



Mangalore Chemicals
& Fertilizers Limited

Q3 FY23 EARNINGS WEBINAR

MR. NITIN KANTAK, WHOLE TIME DIRECTOR

MR. T M MURALIDHARAN, CHIEF FINANCIAL OFFICER



NAVIN AGRAWAL, HEAD - INSTITUTIONAL EQUITIES

TUESDAY, JANUARY 31, 2023

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Good morning, ladies and gentlemen. On behalf of Mangalore Chemicals and Fertilizers Limited and SKP Securities, it's my pleasure to welcome you to MCFLs Q3 FY23 earnings webinar. We have with us Mr. Nitin Katak, Whole Time Director, A 39 years' veteran in the fertilizers business at the Adventz Group. Along with him, we have Mr. Muralidharan, Chief Financial Officer, whom most of you have already met in the past webinars. All participant lines have been muted and this webinar is being recorded for compliance reasons. We'll have the opening remarks and the presentation from Mr. Katak and Mr. Muralidharan followed by a Q&A session. Thank you and over to you Mr. Katak.

- **Mr. Nitin Katak – Whole Time Director, MCFL:**
- Thanks, Navin for this conference call and a very good morning to all of you. Warm welcome for attending this call. I would like to start with giving you an overview of the fertilizer scene. Overall, the fertilizer sector performed well during this quarter. The global supplies of key fertilizer inputs further improved during this quarter. Also softening of trend of raw material prices continued.

All India urea primary sales for the quarter increased by 13.3% over Q3 22 from 96 lakh metric tons to 108.8 lakh metric tons. Cumulative urea sales for the year increased by 7½% compared to previous year from 262.7 lakh metric tons to 281.4 lakh metric tons. All India DAP sales for the quarter increased by 7.8% over Q3 22 from 37.8 lakh metric tons to 40.7 lakh metric tons and cumulative for the year, the DAP sales were up 16.1% from 79.5 lakh metric tons to 92.3 lakh metric tons. NPK sales for the quarter increased by 18.4% over Q3 22 from 26.4 lakh metric ton to 18.7% from 95.4 lakh metric tons to 80.3 lakh metric tons. Coming to MCFL marketing area, that is states of Karnataka, Tamil Nadu, Andhra Pradesh, Telangana, Kerala, and Maharashtra, the industry urea sales for the quarter increased by 18% over Q3 22 from 16.88 lakh metric tons to 19.85 lakh metric tons. Whereas the MCFL sales increased by 9% from 1.13 lakh metric tons to 1.22 lakh metric tons. Industry DAP sales increased by 103% from 3.12 lakh metric tons to 6.32 lakh metric tons. Whereas MCFL was down by 61% from 15,000 metric tons to 6,000 metric tons. We had taken a conscious decision to limit DAP manufacturing or imports during this quarter due to lower contributions and utilized the manufacturing capacity for other NP grade that is 20:20:0:13, which had a much higher contribution. NP/NPK industry sales increased by 31 % from 13.58 Lakh Metric Tons to 17.83 Lakh Metric Tons whereas MCFL NP sales increased by 54% from 42000 metric tons to 65,000 metric tons.

Coming to MCFL financial performance, you may recall during the investor call of Q2 23, I had informed you that we will come back with much improved performance. I am delighted to come to you with a robust performance for this quarter. In fact, this is the best ever quarterly performance in the history of MCFL. We have started reaping the benefits of implementation of ammonia energy improvement project. I'm proud to inform you that MCFL Ammonia / Urea plants are the most efficient amongst the vintage Ammonia/Urea plants converted from Naphtha to Natural Gas. Also, we are amongst the top 10 most

efficient Ammonia Urea plants in the country. During the quarter, we have operated our Ammonia and Urea Plants at higher loads and at lower specific energy which has significantly increased our margins on urea. Similarly, softening of phosphoric acid and ammonia prices has helped us to post very good contributions for our phosphate fertilizer product mix.

MCFL has registered a revenue growth of ₹1,180 crores for the quarter growing 54% year-on-year and 306% over the previous quarter. Highest level of growth was due to continuous run of Ammonia Urea plants as I said at higher loads and also due to continuous run of our NP/DAP Plant and with better contributions also subsidy was declared by the department of fertilizers for H2, 22-23. Cumulative for the year, revenue growth is 2,478 crores, which is 14% higher than 21-22. For the quarter MCFL posted an EBITDA of ₹148 crores compared to ₹71 crores for Q3 22 and negative EBITDA of ₹16 crores in Q2 23. Profit before tax is ₹97 crores for the quarter against ₹47 crores for Q3 22 and loss of ₹49.5 crores in the previous quarter. Profit after tax is 76 crores compared to ₹31 crores in Q3 22 and loss of ₹32 crores in previous quarter. We have thus wiped out the loss of ₹9.4 crores of H2 23, and our cumulative profit after tax for the year ending December 22, is ₹67 crores. We are hopeful of continuing this positive trend for the next quarter.

I would like to highlight an important development which has taken place during this quarter. As you may be aware, Government of India had initiated 'One Nation One Fertilizer', wherein all fertilizer companies should sell all types of fertilizers under Bharat brand. We have started dispatches of our product under Bharat brand as per the bag design provided by Department of Fertilizers. Government has also initiated another scheme called Pradhan Mantri Krishi Samridhi Kendra program wherein all retailer fertilizer shops in the country have to be converted as PM Krishi Samridhi Kendra. Thus during this quarter MCFL has converted 86 retailer shops at district headquarters into PM KSKP as per the DOF allotment.

I will now hand over to our CFO, Mr. T M Muralidharan to give the presentation and give you more details about our financial performance for this quarter. Thank you.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**

- **Thank you Mr. Katak**

- Murali, please take over. You can share your presentation now.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**

- Yeah. Thank you. Good morning. My presentation is visible to all of you?

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**

- Yes, Murali. It is visible.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**

- Thank you, Mr. Kantak. You have made my task easier by giving some financial numbers. Nevertheless, we will take you to the presentation. As highlighted by Mr. Nitin Kantak, we have posted the best performance on the quarterly basis, this is the first quarter we have posted this results.

- **Mr. Nitin Kantak – Whole Time Director, MCFL:**
- Can you put it on the full screen?

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Murali, at the bottom left hand corner of your screen you'll be able to make it a presentation, so that the

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Yes. Thank you. We covered the presentation in two parts. One is the highlights for the quarter and nine months ended 31st December, 2022 and past annual performance as well. Okay, as regards the key highlights for this quarter, ammonia energy improvement project was commissioned in September 22 and urea production is ramped up as explained by Mr. Nitin Kantak.

In respect of DAP and NPK, we optimize the operations by suitable product mix in view of the viability and availability of critical raw materials. This was our strategy to ensure that the economic viability is the basis for our operations.

Now I move on to some statistics data on the operations. MCFL had an increase in revenue of 54% during the quarter on account of higher sales volume and commodity prices and 14% increase during the nine months periods despite reduction in sales volume on account of higher commodity prices. Coming to EBITDA, EBITDA has increased by 109% for the quarter and reduced by 1% for the nine months compared to the previous year. Coming to PBT and PAT, we have registered an increase of 105% and 145% respectively to the quarter and reduction of 35% and 20% respectively during these nine months ended compared to last year primarily on account of shutdown of urea plant for commissioning of ammonia energy improvement project during the second quarter of FY23.

Now, we shall present the details of production, sales, and revenue. The production and sale of urea is 1.24 lakh tons and 1.22 lakh tons respectively in Q3 FY23 compared to production of 1.1 lakh tons and sale of 1.13 lakh tons in the corresponding quarter of FY22. The production and sale of urea is 2.08 lakh tons and 2.07 lakh tons respectively in nine months period ended FY23 ending 23 compared to production of 3.35 lakh tons and sale of 3.38 lakh tons in the corresponding period of FY22.

As regards the complex fertilizers, we have sold 0.71 lakh tons in current quarter compared to 0.57 lakh metric tons in F23, F22 Q3. Also, we have sold 1.83 lakh tons in nine months of current financial year FY23 compared to 2.3 lakh tons in nine months FY22. Coming to revenue from operations. Revenue

from urea is ₹720 crores for F23 Q3 as against 448 crores in Q3 of FY22. Urea for nine months FY23 is 1,209 crores as against 1,169 crores in nine months period for FY22.

Coming to the revenue from non-urea business registered revenue of ₹453 crores in Q3 FY23 as against 313 crores in FY22 Q3. Whereas we registered the growth in revenue of non-urea business at ₹1,269 crores in nine months period for FY23 as against ₹1,008 crores in nine months FY22 in spite of reduction in volume due to increase in subsidy rates on account of higher commodity prices. Now, we shall look at the financial position. Accretion to network is ₹53 crores and it is 736 crores in December 22 as against 63 crores in March 22. Coming to debt, as far as long-term debt, there is an increase of 91 crores in December 22 over March 2022. This is primarily an account of the loan load availed for the ammonia energy improvement project, which is commissioned in current financial year after factoring the repayment of some of the existing long-term loans.

Coming to long-term debt, which is working capital, which is at 1,143 crores in December 22 as against ₹1,124 crores in March 22, almost there have been re-stabled. Short-term surplus was ₹403 crores at end of Q3 FY23 as against ₹557 crores end of FY22. This is primarily on account of subsidy disbursement in the last week of March 22 leading to short-term surplus as at end of FY22. Now, we shall present the position of receivables.

As all of you know there are two types of receivables in the bulk fertilizer industry. One is market debtors, which we receive from the dealers. Other one is subsidy dues from the Government of India. As regards the debt, it is ₹129 crores at the end of Q3 FY23 as against ₹88 crores at end of FY22. This clearly demonstrated the liquidity in the market is very high.

Coming to subsidy receivables, it is ₹645 crores at the end of Q3 FY23 as against ₹577 crores at end of FY22. Subsequently, we have received ₹247 crores in January 23, so also escalation for gas price for Q2 FY23 was notified on 24 January, 23 escalation amount of ₹142 crores is expected to receive shortly. Now, we move on to look at some annual past performance quickly. The revenue for operations has been at ₹3000 crore levels in FY21 sorry FY19 and similar levels are seen in FY22, which the trend will come we will continue for FY23 as well. Coming to EBITDA, you can see from the levels of 200 crores for FY19, we are able to grow to levels of 235 crores in FY22, which will further grow in current financial in FY23. As far as PBT is concerned from the levels of 50 crores, we've improved to the levels of 135 crores in FY22 primarily on account of reduction in finance cost as regards of PAT, we were unable to improve from ₹33 crores in FY19 to 88 crores in FY22. As regards cash profit, it has improved from ₹70 crores in FY19 to ₹140 crores in FY22.

Units per share also improved from ₹3 per share in FY19, ₹2 per share in FY22. Regarding receivables, it could be seen that total receivables have come down from the levels of ₹1,564 crores in FY19 to the levels of 665 crores in FY22, as this on account of improved liquidity in the market and significant

reduction in subsidy. Receivables on account of stimulus given in FY22 during COVID 19 to clear the subsidy arrears and continued support is given by Government of India in FY22 as well. We expect this to continue in FY23 as well. Now, we shall see the details of production and sales. We are able to consistently produce to the levels of 3.8 lakh tons, which is our reassess capacity and we are able to produce additional 50,000 tons in FY22.

Current year, we will be able to - will be short of 50,000 tons on account of loss of production during the implementation of energy improvement project. Coming to PNK Fertilizers, it has been stranded in the past four years. This is overview of MC operations as regards the location of the plant, products manufactured, the capacities, marketing realities, and the brand. We continue this slide for maybe if you are first time participants. The plant is situated at Mangalore, West Coast opposite Mangalore port and the present capacity is 3.8 lakh tons of urea, which is otherwise called reassess capacity. Whereas capacity of DAP and complex fertilizers is 2.8 lakh tons. We also do trading in MOP and DAP based on market opportunity, availability of product, and commercial viability. We operate predominantly in these states of Karnataka, Kerala, Tamil Nadu, Andhra Pradesh, Telangana, Maharashtra. We sell about 70% of our sales in Karnataka, 4% in Kerala, 10% in Tamil Nadu, 8% Andhra, remaining in Telangana and Maharashtra. We sell under the brand called Jai Kisaan Mangala. Thank you for your time.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**

- Thank you, Murali that was very helpful. Friends we now start with the Q&A session. We wait for a couple of minutes, let some questions line up, and we can get started. Anyone who wishes to ask a question request you to raise your hand, we will unmute you and take your question.

Okay. We have we have a question from Krishna Kumar better known as KK, ex-CIO at Sundaram Mutual. KK please go ahead.

- **Mr. Krishna Kumar -- Ex-CEO at Sundaram Mutual:**

- Hi. Good morning, Sir and congratulations on completing the projects and you know so could you give us some color in terms of further new projects that you may take up post this current phase? Any colors that you would be able to give us in terms of expansion plans debottlenecking in the next 24 months?

- **Mr. Nitin Katak – Whole Time Director, MCFL:**

- I'll take this. Yeah, Mr. Krishna Kumar, thank you for your question. Yes, we do have plans for putting up a 300 Metric Tons per day Sulfuric acid plant, so we are taking to the board in the next board meeting. Presently, we have a small capacity sulfuric acid plant of 100 metric tons per day and we import sulfuric acid, indigenously or from abroad to meet the balance requirement. So, we want to put up a new plant of about 300 Metric tons capacity, which will you know suffice our requirement as well as we will be able to sell whatever surplus sulfuric acid available. So, this we are going to immediately take up in the next year as we have started generating income after completion of our Ammonia energy saving project and

going forward maybe over the next three or four years, we are also looking at putting up a new DAP plant. So, as our financial position strengthens over the next few years, we will take that call.

- **Mr. Krishna Kumar -- Ex-CEO at Sundaram Mutual:**

- Fine Sir, fine Sir and Sir in terms of the budget, is there any proposals that the industry has put forward Sir incrementally to the finance minister ahead of the budget and give some color if anything is expected?

- **Mr. Nitin Katak – Whole Time Director, MCFL:**

- Right now, in this budget we don't expect any major changes in this, but we believe the subsidy is likely to be revised soon after the budget. These are indications which have come to us. This is on NPK Fertilizers. So, NBS subsidy whatever was declared in October that is likely to be revised. As of now it is still not notified, but it is likely to be notified after the budget session and as the commodity prices are going down, it is going to be revised downwards.

- **Mr. Krishna Kumar -- Ex-CEO at Sundaram Mutual:**

- Thank you, Sir.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**

- Thanks, KK. The next question is from Mr. Riddhesh Gandhi. Riddhesh, please go ahead.

- **Mr. Riddhesh Gandhi – Shareholder:**

- Hi, Sir. Just want to understand, so you know how much of our actually incremental profitability is it driven by the cost saving on the power that we have you know implemented in September?

- **Mr. Nitin Katak – Whole Time Director, MCFL:**

- Murali, you can give those details please.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**

- Yeah. Mr. Gandhi, the project was commissioned in September 22 as you know that. So, our targeted additional EBITDA is ₹100 crores per annum and 30 crores will go towards servicing the loans borrowed for commissioning the project and 20 crores go towards depreciation. So, we'll be able to generate okay 50 crores of PBT okay out of this project on an annual basis okay. So, on a quarterly basis you could see that we are able to generate close to about 14-15 crores okay.

- **Mr. Riddhesh Gandhi – Shareholder:**

- Got it and then just to understand you know obviously we've seen a large increase in the profitability effectively right and I guess the revenue is also a factor of the gas prices etc., but how should we then look into sustainability and how should we look into the run rate of the business going forward?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- See the topline growth is driven current quarter is to the some extent on account of higher sales volume about 15%. Remaining is driven by commodity prices as outlined by you okay and the gas prices is one of the driving factors, which gets automatically recognized by the Government of India as per the urea pricing scheme is reflected in the topline and going forward the prices are as explained by Mr. Katak, the prices of commodity prices are cooling and Government of India is trying to reduce what is called negotiate with the various geographies to bring the commodities to affordable price and the trend is there will be correction happening going forward from Q4 onwards.

- **Mr. Riddhesh Gandhi – Shareholder:**
- Got it, but if we were to look at it, I understand that at the end of the day the prices will go up and down based on where the gas prices are, but our returns are sort of the regulated right, so effectively as we look at it profitability it should be in similar lines, I mean I get the revenue should go down, but then the profit margins will go up or you know how should it be looking at the business going ahead?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- See, these prices will go up and down as you correctly recalled - presented by you. The margins also will move in tandem with the prices okay. Margins cannot be sustainable okay despite the prices going up or coming down okay. So, there is a link between the commodity prices and the margins in this industry, which is differently poised okay. So, the current levels of what they call the profitability cannot be maintained - sustained okay when the - what you call the prices are on the tender is - tender pricing is in the downturn.

- **Mr. Riddhesh Gandhi – Shareholder:**
- So, overall if we were to - so is there a right way to look at it as EBITDA per ton is a way in which we should be looking at it or should we be looking at it as a particular ROE based on the business or how should we be looking at it?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- I think correctly you understood, Mr. Gandhi. Here this industry operates more on EBITDA per ton okay and again EBITDA per ton sometimes due to what we call the timing difference, few quarters we're able to realize higher EBITDA subsequently quarters if it corrected okay. So, any comparison on a quarterly basis is very difficult to draw in a long-term view, you should look at the long-term - what are called long-term period maybe in a year what will be a much more better way of looking at things okay.

- **Mr. Riddhesh Gandhi – Shareholder:**
- Yeah, yeah, so let's me see looking into FY24, how should we be looking at FY24 from let's say an EBITDA perspective?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Good question, Mr. Gandhi. So, EBITDA current levels as you see in the presentations, we have posted 235 crores in the last financial year FY22, so we will be able to improve in FY24 okay. EBITDA levels of 350 crores okay. This is primarily driven by this 100 crores of EBITDA what we are able to realize after post this project commissioning and all the few other efficiencies we will be able to rope in. So, from 235 crores levels what we posted in FY22 leaving this year as an year of implementation and releasing the benefits and full year FY24 you could see the EBITDA growing in levels of 350 crores.

- **Mr. Riddhesh Gandhi – Shareholder:**
- 350 crores of EBITDA on the existing capacity?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Exactly.

- **Mr. Riddhesh Gandhi – Shareholder:**
- Sir, I'll join by in the queue in case others are there.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Yeah, no problem. We welcome

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Thanks, Riddhesh. The next question is from Nirav Jamudiya. Nirav, please go ahead.

- **Mr. Nirav Jamudiya – Shareholder:**
- Good afternoon, Sir. In fact, good morning, Sir. Sir, I have two set of questions. Sir, my voice is audible?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Yeah.

- **Mr. Nitin Kankat – Whole Time Director, MCFL:**
- Yes, please.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Yes, Nirav. You are loud and clear.

- **Mr. Nirav Jamudiya – Shareholder:**
- Yeah. Sir, just wanted to understand your perspective on nano urea because we have been reading two set of information. One, which is coming from the government side where it alluded the fact that one bottle of nano urea could replace one bag of traditional or conventional urea, which is almost like 20

million tons of urea could easily be replaced by the nano urea, which government is claiming and for which they are in the process of setting up the plants. Sir, , what I was also reading is urea spraying is required in two phases. So, one on the leaves and one before you start putting up the seed. So, nano urea is effectively used in the second phase and not in the first phase. So, traditional urea is here, but Sir when we go on the field and ask and inquire to the farmers, they are still reluctant to use nano urea. So, just wanted to understand your perspective because let's say if nano urea is available at a price at which your traditional urea is being getting sold, virtually those subsidies would be going away and we'll be at 20 million tons of the urea getting produced just from nano urea. If you can just explain your thought process on the same that would be helpful?

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**

- Yeah, Murali, I'll take this.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**

- Yeah.

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**

- Thank you, Mr. Nirav for this very good question. Mr. Nirav, you may be knowing that currently despite of urea capacities going up with new capacities coming up in the country, still our imports of urea are quite high and actually the government wants to promote this nano urea to replace imported urea. So, our existing consumption of whatever indigenous manufactured urea is there of 25 Million Metric Tons that will continue, that is not going to reduce, but whatever imports are happening today, which are very, very significant imports, of 10 Million Metric Tons is going to come down by this replacement with nano urea and you rightly said the nano urea as of now is still not taken off well by the farmers because nano urea has just been introduced and it will take time for this to go into the farmers mind to change the things how they are currently operating. So, over the years definitely nano urea is going to be produced in large quantities and it is going to replace the imports and the manufactured urea whatever is there that will continue.

- **Mr. Nirav Jamudiya – Shareholder:**

- So, Sir just to continue with your answer, so let's say hypothetically after 2-3 years when this product would be accepted and we are also been reading in the newspapers that some more plants which are shut down, government is in the process of reviving 2-3 plants , so one at Sindri, one at Talcher, so government is in the process of reviving those closed urea plants also. So, if we take into account that and then nano urea, does it mean that probably the players currently what levels they are producing at they have to reduce the production of the traditional urea or correct me if I'm wrong, the traditional urea is only used to produce the nano urea? So, if you can just explain the difference between two that would be helpful, Sir?

- **Mr. Nitin Katak – Whole Time Director, MCFL:**
- No, as I said these new capacities after reviving older units have already come up Some of the units are already commissioned and they already started producing. In spite of that there are imports of urea. So, you know going forward nano urea will definitely increase and replace imported Urea and the plan is to have zero imports going forward. That is the objective of the government. Existing Urea Plants will continue to operate.

- **Mr. Nirav Jamudiya – Shareholder:**
- Correct. Sir, my second question is on the energy consumption because Sir you explained that we have revamped our plant where we have converted the plant from the naphtha base to gas base, so government would allow you to recover this money over a period of some time to some higher, so if you can explain that and what is our current energy consumption in Gcal per metric ton and what calorific value gas we are currently using, so it's a mix of LNG and our domestic gas because LNG has some higher calorific value, domestic gas, ONGC, some other calorific value, reliance gas is having some other calorific value. So, what is our blended calorific value and what is our current energy consumption in Gcal per metric?

- **Mr. Nitin Katak – Whole Time Director, MCFL:**
- Yeah. Currently, after implementation of the energy improvement project, we have already come down to a level of around 5.6 giga calorie per ton of Urea, although our target is around 5.5. So, we are in the process of further optimizing, we have already optimized over the last two-three months and there are some minor teething issues and once they are addressed, we will be at 5.5 giga calorie per ton of urea.

- **Mr. Nirav Jamudiya – Shareholder:**
- Okay. This capital expenditure, the government would have allowed us to recover over a period of five years, if I'm

- **Mr. Nitin Katak – Whole Time Director, MCFL:**
- Yes, from the time we have changed over from naphtha to gas, so whatever investment was done on this conversion, government has given normally as per the policy five years to recover it. So, this started somewhere in 2020. Murali can give you the right time when it was done. I think November 2020 or so. So, from that time that investment whatever was done, we will take about five years to recover that, that is what is allowed by the government.

- **Mr. Nirav Jamudiya – Shareholder:**
- So this extra 100 crores what you mentioned what we will earn in FY24 includes the portion of the amount being allowed by the government to in form of higher energy consumption to you, so that won't come after five years once we recover that amount and then entirely would depend upon our energy consumption, if I'm right in the assumption Sir?

- **Mr. Nitin Katak – Whole Time Director, MCFL:**

- Yes. I think what you're saying is correct. Murali, you throw some more light on this.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Yeah. I can be able to provide to Nirav. See, as explained by Mr. Kantak, the cost we incurred for conversion of the naphtha to gas based operations, we got the gas in November 2020 and we have five-year period to recover the investment made for that particular investment and we are currently getting subsidy at a preset energy norm of 7.356 Gcal per ton and this sunset of the existing reset norms will be in December 2025. By the time we recovered major amount of an amount towards the project which we commissioned in September 22 and the energy norm will come down to 6.5 Gcal per ton from January 2026 and will continue for period of another five years, but this is the understanding and this is the commitment given by the Government of India. So, besides MCFL, many other companies are also investing similar monies okay for reducing current energy consumptions, okay. So, government is promised support for all the players in the industry to recover the investment.

- **Mr. Nirav Jamudiya – Shareholder:**
- Correct. So, Sir last question before I again join back into queue, so how much we have invested for this conversion one and we are already at 5.5, so that's a good amount of savings which we are currently doing on. So, even for let's say Jan 26 till let's say Jan 31, will be still having a lower consumption of energy reserve is what the governments would be providing to you, so am I correct in assuming that, Sir?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- You cannot be audible, can you quickly run through this question again please?

- **Mr. Nirav Jamudiya – Shareholder:**
- Yeah. Sir, I'll just repeat my question again, Sir. Sir, how much amount we have invested for this conversion A and B - Sir we are already at 5.6 Gcal per metric ton, what you mentioned that currently government is compensating us at a rate of 7.356 and later on for next five years it would be 6.5 from Jan 26. So, we are still below what the government would be compensating us even from 2026 also, so is my assumption correct, Sir?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Yeah. to answer your two questions, question 1 - the amount what we can be incurred for completing the project is about 440 crores and the government will reimburse subsidy at the rate of 7.356 till December 25 and thereafter we'll get 6.5 Gcal per ton post January 26, you understand is correct.

- **Mr. Nirav Jamudiya – Shareholder:**
- Got it, Sir. Thanks a lot for answering the questions in detail and all the best.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**

- Thank you.

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**
- Thank you.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Thank you, Nirav. We have a question from Vineet Agrawal. Vineet, please go ahead.

- **Mr. Vineet Agrawal – Shareholder:**
- Good morning, Sir and congratulations for the good set of number. Sir, I have one query on your volume bifurcation in terms of in-house manufacturing and trading for quarter three if you can provide?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- We are not done any trading during the current quarter FY23. All our sales what we disclosed to you in the presentation, they are all only manufactured complex.

- **Mr. Vineet Agrawal – Shareholder:**
- Sir, during this quarter January, have we started trading or we are still manufacturing only?

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**
- Yeah. Murali, I will take. Actually, the contributions on DAP have improved over the quarter three actually and based on that we took a decision of importing DAP. We have imported around 11,000 tons of DAP during this quarter and this was received just end of December and as of now we have already sold that quantity. So, that much quantity of trading will be there in Q4.

- **Mr. Vineet Agrawal – Shareholder:**
- Okay, Sir. Sir, is it possible to provide us the breakup of EBITDA 140 crores between urea and NPK or maybe in terms of EBITDA pattern between urea and NPK?

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**
- Murali, you can take it.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Vineet, you are referring to the current quarter?

- **Mr. Vineet Agrawal – Shareholder:**
- Yes, Sir.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**

- See, we made about ₹7,000 per ton okay EBITDA for urea and ₹4,000 on account of DAP, which we manufactured and sold okay and about ₹8,000 per ton in NPK.

- **Mr. Vineet Agrawal – Shareholder:**
- Okay, Sir. Sir, as you said this EBITDA per ton is not sustainable, so going forward we may have lower than this, am I correct, is my understanding correct?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Yeah, 100% correct, Mr. Vineet Agarwal. I will give you the perspective. The current levels of EBITDA we are able to what you call, post in the current quarter. It is an exceptional quarter where you are able to get additional EBITDA both in terms of urea as well as for DAP and N20 and Government of India has allowed us to make this additional EBITDA because of the subsidy rates were only revised till October okay, despite the prices of the commodities are going up in the H1 of current financial year FY23 okay. For companies to realize some of the lost margins are reduced to EBITDA, government has allowed this to for Q3 only. As explained by Mr. Kantak, the NBS rates is under revision since the commodity prices further softened from Q3 of FY23 to Q4 also. So, Government of India is going to revise the subsidies downward since the prices of commodities have started to slide okay. So, therefore we don't expect this higher EBITDA to be produced every year, every quarter.

- **Mr. Vineet Agrawal – Shareholder:**
- So, Sir any color you can give what could be the sustainable EBITDA pattern going ahead for urea, DAP, and NPK?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- You see in current geopolitical risk, it's very difficult to predict pricing okay and what type of disruption you can happen in the market okay and normally we don't give any guidance because it's pure beyond our reach to give any guidance on this.

- **Mr. Vineet Agrawal – Shareholder:**
- okay and sir can you give us what is the full gas price for Q3 FY23 and what is the current price?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- One second. See, the pool gas price was peaking in September 22 at \$27 per mmbtu. It is already see the slide okay during the Q3 FY23 to the levels of about the 25 - 22 okay. So, this trend is what will emerge going forward also.

- **Mr. Vineet Agrawal – Shareholder:**
- Sir, this 22 per mmbtu, we can take average right?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- See, this is the price what we expected for December 22 okay. See, further you could see that there is a further correction happening in commodity prices, so Government of India under the aegis of DOF is constantly looking for negotiations to bring the cost of commodities to the very lower levels because it has got a very direct impact in terms of when the subsidy burden what they have to carry okay. So, Government of India is getting involved directly with many geographies, with manufacturers be it is a source of supply of gas or the supply of phosphoric acid or it is supply of ammonia as well okay. So, they are trying to engage directly with respect to countries to bring or to have a special pricing for India as well okay. So, this is at the diplomatic levels is been done. We are able to see positive benefits happening in the last close to about two years ever since this what you called the commodity process were the upswing okay, starting from April 2021 okay. So, we are able to see this happening and the prices will see corrections and even globally also recession being talked about as a factor and some other geographies where the demand for the fertilizers could be less depending upon the climatic conditions that could also have a bearing on the pricing going forward.

- **Mr. Vineet Agrawal – Shareholder:**
- Okay. Sir my next question on nano DAP which IFFCO is expected to launch some sometime in March and they are claiming that one bottle of nano DAP will be equivalent to 1 KG of conventional DAP. So, I mean what would be the impact of the same since we are more focused on DAP and we are planning another new plan for DAP in next 2-3 years, so how do you see this development?

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**
- Yeah. so, DAP also if you have seen apart from whatever manufacturing capacity we have, there is lot of trading of DAP which happens. So, again any nano DAP which comes into the market it will only replace some of the portion of imported DAP. So, it is not going to affect our manufactured DAP.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- To supplement Mr. Kantik, the capacity utilization of the non-urea that is complex fertilizers is only about 75% to 80%. So, government of - this what we call, the large amount of trading is happening in the market existing, so this DAP - nano DAP cannot replace the manufacturer DAP okay.

- **Mr. Vineet Agrawal – Shareholder:**
- Okay. Sir, my next question is on the amendment made by the government on the procurement policy of gas, I'm asking for my understanding purpose, they have allowed the fertilizer industry to buy around 1/5th of their monthly needs through domestic spot market, so their reason is to reduce the subsidy from urea, but what I want to understand is how it will impact our industry as well as MCFL in particular, if you can throw some light on this?

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**

- See, Murali you can

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Yeah, I can answer. See, there is small volume of gas is available in the APM that is being what you call put up the tender for fertilizer companies and other companies, other buyers, other industry also to buy it out on comparative basis okay that is the objective of the Government of India to put this APM gas for the fertilizer players. Coming to the second question, the volume there will not be any impact for MCFL because the fertilizer industry itself needs high volumes of gas based on the past what we call data, 55 MMCD is the requirement on a daily basis on the 50 capacity of the urea plants okay. The allocation of APM gas is only to the levels of about 20 MMCD. The remaining 35 accessory MMCD is being imported currently. So, this whatever volume they're coming in may not have any big barring. If at all there is a what you call allocation of the APM gas in fertilizer industry that could be very marginal and negligible okay and we do not have any impact on MCFL per se because all the companies in the country are governed by uniform gas pool price.

- **Mr. Vineet Agrawal – Shareholder:**
- I mean, actually I just wanted to understand this spot buying, this gas price will also be total passed through, am I correct?

- **Mr. Nitin Katak – Whole Time Director, MCFL:**
- Yes.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Yes. Always the gas prices have been full pass through. The Government of India is trying to reduce the subsidy burden by trying to get these what you call, getting whatever sources of gas at the best price possible, that is endeavor of Government of India. In that process, APM gas auctioning is also another step in that.

- **Mr. Vineet Agrawal – Shareholder:**
- Okay, Sir. Thank you, Sir. That's all from my side.

- **Mr. Nitin Katak – Whole Time Director, MCFL:**
- Thank you.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Thank you, Vineet. A request to participants, please restrict yourself to a couple of questions only. The next question is from Akul Broachwala. Akul, please go ahead.

- **Mr. Akul Broachwala – Equity Research Analyst, IIFL Securities:**

- Hi. Am I audible?

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Yes, Akul audible. please go ahead.

- **Mr. Akul Broachwala – Equity Research Analyst, IIFL Securities:**
- Thanks for this opportunity and congrats to the management for good set of results. One is of course like you know governments impetus has been to make a phos acid available in an adequate manner and that's the reason why you know many of the private companies are tying up - arranging contracts with Morocco specifically for rock phosphate, so overall you know does the management believe that phos acid availability will improve going forward and will that also kind of you know improve our manufacturing mix if suppose phos acid availability and prices continue to go South?

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**
- Yeah. I will take this Murali. Regarding the phosphoric acid, you are aware that MCFL belongs to the Adventz Group and our promoter company Zuari Agro Chemicals Ltd we have a long-term relationship with the OCP Group of Morocco over the years in terms of investment in Paradeep Phosphates Ltd. Also our other Group sister company Chambal Fertilizers and Chemicals Ltd is having a joint venture with OCP with a Phosphoric Acid manufacturing facility at Morocco and Phosphoric acid produced from this unit is available for our Group companies. So we have long term contracts for getting OCP acid and also we consume acid from other sources like Vietnam, Philippines, and Indonesia, which helps us meet our phosphoric acid requirements. I would also like to mention here that last week delegation from India which included PPL & Chambal Fertilizers had gone to Morocco for long-term tie up of DAP as well as phosphoric acid. So, going forward definitely relationship with OCP will continue and they will definitely help India with the acid and DAP supplies.

- **Mr. Akul Broachwala – Equity Research Analyst, IIFL Securities:**
- Got it and in this context what would be our capacity utilization for you know phosphatic fertilizers at this point for 3Q?

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**
- We had some shutdown of Phosphatic Plant during this period because the acid price for the quarter was not finalised and also the subsidy was not declared by the government, so around end of October we had some stock out of phosphoric acid because procurement action could not be taken, but since November 10th, we have been continuously operating the plant till today. So, as of now there is no challenge of getting phosphoric acid supplies and there will be continuous operation of the plant.

- **Mr. Akul Broachwala – Equity Research Analyst, IIFL Securities:**

- Understood. So, given you know overall pricing scenario softening, so do we believe that you know at least for upcoming quarters the overall production for phosphatics from our end will continue to improve?

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**
- Can you please come again?

- **Mr. Akul Broachwala – Equity Research Analyst, IIFL Securities:**
- Yeah. so, my question was like do we expect you know manufacturing of phosphatic fertilizers to improve from our end like you know rather than trading can we expect that overall, you know utilization continues to go up in the upcoming quarters of phosphatic fertilizers?

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**
- Actually, we have a limited capacity of our DAP plant, which is about 2,70,000 tons per annum. This year of course we have not been able to fully utilize our capacity because of imports, there was a stock out of phosphoric acid on some of the occasions even in Q1 and Q2, but going forward we will be able to utilize our capacity fully.

- **Mr. Akul Broachwala – Equity Research Analyst, IIFL Securities:**
- Understood and second question was you know around the CapEx as you mentioned sulfuric acid or something which we are looking at, so overall like is there any sort of you know guidance for next year in terms of CapEx outlet?

- **Mr. Nitin Kantik – Whole Time Director, MCFL:**
- Murali, you can give this.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- See, as explained by Mr. Kantik, we are looking at few other CapEx plans like a sulphuric acid plant about 100 tons per day capacity, few other plants still has a drawing stage okay and we will get back to you when we take a final decision on that.

- **Mr. Akul Broachwala – Equity Research Analyst, IIFL Securities:**
- Sure, and my final question is on you know overall, how are we looking at you know debt repayment and what would be the timeline sort of you know to deleverage?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- See, we have a term debt, there are two components we have. One is the amount we borrowed for purpose of term loan in the past okay, it was some 18, 19 times, so those things have been fully - almost have been fully repaid and by FY24 it will be fully repaid okay. So, that leaves only the amount of CapEx loans we borrowed about 280 crores for this CapEx project on ammonium energy improvement project

that is called a set of seven years for repayment. We structured this repayment period in align with the generation of cash flows of post commission this project okay and this also will start - repayment will start from Q1 FY24, so is spread up for seven years. You will see that as the opportunities are there to pre-pay also the loans based on the what you call, the cash flow generations after post commission project, if we are able to generate additional cash flows, we have the opportunity to prepay the loans also okay. So, MCFL has been very, very conscious about the high cost burden on account of term loans and we has been what you call, very systematic in what you call, putting our internal generations into the business okay as part of our commitment so that we are able to reduce the cost of borrowing okay and able to report better value for shareholders.

- **Mr. Akul Broachwala – Equity Research Analyst, IIFL Securities:**

- Got it, Sir. Thank you so much.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**

- Thank you, Akul. Our next question is from Kapil A. Kapil, please go ahead and ask your questions. Kapil, please unmute yourself and go ahead. I think Kapil has a connective issue. Let's take a question from Darshita Shah. Darshita, please go ahead.

- **Ms. Darshita Shah – Shareholder:**

- Hi. Thank you for the opportunity. I just have one question regarding the phos acid contract for the quarter. Are the negotiations done or are we still under the negotiation to decide the phos acid contract for 4Q?

- **Mr. Nitin Kankat – Whole Time Director, MCFL:**

- As of now, phosphoric acid Q4 price is still not declared. The negotiations are still on between OCP and Indian partners. So, as of now, it is still not finalized.

- **Ms. Darshita Shah – Shareholder:**

- Okay, any approximate date – any tentative date?

- **Mr. Nitin Kankat – Whole Time Director, MCFL:**

- No, we will not be able to give that date please.

- **Ms. Darshita Shah – Shareholder:**

- Alright. Sir, I have one more question regarding the EBITDA per ton, our EBITDA is at an elevated levels, is there any inventory benefit here or is it largely due to high realization and like you know lower subsidy reduction that government did in October as compared to the reduction in raw material prices?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**

- See, the elevated levels of EBITDA for urea is not a factor of NBS rates because it is governed by different set of policies on urea okay that is purely based on efficient or operations and the price at which we procure gas, that is first answer. Second portion of our EBITDA per ton for DAP and N20 that is factored basically on account of the commodity prices coming down in Q3 from the levels of 1,750 - per ton of phosphoric acid it is come down to ₹1,150 dollars per ton so, that is one factor that subsidy has not been revised post to this correction okay. So, that is the reasons for elevated levels of EBITDA during DAP and N20.

- **Ms. Darshita Shah – Shareholder:**
- Right. I was just trying to understand if there was any inventory benefit, but seems like there was not, it was largely due to a reduction in raw material prices okay. Thank you so much for the opportunity.

- **Mr. Nitin Katak – Whole Time Director, MCFL:**
- Okay.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- There is no benefit on inventory because as explained by Mr. Katak, so we were running out of the acid during Q3, so whatever - so had no benefit to be carried forward because hand-to-mouth we were operating the plant on the inventory.

- **Ms. Darshita Shah – Shareholder:**
- Right. Good. Thank you.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Thank you, Darshita. Friends, we've run out of time and I see there are some follow up questions. Mr. Katak, do we have another 5 minutes or should we ask them to send us the questions by mail?

- **Mr. Nitin Katak – Whole Time Director, MCFL:**
- We can take one more.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Okay. Riddhesh, please go ahead ask your question, but please limit it to just one question. Riddhesh?

- **Mr. Riddhesh Gandhi – Shareholder:**
- Sir, I've already asked the question. It's fine. I'll go back.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Okay. Thanks. Kapil, if you'd like to please go ahead and ask your question?

- **Mr. Kapil A – Shareholder:**
- Hello.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Yes, Kapil.

- **Mr. Kapil A – Shareholder:**
- Yeah. I just want to know is there any debt reduction plan for the company?

- **Mr. Nitin Kankar – Whole Time Director, MCFL:**
- Yeah. Murali, you can take.

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Yeah. See, the current debt we have borrowed for working capital purposes it's getting repaid by March 24 that leaves the loan borrowed for the current project which we executed in September 22 that is ammonia energy improvement project. So, this has got a set of seven years repayment schedule starting from Q1 of FY24 okay. Based on the cash flows we generate going forward okay and we're able to decide whether any program to prepay the loans ahead of the schedule of repayment that is based purely on the ability of the company to generate additional cash flows. at this point of time, it is very difficult to – we don't have a plan to reduce unless we are able to generate the cash okay based on the current levels of the commodity price and the stands of the Government of India on subsidy.

- **Mr. Kapil A – Shareholder:**
- Okay, Sir. Sir, and next question is in the next quarter you since the commodity prices are declining, so is there volume growth will be sufficient enough to maintain this run back in EBITDA?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Can you come again, I'm not able to follow few last few words?

- **Mr. Kapil A – Shareholder:**
- Sir, since the commodity prices are declining, so is there that volume growth or is there any trigger that will maintain this run rate in EBITDA?

- **Mr. T. M. Muralidharan -- Chief Financial Officer, MCFL:**
- Okay. There aren't any impact in the volume growth, so we continue to do the volumes what we did in Q3 maybe even better than in Q4. Coming to the EBITDA levels as the commodity prices are softening, there will be impact on account of EBITDA. On account of this in EBITDA, there will be correction EBITDA going forward.

- **Mr. Kapil A – Shareholder:**
- Okay, Sir. Thank you.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Thank you, Kapil. Friends, we have completely run out of time. Thank you for your questions. If there are any unanswered or follow up questions, I've shared my e-mail ID, request you to send your questions to me and we'll take it up with the management and get back to you once we get our report. I'd like to now hand over the webinar to Mr. Kantak for his closing remarks. Over to you, Sir.

- **Mr. Nitin Kantak – Whole Time Director, MCFL:**
- Thanks, Navin. Thanks everyone for participating in this session and putting up very insightful questions. As I informed to you in my opening remarks, this quarter's performance is the best ever in almost 50 years operating history of MCFL. I assure you that MCFL team is committed and we'll put up our best efforts to continue performing well and create value for our share shareholders. Thank you.

- **Mr. Navin Agrawal – Head, Institutional Equities, SKP Securities Ltd:**
- Thank you very much. On behalf of all of us at SKP Securities, I'd like to thank Mr. Kantak and Mr. Muralidharan for the time and we look forward to hosting you for all future webinars and Investor interactions. Thank you and have a nice day.

End of Transcript