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DEEPAK FERTILISERS
AND PETROCHEMICALS
CORPORATION LIMITED

9th February, 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 Q3 FY 2023 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 3rd February, 2023 to discuss the financial results of the Company for the quarter and nine months ended 31st December, 2022.

The transcript of the Q3 FY 2023 Earnings Conference Call will also be made available on the website of the Company i.e. https://www.dfpcl.com/.

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: 2023.02.09 16:55:34 +05'30'

**Ritesh Chaudhry**
**Company Secretary**

Encl: as above

# Earnings Conference Call

## Q3 FY2023

February 3rd, 2023

## Management:

Mr. Sailesh Mehta – Chairman & Managing Director

Mr. Amitabh Bhargava – President and Chief Financial Officer

Mr. Mahesh Girdhar – President, Crop Nutrition Business

Mr. Tarun Sinha – President, Technical Ammonium Nitrite

Mr. Deepak Balwani –Head Investor Relations

**Hosted by Dolat Capital**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Deepak Fertilisers and Petrochemicals Corporation Limited Q3 and 9M FY '23 Conference Call hosted by Dolat Capital. 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 star and zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tejas Sonawane from Dolat Capital. Thank you, and over to you, sir.

**Tejas Sonawane:** Thank you, Seema. Good afternoon, everyone. On behalf of Dolat Capital, I would like to thank the management of Deepak Fertilisers and Petrochemicals Corporation Limited for giving us the opportunity to host their Q3 FY '23 Earnings Call. From the management team, we have with us today, Mr. S C Mehta, Chairman and Managing Director; Mr. Amitabh Bhargava, President, and Chief Financial Officer; Mr. Tarun Sinha, President, Technical Ammonium Nitrate; Mr. Suparas Jain, Vice President, Corporate Finance.

Without further ado, I would like to hand over the call to the management for their opening remarks, post which we will open the forum for a Q&A session. Thank you. And over to you, sir.

**Sailesh Mehta:** Thank you. So thank you, Tejas. A very good afternoon to everyone. I'm pleased to welcome you to the Q3 FY '23 earnings call of DFPCL. I hope you've had the opportunity to review the financial statements, press release and earnings presentation available on the exchange and our website. So at the outset, let me share that I'm once again very happy to share that for Q3, again, our top line grew by 40% over last year, and the bottom line also grew by 40% over last year. On the 9 month front, we have seen a top line growth of around 50%, but the bottom line growth has been 138%.

Now, this has been in the face of headwinds coming from raw material, I would say, jumps. In ammonia, we saw 84%, phos acid 80%, gas around 96%, potash 103%. So, I mean, virtually every raw material, we saw a massive hike. And this is something that we have been able to pass through and more. So at the undercurrent level, what we saw that has been validated and validated quite strongly that all our three product lines, meaning the industrial chemicals, mining chemicals and fertilisers.

Now it is beyond doubt that they are very strongly aligned with the India growth story and which is why despite the finished product pricing also going up to accommodate for this raw material price hike, we have not seen any demand reduction, and in fact, to the contrary. So that is one aspect that, that undercurrent level, very strongly, this has been established. The second, of course, has been internally our operations, supply chain, management competency, So, all of that also has been very strongly validated, and that has helped to, in somewhere, right through some of these headwinds. The third and the most important thing is that we are finding increasingly a very positive traction in our journey from commodity to specialty. And if

I might just share that one were to take, let us say, our technical ammonium nitrate business, that this journey moving from product to holistic services, what we call as TCOD, the total cost of operations and also moving from this selling a product to our customer, the industrial explosives companies to our consumers, which is mine, that is something that more and more we are finding a very strong, I would say, positive validation that, that is the right strategy. Similarly, in the fertiliser business, the shift from, again, commodity NPKs to crops-specific NPKs and also our very strong focus from just focusing on the channel that is our customer to a very strong focus on our farmers, the consumers.

In the industrial chemicals, the group also, in terms of moving from commodity IPA to focus on somewhere the pharma grade IPA and segmenting the market, delivering to those segments what is specifically required for them, including solar grade nitric acid or the like. So from a strategy perspective, if I look at the common underlining strategic shifts that we're bringing in all the three businesses are somewhere bearing fruit, which is number one, moving from commodity to specialty, which is a combination of product and technical services, which, of course, in the long run, will create also a very good brand.

The second is this very tough, but very strong drive on moving from customer to consumer, and finally, of course, moving from competition pricing to value pricing. So, these are things which are, I would say, transformative shifts which are bearing fruit in terms of also the financial result, but it is also something which will provide a long-term, I would say, strong foundation and trust for us going forward.

As far as the project goes, the ammonia project as last time also I had mentioned, it continues to be on a real fast track, and we are almost 93.5% completed, and we are now in the peak of the pre-commissioning activities, and we do expect to commission the plant by the first quarter of FY '24. There I would want to also share that we have succeeded in tying up almost 40% of our gas requirements and these are basically brent-linked, so that, in case tomorrow, as the crude changes, we also get the positive benefits out of it. And of course, it's at a very attractive discount over the current spot.

Going forward, we are looking forward to, now, there will be the large Reliance auction and it's going to come in, I would say, 2 or 3 slots. There is a fair degree of domestic gas that's going to emerge, Reliance and ONGC. And we are in very, very close touch with other global LNG giants and with good intense discussions happening. So very shortly, we should be able to look at a long-term tie-up on our gas needs.

The other at a larger dimension that you may be aware of that, we've taken up the demerger exercise for value creation. And since we saw now all the 3 businesses from a top line, bottom line and capital allocation in terms of assets, reaching a size where it would be something where on their own steam, each one of them could be something that could be placed in different corporate entities.

So that end-to-end, right from Board members to the lowest level, the focus remains on that specific business. And that would bring a much stronger alignment of strategy and people to the business requirements. And so we have kick-started that where Deepak Fertiliser continues to have the industrial chemicals business, and a 100% subsidiary of Deepak Fertiliser was STL, where we had housed the fertiliser business and the technical ammonium nitrate business.

And now what we are looking at is putting those also into separate corporate entities as we go forward. So, we are in the thick of the NCLT process, and we are looking forward to that unwinding to then have focus businesses into focus corporate entities. And that will bring in a lot of value creation. So with these thoughts, I now hand you over to Amitabh, our CFO and President, Finance, to take you through the detailed financial overview and the operational performance highlights. And then, of course, he and the team are there to provide any further clarifications that you may need. Thank you. Amitabh?

**Amitabh Bhargava;** Yes. Thank you, Mr. Mehta. Good afternoon, ladies and gentlemen, and thank you for joining the Deepak Fertilisers and Petrochemicals conference call to discuss the quarter 3 FY '23 results.

During Q3 FY '23, we reported a total operating revenue of INR 2,755 crores, an increase of 40.9% Y-o-Y compared to same period last year. Our operating EBITDA increased to INR 461 crores compared to INR 352 crores in Q3 FY '22. Operating EBITDA margins were at 16.7% during Q3 FY '23. Our net profit for the quarter recorded a growth of over 39.7% Y-o-Y to INR 252 crores with margin of 9.1%.

During the quarter, our chemical business recorded a revenue of INR 1,615 crores, an increase of 37% compared to Q3 FY '22, with segment margins of 28%. Manufactured pharma chemicals recorded sales of INR 454 crores, an increase of 19% Y-o-Y. Manufactured mining chemicals business recorded a sale of INR 994 crores, an increase of 50.4% Y-o-Y during the quarter. Coal India overburden removal, overall production grew by 21% Y-o-Y and by 53% quarter-on-quarter.

Its coal production grew by 10% Y-o-Y and 29% quarter-on-quarter. In sales volume, volumes declined by approximately 10% year-on-year in TAN segment, mainly because of the delayed demand as far as the infra-segment is concerned or non-coal segment also, and also there were imports, resumption of imports from Russia. Project funding for TAN greenfield was secured with a total debt of INR 1,541 crores, with a 14-year door-to-door tenure.

Quarter 3 fertilisers segment revenue grew by 47% Y-o-Y to INR 1,134 crores with segment margins of 5%. Reservoir levels in key operating geographies are well above the normal level, and we are expecting good rabi sowing. We received the sanction of Industrial Promotion Subsidy claim for FY '20, FY '21 and FY '22 of approximately INR 25 crores from Directorate of Industries, Government of Maharashtra. Also, ADB Blue Loan first tranche of $15 million was disbursed in November 2022.

In the quarter, our IPA plant operated at 62% capacity utilization, while acids and TAN plants operated at 88% and 117%, respectively. In crop nutrition, NP, NPK plants operated at 63% utilization, and the Bensulf plant operated at 50% utilization. This sums up this quarter's operating and financial performance. With this, we would be happy to take your questions. Thank you.

**Moderator:** We'll take our first question from the line of Mr. Ranjit from IIFL Securities.

**Ranjit:** A couple of questions from my side. First, on the volume front, just wanted to get a bit more granularity on the specific reason from the 10% decline, when we have seen at least on the coal production side, the volumes have increased, but for us, TAN volumes have seen a 10% decline. We have also alluded as for the reason on the Russian imports coming through. Incrementally, we do see that the newspapers only suggest that these things are only going to increase.

**Ranjit:** Yes. So the question was mainly on the TAN volumes front. We have seen a 10% kind of a decline on a Y-o-Y basis. One of the reason that we have given is the rising imports from Russia. And the newspapers suggest that this is only going to get higher during the calendar year 2023, given that there were very few imports in CY '22. So how are we gearing up to address this? So would the market share would be at risk? Or would the profitability that we have seen is at risk? So that's my first question.

Second, on the gas front, even though we have said that it is linked to the Brent and at a significant discount. But it would be really helpful if you could some more granularity as to what slope is what been looked at since it is for 3 years, and how that would change over a period of next 3 years? And ultimately, the benefits that we have been suggesting, at least, from the ammonia gas plant front, how that would change with the new gas pricing that we have entered into?

**Amitabh Bhargava**: Yes. So to your first question, the TAN volumes were down 10% Y-o-Y not just for the Russian import, as I also mentioned that there was a delayed pickup of infra and non-coal demand. Also, typically, what happens is that the demand also picks up in Q3, driven by Coal India subsidiaries tender process where explosive manufacturers also, we supply them through two separate routes. One is through ENs, and there is a part that we supply to these mines directly. So some of those tenders also got delayed.

So it's more of a -- we believe that overall from a full-year standpoint, the target that Coal India has for overburden removal or for coal production, that will remain. And to that extent, we will see that improvement coming in Q4, and particularly once those tenders are out, which normally happen in Q3, this time it got shifted to Q4. Also, I think while Russian import has happened but fundamentally, the import volume remains within a narrow range, which bridges the gap that is there in terms of our demand -- country's demand of TAN and our local suppliers.

Now what happens is in a particularquarter, if there is a bunching, that may have an impact in a particular month or a particular quarter, but that doesn't change the equation per se as far as the full year is concerned. So, we are quite confident that Q4, which is normally also the peak demand for TAN, we would have a certain recovery of volumes. And like I said, some of those demand drivers, which will shift from Q3 to Q4, we should be in a position to service that demand in Q4.

To your second question on gas, essentially, one is while we have tied up 40% of the gas, there is -- balance 60% is we are still sort of working on 2, 3 fronts, including the domestic auction that is -- I think there are 2 or 3 rounds that are expected to come in the next couple of months. So, we believe that overall weighted average of our gas price is going to be quite competitive. As far as the gas that we've already tied up, while we are not in a position to disclose the slope, but I would say that somewhere given where the Brent is and we've seen Brent hovering within that narrow range, the prices of -- landed price of gas is somewhere going to be between $16 to $18.

And once we tie up the entire quantity, which we are expecting a good part of that would also come from price, gas price which is lower than this price point, our weighted average landed cost of gas is going to be even more competitive than the price -- the Brent range that I just mentioned. What that does to the economics, as you know, sort of ammonia -- while ammonia has declined compared to what we've seen in previous quarters, but it still holds firm at about $800 to $850 odd FOB Middle East. We've also -- there is also a seasonality in a sense that given the kind of mild winter that Europe saw, the prices of gas, TTF gas prices has come down, and to that extent, ammonia production in Europe started. So that had an impact.

Also all along, China had been a net -- in recent past 2, 3 quarters, actually, has been a net exporter of ammonia. But as the China comes back in terms of its demand, some of that trade flow would reverse. And from that standpoint, ammonia is likely to remain firm and to that extent, the ammonia gas delta or margin of anywhere between $300 to $400 seems pretty much intact as we see going forward. But that said, I think we will watch for as much as ammonia has marginally come down. Globally, gas prices have also come down. So some of our new gas that we tie up with the balance gas could also come at even more competitive price.

**Ranjit**: Just a couple of follow-ups. On the first question, though, we are confident on maintaining the volumes, how do we see the profitability panning out amidst the rising Russian imports? And on the second one, do you foresee a surplus ammonia in the global dynamics, given that there is a significant correction in the natural gas price?

**Amitabh Bhargava:** So, TAN, like I said, despite reduction in volume Y-o-Y, overall profitability of TAN business had been significantly better Y-o-Y, so prices, in fact, even between Q2 and Q3. Q3, the prices, MSPs of TAN on an average were better than Q2. So the effect of import typically comes on the price first, and like I said, the volumes per se don't normally cross the range, which is the gap between demand and supply domestically. But Q3 MSPs suggest that despite that, we've done even better than Q2 in terms of MSPs in TAN. And certainly, overall profitability vis-a-vis Y-o-Y, despite 10% reduction in volumes have been significantly better.

To your second question on ammonia, I couldn't quite get what exactly was your question?

**Ranjit:** Yes. So the question was that now since the -- most of the ammonia capacity across the world witnessed a bit of challenge and they were under shut down because of high natural gas prices. With the gas prices coming down, we see a bulk of that capacities getting revived and will start -- soon starting production. Would that lead to an excess ammonia supply, which would in turn would put further pressure on ammonia prices?

**Amitabh Bhargava:** No. Actually, on the contrary, if you look at the demand-supply from a -- and that holds true with many commodities like in ammonia that structurally, not much of new supply has come in last few years, while the demand has continued to grow with -- globally with say with that 1% to 1.5% per annum. What we saw, of course, the aspect that largely the European ammonia capacities were shut, but like I had mentioned, there was also a counterbalance that was there, which is China was not consuming ammonia at all. In fact, they were a net exporter of ammonia and that had played some sort of a counterbalance to the capacities, which were shut in Europe.

Now, as the new capacities in Europe come up -- and we'll have to see where from a sustainability standpoint, where does the TTF, European gas prices settle post this winter as the new summer and the next winter procurement starts happening. But there is also a counter that we are seeing that China is going to come back sooner or later. And that rather than China becoming a net exporter, it would then start consuming more ammonia.

So, we are seeing certain counter forces. And to that extent, ammonia -- it can always -- commodity is very difficult to predict, which way it would head. But we are not seeing a significant downside of ammonia from here for the reasons I just mentioned because structurally, not too many new capacities have come up for the merchant ammonia or that would cater to the ammonia trade globally. There may have been capacities, but those were integrated capacities linked with the downstream chemical or fertiliser capacity.

**Moderator:** We take the next question from the line of Jatin Damania from Kotak Securities.

**Jatin Damania:** Sir, just follow-up questions on the earlier participant's regarding the TAN volume. Now since you've already disclosed a 10% decline because of a delayed demand. Sir, what are the early signs that we're getting in month of January?

And second follow-up on the same. With the raw material prices which are corrected on the sequential basis compared to the last quarter, have we seen any correction in the TAN realization in the month of Jan and Feb?

**Amitabh Bhargava:** So overall, I think while -- you are talking about Q3 in terms of volume reduction. Overall, 9 months standpoint, we are -- our overall TAN volume, if I can just quickly, what the numbers were.366,000. So, we are ahead of last year numbers. So from a full year perspective, we are still quite confident in terms of doing better volumes. As far as Jan and Feb is concerned, I mean, it's a little early. Jan, I don't have the numbers. But our prices, at least in the first half of Jan had remained firm. I mean they were no different from what we saw in the last month of Q3. Like I said, overall contribution margins even in Q3, despite the imports that have happened from Russia has remained better than even Q2 of the prices.

MSPs have remained better than Q2. We'll have to see now how the demand that was delayed in picking up in last quarter. If that demand picks up, we don't see a reason in terms of contraction in the contribution margin. But more than import, we are going to watch for the demand pickup from both coal and non-coal segment. And so long as the demand comes back, we don't see that much of a challenge, both from a volume perspective and margin perspective.

**Jatin Damania:** Sir, regarding the Coal India, you said one of the major part is Coal India. And if you look at the Coal India numbers for the month of Jan, that looks quite promising in terms of the production numbers. And the last April to Jan numbers was also looking good at more than 15% growth. So looking at that, I mean, the biggest worry will be the non-core and the infrastructure segment. And since you have already taken the debottlenecking activity, which is volume doesn't pick up, don't we see there will be a pressure in the contribution margins, whether in Q4 or the coming first quarter of FY '24?

**Tarun Sinha:** Amitabh, Tarun here. Can I take these questions, please?

**Amitabh Bhargava:** Yes. Yes, please.

**Tarun Sinha:** Thanks for asking these questions. In fact, even the earlier question on TAN and now the ones being asked. In addition to what Amitabh -- so first of all, Amitabh, am I audible clearly?

**Tarun Sinha:** Great. So just to add to what Amitabh has mentioned so far, and this will help. First is on a 9-month basis, that's April to December, Amitabh gave the numbers just now on TAN volumes. We are up by 4%, okay, compared to last year. That's one thing to keep in mind. So, we are better than the last year on volumes. Now if you look at how the demand has been in these 9 months and what is likely to happen in Q4, which is another question, just some pointers for us to understand. In the first six months, that's first half of this financial year, so as we know, TAN is a key raw material for manufacturing commercial explosives. And consumption point of commercial explosives, as many of you have rightly pointed, are mining and infrastructure sectors of our economy.

So if you look at the first half explosives demand, which drives the TAN demand in the country, it has seen a very modest growth of around 1% in India compared to the last year -- compared with H1 first half. And this is on the basis of the data available from PESO, which is Petroleum and Explosive Safety Organization, the licensing body which governs explosives and ammonium nitrate. So explosives production figures first half this year versus last year, that has grown only by 1%.

Now if we look at the third quarter, Q3, although we are still to get that data, but it is quite likely that the growth of explosives demand in Q3 of this year versus Q3 of last year is also going to be quite moderate. And why? Which means first 9 months overall explosives demand growth this year versus last year has been moderate. In that moderate situation, our TAN volumes have grown by 4% despite all the imports, everything else going on around it.

Why the demand has been moderate in the first 9 months? Coal has been doing very well, and all of you have picked that up. But certainly, there has been a sluggish growth in terms of infrastructure, which also drives the demand for cement and steel, which are also mined, as we know, where explosives and TAN consumption takes place. So it's been a mixed bag. Coal has grown, but the non-coal has not grown. And as a result of which, the explosives demand and hence, the TAN demand in the first 9 months have been impacted.

Now, as Amitabh said in Q4, there is a strong likelihood that while coal will continue to perform strongly in order to meet the energy demands of our country, we will have to wait and see how the non-coal and the infrastructure sector performs. So, that will drive the -- again, the explosives demand in Q4 as well as the TAN demand in Q4. Having said that, I would like to underscore what Amitabh said earlier that we are quite confident that on an annual basis as we exit this financial year in March this year, our TAN volumes are likely to be higher than last year despite a very, very moderate growth in the demand in the country as I explained. So, that's on the volume front in order to have a full perspective as to what's causing all this.

Coming to the margin part. While Amitabh, again, said that the imports from Russia or any other country for that matter, they do have a bearing on the pricing of TAN in our market, and therefore, a bearing on the margins of TAN, but in addition to this, our Chairman, Mr. Mehta mentioned right upfront during his address that TAN business has been working on, what we call, as total cost of ownership initiatives.

In simple terms, layman's perspective, what that means is, we have a team of mining engineers completely equipped with latest technology and software and tools and equipment, which we deploy at the mining sites and infrastructure sites, and we do a baselining of their existing cost of mining and then we come out with solutions. And Chairman also talked about journey from products to solutions, customers to consumers, which are the end consumers. And in TAN context, the end consumers are the mines and infrastructure projects.

So as I was saying, our team undertakes these total cost of ownership studies by way of us benchmarking the cost of mineral production in these mines, and then come out with ideas and solutions to improve the productivity, thereby reducing the overall cost of mining. And that then results to another term that our Chairman used earlier on the call, which is value-based pricing. Because all this cost of reduction in mineral mining is a value to the end consumers and we share a part of the value.

As we deliver that value, naturally, we are entitled to sharing that value as well with the consumers. That adds up to the margin line as well. So it's not -- now going forward, TAN margins are not just margins for the sake of TAN as a product, but there is a solutions margin we are talking on as well. And a combination of these 3 impacts the overall TAN business margin. So hopefully, that explains the kind of efforts and initiatives, which we're undertaking to keep margins not just in check, but also grow the margins as we grow along through the solutions, while we will keep an eye on the product per se.

**Jatin Damania:** Amitabh, just a follow-up on the ammonia. I mean in the opening remarks, you said that given the current prices, which is expected to remain strong, margins will remain in the range of $300 to $400 per ton. Is it safe to assume that because earlier we were guiding in the range of $200 to $250, so is there any benefit that we are getting by revising our guidance across to $300 to $400 per ton?

**Amitabh Bhargava:** No. Actually, see at different points in time, we have spoken about these margins, A, in context of what was historically the margins were. If we were to go back to the project initial stage, where we had -- when we had conceptualized the project, we looked at what was our last 10 years, 15 years of average cost of ammonia, landed cost of ammonia. And that's where we were looking at about $400 to $420 odd of FOB Middle East kind of prices, which, on a landed basis was coming to about $500.

And at that stage, of course, the prices of gas that we were looking at were also -- with that, the cost of production would have been somewhere in the range of $300 odd, that is the gas and the conversion costs. And then we had also spoken about the 9% GST benefit. So, that $500 of transfer pricing effectively would lead to $550. And therefore, $550 minus $300 is $250 is what we had looked at when we had started the project. And this is, again, from a history perspective.

Now, also we have kind of spoken at different points in time whenever this question has come. We've also tried to give a perspective on here and now depending on what the ammonia prices and gas prices are, what would that delta or margins would translate to. So, I guess when you say that we've earlier talked about $250 that would have been in context of the historical numbers. And if the history were to repeat, then that's the kind of margins -- minimum margins that we were -- we had kind of estimated.

But as the gas price and ammonia prices have changed and every quarter there is at least some change in the numbers, and particularly gas has been lot more volatile, the numbers that I just gave you is where, today, the ammonia prices are in terms of FOB Middle East and the range that we are seeing. And also now that we are very close to procuring our gas and based on, at least the 40% that we have procured, we have some better estimate of where -- based on today's ammonia prices, what those margins are going to be.

That said, I have also mentioned that both these are commodity in which will undergo change as we see in coming quarters. This is, again, a project, which we are looking at it from a 20-year, 30-year perspective. So both ammonia and gas will go through its commodity cycle. So when I said $350 or $300 to $400, we are looking at, based on the current prices of ammonia and gas prices. And we have seen some of that remaining, at least medium term, those are the numbers that are likely to sustain.

It's anybody's guess where gas prices are. I mean, the way gas prices and ammonia have sharply corrected and the kind of storage that this winter, Europe would end up with, so all you know the gas prices -- spot prices of gas may sharply correct. So, I'm not getting into that prognosis. What I'm telling you is more in terms of where ammonia and gas deltas are looking based on what we can foresee.

**Jatin Damania:** Sure, Amitabh. So based on the numbers that you stated, so on the rated capacity, is it fair to assume that in FY '25, we will be doing somewhere about incremental EBITDA of INR 900 crores to INR 1,200 crores only from ammonia?

**Amitabh Bhargava:** Well, again, those are the numbers. They are doable. And I don't want to give -- till we tie up 100% of our gas and we have a sense on what the underlying benchmarks to which our gas is tied up, I wouldn't try to give one figure or a narrow range. But yes, these numbers what you have just quoted seem plausible.

**Moderator:** We'll take the next question from the line of Naushad Chaudhary from Aditya Birla Sun Life AMC.

**Naushad Chaudhary:** Some clarification, sir. Firstly, just wanted to hear from you, what was the thought process behind setting up our ammonia project? If I understand this correctly, earlier we were importing ammonia, now we are fighting for gas. So it is not helping us to at least reduce the volatility in the business. In fact, it is creating a slight more problem because gas would typically be more volatile, plus the seller of gas, the supplier would be much more stronger than the ammonia suppliers and you have to sign a contract versus the TAN product, I believe, is a spot business. So it's bringing more volatility to the business. Can you explain this, sir?

**Amitabh Bhargava:** See, one is I just mentioned and I just explained in terms of numbers, the rationale -- economic rationale, financial rationale of going for an ammonia in-house as opposed to buying it from our Middle East sources. So, we looked at the historical numbers and we have seen different cycles of both gas and ammonia. And to that extent, it's kind of -- from an economic rationale, we could see that it makes sense, the kind of contribution margins that we make in ammonia. That was one.

But more importantly, ammonia, see, when we are importing ammonia from -- largely from Middle East sources, we've been seeing significant challenges in the overall logistics. As you know, even as much as we've seen volatility in commodity, we also saw a lot of uncertainty around the freight aspect of any commodity that you import, getting the ocean freight in terms of availability of ships and also the volatility we saw in the transportation costs. So it's not as though the import of ammonia was without any uncertainty, particularly on the logistics.

Also JNPT, we have seen, with our experience, particularly as the volumes are growing, not just for us, but even for the other players, JNPT has seen significant congestion. And as a result, we've lost a number of days of volume of our products because of those disruptions, the demurrage that we have paid because of delayed berthing, etc. Also, the overall storage capacities in JNPT haven't enhanced. And as we grow our volume, we needed more certainty around our raw materials.

The third aspect which is also a sustainability aspect, environmental aspect, is also that as we move tankers and literally hundreds of thousands of tankers from JNPT to Taloja by road, there will always -- as the volumes were growing, there was also a risk of -- while we had not -- in last 40 years, we've not seen any mishap, so you can't take historical data for granted. As the volumes were growing, we were also inhabited area, we wanted to avoid any environmental mishap from a sustainability of plant perspective pipe ammonia just across the road is a lot more sustainable from a 30, 40-year operation standpoint, then lugging the tankers from JNPT to Taloja.

So, that was another aspect and risk that we had identified. And overall, if you see, when we had, in fact, conceptualized, we had largely looked at LNG as the base source of gas, but we are seeing domestic sources of gas and significant amount of gas coming up from domestic sources. And to that extent, in fact, if at all the availability of gas and even the risks related to gas has only come down as opposed to what we had seen when we had conceptualized the project. So it's a combination of sustainability, a combination of raw material, security of raw materials that practically drives 80% of our manufacturing, combined with the economics of this.

And also we need to understand that unlike, maybe a manufacturing facility which is only a fertiliser capacity which requires ammonia, we have a good mix of chemicals and fertilisers. And chemicals ability -- chemical sectors, the ability to withstand volatility in raw material prices is a lot better than compared to fertiliser. And to that extent, it made sense to feed our chemical and fertiliser business with our in-house ammonia as opposed to continuing to depend on larger and larger volumes on imported ammonia. And I think the point I had mentioned earlier as well in our earlier calls is that we've also received a very attractive -- Maharashtra Government gave us a very attractive sort of scheme or concession in terms of SGST reimbursement till we recover 75% of our capex. That added to the economics of the financial viability of the project.

**Naushad Chaudhary:** Secondly, on the TAN demand in domestic market, so what is the domestic requirement for this product and what percentage of the requirement would be for the import? And if there is a meaningful import, what is the reason?

**Amitabh Bhargava:** So, I think the overall demand is somewhere between 1.1 million tons to 1.2 million tons. That is TAN's requirement. Roughly today about 25% of this demand is met through imports. We've seen disruption in import for safety and security reasons. We have seen disruptions because of trade from certain regions, particularly the Black Sea region and we saw the disruptions in

Black Sea trade. So, there have been many instances in last two years to three years for different reasons where there have been disruptions in import of TAN. And that is anybody's guess whether given the geopolitical situation, and also I think the whole trade situation hasn't normalized. Some of those disruptions may continue.

**Naushad Chaudhary:** So we import 25% is because....

**Moderator:** Sorry to interrupt. Mr. Naushad, may we request you to join the question queue, sir? We have several participants waiting.

**Naushad Chaudhary:** Just a follow-up on the previous question.

**Amitabh Bhargava:** The consumers who import 25%, we as manufacturers are not...

**Naushad Chaudhary:** Yes. Is it because of the pricing benefit or because we don't have capacity that's why we import?

**Amitabh Bhargava:** No, we don't have capacity. There is a capacity gap of 25%.

**Moderator:** We'll take the next question from the line of Darshita from Antique Broking.

**Darshita Shah:** I wanted to understand what is fueling the prices of ammonium nitrate? As you mentioned in your opening remarks, I think that we have seen an increase even on sequential basis. So what is fueling the ammonium nitrate prices, A, especially when ammonia prices have fallen significantly in the recent time?

And secondly, what is the kind of differential are we seeing with respect to the domestic and international prices? So if you could probably give some idea on the Russian imports that came in during the quarter? What was the pricing differential over there? Or was it largely the same as the price at which we are selling?

**Amitabh Bhargava:** Tarun, would you like to take that question?

**Tarun Sinha:** Yes. I will answer the second question first about the pricing differential. So basically, we need to just understand that the ammonium nitrate which is imported in India is of a different quality and that is called as fertiliser-grade ammonium nitrate, whereas what we make in Smartchem Technologies is called as technical ammonium nitrate, which is why it is called as TAN as an acronym. And the fundamental difference between the two is the purity aspect.

So technical grade is a much more pure form of ammonium nitrate, which means it adds to the efficiency in the downstream operations as that TAN is being used compared to when the fertiliser-grade ammonium nitrate is used. And there is a additional cost that the users have to bear and incur when they process the fertiliser-grade ammonium nitrate, which is imported.

Secondly, because of the reasons Amitabh mentioned earlier, the disruptions off and on that take place on the imported front compared to that as a domestic manufacturer, we provide security of supply. And now with ammonia, our own ammonia plant coming up, which was discussed at length today, it will give us even more security of supply to our customers and consumers. So in view of all of this; first, quality; second, security of supply, and then added to that as I was mentioning earlier on the call that we bring in.

**Tarun Sinha:** Okay. So the third one is also which I mentioned earlier on this call, which is we bringing the total cost of ownership initiative as a value to the consumers. So if we add these 3 factors together; quality, security of supply and value addition to the mining operation, that then drives the pricing part of our own TAN compared to the imported TAN. And therefore, as more and more of this is being perceived by the consumers and customers, you know our premium which is the delta that was the question between imported and our own, keeps going up. So that's how we look at it and that's how our customers are looking at it and willing to pay us the premium.

I was not sure about the first question maybe because of the line problem at my end. Could you repeat the first question for me, please?

**Darshita Shah:** Yes. I...

**Tarun Sinha:** It was the delta part. Yes.

**Darshita Shah:** Yes, that largely answers the delta part. Sir, I just -- like just one small clarification. So the kind of TAN that -- the kind of ammonium nitrate or TAN as you mentioned that we produce, that is not imported in India at all?

**Tarun Sinha:** That's correct. We make technical grade ammonium nitrate whereas the imported one is fertiliser-grade ammonium nitrate.

**Darshita Shah:** Also the second question was on outlook of TAN pricing. So if you could provide some outlook for 4Q and FY '24?

**Tarun Sinha:** For Q4, is that what it is?

**Darshita Shah:** So Q4 -- so one on 4Q and FY '24 and also what kind of....

**Tarun Sinha:** FY '24. Yes.

**Darshita Shah:** And FY '24. And secondly, what kind of discount is usually there between our TAN versus the imported TAN?

**Tarun Sinha:** Okay. So in terms of the outlook again, we look at the macros first because that drives the explosives demand and then that in turn drives the TAN demand. When it comes to the macro environment, again, the 2 sectors that our TAN business caters to are mining and infrastructure sectors. In mining, coal is a big chunk. So, we have already talked about it. Coal is poised to grow in order to meet our energy demands. So, that's a good sign for our business going forward in Q4 of this financial year as well as in FY '24.

As far as the infrastructure sector is concerned, again, now the new budget has been announced. Government has committed lot of funds to drive the infrastructure projects in our country. So fundamentally, as the infrastructure grows, there are three things which drive the TAN demand very quickly, so that we're all okay. One is whenever there is an infrastructure project, which involves some sort of a construction work also, it needs the cement. So the more of infrastructure projects, more is cement demand and cement comes from limestone mining. So again, cement demand drives the demand for limestone mining, that in turn requires explosives and that in turn requires TAN. So, that's one form in which infrastructure drives the TAN demand.

Second form in which infrastructure grows -- drives the TAN demand is in the form of steel because, again, lot of construction work requires steel, and steel comes from iron ore mining. Again, iron ore mining requires iron ore to be blasted off using explosives, and that in turn drives the TAN demand. Even otherwise, steel is used in other applications as well, which is in addition to the infrastructure, and more of steel demand in India would mean more of the iron ore mining and then more of explosives and TAN.

And the third aspect of infrastructure is rock aggregates. Wherever construction takes place, there are stone chips, rock aggregates which are used. Where do they come from? They come from what we call as quarrying operations, stone quarrying which are in thousands of numbers on a pan-India basis. So more of construction works for infrastructure demand means more of rock aggregate requirement. And those rock aggregates come from stone quarries and that's where rock has to be blasted off using explosives, which in turn requires TAN. So, these are the macros of mining and infrastructure. And as I said earlier, on both these fronts, we are anticipating a reasonable growth going forward. If you look at -- if you want to look at a certain number as a direction, broadly, we anticipate that over the next years, 2-year, 3-year, 4-year kind of a horizon, the growth should be in the range of 5% to 6% on a CAGR basis. Okay?

**Darshita Shah:** For the pricing or overall? 5% to 6% on....

**Tarun Sinha:** Overall. This is the demand part.

**Darshita Shah:** Okay. Demand.

**Tarun Sinha:** Pricing, I've already explained. It is a function of a lot of things, and that continues to basically drive the pricing of our product.

**Darshita Shah:** Right. And -- yes, just on the....

**Moderator:** Sorry to interrupt, ma'am. May we request you to join the question queue, please?

**Darshita Shah:** No. It was just the follow -- like it was I'm just repeating the question I have already asked. The differential between the domestic and international prices and secondly, why is the ammonium nitrate price still on such elevated levels, despite ammonia falling down significantly? That's all from me.

**Tarun Sinha:** Okay. So again, differential between international and domestic, I've talked about, 3 factors; quality, security of supply and value-based pricing. That determines the delta between international and domestic.

**Darshita Shah:** I'm just trying to understand the pricing differential, as and if you could mention how much the delta there is?

**Tarun Sinha:** We can't -- unfortunately, we can't give that number because it's a commercially-sensitive information. So that's something which can't be shared here. But at least I have given you the drivers....

**Darshita Shah:** Right. That helps.

**Tarun Sinha:** which is determining the delta and the extent of the delta. And your other question with whatever happens to ammonia and then how is that linked to the TAN pricing. Again, I'll go back to the same thing, which I mentioned earlier that while there is a complete pass-on of the ammonia cost to our customers and consumers by way of TAN pricing, but that's not where we stop in terms of TAN pricing. TAN pricing is done on the basis of quality, security of supply and the value-based pricing aspect.

**Moderator:** We'll take the next question from the line of Shree Krishna from JM Financial.

**Shree Krishna:** So in October last year, government had come up with this policy called One Nation One Fertiliser policy. So, I just wanted to understand what is the impact on that in this quarter?

**Amitabh Bhargava:** Yes. In this quarter, you mean Q3, what is the impact?

**Shree Krishna:** Yes, Q3. Yes.

**Amitabh Bhargava:** Actually, my colleague is not with me who is heading the fertiliser business. So, I'm not very sure from which date that policy has kicked in. But just to give you a sense that while, initially, I think there was a lack of clarity on what exactly it would entail in terms of the bag design, etc. But what we know and what we've implemented is that besides -- apart one side of the bag where there is a prescribed space where it has to reflect government's Urvarak Yojana kind of details. There is roughly, if I'm not wrong, about 1/3 or a little more than 1/3 of the space is where the product specifications, the name of the company and our logo and brand is also printed on that.

So to that extent, in fact, while there is -- all bags carry one uniform kind of, I would say, the write up, which government has prescribed. There is also a space where the companies are free to kind of display their brand logo and the product details. So to that extent, it hasn't really -- I mean, we haven't seen any significant impact, if at all. I think we've given that -- for us, a lot of the work that we've done at the trial level is to really generate the awareness about our products and the sort of additional benefit that our product or our Croptek and Smartek product has -- in terms of yield, in terms of shape, size, color that it has shown in various trials. To that extent, we have focused mostly working on the farm trials, also working with Sarathi farmers, group of farmers. And that our marketing and sales strategy hasn't changed. What has changed is just the display part of the bag and there also, as I said, we have -- government has allowed us to display our brand and logo.

**Shree Krishna:** So basically, it did not impact your margins much. Basically, that's what you're trying to say.

**Amitabh Bhargava:** Yes.

**Moderator:** We take the next question from the line of Mr. Pratik from Systematix.

**Pratik:** Am I audible?

**Amitabh Bhargava:** Yes.

**Moderator:** Yes, sir. Please go ahead.

**Pratik:** Yes. So, sir, on the TAN business, you had stated that we have to see the margin as a function of your product as well as solution. So if the solution part will have a higher margin as compared to the product, is my understanding correct?

**Tarun Sinha:** So, I can take that question, Amitabh, if you want.

**Amitabh Bhargava:** Yes, please.

**Tarun Sinha:** Okay.So, as our Chairman again mentioned right in the beginning of the call, that as a group, we have embarked upon this transformation journey of products to solutions. And this has been a journey which has -- in TAN business, which has been started about a year or 18 months back. So, we are in the early stages of that. We are basically helping our consumers to understand that this is another way -- one of the ways we can help them reduce their cost of mining or mineral production. So in the initial stages, in the seeding stages of any new initiative technology, the margins are low. But certainly, as we go along, the solutions margins are likely to become much higher and not just on a percentage basis, but also in the overall margin pie of the TAN business.

**Pratik:** Okay. Sir, just a follow-up on this. Do you have the bifurcation between how much solutions you have provided?

**Amitabh Bhargava:** We are not reporting our numbers. We are not reporting any separate number.

**Moderator:** We take the next question from the line of Mr. Abhimanyu Kasliwal from Choice Equity.

**Abhimanyu Kasliwal:** Wonderful. Sir, my question regarding the incremental EBITDA has been more or less satisfied. I do understand that next year or next to next year, we can expect a good amount of maybe INR 500 crores to INR 1,000 crores EBITDA. But my question, sir, is regarding Deepak Mining and Smartchem, the internal divisions that we've had. Could this be like a preceding step to perhaps a demerger going forward, which can lead to substantial value unlocking? What can you tell us, sir?

**Amitabh Bhargava:** So, I think our Chairman also spoke about it. The fundamental rationale for the demerger that we have proposed, of course, it is going to go through the NCLT process, is to, right, from the Board down to the employee who is facing the customer. Now that these -- both these businesses have attained critical mass, we would want the Board, as well as the entire org structure, the incentive structure, everything has to be aligned such that this entire workforce can focus on management, can focus on that particular business.

And that's the whole rationale that once CNB and TAN becomes separate and it has an independent Board. And today, they are all part of one single company. So therefore, even the various incentive structure for employees is, in a way, gets co-mingled. But once you have 2 separate businesses with their own org structure and their own business levers, the entire Board, right from Board to the employees, the sales force can focus on the deliverables required for that particular business. And I think that's really the fundamental rationale. And that, obviously, logically speaking should lead to better outcome.

As far as value unlocking is concerned, what it also allows us to do is to raise capital for growth in these entities independently because some of the strategic or financial investors who may be interested in one business may not necessarily be interested in the other. And to that extent, separation of these two allow us to get both strategic and financial partners on board, which could accelerate the growth. So sum and substance of it is, yes, it certainly will unlock value, a better quality, a better focus, better -- increased sources of capital for growth. Beyond that, I think what would we do with each of these entities in terms of the remaining unlisted or going listed, it's too early for us to comment on that.

**Abhimanyu Kasliwal:** Fair enough. But this definitely could be on the cards. I mean, when we've demerged the two entities, we'll probably list the two entities while give a 1:1 for the existing shareholders. And that is a possibility I'm presuming in the next year or two maybe? Or you would like -- not like to....

**Amitabh Bhargava:** I wouldn't comment anything on that.

**Abhimanyu Kasliwal:** Okay. Well, I had to try, sir.

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

**Amitabh Bhargava:** Well, thank you, everyone, for those incisive questions and for your participation. For any further queries or clarifications, please do get in touch with our Investor Relationship team. And thank you so much. Have a good day.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Dolat Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

*For further information, please contact:*



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*Note: This transcript has been edited to improve readability*

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