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DEEPAK FERTILISERS AND PETROCHEMICALS CORPORATION LIMITED

10th November, 2023

The Secretary
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001
BSE Code: 500645

Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza,
Bandra - Kurla Complex, Bandra (E)
Mumbai – 400 051
NSE Code: DEEPAKFERT

Subject: Management Transcript of Q2 FY 2024 Earnings Conference Call

Dear Sir / Madam,

Pursuant to the Regulation 30(6) read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find enclosed the Management Transcript of the Earnings Conference Call held on 3rd November, 2023 to discuss the financial results of the Company for the quarter and six months ended 30th September, 2023.

The transcript of the Q2 FY 2024 Earnings Conference Call will also be made available on the website of the Company i.e. https://www.dfpcl.com/.

We request you to take the same on your record.

Thanking you,

Yours faithfully,

For **Deepak Fertilisers**
And Petrochemicals Corporation Limited

GAURAV UMAKANT MUNOLI
Digitally signed by GAURAV UMAKANT MUNOLI
Date: 2023.11.10 11:06:44 +05'30'

Gaurav Munoli
Company Secretary

Encl: as above

Earnings Conference Call

Q2 FY2024

November 3, 2023

Management:

Mr. Sailesh Mehta – Chairman & Managing Director

Mr. Deepak Rastogi – President and Chief Financial Officer

Mr. Tarun Sinha – President, Technical Ammonium Nitrite

Mr. Deepak Balwani – Head, Investor Relations

Moderator: Ladies and gentlemen, Good day, and welcome to Deepak Fertilisers and Petrochemicals Limited Q2 FY24 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that the conference is being recorded.

I now hand the conference over to Mr. Ranjit Cirumalla from IIFL Securities.

Ranjit Cirumalla: Thank you, Akshay. Good afternoon, all. On behalf of IIFL Securities, we welcome everyone to Deepak Fertilisers and Petrochemicals Corporation Limited Q2 FY24 Earnings Call. Today, we have with us Mr. S.C. Mehta, Chairman and Managing Director; Mr. Deepak Rastogi, President and Chief Financial Officer; Mr. Tarun Sinha, President, Technical Ammonium Nitrate; Mr. Suparas Jain, Vice President, Corporate Finance; and Mr. Deepak Balwani, Head, Investor Relations.

I would now hand over the floor to Mr. S.C. Mehta to begin the proceedings. Thank you, and over to you, sir.

S.C. Mehta: Thank you. A very good afternoon to all of you. I extend a very warm welcome to each one of you for the Q2 FY24 earnings call of Deepak Fertilisers. I trust that you have had the opportunity to review the financial statements, press release and earnings presentation already made available on the stock exchange and our website.

Now on the face of it, as we look at the figures, I'm sure we all would feel that it seems to be quite dismal. However, let me share some insights for your better appreciating and understanding the numbers. Firstly, when we look at the last year Q2, it was indeed some bit of an abnormally high base. So, if you were to compare with Q2 FY22, Q2 FY21, Q2 FY20, Q2 FY19, the performance of current quarter Q2 FY24, is indeed better, and this is decidedly better in lieu of the challenges that we faced. So, despite the challenges, we are seeing this kind of a performance, and let me share some of those challenges.

On the fertiliser front, let me just explain that the government policy on subsidy is a little backward looking. That is the prices of the previous 6 months form the basis of the new subsidy, 6 monthly penalty and the subsidy is given on the tonnages actually bought by the farmers. There is a POS machine, and on that basis, the subsidies are given. So, what happened is that the inventories which have been sold to the channel or dealers, but not sold to the farmers, that gets impacted and in a situation where the global prices are falling, the industry gains on this channel inventory, while it loses on the channel inventory when the global prices of raw material are going up. Now in view of this, basically, we took a hit in the Q2 of almost Rs. 106 crores on this discount.

On the other hand, the performance of the quarter in terms of sales and liquidation, it was the highest ever that we have ever done. what is more is that our crop-specific grids, the move that we had from commodity to specialty or the crop specific, is gaining very good ground and very good acceptance.

The second aspect is that we also took a hit of around Rs. 87 crores in this quarter itself, emanating from our new ammonia plant. Now firstly, any new global scale plant takes a quarter or so to stabilize and during the stabilization phase, there are some plant trips and restarts, which always add to the cost. So, post our COD, some of those costs are contributed by the stabilization phase, and this is quite normal and expected. What is peculiar was that the ammonia prices during the Q2, when we started the plant were unusually low, almost down to $330 Middle East.

Now as we speak, the plant has now stabilized, and it is both in terms of capacity, efficiency and sustained running. It's now reached to the designed capacities. And what is more, the global ammonia prices have also climbed up to $550 levels, aligning to the long-term average, which was what was expected.

The other thing that happened was that the other major impact came from the Russia-Ukraine war ramification. What actually happened was Russia found an embargo on its various products in various countries, because of thetilt towards the Ukraine. In this situation, India became a good dumping ground for the Russian products and this brought in large quantities of cheap fertiliser-grade ammonium nitrate, and that impacted our Technical Ammonium Nitrate business.

However, because of our strong market grip, we have insured in Q2, also despite all these headwinds, a very strong volume growth and going forward, all the mining activities that we are seeing are on an upswing, whether it is coal mining, limestone or cement, or the infrastructure based on the government budget outlay. They're all having a very positive current and the key that is there is that we have started making this concrete shift from commodity product-oriented business to mining solutions business based on success fee On the Industrial Chemicals space, the nitric acid business, besides the typical monsoon lull, did have some impact emerging out of our downstream customers, the agrochemicals and pharma customers, because they were getting impacted by the Chinese dumping.

In that space, on the other hand, the IPA had a very positive current. As we move to the specialty space, steel grade nitric acid or solar grid nitric acid, or pharma-grade IPA, we will be gradually scaling up into those specialty areas, and that should create a good insulation for us from the larger global vagaries.

In summary, if you compare the previous 4 years Q2 other than last year, it validates our strength and resilience to take in the headwinds of the geopolitical environment and at the formation level, I remain completely convinced that our strategic transformation journey from commodity to specialty or holistic solution in each of our business lines, that is Mining Chemicals, Industrial Chemicals and also the Crop Nutrition business, in all the 3, I feel very deeply that they are in the right direction and over the next few years, quarter-on-quarter, as we consolidate our this part of the journey from commodity to specialty, and as we solidify the premiums and the brand, I feel that we will bring Deepak into a complete different light. I also feel that now that the ammonia plant is with us in the group and running fine, it will bring a huge risk mitigation for the group's downstream from all the global vagaries.

Overall, in terms of the financial controls, we see the gross debt to equity now at 0.76x, so which is also a healthy state and in terms of our growth strategies, all of it would be, since they are all in areas where we continue to have the support of our last 40 years of strength, that is only going to be something that'll, once again, prove the resilience against any kind of geopolitical situations.

For more granular details, I will now hand over to Mr. Deepak Rastogi, our new CFO and I also take this occasion to share my warm wishes to you and your families a little in advance for the Diwali festival. Thank you.

Deepak Rastogi: Thank you Mr. Mehta, Good afternoon, ladies and gentlemen. I thank you for joining the Deepak Fertilisers and Petrochemicals Corporation Limited conference call to discuss our Q2 FY2024 results.

In Q2, we achieved a total operating revenue of Rs. 2,424 crores with an operating EBITDA of Rs. 286 crores, which translates to 11.8% margins. This Q2 EBITDA was Rs. 286 crores, as what Mr. Mehta was mentioning. We have basically taken around Rs. 87 crores EBITDA loss or a charge due to ammonia plant stabilization, and Rs. 106 crores charge on account of fertiliser inventory based on the new subsidy notification, which actually got recently notified. Therefore, our net profit for the period was Rs. 63 crores with a margin of 2.6%.

Last year, for the same quarter, the base was Rs. 495 crores, which was a positive upgradation, but we all knew that the margins are very high, and we may not be able to sustain for a long. EBITDA is one of the best quarterly performances for DFPCL. We are on an exciting journey despite the raw material volatility, geopolitical concerns and other external challenges impacting the business.

Our lifting of export ban in growth capex towards our nitric acid Dahej and TAN Gopalpur, which basically helps us in transitioning from commodity to specialty products and also to giving holistic solutions, capturing the overall backward integration and on the top of it, the ultra-mega benefits will act as catalyst and is laying a strong foundation for long term sustained growth.

Manufactured TAN business had a revenue of Rs. 516 crores in Q2 of this year with a strong sales volume, up over 9% on a year-on-year basis. The company achieved its highest ever Q2 sales volume of AN Melt. The margins were impacted on account of dumping of cheap Russian.

During the quarter, our manufactured Pharma/Specialty Chemicals business recorded a revenue of Rs. 409 crores. IPA registered a volume growth of 62% on a year-on-year basis, supported by strong demand and implementation of SGQR, while nitric acid volumes growth was almost 12% year-on-year.

Regarding fertiliser business, it recorded manufactured revenue of around Rs. 708 crores. During the quarter, sales volume of manufactured, NP and NPK, including Croptek was 1,47,000 metric tons as compared to 1,55,000 metric tons in the previous quarter. This was slightly impacted on the erratic monsoon, which actually continued during this quarter even though we had obviously record sales after that.

In Q2, IPA plant operated at 76% capacity utilization while both assets and TAN operated at 93% and 118%, respectively. In the Crop Nutrition segment, NP/NPK plants had a utilization level of 51%, while Bensulf plant operated at 52% utilization. With capacity had to be available across our businesses, we are well positioned to capitalize on future of those prospects.

Gross debt as on 30th of September was approximately Rs. 4,000 crores with gross debt to equities 0.76x. Net debt was Rs. 2,700 crores. A similar number for March 31, which is net debt was around Rs. 2,500 crores as on 31st of March 2023.

With this, we would be happy to take our questions. Thank you.

Moderator: We'll now begin the question-and-answer session. The first question is from the line of Jainam Ghelani from Svan Investments.

Jainam Ghelani: I want to check on the ammonia facility that now you said that the last quarter, we had an impact on the stabilization of the plant to the tune of Rs. 87 crores that we have already taken a hit. Now with the gradual ramp-up of the facility, can you give us the update in terms of how the spreads are looking currently, given the gas prices contract that we have already entered?

Deepak Rastogi: The way the ammonia prices are currently, and they are in the range of around 550, the spread is closer to, give or take, around $75 to $100 is the spread right now.

Jainam Ghelani: But the $75 to $100 is including the benefit that we're getting from the government in terms of subsidy and the steam benefit?

Jainam Ghelani: So that means equal to almost $150 to $160 of this that we could get it in Q3?

Deepak Rastogi: Yes. closer to that.

Jainam Ghelani: In terms of the capacity utilization, how shall one look for the second half in terms of the ammonia plant?

Deepak Rastogi: We are already reach the 100% designed capacity. So, we think we would be around 90% to 100% capacity utilized during the H2.

Jainam Ghelani: Second question is on the TAN business. Now since that you have already indicated that our volume is growing in the TAN because of strong domestic demand, but there is a huge dumping by the Russia . I just wanted to understand whether we are getting any measures or the protection from the government and how shall one look in terms of the margin of the TAN business when the imports are continuing at such a high level?

Deepak Rastogi: So obviously, the margins are impacted to some extent. But generally, WAN prices move in tandem with the IPP prices of ammonia. Currently, they are not moving in tandem. We expect that things would basically move in tandem, and we expect that things may get better from where it is. But we'll have to wait and watch how do the actual year pans out.

Jainam Ghelani: To assume that at least for the couple of quarters because the ag-chem prices are not moving in the line with the TAN prices, there could be a pressure in the overall chemical business margin for the second half?

Deepak Rastogi: We basically expect some pressures, but we'll have to really wait and watch to see. But overall, we think, over a period of time, things will only improve but we'll have to really go through how the geopolitical scenario looks like and then take a call accordingly.

Jainam Ghelani: The other question is on the fertiliser. Now we have almost taken Rs. 267 crores of the impulse of the reduction in the subsidy. Now in the last quarter, which we did of almost Rs. 106 crores, that includes the revised subsidy rate, right?

Deepak Rastogi: Yes, that is correct.

Jainam Ghelani: Sir, if we take it forward, assuming that there is no further reduction in the subsidy from the government and the fertiliser price remains steady at current level, is it fair to assume that our fertiliser business can generate near about Rs. 400 crores to Rs. 500 crores of the EBITDA on the quarterly basis?

Deepak Rastogi: I will have to check and maybe come back to you on this.

Jainam Ghelani: With the expansion that we are doing here it in terms of TAN and WAN, what will be our peak debt? and when could we see that number reaching in by FY2024-25?

Deepak Rastogi: It depends upon what kind of growth projects we encounter. Predominantly, the only way I could answer is that we will be in comfortable position overall from a gross debt-to-equity perspective. As I said that we are comfortable right now, and we expect that we will be continuing to be in comfortable zone going forward.

Moderator: Thank you. The next question is from the line of Nishit from Aequitas Investments. Please go ahead.

Nishit: I wanted to understand that now since the TAN export ban is lifted, by when do we see the exports to start?

Tarun Sinha: Yes, you're right, the export ban for ammonium nitric finally got lifted a month or 2 ago from now, which is a great news and currently, I think you must have picked it up for the information available on the public domain, that our company is going through some corporate restructuring and one of them has been the name change of our previous company, Smartchem, which used to house technical ammonium nitric business and fertiliser business to another company called Mahadhan Agritech Limited, which continues to house the same 2 businesses as we speak today.

As a result of this name change, the TAN business, which is a highly regulated business from a licensing perspective, is currently undergoing through some license transfers in terms of the name change from the previous company to the new company and we're expecting the final steps to be completed in that direction, hopefully, in this month. Once the license thing is transferred from old company to new company, all types of licenses of technical ammonium nitrate business, then we should be able to start exporting again.

Nishit: My second question is that in this current quarter, the production of IPA was only 76%. Any particular reason for the lower production? and how do we see that going forward?

Deepak Rastogi: Our capacity utilization for IPA is around 76%. If the demand continues, we would expect that it should improve.

Moderator: The next question is from the line of Arvind from ValueQuest Investment Advisors Private Limited.

Arvind: Few questions from my side, some of them have already come up. Now when we talk about the fertiliser subsidy going forward, this is obviously a backward-looking policy. So, is there a possibility that any more could be hitting us around this coming, the election time?

And the second thing, that I would like to ask is, in some areas, we are talking about 118% capacity utilization. Some light on this, what does this mean? and whether can a plant operate like this for a long time, or then, how would it reflect on the operations of the plant as well?

Deepak Rastogi: Subsidy part is difficult for us to predict anything, but we do not expect that any changes because this subsidy notification is applicable until March 2024 and hence, we are not expecting anything which will come in between.

The other question is on the account of our TAN capacity utilization, which is predominantly at 118% and obviously, we are taking steps to improve the capacity going forward till March and things like that and because we are debottlenecking it and hence, this position is going to improve going forward.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: I just wanted to have a few clarifications. Now the subsidy impact of the last 2 quarters that has come, the subsidy rate remains same there's no further impact, right? All the channel inventories impact has already been factored, right, in our P&L?

Deepak Rastogi: Yes, that is correct.

Deepak Poddar: You did mention that including the government benefit, at current price of $550, that is FOB Middle East price, right?

Deepak Rastogi: That is correct.

Deepak Poddar: So blended price would be additional $100, that would be $650?

Deepak Rastogi: That is correct.

Deepak Poddar: Okay. So, we are getting about a spread of $150 to $160, the spread we are getting, including the government benefit, right?

Deepak Rastogi: That is correct.

Deepak Poddar: I just wanted to understand, because that effectively means it's utilizing fully, so Rs. 150 crores of benefit that we might get on assuming $150, on a quarterly basis from this plant?

Deepak Rastogi: That is your estimation, obviously and we will have to go through the utilization over a period of time when we see how it actually pans out.

Deepak Poddar: Utilization is 90 to 100, I'm assuming.

Deepak Rastogi: Yes, but that is just a calculation.

Deepak Poddar: I mean, this quarter, we had a lot of one-offs, right? If I adjust that one-off, our EBITDA would have been more than Rs. 500 crores and if I take the advantage of our ammonia plant – so just wanted to understand at the current prices, ammonia prices, what should be our steady-state EBITDA margin? I mean, would it be in more in the range of 20%, 22%? Because ideally, your EBITDA would have been more than Rs. 550 crores if this one-off would not have come, right?

Deepak Rastogi: We are unable to give any forward-looking statements, so I will not be able to comment on this.

Deepak Poddar: No, this is not regarding forward-looking statement. I'm just trying to understand at current ammonia prices, if this one-off would not have been there, so our steady-state EBITDA margin would have been in the range of 20% plus, right? I'm just trying to understand that point.

Deepak Rastogi: You can add Rs. 87 crores, and I don't know whether you are adding subsidy. If you can add that number, it will be those are to around Rs. 417 crores.

Deepak Poddar: And plus Rs. 87 crores, the impact will not come, right, because it was in stabilization ammonia plant?

Deepak Rastogi: Yes. Looks like that, yes.

Deepak Poddar: So that, also, we need to add, right?

Deepak Rastogi: Yes.

Deepak Poddar: Fair enough. I got it. When we say this benefit of ammonia plant spread, we have factored in the recent change of UMPP benefit to 100% from 75% of this greenfield project, ammonia?

Deepak Rastogi: The answer is yes.

Moderator: The next question is from the line of Sharan, an individual Investor.

Sharan: My first question is, historically, how has been the price of ammonia fluctuating? and when do you see you are getting the benefit from the new plant with respect to price getting increased?

Deepak Rastogi: The ammonia prices, FOB Middle East, has been ranging from $250 to almost close to $1,100, and these are in U.S. dollars, FOB Middle East price.

Sharan: What factors, does this price fluctuation impact? and from when do you see getting benefited and from what price onwards Deepak will start getting benefit of it? and when do you see it happening?

Deepak Rastogi: So effectively, it also depends upon how the gas prices are moving up and down, so it is not a straight answer. But as I said, currently, we have a positive spread of around $100, $150 based on the current FOB Middle East, and that will change over a period of time based on how the global prices are moving up and down.

Sharan: Other question is the new specialty chemicals for solar and the semiconductors. From when do you see those getting into production? and also, what do you see from, like, from next 1 or 2 years, the revenue and the benefit from that, the profit?

Deepak Rastogi: For solar, as we have communicated in our press release also, that we will be starting production from October of this year. As far as semiconductors are concerned, obviously, the market is still growing in India and it will take some time for us to get to a full-scale revenue level and for a solar perspective, since obviously, it's a forward-look statement, we will not be able to comment that how much and to the extent of the revenues, specifically for this particular request.

Sharan: The other question on the same is, like, basically, are there any other producer who is producing a similar kind of chemical in India? and what's the total market size for that chemical, and what is going to be your share in that?

Deepak Rastogi: Currently, to our understanding, there is nobody else who's actually doing this at this point in time.

Sharan: Okay, and what's the market size for Deepak in that segment overall?

Deepak Rastogi: So, we have just started that. We are talking solar grade. So, we have just started that and we are obviously landscaping because the solar markets itself is obviously in a nascent state and growing. We basically are doing our own market studies to figure out how much that market would be and how much we will play into that.

Sharan: On the last question about the Pune real estate sale, just like noncore asset sale. Any update on that?

Deepak Rastogi: As we have mentioned that we would be looking for such sale and take action, based on the Board approvals.

Moderator: The next question is from the line of Niraj, an Individual Investor.

Niraj: I just wanted to know what is the status on demerger, which was announced long back? What is the current status of NCLT approval, and by when we can expect listing of these 2 businesses? And second, what is the status of Gopalpur project. Can you please share a tentative investment amount, which has already been done in this project till now?

Deepak Rastogi: Your first question on the NCLT approval. We basically have got a hearing coming up for this NCLT order, which is fixed on 10th November and if the order is passed, then we will know the outcome.

The other question which had on the TAN Gopalpur right now. So, we have currently spent close to around Rs. 525 crores worth of capex, which we will see WIP and that would be up and running sometime in the second half of FY2026, so FY2025-26. So that is the currently COD dates which we are looking at.

Niraj: let's suppose if we get the demerger approval in November, by when we can expect the listing of these 2 businesses. Is there any plan currently?

Deepak Rastogi: Whenever we firm up those plans, we will come back as a part of our statements. Currently, there is no approvals which we have right now to go for a listing.

Niraj: Any plans of any strategic investors participating in mining business?

Deepak Rastogi: We continue to obviously have those discussions and whenever there is a right time, get the Board approvals and all, we will come back and communicate accordingly to all.

Niraj: One last question. Recently, the government has lifted the ban on the TAN export. So, you were sharing some information on that. It'll take maybe a couple of months before we start exporting it. Can you give the tentative numbers? What would be the revenue breakup of TAN in terms of export, in terms of domestic?

Tarun Sinha: Right now, the ban, which has been lifted, it comes with a quantity. So, it's a bit of a cap. Because usually, when government of India imposes ban on certain commodities or products and when it starts to lift it, then it is not an abrupt complete lifting. It is state-by-state lifting, which then determines what quantities can start moving out in the form of exports.

For this financial year, the quantity which has been allowed for export is 20,000 tons, and that's the sort of ceiling and then subject to how things pan out in the next financial year, in terms of the overall demand/supply of ammonium nitrate in the country, which is required for the mining and infrastructure sectors' growth, then again, government may review this and decide to revise the quantity. So that's the kind of guidance I can give at this stage.

Niraj: Any understanding on Russian dumping? Anything in foresight we can understand that this can stop by so and so time or any implementation of antidumping duty by Indian government? Any update on these lines?

Tarun Sinha: Sure. So, when can things stop or start again, as far as the Russian or the cheap Russian fertiliser-grade ammonium nitrate is concerned will largely be driven by, again, geopolitical situation, as our Chairman, Mr. Mehta, stated in his opening remarks. Because Russia is going through a lot of sanctions, as we know, with the Western world. They have limited markets to put their products in and India, of course, is one of them. So, timeline is anybody's guess, so we would not speculate.

Coming to your next question in terms of any measures, remedies, things like that. I think you people might be aware that the government of India had rightly imposed antidumping duty on a number of countries, and Russia was one of them for import of ammonium nitrate in India, and that was way back in 2017. It was a 5-year tenure for that antidumping duty, which expired sometime in August, September 2022. After that, Ministry of Commerce and Industry, one of its arms, which is DGTR, Directorate General of Trade Remedies, they were looking at what to do with this for the continuation of antidumping duty. They recommended that the antidumping duty should be extended for a few countries and certain rates were also prescribed.

However, it is interesting to note that 1 arm of our government, which is Ministry of Commerce and Industry, in the form of DGTR's recommendation, was rejected by another arm of the government, which is Ministry of Finance and this didn't just happen for ammonium nitrate, but a lot of similar recommendations in the form of remedies, which were proposed by DGTR, were actually rejected by Industry of Finance and that, too, without assigning any reasons. So, because so many industries were getting impacted as a result of this, I think the matter went to court and the matter is still Sub judice as we speak.

Niraj: One last question from my side, Tarun. What would be the revenue contribution in terms of domestic business for TAN? Earlier when we used to export, what was the contribution then?

Tarun Sinha: When you say contribution, you mean export as a percentage of total revenue? Is that your other question as well?

Niraj: Absolutely.

Tarun Sinha: That's why I gave you a guidance that there is a ceiling this year for the export ban, which is at 20,000 tons in this financial year and the TAN capacities you are aware of. You can see the level at which we are operating, which Mr. Deepak Rastogi talked about. You could do your sums based on those numbers.

Moderator: The next question is from the line of Parshva Veer, an individual investor.

Parshva Veer: I have 2 questions. First thing is what is your current TAN capacity?

Deepak Rastogi: So, we have close to 525 lakh metric tons.

Parshva Veer: If I understand correctly from that, only 20,000 tons will be exported. The remaining will be used for domestic sales, and you're operating on 100% TAN capacity. Am I correct?

Deepak Rastogi: Currently, we have around 487 tons. We are going to add 50,000 metric tons additionally by March of 2024.

Parshva Veer: Second question is coming to the ammonia plant. I wanted to understand the math. How are our gas pricing contracts being done and the FOB normal current UAE charges? and what are we saving after putting this particular plant? Like, you said it's approximately Rs. 550 crores, but there's a lot of math between the gas and the FOB process from UAE and the Government subsidy. If you could help me understand, that would be very helpful.

Deepak Rastogi: We have FOB gas pricing, which is based on the Brent link or HH link and things like that.

Parshva Veer: So, are we doing it on Brent link? Or the HH link to understand?

Deepak Rastogi: Predominantly combination of HH, Brent and JKM.

Parshva Veer: That will be how much percent of the Brent, sir?

Deepak Rastogi: It depends on contract-to-contract basis.

Parshva Veer: I'm sure there would be an average number that you would have in mind that this is our normal pricing policy with an average percentage.

Deepak Rastogi: For your calculation's sake, you can say to equal of all those.

Parshva Veer: I mean equal of all those, would that mean 22% of Brent? Would that be 50% of Brent? How should I consider that? If you can help me with an average number would be very helpful.

Deepak Rastogi: You can say that in average, which is 1/3 because we will not be able to obviously provide that information.

Moderator: The next question is from the line of Dhaval Sanghavi, an individual investor.

Dhaval Sanghavi: Based on Chairman's comment side, where we are moving from commodity to specialized solutions, I just wanted to understand, from a broader perspective, like, from a 3 year perspective FY2027, where do we see ourselves as an organization, as a company, what direction addition we want to move, what kind of revenues on an average we should be expecting?

Deepak Rastogi: Moving from commodity to service providers is predominantly, we are doing in 2 businesses. Actually, all the businesses but predominantly in TAN, so I would request Tarun to just give some glimpse on how he looks at the business, so over to you, Tarun.

Tarun Sinha: The way we are moving into the solutions business model, as far as our group's Mining Chemicals business is concerned, is we have come out with a concept, which we call as total cost of ownership, TCO as an acronym, in short.

In simple terms, layman perspective, what that means is when a mine operates, it is basically operating to extract some minerals or to extract some rock, whether it is a mine or an infrastructure project where blasting takes place. So total cost of ownership is a concept, which basically aims at cost of mineral extraction or cost of rock extraction.

So, what we are developing as a solutions business model is that we try to improve the total cost of ownership, i.e., the cost of rock or mineral extraction in a mine or in an infrastructure project. So that's the theme. Now how do we do that? Essentially, in any mine or any infrastructure project or a quarry where blasting takes place and rock and minerals are being extracted, there are 5 value streams where improvements can be brought about in order to improve the total cost of ownership. What are those 5 value streams? It starts with Drilling in the rock or the mineral to be extracted; followed by Blasting, so that's the second one; the third one is Excavation of that blasted rock where it has to go for further processing and handling, so that's Excavation; and then fourth is Transport from the place it's blasted to take it to another place; and the fifth is Crushing. So Drilling, Blasting, Excavation, Transport and Crushing.

Now we have developed tools, softwares, people capability, different kinds of products, and we are continuing to do that to attack each of these 5 value streams in an operating mine or any other operating infrastructure project, so that the collective outcome of all these inputs is, that the cost of mineral extraction or rock extraction is improved.

So that's the overall model in our Mining Chemicals business, which we also start calling at Mining Solutions business, because now we are migrating towards a mining solutions company and this has just started about 1.5 years ago, and it's a complex process because it requires working every day in the month and then showing all these improvements and then eventually, it starts to translate into a sustainable business, which was your question. So therefore, putting a figure is a difficult one at this stage.

The entire Indian market is the canvas that we are looking at. It's this very huge opportunity. Every single mine, every single infrastructure project operating in India has potential to improve its total cost of operations and that's how we see the overall size of the price from our point of view and that's why we are investing heavily in that direction to be able to impact in that sense.

Dhaval Sanghavi: What I was actually looking is, yes, I understand how the solution is going to, but what I was looking mainly from the perspective of 3 year time horizon is at an organization level, year-on-year or I mean, what's the guidance that the company is looking? Like, for example, in FY2023, we did somewhere around Rs. 11,000 crores, right? This year, we will be somewhere around Rs. 10,000 crores, so I'm looking from that perspective. What is our focus, I mean how the growth would be 3 years down the line in terms of sales growth, ROE. That's what I was looking mainly from that perspective.

Tarun Sinha: I guess I tried to answer it by saying putting a number to any of these new solution initiatives is not possible in the early stages and another way I replied to that question is entire mining industry and infrastructure industry in India is the opportunity for us from a longer-term perspective. So, it's a huge opportunity for us as we go along.

Moderator: Thank you. The next question is from the line of Rishab Agnihotri, an individual investor. Please go ahead.

Rishab Agnihotri: Because of the DAP subsidiary cut, there's like a margin shortfall of around USD 100 per ton on imported DAP, right? and we imported, like 2,950,000 ton in September 2023. I think Deepak produces that. So, do you see that as an opportunity going forward in the fertiliser market?

Deepak Rastogi: I can only say that we do not manufacture DAP for ourselves. We generally have trading volumes there and based on the opportunities and the market, we continue to take those calls on a quarter-to-quarter basis.

Rishab Agnihotri: The second question is on the line of TCO. So, I think you have executed some projects. Can you give us some guidance on like the solar industries as a competing segment, and explosives, and then they cater to the same mining industry. How does your TCO solution compete with solutions like them?

Tarun Sinha: Great question. Thank you for that. So, one way to look at this is, what Deepak is trying to do, as a solutions model, is completely different from any explosives manufacturer in India. I'll try to explain it in simple terms. All the explosive manufacturers in India, they supply explosives to the mining industry and the infrastructure industry. They invoice the client for the inputs in the form of explosives, in this case, and they get paid on the basis of the inputs that they have provided.

What we are developing as a business model is, in order to impact all this Drilling, Blasting, Excavation, Transport and Crushing value streams in a particular mine, we are definitely putting in inputs there in the form of Products, Services, Technology, Solutions, People on the ground. So that's the input, which definitely we also invoice for. But in addition to this, and here comes the difference. In addition to these inputs, we guarantee certain outcomes as a result of the inputs that we provide to the mines and infrastructure projects. So, in other words, we agreed to a set of KPIs as outcomes coming out of the inputs that we are putting.

So, in other words, we are putting our skin in the game and in doing so, we also request the beneficiary, which is the mining company or the mine operator to share a part of that benefit, which they get through the inputs that we provide and through the outcomes that we guarantee and produce for them. We share a benefit for those. So, we also get paid for this output and the outcomes that we generate. That's the fundamental difference between us and explosives manufacturing companies. Input only in one case versus input and guaranteed outcome and getting paid also on the basis of the guaranteed outcome. So that's how I will try to summarize it at a high level.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: The ammonia plant got commissioned, I think, in the first week of August somewhere, right? So ideally 2 months of incremental depreciation and interest would have got factored in, in this current quarter?

Deepak Rastogi: That is correct, yes.

Deepak Poddar: So incremental, I mean, I think on a quarterly basis, we were of the view that Rs. 50 crores of depreciation and Rs. 50 crores of incremental interest costs will come through, right?

Deepak Rastogi: Yes, it's close to that, yes.

Deepak Poddar: But in this quarter, as I can see only Rs. 22 crores and around Rs. 25 crores of incremental depreciation and interest has come. I mean balance Rs. 25 crores for each, depreciation interest is likely to come in the third quarter? Would that be a fair thing to assume?

Deepak Rastogi: So effectively, we have capitalized close to Rs. 4,500 crores. So yes, I think Rs. 25 crores to Rs. 30 crores approximately should be the depreciation. I don't have to know the numbers by heart, but probably that number sounds to be right.

Deepak Poddar: The incremental that may come in third quarter, right? I mean, FY2025?

Deepak Rastogi: Yes, could be in that.

Moderator: The next question is from the line of Jason Soans from IDBI Capital.

Jason Soans I just required a certain clarification. When you look at the results and the notes to the accounts, you mentioned that there is a loss of Rs. 148 crores, emerging out of the initial stabilization period for the ammonia plant. Now when you look at the presentation, this amount reduces to Rs. 87 crores. So, I just wanted to reconcile what is the right number for this stabilization?

Deepak Rastogi: So, Rs. 148 crore actually is the PBT number. Rs. 87 crore is the EBITDA number. So that is the difference. Both numbers are correct.

Jason Soans: Just one question. I just wanted to know, I understand that you have announced the demerger of the TAN and the fertiliser business and have seen the structure of it. But just wondered if you could just throw some colour on what you want to achieve through it, what is exactly your game plan to this restructuring, that would be really helpful.

Deepak Rastogi: So, are you asking the question, like, what is the game plan of restructuring of this demerger?

Jason Soans: Yes. What's the objective of it? Because I understand that you would want to move. You've already highlighted that you would want to move from a commoditized business to a more specialized one, and you're taking steps towards it. Now just in terms of the corporate structure, it was a little hazy to me. Just wanted to know what exactly your objective behind this corporate structure. The new one which you have, I can see it in your presentation, so I just wanted to know some colour on it.

Deepak Rastogi: Earlier, the structure was that Deepak Fertilisers, which is a holding company, was actually holding and it continues to hold the Industrial Chemicals business as well as the reality business. Underneath, there was a company called STL, which has now been renamed as MAL. With this restructuring, we are actually taking away and the MAL had the Crop Nutrition business as well as the TAN business. With this demerger, we are actually separating the TAN business from CNV business, and the TAN business will be now called and Deepak Mining.

The purpose for restructuring is predominantly because each business is quite big right now and hence, the leader for each specific strategy to obviously go through it. That is one of the reasons why we want to do it, so there is a specific focus in each of the businesses.

Moderator: The next question is from the line of Shivnil Giri from Centrum PMS.

Shivnil Giri: Just regarding the Mining segment, the Mining business. You mentioned that you'll be reducing the cost of ownership for the mine owners. So, will this be coming from yield enhancements or changing the type of mix that is being used to complete the process? What would that be?

Tarun Sinha: As I was mentioning earlier, and this is just a recap in case you may not have captured it at that point in time. There are 5 value streams in an operating mine, usually, which are namely Drilling, Blasting, Excavation, Transport and Crushing. This is how the rock is extracted and there are products in the form of different types of explosives that we are using. There are different kinds of services, which is on-bench, last-mile execution services. Then there are different kinds of blasting technologies in the form of software, tools also include artificial intelligence, using drone, doing predictive blasting models so that next blast gets better than the previous one, so on and so forth.

It's a combination of Products, Services and Technologies, which we depute and deploy and supported by people, of course. Because this needs really high skilled people, which is a hard thing for any company to make overnight because its first thing is to recruit the right types of sort of people who understand the consumers' language, and then to train them up and then to hand them over all those tools that I was talking about, supported by products and services and then this team was to go and deliver all this mine. So, it's a combination of all of this, which actually helps our consumers in terms of improving their performance.

Shivnil Giri: But wouldn't the cost of ownership increase be using these enhanced services over a period of time? Because then you would have to offset that with certain improvements in their outcomes right now and our outcomes right now how much you can expect from a rock or from any mine for that matter. How would that cost of ownership get? How would they be able to compensate that with your enhanced services?

Tarun Sinha: The way it works is, we first do a baselining. So, as we step into a mine, let's say, we do a baselining of their existing cost of extraction of mineral, which has got some benchmark levels of cost of raw material, everything included and then we take up some pilot blasts through our own design, software, all of that, that I was talking about, in some cases, changing products and different kinds of services and we analyse through the pilot blast which of the 5 values between drilling and crushing we can actually impact, and then we convert that in the form of a proposal to the mining companies. So that's how we go about doing it. Take the process, which works like that.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Deepak Rastogi for closing comments.

Deepak Rastogi: Thank you, everyone, for your participation. For any further queries or clarifications, please do get in touch with our Investor Relations team. Thank you, so much, and happy Diwali, to all of you.

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Note: This transcript has been edited to improve readability

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