



Paradeep Phosphates Limited

“Paradeep Phosphates Limited  
Q3 FY2024 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to Paradeep Phosphates' Q3 FY2024 Results Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nilesh Patil. Thank you and over to you Sir!

**Nilesh Patil:** On behalf of ICICI Securities, we welcome you all to Q3 and 9M FY2024 Results Conference Call of Paradeep Phosphates Limited. We have with us, Mr. Suresh Krishnan - Managing Director & Chief Executive Officer; Mr. Rajeev Nambiar – Chief Operating Officer; Mr. Bijoy Biswal - Chief Financial Officer and Mr. Alok Saxena – General Manager and Head – Investor Relations & Corporate Finance. Now I hand over the call to Management for their initial comments on quarterly performance and then we will open the floor for question-and-answer session. Thanks, and over to you Sir.

**Suresh Krishnan:** Thank you. Good morning and welcome everyone to the Q3 FY2024 earnings conference call of Paradeep Phosphates Limited. I would like to thank you all for joining us here today. We have circulated our earnings presentation and press release and uploaded the same on our website and stock exchanges. I hope you have had the chance to review the same. To start with we will give you an overview of the business trend and financial performance of the quarter and we would be happy to take questions thereafter.

Well friends, despite continued headwinds on account of lower-than-average rainfall, a less than normal reservoir levels right across our key markets and unseasonal rain during the quarter our company has driven to deliver a stable performance and navigate through this challenging environment. The total fertilizer production volumes during this quarter for us was 5,41,871 MT in that NPK 20 production volumes during the quarter was 2,70,427 MT registering a year-on-year growth of 82%, while our overall NPK basket grew by 26%. The overall production volumes during the quarter were lesser year-on-year owing to high base effect of Q3 FY2023 and a planned two month energy improvement initiative undertaken in the urea plant at our Goa site. The total sales volume during the quarter was 5,91,152 MT. Total sales volumes clearly surpass the total production volumes for the quarter.

Coming to our financial updates, during this quarter the company reported a quarterly income from operations of Rs. 25,950 million and EBITDA of Rs.2,911 million with a margin of 11.2%. The profit after tax for the quarter was Rs.1,089 million with a margin of 4.2% registering a growth of 21.8% on a sequential basis. Despite the challenges and



macroeconomic trends during the quarter, we have improved our profit margin on both a sequential and year on-year basis. This improvement is primarily attributed to fully functional backward integration of phosphoric acid capacity and softening of raw material prices coupled with our capability to store raw materials at our plant sites. With an overall improvement in raw material prices, our reliance on working capital needs has also come down leading to an improved debt-equity ratio. We have strengthened our financial position with a decrease in short-term leverage of 12% compared to the same period last year.

I am also delighted to share with you our update and commitment to ESG and sustainability. We recently published our second sustainability report, which comprehensively details our non-financial and ESG performance for the FY 2022-23. The latest report aligns with global frameworks of GRI, SASB and UN-SDGs and discusses many new elements like ESG governance and policies, emerging risk, water stress, and biodiversity assessment, and responsible supply chain program among other initiatives implemented in the organization.

I will now come to the announcement of merger of PPL and MCFL. The Board of Directors of PPL and MCFL in their Board meeting held yesterday approved a composite scheme of arrangement marking a strategic move of consolidation for both companies. PPL and MCFL have consistently delivered robust financial performance and by combining the forces they aim to amplify shareholder values. The proposed combined entity shall become the largest integrated private sector company in India with a total capacity of around 3.6 million tons per annum. This proposed merger will bestow upon PPL a highly efficient ammonia and urea asset, access to newer southern markets under esteemed Mangala brand and would additionally give us ample room to backward integrate and expand in the available land parcel that we will get. I am confident that by leveraging the synergies between the two entities we will unlock value and drive sustainable growth for our shareholders, employees and partners. I thank you all for your continued support.

Looking ahead while short-term headwinds versus the long-term outlook for Indian fertilizers remain strong growing demand for food security, a healthy soil, higher farm productivity, and balanced fertilization creates a positive environment for our industry. We shall continue to remain focused on our existing strategies around product mix, farmer and channel initiatives, lower working capital, and faster receivable cycles to attain the best in this fiscal. Thank you very much now and now I would like to open the floor for Q&A. Over to you!



**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Harsh Shah from HSBC Asset Management. Please go-ahead Sir.

**Harsh Shah:** Hi, good morning everyone and thank you for the opportunity. A first question is on the scheme of arrangement itself last quarter when we had a conversation when I had asked this question it was there in the news it was very clearly said by the management that they are not going to look into anything and they are just focusing on what they have in hand right now, which is continuous optimization of the Goa plant, what changed in one quarter?

**Suresh Krishnan:** Yes, is that the only question or do you have any follow up on this?

**Harsh Shah:** Right. So another follow up is since now you have anyways amalgamating the company into Paradeep just like you took lot of initiatives to turn around the plant of Goa what are the plans that you will need to do in case of MCFL for it to get a better yield and those were the two questions on the scheme of arrangement, and just one question on the company's reported earnings is in your gross margin how much of that incremental gross margin that you have made on a quarter-on-quarter or a year-on-year basis is because of the backward integration and how much of that is because of let us say you are having some low cost inventory in your books and that has led to incremental margin basically what I am trying to understand is what is a steady state gross margin that you envisage going forward?

**Suresh Krishnan:** You had three. The first point is about scheme of arrangement and what we discussed in the last earnings call. I clearly recollect that in the last earnings call we were very clear that we are not allocating any more financing from our side for further growth or using of capital to really buy our shares. However, we also were very clear that we will look at both opportunities as we complete our backward integration plans and efficiency plans that we have at both the sites. Just to reiterate here that as far as Paradeep is concerned our backward integration of the phosphoric acid capacity has been completed and during the month of December we also completed the energy efficiency initiative that we had in Goa wherein the ammonia urea plant efficiency has been increased as proposed and under these two circumstances we were also looking at what is the further growth which is possible and as you know opportunities do come suddenly and so this was something that has shaped up for us and in this particular transaction which is subject to various regulatory approvals including the competition commission approval. All I like to say here is we are not at this juncture planning any leverage at the PPL it is purely going to be a share swap arrangement that we are doing wherein the MCFL shareholders will get into the PPL shareholding. Now the other question that really comes up is why is it that we are looking at this transaction at this point of time. Please understand that the phosphoric industry and the fertilizer industry



in general is in for a significant number of regulatory changes that is taking place. When I say regulatory change as you know that there has been a lot of clarity which is emerging in terms of how the NBF policy and how the NPK industry is going to play out and we are also very clear that the urea policy going forward from FY 2025-26 onwards will have a new regime by itself. So having efficient assets is always attractive and in this transaction what we want to see was Mangalore Chemicals during the last couple of months have completed their entire revamp of their ammonia urea capacity. So, we do not need to do any further capex out there to get the benefit. So, it is a running-efficiency asset that we are going to take into and as far as the NPK plant is concerned that has always been a good asset running well and efficiently with its own product mix. So, this was a good clean opportunity that we thought we will get because this was an asset which had the potential for growth as far as future is concerned, so we decided to secure ourselves this particular asset.

So, your second question was about the third quarter performance and what helped us in terms of our backward integration and our storage capacity. I just want to tell you in volatile market conditions as you have all seen when prices fall obviously having the higher cost inventory will come and hit us in the bottom line, but when prices are kind of going up the inventory helps you in a way. We have a robust facility at Paradeep where we are in a position to store more than 1,00,000 tons of phosphate rock, which has been a useful thing for us in the first phase. The second phase is that the new capacity which came we managed to produce over 40,000 tons of production which we did and the incremental profit which we got for over Rs.15,000 to Rs.16,000 on the overall thing made a difference to us. So, there has been roughly about a Rs. 60 Crore in benefit that we got in the last quarter on account of the fact that we have additional capacity and we sourced raw material well that is something that I would like to confirm. So that has been one of the key things for it and going forward we should keep this in mind that we are at a time of the year when this is not market time for us, it is not season time for us, and then also the key markets of ours which is Maharashtra and then other neighboring states have been through a very difficult monsoon time, the water stress in terms of availability has been quite challenging to them, so we cannot really expect any major change in the marketplace right now till the next season commence, which is going to be FY 2024-25 Rabi and we all expect that a good shower and a good monsoon which any case predicted will be required and will turn corners for us.

**Harsh Shah:**

Understood. Just to reiterate, since Mangalore is already doing a major part of capex, post amalgamation no major capex is envisaged from PPL at least in the short-term correct?



- Suresh Krishnan:** In the short-term Mangalore has completed its capex.
- Harsh Shah:** Yes, correct. So, for at least the next one or two years there is no incremental capex needed to be done in Mangalore facility by PPL?
- Suresh Krishnan:** Yes, Mangalore the PPL is not required to do any capital allocation for any capital expenditure out there.
- Harsh Shah:** Understood. Yes, those are my questions. Thank you for answering and all the very best.
- Moderator:** Thank you. The next question is from the line of S Ramesh from Nirmal Bang Equities. Please go ahead.
- S Ramesh:** Good morning and thank you very much. On the proposed merger there is an item which says you need to transfer an aggregate consideration of Rs. 564.57 Crores as consideration for such share transfer what is this exactly is there a cash outflow and what is this for?
- Suresh Krishnan:** No, there is no cash outflow from Paradeep Phosphate Limited. The gross consideration which is being indicated there is the transfer of shares which is happening between Zuari Agro Chemicals, and Zuari Maroc Phosphates which is our holding company to ensure that Zuari Maroc Phosphates continues to be the single largest and the controlling shareholder of the company. So, there is no financing which is being done from Paradeep Phosphates. This is the shareholders who are financing it out there of Zuari Maroc Phosphates.
- S Ramesh:** In terms of the growth plans in MCFL and Paradeep is it remains more or less unchanged based on your current product mix and the investments you have made and the efficiency gain projects you have done is there any indirect tax saving or other tax savings which will help you improve the post tax earnings post merger?
- Suresh Krishnan:** This is not about taxation; this is primarily about the fact that as you are aware that Paradeep is well represented in most of the major markets in India. So, we are already close to about 14 to 15 states and our representation is not as previously there in the deep south markets and so first and foremost for us is that to expand our market to reach to deep south market into a larger context that is number one. The second thing is about the brand that we will get in the brand build which is there for various products that we have. In the NPK space we have a number of interesting products that are available which MCFL does not have. MCFL gives us the market peak and then very efficient ammonia and urea assets. So, this is where we will be able to grow this market and MCFL has the capability to house a



new project it need be in the medium to long-term. So, as we get our market share to the right levels, we could always look at it at a later date.

**S Ramesh:** So, are there any synergy benefits you get in terms of your overall manufacturing or distribution cost and thereby makes that additional reach count in terms of bottomline growth?

**Suresh Krishnan:** Yes, synergy will obviously be there, and I think Alok will want to say.

**Alok Saxena:** This transaction is subject to all the regulatory approvals so we will get the exact synergy benefits out only after the transactions is approved by the regulatory bodies, but yes as the management we feel that there are potential synergies that can be leveraged and integrated the entity a much stronger force.

**S Ramesh:** In terms of Paradeep's energy efficiency projects for ammonium urea what is the additional growth in EBITDA per ton or profits you can expect from that because MCFL has already got that benefit as you see year to date number so what is the kind of benefit Paradeep can get from your Goa energy efficiency products?

**Suresh Krishnan:** You see when you look at MCFL it has already completed its project and you are right that we have already got the benefit of that. As the benefit any case moves into the company there are further improvements which are possible in terms of product sourcing that we will end up doing and the reach that we will get which will also improve the overall EBITDA margin for the basket itself. So that is where the entire reach will come, and I am sure once the regulatory approvals are in place, we will be in a position to discuss some of these things in detail.

**S Ramesh:** Finally in terms of your nine-month net debt and your capex plans for the merged entities over the next two years, can you give us some insight?

**Suresh Krishnan:** The nine-month debt position for Paradeep Phosphates we can certainly share and if you look at it today, Paradeep total debt in the company is Rs. 3,944 Crores and this was as compared to the previous year ending nine months FY 2023 was Rs. 4,298 Crores so we are 8% down from the previous time and if you look at it here the long-term debt is at Rs. 774 Crores for us and the short-term debt is about Rs. 3,170 Crores, and there is a substantial reduction in the short-term debt that is about 12%, which was Rs. 3,585 Crores earlier it is actually Rs. 3,170 Crores.



- S Ramesh:** So, in MCF they have mentioned that they were also going for a backward integration of sulfuric acid that was I think sometime in the first quarter or second quarter call so when do you think that will be completed because you said their capex is over?
- Suresh Krishnan:** It is not a very large project and typically takes about less than 24 months to complete that and that is primarily for the requirement of NPK production, so it is a small project, but the important thing is sulfuric acid is somewhere we are one of the largest manufacturer of sulfuric acid in the country with 1.2 million tons and Paradeep itself will be moving towards 1.9 million tons over the next two years and sulfur sourcing is an important area where you will certainly get to see synergies flowing in.
- S Ramesh:** So finally, can you share us the capex estimates for the next two years?
- Suresh Krishnan:** See as far as Paradeep Phosphates is concerned the only capex that we are working on is closing out our own sulfuric acid plant, which the total expenditure plant is Rs. 425 Crores against it we have already spent Rs. 153 Crores so the balance amount which is about Rs. 270 Crores is what we will be spending in Paradeep as a major capital expenditure and we got some infrastructure-oriented capex, which is there, which is about Rs. 40 Crores that is the total plan that we have. As far as the MCFL is concerned we are only doing the backward integration for the sulfuric acid plant and that is the only investment that we committed right now.
- Alok Saxena:** Just to clarify, till we get all the regulatory approvals MCFL will continue to do their business as usual. So, as a PPL management, our plan will only start after we get all the regulatory approval.
- S Ramesh:** Thank you very much and I shall join the queue. Wish you all the best.
- Moderator:** Thank you and the next question is from the line of Prashant Biyani from Elara Securities. Please go ahead.
- Prashant Biyani:** Thanks for the opportunity. Sir, my question is a bit longer term and in some sense hypothetical also. I believe there is some surplus land at MCFL, is that right?
- Suresh Krishnan:** That is right.
- Prashant Biyani:** Sir is it possible that on the western side now we have 1.1 million ton of complex capacity which is without backward integration so sometime down the line can we set up a





phosphoric acid plant at Mangalore and then shift Goa's phosphoric acid requirement from there and hence the assets on the western side will also be backward integrated?

**Suresh Krishnan:** These possibilities are absolutely live, I think as Alok has been mentioning earlier since we are into our regulatory process, we certainly like to come to it at a stage where we are through with it, but these possibilities are certainly there. Yes.

**Prashant Biyani:** I am not asking for numbers, but directionally is it something you would be interested in sometime down the line?

**Suresh Krishnan:** Yes.

**Prashant Biyani:** Technically in that case will Goa site be considered as backward integrated in the light of the recent government norms of capping PBT margins at 8%, 12% and 10%?

**Suresh Krishnan:** Just to confirm this to you. The current circular, yes, has various conditions that one needs to fulfill to be fully integrated, obviously if we are able to meet our requirement of phosphoric acid as a backward integration it will get considered. So as and when the projects are documented there is certainly a possibility that we can achieve this.

**Prashant Biyani:** Okay. Sir, on the current phosphoric acid prices I think they are around \$970 which is more or less same as the last quarter can you give some sense on your blended rock phosphate cost on a quarter-on-quarter basis how much change have we seen either on the upside or downside for the fourth quarter?

**Suresh Krishnan:** If you look at it the phosphoric acid price has been varying right from \$290 to \$249 and right now it has come down to about \$220 the rock price.

**Prashant Biyani:** \$210?

**Suresh Krishnan:** \$220 on an average.

**Prashant Biyani:** For 4Q versus how much in Q3?

**Suresh Krishnan:** No, the Q3 is around \$220 and on a major average and so we would look at some kind of a similar number flowing right now because the overall phosphate markets nothing much has really changed for Q4. The acid price, DAP prices, and all of them are pretty much holding. Any benefit of the sulfur price is what will get to us.



- Prashant Biyani:** Sir can I get the sales breakup for Paradeep site and Goa site?
- Suresh Krishnan:** After the call, Prashant we will share this with you, the specific sales breakup between Goa and our site.
- Prashant Biyani:** Sir how much is the subsidy that we have received in Q3 and how much is outstanding right now?
- Suresh Krishnan:** In Q3 we received Rs. 728 Crores subsidy.
- Prashant Biyani:** And Outstanding?
- Suresh Krishnan:** Outstanding for this current year is Rs. 2,346 Crores because as an industry there is no payment which was made in December, but we got a substantial subsidy payout in the month of January.
- Prashant Biyani:** Lastly, after your completion of urea efficiency at Goa how much will be the EBITDA per ton for Goa going forward in urea?
- Suresh Krishnan:** See you look at it here that whenever you look at EBITDA per ton for the urea business that depends upon the CCC, the capital cost and the recovery which government allows as part of the policy because the energy saving that we end up doing here. So, this kind of energy improvement plan that we do we normally adds about Rs.800 per ton as an incremental energy saving that we get. So, if you look at it the overall contributions which the government allows you, we assume that the gas prices continue at the current levels which are there we should go up to about Rs.3,700 to Rs.3,800 in the range as an overall contribution that we will end up getting from the urea business.
- Prashant Biyani:** Rs. 3,800 per ton?
- Suresh Krishnan:** Yes.
- Prashant Biyani:** So previously it would have been Rs.3,000 per ton?
- Suresh Krishnan:** Yes, Rs.3,000 and then further obviously since you are going to be buying less gas your working capital numbers and all that will also reduce accordingly.
- Moderator:** Thank you. The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.



**Mithun Aswath:** Just wanted to understand this quarter there was some shut down for maintenance that you had just wanted to understand that impact in terms of your volumes for this quarter or did you see some slackness in the demand as well?

**Suresh Krishnan:** Well, the urea plant is closed during this quarter and the capacity that we lost is about 80,000 tons of urea in terms of manufacturing capacity and this is nothing to do with demand supply. This was a planned intervention we get based on the supplies that we are getting of equipment and the technicians being scheduled for the same from the technology suppliers.

**Mithun Aswath:** Now it is up and running right for this quarter?

**Suresh Krishnan:** Yes, this plant is up and running from January 15, FY2024.

**Mithun Aswath:** My next question was in terms of the merger synergies that you see could you just explain certain easy items that you will see maybe tripling in FY2025 itself and maybe further in FY2026 if you could just kind of elaborate the same?

**Alok Saxena:** Overall we can see that synergies can be derived from the various functions such as supply chain in terms of sourcing capabilities, marketing reach and product mix optimization. We would also have an opportunity to centralize our technical teams and all those things, but the details will be brought out after getting requisite internal approvals.

**Suresh Krishnan:** But one thing we can tell you here is that our sourcing ability will be put into place to work out efficiency at MCFL and we should be able to get overall supply chain advantages out there that is the first major thing that we will get and second thing is also our ability to redistribute some of the products the way we move from the various location that we have and the third important thing is some of the retail network where we should be able to introduce some of the products that we do not have at this point of time.

**Mithun Aswath:** One last question on your overall debt that you have what would be our net debt be at Paradeep and at Mangalore Chemicals as of now?

**Suresh Krishnan:** See if you look at Rs. 3,900 is your net debt it will be there, Rs. 3,929 Crores to be précised.

**Mithun Aswath:** That is on the Paradeep side, right?

**Suresh Krishnan:** Yes.



- Mithun Aswath:** On the Mangalore Chemicals side as of now?
- Suresh Krishnan:** That must be in the public domain. So, I do not think we could take that question right now, but there will be hardly of any debt in terms of their regular working capital, and they have a debt of close to about Rs. 400 Crores which they did for their long-term energy capex, energy efficiency which they are paying out.
- Mithun Aswath:** No, my question also was because of large portion of your debt is short-term and you have been mentioning that there are going to be improvements on the working capital side so just wanted to understand over the next couple of years how do we see that trend?
- Suresh Krishnan:** I will just explain to you from the two business lines. When it comes to urea, over 80% of your supply chain is paid out by the government based on the sale that happens. So what we have seen off late in the last couple of years our performance even in our cases, urea is not so much working capital heavy because government payout on that is quite strong and when it comes to the phosphatic side the big numbers are only on two fronts, which is the phosphoric acid and the ammonia and the good thing for a site like MCFL is good amount of ammonia is made by them as aqueous ammonia in their own ammonia urea complex. They today make something between 150 to 175 tons as an excess ammonia available with them, so their overall purchase of ammonia is limited for them. As far as phosphoric acid is concerned, they will get the benefit that typically flows into Paradeep in terms of credit terms and all that, that will end up improving for them.
- Mithun Aswath:** Fine Sir, thank you.
- Moderator:** Thank you, and the next question is from the line of S Ramesh from Nirmal Bang Equities. Please go ahead.
- S Ramesh:** Thank you for the follow-up question. So, if you look at the growth in FY 2025 would you get the full benefits of the backward integration and secondly what will be the growth drivers in terms of volumes on your phosphatic fertilizer and the urea facility in Goa?
- Suresh Krishnan:** As far as the FY 2024-25 is concerned I am not really strictly giving this as a guidance, but we must realize that the benefits of the completion of both phosphoric acid plant and energy efficiency in Goa will obviously flow into our books. So, there we will be fully commissioned as far as the technical and physical capability is concerned. Now coming to improvements that we would see for the next year this is very important for us to realize that over the last three years since 2021 onwards we have been through a rather very difficult external environment whether it was the pandemic or the Ukraine crisis that we



have seen and the recent disruption in the Red Sea area we have had surprises coming to us every quarter from somewhere or the other. This is delayed availability of raw material in sometimes or increase in the freight cost, but despite all that we have been able to manage things well, but the most important thing that we are looking forward to in FY 2024-25 is our ability to use our capacities to the fullest extent at Paradeep and obviously we should be even looking at the other location also and when I say using the full capacity that the markets of Maharashtra gets opened up completely.

I think market like Maharashtra is a very large agriculture market, it has faced a sustained challenges in terms of availability of water and monsoon in general and the stress of the farm level has been quite serious, so if that opens up obviously it makes things very different for us that is the first thing and second thing is I also believe that all this while the pricing of the phosphatic fertilizer has also kind of gone around in a very different format, the pricing hierarchy have always maintained is not in the right order. We need to have a pricing order wherein key fertilizers like DAPs price as the right point and the rest of NPKs and follow the same and also MOP comes somewhere in the lower order in the overall pricing hierarchy. This direction is something that I certainly expect should take place in the next financial year and that will benefit not only from the profitability perspective first and foremost it will correct the consumption pattern in Indian farm sector which is going to be good for everyone. I think this is the most important thing that we need to arrive and I believe the market changes and all this we should get to see from the month of July 2024, I think this is currently we are into an offseason phase, there will not be very many changes and we will have to respect the fact that there is a national election going on and so all major changes will only happen thereafter. So, I think that is the way we will look at it and I am expecting that from the second half of next year onwards, the fortune for the industry should really change in a positive way.

**S Ramesh:** That is useful. Can you quantify what is the upside in EBITDA per ton you get from your backward integration any ballpark numbers you can share?

**Suresh Krishnan:** When it comes to the backward see look at it we have always guided that an ideal situation of an EBITDA should be about Rs.5,000 a metric ton for the products that is the need that we have and if you are going to be looking at perfectly backward integrated, with this the pricing norms being the way it should be in the market place, we have also discussed it in the past that the Rs. 5,000 can actually go further up to maybe Rs.5,500 to a Rs.6,000 range then things go right.

**S Ramesh:** So, under the new pricing scheme in terms of the integrated producers getting 12% on PBT would your backward integration saving allow you to get that because there is a provision



in the new guideline that whatever savings you get in terms of lower cost of production is going to be taken out so even with that will you be able to achieve kind of upside in EBITDA per ton?

**Suresh Krishnan:** Well you look at the headroom that we really have, if you look at our entire capacity that we have and what we can produce and let us go by the guidelines which gives you a return on your percentage of cost of manufacturing the headroom that is available is quite significant a company like us would well in a good year could be looking at a Rs. 1,000 Crores of PBT, on a pure mathematical number it could be somewhere there. So, there is a good amount of headroom which is left behind, and we believe that by the product mix that we will have by the ability that we will be able to reach out to various markets and also the flexibility between the two units we should be striving for that. So, there is a headroom for growth for us on earth, I believe that the current guideline which the government has issued is a positive step and for two very basic reasons the first being that it clarifies a lot of things there are still a few minor tweaks in clarification that industry has sought, which I am sure will come pretty soon that is the first point. The second point is the number of shocks that we have got over the last four, five quarters in terms of changes in subsidy; I believe that a mechanism like this can ensure that there is no need for us to really keep changing the subsidy time and again. So, this time will only tell whether that is going to work that way or not, but it is a clear indication that by putting a framework and putting the onus on the industry to report on this basis we are going to see a much more stable environment for the NPK sector.

**S Ramesh:** That was useful. Thank you very much and wish you all the best.

**Moderator:** Thank you, and the next question is from the line of Darshita from Antique Broking. Please go ahead.

**Darshita:** Thank you for the opportunity. Sir, my first question is regarding the regulatory approval approximately according to your base how long would it take to receive the approval for the merger?

**Alok Saxena:** Since we have to apply to two different NCLTs we believe that 12 months is the time that we should get all the regulatory approvals and this process will involve getting approvals from Competition Commission of India, stock exchanges and MCLT shareholders and creditors. So overall the timeline that we see is the 12 months is a good time for us to estimate. Until such that, we will be working as independent companies?

**Darshita:** How much subsidy did we receive in the month of January 2024?



- Suresh Krishnan:** Rs.760 Crores.
- Darshita:** My third question is regarding what is your expectation with respect to the RM prices going in FY 2025, we have seen reduction in DAP prices as you highlighted that we have seen reduction in DAP prices phosphoric acid would have largely remained at the same level. What is your expectation for FY 2025 with respect to the RM prices?
- Suresh Krishnan:** Well, there are basically three RMs that we have to follow. One is obviously the rock phosphate which is determined out of both phosphoric acid and the rock itself. The phosphoric at this point of time it will not be fair to really look at what the future is likely to be because the Red Sea crisis is having an impact for the entire rock phosphate and the phosphoric acid supply to India because we are seeing much longer routes the ships are taking 14 to 15 days more and obviously the net back for the North African players is far better in nearby markets as compared to coming in here. So, I would say that till the next two, three months till we get to see some kind of a stability in the sea routes we would get to see the similar rate that we are getting today. The only correction that we are seeing is ammonia but let me tell you ammonia if you have followed this over the last 12 months has been highly volatile. It just swung in a very big way and obviously we have a large capacity, so every time this thing happens we get, if it is a positive thing we get the benefit with a lag and so that is how it is, so I believe that ammonia will be a range bound should not cross that \$450 range for some time now given the way the demand supply is positioned. This Rock Phosphate I would believe that the stable regime will continue the way here today and sulfur is something that has corrected and it is running at a level which it looks like a stable level for some time.
- Darshita:** Could you just help me out with the phosphoric acid contracted prices for 4Q and if any negotiations happening for 1Q?
- Suresh Krishnan:** We have the phosphoric acid price only for the current quarter and there has been a small reduction which is coming from the earlier levels that we had and the current level of phosphoric acid which is 985 has come down to about 968 per metric ton.
- Darshita:** My last question was regarding to earlier you just mentioned that with the revised framework taking place whatever the government has done with respect to the PBT margins you have mentioned that we will not have to change the subsidy or the NBS rates multiple times throughout the year that has seen over the past two years, could you explain how that would happen I do not quite understand that, if the raw material prices continue to be volatile we would have to change the NBS rates more frequently, right?



**Suresh Krishnan:** No, primarily because the government is clarified in terms of what is the reasonable profit level for a manufacturer or a trader in India. So given that we have a limit which is being prescribed, you have to voluntarily surrender in case you are going to make profits beyond that. So, the government is not at risk to say that if you do not change the subsidy the industry will get away with some runaway profit that is the only thing. So, there is a clear guideline in terms of what is the maximum profit industry can make and so that gives stability for both the regulator and also for the industry player to take on things in a more positive way. In case we make more money, we have to give it back to the government and that is well articulated down.

**Darshita:** Just one last question. You mentioned that from the energy saving at the Goa plant we are expecting an EBITDA per ton of Rs.3,700 to Rs.3,800, are we expecting this kind of EBITDA per ton from the one that we have done in December like the energy saving scheme that we have done in December?

**Suresh Krishnan:** The December work that we have done we will get an energy saving of roughly about Rs.800 per metric ton. So, we have a 4-lakh capacity. So that is going to give us about Rs. 30 to Rs. 32 Crores annually in terms of incremental returns on an overall basis.

**Alok Saxena:** So earlier, we are making close to Rs.3,000 now with this additional Rs.800 we will get around Rs. 3,800.

**Darshita:** Right, yes. So that is what I was confirming, it is with I think we have reduced greater by 0.3 if I am not wrong, so from this 0.3 reduction our urea plant EBITDA per ton would increase to Rs. 3,800?

**Suresh Krishnan:** Yes, that is right.

**Darshita:** Got it. Thank you so much, that is all from my side. Thank you.

**Moderator:** Thank you, and the next question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

**Resham Jain:** Good morning, Sir. I have a couple of questions. First is within the Zuari group now other than MCFL now, is there any other agri business which the group does?

**Suresh Krishnan:** As far as Zuari group is concerned they just have one SSP plant which is there in Mahad as a fertilizer business. They also have an agri retail business which is called Zuari FarmHub where they distribute, it is a multi brand retail business.





- Resham Jain:** Any plans to merge that as well or you do not see any synergies over there?
- Suresh Krishnan:** The Zuari FarmHub business is a large retail reach a last mile connectivity to the farmer and we currently do not envisage looking at working on that particular asset at all. I think we have completed our backward integration and we have well integrated our ammonia urea complex and the phosphatic complex of Goa. I think we certainly look forward to integrating operations with Mangalore, which have straightforward synergies for us and that will be our focus over the next couple of years.
- Resham Jain:** Just on nano-DAP how are we in terms of position in terms of our manufacturing and our R&D over there if you can just explain because there is a lot of talk about that being marketed much heavily than what it has done over the last few years and your thoughts also over there, what is the efficacy level of nano-DAP?
- Suresh Krishnan:** I will ask my colleague Rajeev to give you details on this.
- Rajeev Nambiar:** Good morning. Just want to share that at Paradeep Phosphates we are quite well positioned to take on this opportunity as we are looking at more nutrient-use efficient products. So, we would be shortly launching Nano products in the next financial year, so that is our plan. The objective is basically to move towards more nutrient use efficient fertilizer, and we will be doing both nano-DAP and nano-urea as well.
- Suresh Krishnan:** We are currently doing some test marketing of the products and we done some extensive work with the farmers on these two products in both Karnataka and Maharashtra and so the commercial launch is something that we are planning from April 1, 2024 and so that is going to be an important one for us and we have our products which are biological in nature which is different from what the other products are today and we also have the highest nitrogen content in urea which is 8% in the nano product that we have. Also, the overall nutrient in our DAP is also 22%, 6% of N and 16% of P<sub>2</sub>O<sub>5</sub>. So, these are all some of the USPs that the nano product of ours have and we have seen the results to be positive and we expect to see growth in this. You asked a question about manufacturing. We currently are taking it through a third-party manufacturing which is happening, but we plan to set up and these are not capital intensive projects so we plan to set up our own facility in the coming year in near Bengaluru.
- Resham Jain:** But the product is developed by Paradeep itself this nano product?
- Suresh Krishnan:** The product has been developed by TERI (The Energy and Resources Institute) it is based on the technology which has been there, and they have worked with the retail team of Zuari



FarmHub, and we have taken over the exclusive marketing rights for this. So, the entire product is available to us on an exclusive basis to handle and we have been also allowed to make a set of manufacturing capacity for this to get the full benefits.

**Resham Jain:** Understood Sir. Lastly, the earlier participant did ask about this so Rs. 5,000 to Rs. 5,500 is kind of normal circumstances this is the kind of EBITDA per ton one should expect from Paradeep at a consolidated level?

**Suresh Krishnan:** You are correct, as you know this has been a year that we had too many changes and I personally believe the fourth quarter is a very difficult quarter for the industry in general the way things are positioned, but I personally believe going forward from July FY 2024-25 fundamental correction should take place and the industry should see better days here and more stable performance from the industry.

**Resham Jain:** Just one more book-keeping question in terms of provisioning any raw material provisioning you expect in Q4 or more or less everything is a part of Q3 results?

**Suresh Krishnan:** No, we do not have to make any provision in Q4; we are going as normal accounting format. So, I do not think there is going to be an inventory gain or loss as we go forward in Q4.

**Resham Jain:** So Q4 is expected to be normal in all?

**Suresh Krishnan:** Let me be very clear to all the participant Q4 is going to be a challenging quarter for us given the way the prices of raw materials the brands of the increase of prices that has happened has actually gone more towards Q4 rather than on Q3 for us because we did manage to get source raw material fully well and we also got one big positive development in the new capacity that we created, but Q4 will be a different quarter when you go forward, but we do not expect any one time kind of it is coming up in Q4.

**Resham Jain:** Understood Sir, very clear, all the best. Thank you.

**Moderator:** Thank you. The next question is from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.

**Manish Mahawar:** Yes Sir. In terms of MCFL merger, what could be the synergy basically I am talking about the merged entity whatever fixed cost saving you can see as entity whole?



**Suresh Krishnan:** Ramesh, when it comes to MCFL I think we have been little we have said that we are still waiting for all the formal approvals to come through before we kind of talk about things in detail, but I can certainly state that right across supply chain and fixed cost both we will have synergy benefits coming in at this merger that is for sure and the larger benefits will flow through the supply chain and the product mix.

**Manish Mahawar:** What could be this, in terms of MCFL because last year they did almost Rs. 310 Crores of EBITDA and this year we have done a nine monthly good EBITDA this company had done what could be steady state or stable EBITDA this company can make on annual basis?

**Suresh Krishnan:** Well, they have been good, if you look at the way we are working right now they are looking good for about Rs. 450 to Rs. 500 Crores of EBITDA at a range which we are working on today and I am sure we work towards maintaining and improving that and today as all the capex and everything is concerned the EBITDA margin is significantly better than what we get to see, so that will also help us to get a weighted average EBITDA returns better than what we have today.

**Rajeev Nambiar:** The good part is that we have just completed the capex program on the run rate improvement, so that will give sustainable cash flows for the entity.

**Manish Mahawar:** I think that has flown to the number in the nine months right because there is such improvement in terms of EBITDA, so it is right to understand basically the Rs. 350 to Rs. 400 Crores EBITDA this company on annual basis consistently has been reached?

**Suresh Krishnan:** You must realize that MCFL the nine months result they announced even though the entire capital expenditure was completed they did not have full production in these nine months because they took a shutdown to complete the last phase of the capex during the last quarter. So, the full benefit of that is start flowing in, but as you know in the fertilizer industry, we have got what is called and reassess capacity from the government so they will be reaching us soon and they will be producing above the reassess capacity and there the margins is determined by the government most of the time with a lag. So, we do not really, the numbers may not be as attractive, but from April 1, FY 2024-25 you will see them getting the full benefit of the capex we have done.

**Manish Mahawar:** Understood. Second question in terms of a quarterly this quarter Q3 margins of Paradeep as entity you said the phosphoric acid backward integration which we have done backward integration around Rs. 60 Crores of incremental EBITDA, but it is what I understand is also benefit in terms of your lower rock phosphate prices also right which we are carrying the inventory the Rs. 60 Crores?



**Suresh Krishnan:** We have been very transparent on this because we did get the benefit of the fact that when the prices were going up we have enough of stock available and so that is the benefit that we got and as you know very clearly that the industry at this point of time ideally needs a price increase or increase in subsidy one of these two and after this will be a price increase and but given the overall situation of what I call as an offseason time today a price increase is not warranted at this point of time and also given there is an election year changes in subsidy is something that we expect to have a good clarity maybe a little later, but at the same time as an industry and as industry body we are taking this up and we believe that this uniformly affects most of the players and we are hoping that we will get some clarity on this going forward.

**Manish Mahawar:** Just a clarification in this quarter we have not reversed any provisions what we have made in the first half right in the Q3?

**Suresh Krishnan:** No, we have not, there were regular provisions, we have done.

**Manish Mahawar:** It is a pure operational business process?

**Suresh Krishnan:** Yes, absolutely.

**Manish Mahawar:** Last one from my side in terms of as a combined entity MCFL plus PPL both, what could be I think the EBITDA per ton, I think you have already indicated Rs. 5,000 plus maybe room to improve further right, to combined entity we are able to make that of EBITDA because MCFL has a good EBITDA per ton.

**Suresh Krishnan:** If you look at FY 2024-25, I am sure we should be looking at something PPL should certainly get into that point and that will improve with the MCFL coming into approval.

**Manish Mahawar:** Can you highlight the market share perspective as a combined entity what could be our market share in the PPL once the ramp up will happen? and post MCFL what could the market share and especially in the southern market what would be the number maybe after the ramp up of this overall capacity?

**Suresh Krishnan:** If you look at it the Paradeep Phosphates is a major player when it comes to the NPK and DAP business the total market size of which is about 20 million tons. On these 20 million tons we currently have about 2.6 million tons about 12% to 13% market share is what we have on all India basis. When we look at MCFL in the same space they place about 3,00,000 to 4,00,000 tons, 3,00,000 tons of manufactured and maybe about 1,00,000 tons of traded product. So that is what the difference is going to be. So, our 13% which is there,



12% to 13% can go to 14% in terms of an overall market share improvement, but the game does not end here the game actually is that this 20-million-ton market has close to about 7 million tons of imports, which can get into there. So, this is where the combine can score, both in terms of market reach and the product availability that we can bring in and that will also kick in the incremental profitability that can come. So, there is a much larger play which is available if you look at the larger market share and that will be primarily because we get newer markets at the same time, they get newer product for the newer markets. So, this is the combination which in our view will work.

**Manish Mahawar:** That is, it from my side and all the best.

**Moderator:** Thank you and the next question is from the line of Prashant Biyani from Elara Securities. Please go ahead.

**Prashant Biyani:** Thanks for the opportunity again. Sir, what would be the exclusive markets where MCFL operates, but we are not operating either in terms of states or number of districts?

**Suresh Krishnan:** Well, if you look at Tamil Nadu we do not operate in Tamil Nadu at all, if you look at Kerala we do not operate in Kerala at all, and if you look at their own captive market which is within the 300 kilometers of MCFL we do not have any serious presence out there and so there are certain pockets of Southern Karnataka where we do not have a serious presence there where they are majorly present, so these are important markets which is there and with the urea they pretty much reach the entire state of Karnataka and they even go to places like Telangana and others where they have a market reach, so those networks will also be available to us to consolidate.

**Prashant Biyani:** So even from the Goa plant we are not present in southern Karnataka?

**Suresh Krishnan:** Goa products do not go that side Goa is largely into pockets of Hugli and Hugli is a major market for us whereas Hugli is not the most major market as far as MCFL is concerned. So, there has never been an interface between these two markets in a serious way. So, the two markets will be complemented by each other.

**Prashant Biyani:** When we acquired Goa plant it was a struggling asset, but that is not the case with MCFL. So, apart from more markets and few grades of NPK are we also getting something else which I may be missing?

**Suresh Krishnan:** See when you get a scale is when you can look at the efficient backward integration and then that is what we are getting here. We are getting a scale of operation which is available,



we are getting a site which is exciting and so here the value is both for the marketplace and the site as we look at seriously and just for your information Mangaluru is located inside the port itself right in the port of Mangaluru. So, then they have an exclusive corridor which is less than a kilometer wherein all the pipelines transfer the raw material from the port to the plant, which is not the case that we have in Goa today.

- Alok Saxena:** Mangaluru as a site will get benefit from the sourcing capabilities of OCP.
- Prashant Biyani:** But sir, that we would already be getting at PPL or as a group also MCFL would be enjoying that benefit?
- Suresh Krishnan:** No, not necessarily because phosphoric acid is a scarce commodity and which if you look at today with the supplies are only coming to the direct group companies and where PPL is a group company MCFL is not.
- Prashant Biyani:** Thank you. That is it from my side.
- Moderator:** Thank you. That was the last question. I would now like to hand the conference over to the management for closing comments.
- Suresh Krishnan:** Thank you everyone for participating in the earnings conference call. We try to address all your questions. If you have any further inquiries, please connect with our investor relations team, we will be happy to address the same. Thank you and have a good day.
- Moderator:** On behalf of ICICI Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.