand that we are debottlenecking in TAN so what kind of investments are we looking at and what is the timeline over there?

Amitabh Bhargava: What I mentioned is the 3,76,000-tonne new capacity on the East Coast and we have in the past also given a guidance that we are trying to freeze the capex number, but it is likely to be in that Rs.1800 Crores Rs.2000 Crores. That is the range, but the exact numbers are being finalized.

Nishit Shah: Sir I was going through the annual report and in that it states that we have initiated debottlenecking for tan capacity expansion at Taloja with minimum investments, so I was talking in that reference?

Amitabh Bhargava: That is still being studied from a technical standpoint as to what kind of additional capacity it can yield and what are the capex involved, but there is a prima facie opportunity to debottleneck Taloja capacity.

Nishit Shah: Sir can you help me understand what are the current realizations of nitric acid? Are they trending upwards?

Amitabh Bhargava: Nitric acid what has happened is one is the general trend in terms of what is happening in the nitroaromatic segment. That is, we are now seeing a lot of the global supply chain showing inclination towards diversifying it from China to India and given our nitroaromatic segment and various specialty chemicals we are still in many of these segments are perhaps 115 to 120 out of China's capacity. Even a small I would say divergent from China could see a significant number on our base. So, one trend that we are seeing is that with that you will see expansion coming from existing players. Some new players may also enter and probably existing capacity, the capacity utilization will go up and that is resulting in the demand on the nitric acid side but what has happened in Q1 specifically is that because of even second wave COVID related restrictions spot segment has seen a reduction in demand. Also what had happened is some of the other players who are into nitric acid segment their downstream capacities of where the nitric acid goes they were also because of COVID related challenges were not operational, as a result they were more acids in the market so an impacts of that has been felt in Q1, but directionally speaking and I have said that earlier as well that we are seeing that nitric acid remaining short for foreseeable future in fact our estimate is that till 2024 to 2025 and even beyond given what is happening to the demand side and how we are seeing demand shaping up compared to the supplies and this product will remain short and in effect of that should reflect in the realizations or the margins.

Nishit Shah: Got it Sir. Thank you.

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

Lokesh Manik: Good afternoon Amitab. My first question was a clarification, which I required on the fertiliser business? We have seen very good margins. Has there been any impact of low-cost inventory coming in from the last quarter in this quarter?

Amitabh Bhargava: Yes that is what I mentioned that the numbers are a combination of the higher capacity utilization and higher volumes and also benefit of subsidy but like was also mentioning that as much as they were subsidy there was also we reduced our MRP post the subsidy announcement and some of the effect of raw material prices have also got reflected so it is a combination of all these three to four things that is reflecting, but certainly yes that is it.

Lokesh Manik: Going forward is the raw material prices today are higher? Ammonia is at about $500 if I am not mistaken will they start reflecting in the second quarter onwards in the fertiliser business?

Amitabh Bhargava: What has happened is and which is a point I was earlier making that when the government increased the subsidy in the P segment cost has gone up across N,P and K raw material prices and that is the discussion industry is currently having with the government also in terms of what would be governments take or response on those increases and would the government consider any increase as far as the other nutrients are concerned. Depending on what stand government takes industry will obviously look at passing on the prices of these increased raw materials in the finished goods. We will have to see. I think it is not just what we do and what industry does, but it is also what the government does will lead to this question.

Lokesh Manik: Correct and Amitabh could you share what is the inventory or the working capital cycle on an average that we have for different products from tan to nitric acid, IPA and NP and NPK? On an average what is the raw material holding period or an inventory holding period that we follow for that?

Amitabh Bhargava: There are at least two products which have a season in volumes, which is fertiliser and to an extent even tan. This is the second quarter is the lean season because during this period, so the working capital cycle also changes quarter on quarter for these two products. In fact, in fertiliser, I think I had also said that post the Rabi season you typically are building inventory till monsoon comes and so therefore if you see the working capital cycle during that period, it peaks just before June and June is when you would get a big junk of your payment and the working capital numbers substantially change. For the other products which is IPA and for acids, we typically have 30 to 45 days of credit period and sometimes we collect faster than those particularly in the spot segment depending on the extent of spot segment your work capital cycle could be faster than 30 to 45 days.

Lokesh Manik: Understood just a small request Amitabh if data disclosure can be consistent because this quarter, we are seeing that nitric acid revenue and IPA has been combined? In the last quarter if you can just share nitric acid revenue for the quarter and the IPA revenue for the quarter in the investor presentation going forward as whatever data is there?

Amitabh Bhargava: We can further clarify that.

Lokesh Manik: Because my clogging in data it becomes little difficult because we are following a trend and then suddenly if we see a clubbed revenue profile for two three different products it becomes difficult to analyse.

Amitabh Bhargava: Fair enough. We can clarify that.

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

Deepak Poddar: Thank you very much Sir for the opportunity. Sir I just wanted to understand you did mention that the pass through of raw material to the finished goods might take may be over the next two quarter right so that is the time period when one should except your margins to normalize may be the impact that we are seeing this quarter?

Amitabh Bhargava: As simple as it may sound one is of course the finished goods prices have to start reflecting or the raw materials price increase, it needs to start reflecting in the finished good cycle. There is also a play of a particular season so in certain season in tan for example is a lean season in Q2. Now in Q2 therefore even though normally if it was any other period the reflection of raw material prices and finished goods have been much faster. If you have a lean season where the consumptions are low it could take a little longer, but if you compare Y-o-Y typically any increase in any of these segments you would see that unless there is a very, very sharp increase in a very short period you would typically see that the per tonne margins kind of remain sort of steady and that is the point you need to see, quarter on quarter there would always be these fluctuations. Even last year also if you would see the way the chemical segment picked up by the second half, so you can expect that as the demand also goes up in these segments the pass through of raw material prices and finished good prices would be far swifter.

Deepak Poddar: By the third quarter one should assume that the passing should be complete like by third quarter.

Amitabh Bhargava: I cannot say complete or otherwise by the third and fourth quarter you would be obviously much better sort of pass through of these raw material prices but one need to watch out what happens to raw material prices and therefore if raw material prices remain at that level yes that stays and get passed on by third and fourth quarter is a fair statement, but if the prices go down or go up from here we will have to see.

Deepak Poddar: But do we have any kind of view that how can the raw material price behaves, or it would be very difficult on your part to give any kind of comment on that.

Amitabh Bhargava: See right now given the sharp increases that have happened we believe that at least ammonia prices should from here on the run up on the high side should be limited. Phos acid in general fertilisers prices globally are going up and we will have to see because these prices get fixed quarterly basis and also typically as far as suppliers are concerned there are limited suppliers globally and to that extent negotiation happens on a party to party basis or bilateral basis so to that extent we will have to wait and see what happens in Q3 and Q4 on Phos acid prices, but the other commodities have run up already and we hope that from here on the further run up on the higher side would be limited.

Deepak Poddar: Fair enough. That is it from my side. Thanks.

Moderator: Thank you. The next question is from the line of Surabhi Saraogi from SMIFS Capital. Please go ahead.

Surabhi Saraogi: Sir my question is that in your press release you had mentioned that you had received approval for nutrient based subsidy for crop specific grade by the government so can you quantify the amount of subsidy what would be the amount of subsidy.

Amitabh Bhargava: Mahesh would you like to answer. This is more about our new product.

Mahesh Girdhar: Certainly, Amitabh I shall answer that. The subsidy is complex NPK fertilisers are driven by the NBS, they are declared for N, P and K as well as for two micronutrients which if boron and zinc so they are the fixed rate depending on how much is the use of particular nutrient in the particular product formulation you can calculate that. Like ph currently the highest subsidy and is NK lower subsidy in the same way. There is a fixed subsidy by zinc and boron. No other multi nutrient subsidy so the formulation which we are bringing in the market going forward are multi nutrient which are complete in their contribution. We are providing balanced nutrition for specific crops, so accordingly they would be positioned, so I cannot calculate right now but I think the methodology is based on nutrient based subsidy.

Surabhi Saraogi: Sir my question is that can you quantify how much will be the finished goods price increase in the second quarter to reflect the raw material price increase.

Mahesh Girdhar: When it comes to fertilisers as I think Amitabh already explained there is multiple factors are playing role in the pricing, it is raw material, it is inventory of the raw material, when the prices change as well as is there a change in the subsidy in the particular nutrient as Amitabh already mentioned certain discussions going on and accordingly we decide the MRP of the products and which are also driven by the reasonable clause as the complex industry is governed by certain regulation and NBS policy so multiple factors are considered when we define our pricing, but generally when the raw materials prices are changing they are reflecting into the price changes unless there is increase in subsidy that is how the pricing takes place, so I cannot say really one number because that is very dynamic pricing.

Surabhi Saraogi: Okay understood Sir. Thanks Sir.

Moderator: Next question is from the line of Vishal Prasad from VP Capital Limited. Please go ahead.

Vishal Prasad: I have a question related to ammonia capex and cost structure. I was trying to go through the conference call transcript for the last call that we had done. There you explained very beautifully how the cost structure is somehow I got confused. So what you said is if we get the natural gas at 220 and conversion at 40 so it will make it at 260 to 280 and the mandate cost if we are importing it from Middle East is $450 to $480 that is what understood, but if we are trying to import from Middle East then our competition in south India one of the fertiliser company, they said in the last call that FOB for ammonia is $260 to $280 and another part which you said is $80 would be the transportation cost so it comes to 360 or something is there something that I am missing if you could help me with that.

Amitabh Bhargava: First is any number that you take of ammonia whether it is 260, 280, 300, 350 that only reflects a point in time what the ammonia prices are. Today for example ammonia prices are as high as $650 FOB Middle East so the way you need to look at this ammonia project is that is this from a cost perspective because we have a choice of buying ammonia or making it here, so if buy versus make decision what we believe making makes sense if you are one of the more competitive cost producers of that commodity at least in the region if not globally and that is where earlier I had explained this aspect that while ammonia would go through its cycle from 250 to now 650, it will go up and down but when we look at our gas prices if today when we move ammonia from Middle East to our plant we incur almost $80 to $90 of transportation cost. You translate that into gas it translates to about $3 dollars per MMBTU gas price, this is from conversion standpoint. We also have as I was mentioning earlier, Government of Maharashtra under their ultra mega project scheme has given us fiscal incentive where equivalent of state GST that is payable on the fertiliser that state GST portion would be reimbursed to us over a period of say 15 to 20 years till we recover 75% of our project cost that if you translate again into gas equivalent it translates to roughly about one quarter to one and half dollar, so what it means is that by producing this ammonia here you are saving roughly $4.5 of gas, and our estimate is even at the current level of increased commodity prices the landed cost of long term gas and one should not confuse with the gas prices that one keeps seeing on the spot segment which fluctuates quite a lot but on a long term basis it is the gas price or the landed price of gas is about $8.5 and if I am making a saving of $4.5 because of all this factor in ammonia term then it is as good as manufacturing this ammonia at a gas price of $4. Now $4 today if you want to set up ammonia plant in Middle East or any plant that is based on natural gas, the transfer pricing of gas that you would get from suppliers there would not be less than $4 which means this plant is as good as being set up in Middle East at the source of gas is cheapest perhaps regionally speaking is the cheapest source of gas that available and if you compare yourself from a construction cost point of view or a capital cost of view typically India from construction point of view is at least 15 to 20% cheaper than the construction cost in Middle East and that is the additional advantage. So long as I am convinced that this plant, I am setting it up in the Middle East at a source of gas which is perhaps most competitive gas source in the region then it does not matter what happens to commodity I would always remain on a long horizon. I would always remain better off making ammonia as opposed to buying ammonia. I mean one can take $650 of FOB Middle East and do this calculation and one would come up with huge numbers in terms of the delta. While if you look at this from a $250 or $280 then that number would obviously look a different number. Another data point that I must mention here is that in last 10 to 12 years our purchase of ammonia from Middle East has been on an average anywhere between $390 to $400 of FOB Middle East that is the price at which we have typically bought ammonia. So you can plug in that number. For the sake of calculation one can plug in that number but we also believe that given what is happening globally in terms of carbon emission and hydrogen becoming a fuel of choice, you would see ammonia also becoming a carrier of hydrogen from a trade perspective because hydrogen per se cannot be carried it is a very highly explosive material, so the commodity cycle of ammonia in the next 10 years we believe is going to be different from or more inflationary than what it was in 10 years, but one can apply any of these numbers, but fundamentally one should look at it, are you cost competitive regionally if the answer is yes you would always be better off making ammonia as opposed to buying it.

Vishal Prasad: So, let us say ammonia FOB is $250 then we just need to add $90 or $80 of transportation so that will give me the package price or is there anything else that I am missing.

Amitabh Bhargava: So, I do not know whether I should answer this question because your assumption on $250.

Vishal Prasad: No just assuming that it is $250 it can be any figure**.**

Mahesh Girdhar: Like I said the data point is, we have bought ammonia at $400 FOB Middle East in past 10 years. The current prices of ammonia are at $650 now you apply any number but whatever number you take on top of it you should apply $80 to $90 as something that we would save. We also have a saving of $40 to $45 because of state incentive being granted to us and there is roughly about $10 to $12 of saving that we get in steam because this ammonia would export steam which has a value in terms of being utilized in our Taloja facility so you can apply any of those numbers to your calculation.

Vishal Prasad: One final question I was reading in your annual report, and they mentioned that earlier 2900 Crores we will spend on the ammonia factory then it increased to 4100 Crores so what happened I mean why is this extra 1200 and as I said the land cost also it was 120 Crores extra, so is there something else happening.

Amitabh Bhargava: **Rs.** 2,900 Crores was based on an assumption that the existing plant, many of the utilities would be utilized for the same plant, but that is not something that is possible because this plant is obviously located at some distance from the current plant plus the current plant does not have that kind of utility as more detailed engineering was done. The current plant utilities are not sufficient for this number one. Number two there were number of other whether it is related to environment related regulations there instead of using the current central effluent treatment plants we are setting up our own zero liquid discharge. There were also issues of certain water pipeline. There were issues of water storage. There were issues of separate power island required, so there are number of factors, but the point remains that at Rs. 2,900 Crores we were 30% or thereabout more competitive because we had got this plant at significantly attractive rate. What has happened with increase in cost is we are now at par with any new plant that would get set up for half a million ton so as such from a construction cost point of view we are at pat with any plant that would get set up today. A new plant that will get set up today, half a million ton and to that extent we are not at any disadvantage if it all that there is an advantage that we had earlier as to an extent has been worn off. Land cost obviously is higher than what we had anticipated, and I do not have to explain what happens in general land procurement and those factors always come to play when one acquires the land, estimate versus actual.

Moderator: Thank you very much. The next question is from the line of Madhav Marda from Fidelity International, please go ahead.

Madhav Marda: Yes, hi good evening. Thank you so much for your time. I just wanted to understand that for existing products FY2021 was a good year in terms of margins in general across I think many of categories, which showed up in sort of overall EBITDA margins for the company. Just your outlook for FY2022. If you could give us a qualitative flavor in terms of how the margins can shape up across tan, IPA, fertilisers, and nitric acid. If you could give us some sense versus FY2021 that would be helpful.

Amitabh Bhargava: What is happening in FY2022 versus FY2021 is one fundamentally in FY2021 our capacity utilization across excepting fertiliser NPK by and large in every other segment we faced challenges in maintaining our plants, operating our plants from manpower standpoint, from evacuation, transportation standpoint, so there is headroom of capacity utilization that is sitting in our plant as we close FY2021 and some of it you are seeing the reflection of that in the Q1 numbers with the exception of IPA in every other product, the capacity utilization have gone up that is number one. Number two we had certain challenges, operational challenges in the acid where Dahej plant for half of last year was running at low capacity. There was energy inefficiency which we corrected by second half by Q3, Q4. If one were to remove Q1 performance in Dahej where we took our renewal shutdown, we preponed it. If you take that both in Taloja and in Dahej our capacity utilizations have gone up, also all those anomalies which were there on the cost structure, those have been taken care of, so you would hopefully see better cost efficiencies as far as the acid is concerned because your capacity utilizations are better and also some of the energy inefficiencies issues have been sorted out, but we also saw from acid point of view is while first half of last year was muted because of COVID reasons, but the whole you know China plus one kind of the demand side that came in nitroaromatic segment from the global procurement standpoint that effect we started seeing from second half and this is obviously a post COVID part of it, the reason is post COVID where a lot of global supply chains are diversifying from China and part of it we are getting the benefit of it or our downstream segments are getting benefit of that and that reflected in demand as far as the acid is concerned and I was earlier mentioning that with what has happened to nitroaromatic segment specifically and the other segments which consume nitric acid we are seeing or our estimate is that this product will remain short for a period of time and that we should get benefit of that in our spot segment, which would have been the case in the first part of the year last year. Fertiliser you have seen the capacity utilizations are going up, but equally I think one factor that is also come into play this year is the sharp increase in raw material prices. We are hopeful that I think in the second half of year we would be able to or the finished good prices would reflect those increase in raw material prices and if that happens with the increased capacity utilization and fundamentally demand remaining strong in each one of the products, hopefully the overall performance should not just sustain but hopefully do better.

Madhav Marda: So, anything on the tan as well like the margins for tan for this year any flavour on that.

Amitabh Bhargava: For tan one is fundamentally the capacity utilization should be better because last year we closed with 437,000 ton which is roughly about let us say 87%. In previous year, the demand has been there we have run that plant at 105% to 106%. Quarter one capacity utilizations were good up more than 100% that despite the fact in each of our segment that is coal, lime stone, and infrastructure there was an impact of second wave so we believe that once the Q2 is out because Q2 is again a lean season for tan, Q3, Q4 demand should remain strong and by that time there is also sufficient time for finished good prices to catch up with raw material price increase so we believe that like last year the second half for tan should be good in terms of volume as well as margin.

Madhav Marda: And last question from my side on the timeline for the ammonia project, does the timeline remain same as the last update like when do we expect that plant to commission.

Amitabh Bhargava: Which one are you talking about the tan plant?

Madhav Marda: If you could just help with the ammonia and the tan plant both of them.

Amitabh Bhargava: Ammonia is Q4 FY2023 let us say March-April of 2023 while tan is in FY2024, the second half of FY2024 the construction is yet to start, but we are getting all the required approvals that are required to start the construction.

Madhav Marda: And ammonia plant you have not faced any hiccups hopefully so far right.

Amitabh Bhargava: In our quarterly presentation we have also given certain pictures in the terms of the progress it has made on the ground.

Madhav Marda: Okay thank you so much and wish you all the best.

Moderator: The next question is from the line of Manish Jain from Moneylife Advisory Services. Please go ahead.

Manish Jain: Thanks for the opportunity. My first question is what amount of capex will we be looking at in the next 2 or 3 years and second is what kind of risk are we looking in the near future.

Amitabh Bhargava: On capex your point on risk is related to capex you are asking or is that general question.

Manish Jain: Just in general.

Amitabh Bhargava: As far as the capex is concerned, we have mentioned that ammonia is overall about 4350 odd Crores. We closed the last year at about Rs. 1500 Crores so we have additional roughly in both years roughly about Rs. 1350 to Rs. 1400 Crores each in the next two years and in tan I just had mentioned we had yet to get the exact numbers but Rs. 1800 to Rs. 2000 Crores once the construction starts over the next three years about 36 odd months that is the way the capex would pan out. As far as your question on risk is concerned, fundamentally in our business, one is because fertiliser is dependent on monsoon. Monsoon remains an uncertainty. Last two years and this year also monsoons have been fairly good so one has to see it year by year what happens to monsoon, so I think that certainly remains as one uncertainty or risk. The second aspect I would say the nature of our raw material, particularly on the phos acid and MOP which are critical raw material for our fertiliser business. In general from the supply side, it is sort of oligopoly or very limited suppliers are there globally because reserve of the phosphate are concentrated in certain regions and therefore what happens in those regions and when you have suppliers who are limited there would always be price as well as availability aspect. What we have done from our side is obviously we have tried to diversify these sources and minimize the risk, but there is always a risk. That is the risk we believe applies to a great extent to the other fertiliser players also, so that is definitely one area that is there and the third one in our cases we need to implement our projects in time and cost, the good thing is that a large project like ammonia is just a construction project now, 95% of procurement is all done, land is in place, all environmental approvals are in place, other statutory approvals are in place, so the risk of just the construction is in an overall project implementation risk is a limited risk and to that extent we believe that. With Toyo as our contractor, they have done more than 70% of global ammonia project they have implemented with that and a capable in-house team we believe that we have fairly good hold on that risk. I think those are the three areas that obviously believe are uncertainties or risk.

Manish Jain: Thanks for the explanation. That is it from my side.

Moderator: Ladies and gentlemen we take that as the last question. I now hand the conference over to Amitabh Bhargava for closing comments.

Amitabh Bhargava: Well, thank you so much for your participation and for any further queries, clarification, please do get in touch with our investor relationship team, Deepak Balwani is there and we keep looking forward to your support in our future endeavours thank you so much and have a safe time. Thank you so much,

Moderator: Thank you very much. On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us

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Note: This transcript has been edited to improve readability

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