



Paradeep Phosphates Limited

“Paradeep Phosphates Limited Q2 FY24 Results
Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Paradeep Phosphates Q2 FY24 Results Conference Call hosted by ICICI Securities Ltd.

As a reminder, all the 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 from ICICI Securities. Thank you and over to you, sir.

Nilesh Patil: Thanks, Sagar. On behalf of ICICI Securities, we welcome you all to the Q2 FY24 Results Conference Call of Paradeep Phosphates Limited.

We have with us, Mr. Suresh Krishnan - Managing Director; Mr. Alok Saxena – General Manager and Head - Corporate Finance; Mr. Bijay Biswal - Chief Financial Officer and Mr. Susnato Lahiri – DGM - Strategy IR and ESG.

Now, I hand over the call to the Management Team for their initial comments on quarterly performance and then we will open the floor for a question and answer session.

Thanks, and over to you, sir.

Suresh Krishnan: Thank you and good afternoon, everyone. Welcome to our Q2 and H1 FY2024 Results Conference Call.

I would like to thank you all for joining us here today. I hope you and your families are staying safe and healthy. We have uploaded the press release and earnings presentation on the website and the Stock Exchanges, and I hope you have had the chance to see it. To start with, we will give you an overview of the business trend and financial performance for Q2 and H1 FY2024 and we would be happy to take questions afterwards.

Let me begin by acknowledging the dynamic economic environment in which we find ourselves in the beginning of FY2024. The last quarter Q1 FY2024 has been a journey of uncertainty and resilience. The global economy continues to recover, and we have faced our share of challenges along the way. However, I am pleased to report that Paradeep Phosphates has maintained its commitment to growth, sustainability and excellence and has achieved a good set of numbers in Q2 of FY24.

Throughout the quarter, our production volumes witnessed a growth of 29% in comparison to the preceding year while our sales volume displayed a notable uptake of 78%. This significant growth in sales volume was made possible through continuous farmer and channel-based initiatives of our teams. Despite witnessing less than adequate rainfall conditions in contrast to



the previous year, our team has demonstrated exceptional performance, both operationally and financially. I would like to highlight that our captive Phosphoric acid capacity at Paradeep site recently expanded from 3,00,000 to 5,00,000 tons per annum and is currently stabilized and operating at its optimal capacity. We are also in the process of expanding our Sulphuric acid capacity by approximately 6,00,000 tons in the next 2 years. We remain focused to doing our best in the forthcoming Rabi season by leveraging our competitive advantage, operational excellence, Pan India retail presence and backward integration capabilities that we have already demonstrated.

Now, let me give you the numbers for Q2 and H1 FY2024. I am happy to share that Paradeep Phosphates Limited has reported strong financial numbers for Q2 FY2024. During this quarter, the company achieved a quarterly revenue of Rs. 36,940 million, demonstrating a significant year-on-year growth of 28.7%. The EBITDA for the quarter amounted to Rs. 2,670 million reflecting a year-on-year growth of 42.4% and furthermore the profit after tax for the same period reached Rs. 894 million, indicating a growth of 75.0% year-on-year.

Moving on to the performance for the first half of the year, the company achieved a revenue of Rs. 67,374 million, reflecting a year-on-year growth of 27.2%. The EBITDA in H1 FY2024 stood at Rs. 2,476 million. As we move forward, in the second half of FY24, I am confident that our company is well positioned to navigate the challenges and seize the opportunities that lie ahead. Thank you very much and I would like to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prashant Biyani from Elara Securities. Please go ahead.

Prashant Biyani: Sir, first some data related question, how much subsidy have we received this quarter and how much is outstanding? I wanted the volume breakup of DAP between Paradeep site and Goa and the same for NPK as well?

Suresh Krishnan: When it comes to subsidy, let me tell you, there has been pretty robust collection for us and as well as the NP/NPK business is concerned, till the third week of September, our subsidies have been received. So that has been a good collection there and subsidy collection overall was Rs.3,278 crores versus Rs. 1,588 crores the previous year.

Prashant Biyani: And for outstanding?

Suresh Krishnan: Outstanding is only for about a week, the total outstanding of all subsidies put together is Rs. 1,865 crores.

Prashant Biyani: Can we get volume breakup of DAP between Paradeep site and Goa?

Suresh Krishnan: Yes, that should not be a problem. If you look at the overall H1 FY2024 performance for us, I will just give you the numbers, we overall did in terms of production 12,93,000 tons is total



production between the two sites, Goa and Paradeep. When it comes to DAP, the DAP volume of production at Paradeep was 365,000 tons in Paradeep and in Goa we did a DAP of 65,000 tons.

- Prashant Biyani:** Sir, I am sorry, but I wanted sales volume?
- Suresh Krishnan:** Well, if you see this year for us as our sales is concerned, I will directly give you H1 FY2024, total sales for H1 FY2024 was 14.29 lakh tons as the company is concerned with the breakup with DAP was 5,37,000 tons and NPK is the 6,46,000 tons.
- Susnato Lahiri:** You will get the numbers on the presentation that has been uploaded on the website. So pretty much, that is the breakup for Paradeep 1,50,000 tons and in Goa, we produced about 27,000 tons. Put together, we kind of produce about 1,78,432 tons in Q2 FY2024 alone. On the sales numbers, the total sales for DAP have been 2,52,000 tons across both these sites, includes 152 odd at Paradeep and for Goa it is about 23,000 and we do have a bit of trading as we have done on top of the manufacturing phase.
- Prashant Biyani:** And for NPK?
- Susnato Lahiri:** You get the numbers on the slides that we have uploaded on the earnings deck, I would insist you to have a look at this.
- Suresh Krishnan:** The total NPK sales is 6,46,000 tons for both sites put together.
- Prashant Biyani:** On the subsidy reduction part that government has done, post that, if you look at Q3 last year, we had a very healthy quarter. How would we be planning to defend our profitability if you can highlight the mix of product that we would plan to sell to at least defend the profitability of last year?
- Suresh Krishnan:** When it comes to the profitability and EBITDA per ton, even for the H1 FY2024 we were kind of targeting about Rs. 5,500 per metric ton as EBITDA after making certain provisions which we expected to do on September 30th, by way of subsidy reduction, but unfortunately, as you know, the subsidy reduction has been far steeper than what one anticipated and so we have to actually make a provision of an incremental amount of Rs. 300 crores for subsidy correction for the H1. So given the current scenario that we have and the fact that the raw material prices are quite volatile and when you look at key raw materials like ammonia and even to some extent, I would say even Sulphur, so the way I look at this is that we will have when we go through the H2 FY2024, our target would be to continue with our volume growth as far as sales is concerned and when it comes to the overall EBITDA that we are looking at and profitability that we are looking at, we would be guiding around Rs. 3,500 per metric ton to Rs. 4,000 metric tons for this period, but having said that, it is important to realize that the raw material price strength might also result in the overall subsidy plus MRP having to get corrected during the next 6 months. So whether it will happen immediately now or it will happen by Q4 FY2024 is



something that we will have to review, but the good thing that I am getting to see here is besides just the quarterly numbers, I think what we will need to focus is the subsidy was corrected in a significant manner and that to me is a positive for the business in general. We are no longer in a situation where the subsidy component is larger than the MRP. Even if you look at DAP today, the MRP takes you to something like Rs. 27,000 metric tons against the subsidy of about Rs. 22,000 metric tons. So, this is a very good trend that we are reaching here, and I personally believe that the major swings is not likely to really happen beyond maybe one more correction that you could get to see in the next few quarters, which is positive.

The second thing is we also believe that the market, which has done well as far as the agriculture side is concerned, there is a good ability at the marketplace to absorb some price size if need be. So, which is again a positive for us and I believe that in FY24-25 we would see all these corrections adding up to the industry really coming out with good numbers and I can see that for sure for Paradeep Phosphates.

Prashant Biyani: On the raw material side, while the prices have started to increase off late, how are we stocked upon raw material for Q3 FY2024 which we might have bought at low cost?

Suresh Krishnan: For Q3 FY2024, whatever typically you have raw material whichever way the price swings, you have raw material for about 40 days of production. We always had that 40 days production available and for the balance period, we will obviously be buying at the current market prices.

Moderator: Thank you so much. The next question is from the line of Deepak Gupta from Ryan Stock Brokers. Please go ahead.

Deepak Gupta: Sir, even I was also concerned about EBITDA after the reduction of subsidy, so you are giving in guidance of around Rs. 4,000 per ton ?

Suresh Krishnan: What I said is that we normally have the guidance of Rs. 4,500 to Rs. 5,000 for EBITDA but given the volatility, which is there, I was expecting this to be in the range of Rs. 3,500 if things work out well in terms of price correction or an MRP correction, you could even go above Rs. 4,000.

Deepak Gupta: Sir, the second, the El Nino effect is being felt, what do you foresee in the future. How are you taking efforts to insulate this? Any plans or product mix?

Suresh Krishnan: There are two things for us when it comes to a demand uncertainty in the marketplace. The first is that we have presence in more than 15 states in India, so that particular reach itself help us in a big way and we are able to move across markets because we are one company between the two sides. So that is the first one which is there and second thing when it comes to the product mix, we are between the two six granulation trains, our ability to work around products is quite significant and so we were certainly looking at the overall viability on one end and the requirement of the farm, I think we must remember that everything is not just about numbers



alone, it is also about what the farm requires. So based on this, we will take a call-in term of which is the right product that we need to manufacture.

Moderator: Thank you so much. The next question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

Resham Jain: I have three questions, first one is with respect to the Phosphoric Acid plant which you have commissioned recently, what kind of benefit one can expect from this new plant and what was the total CAPEX incurred for this? Another one is you mentioned about Rs. 300 crores provision which you have taken in Q1 FY2024, but you might have taken the inventory provisioning for the subsidy which has been announced recently in that context, so what was that amount? And the third one is with respect to the overall inventory situation in the marketplace, because I think 3 months back the overall DAP inventory in the market was like on the higher side, so if you can just share your thoughts around that?

Suresh Krishnan: First, phosphoric acid is the raw material for us. By the increase in capacity that we have achieved, we would be self-sufficient for phosphoric acid as far as the Paradeep site is concerned. We have over 500,000 tons of phosphoric acid available there. So, for the kind of product mix that we have for our 1.8 million tons of granulation capacity, we would be over 90% self-sufficient and depending upon product mix, we could well be 100% sufficient in terms of P205. So that is a big benefit that we get. Along with that we also obviously get a value addition for converting rock to acid which will be continued, and which will be for a larger volume which is there, but in terms of the overall phosphoric acid project is concerned we had about Rs. 285 crores of investment that we did for this particular train, which is primarily a brownfield expansion because we had other infrastructure which is available, so that is the first one.

When it comes to the second one in terms of what is the overall provisioning, the recent circular, the Government of India, which is there is fully provisioned in our books and the overall impact of that was closer to about Rs. 505 crores. The third question that you had was about inventory. I must tell you that our primary sales have been very robust, and we have been to strictly speaking, sell most of the production that we did, including the opening stock that we carried on 1st of April. As we closed the quarter on September, our stocks are minimal. We just had I would say about 12 days of production with us in terms of inventory and so we are quite comfortable in terms of both primary sales taking place in our marketing area.

Resham Jain: Sir, just two follow ups, so in the first one, Rs. 285 crore CAPEX, what is the payback period you are looking at in terms of the project for phosphoric acid?

Suresh Krishnan: This is a very strong project, so we should be less than 2 years.

Resham Jain: And the second follow up is you have lower inventory, but from the marketplace perspective, how is the inventory situation because in the market there are other players also you must be selling in your poor market.



- Suresh Krishnan:** Let me tell you, as far as the primary sales are concerned has been robust and the collection against the receivables have been also very encouraging. I think we have done quite well, but when it comes to the pipeline inventory which is sitting for the current Rabi season, the only market which is not looking as good as what one would like it to be is Maharashtra. Maharashtra is one where we sold well in the first half, but I think the growth in the Rabi in Maharashtra could be muted if there is not much kind of water levels that we see in Maharashtra reservoirs. So that is the only market where I believe is a bit of a concern and in terms of similar water requirement, I think Karnataka has also not done all that well, but our Rabi markets, which are largely the northern markets that we have, we do not see any constraint in terms of demand on account of water shortages.
- Moderator:** Thank you so much. The next question is from the line of Dhruv Muchhal from HDFC Asset Management Company. Please go ahead.
- Dhruv Muchhal:** Some of your peers and probably some challengers suggesting that there could be a possibility of price hikes in NPKs given the sharp subsidy cuts, so how do you see that, sir?
- Suresh Krishnan:** Well, I personally believe that the way the raw material pricing are today price correction in NPK will be required to maintain profitability, that is for sure and the price correction as to when that will happen is something that I don't think we have clarity, but going forward I think you will see price correction.
- Dhruv Muchhal:** Is there a possibility that the government thinks of a subsidy revision in Q4 FY2024, mid of generally 6 months, I believe, but now we do a quarterly revision, is that a possibility given how the prices are moving?
- Suresh Krishnan:** Well, if you look at it today, there has been steep correction as far as September 30th is concerned and all our raw materials are only moving at a higher level today. Any correction at this point of time downward is in our view quite unlikely and so that is the first point.
- Dhruv Muchhal:** Subsidies are increased, probably?
- Suresh Krishnan:** I think based on the availability and the offtake that will happen in the months of November and December and the channel stocks are going to be very low, it is possible that to encourage better buildup of stock for the less Kharif, there could be some positive correction which could happen. Or else, you will get to see a positive correction in terms of any price changes that could happen for various grades of NPKs.
- Dhruv Muchhal:** Sir, the other thing was, can you quantify the quantum of stock you had both primary and secondary for the DAP plus NPK?
- Suresh Krishnan:** The total stock which is there, where we have not completed the POS as on 30th of September was close to 4,70,000 tons and which is roughly about 1 to 1.5 months of our total manufacturing,



but the others will tell you that we had one of the best POS record for the first half, we did more than 10,00,000 tons of POS in terms of sales that we did to the farmers.

Dhruv Muchhal: You say it is about 1.5 months, your overall production is about 0.665 versus your stock is about?

Suresh Krishnan: No, if you look at it, we do about 150 tons plus 120 tons to about 270,000 tons is our capacity on which we run during peak months. So, if you add these two things to what we come to about 4,00,000 tons and we had some imports that we had taken during the year which was available with us.

Dhruv Muchhal: The last thing is, this time, your share of NPK production is much higher versus what you typically have been doing for the last few quarters, so is this more sustainable or how should we think of this?

Suresh Krishnan: Our NPK production has increased for sure, and our NPK mix is also looking good, and this is 100% sustainable, and we will be in this trend only.

Dhruv Muchhal: So the channel is accepting, you are able to offload the product in the market, the increased share that is working well?

Suresh Krishnan: Absolutely, because if you look at it, what we have done, which is positive from our side is out of the overall NPK market, N20 is a big chunk close to about 50% of what NPK sell and today with our revamp that we have done over the last few quarters now between our both sites Paradeep and Goa, we are in a position to make N20 in all our granulation trains, so which has been a very big positive and which has been well accepted. So, we managed to move that across all our markets. So that is the big positive and we have also established a few other grades which are looking quite exciting.

Dhruv Muchhal: Besides N20, other NPKs have also seems to be done well?

Suresh Krishnan: Yes, in fact, today the only concern on NPK front for the industry will be that the other two popular grades of N10 and N12 are not financially viable given the price structure that we have, otherwise, rest of the NPKs are looking all right.

Moderator: Thank you so much. The next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: From a sales point of view, what kind of volume growth do you expect in NPK for this year and maybe next year?

Suresh Krishnan: Well, when you look at our total capacity, which is 2,600,000 tons and we are actually coming pretty close to kind of reaching that particular level and over the next few quarters, we will be reaching that full level. Within the 2,600,000 tons capacity that we have, the DAP is going to be



roughly 8,00,000 tons and the balance is 18,00,000 tons will be the NPKs. So, this is going to be more like a steady state that we will have and within the 18,00,000 capacity, obviously we will mix and match various products depending upon the market needs.

Lakshminarayanan: In terms of your sales volume, like what kind of volume growth you expect when compared to the last year's NPK sales in volume terms?

Suresh Krishnan: Last year from 2 to 2.5 million tons, we are going to be there this time. Nearly 25% increase is going to be there because our urea capacity is stagnant. So, all the growth that you are seeing today in our portfolio is largely coming out of our NPK and DAP sales.

Lakshminarayanan: And how much of your DAP is manufactured like everything is manufactured internally?

Suresh Krishnan: Essentially manufactured, we had about a (unaudible 25:51) of tons of imports that was only to bridge the timing, otherwise we manufacture our DAP.

Lakshminarayanan: And in terms of market share gain in any of your key states you want to call out?

Suresh Krishnan: We have regained our market share and established our position when it comes to Maharashtra, which has been positive for us and we are moving into the other Southern markets and in certain products like N20, we have slowly started gaining market in Telangana and in other neighboring states.

Susnato Lahiri: Just to add there in fact, we have been traditionally very strong in Maharashtra, Karnataka, but if I just look at the H1 performance this year vis-a-vis last year, in fact we have made very good inroads in Andhra, Punjab, Telangana, UP, West Bengal, so it has been very positive for us and that is kind of seen in these 78% growth rate in sales there in Q2 FY2024.

Moderator: Thank you so much. The next question is from the line Prashant Biyani from Elara Securities. Please go ahead.

Prashant Biyani: Sir, I had two questions, one, after this subsidy cut, would you think that domestic manufacturers are now better placed than importers and hence companies like us can have more market share gain in the coming quarters?

Suresh Krishnan: My reaction to this is on paper, yes, it looks like that, but I think we should not kind of react to these cuts on quarter-to-quarter basis. I think we have to look at it in long term and as far as India is concerned, we have 20 million ton requirement of NP and NPKs and is growing. It is growing at a quite healthy pace. So, there will be space for everybody. It is just that we are currently seeing that maybe the imports are not as competitive as manufacturing, but on the whole, India will have to import to meet the requirement of the farm sector and the manufacturing will continue to grow. The good combination would be that the more difficult, more important NPK grades the market needs will get manufactured in locally and some of the



generic products like DAP could well take a larger share from imports. And I think these corrections will happen, you may see for a three-month period that DAP imports may or may not be viable, but I am sure on the whole, the entire product basket will get viable.

It is just an interface something will be more viable than the other, but I think you will see healthy numbers coming back to this sector by FY24-25 because the subsidies have been now corrected quite significantly and that was important because you are going to get your returns not so much from the subsidy basket, but more from the MRP basket and we are quite confident that the market is in a position to absorb an MRP hike.

Prashant Biyani:

Sir, you alluded to the N10 and N20 are not viable as of now, so which grades would you be planning to sell more? Would it be 20:20:0:13 and likes?

Suresh Krishnan:

Let us look at it. We have N20 and along with N20 we have also straight and MOP available for the farmer to use, we also have urea with the farmer can use and combine that. So, we would be giving them a prescription which kind of works. In terms of what kind of products or combination of products they should use in the field and that is the way we are looking at it and N20 obviously will be a core part of our product offering.

Moderator:

Thank you so much. The next question is from the line of Vihang Subramanian from Zaaba Capital. Please go ahead.

Vihang Subramanian:

Sir, first question is what is behind the latest site that we have seen in raw material prices and do we have any view of like six-month view or one year view on where raw material prices will be?

Suresh Krishnan:

When it comes to raw material prices in India, it is pretty much settled on a quarterly basis and the reason why we are seeing certain spikes in raw material price is that we are seeing some demand coming back quite seriously both in Brazil and in Europe, so that demand is kind of helping the North African players to move their material at a much better realization. So which is why you are getting to see P prices going up and when P consumption goes up, normally it is followed with higher demand for Sulphur and Ammonia and those prices also get corrected accordingly and when it comes to Ammonia, yes, we had some plants which are taken shutdowns and there were some introductions and supplies which were there and we have seen some major corrections which did not purely go based on market demand supply, but I think based on some geographies, that is what we get to see.

A lot of material moved towards the higher prices, so that seems to be the case, but otherwise if you see based on fundamentals in terms of what it is, I think most of the fertilizer, raw material prices had come to levels which look to be at a point where one could work around it, sustainable without very major swings. You could see some corrections in ammonia which could get corrected downwards, but when it comes to Sulphur, the P2O5 and K, all of them are corrected



quite well. So, one should not expect a major volatile situation unless there is a geopolitical issue which turns unfavorable.

Vihang Subramanian: Understood. So, do you expect prices to broadly remain where they are?

Suresh Krishnan: Yes, I personally believe that the current levels that we are getting to see corrections either way plus or minus should not be major swings, at least in the coming quarter and the quarter thereafter.

Vihang Subramanian: And to touch upon your EBITDA per ton guidance of Rs. 3,500 to Rs. 4,000 just to understand that based on current raw material prices and did you see a move up in raw material prices then, how to come EBITDA per ton?

Suresh Krishnan: We are looking at current raw material prices to kind of hold on to give us the margin that we are looking at, first part. The second thing is we are also looking that over the coming 5 months, between the MRP and the subsidy, there will be some positive correction.

Vihang Subramanian: And what **(Inaudible)** 33.51 nitrite subsidy component has come down and also we have seen in your net debt, how can I think about the year-end net debt materially lower from these levels as well now?

Suresh Krishnan: We are expecting that because the overall subsidy amount per ton has come down, market collections have been robust, so given this, we do not believe that we would need to kind of look at more borrowings and there are two things for us. First is our long-term debt is not really going to change very much because we have completed all our projects. There is only one project which is underway, so that is not going to be a major swing and as far as the other debt is concerned as you know, we have corrected in a positive way and we will try to keep this trend. We are currently at a debt equity ratio of about 1.13x as far as the company is concerned and I think it is a good safe level to be in for us.

Vihang Subramanian: As the subsidy component has been revised 30 percentage quarter-on-quarter, do you think that the net debt should also come down Rs. 35 million to probably around Rs. 20 to Rs. 25 million range?

Suresh Krishnan: Possible because the net debt that we have been taking today has largely to do with outstanding subsidy when it comes to the short-term borrowing that we end up doing and we would be repaying the short-term borrowing over the month of November, and by the time December, January comes in, I think it should come to a reasonable level, but you must also understand that when you come to the year end, we will be in off season. So, we will have finished goods inventory which kind of moves up by that point of time.

Vihang Subramanian: And I think given reaching optimal capacity utilization now, could you touch upon how do you think of volume growth over the medium term?



Suresh Krishnan: As far as the capacity is concerned, we have pretty much reached the optimal number that we are looking at and the 30,00,000 ton as a target that we had, a split of 26 plus 4 is something that we are targeting. I think we should be pretty close to it now, but based on monsoon condition and demand supply, maybe 100,000 tons swing could kind of happen, but otherwise we are reaching safe levels in terms of our manufacturing capacity. Now, the key thing that really comes to us would be that how do we enhance our market share given that there is still a good component of imports in the overall consumption that happens in India, so that will be a strategy for volume growth at least in the short term.

Moderator: Thank you so much. The next question is from the line of Vinayak Mohta from Axis India. Please go ahead.

Vinayak Mohta: I just wanted to understand, what are we doing so differently given the kind of volume growth you have seen. We saw another peer of yours report numbers a while back and they had flattish kind of volume growth, whereas you guys have grown very significantly within your NPK and DAP front. What are we doing so differently versus them or is it just a base effect or market effect when you are present and they are not that strongly, so if you could throw some light on that?

Suresh Krishnan: It is a good question that you asked and the response to this is that we made an acquisition of an asset, which is the Goa's manufacturing facility along with the brand and the retail network, 'Jai Kisaan' has been a very strong brand for a very long time with very good reach in Maharashtra and various neighboring markets and what is helping us is the 'Jai Kisaan' reach. I think that is the difference that we are getting to see. 'Jai Kisaan' had dominant capability to reach much higher levels. 'Jai Kisaan' on his own has done 1.72 million tons of sales as a single brand and today, we are taking 'Jai Kisaan' brand for whatever expansion that we have done in Paradeep and that is where the differences that you are getting to see.

Vinayak Mohta: So, is it fair to assume that on an organic side, your growth was flattish as well or what kind of growth did you see ?

Suresh Krishnan: I will say that we increase the production in Paradeep and when we increase the production in Paradeep, the Paradeep markets grew at a particular pace, we did a little better than that, but the substantial amount of volume that we have had both at Paradeep and restarting of the Goa facility that we did, we were in a position to absorb in our stronger markets which were there in Maharashtra and Karnataka and we further moved our material towards the central part of India wherein we were present in the past, we have been able to reestablish ourselves.

Vinayak Mohta: And any update from you on nano DAP, nano Urea is seeing a lot of traction like we have been doing some reading and you could see that the kind of effect that it has on the crops and all is very decent and even the payback period is very strong while it does need a lot of education part for the farmers to get up to speed with it, so that the adoption can grow, but any progress there or anything that you are thinking and how do you think about that market individually as well?



- Suresh Krishnan:** We have done more than a year of field studies in field trials as for the nano was concerned and we are seeing good results as far as the product is concerned and our product it is a biological product, not purely a chemical product and so it has been quite stable and it has been doing well. We expect to launch this product pretty soon. I think our launch will be there during this quarter, the end of this quarter itself and thereafter we will have sustained volumes coming from nano, but in our case, it will be both nano Urea and nano DAP.
- Vinayak Mohta:** And is this produced by us in-house or have we got the pattern for it, or have we taken technological transfer or something on that?
- Suresh Krishnan:** Basically, the nanotechnology that is available is there with one of our group companies and we have taken the exclusive rights on that to market.
- Vinayak Mohta:** And do you see that over a sustainable longer period of time, the EBITDA per ton is something that will sustain over this Rs. 5,000 to Rs. 5,500 level or how do you see this scale over a longer period sustained environment removing the effects of how subsidies would move, so what would be your input out there?
- Suresh Krishnan:** Well, you look at it today, the government's regulatory framework is coming up with a proposed structure for reasonable profit and the reasonable profit for integrated players they are talking a level of about 12% of cost of sale. So, even if you take an average product mix and you will get these kinds of numbers, Rs. 5,000 EBITDA to Rs. 5,500 EBITDA, a sustainable number within the reasonable profitability structure that the government is proposing. So that is the reason why we believe that these are numbers that one should be able to maintain, that is the first point. The second point is that for us also as a company to improve our EBITDA, it is not just going to be the fertilizer products alone which are controlled by the government in terms of subsidy. So, there is going to be debt, we will be offering products, nano and beyond which will finally help us to not only grow and get a better wallet share, but at the same time improve our overall margins.
- Vinayak Mohta:** One last question, and the mix of NPK and other complex fertilizer increases and replaces the traditional urea and all one and the government introduction on the pricing front is very low or negligible as of today, but as it grows into volumes, two things on that and do you think that the market is ready to absorb that amount of incremental pricing of these products? And secondly, what risk do you see of the government in the intervention on the pricing plan which ultimately might end up impacting the growth in sales or the profitability?
- Suresh Krishnan:** You have to look at the agriculture sector as a whole and when you look at it there, even for basic grains and basic oil seeds and everything else, government has been improving, MSPs quite significantly. Agri input like fertilizer as a percentage of the total cost for agriculture is not as significant, so given that the farmer is into a healthy run today, it is certainly possible that we should be able to maintain both the volumes and the price levels one is looking at. But more importantly, what is going to happen is that there is a lot of focus on soil health and soil health



improvement. When the soil health improves, the impact and the realization that you will get in terms of farm productivity from an input like fertilizer would be substantially higher than what you are getting to see today. So that will also encourage the farmer to consume and in effect you will get to see that the demand for NPK is going to be far more than what we believe is going to be, what we get to see today and what we believe the growth rates are.

Vinayak Mohta:

Just one small last question, what is the thing that you would be the most excited about the next 3-5 years. One part of the business or any other initiatives that you have taken within the business which you believe could have a substantial impact on the profitability because from my understanding a lot of people are now starting to see the sector moving away from that government focused, government driven kind of profitability sector to a more sustainable profitability one which is more linked to the economy consumption side of the market, so what would that one thing be for you?

Suresh Krishnan:

The way we look at this sector is that this sector is squarely provides the food security for the country. When it comes to food security, it is not just about the primary nutrients that we are able to supply, it is the reach that we have through our retail network and our retail network that we have today not only provides fertilizer, provides all other kinds of inputs which the farm economy needs. So our excitement today really comes from not just ability to do what we are doing in terms of major nutrients, it is the various other products that we have in the pipeline which we will be offering, which includes nano at one end, other liquid fertilizers, the customized fertilizer, these are products which are going to be growing in our portfolio in the years to come and which will add to our profitability and the excitement that even our channel partners will have.

Moderator:

Thank you. The next question is from the line of Deepak Gupta from Ryan Stock Brokers. Please go ahead.

Deepak Gupta:

This is the continuation from earlier question, which you have answered about Rs. 3,500 to Rs. 4,000 EBITDA because of the subsidy reduction. Is it possible like an association of fertilizer or something different this government to increase the subsidy or to have an MRP increase, anything is possible so that that you can have the same kind of Rs. 5,000 to Rs. 5,500 tons, I am just worried about the value of this one, profitability?

Suresh Krishnan:

I think I should make one thing very clear that fertilizer industry, we do not seek higher subsidy. We are purely a subsidy carrier as far as the farm economy is concerned. So, we would believe the structure of the agriculture segment in India should get corrected so that the farmer can directly be supported by the government as it deems fit rather than using the fertilizer industry as a subsidy carrier. So we believe in efficiently running our plants, showing efficiencies we are best in class globally and getting our returns. So, I think our effort will always be to ensure that we have got the right product and the right product mix that is available from our end, and we are making that in the most efficient manner.



The challenge that really comes up here is not so much about government alone, it is the fact that there is a lot of import dependence on these raw material that we need for manufacturing fertilizers and those raw material prices are highly volatile, not just because of the demand supply position in India, they get affected by the global scenario of demand and supply and so there has to be a mechanism as to how the government will want to react and protect the Indian farmers or insulate the Indian farmers outside of taking it through the industry and our effort will be to put that structurally correct rather than trying to seek subsidy more or less.

Moderator: Thank you so much. The next question is from the line of Tanmay from Mirae Asset. Please go ahead.

Tanmay: Sir, just a couple of clarifications, first the EBITDA per ton that we are guiding, that is for the second half that we are seeing or for the full year?

Suresh Krishnan: That is for the second half that we are seeing, and this will also be the average for the year because we have been pretty close to the same number here.

Tanmay: And what would have been the trading margins this quarter?

Suresh Krishnan: Trading was only about 100,000 tons that that we did, and the trading contributions have been at the tune of about Rs. 3,000 per metric ton.

Moderator: Thank you so much. The next question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

Resham Jain: So just two things, one is on overall working capital kind of improvement, in case if you are expecting and if you can just highlight, are there any scopes and measures to improve working capital further from current level? And second is on interest cost, we had almost closer to Rs. 190 odd crores of interest payment during first half of FY2024, how are you seeing that number, let us say in second half and you already mentioned the there is a possibility of debt is coming down, but how do you see that panning out during second half?

Suresh Krishnan: It is important to note that as far as our working capital cycle is concerned in H1, both the market receivables we collected very well and also the government receivables were collected exceedingly well. So that has been a very good cycle and expecting the government to improve this cycle beyond this is not likely because we are already now pretty much paying within the stipulated 15-day period. So the only way the things could change would be some kind of better terms from the suppliers, so that is one way of improving the overall working capital cycle that could happen and the second thing is in terms of interest rates today, despite all the volatility that we have seen, we have still been maintaining good average rates and which are at the tune of about 7.5% which has been very good for us, so we believe that should continue and any improvement in the global interest rates over the next few quarters will finally kind of help us



when it comes to our interest cost. As far as the local is concerned, I think we have been quite efficient on that and we are doing well.

Resham Jain: And sir, one more is on CAPEX, we have Rs. 485 odd crores of CWIP out of which I think Phosphoric acid got commissioned in Q3, so that Rs. 285 crores will get commercialized, so Sulphuric Acid plant, how much more is remaining in terms of CAPEX to be spent and when it will get commissioned and again payback period for that?

Suresh Krishnan: Sulphuric Acid plant, we are expecting to commission by September 2025 and out of the overall, we have so far spent about Rs. 150 crores in Sulphuric Acid project and we have to be spending about Rs. 300 crores further. This is 50,000 tons per day Sulphuric Acid plant that we will have been doing and further CWIP that you get to see is also to do with the energy efficiency project that we are doing in Goa. We will be taking a shutdown sometime in the next few days and the modernization of the ammonia plant partially will take place and we will be back into production around the second half or December this year. So that overall expenditure is to the tune of about Rs. 85 odd crores which will also get capitalized once that is done by end of December.

Resham Jain: And sir, payback period for Sulphuric acid?

Suresh Krishnan: Sulphuric acid is a healthy project, so we get paid off in about 3 to 3.5 years.

Resham Jain: All these three projects which are independent of what volume you will do for Sulphuric Acid and Goa plant put together is close to Rs. 700 odd crores CAPEX and I think as you mentioned 3 years payback for each of them?

Suresh Krishnan: Roughly about Rs. 200 crores of additional EBITDA which should be getting generated from all these.

Resham Jain: All these three plants?

Suresh Krishnan: Yes.

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

Manish Mahawar: Just in terms of subsidy cut, you said a provision of Rs. 505 for this quarter and Rs. 300 crores for the last quarter, right, so total first half is Rs. 800 odd crores?

Suresh Krishnan: Yes.

Manish Mahawar: And sir, in terms of EBITDA per ton, when you said around Rs. 3,500 to Rs. 4,000 per material for this year and H2 as well, are you considering price hikes and the raw material price correction or it is on the current price basis you are talking about?



- Suresh Krishnan:** I am looking at a combination. I personally believe that in between November and March, we should either have a price correction or a subsidy correction or a combination of the two. I am not really looking too much into the correction of raw material prices. I think it just could be flat as we go forward for the next quarter.
- Manish Mahawar:** But it is possible, like a substantial price hike, which is into the MRP during the second half because if raw material prices are not corrected, that is why substantial price hike has to be taken.
- Suresh Krishnan:** If you look at it, it is also a question of what kind of product mix that you will do and there are some rooms and some products there.
- Manish Mahawar:** In terms of your net debt at the end of this year FY25, how should we look at the number?
- Suresh Krishnan:** Right now, we are at about Rs. 3,558 crores and we are looking at a flat number from here on and if you look at it the way government has been paying money, I think if they are going to continue to do the same, I don't think we should see any further increases in our overall debt position here.
- Manish Mahawar:** But it should come down, right?
- Suresh Krishnan:** It should come down. Ideally, we will see how it goes because everything will depend upon the kind of inventory that we will carry at the end of financial year and that strategy, Manish will be something that this time around, we will take a call as we close the Q3.
- Manish Mahawar:** Just one bookkeeping question, in terms of subsidy outstanding, right, Rs. 1,865 crores what you said, this is due amount, or this is just total overall outstanding?
- Suresh Krishnan:** It's total outstanding because the subsidy becomes only when the POS happens. Since the POS has not happened this amount is outstanding, so as the process happens, we will start getting this money and a good bit of this money should come during this quarter itself.
- Manish Mahawar:** But what is the outstanding the total due actually from the government out of this Rs. 1,865?
- Suresh Krishnan:** That is only Rs. 400 crores.
- Manish Mahawar:** Basically, the rest is outstanding or not?
- Suresh Krishnan:** Yes, based on first stocks and inventory.
- Manish Mahawar:** And sir, just last clarification, when you always save 12%, government gives some margins of 12% per one-off sales, right, it is the PBT margins, right on the fertilizer?
- Suresh Krishnan:** Yes.



- Manish Mahawar:** It is on all the products, or it is only for DAP?
- Suresh Krishnan:** No, this is for DAP and NPK to put together.
- Manish Mahawar:** Because what I am saying because if you look at DAP your realization used to be around Rs. 24,000 – Rs. 27,000 subsidies right now are Rs. 18,000, right, if you look at the realization is around 40 - 45 and if you take a Rs. 12,000 to be Rs. 5,000 – Rs. 5,400 of PBT what we are talking about, and it used to be always in lower, utilization as compared to DAP, so your margins will be lower on NPKs as compared to the DAP?
- Suresh Krishnan:** What the government has been stating is the policy they are giving you 12% on cost of sales for both, so if the cost of sale is going to be lower for NPK to that extent the margin per ton will be lower. The important thing here is that is an intended policy today but given the way the market has behaved both in terms of subsidy being made available and the MRP in quite a number of products, we don't reach there, but that is the scope which is clearly available under the regulatory framework and price correction will happen to realize that particular profit, which we can realize.
- Manish Mahawar:** And next year, that is when we move for the FY25, in terms of EBITDA per ton, what we have guided for earlier at Rs. 5,000 plus type of number on a company as a whole, we will sustain for next year, right because this year will be fluctuation because of the?
- Suresh Krishnan:** So, I think we should consider that the numbers will be back to those levels because we are back into, our production levels are good, our projects have been completed. So, I personally believe that with corrections and prices that will take place, those numbers one should be in a position to achieve.
- Manish Mahawar:** And this will be with the lower interest cost also PAT much better, right in terms of a company?
- Suresh Krishnan:** Yes.
- Moderator:** Thank you so much. The next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.
- Lakshminarayanan:** You spoke about the reasonable profit which the government has actually mentioned, and you said 10% - 12% cost of sales or something. Just want to understand what defines reasonableness because people like you are backward integrated and some of them are not backward integrated, so how do you normalize it and what is that reasonableness mean?
- Suresh Krishnan:** Government is trying to come with higher profit for people who are backward integrated in terms of percentage and a lower percentage of people who are not backward integrated. So that is the definition that they are kind of looking at and whenever I talk about the reasonable profit what I state is that this is a sector which has opened up. We are free to put the market price. So, we



would be in a position to work around a market price which will give us this kind of profit. So, which is the potential which is there in the industry, and I am sure going forward in FY24-25, we should be in a position to realize these numbers.

Lakshminarayanan: So, what is wherein you mentioned about 12% return on sales is something which is the baseline which comes like you should work on?

Suresh Krishnan: Yes.

Moderator: Thank you. The last question is from the line of S Ramesh from Nirmal Bang Equities. Please go ahead.

S Ramesh: Just to put the new recent NBS rate how do you think you will be able to navigate that reduction in the context of the recent increase in input prices and will there be a similar impact in terms of additional provisioning required in third and fourth quarter like you want to do the first quarter, what is the reading on that?

Suresh Krishnan: As far as the government reduction of subsidy is concerned, for all those stocks that we had, unsold stock and also POS stock, we have made a full provision on that. So, it is only a question of new material that we are looking at today and obviously we will have to work on a product mix which is able to navigate this, and which is what we are working on.

S Ramesh: And so if you are looking at the volume growth for FY25-26, what is the kind of percentage volume growth that is probably the best metric we can look right?

Suresh Krishnan: When it comes to the volume growth for the next year from a manufactured side, it may be only 7% - 8% because we would pretty much be getting to a peak level of manufactured sales but depends upon the overall monsoon conditions and the demand forecast that one would look at, we can certainly get a volume growth based on taking part of the imported market share which is there for the Indian market.

S Ramesh: One last note, in terms of your backward integration for both captive Sulphuric and Phosphoric acid, what is the kind of per ton benefit you can expect here once you do that from next year?

Suresh Krishnan: Typically, when you have a phosphoric acid backward integration, you get a benefit of about Rs. 10,000 per metric ton of the acid that is produced.

S Ramesh: What is the tonnage of phosphoric acid you will add based on this additional capacity?

Suresh Krishnan: We have added close to about 1,80,000 tons of additional phosphoric acid.

Moderator: Thank you so much. As there are no further questions, I would now like to hand the conference over to the management for closing comments.



Paradeep Phosphates Limited

Paradeep Phosphates Limited
November 02, 2023

Suresh Krishnan:

Thank you. Thank you everyone for participating in the earnings conference call. We have certainly tried to answer and address all your questions. If you have any further inquiries, please connect with our Investor Relations team and we will be happy to address the same. Thank you.