



“Paradeep Phosphates Limited
Q3 FY 23 Results Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Paradeep Phosphates Q3 FY23 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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 Lizann. On behalf of ICICI Securities, we welcome you all to Q3 FY23 results conference call of Paradeep Phosphates. We have with us senior management represented by Mr. Suresh Krishnan, Managing Director; and Mr. Sabaleel Nandy, President and Chief Operating Officer.

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

Suresh Krishnan: Good afternoon everyone and welcome to the Q3 FY23 Earnings Call of Paradeep Phosphates. At the outset, let me wish all of you a Happy New Year. This is our first call in the year 2023 and I’m sure that all of you are staying safe and healthy. We have already circulated our earnings presentation, which is available on our website as well as stock exchange website. I hope you all have had opportunity to go through the presentation and we would be happy to take any questions afterwards.

The fertilizer industry in India, has seen significant growth in the recent years driven by the increased demand for food, a good support from the government, rising awareness of benefits of fertilizers and all major nutrients, including phosphoric and the expansion in the industry. The government initiatives on subsidies and incentives to make farmers fertilizers more affordable to farmers has further led to the growth of the industry.

We are pleased to report another robust quarter with our highest quarterly revenue from operations of Rs. 43,984 million, an increase of 62% year-on year and 54% on sequential basis. The growth was primarily driven by efficient capacity utilization, successful stabilization of Goa plant given our strong supply-side linkages, notwithstanding a volatile global macro environment. In Q3 FY23, we registered strong improvements in EBITDA and margins as well. The EBITDA for the quarter stood at Rs. 3,773 million, registering a year-on-year growth of 76%. Our profit after-tax stood at Rs.1,803 million compared to Rs.1,277 million in the same quarter last year, registering a year-on-year growth of 41%.

The margins during the quarter were partially impacted by higher depreciation charges along an increase in finance costs resulting from subsidies, currency instability and slightly higher long-term borrowings compared to the previous year. The EBITDA per ton for Q3 FY23 was at Rs. 5,995 as compared to Rs. 4,425 in the same quarter last year. Total fertilizer production

during the quarter was 621,815 MT, registering an increase of 66% on year-on year basis. We are happy to report that we have fully stabilized the Goa operations and the plant has been steadily producing both urea and phosphoric fertilizers. We have been able to produce to 261,550 MT of finished fertilizers this quarter at our Goa plant with several NPK grades like N10, N14, N19, N20 and N24 and 124,271 MT of urea.

On the Paradeep plant, we have successfully completed the revamp of all the granulation trains. As you know we have four granulation trains running since and they have been running since November 2022 and we have achieved a daily average production run rate of 5,000 MT from December 2022 onwards. This has allowed us to meet our revamp targets and we are eager to continue this steady rate of production at both our plants aligned to the market need with the right product mix.

To further enhance our earning potential, we have embarked on two brownfield backward integration projects, first of which will increase our phosphoric acid capacity by 2 lakh tons by Q1 of FY24. The second is to increase our sulphuric acid capacity from 1.4 million tons per annum to 2 million tons per annum, which will initially enable us to generate green captive power. At a macroeconomic level, the outlook remains positive with prices correcting and global markets improving post China's opening up. We are confident that our strong financial results and developments will position us well for continued growth in the future.

These are our initial thoughts and the details have already been provided in our presentation and we will be happy to take any questions from your end.

Moderator: The first question is from the line of Darshita from Antique Broking.

Darshita: What would be the capacity utilization for Q3 FY23 as well as Q3 FY22?

Suresh Krishnan: As far as FY23 is concerned, both in Goa and in Paradeep, we are close to working at 95% and the 5% gap is largely due to the fact that we were stabilizing the plants post our revamps and as far as FY22 was concerned, the last year, Paradeep was operating in its full capacity and as far as Goa is concerned, we were not running the plant then. So we don't have the comparable number.

Darshita: What I wanted to understand was, if the capacity utilization was largely the same what is fuelling the 66% volume growth? I just wanted to understand, is it largely due to the market share gain? Have we probably entered into other regions that we were not covering back then? That is what I'm trying to understand.

Suresh Krishnan: Now you need to understand that last year we were running only for Paradeep. This year, we're running Paradeep and Goa together and Goa has added 261,000 tons additional to the overall volumes that we have. So that's one primary reason that we get to see. The second reason for the growth is also given the fact that fertilizer prices have gone up, the input prices have gone up and hence the overall market realization has gone up as far as fertilizer is concerned. So it's a price increase and the volume increase both adding up to the overall increase in revenue.

- Darshita:** No, I think in your press release you have mentioned there is a 66% volume growth so that is what I was referring to, not the overall top-line growth?
- Suresh Krishnan:** So the 66% volume growth which is coming primarily from our Goa volume of 261,000 tons which we didn't have last year.
- Darshita:** With respect to market share, if you could give any data? What was the market share right now versus back in Q3 FY22? For Paradeep specifically, even that's okay.
- Suresh Krishnan:** Yes. Under normal circumstances this question would have been relevant but in the circumstance where the Goa plant was acquired by PPL on 1st of June, 2022, the question is not quite relevant but at a national level, PPL as an entity would be looking or aspiring to around 12% - 13% market share of fertilizers on an aggregate level.
- Darshita:** Also, could you provide the sales volume number for manufactured and what would be the trading?
- Suresh Krishnan:** Pretty much everything is manufactured, we didn't trade.
- Darshita Shah:** And sales for DAP, NPK and Urea? I think the ones that you provided are manufactured volumes.
- Suresh Krishnan:** Yes. So I'll tell you. If you are talking of the numbers for the April to December for the quarter, the total sales figure for DAP is around 193,000, for NPK it's 171,000. This is for the quarter. For the YTD, which is April-December, the same numbers are 408,000 and 554,000 respectively. These are for Paradeep. For Goa, the numbers would be 247,000 total for the quarter and for this year, it's 426,000. These are all thousand.
- Darshita:** And the same for Q3 FY22?
- Suresh Krishnan:** For the FY22, Goa obviously is not relevant. But as far as Paradeep is concerned, it's 1,084.
- Darshita:** Split between DAP and NPK?
- Suresh Krishnan:** 669 is DAP, 415 is NPK.
- Moderator:** The next question is from the line of Vihang Subramanian from Zaaba Capital.
- Vihang Subramanian:** Could you provide what is the gross debt, cash on hand and subsidy receivables outstanding as of Q3 FY23?
- Sabaleel Nandy:** For fertilizer operations, as we have been maintaining in the earlier calls, we look at long-term debt as the main debt. The working capital debt continues to fluctuate. The long-term debt for us is around Rs. 713 crores.
- Vihang Subramanian:** The total debt. I want the total gross debt and the cash on hand that we have. Trying to understand what is the net debt and what's the subsidy receivables outstanding?

- Suresh Krishnan:** We have a total debt of Rs. 4,298 crores as on December 2022
- Vihang Subramanian:** Rs. 4,298 crores?
- Suresh Krishnan:** Yes. Out of this, the long-term debt is Rs. 713 crores and the short-term working capital debt is Rs. 3,585 crores.
- Sabaleel Nandy:** Subsidy receivable is Rs. 3,457 crores.
- Suresh Krishnan:** And inventories are Rs. 2,812 crores.
- Vihang Subramanian:** So the Rs. 4,298 is gross debt, right?
- Suresh Krishnan:** Yes.
- Vihang Subramanian:** And what would be the cash on hand that we have?
- Suresh Krishnan:** We primarily have a large limits available from the working capital consortium and the limits available which we can draw upon today is over Rs. 1,500 crores.
- Vihang Subramanian:** I mean the cash on the balance sheet, sir.
- Suresh Krishnan:** As you know that we have borrowed. We're not really showing any surplus cash or invested cash in the balance sheet and all the cash has been utilized to pay down the working capital (Unaudited 13:19) facilities.
- Vihang Subramanian:** So net debt is basically is broadly around Rs. 4,300 crores?
- Suresh Krishnan:** Same number and we have borrowing limits available and drawing power available and that number is over Rs. 1,000 crores.
- Vihang Subramanian:** I really thought that the net debt sort of come down more quarter-on-quarter, right, given that we almost got like around Rs. 2,000 crores or so of subsidy payment from the government. So any thoughts on why it didn't come down?
- Suresh Krishnan:** No, look, the way it works is if debt comes down because primary composition of the debt, as we said, the long-term debt is only Rs. 713 crores, the primary composition of the debt is buyers' credit or working capital which is because of subsidy receivables of Rs. 3,500 crores. The subsidy receivables, as you know, the way it works is, the government pays the companies within 15 days of the sales happening. End of December number is not the right number to look at because Rabi has just started or had just started around that time.
- If the same number were to be looked at end of January or so, the numbers come down but just to give you a feel, we have had a good run in terms of subsidy received from the government. During this quarter, we got Rs. 1,504 crores of subsidy and the total subsidy that we received over the 9 month period is Rs. 2,885 crores and our market collections have been pretty robust right through.

- Vihang Subramanian:** We got Rs. 1,500 crores, you said, right?
- Suresh Krishnan:** Yes. Rs. 1,504 crores during this quarter, yes.
- Vihang Subramanian:** Sir, and given you mentioned about February, right. Any guidance on what would be the net debt number by year end?
- Suresh Krishnan:** Well, I think the way we look at it is that we are looking at a long-term debt as we have been giving this guidance for a long time is expected to be around Rs. 1,000 crores for us because by this time we would have kind of completed all our projects. As far as working capital debt is concerned, which is the cash borrowing that we will do from the banking system, it is not expected to increase over Rs. 1,000 crores.
- That's the kind of number that we've always planned for and that's the kind of indication that we're getting. The rest of it will be primarily to do with a supplier or a buyer arrangement that we will do. So these are the two critical numbers that we need to look at and so based on the subsidy received by 31st March, the Rs. 1,000 crores number will go up or down and that's the way we look at it.
- Vihang Subramanian:** So the net debt number of Rs. 4,300 crores should go down?
- Suresh Krishnan:** It should not be increasing. We would be able to maintain those numbers.
- Vihang Subramanian:** It wouldn't go down though, but from Rs.4,300 crores net debt?
- Suresh Krishnan:** It could. It could. The way the sales are happening, the progress that we get to see and the way the subsidies will get paid, there is a good possibility for this also to come down.
- Vihang Subramanian:** And on the EBITDA per ton, do you think Q4 FY2023 also we could maintain our current levels or do you see this dropping off?
- Suresh Krishnan:** Well, we always believe that as far as the phosphoric business or the blended business that we look at, Rs. 5,000 per metric ton is a good EBITDA number to go with and you would always see a fluctuation in a commodity freight where you would see some quarters which are better. So I think we would like to kind of maintain the same and we are hopeful that the stability that we are seeing in prices and the improvement that we are seeing in terms of availability could well lead to some improvements.
- Vihang Subramanian:** just lastly on the finance cost, could you just give some guidance on how one should think of it?
- Suresh Krishnan:** Well, when you look at finance costs today, there are two elements to it. One is the long-term money that we've been borrowing with the average cost has been around 8.5% for us. When it comes to the short-term borrowing, in that the kind of weighted average that we're looking at, at this point of time is about 6.75%. That's the kind of possibly we are earning today.
- Moderator:** The next question is from the line of Akshat Mehta from Sameeksha Capital.

- Akshat Mehta:** Yes. So my first question is on your EBITDA per ton you've done, there has been a sharp jump in your EBITDA per ton from around Rs. 5,200 normalized EBITDA per ton last quarter to Rs. 6,000 and so what has been the key driver of this sharp jump in EBITDA per ton?
- Suresh Krishnan:** Well, you must understand here that we've been in a process of increasing our capacities. Our fixed cost has remained the same so the capacity increase have already taken up which is adding to our EBITDA number without having any further increase in fixed costs.
- Akshat Mehta:** I just wanted to understand that this you're saying is purely operating leverage. So last in Q2, what were your capacity utilization numbers? Your Goa plant was still operational with the three manufacturing unit.
- Suresh Krishnan:** No, last quarter, Goa plant wasn't operational. We have taken over Goa in the month of June and only at the end of August that we started operating Goa and we were stabilizing the Goa operation based on various grades and various combination that we're looking at. It is only from the month of November that we are seeing we have reached a point where we have a stability and we have a clear plan in terms of how we're going to use those capacities.
- Sabaleel Nandy:** In fact, if you remember, when we had the last investor call, this is a point that we had said that we are our focus in the current quarter, which is October-December quarter, would be to stabilize the Goa operations because the last two quarters before that, while we had just acquired Goa, there were supply chain issues and it was not yet smoothed out and that's where bulk of the management attention has been, which is to stabilize and generate steady throughput out of Goa. So that has been the key contributor to the seemingly better performance. Of course, the other factor that has helped us is a generally positive scenario as far as the demand-supply is concerned and a scenario of overall softening or a gradual softening of prices.
- Akshat Mehta:** I just wanted to understand how sustainable is the Rs. 6,000 per ton number? What kind of outlook should we see for the rest of the year as well as for FY24? Where should this number go?
- Suresh Krishnan:** Let's just say, it's our view that as far as the phosphoric business is concerned, Rs. 5,000 metric ton EBITDA is a good, stable number to look at. So we would like to remain with that and then you will always have an opportunity in certain quarters where your numbers will look better.
- Sabaleel Nandy:** We continue to maintain what we have been maintaining right from our pre-IPO days, which is an Rs. 5,000 per metric ton number and that's what we would like to believe will be the number going forward, That doesn't mean that we will leave any stone unturned to increase that number.
- Akshat Mehta:** You mean somewhere we are considering that there will be a fall in number because till now you had very good numbers overall in the nine month period as well. So that can happen. Secondly, I just want to understand what is the kind of capex that you're going to spend on the two backward-integration projects?
- Suresh Krishnan:** As far as the capex is concerned, the primary capex on granulation is already completed and as far as the sulphuric phosphoric acid capacity increase is concerned, that overall capex was on

the tune of about Rs. 225 crores and we have spent about 50% of that and the balance will get consumed during the next few months. So that is the capex that is going to be there.

As far as the sulphuric acid project is concerned, that's a Rs. 425 crores project which is going to be taken up over a period of next 2 years so you're not going to have any bunching up of the capex that's happening. We are now at an advanced stage of engineering and we would expect the project activities to take to peak sometime in the second half of this calendar year, which will be the second half of the next financial year.

Sabaleel Nandy:

So as we are again, borrowing from the arguments and the discussions that we've been having in the run-up to the IPO and the last two calls, bulk of our investments have been already put on the ground and we are looking at reaping the benefits of that. One of the points that we have also mentioned in the press release and which we have not discussed so far in the call is the fact that all the four granulation trains in Paradeep have been fully revamped that was one of the important projects that we were running and today, as we speak, we are able to generate or realize the targeted per day production numbers from Paradeep fully, which means Paradeep is now running at 1.8 million tons annualized run rate. So that's point one. The other project that Mr. Krishnan just referred to, which is related to the phosphoric acid expansion, which is a very, very critical project, is also broadly on track, but running a quarter or two behind schedule, which we will catch-up and we should see that also coming on stream soon and once that is done, the other project that will be remaining to balance out the requirement of sulphuric acid would be a sulphuric acid plant but by and large, we are done with very major capex plans. We are in the drawing board to look at the next wave of growth for PPL and wherever that's ready, we'll come back to share that with you.

Akshat Mehta:

Another general broad question on industrial as well. The industry is now moving towards more and more nano fertilizer production so is there any intention of the company to go towards that production? What do you think would be the impact overall on the industry once nano fertilizer comes in couple of years at large scale?

Suresh Krishnan:

As far as nano fertilizers are concerned, we believe it's more a specialty product which is which will be in the category of non-subsidized product and I'm sure that we will add that to our portfolio going forward, However, nano's potential today looks like more like replacing about maximum of 10% starting with about maybe 3% - 5% in the case of urea and we'll have to get to see how much of DAP that it can replace. A good target to begin with would be 5% of the overall market size but you must keep this in mind that as nano gets in, you also have a growth in the phosphoric fertilizers consumption. So what we can very clearly see is that our import dependence on account of growth which is there could well get partially offset by the nano category that will come in.

Moderator:

The next question is from the line of Devvrat Himatsingka from Augmenta Research Private Limited.

Devvrat Himatsingka:

Just wanted to understand a little bit more on the Goa plant acquisition. Currently, I'm sorry, I must have missed this because I had joined the call a bit late. But overall, what is the capacity utilization in Goa?

- Suresh Krishnan:** We are running at 261,000 tons of production that we did in the last quarter and Goa is potentially good for about 2,80,000 tons in the given quarter so we're nearly at the peak level based on the grades that we manufacture there. Urea is running full capacity, roughly 1,350 tons per day and as far as phosphoric capacity is concerned, it's about 2,000 tons per day.
- Devvrat Himatsingka:** And going forward, if we had to look forward into FY24, what kind of volumes could we grow. like if you had a year-on-year idea, like if you have a target in mind or something?
- Suresh Krishnan:** No. Well, we are see, this year is going to be more like a we've done already 1.4 million tons of sales and we could be somewhere in the ballpark of about 2 million tons of sale as we end this financial year and because the current 3 months and the second half of this quarter is going to be like off season for the fertilizer market. When it comes to next year, we have a capacity which is close to 3 million tons and so obviously we will be looking forward to utilizing most of it and so our targets will be based on that so you should see a good increase from the current levels of 2 million tons that we are doing this year for the next financial year.
- Moderator:** The next question is from the line of S. Ramesh from Nirmal Bang Equities.
- S. Ramesh:** The first thought is that the phosphoric acid prices have been showing a decline, has there been any impact because of the excess inventory from the second quarter? And how do you see the outlook for the sulphur, sulphuric acid and phosphoric acid prices to the extent that you have to buy it from the market, say, over the next few quarters? What is the sense you have?
- Suresh Krishnan:** Well, in terms of availability, we see a stable availability of all these projects and we believe that the fertilizer raw materials, in general, there pretty much the prices have peaked so we are seeing a correction downwards and as I said, that is likely to continue for a couple of quarters the way things are I think it and we believe that availability will not be an issue as far as the industry is concerned and when it comes to inventory, yes, we are a manufacturer, we do carry raw materials with us and based on it could well be between 20 days to a 30 - 35 days inventory is something that we're always carrying so that gets into manufacturing and its corrected in terms of pricing over the period of time.
- S. Ramesh:** So in terms of the margins you have reported for this quarter, you would have had a certain level of pricing for your fertilizers net of the subsidies so have you been able to maintain that price per bag price per ton for the third quarter or have you cut prices?
- Suresh Krishnan:** As far as Q3 was concerned, we did not have to cut any prices. I mean, they were pretty stable. And I personally see that as far as the MRP for fertilizer is concerned, we will have a stable regime, maybe a greater of two might [inaudible 0:29:05] changing. But it still looks like a stable here going forward.
- S. Ramesh:** So in terms of your captive production of sulphuric acid and phosphoric acid, what is the percentage of captive production if you look at your Paradeep fertilizer unit?
- Suresh Krishnan:** Well, as far as sulphuric acid is concerned, we pretty much meet all our requirements from our own production as far as phosphoric acid is concerned, we're currently at about 70% in terms of

a backward integration and with the new capacity coming in, we could be closer to 90% as far as Paradeep is concerned. In case of Goa, we will be import all our phosphoric acid as required.

S. Ramesh: So the sulphuric acid expansion is primarily for your additional phosphoric acid production. Is that right?

Suresh Krishnan: Absolutely, Yes, that's right, yes.

Moderator: The next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: I just wanted to ask about, if I'm not wrong, your capacity is around 30 lakhs MT, right? and you were saying that you had a utilization of roughly 95%. So, I was were you speaking about all the fertilizers or DAP and NPK only?

Suresh Krishnan: When you look at it, our current run rate is at 30 lakh tons per annum. So, when we started this year, we had only 15 lakh tons as far as the capacity was concerned, that's only Paradeep. We added Goa in the month of June and Goa has finally got stabilized. So, we have been using whatever capacity was available which was the Paradeep to over 95% capacity because we were having one train always under revamp, and all the revamps have been completed so, we are in a position to run all our 4 trains effectively.

As far as Goa is concerned, right through from the time of acquisition, we have been able to run our urea plant to full capacity. phosphates plant after finding out all the issues on supply chain, now since October-November, is running at a pace which is close to over 90% capacity utilization.

Vignesh Iyer: So, would it be sir fair to assume that for the quarter four we can do somewhere around 7 lakh tons and for FY24 around 28 lakh tons or 27 lakh tons roughly?

Suresh Krishnan: Well, as far as quarter four is concerned, second half of the quarter four is an off season, so we'll have to take all the terms of market demand. So, we believe that we will I mean, we should do a good quantity. I mean, it may not be 7 lakh ton, but we will be more like in a 6 lakh ton number or something is should be feasible and we would have a complete clarity by end of February as the season ends and based on the market requirement, we will be producing and you're right, I mean, we have a capability to take the capacity utilization and production to 28 lakh tons next year.

Moderator: The next question is from the line of Chintan Shah from JM Financial.

Chintan Shah: Hi, sir. Thanks for the opportunity. So, I just wanted to see in case of the current raw material pricing scenario, just wanted your sense on how do we expect the subsidy component to play-out? and how would that impact the margins going ahead?

Suresh Krishnan: Well, if you look at it right since 2019, the subsidy per ton per phosphatic fertilizer has only gone up and if we look at it today, it's roughly about 67% - 70% is the subsidy for the phosphatic fertilizer. We believe that going forward with prices getting corrected and MRP is being at what

level that we see, the subsidy per ton will come down and the proportion of market prices to the overall realization will keep increasing.

Chintan Shah: So, on a net-net basis we should maintain our profitability?

Suresh Krishnan: Yes. I think there is every case for us to really maintain profitability in general and but given that the industry has been affected by geopolitical reasons in the last year February and we are bit confident that that particular event has been handled well and the global markets are stable and it will be good to see the sector on a quarter-to-quarter basis as you get these global situations evolve but one big positive that we are getting to see is the stabilization in China, which we believe is on the whole good for the sector.

Chintan Shah: And secondly, DAP plan. How do we see the imports playing out? Could that be [Unaudible:33:55] in coming quarters?

Suresh Krishnan: Well, as far as imports of DAP is concerned, the availability of DAP is there and I think India's current position of DAP in terms of closing stock for the next season looks to be quite good and at this point of time we don't see challenges in import of DAP.

Chintan Shah: And lastly, with this expansion largely done, and in the quarters probably next quarters it will probably ramp up completely just wanted a sense in terms of growth perspective from FY24 and beyond, do we have any other plans with plant capacity or we'll look at some other product, etc, if you can throw some light on this?

Suresh Krishnan: Well, from FY24 onwards, as we said, we're going to have some of the efficiencies kicking in from the backward integration so that's going to make a difference. As far as Paradeep is concerned, there is Phosphoric acid efficiency coming in. As far as Goa is concerned, we're doing an energy efficiency improvement in Goa in urea, ammonia urea complex. The benefit of it will come in the fourth quarter of next year. And so, these are initial benefits which are there.

And as we said earlier, we are back to the drawing board in terms of looking at FY25 onwards. I think we got our handful as far as FY24 is there and for what we need to do from FY25, we will work on it and the one important project that can kick in, in FY25 is also the completion of the sulphuric acid project.

Moderator: We'll move on to the next question that is from the line of Dhwanil from Iwealth. Please go ahead.

Dhwanil: Yes. So, sir, just couple of questions. First on again, sir, on the volumes that you were saying that we did close to 6,21,000 this quarter and ballpark, sir, on the quarterly side, at the optimum level, we can do somewhere around 7 - 7.1 lakh, which is around 28 for the year, So sir, from here on, incrementally the true capex which we are doing is more on the backward integration and they won't help us in adding more volume, right? So, from here on, sir, how do we see volume growth shaping up once we reach almost currently we are at 95% right so

Suresh Krishnan: If you look at it, this financial year, we will end up with about 2 million tons and so, we have to travel from 2 million tons to 3 million tons, which you will get to see in the coming years.

Sabaleel Nandy: And just to add, there is no company which you will see, at least in India, which whose sales volume is equal to production volume. Most of them also have a top up of traded volumes, which we have not yet intentionally embarked upon and the advantage or the efficiency that kicks in with an additional traded volume is because from the same fixed cost base of the sales and marketing network, we can churn out more volumes through imports so that will also kick in.

The main reason why we feel that the company has not gone into it is because we were in the middle of a very aggressive expansion program in Paradeep, we are moving from 1.2 to 1.8. Goa, we were taking on another 1.2, so, for the next 3 years, see, the management team is completely we have our hands full. As far as the volume growth is concerned, there are many areas from which this volume growth will come.

Dhwanil: So, you are saying that the imports or the trading can be done to increase the volume, correct?

Suresh Krishnan: Yes.

Dhwanil: Which currently we aren't doing it?

Suresh Krishnan: Yes.

Dhwanil: Because we are utilizing our own capacity. Got that, sir And sir, when we do the trading, so in that case, what is the EBITDA per ton that you generally make on that?

Sabaleel Nandy: In case of trading, contribution is equal to EBITDA is equal to PBT, because it is going to be riding on the same sales and marketing networks.

Dhwanil: But I wanted to understand on the EBITDA per ton. So Rs. 6,000 is what currently we are doing.

Suresh Krishnan: It depends on global prices.

Sabaleel Nandy: It will be lower than manufacturer. Say, Rs. 3,000 - 3,500 is a decent number to take.

Dhwanil: And just one last question. The phos acid backward integration, so how to understand the impact of that, sir? So, in terms of our EBITDA per ton would increase, how to understand that, sir?

Suresh Krishnan: It's a deficiency improvement, so it will have to reflect on EBITDA per ton and I'm sure we'll get a chance to discuss this in the next earnings call here once we're done with (Unaudible 39:05)

Dhwanil: Because in the earlier call, you were saying that Rs. 1,000 to Rs. 1,500 is generally the conversion, which you will be able to get, right?

Suresh Krishnan: Yes.

Dhwanil: And what is the capacity, sir, we are putting in phos acid?

Suresh Krishnan: 200,000 tons additional.

Dhwanil: And which will start from Q1 FY24?

- Suresh Krishnan:** We are expecting that the plant shifted into a conditioning mode in Q1 FY24.
- Moderator:** The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund.
- Dhruv Muchhal:** Sir, I just wanted to reconfirm the sales numbers. For Q3 this year, it is 6,07,000 tons and for Q3 last year it was 4,94,000 tons, right sir?
- Suresh Krishnan:** Yes.
- Dhruv Muchhal:** And sir, you mentioned the subsidy this quarter end is about Rs. 3,400. What would this be at the end of the September quarter?
- Suresh Krishnan:** At the end of the September quarter, the subsidy. Subsidy We got Rs.1,504 crores of subsidy and the subsidy outstanding at the end of September was Rs. 2,252 crores.
- Dhruv Muchhal:** Rs. 2,252 crores, got it.
- Suresh Krishnan:** Our subsidy is going up today because we're producing more. Our volumes have substantially increased. So, you would see.
- Dhruv Muchhal:** And the number that you mentioned, Rs. 1,500 crores, that you have received in Jan, right sir?
- Suresh Krishnan:** This is what we received during for Q3 quarter, between September October, November, December.
- Dhruv Muchhal:** And sir, just on the EBITDA number. Now if I look at the number per ton and considering that you probably had some higher cost inventory and also the manufacturing spreads, if I'm not wrong for phos acids have a bit lower versus the last quarter. The EBITDA per ton number seems quite strong also in context of the urea volumes you had decent urea volumes even this quarter, which I believe is not as profitable as the normal fertilizer, the NPK fertilizers or DAP.
- So just wanted to understand better on the EBITDA per ton. Is it probably seasonal which is driving this or their can be further significant upside, because with your guidance there's no significant difference, further Rs. 6,000 versus Rs. 5,000 your guidance?
- Suresh Krishnan:** Well, if you look at it, as far as EBITDA is concerned, one is manufacturing efficiency, number one. The second most important thing that I had mentioned earlier was that we started increasing our volume with the same fixed cost. That makes the difference. The fixed cost that we're carrying in the last quarter, Q2, the similar fixed cost that we're carrying in Q3, but our volumes are different. And so, the incremental volume which is coming in, there again your contribution becomes A equal to EBITDA. It doesn't have to have any other fixed cost at all. So that is the impact that you're getting. So, the increase in volume at the manufacturing price is what is driving this.
- Dhruv Muchhal:** Sure. But the understanding is fair, right? The manufacturing split is probably where on benchmark level is probably lower. So, despite that, the overall EBITDA is still better?

- Suresh Krishnan:** No, no, as far as the right across all product mix, I think we've had good EBITDA and we have made various grades of fertilizers which have kind of worked for us. So, what was your question? What exactly do you want to know?
- Dhruv Muchhal:** Yes. So if I just adjust for the urea volumes, your EBITDA per ton will be even better, because that's probably is the right way to understand.
- Suresh Krishnan:** It's always will be, it is the case. But you know, urea is a stable product with the stable EBITDA...
- Sabaleel Nandy:** As Mr. Krishnan mentioned earlier, we are telling you the EBITDA that we have achieved this quarter and the guidance going forward, which is around Rs. 5,000. We'll try to exceed that, but we'd like to maintain that as the number. The reason being, we've just had one quarter of steady Goa performance. We would like to repeat that for a few quarters before being able to increase that guidance, in case that's what you're going towards.
- And the fact that we had urea, unlike some of our competition, is actually a de-risking strategy, because there will be quarters, there will be years when urea will be good, especially in scenarios where gas prices are high, etc. As we are probably alluding to. So, the balanced portfolio that PPL has compared to some others and that was one of the reasons why we decided to go after the Goa plant to increase or diversify our product portfolio beyond pure phosphatic place. It is going to be an advantage and we may see more of it going forward.
- Dhruv Muchhal:** Sir, just one last thing. Is Goa your plan was to shift more towards the NPKs rather than DAP, if I'm not wrong. So based on probably your early performances, is that on track.
- Suresh Krishnan:** Absolutely. It is completely on track and we made some small quantities of DAP. We've tested all the grades including DAP as far as Goa is concerned. But if you look at it during the last quarter, we have made N14, N19, N20, all grades that we made out there.
- Sabaleel Nandy:** So only of the 247,000 tons in Goa, only 19,000 is DAP.
- Suresh Krishnan:** Rest is NPKs
- Moderator:** The next question is from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.
- Manish Mahawar:** Yes, good evening, sir. In terms of EBITDA per ton perspective, as you said, a Rs. 5,000 per ton of margin, it is blended margin, right? It's phosphatic as well as urea blended margin you talking about?
- Suresh Krishnan:** Yes.
- Manish Mahawar:** And going forward, once just your backward integration in terms of phosphoric acid and sulphuric acid will be in place in FY24 end I would say, FY25, the capacity available like what type of EBITDA per ton we can make or if you can say basically what type of benefit benefit can come from these two projects?

Suresh Krishnan: Well. As we look at it, the volumes are going to be well. The volume growth is also going to drive the overall absolute rupees crores of EBITDA which is going to be there, which you will get to see in FY24 and also the benefit of the phosphoric acid capacity. And that's certainly going to add and it is our backward integration will go up from 70% to 90% in Paradeep, yes.

But I think, Manish, the best thing is these are all commodities, volatile markets and we should be clear that all this is going to be positive as far as the company is concerned. And as we come to those quarters when we'll start producing, we'll discuss it. But we are very confident that all of it will be positive for us.

Manish Mahawar: Okay. That was my point, actually basically we can make a higher EBITDA what we are guiding for at the moment and it is conservative at the moment, right?

Suresh Krishnan: I think Rs. 5,000 to be an average EBITDA given the kind of products which we have. Given the efficiencies that we're going to bring in, I'm sure the objective is to increase the EBITDA, as we have mentioned earlier. We would look at a better guidance every month reach there.

Sabaleel Nandy: And just to add to what Mr. Krishnan said -- EBITDA per ton is also a function of the prices of rock phosphate phosphoric acid and our long-term contract was such that we get discount percentage, etc. all those things come in. This Rs. 5,000 per ton is an EBITDA per ton number that we keep saying which we're saying we're going to maintain. But as you realize, when the prices go down, we will also shift the discussion to an EBITDA margin, which will start to show much better. So, in a scenario where the prices are very high, we don't talk of EBITDA margin, we talk of EBITDA per ton. But when prices will go down, we will shift the discussion to EBITDA margin.

Suresh Krishnan: And as far as this industry is concerned, it's important to note that the volumes are important and the quality of the volumes are equally important. So, I think that is exactly where our focus is and the quality of volumes that you will get to see from us will finally determine the kind of EBITDA that we will generate.

Manish Mahawar: And in terms of a mix perspective in finished goods, last year we sold around 7 lakh ton of DAP. So, going forward, incremental whatever volume we sell, it is towards the NPK side, most of it, right?

Suresh Krishnan: Yes. So actually, from a production capacity point of view, we are in a position to make of the 3 million tons or 30 lakh you leave aside 4 lakhs, you are left with 26 lakhs. We can make 26 lakh tons of DAP, if it is needed.

However, our choice of product is determined by what our farmers need. And of course, a consideration of what kind of contribution we'll make from those products. That's what determines the product market choice.

Having said that, this year, we have deliberately reduced or subdued our DAP production and DAP sales. We will continue to look at dynamically the scenario of the market and decide which products to make.

The important point which we would like you to understand is the flexibility that the production plants have which many other competition does not have. They're stuck, they have to make non-DAP product per force or a DAP product per force, which is not the case with us.

Sabaleel Nandy: We Look at our last quarter performance. Our DAP was down by 10%, whereas our NPKs like N20 was up by 33%. And when it comes to other specialized grades of NPKs, which we look at in Goa, it's like 500% increase was there in the quantity. So, this has been the change that has come into the overall product mix.

Manish Mahawar: But my limited point is that going forward in terms of overall volume, your mix in terms of NPK will increase or it will remain at the same as what we are seeing DAP products.

Suresh Krishnan: So we could increase depending upon the needs of the farmer and how the liquidation happens. As we said, we have a very good capability today. We are a highly fungible granulation trains right across Goa and Paradeep. So, we will take a call as we go forward based on what market requirements are there.

Manish Mahawar: And last point, Mr. Krishnan, if you can throw some your thought in terms of a government subsidy provision for the next year, which is today actually budget Rs. 1,75,000 crore.

Suresh Krishnan: What we saw in the budget was Rs. 1,75,000 crore which is a good number and which could be as good an estimate as you can get today. And we feel that it's been in for a healthy number.

Manish Mahawar: And what's your expectation for the phosphoric acid price maybe for coming quarter or so? It will come down?

Suresh Krishnan: For this quarter it will come down, for sure, Q4. And the trends that we are looking at it is that maybe this quarter, next quarter, you would see correction downwards. And post that, we will see.

Manish Mahawar: But the contract has yet to be finalized for the Q4, right?

Suresh Krishnan: Yes. I think they're in pretty advanced stage. I'm sure you will get to hear it soon. Yes.

Manish Mahawar: Sure, sir. Thank you, and all the best.

Suresh Krishnan: Thank you.

Moderator: The next question is from the line of Rishikesh from RoboCapital. Please go ahead.

Rishikesh: Hi, sir. Thank you for the opportunity. Firstly, just wanted to know if my understanding is correct here. This next year we can do 28 lakh tons of sales. And on that, the steady state EBITDA per ton of Rs. 5,000 per ton and assuming, provided that prices won't go down, are we talking about like almost Rs. 1,400 crores of EBITDA potential.

Suresh Krishnan: We have always, even if you look at our time of investor presentation during IPO, this is the kind of growth that we have projected, yes.

- Sabaleel Nandy:** And does that surprise you? We have been saying that in all the calls for the last one year or more.
- Rishikesh:** Okay. And second, sir, can you provide debt outlook for FY23 and FY24?
- Sabaleel Nandy:** What is it? I didn't get the question
- Rishikesh:** Can you explain debt outlook for next two years, sir?
- Suresh Krishnan:** See, as far as the long-term debt is concerned, we're pretty much keeping at Rs. 1,000 crores and it will keep coming down from there on. So, we're not expecting that to happen.
- As far as cash-based working capital is concerned, as we said that we are trying to run at a level between Rs. 1,000 to Rs. 1,500 crores between the two units.
- As we speak, we are below the targeted number that we are in. We will always have a suppliers' credit which is primarily a suppliers' or a buyers' credit arrangement based on the purchases that we do. That will primarily depend upon global prices. As we get to see global prices coming down, I believe that those numbers will be significantly corrected.
- Sabaleel Nandy:** Yes. And as we were mentioning earlier that the number that we actually look at internally is the long-term debt because the short-term debt is well covered through, on one-side, it's largely comprised of subsidy receivables, which is in a short money that comes and also against the subsidy receivables we have enough and more working capital limits at very attractive rates for us.
- Bringing in the earlier question, if we can actually realize the kind of EBITDA number that we are talking of, we would be long-term debt-free in two years, but that's not the position that we would like to go to, which means that we would have run out of ideas to expand the company which will not be the case with us. So, by the time we reach that, we could have other ideas to expand the organization and invest in profitable areas for future growth.
- Rishikesh:** That was helpful. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.
- Suresh Krishnan:** Thank you everyone for joining our call. We are confident and we are quite keen to grow the way we have indicated to you in this call and the presentations that we have made earlier. Our team remains focused on executing our strategy and delivering value to our shareholders. We appreciate your continued support and we look forward to connecting with you all in the coming days. If any question remains unanswered or do you have any further questions, please feel free to connect to our Investor Relations team. Thank you.