Mangalore Chemicals & Fertilizers Limited

MANGALORE CHEMICALS & FERTILIZERS LTD
Q4 & FY22 EARNINGS WEBINAR

WEDNESDAY, MAY 18, 2022

MR. SHUBHABRATA SAHA, MANAGING DIRECTOR

MR. T M MURALIDHARAN, CHIEF FINANCIAL OFFICER

SKP SECURITIES LTD
NAVIN AGRAWAL, HEAD - INSTITUTIONAL EQUITIES

Mangalore Chemicals and Fertilizers Limited - Q4 FY22

- **Host:**

- Good afternoon ladies and gentlemen. On behalf of Mangalore Chemicals and Fertilizers Limited and SKP Securities, it's my pleasure to welcome you to MCFLs Q4 and FY22 earnings webinar. All participant lines are in the mute mode. There will be an opportunity for you to ask questions after the management's opening remarks. Please note this virtual meeting is being recorded for compliance reasons. We have with us Mr. Shubhabrata Saha, Managing Director and Mr. Muralidharan, Chief Financial Officer. We'll have the opening remarks from Mr. Saha followed by Q&A session. Thank you and over to you Sir.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Thank you Navin and good afternoon to all. We will begin with a short overview of the business environment followed by the company performance presentation and then open it up for the Q&A session. To begin with let me just say that two key things emerged globally during and in the phase during the recovery post COVID. The first one being supply chain disruption and of course the global efforts at rebalancing the same. However, the efforts albeit have been slow. The second very clearly is the element of rising inflationary pressures and somewhere we also see an element of protectionist. To come to specifics, the global supply chain has been impacted due to the Russia-Ukraine war. Russian and Ukraine account for about 30% of the global wheat exports. As we know, the world supplies of wheat are likely to be impacted by the war leading to further increases of food prices across the globe and this naturally poses a threat to food security in specific geographies. In the last couple of years, we have witnessed an increasing trend in global prices and demand for corn, wheat, and soya particularly in Latin America. In fact Russia and Ukraine together account for about 18% of the global corn trade. Global energy supplies are at risk with the Russia-Ukraine and the sanctions there of. Russia supplies about 10% of the world's energy needs with around 12% of oil and a whopping 17% of the natural gas. Russia, Belarus, and Ukraine are leading exporters of fertilizers, Russia accounts for about 22% of ammonia, about 14% of urea, and 11% of phosphates in the past. The impacts of sanctions are furthering supply shortages and obviously the RM price increases. High global crude oil prices have resulted in higher shipping and insurance costs as well. We are living through a commodity supercycle in all fertilizer, raw material prices or raw materials such as ammonia, phosphoric acid, potash, and even sulfuric acid, which has seen a very sharp price spiral.

- Let me now turn to India and its agriculture scenario. The normal monsoons in F22 made it to three consecutive years of good monsoons. We hear that we're likely to have a fourth one as well. The reservoir levels data for key 140 reservoirs as of April end was at 128% of the last 10 years average. Supported by the above, India witnessed higher kharif and rabi sowing. As for the second advanced estimates for F22, the food grain production in the country is estimated to be at a record of 316.06 million tons, which is likely to be higher by 5.2 million metric tons than the F21 food grain production. Agriculture and the allied sector proved to be the most resilient to the COVID-19 shock as it registered a 3.9% growth in F22 and improvement over the 3.6% growth that was registered in F21. This obviously will have some impact in enabling the India's real GDP expansion in F22.

- As far as fertilizers is concerned, India imports about 60% of phosphates, strong domestic demand coupled with global non-availability led to lower inventory levels. Government of India intervened twice last year to insulate farmers from global shocks. GOI has continued to disperse subsidy on time enabling domestic manufacturers to manage their working capital despite the steep rise in RM costs. The DAP requirements the government had announced a special package. In Q4 the primary sales volumes of DAP plus complexes together was down by about 26% at 28 lakh metric tons. For the fiscal it was down 15% to about 186 lakhs metric tons. The government announced a new kharif NBS rates applicable up to 30th of September from the 1st of April with the cabinet approved subsidy outlay for kharif for about 60,939.23 crores. We got changing Agri landscape, consumer preference trends, digital proliferation, increased mechanization, participation of the startup ecosystem etc. key drivers in enabling the transformation of Indian agriculture. The farm input segment continues to contribute effectively to the improvement of soil health management and balanced nutrition. The developments in superior product technologies, the advent of precision farming, better water management alongside integrated crop management sustainable and climate resistant farming practices will augur well for the future of Indian agriculture and the lives and livelihoods of those who depend on it. At this stage I will request Mr. Muralidharan to take us through the company performance and we come back for the Q&A session post that. Thank you.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- Thank you Sir. Good afternoon to everyone. Is my screen visible to everybody?

- **Host:**

- Yes it's Mr. Muralidharan.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Is it?

- **Host:**

- Yes, yes. It is.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- Despite the uncertain business environment impacted by the COVID-19 interruptions geopolitical uncertainty, supply chain constraints and disruptions, and firm raw material scenario as briefed by my MD, MCFL has endeavored sustained operations in the best possible manner in the financial year 2021-22. The highlights for the quarter and the financial year ended March 2022, we give some salient features. We have completed first full year of operations of urea production on gas, which is uninterrupted as earlier briefed in the earlier investor meetings. We have received the supply of gas in December 2020 from GAIL. From there on, we have continuously produced urea. From December 2020, we continued into April 2021 current financial year up to March 2022, it is one of the very important milestone we achieved during this journey. We have achieved a production of 4,29,000 tons during financial year FY22 which is record for MCFL. Continuing on the same urea, we have achieved financial closure for the ammonia energy project which we have undertaken. We achieved financial closure during the financial year FY22 and the progress of the project is in full swing.

- We intend to take,we have planned to take the shutdown somewhere first week of June and after commissioning for about over few days, over the two months period, we will come back to the production in urea most of post energy improvement project in August 2022. In respect of our other operations of complex manufacturing, we have sustained the operations with the support received from Government of India to manage the prices which are skyrocketed during the journey of 2021-22 and we still we are unable to see a finality into the rate to the pace at which these prices are going up. We hope -- we're hopeful that during the current financial year FY23 some stability can establish in the prices of raw materials and the traded goods. Another feature during this financial year is the liquidity was healthy during the year. It's small called bunching up of the payments happened in the last quarter of current financial, nevertheless government released all subsidies due to us as a process. So this also assisted the company to achieve lower finance cost compared to the earlier years. These are the key features we take away from this operation for the year. We move on to specific performance revenue from operations. . MCFL registered a revenue growth of 20% during the quarter and 30% during the year driven by commodity price and modest volume growth. Coming to EBITDA, we have registered a modest growth of 1% despite pressure on margins due to spiralling commodity prices. Coming to profit after tax, we have registered a growth of 33% during the year primarily on account of reduced finance costs and favourable cost of finance available during the year with pressure coming going forward with the action taken by RBI in pricing of the repo rates. The cash profit for the year this showed a growth of 33%, again primarily on account of better operations and reduced finance costs.

- Moving to production sales product-wise as I briefed earlier, during the current financial year we have produced the highest production of 4.29 lakh tons of urea, highest for MCFL, this is in excess of the reassessed capacity of 3.8 lakh tons which we are permitted to produce, since we have got the gas in December 2020 and as per the policy guidelines we are eligible to produce beyond RAC that is reassessed capacity. We produced beyond 3.8 lakh tons during the current financial year at 4.29 tons and sales also was higher at 4.31 lakhs tons. The higher sales is possible on account of the opening inventory we carry. And during the quarter we have produced 1.12 lakh tons compared to 1.15 lakh tons we produced in FY21.

- Coming to the P&K Fertilizers, we have sold 2.66 lakh tons as against 3,14,000 tons last year, the reason for that small drop is we have carried inventory of DAP of 20,000 tons at the end of FY22.

- Coming to revenue from operations, revenue from urea is Rs. 1653 crores, as against 915 crores of last year. This growth is driven primarily on account of price and also the increase in the volume we manufactured and sold.

- Coming to the revenue from non-urea business we have posted a growth, the revenue is 1243 crores as against 1229 crores of last year.

- Now we look at the financial position, coming to the shareholders' funds, the appreciation to networth is 77 crores which is primarily the PAT for FY22, netting of the dividend we have declared for last FY21 which was paid during financial year FY22.

- Coming to the debt long term debt there is an increase of 91 crores, this is primarily on account of the loan we availed for the energy improvement project which we have undertaken which we will be executing in the current financial year FY23 after taking the repayment of some of the existing loans the debt increase is 91 crores.

- Coming to the short term debt there was an increase of 388 crores, this is two factors for this increase. One is on account of higher revenue we have posted in current financial year compared to the last financial year, and the second factor is the bunched up payments of the subsidies by the government of India to manage the requirement of cash we have resorted to some short term borrowings which is squared off in the Q1 of FY23.

- The short term surplus increase is 155 crores from 402 crores to 557 crores, this is primarily on account of the subsidy disbursement in the last week of March, both the years FY21 and FY22 the government has disbursed in the last quarter of the respective financial years. As a matter of fact we have received 806 crores during the Q4 FY22 and similar amount of 809 crore we received in FY21.

- Coming to receivables, receivables we normally we carry books, market debtors which we receive from the dealers, other one is dues from government which is described as subsidy debtors, the market debtors there is a reduction of 96 crores purely on account of higher liquidity in the market due to the demand and shortage of materials at the right time that led to improved liquidity and we were able to decrease the receivables from 184 crores to 88 crores. Coming to the subsidy it may appear to be an increase from 325 crores to 577 crores. The basic reason for the increase is for our urea operations the escalation in the gas price for Q3/Q4 is not yet notified, once it is notified either in the form of separate escalation or annual escalation for the current financial year, we will be able to realize the monies, and there is no challenge in this because the government is committed to continue disbursement at the right amounts agreed. We don't foresee any challenge in this.

- We move on to some past annual performance to get a clarity. The revenue from operations has been 3000 crores to levels in FY19. This has been almost in the range bound from 2000 crores to 2100 crores in the last four years. Coming to EBITDA you can see from the levels of 200 crores FY19 we have been able to grow from the levels of FY19 to the levels of 235 crores as of this current financial year FY22. Coming to PBT from the levels of 50 crores we improved to current levels of 135 crores. Coming to PAT similarly we have been able to improve from 33 crores in FY19 to 88 crores in current financial year FY22. Cash profit has improved from 72 crores in FY19 to 138 crores in FY22. EPS per share has improved from Rs. 3 to Rs. 7 in FY22 from FY19. You could see the receivables has come down from the levels of 1564 crores in FY19 to the current levels of 665 crores. This is due to improved liquidity in the market as I briefed earlier. And fiscal stimulus given in FY21 to clear subsidy arrears and continued additional support given in FY22 by the government of India.

- This is overview of MCF operations in the territories we operate. The plant is situated at Mangalore, west coast opposite Mangalore port, and our present capacity is 3.8 lakh tons in urea, DAP and complex we can manufacture 2.85 lakhs tons. And we also do trading in MOP and DAP based on opportunity, based on the availability of materials. The territories where we operate in marketing, in Karnataka 71% we operate, our market share. And 4% in Kerala, Tamil Nadu 9%, Andhra Pradesh 8%, Telangana 4%, Maharashtra 4%. We operate, we sell under the brand called Jai Kissan Mangala. This could be a slide for the first time investors who are coming, participating in this particular program.

- And we thought we can, since one significant event is going to happen in this current financial which will be of interest to the investors, we thought we can show some photographs of the ammonia energy improvement project which we are executing in Mangalore. Some photographs to get a perception of this project what we are currently undertaking. This is Syn Gas, Synthetic Gas Compressor building column being raised. This is compressor house pipe rack erection which is under process. This erection of Syn Gas compressor turbine surface condenser, this could be more technical. Erection of Syn Gas compressor. CO2 stripper area structural work. Erection of add-on converter. Ammonia converter internal removal from transportation shell. New cooling water pump erection. Vessel V-5309 loading on trailer at Praj Industries, Kandla. Completed CO2 stripper at Praj Kandla for transportation. Transportation of vessels from Praj Works to Kandla Port. Double pipe heat exchanger fabrication at Coimbatore. Combustion Air Preheater dispatch from Kelvion Pune. Transfer main dispatch from L&T Hazira works. Underground cooling water main header fabrication and laying. PSA nitrogen unit.

- Just to get a flavor of the progress of the project, we thought we should share with our investor community.
- Thank you, sir.
- **Host:**
- Thank you, Mr. Muralidharan.
- Mr. Saha, can we open the floor for Q&A.
- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**
- Yes please.
- **Host:**
- Friends, anyone wishing to ask a question request you to raise your hand, I will unmute you and take your question. And a small request if you can introduce yourself before you ask a question, thank you.
- The first question is from Simran, Simran please go ahead, please unmute yourself and go ahead.
- **Simran:**
- Hello, I am audible?
- **Host:**
- Yes, you are, Simran, please.
- **Simran:**
- Sir, I have 2-3 questions. First of all how is the company planning to bring down its borrowings in the future, first question is that. Second is EBITDA margin guidance if you can provide any, and the third is the worst over for the higher input prices in the future, and the last is that how the company is going to utilize its cash and bank balance which is showing in the balance sheet in a very good pace. Can you answer these questions?
- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**
- Sure. Murali, why don't you take the borrowings, cash and bank balances and I will take the input prices.
- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**
- Okay, thank you, sir.
- The borrowings what we have there are two components, one is short term borrowings which is for pure working capital, that will get turned around as the working capital cycle moves on. I would rather more specifically address the question on the long term debt. We are currently carrying 290 crores of long term debt. Some existing long term debt for working capital term loan and some are already borrowed for the energy project we are doing. Going forward FY23 we will be drawing some more money and we will at the end of Q1, we will be having around 450 crores of long term debt and we will progressively repay these loans as we commission the project and realize the benefits. And to give some numbers as per the agreed repay schedule with the banks, every year we will be paying around 70 crores. So considerable amount of money will come down in 3 years' time by FY25 from 450 crore levels will come down to 230 crore levels. And the remaining amounts will be paid gradually. So this is the plan and cash flows, the long term cash flows are in place intact to address this long term obligation for repayment. This is the first question. The other I would go back to the cash and bank borrowings, these are all temporary surplus you will see and immediately these things are applied based our obligations onto the bank borrowings we keep our timing the maturities, these are all specific year end numbers you see, okay, and these are the positions throughout the year. There are because the governments, what you call the last quarter especially in March every year they clear these arrears upto the first week of March and the DBT bills. So we end up getting these monies only last week, so we could not do any planning because the cash flows are not very structured unless we get the assured disbursement advice. So these are temporary, and we are addressing this on a very professionally so that we are taking care of these balances to return our obligations. Over to you, sir.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Simran, to answer the input price and when it will cool off. I think it is very difficult to make a very clear guess in terms of timing, there are 2-3 facets that one must remember. I think the balance availability of finished goods especially the phosphates particularly Russia, China, etc., and once the supplies from there start emerging, there could be some kind of indication that we would get, that's point number one. Point number two is with those countries supplying there is an implicit impact on the raw material prices particularly phosphoric acid. I think these are two factors to keep in mind, the timing of this is difficult to say. We have been through a commodity super cycle, and as you know that commodities won't last forever as far as pricing is concerned. So I am sure at some stage we will see some positive developments happening. Timing very difficult to ascertain but clearly we do see some supplies opening up from China and Russia and a few other countries in terms of the availability of phosphatics. As far as ammonia, etc, is concerned I think it will also follow suit as time goes ahead.

- **Simran:**

- Okay, done, sir, thank you for your kind answers.

- **Host:**

- We have a question from Aditya Jhawar. Aditya, please go ahead.

- **Mr. Aditya Jhawar:**

- Thanks for the opportunity. I wanted to understand on the ammonia plant which is getting, right, what is the incremental revenue or what are the things we are doing in the ammonia plant and how does it help in the future, I want to understand on the ammonia thing.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Okay, I will give you a very quick overview. This is an ammonia energy improvement program, right, so the ammonia energy improvement program helps to reduce the consumption of energy in ammonia which is the largest consumer of energy in a urea plant. Now as it comes down our energy levels in terms of GCAL per ton will reduce from 6.25 currently to about 5.5 and the difference between the category in which we are in which is a 7.356 GCAL per metric ton versus the 5.5 will be the gain that we will get which will give us an EBITDA kicker. It will also help us to increase the quantum of ammonia that is produced from where we are to where we will likely to get to. Now that can be used therefore in multiple sources including manufacture of our fertilizers trading, etc.

- **Mr. Aditya Jhawar:**

- Okay. So how much EBITDA it will be flowing into when we come from 7 to I think that it is very marginal, right, 5 point something.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Murali, can you take the number?

- **Host:**

- So, Muralidharan, you will need to unmute yourself, please.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- This energy improvement project which we are executing as technically explained by our MD. The EBITDA there will be growth of 100 crores per annum, and there will cost of servicing our borrowing program for this.

- **Mr. Aditya Jhawar:**

- Okay, sir, thank you.

- **Host:**

- Thank you, Aditya. Anyone wishing to ask a question, request you to please raise your hand and we will take it up. So there's a question from one of the participants, yeah, Nilay Dalal. Nilay, please go ahead.

- **Mr. Nilay Dalal:**

- Yeah, can you hear me?

- **Host:**

- Yes, Nilay, please go ahead.

- **Mr. Nilay Dalal:**

- Sir, I wanted to understand while the business, the fertilizer business is primarily that whenever there is a cost escalation of the raw material it is primarily a pass through, correct. So the margins should have remained stable, correct, the EBITDA per ton should have remained stable in spite of the cost escalation, the raw material cost escalation. So why has there been a kind of some dip in the EBITDA numbers that was the first question. And the second question was did you mention that the plant will remain shut down from June to August for the energy efficiency project, in order to bring that project on stream.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Nilay, your answer to the second question is correct, we will have to take a shut down for the commissioning of the ammonia energy improvement program, and we believe as a fallout of that the urea that will be produced will be upto the RAC level which is 3,79,500 unlike the 4,29,000 that we did last year.

- **Nilay Dalal:**

- Okay, so this will be for the full year, correct, in spite of....

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Yeah, despite the 60 day kind of a shut down we will still be in a position to produce 3,79,500 and also get a certain quantity of ammonia which is an outcome of the program that we are putting up.

- **Mr. Nilay Dalal:**

- So that ammonia we will be selling, sir, is there a plan for that already in place.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Once we commission that there is an obvious opportunity to use that ammonia and DAP and also to do the trading, so we will come to it when we get to it.

- **Mr. Nilay Dalal:**

- Okay, and so can you answer the first question, sir, on the cost escalation for Q4.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Murali, if you can help coming from the context of Q4 and then the overall EBITDA numbers please.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- Okay, sir. Mr. Dalal, see in Q4 the EBITDA was lower compared to the earlier quarters and last year same comparison, the reason is we have produced complex fertilizers based on commitments given by the government of India and we are awaiting for some support for that. We are unable to quantify the support we will get and in the absence of that the EBITDA is low, number one, that is on the complex. The other one is on the urea piece, as I briefed you during my presentation we have produced beyond RAC at 4,29,000 tons compared to 3.8 lakh tons and this particular additional production of that 50,000 tons we manufactured during the current financial year Q4. And this addition production what we made comes with lower what you call margins, compared to the margins we get for upto reassessed capacity. These two reasons for this what you call subdued EBITDA is only cyclical in nature based on the quarter on quarter or year on year basis. Otherwise your understanding of the cost recovery in respect of urea that any cost is the full pass through to the extent of policy guidelines of government of India.

– **Mr. Nilay Dalal:**

– So what you are trying to say, sir, is that actually there is a disincentive to product more?

– **Mr. T.M. Muralidharan – CFO, Mangalore Chemicals & Fertilizers Ltd:**

– No, not like that, the benefit what we get is low, that's all. We still make margins not at the level at which we get upto the RAC levels, there is no disincentive definitely. Government has been very supportive to the entire industry to maximize the domestic production, and the commitment from government of India and all various quarters will be there, they are committed to this industry and ensure that capacity is fully utilized to the maximum.

– **Mr. Nilay Dalal:**

– Okay, sir, can you give me for Q4, specifically only for Q4 for urea and for DAP what was the EBITDA per ton?

– **Mr. T.M. Muraalidharan – CFO, Mangalore Chemicals & Fertilizers Ltd:**

– One second. The EBITDA per ton in Q4 for urea is about 2000 rupees.

– **Mr. Nilay Dalal:**

– And for DAP?

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– DAP we just break even.

– **Mr. Nilay Dalal:**

– Okay, that is because that you have not recognized that....

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– That income, okay, the support which was not known to us.

– **Mr. Nilay Dalal:**

– Sir, for Q3 also can you share, sir, for urea and DAP that is for the December quarter.

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– Sorry, Nilay, can I come back to you.

– **Mr. Nilay Dalal:**

– Sure, no problem, sir. So when this energy efficiency project comes on stream what will be the EBITDA per ton say for Q2 onwards for urea and DAP?

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– Can you repeat the question, Mr. Dalal?

– **Mr. Nilay Dalal:**

– Yeah, what I am asking, sir, is that after the ammonia energy efficiency project comes on stream say somewhere in August, what will be the EBITDA per ton for urea and DAP? You said there will be a kicker of 100 crores but if I want to break it down to per ton how will it be?

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– We get about 2500 rupees per ton.

– **Mr. Nilay Dalal:**

– Sorry?

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– 2500 rupees per ton.

– **Mr. Nilay Dalal:**

– Okay, so 2000 becomes 2500 rupees per ton?

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– Yes.

– **Mr. Nilay Dalal:**

– And for DAP, sir?

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– The benefits of the energy improvement project will not come for DAP, it is only for urea.

– **Mr. Nilay Dalal:**

– Correct, correct, it is only for urea, okay. Sir, just to broadly understand while the kicker will be 100 odd crores, the additional borrowings also goes up by 200 crores, correct, the long term borrowings.

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– It will be 320 crores.

– **Mr. Nilay Dalal:**

– Sorry?

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– 320 crores, 320 crores.

– **Mr. Nilay Dalal:**

– Incremental?

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– Yes.

– **Mr. Nilay Dalal:**

– So the net benefit to us would be say 70 odd crores, is that the right assumption?

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– No, 50 crores, at the PBT level it will be 50 crores.

– **Mr. Nilay Dalal:**

– Okay, maybe because of the additional depreciation.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**
- Correct, and depreciation and the finance cost both will add upto this.
- **Mr. Nilay Dalal:**
- Okay, if I have any questions I will come back.
- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**
- Welcome.
- **Host:**
- Thank you, Nilay. Friends anyone with a question, I request you to please raise your hand and we will take it up. Mr. Murali, can I just read out a couple of questions we have from our participants.
- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**
- Yes.
- **Host:**
- What is the average gas price for FY22? And what is the reason for higher other costs, is it because of the transportation and power? This is from Sayali Raut.
- **Mr. T.M. Muralidharan – CFO, Mangalore Chemicals & Fertilizers Ltd:**
- Okay, the average cost of gas which is expressed in dollar terms per MMBTU is about 14.5 dollars throughout the year. Can you repeat the second question, I couldn't follow?
- **Host:**
- What is the reason for the higher other costs, is it because of the transportation and power.
- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**
- I think the question has made my answer easy by the question itself. It is on account of the higher power costs which we use in the power and fuel in the operations.
- **Host:**
- Okay, another question is what is the current GCAL per ton, I think that was answered by Mr. Saha earlier. What is the GCAL per ton, Mr. Murali?
- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**
- GCAL per ton which we achieved for FY22 is 6.35 GCAL per ton.
- **Host:**
- Okay. And what is our electricity consumption per unit of urea for FY22?
- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**
- See this is what we express, we don't express in terms of electricity, we express only Giga calories which is 6.35, that question is nothing but the same question asked.
- **Host:**
- Sayali, I hope your questions have been answered in case not, request you to please raise your hand and we can take it up further. There is a question from Pradeep from Cosco Capital Partners. How much effect is the Ukraine Russia disturbance been on the output and how do you envisage further spikes in oil prices.

– **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

– Can I request my MD?

– **Host:**

– Yeah we will just wait for Mr. Saha to get in call and maybe we will request him to do that.

– **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

– Yeah, I will take that. I think there are a couple of things to remember here. There is obviously a risk on global energy supplies. One must understand that Russia supplies 10% of the world's energy needs and about 12% of oil and 17% of the natural gas. Clearly there is a challenge at a global level. Having said that I think the contracts that we have signed protect us to a fairly large extent because they happen to be largely with countries other than Russia per se, so to that extent I think we are by and large protected from that at this point in time. As far as the availability of phosphates is concerned, availability of urea is concerned, availability of potash is concerned, clearly the global supplies have been affected because Russia is also one of the largest suppliers of some of this. In fact Russia accounted for about 22% of ammonia, 14% of urea and 11% of phosphates and Belarus has been one of the largest suppliers of potash in the world. Now obviously potash availability in the country has been significantly reduced and as you would see, we bought potash only once in the whole year last year that is in the first quarter, we have not had a chance thereafter, the prices have also risen, plus also non availability and the sanctions on Belarus. So I think some of these facets have deeply impacted the business in terms of the availability of finished goods. Coming to the availability of phosphoric acid and the prices and so on and so forth there are multiple factors that have led to the increase in prices. I hope as I mentioned in some of the earlier conversations responding to one of the questions, I am hoping that with supplies of finished goods coming into play particularly in DAP and some complexes, hopefully the finished goods prices will dry and that will have a impact on the raw material prices. As far as oil prices are concerned it is anybody's guess at this point in time which way it would move, I only hope it cools down over a period of time.

– **Host:**

- Pradeep, I hope your questions have been answered. We have a few more questions, sir, if I can just read them out. Amitabh Chakraborty wants to know what was the gas cost. I think Mr. Murali just told us it was about $14.50. Mr. Murali?

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- You're right, yeah.

- **Host:**

- Okay. Another one from Varship Shah, post energy improvement what is the plan for further growth.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- yeah I'll take it up

- **Host:**

- Increase in DAP or NPK capacities?

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- That's a good question. Clearly, directionally first of all we want to ensure the successful commissioning of the ammonia energy improvement program and as Murali has alluded to earlier, there is plan for making sure that through the kicker that we get, we A - reduce the debt load that is on us right now. The second is look at backward integration and thereafter the growth opportunities. In the past, I have mentioned about the need for us to look at some opportunities in backward integration whether it's sulfuric acid or otherwise or addition of capacities to store more phosphoric acid. Once we do these things then the next aspect would be logically increase in the DAP NPK capacities. I think we're still some distance away from getting there.

- **Host:**

- Varship, I hope your question has been answered. There is a question on the Capex. The Capex on the ammonia project is it approximately 320 crores and what is a percent increase and what is the expected percent increase in production of ammonia?

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- The expected additional production of ammonia would be to about 880 from a current base of I think close to about 700 tons per day. So, I think that should help in generating additional ammonia, which can be used both for as I mentioned earlier also for the purpose of use in DAP manufacture as well as in trading. Murali you want to take anything in Capex. I think you've already answered that question earlier.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- The 320 crores is the borrowing for the Capex.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Yeah.

- **Host:**

- Okay. One more question from the same person, the de-recognition of subsidy income of 2,686 million, I'll just read it slowly because there are a lot of numbers in this which is the difference in energy saving from 6.35 to 5.5 Gcal/meteric ton, plus additional production beyond the rated capacity. As per the policy notified earlier you could retain the energy benefit. So, is there a change in the incentive sharing?

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- I will answer this question. I think the reference is this particular question is from the audited financials published yesterday which I've been carrying from the FY21 as well. This is the 27 crores that is 2,686 millions of the -- I think our number is not correct. This is the amount what we are eligible under as per the energy norms, which was not extended to us. . So, this has been the provision made in the books of account. It is no more, I would call that as a receivable or income recognition in the books of account. This matter closed matter, we are contesting the government of India. If you get a positive reply, we will get its income as and when we get the decision in our favors.

- **Host:**

- I hope the questions have been answered. Friend's request you to raise your hands and come on the Q&A floor because at times when I read the question maybe I'm not able to convey the exact question that you want to ask. Can we have a question from Vineet Agarwal. Vineet please go ahead.

- **Mr. Vineet Agarwal:**

- Am I audible Sir?

- **Host:**

- Yes you are, please go ahead.

- **Mr. Vineet Agarwal:**

- Sir I just wanted to ask before FY22, the manufacturing ratio of PNK between DAP and NP was roughly about 48:50 or 50:50, it has been heavily tilted towards NP in FY22 roughly around 30:70 and that is if I'm not wrong because of rise in ammonia and other costs. So, what will be the strategy now for the FY23 after the government has increased the subsidy, we will return to the old ratio, or this will be our new normal. Hello.

- **Host:**

- Yeah Vineet, just one second please. Vineet it you could just repeat questions piece by piece because there are a number of questions.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- I think what I understood Vineet saying, yeah go ahead Vineet.

- **Mr. Vineet Agarwal:**

- Sir I just wanted to ask that

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Ratio between DAP, NPK in F23 vis à vis the past.

- **Mr. Vineet Agarwal:**

- Sir, can you please repeat.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- You wanted to check the ratio of DAP, NPK in FY23 versus the ratios in the past and the changeovers that have happened which is a fall out of ammonia and phosphoric acid prices as you mentioned correctly.

- **Mr. Vineet Agarwal:**

- Right Sir.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Is that right?

- **Mr. Vineet Agarwal:**

- Yes Sir.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Yeah I think it makes commercial sense for us to produce N20 at this point in time and we'll keep evaluating based on the raw material prices as we go forward.

- **Mr. Vineet Agarwal:**

- Okay Sir. Thank you.

- **Host:**

- Thank you Vineet. We have a follow up question from Nilay. Nilay please go ahead.

- **Mr. Nilay Dalal:**

- Yeah, hi. Thank you for taking us again. Sir, we have a repeat question on ammonia, just wanted to get better clarity. We said that the post energy efficiency project, the production of ammonia goes up from 700 tons per day to 880 tons per day that's correct?

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- That is right.

- **Mr. Nilay Dalal:**

- And this entire 180 is available for trading only may be for DAP manufacturing is that correct?
- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**
- That is right.
- **Mr. Nilay Dalal:**
- Okay. So Sir broadly speaking, correct me if I'm wrong, but this is a very broad calculation does say assuming a ton of ammonia maybe sales at ₹60,000-₹70,000 means the current prices might be very high, but I'm seeing average. So does the additional ammonia per day say 180 tons per day can it generate anywhere between 250 to 300 crores topline.
- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**
- Nilay, I don't want to speculate at this point in time. It's a commodity business, we will come to it when we get down to that level in terms of both ability as well as the opportunities that arise thereof. Anything is possible in this trade as you are aware. It depends upon the price, the market conditions, and so on and so forth. I wouldn't want to speculate on number right now.
- **Mr. Nilay Dalal:**
- No I appreciate that but Sir is the thought process correct?
- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**
- Yeah your thought process is right and that is you're assuming 100% trading, which we don't know at this point in time whether it be feasible or not.
- **Mr. Nilay Dalal:**
- Fair. fair enough, fair enough well. Yeah. Okay. Thank you.
- **Host:**
- Thank you Nilay. Friends anyone with a question may please raise your hand and we'll take it up. Okay follow up question from Varship Shah. Varship please go ahead.
- **Mr. Varship Shah:**
- Yeah. Thank you for taking my question. So the additional capacity for ammonia as on stream, I understand Sir will it be available for trading and production and take a call then, but by regulation are we supposed to necessarily produce or will that be a -- will we come to know that later once it plays.
- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**
- I'm not clear about the question Varship. You're talking about
- **Mr. Varship Shah:**
- Yes ammonia.
- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**
- Yeah.
- **Mr. Varship Shah:**
- Because the government obviously would want -- not want a shortage of fertilizer in the country for any, so can we do in that or do we necessarily have to produce urea.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- I think the answer lies in the question itself. I think if it comes down to serving the interests of Indian farmers and the government's interest, I think some of which will become paramount if we come down to that end right and we don't know at this point in time what will be the scenario by the time we start generating, things are changing right, so we don't know in what kind of an environment we will be living in as you rightly pointed out maybe earlier also about this whole facet of the government's need for supporting the rabi produce and the support that they provided to the DAP business at this point in time or purported DAP support, we don't know what is going to happen. So, those are policy decisions and we will come to it when we get down to level.

- **Mr. Varship Shah:**

- Fair enough Sir. Thank you.

- **Host:**

- Thank you Varship. Friends anyone with a question please your hand. We have a question from Kenil Mehta. Kenil please go ahead.

- **Mr. Kenil Mehta:**

- How does one calculate the saving amount for G Cal per MT in our urea plant, is there any suited formula for by government based on which we get the benefits of 100 crore.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Murali can you explain the calculation, it's a easy one, but Murali can you just do the numbers so the math for 100. It's broadly 100, so.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- The calculations are very detailed and laborious as per the government regulations and whatever reduction we are able to achieve from the 6.35 Gcal/MT correct levels to 5.5, which we will achieve. On the delta whatever there is a calculation of what is the cost which you are buying and there is an element of filtration of the some of the cost which is not reimbursed. It is a very detailed process. We quantify those things and come at the levels of 100 crores per annum based on some assumed levels of feed stock prices. It goes up and comes down as as the feedstock prices also will change. It is a very detailed cumbersome process of calculations. If you want to take you through, I can take separate you through offline.

- **Mr. Kenil Mehta:**

- Okay, okay. Sure Sir. I have done Sir some rough calculation. So, our pre norms for 6.35 and we go to 5.25 Gcal/MT, so total Gcal/MT will be 1.10 and total KWH there will be 1278, so if they multiply that 1278 KW into ₹6 per cost unit per MT, total saving for our urea production will be approximately 290 crores.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- As I answered you earlier, we will take you through this computation offline because the calculation cannot be explained, very detailed calculations which we will explain to you offline.

- **Mr. Kenil Mehta:**

- Okay, okay, sure and Sir out of our total borrowing only approximately 210 crores will be our long term debt and our rest then will be short term debt, which will be used for working capital.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- Mr. Mehta I couldn't follow you, can you tell.

- **Mr. Kenil Mehta:**

- Sir out of our total debt approximately 200 crores is long term debt and short term debt for working capital.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- Correct, correct.

- **Mr. Kenil Mehta:**

- Yeah, okay, okay. Any future plans after decreasing the debt for capacity expansion or something because from what I see, we are already operating at the maximum level promotion for important products like ammonia or urea, and DAP.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Yeah I'll take that question. Yeah thanks Kenil for the question. You're absolutely right that I think the energy improvement program was a very critical part of the overall cost structure of the urea plant which is a legacy urea plant which comes under the regime of 7.356 Gcal/metric ton. Once we have got that in place, I think the urea issues out of our way and we will definitely look at the possibility of backward integration, creation of capacities. Now backward integration could be in the case of sulfuric acid and obviously the hopes for us to look at opportunity in both manufacturing as well as trading. You are missing the fact that trading can be a very important opportunity as prices cool and opportunities arise and hence with a better strength of the balance sheet, our ability to do trading should improve as time goes along.

- **Mr. Kenil Mehta:**

- Should we expect the trading business to become 40% of our revenue mix as which was seen in last FY16-17?

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- I honestly don't want to speculate on whether it should become 40% or whatever. These are again based on the prices and the margin opportunities that arise because of this and I think you are also familiar with the fact that there's a capping on the MRPs, so a lot of things have to happen when you do these things right. So one is the price at which you get the goods and the price at which you are able to sell the goods. So, we will come to it based on the opportunities that exist in the market in terms of commercial opportunities.

- **Mr. Kenil Mehta:**

- Okay, okay. Thank you.

- **Host:**

- Thank you Kenil. Mr. Saha do we have time to squeeze in the last couple of questions.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Please go ahead.

- **Host:**

- Aditya Jhavar. Aditya please go ahead.

- **Mr. Aditya Jhavar:**

- Yeah. So, I want to understand you said that from DCAL 7 or 6, we are coming to 5, so how much time or what is the engineering work we have done here. So I want to understand on the work what Mangalore has done here. So is it easy for every company to bring down this energy cost or what challenge you have faced, I want to understand on this part.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Sure. It'll be very useful if we do this exercise at Mangalore for us to explain to you what this all entails otherwise I'll have to take you through a formal diagram about all this entails right. I'll be more than happy to do it, but you're most welcome come and visit Mangalore which will give you a very, very, very good insight into the strategic location, the area that we have for expansion, and the work that we have done, and the opportunities that exist thereof.

- **Mr. Aditya Jhavar:**

- Correct, correct. So how much time did it took Sir her for you to do this ammonia this thing.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

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- So, we will commission as I mentioned from 1st of August and see there is a lead time for the manufacturer and the receipt of items. There is a lead time for making sure that we can raise these structures, so the structural work and the receipt of items has taken anywhere from supplier to supplier between six months to a little over year right and we have been challenged by COVID in between. So, there have been times where we have had to make sure that we take into account those allowances that we had to provide, but I think the work is carried on in full stream from the time we began this in July. So I think almost from July to July you can assume that almost like a year's period to complete this exercise.

- **Mr. Aditya Jhavar:**

- Okay, okay. So Mr. Murali had shown some figures right at the last of the presentation. So, what was it regarding, actually I did the picture about what the project is or see to some something to diagram he had shown. So what is the exact process or chemistry it was happening there?

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- I'm not clear about your question.

- **Mr. Aditya Jhavar:**

- No, no, no. I'm asking about Mr. Murali had showing some pictures right. So these are the works going on the CapEx related to the plant. So exactly are those related to ammonia plant or it was

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- They are only related to ammonia plant. So let me just explain, he had shown you know the compressors, I mean they are imported from Europe. If you look at some of the items that are manufactured locally he had shown you some manufacturing of certain specific requirements for the ammonia energy project done in Praj. There's something on the heat exchanger that is done in Kelvion in Pune and so on and so forth and also the transfer main came from L&T at Hazira. So, you were to shrink these are items that have been manufactured and either ready to ship or ship or re-seated at a plant and erected right.

- **Mr. Aditya Jhavar:**

- Okay, okay, okay.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- So since we are almost ready to take a shutdown from that you would imagine that we had a very advanced stage of closing each of those areas that were required to make sure that we commission successfully on the 1st of August. I'm hoping that that would.

- **Mr. Aditya Jhavar:**

- Correct Sir. Thank you Sir. It was helpful. Thank you so much.

- **Host:**

- So, I'm right Mr. Saha you actually answered this question of the processes and the work that has gone out. It was a pictorial representation of everything that has been going on for almost a year to envisage getting off by 1st of August.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- No, my invitation to him still remains.

- **Host:**

- To add on.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- Can I supplement Navin.

- **Host:**

- Sure Mr. Murali. Please go ahead.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- Aditya, this project what we do is customized for our plant. So, no standard package which is anybody can do this, so it goes by configuration of each urea plant and opportunities lies in the configuration design at the time of original commissioning okay. It is not standard package we do okay. So we engage these license -- the consultants who have studied the configuration opportunities to reduce the cost based on that this will be designed. It is not 100% package everybody can do that.

- **Mr. Aditya Jhavar:**

- Okay, okay. Great Sir great.

- **Host:**

- Thank you Aditya. Could we have probably maybe the last question for the evening. Varship please go ahead. Varship Shah.

- **Mr. Varship Shah:**

- I have no questions. Thank you.

- **Host:**

- Okay. I guess that was the last question for the evening. I hand over the webinar back to Mr. Saha for his closing remarks. Sir please.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Thank you everyone for participating and putting us through those questions. We will be more than happy and I think there is a request I think that has come and I'm using that request to do the closing. Some of them want to understand and would come down to Bangalore. I would request both Bangalore and Mangalore are wonderful places to visit. I think Bangalore has excellent climate at this point in time from the weather that we have in most parts of the country, so more than welcome. We will certainly send you a timeline, at the same time I'm also suggesting that we invite some of you or all of you whoever wishes to visit at the successful commissioning of our project, we will announce the dates and maybe we could do a session hopefully there itself in Mangalore for sharing what we have done. Thank you so much and we hope that the scenario improves as lot of you have expressed and best wishes for a great kharif season ahead.

- **Host:**

- Thank you very much. On behalf of all of us at SKP Securities like to thank Mr. Saha and Mr. Muralidharan for the time to interact with the investors and we look forward to hosting you once again in the next quarter with new webinar. Thank you very and have a nice day.

- **Mr. T.M. Muralidharan - CFO, Mangalore Chemicals & Fertilizers Ltd:**

- Thank you all.

- **Mr. Shubhabrata Saha – Managing Director, Mangalore Chemicals & Fertilizers Ltd:**

- Thanks.

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End of Transcript