



Paradeep Phosphates

“Paradeep Phosphates Limited Q4 FY23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Paradeep Phosphates Q4 FY23 Conference Call hosted by ICICI Securities Limited.

As a reminder, all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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. Aniruddha Joshi from ICICI Securities. Thank you and over to you sir.

Aniruddha Joshi: Thanks Dorwin. On behalf of ICICI Securities, we welcome you all to Q4 FY23 Results Conference Call of Paradeep Phosphates.

We have with us Senior Management represented by Mr. Suresh Krishnan – Managing Director; Mr. Alok Saxena – General Manager and Head of Corporate Finance and Mr. Susnato Lahiri – DGM (Strategy, Investor Relations and ESG).

Now, I hand over the call to the management for their initial comments on the quarterly as well as FY23 performance and then we will open the floor for question-and-answer session. Thanks, and over to you sir.

Suresh Krishnan: Thank you. Good afternoon everyone. Thank you for joining us for the Q4 and FY23 Results Conference Call of Paradeep Phosphates. We have uploaded “Earnings Presentation and Press Release” on our website and on Stock Exchanges. Hope you had the chance to go through them. We would begin this call with a brief discussion on our “Performance and Financial Results” of Q4 and Full Year FY23 and we would be happy to take any questions post that.

Fiscal year 2023 has been a landmark year in the history of Paradeep Phosphates. We made a successful debut on the stock exchange in May 2022. And now we are closing our first fiscal year with a new set of operational benchmarks and accomplishments.

Friends just to remind you, May 19th, 2022, last year was the day when our issue closed and we were listed on May 27th of 2022.

Coming to the Performance Highlights:

During the quarter, the Company has delivered a quarterly revenue of Rs. 37,136 million registering a year-on-year growth of 93% led by growth in volumes. Our EBITDA for the quarter stood at Rs. 1,603 million registering a year-on-year growth of 36%. Profit after tax for the quarter was Rs. 100 million. The profitability was softened due to the reduction in the overall subsidy and a one-time expense of Rs. 422 million towards our Goa site which was paid towards registration of land and certain lease rentals during the quarter.

Total fertilizer production during the quarter was 6,20,884 metric tonne registering a strong year-on-year growth of 124%. We have now fully integrated both our sites at Paradeep and Goa and we have been able to operate both sites at optimal utilization in Q4 just as in Q3.

In Q4 our Goa site produced 2,49,000 tonnes of finished fertilizers, including 1,21,691 tonnes of urea, and varied grades of NPKs. Our Paradeep site has produced a record 3,71,441 tonnes of finished fertilizer, an increase of 34% compared to the same quarter in the previous year.

On an annual basis, the Company has delivered a strong top line performance, notwithstanding the challenging geopolitical and macroeconomic environment and pressure on key raw material prices. In FY23, the Company has maintained a strong track record of financial performance, delivering the highest-ever annual sales of Rs. 1,33,407 million registering a year-on-year growth of 70%. EBITDA grew by 26% to Rs. 8,921 million, with a profit after tax of Rs. 3,042 million.

The Board of Directors has recommended a dividend of Re. 0.50 per equity share of Rs. 10 per share for FY23 representing a payout of 5% on the face value, and 13% on EPF of FY23.

Coming to our Business Update:

The total production in FY23 was 2.032 million metric tonnes, registering a year-on-year growth of 63%. Total sales in FY23 were 2.029 million metric tonnes, registering a 64% year-on-year growth. As you will see that the quantity that were manufactured by us, we have managed to convert them into a sold products.

During the year we have strengthened our capacity by 150% to reach a run rate of 3 million tonnes of finished fertilizers effective December 2022. This includes 1.8 billion tonnes per annum at the Paradeep plant and 1.2 million tonne at Goa plant. The remainder of the ongoing CAPEX projects of both of captive phosphoric acid along with enhancing the capacity to 5 lakh tonnes at Paradeep site and the installation of fourth evaporator are on track and they are expected to be completed by the end of Q1 FY24. These projects will further read our backward integration and capability leading to higher profitability. Throughout the year, we have successfully produced a wide variety of complex fertilizer grades across both our Paradeep and Goa sites, thereby improving our farmers' choices in their application of soil and crop specific nutrition.

In fact, our Goa site has produced a total of eight varieties of value added NPK during FY23. While during the year, we also embarked upon a sustainability journey by publishing our made in sustainability report mapped to global framework and we encourage you to read the report to gain a deeper understanding of our progress and commitment towards promoting sustainable solutions.

Looking forward into FY24, we remained focused on our growth, a 1 million tonne incremental capacity totaling to 3 million tonnes, our innovation led superior manufacturing capabilities, a

strong supply side linkages and a pan India market reach across 15 plus states in India. We are optimistic and we look forward to a transformative next year.

Thank you very much, and now I would like to open the floor for Q&A.

Moderator: Thank you very much. The first question is from the line of Aditya Sen from RoboCapital. Please go ahead.

Aditya Sen: So, I would like to understand the seasonality impact of the Phosphate and also SSP if you can give that?

Suresh Krishnan: As far as the Indian farm sector is concerned, we primarily have two seasons and which is basically the Kharif and Rabi season. Kharif season is the crop that commences during the summer time and which gets over by technically in the month of August, and the winter season commences in the month of October and goes on till well into January, February of the next year. But when it comes to seasonality of DAP that you're asking, DAP is a crop which is very strong when it comes to Rabi time, which is in Northern India, and in Northern and Central India, we see a large uptake of DAP during this phase. As far as the Kharif is concerned, DAP certainly gets consumed in central part of India and also in the Western parts of the country including Maharashtra and Karnataka. So, this is the main trend as far as DAP is concerned. So, SSP is concerned is again a product which is very specific. And it has a market which is reasonably around the clock but around the year. But you will obviously see those five, six months of consumption period which is there in the main fertilizer where you would see an uptake on the farmer side.

Aditya Sen: Which are those five, six points for SSP, from August to December?

Suresh Krishnan: Well exactly, when you look at the overall time the peak consumption in India, the window is July to December. If you look at that as a consumption period, right across all fertilizer grades, we will see good uptake happening in the non-urea space.

Moderator: Thank you. The next question is from the line of Deepak from RM Shares and Stocks. Please go ahead.

Deepak: Sir, recently there has been a reduction of subsidy, so is there going to be an impact of this on the bottom line for our Company. And the second question is, when can we see shareholders' value increase in the bottom line?

Suresh Krishnan: The first point is, as far as the industry is concerned looking forward today, there has been a reasonably good correction in the raw material prices, which is leading to expansion in margins. So, we believe that this margin expansion will come and play out in a positive way. And as we know that this current subsidy announcements which have been made, they are valid till September 30th, 2023. And we are expecting that in the event of any major changes in the raw material prices, that is if it goes upwards or otherwise, they could well be a further support from

the government coming in or a withdrawal which could also happen. At the same time there is also a clear indication that there is also a possibility that in the second season, which is the Rabi season, you could even see if the price increase happens in the global market, we could also see a price increase in India. So, when it comes to margin expansion, this is a year where we are seeing stability, for the benefit of everyone it's very important for us to understand two very clear parameters. One is when you have a cycle where all prices are going up, obviously that volatility affects the overall performance of the sector in general, what we are seeing now is a trend over the last six, seven months a reduction in the prices. Over the last year, if you look at it, the market, which is DAP which is \$1,000 has already come below \$600. Whereas the ideal situation that we all look at from the industry perspective is DAP coming down to a level around \$450. So, there is still a \$150 correction which is there in the sector, which one expect that one would get to see during the next six to nine months' time. And once that kind of scenario builds in then you have a phase of stability and the stability both in terms of prices, and also profitability. At this juncture, I would like to just highlight that, government of India has ensured that there is no farm level inflation, which means the farmers have been getting the price, the same price for a much longer period. And they have taken quite a bit of the increases to their own books. And that has been the trend so far so with the decrease which is happening we believe that there will be correction for the government of subsidy as and when there is a steep correction in the prices, but the stability will be there and the profitability will certainly be there in the industry. So, you can see that this year looks positive and interesting.

Deepak: Thank you sir. But what about the bottom line, we can see a better bottom line this year?

Suresh Krishnan: Well, the trends are as per the industry is concerned given that the raw material prices are going down, there is a positive trend which is emerging, and this trend is going to get consolidated for the month of June onwards. Because you always have a lag between the global prices and by the time you buy the raw material at those prices. So, you are going to be seeing that going forward from certainly from some part of the Q1 but good bit of Q2 onwards.

Deepak: Sir, all the expenses have been met out sir for this onetime expense you were telling about in the earlier times?

Suresh Krishnan: Yes, as soon as our acquisition related BTA is concerned we have completely closed off, we now have all the approvals. And the last quarter, the onetime expenditure that we saw was primarily the final payment of stamp duty for various fixed assets and both moveable and immovable asset that we had acquired and which had to be paid to the government this was post valuation done by the local government in Goa.

Moderator: Thank you. The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund. Please go ahead.

Dhruv Muchhal: A few questions related to numbers, the other income seems really high this quarter, if you can explain please sir?

- Suresh Krishnan:** See the other income was only certain provisions that we are keeping which has been taken back, which we have been building over the year itself that's all. So, it was just in a provision that we had in our books that we had to get back.
- Dhruv Muchhal:** So, are the provisions related to the previous year or for the current year?
- Suresh Krishnan:** No, the current year.
- Dhruv Muchhal:** Okay. So, part of that amount is in the expenses and then there is a reversal in the other income?
- Suresh Krishnan:** Yes, absolutely.
- Dhruv Muchhal:** And sir the overall EBITDA, looking for this quarter only I am not including the other income because probably part of that other income is related to the earlier quarters but the EBITDA seems a bit low I believe you have taken the provision for the subsidy cut for the January to March period. Is it possible to share what that number is and also, does it account for the actual subsidy announcement that the government has made or there could be further some amount to this?
- Suresh Krishnan:** To be frank, you have already seen a reduction in EBITDA which has happened and which is because of the fact that we have provided for it, and I would say that we have been an adequate provision as far as the subsidy amounts are concerned.
- Dhruv Muchhal:** Okay. So, the reduction primarily adjusting for that 40 crores, 44 crores of Goa is all to do with the Q3 reduction in EBITDA despite probably almost similar volumes?
- Suresh Krishnan:** Yes, on top of that, what happens is under the accounting standards whenever you buy movable and immovable assets under their business transfer agreement, you can't capitalize those expenses. Normally when you create an asset as an ongoing project, you could capitalize, but through a BTA under the accounting standard you have to write it down. So, during this year, we had to do provisioning of over 80 odd crores, 59 crores is the exact amount when it comes to the stamp duties and other related payments.
- Dhruv Muchhal:** Sure sir, the other thing is, you have given this adjusted EBITDA of about Rs. 3,300 per tonne. Now, I believe this is adjusted for the subsidy revisions which the government has done for January to March period and also for the subsequent periods. So, not trying to extrapolate from this quarter levels, but the volumes are reasonable, you are running at full utilisations. So, how do you look at sustainable EBITDA per tonne now going ahead?
- Suresh Krishnan:** Well, if you look at the future for us, the first and foremost thing that's happening to us is that we today clearly have a million tonne of additional volumes available. This is an incremental volume which is available. So, that's going to directly play up and support towards increasing our EBITDA, that's the first one. The second important thing for us is the value added NPKs beyond DAP, that is going to be made by us and this is also going to happen in our Goa site. In fact, the Goa site for us today, from a traditional perspective what they used to produce and what

we are going to be producing right now, the product schemes are very good and the potash is back, which is the other major thing that we are getting to see that this year, last year we could not make a lot of potash-based grades. So, that is also back, that is going to make a difference. And the biggest in case that the fixed cost is not increasing. So, given that we are going to be ramping up our capacities to the fullest extent, there is going to be more than a 33% per tonne reduction in the fixed cost. So, all this is going to look at getting us back into sustainable numbers. And I've always felt, this is a cyclical industry where you really get to see margins going up and down based on raw material prices and that's true for anything. But a good guidance here is about I maintain at Rs. 5000 as far as a weighted average to the portfolio that we have. You can certainly have certain products which are much higher than that, but this is the kind of weighted average that you have. This year has been an aberration today because the way some of the changes had taken place by the government.

Dhruv Muchhal: Sure. And the phosphoric acid plant probably is commissioning you mentioned in Q1 FY24?

Suresh Krishnan: Yes.

Dhruv Muchhal: Sir any update on the sulphuric acid plant, I believe you were looking for sulphuric acid?

Suresh Krishnan: We have a 1.3 million tonnes sulphuric capacity already. We are ramping that up by adding another capacity for 0.45 million tonnes and this 0.45 million tonnes is like an incremental support to the new phosphoric acid plant that we are commissioning. So, this phosphoric acid plant will get commissioned now and with some of the engineering and the key equipment's have already been ordered and this is financially closed off, and in the financial year we will not be commissioning by the year FY24 it will be done in the year after that FY25.

Dhruv Muchhal: Sir, if you can also, please guide for FY24 and FY25 CAPEX?

Suresh Krishnan: As far as FY24-25 CAPEX is concerned is purely the completion of the phosphoric acid plant and the converter which is only about Rs. 150 crores of expenditure, which is pending and which is already tied up, the loans are tied up for this and the only other expenditure that we are doing and we are quite excited about is finally the completion of energy improvement project in Goa where the overall expenditure is around Rs. 73 crores and there is a balance of about Rs. 50 odd crores are going to get spent during this year. These are the main CAPEX which we have, which will directly start also adding profitability to the Company. With regard to the CAPEX that we are doing on sulphuric acid plant, our estimate is that during the year we will end up spending about Rs. 80 crores. So, if you look at on the whole, we are looking at about Rs. 280 crores of long-term CAPEX which are going to be incurred during this financial year.

Dhruv Muchhal: Got it. And sir one last thing is, we have seen the subsidy amount increase again. Is there a change in how the government is thinking about the subsidy disbursals or it's just the last, probably last month thing and it gets through?

- Suresh Krishnan:** It was a last month thing to be frank the March 31st payment they all fully paid out in the month of April. So, they are not come back and reduce any or held back any subsidy but in general what has happened for us is that, per tonne subsidy has increased so given that the per tonne subsidy has increased you would always see that the gross amount is going to be larger that's number one. And number two is our volumes are increasing so that is again adding up to the entire thing. So, normalization of subsidy is basically in our view one year away, we will see that government of India would not like the prices to go down any further if at all any, I would think that the prices could only go up, and the subsidy elements will come down. And, in case somebody has this question in mind, the most important thing for our industry is the pricing hierarchy, when you look at the phosphating industry you need to have higher the grade, the higher the price. Unfortunately, the way the prices have panned out over the last couple of years we are seeing a trend wherein the DAP prices are lower, which is a 1350 a bag, whereas you got phosphating prices, other NPK are certainly higher than what this is and potash being the highest and this has to be reversed. And the reversal is very important to ensure that the farmers behavior at the marketplace is intact and the soil nutrient management gets to be done in the proper way. So, we are expecting that during the course of this year, this correction should happen and that is finally going to aid us in terms of the industry doing much better.
- Dhruv Muchhal:** That's helpful. Sir, just to clarify again, the subsidy amount is largely cleared, the outstanding as of March is largely cleared.
- Suresh Krishnan:** Yes.
- Moderator:** Thank you. The next question is from the line of Rohan Gupta from Nuvama. Please go ahead.
- Rohan Gupta:** Sir one first clarification that though the government has reduced the subsidy effective from 1st of January to March. Sir, what is the effective DAP subsidy now, if you can just give that number?
- Suresh Krishnan:** The DAP subsidy is close to about Rs. 33,000 per metric tonne.
- Rohan Gupta:** And it was Rs. 42,000 per tonne earlier sir?
- Suresh Krishnan:** Yes, it was previously about Rs. 48,000, we have reduced one time for the Rabi season to Rs. 40,000 and for the next the coming period, which is the April onwards we have reduced it to Rs. 32,641.
- Rohan Gupta:** So, right now it is Rs. 38,000 then will further go down from next month already from April Rs. 32,000?
- Suresh Krishnan:** From Rs. 40,000 it may go down to Rs. 32,000.
- Rohan Gupta:** So, sir the provisioning amount which you have made can you quantify that how much provision we have made?

Suresh Krishnan: Let's be very clear, in our view the provisioning had been adequate we did this even before the circulars were issued by the Government of India. So, we've taken care of a good part of this.

Rohan Gupta: Okay. Sir what is our DAP prices for us in the market right now?

Suresh Krishnan: Market price is pretty uniform right across the country it's 1,350 per bag. Which is about Rs. 27,000 per metric tonne.

Rohan Gupta: Got it sir. Sir, the subsidy Rs. 32,000 you see that have adequately taken all the cost reduction or there you see that the ammonia prices are still falling and maybe sulphur may see further fall and phosphates are still weakening. Do you see that there is a room for reduction in DAP prices in the market or the benefits with any further fall in raw material prices will be kept by the Company?

Suresh Krishnan: Rohan my take is like this as far as the subsidy is concerned. If you look at a normal period, which is pre COVID and in the year 2019 April 1, the subsidy per tonne of DAP was Rs. 10,000, has gone to Rs. 48,000. Our view is that, at some point of time in the near future, maybe in the next couple of years we have to come down to those levels. And at that point of time the price of DAP in the market has gone up to Rs. 38,000. So, this reversal between prices increasing and subsidy coming down is a mechanism that has to be efficiently managed to ensure that the farmers are not put to pain, the food security challenges are not aggravated, and this will happen it's a matter of time. So, that is when you can say that everything is in good shape and at that point of time, we were seeing DAP prices is getting closer to about \$400 a metric tonne. We are coming somewhere there so now the question is that how this whole thing will get moderated is something time will only say but that's the kind of conceptual idea that you all can keep.

Rohan Gupta: That great sir. Sir if we look at back to history, almost three to four years back the fertilizer margin for the industry used to be roughly Rs. 2,500 to Rs. 3,500 per tonne. Definitely in last two years a lot of topsy-turvy things have happened in the sector with the prices going up to almost Rs. 60,000, Rs. 70,000 realization. So, sure it's coming down, do you see that once if the subsidy or the DAP prices normalizes to the previous year level maybe Rs. 35,000 realization at that level also the Rs. 5000 per tonne margin are going to sustain because if that is so, then around Rs. 5,000 per tonne margin on even Rs. 35,000 realization, we are talking about almost 14% to 15% in terms of margin percentage and maybe ROCE profile will be much higher above 30%. So, will the government allow companies in the longer-term sustainable margins of 30% or Rs. 5,000 per tonne?

Suresh Krishnan: I will just clarify this to you, three, four years back when the subsidy was about Rs. 10,000 as I said, we had reached a price of about Rs. 1,900 a bag. And even if you want to be a little conservative and say that it was about Rs. 1,600 a bag, it was about Rs. 32,000. Rs. 32,000 plus Rs. 10,000 the total realization was Rs. 42,000. What the government is very clearly signaling today is that they want the industry to get 12% margin on a PBT basis. This is the guidance that the government itself is giving. So, which means that, as things stabilize going forward, that kind of margin will be there if at 12% margin on a PBT basis is to be there, you will certainly get to

see a Rs. 5,000 EBITDA margin for sure. So, this is a guidance we have given our government in the press conference a few days back very clearly indicated, that we are looking at a 12% pre-tax return for the phosphoric industry under the NBO scheme.

Rohan Gupta: So, you are saying sir, even if we take a realization of Rs. 40,000, they are allowing the industry to make 12% i.e. Rs. 4,800 per tonne PBT margin?

Suresh Krishnan: Yes, that is what we believe we should finally be at that is what in a normal situation of marketplace as per the industry they believe that is a reasonable profit. The government is very clear that only if you are able to make beyond that they will consider this an unreasonable profit for them to tinker with the subsidy system. So, the industry has a lot of good numbers, which it can combine but it's a question of the global market stabilizing and if anyone is taking a long-term view, I'm sure you will get to see it pretty soon.

Rohan Gupta: So, sir if I add back to its interest in depreciation on a PBT margin or 12% it means that industry very well can make 16% to 17% margin or probably in per tonne at a Rs. 40,000 realization, we are talking about almost Rs. 6,000 per tonne plus margin sustaining that's what even government is allowing, is that understanding right?

Suresh Krishnan: Absolutely, the government is very clearly saying that on the total price you should be able to make 12% return on a PBT basis. You're absolutely right. So, this could mean that your EBITDA margins could be Rs. 5,000, even could be better than that.

Rohan Gupta: Sir 12% return of 12% PBT margin, both are different?

Suresh Krishnan: 12% return on revenue and a PBT basis is what the government considers is reasonable.

Rohan Gupta: So, that means the 12% return on revenue that at least gives us almost 18% to 20% plus ROC and for the efficient player like Phosphate and all probably?

Suresh Krishnan: Yes, the potential is there for sure and that you will get to see when you get into a more normal situation, and this particular margin will not be earned from Government of India you will earn it from the marketplace, which means the subsidy per tonne has come down, the market price for DAP and the pricing hierarchy for various phosphatic fertilizer, non-urea fertilizer gets corrected, because government's intent is very clear the 2,010 NBS (Nutrient-Based Subsidy) policy, which are supposed to encourage investment in the sector, growth in the sector, stands there but last two, three years have been, you had a pandemic, you had a Ukraine war, you had a crisis in Europe in terms of various prices. So, it is very difficult to kind of moderate what it is, but now we are coming to a point where a lot of it is behind us. And the prices are getting into some more normal levels. And I would think that if you look at a two-year scenario, again this year, next financial year you will start getting to see these numbers.

Rohan Gupta: That's fantastic sir and that will definitely change the profile of the Indian fertilizer industry completely and will also lead to significant re-rating that's fantastic.

- Suresh Krishnan:** Because we are looking at investments Rohan, coming into the industry and industry will have to make this kind of money to be able to reinvest.
- Rohan Gupta:** Got it sir. Sir, second question is on our CAPEX and you mentioned roughly Rs. 280 crore to be spend in a phosphoric acid and sulphuric acid for the current year. I just want to understand a CAPEX plan over next two to three years likely in the medium term, which are the areas we are going to spend the money, can there be any inorganic growth or any sick unit acquisition potential is there, or you are going to invest in increasing capacities if you can give two to three years guideline?
- Suresh Krishnan:** Rohan it's like this, the day we are able to complete this current phase of growth, which is not only the completion of the project, and finally getting a market share of 30 lakh tonnes of fertilizer, we will be ready for the next phase of growth. So, I'm very clear that there is nothing further which is planned between FY23-24 and FY24-25 again will be a year and I've been consistently saying this, right through our phase of meeting investors during the IPO. So, we are actually following that pattern well, we have consolidated with capacity right now, we are going to consolidate this year with actual sales and the profitability coming to us when it comes to what will be our priorities. I personally believe that backward integration continues to be a strong priority for us. And we will continue to look at that, as far as the market place is concerned for some time, at least for a medium term. If there is an opportunity, we will certainly look at getting more volumes in terms of trade for value added products. That's one thing which is there and we have been open about expanding our portfolio beyond the bulk. So, that is where the opportunities will be seen.
- Rohan Gupta:** Sir just last question and I will come back in queue, what is the current phosphates prices we are contracting?
- Suresh Krishnan:** Last quarter was 1,050, this quarter is looking hovering between \$970 to \$980 per metric tonne.
- Rohan Gupta:** This quarter mean April to June?
- Suresh Krishnan:** April onwards.
- Moderator:** Thank you. The next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.
- Shikha Mehta:** I just have a few questions. So, could you help me understand how the reduction in raw material pricing and the reduction in subsidy will help our working capital, how our working capital will look like basically?
- Suresh Krishnan:** Any reduction in the raw material prices will certainly mean that the overall cost of production comes down, so to that extent our working capital comes on quite seriously. If you look at it today when you have a product which is closer to about Rs. 60,000 a metric tonne, and every Rs. 10,000 per metric tonne reduction that comes in directly adds to the reduction in working

capital and we do about 2.6 million tonnes. So, when you look at a 2.6 million tonnes, 10,000 you are looking at a Rs. 2,600 crore reduction that could happen. So, the way to look at it is that every Rs. 1,000 reduction in the overall raw material cost for us will add to 260 crores of reduction in working capital.

Shikha Mehta: Understood. And sir can you also help me understand the percentage of reduction in the subsidy versus the reduction in cost within line or if there is still some gap?

Suresh Krishnan: See Shikha, when I explaining to in the previous question. The way to look at this is that, how does your margin, we may be at a margin level of say 5% or 6% on a PBT level, the PBT level margins could go up to 12%. So, one would expect that every time you have a reduction which comes up in the raw material, not that everything is mopped up equally to reduce your subsidy, some part is mopped up and some is left behind for us to get a better margin because government itself is guiding that we should go up to 10% to 12% profitability which the industry has not been there. So, that's the way to look at it and this could come even by a further price increase because let us be very clear that DAP prices are very attractive today. And nobody wants it to be at that particular level and globally if you look at it, farmers across the world are still paying cash down at \$550 per DAP whereas in India we are still only paying about \$350. So, there is a good scope for us to kind of increase that also, be it in the coming months.

Shikha Mehta: Okay. So, currently there is still a gap right, that's correct way to look at it?

Suresh Krishnan: Yes.

Shikha Mehta: And so, we are almost midway through Q1 so, how is the demand looking?

Suresh Krishnan: The demand actually picks up, right now there is still a placement done where you do get primary phase and the actual demand for the season comes only by the end of the quarter. And we are expecting good monsoon, the good thing is as per the forecast and monsoon that we are, we are going to have 96% as long-term average and the reservoir levels are looking good and the moisture levels are looking good. And the field study that we have done through our sales team, the farmers are looking optimistic as of now and given that there is good support coming from government in all ends. So, I personally believe that the optic is going to be strong.

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Sir, what you just clarified about the monsoon, we see a very differing views on the monsoon. So, just going a bit more granular which are the states do you see that there can be issue in terms of monsoon and which are the states which are expected to be relatively immune or safer. And secondly, what are the steps the Company has done, additional steps to in a way count, it may happen. Also, last question, do you also see any increase in working capital or trade margins or has it been seen under the trade tax advantage of difficult macro conditions to in a way.

Suresh Krishnan: What I'm understanding that your concern is that, which are the states you believe could be safe, and which are the states which will not be safe. Let's be very clear that there are states where agriculture is done on based on irrigated water, there are states where agriculture is done based on the rain coming in time, that's the first point. So, when it comes to larger states like, when you look at Karnataka, Telangana, Andhra Pradesh, even good parts of Maharashtra, you have reservoir levels which are looking good, you technically whenever you see a strain in rains, there are regions like Marathwada, sorry Marathwada would do okay, but when it comes to the Vidarbha region of Maharashtra, you sometimes get to see a stress. And I personally believe at this point of time, given what kind of reservoir levels are there, I think farmers are looking to be quite optimistic that is the first point and we are present in +15 states, we have a pan India presence. So, we have an ability to reach out to certain other states where the water condition would be far better, so on overall basis we're looking okay and the crop prices have been good, as an MSP in most of these states. And this will also give a lot of support to the farmers in terms of what they need to do, so this is a good year and they are at some interesting situations when it comes to cash crops. And most of the states where the cash crops are there were irrigated, they will go ahead and look at consuming fertilizer. And over the years, we've also noticed that the monsoon gets delayed, but it also gets spread over the year. And we finally end up getting a good amount of rainfall in the country. So, it is important to realize that sometimes the season do get extended, it may be that what we look at between June, July, August could well get into end of August or early September. But that kind of an adjustment is something that we have seen that farmers are adapting themselves quite well.

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

Tanmay: Sir, just one question on the EBITDA that we have reported. If I add back the one-of provision we have reported almost Rs. 140 crores with EBITDA in Q4, so the difference on Q-o-Q basis would it be fair to assume that the entire thing relates to the provision that we might have made for the subsidy?

Suresh Krishnan: Yes, there's a large amount of impact which is basically coming from the fact that there have been provisions which have been made.

Tanmay: So, sir roughly Rs. 200 odd crores would be the provision if I calculated that way. And based on I'm not sure of the blended amount of reduction on the subsidies that has happened, but as you indicated that around Rs. 8,000 has been cut on DAP, if I just calculate that around 3 lakh tonnes of inventory in the channel on which we would have taken a provision. So, is that correct sort of working that?

Suresh Krishnan: Yes, the channel was about 2.5 lakh you are right, we have done that yes.

Tanmay: So, that is a normalized level of inventory that we maintain or?

Suresh Krishnan: Tanmay, the normalized level for Paradeep Phosphates will get established as we go forward because we have stepped up from a 15 lakh player to a 30 lakh player. So, when it comes to that,

we will look at an offseason, where about two, two and a half months of material will be there with us. So, the question that really comes up is what kind of material, what product mix and all that, but during the coming year, the next four quarters you will get to see that we will be establishing for ourselves a new levels of inventory that we will have to carry given our capacities having gone up. But at the same time, I am happy to report that we have done all our primary sales of what we produced, and which has been a good thing for us.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Nuvama. Please go ahead.

Rohan Gupta: Sir, there is a lot of buzz about the Nano DAP and all, you also mentioned that you may have planned in non-bulk fertilizer. Just want to understand do we have any thought process on this Nano urea or Nano DSC or what non-bulk fertilizer you are referring to?

Suresh Krishnan: Rohan as far as Nano is concerned, please keep an eye on our website. I'm sure you will see some announcements soon.

Rohan Gupta: Apart from Nano DAP, do you see that there are opportunities in other non-fertilizer businesses for us to grow investment?

Suresh Krishnan: We believe that both Nano DAP, Nano urea and a few other products which are non-subsidized are likely to be offered by us going forward.

Rohan Gupta: Sir, if you can just give some more light on Nano, it's a slightly new product and we have understood from the market that there is a high acceptance from the farmer, but different markets, different feedback, where do you see that this market will be growing and what can be the opportunity we understand it cannot completely replace the chemical fertilizer but cannot be used as a substitute, but also will be used along with the chemical fertilizers. So, not only for the Company perspective, but for the country level, where do you see that the market size can be created 4%, 5% of the chemical fertilizer right now, if you can share some number on there?

Suresh Krishnan: Well Rohan when it comes to Nano fertilizer, the product that we are looking at is slightly different from the products which have come up in the market so far. So, as and when we are ready to launch and we will certainly share all the details and all that I would like to say is that our field work has been completed and our reviews by the government is also complete. So, we are expecting that we will be in a position to come out with it in the near future. Normally the Government takes a few months to clear these kinds of proposals. But the basic thing that we as a Company are focused, we believe very seriously that soil is something which is very important the central to our entire strategy. Soil in a way we even believe that soil is our customer. And whenever it comes to soil, the basic thing that we need to look at is nutrient use efficiency. That is where the entire focus should be and some of these products are organic, or Nano all this goes a long way to kind of support a nutrient use efficiency when it comes to the soil itself. And the important, so that's the way we would like to look at it, when it comes to replacement. I can give you only a global average, specialties consisting of about 10% of the bulk. So, if you put all these categories to specialty, then you could well imagine that the specialty categories would

kind of replace 10% of the bulk, so if you want to look at urea as a product, urea used to be at about a 38 to 40 million tonne of sales in India on the whole. So, there's the potential of Nano could be 4, 5 million tonne. And the way the government has been also looking at this is that if you have a manufacturing capacity of 30 million and you're importing about 8 million tonnes of urea, it is good to reduce the imported component by shifting that into Nano. So, Nano's potential in India, if you want to define it is 8 million tonne potential of replacements of a traditional product.

Moderator: Thank you. The next question is from the line of Aditya Sen from RoboCapital. Please go ahead.

Aditya Sen: Sir this is just a confirmation, the 12% margin that we were earlier talking about, which the government has suggested is this only specific to phosphoric acid or for DAP and SSP also?

Suresh Krishnan: This is not for SSP for sure, this is basically looking at all non-urea grade NPK.

Aditya Sen: Any idea on SSP?

Suresh Krishnan: Not really, SSP also kind of it's in evolving situation, I believe I wouldn't want to comment on it because I don't have a capacity on that, to really comment on that.

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

Suresh Krishnan: Thank you, everyone for participating in the earnings conference call. I'm sure we tried to answer all your questions and if you have any further queries, please contact our Investor Relations Team and we will be happy to address the same. I would only like to summarize our position looking forward and as I had mentioned in the call, we are very optimistic about the way things are shaping up in future, primarily given the fact that the fertilizer raw metal prices have been correcting. And we also believe that our incremental volume that we have in hand, once they can convert into a market share, we as Paradeep will be a very interesting Company from the perspective of all stakeholders. We look forward to continuing to be engaged with you all. Thank you.