Operator: Welcome to the second day of the Bharat Connect Conference. I would like to extend a warm welcome to all of you to the conference call of Madhya Bharat Agro Products Ltd. Joining us today from the management team are Mr. Pukhraj Kanther, Financial Consultant, and Mrs. Sweety Jain, Head of Investor Relations and Strategy.

Before I hand over the call to management, let me briefly outline the flow of today's session. We will begin with a brief introduction and opening remarks from management, following which we will move into the Q&A session. Participants who wish to ask questions may raise their hands using the platform features and submit their questions in the chat box. We will first take questions from participants who have raised their hands and thereafter move on to the questions received through the chat box.

If time permits toward the end, we will also address a few questions that we received from clients who were unable to join the call today. Please note that we will take the last question approximately 5 minutes before the scheduled end of the session so that we can conclude the call on time. With that, I would like to hand over the call to management for the opening remarks. Over to you, ma'am. Thank you.

Sweety Jain – Head of Investor Relations and Strategy: Thank you, Arihant team. Thank you, Arihant Capital, for inviting us to this webinar. I welcome everyone to the webinar and to an understanding of Madhya Bharat Agro and the details about the company.

I will just share my screen. Please let me know if the screen is visible. Is it visible?

Operator: Not yet, ma'am.

Sweety Jain – Head of Investor Relations and Strategy: Please give me a moment. Is it visible now?

Operator: Yes, it is visible now.

Sweety Jain – Head of Investor Relations and Strategy: Thank you. Thank you once again.

We are from Madhya Bharat Agro. Madhya Bharat Agro is a unit of the Oswal Group. It manufactures DAP and NPK complex fertilizers. The company is strongly backward-integrated with the required raw materials. The company is an A-rated company. The company's total fertilizer capacity is 900,000 metric tons per annum as of date, and with the new expansion in Dhule coming up, the same would be expanded to more than 200% in the coming 2 years.

The company's plants are located in Madhya Pradesh, Dahej, and Dhule, all near port locations, which also strengthens its position in the key fertilizer markets. The company is led by M. K. Oswal, Chairman, who is a technocrat and a pioneer in SSP production. Mr. Pankaj Oswal is the MD, and Mr. Praveen Oswal is known for turning around loss-making fertilizer plants.

As of date, we have more than 200 marketing professionals, more than 40,000 retailers, and more than 3,000 wholesale distributors to market our products. As we achieve a pan-India presence, we will enhance this going forward. As of date, the market share that the company enjoys in SSP is 19% in Chhattisgarh and 9% in Madhya Bharat.

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Let me share a little about the company and how it grew these capacities. The company started in 2004 with an SSP plant. In 2012, we forayed into BRP production capacity. In 2016, the company got listed, and in 2017 we further added an SSP plant and organic fertilizers as well. The year 2022 was again a core year, when we forayed into complex fertilizers. Since then, the company has been continuously and gradually increasing its complex fertilizer capacities.

I will share more with you in terms of how the new Dhule plant, which is expected to commence operations in the next few months, will again enhance the company's capacities by 200% over the next 2 years.

Before we learn more about the financials or the revenues, let me share a brief overview of the fertilizer industry in India and how it represents a structural opportunity for domestic fertilizer players to achieve the next level of growth.

India's fertilizer requirements are rising, and the country's overall consumption has grown. Complex fertilizer consumption has grown at a CAGR of 12% over the last 3 years. Similarly, SSP consumption has grown at a CAGR of 3% over the last 3 years. This reflects the strong demand in the fertilizer sector, where the company is currently taking the next steps.

India has significant import dependency, which accounts for 42%. This significant import dependency gives domestic players a significant opportunity to substitute imports and be at the leading edge of building a self-reliant India.

Another requirement of this industry is balanced nutrition. In India, the recommended ratio for the soil requirement of nitrogen, phosphate, and potash is 1:2:4. However, we are far behind in reaching this ratio. This again clearly indicates that, from a market perspective, consumption of complex fertilizers is increasing. Consumption of one of our core products, N20, which is also the company's core product, has increased by 17%.

From a market perspective, India has a significant opportunity, and the company has a significant opportunity to tap this next phase of growth. To share a little about how MBPL will tap these opportunities, India's vision is to become self-reliant and reduce import dependence. Our manufacturing scale will expand by more than 200% in the coming period so that we can become a leader in this market opportunity.

The strengthening of raw material supplies is also important. The company is making sure that we are strongly backward-integrated in terms of the required raw materials, including sulfur, phosphoric acid, sulfuric acid, and others. These raw materials further reduce our external dependence and provide cost stability as well.

The way we have utilized our capacities to serve the rising demand is that our plants are optimally utilized. Our SSP capacities are utilized to the core level of 100%, and the same is true for our NPK capacities. This helps us further invest in new growth opportunities. Our marketing and distribution team helps us reach farmers, and product accessibility is spread across markets to support our wider market reach and provide product accessibility to farmers.

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We have also undertaken the milestone green ammonia project, under which we have secured the required green ammonia for all our plants through a contractual agreement with the government. This will replace gray ammonia, which is an import-dependent raw material for India.

In this way, the company would emerge as a stronger, integrated, dependable, and sustainable producer with a reliable supply. It would become India's third-largest phosphatic fertilizer producer as this next phase of growth begins in the next few months. We are entering the next development phase to cater to this opportunity.

The company believes it is in a leading position because there are several new entry barriers and the company enjoys the advantage of being an early mover. Since we are completely backward-integrated, we have rock phosphate beneficiation capacities. Our margins are in a leadership position, and we are leading the industry in terms of EBITDA margin. Our green commitment going forward would further enable us to deliver the next phase of growth.

The new capacity expansion, regulatory environment, and access to raw materials position us to deliver more and enhance value across the value chain.

Let me provide a brief insight into our next level of growth pipeline and expansion vectors. As I mentioned, we are expanding right now. In FY26, our total fertilizer capacity was 4 lakh 80 thousand tons. It has now grown to 9 lakh tons, and by FY29 this would be 1.2 million tons. As we close the next year, we would further add an incremental 330, taking the total capacity to 1.5 million tons. This represents an expansion of more than 200% over the next few years.

This is not limited to fertilizer capacity. We have also enhanced the capacity of the underlying intermediaries by an equivalent level of growth, which represents growth of around 200% or more in the required raw materials that would again be produced in-house. This will help us scale our operations in FY26, FY27, and FY28 over the next 2 years.

The geographical diversification in Maharashtra, which will come up, is also a key growth engine for our further expansion. This will take the company to a pan-India presence, given that we are now entering the western region with the Dhule plant coming up. This will result in the southern markets being captured and support the company's long-term vision of pan-India presence.

This will also enhance the availability of new raw material grades and strengthen backward integration to derive better margins for the company in the next period.

I would like to briefly discuss how the company has performed financially. In FY23, our revenue was close to 900 crores, representing a 76% increase year-on-year. If we look at the 5-year CAGR over the last 5 years, growth on a cumulative basis has been phenomenal, at more than 50% each year.

The same is reflected in our EBITDA. Our EBITDA also grew at a 40% CAGR over the last 5 years, and year-on-year it grew by 56%. Our production scale grew along similar lines, helping us improve these financial numbers and deliver the best results even in difficult times.

Even in the current situation, when we see the West Asia crisis and other factors, the company has made ample efforts to best serve the markets and farmers and to maintain value addition in the company.

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That is a brief overview of the company. Mr. Kanther has joined us and is taking care of the company's financial advisory matters, and CFO Saurabh is also available to help if you have any insights to share or any questions. We are all here to share our insights. Thank you.

Operator: Thank you. Participants who wish to ask questions may raise their hands using the platform features and submit their questions in the chat box. I will take the first 2 or 3 questions from clients who are unable to join today.

The first question is: With the new Dhule capacity coming online in October, how much incremental revenue and EBITDA contribution can we expect from this plant in FY27?

Management: Yes, please.

Pukhraj Kanther – Financial Consultant: The Dhule plant has unfortunately faced some regulatory issues, and some approvals are pending. Therefore, we expect a delay of 15 to 20 days. However, based on the estimates we have given, we will be adding about 60,000 metric tons of NPK sales during FY27 and 70,000 metric tons of SSP during FY27.

Management: That translates into almost 400 to 500 crore rupees of turnover. EBITDA depends on how the government moves on the nutrient-based subsidy, which is expected at any time. Let us wait for the notification, which is expected today, either this week or next week. Only then will the company be in a position to determine the impact.

However, I can assure you that whatever per-ton EBITDA we have been earning in the first quarter, by the end of FY27, the per-ton EBITDA will be maintained. Though, in percentage terms, because of the increase in the denominator of the sales price, the percentage EBITDA may go down.

Operator: The next question is: Once the new Dhule DAP and NPK plant reaches 60% utilization, what EBITDA margin do you expect from this capacity, and how quickly can utilization reach 80% to 90%?

Management: As we have already submitted to various appraising authorities, the 80% to 85% capacity utilization of the Dhule plant has been planned for FY28-FY29. Before that, we have planned somewhat lower utilization. Once capacity utilization increases, obviously, with the fixed costs being covered by the initial 40% capacity utilization, the per-capita, per-ton, and percentage-wise EBITDA will go up.

Another factor in Dhule is that, because of the proximity of the Dhule plant to the port, the transportation cost for Dhule vis-à-vis Sagar is almost 1,000 rupees per ton lower. That will also add to EBITDA. However, let us wait for the new notification, which is expected either this week or next week. It will then be easier for us, as well as for investors, to work out the EBITDA percentage.

Operator: The next question is: With the plant capacity expansion, what will be the approximate working capital requirement, particularly for inventory and receivables?

Management: In the fertilizer industry, almost 45% of turnover is the total working capital requirement. For the estimated turnover for March 27, we have already estimated and have already been sanctioned a total working capital limit of 1,225 from the banks, and the documentation

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process is ongoing.

Raw material procurement has already started at Dhule. In fact, I am happy to report that all the mechanical and technical issues have been taken care of. The plant is ready to take off once the regulatory approval for ammonia and sulfur is in place. I hope there should not be any problem as far as the Dhule plant is concerned.

Whatever working capital requirement exists, we have already been sanctioned the necessary limits, so this will be in place. In addition, the company has already received more than 300 crore rupees through preferential allotment from investors. That money is also available with us.

Therefore, liquidity, working capital requirements, investment in fixed assets, and capital assets are all in place.

Operator: The next question is: The company is targeting around 3,500 crore revenue in FY28. What level of capacity across the overall business is required to achieve this target?

Management: Based on the present price situation, we hope that this 3,500 crore rupees will be exceeded to a great extent. In fact, this year itself, in FY26, we hope to achieve 3,500 crores. Therefore, next year will be better.

Operator: The first question from Meet Buva is from the chat box. What is the impact of a weak monsoon on fertilizer demand this season, and how is the adoption of NPK and SSP taking place in the context of a DAP shortage in the market?

Management: There may be a weak monsoon, and there may be lower demand for fertilizer. However, one thing we must take into account is that domestic manufacturers meet only about 60% to 65% of the requirement for NPK; the rest is imported.

There is also a historical trend which says that if one part of the country experiences a weak monsoon, another part makes up for it. Therefore, overall, there should not be a material impact on demand.

Still, for the sake of understanding, if there is a weakening of demand, NPK imports will come down. Domestic players and domestic manufacturers are not going to face any problem.

Operator: The next question is from Shaurya Punyani. Please unmute yourself and go ahead. Hi, Shaurya, please unmute.

Shaurya Punyani: Hello. Am I audible?

Operator: Yes, you are audible.

Shaurya Punyani: Sir, just a clarification. Are we aiming to achieve this 3,500 crore target by FY28 or FY27?

Management: FY27.

Shaurya Punyani: This year, you mean?

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Management: Yes.

Shaurya Punyani: Sir, but you said that the Dhule plant will be coming up this year, so around 500 crores of turnover will be added, right?

Management: Right.

Shaurya Punyani: So, last year's 1,800 plus this year's 500. Where is the rest coming from?

Management: Number one, last year's turnover itself will go up by 20% because of the change in MRP and the change in nutrient-based subsidy.

Number two, to meet demand for different variants, we are resorting to imports of different versions of NPK as well as some MOP. The imported trading component will also be included in this 3,500 crores.

Shaurya Punyani: That trading component will increase. What has been the pricing scenario for NPK over the past 6 months?

Management: We have increased the MRP. Earlier, we had been selling at 26,000 per metric ton, and presently we are selling at 41,000 rupees per metric ton.

Shaurya Punyani: Was 26,000 in March, or when?

Management: No, I think we introduced the MRP in April.

Shaurya Punyani: So, from April we have been selling at 41,000, right?

Management: Yes.

Shaurya Punyani: Thank you.

Operator: Thank you. The next question is: Please explain the cash flow from operations. What can be the normalized number or sum of all OCF, since FY27 is 107 crores, but capex is 8,900 crores?

Management: 8,900 crores? What 8,900 crores? 8,900 crores?

Operator: 890 crores.

Management: 890 crores is capex. Capex for the last 2 and a half years, not during the year. The FY27 question may involve some misunderstanding.

Operator: We will take the next question.

The next question is from Dev Gulwani regarding the margin of the fertilizer business for this season. How should one look at it, considering the very nominal increase in subsidy numbers, at about 10%, while raw material prices have gone up materially? How do you see the government's response, and what discussions are taking place between fertilizer companies and the government?

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Management: There is no system of discussions between the government and the fertilizer industry. We only convey our concerns, and the government takes those concerns into account.

For clarity in answering this question, I think it would be unfair on my part to convey anything at this stage. Let us wait until next week or until the new rates are announced.

Operator: The next question is: What is your view on raw material prices for sulfur and ammonia?

Management: Ammonia prices have already started coming down. The ammonia that we had been buying at 1 lakh rupees per metric ton has come down to around 70,000 rupees, below 70,000 rupees.

Unfortunately, sulfur prices have not come down substantially, but the government is seized of the matter. Fertilizer manufacturers have conveyed their concerns regarding the abnormal increase in sulfur prices. The government has taken cognizance of this abnormal increase, and we hope that, as we have been assured, the government may come out with some support. Let us wait for the notification.

Operator: Participants who wish to ask questions may raise their hands using the platform features. The next question is: Which product among DAP, NPK, SSP, and the newly introduced grades is expected to contribute the most to revenue and profitability over the next 2 years?

Management: Our 20:20:0:13 product is the star product of our company, and it contributes handsomely. During the last 6 months, there have been certain issues because of the increase in sulfur prices. Therefore, 2 other variants may also contribute.

Management: 15:15:15 and 12:32:16.

Management: We keep changing the product mix depending on the EBITDA margin and the availability of ammonia. Earlier, because of the limited availability of ammonia as well, we had to shift from 20:20:0:13 to other variants where the ammonia requirement was lower. Now we are only focusing on.

Operator: The next question is: As of now, the company has expanded into western and southern India. Which state is expected to become the company's key growth market?

Management: Maharashtra consumes the highest quantity of NPK as far as nutrient-based fertilizer is concerned, and we are coming out with a project in Dhule, which is in Maharashtra. Therefore, Maharashtra will obviously be the next good market.

At the same time, adjacent markets such as Andhra Pradesh and Telangana will also remain in focus.

Operator: The next question is from Meet Buva in the chat box. Due to the increase in raw material prices, how much of the increase is borne by the farmer even after the increase in subsidy?

Management: Whatever increase in MRP has taken place has to be borne by the farmers only.

Operator: Can you explain how much subsidy there is in NPK and how much it costs the farmer?

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Management: As I told you, the MRP is 41,000 per metric ton. That is the cost that the farmer has to bear. The subsidy is 20,000. The government is bearing 20,000 as subsidy.

Therefore, 41 plus 21 is 62,000 as the total cost. 41 is borne by the farmers and 20 by the government.

Operator: What is the current capacity utilization of the existing facility, and how quickly do you expect to reach the target of 90% utilization?

Management: Last year, MBPL achieved 100% capacity utilization of DAP and NPK. This year, due to constraints in the first 2 months, April and May, regarding the availability of ammonia, current capacity utilization is slightly lower. However, we are definitely confident that this year we will achieve up to 90% capacity utilization by year-end.

Operator: The next question is: What return on capital are you targeting for the new Dhule expansion once the facility reaches mature utilization?

Management: Swati Madam, can you comment on this?

Swati: Certainly, sir. Thank you.

As you have seen from our past track record, the Dhule plant effectively gets completed in October, and as per our plan, progress is going well. We expect a 50% given that the 50% year is there now for the next 6 months. We would be starting with this plant in terms of enhancing our volumes.

Management: We expect that we would be able to achieve around 40% to 50% in the initial year, given the way the West Asia crisis and the turnaround in ammonia as a raw material are becoming very positive for the industry. We are positive and hopeful that this will be further resolved as the situation develops.

Operator: Thank you, ma'am. The next question is from Dev Gulwani in the chat box. Given the higher-cost raw material inventory carried into the current quarter, should we expect any near-term pressure on EBITDA per ton as the inventory is consumed? How should we think about the trajectory of EBITDA per ton over the next few quarters?

Management: We are positive. The government is seized of the problem of the increase in input costs. Therefore, whatever higher inventory cost we are carrying, we are confident that it will be offset by the increase in nutrient subsidy. Let us wait until next week.

Operator: Once the Dhule complex reaches full scale, what percentage of the company's total raw material requirement will be sourced internally through backward integration?

Management: Phosphoric acid is a matching capacity. Therefore, whatever capacity is utilized—even at full capacity and 100% capacity utilization—our phosphoric acid plant will take care of the phosphoric acid requirement.

Sulfuric acid is not a matching capacity. However, whatever the deficit or difference is, we will procure it through our agreement with Birla Copper. They are also coming out with an expansion in their copper smelter capacity. Therefore, whatever deficit is required, we will procure from Birla

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Copper.

In any case, at the present price of sulfur, procuring sulfuric acid from sources where it is produced as a by-product is more beneficial than producing our own sulfuric acid.

For ammonia and rock phosphate, we are 100% dependent on outside sources. Rock phosphate will be 100% imported from Jordan and Egypt. Ammonia may be a mix of imports and domestic sources.

Operator: The next question is from Apar Bansal. Can you please explain the reason for the increase in the sale price from 26,000 per metric ton to 41,000 per metric ton? I am relatively new to this industry.

Management: I have already explained that there has been an increase in input costs. Manufacturers decide the MRP depending on the nutrient subsidy. Therefore, based on the subsidy being provided and the difference required to maintain a reasonable level of EBITDA percentage, we increase the MRP.

Operator: Behind the current Dhule expansion, what is the next major growth opportunity that management is evaluating after FY28?

Management: It is under consideration. We plan to increase the capacity of NPK, DAP, and phosphoric acid at Dhule itself, but this is currently under consideration and remains on the drawing board. As and when we reach a conclusion, we will inform the investors and the NSE.

Management: To add to that, by FY29, our marquee procurement of green ammonia would start building up. This will help the nation as well as the entire fertilizer industry benefit by reducing the high-cost dependence on gray ammonia, which is currently all imported.

Once green ammonia is produced in-house by the company, and since our contract with the government is already in place at a fixed price, we will benefit if ammonia prices go higher because we would still procure it at the best cost that we have agreed upon.

Conversely, if prices go lower, which is not expected, we would still have the incremental extra cost, which is a committed cost as of today. We would receive compensation for that cost from the government in order to maintain price parity with gray ammonia.

This will be a key milestone beginning in FY29, when we would be substituting imported raw materials with domestically manufactured raw materials. This will strengthen the industry further and strengthen domestic players that have built significant volumes, which will also help derive more value.

Operator: Thank you, ma'am. There are no further questions from the participants. We have to conclude this call. Thank you from Arihant Capitals. If you have any closing remarks, please go ahead, ma'am.

Management: Sir, do you want to add anything?

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Management: There is nothing to add. The only thing I can do is give an assurance to the investors and stakeholders that, despite some uncomfortable conditions regarding raw material prices and a slight delay of a few days in the commencement of commercial production of NPK and DAP at Dhule, we are hopeful of achieving the FY27 target that we have given.

The company is in a strong position. We are A+ rated, and with this infusion of new capital and the confidence being shown by private investors, the company is poised to receive an even better rating from external agencies.

We seek your continued confidence and patronage in the time to come. Thank you very much.

Operator: Thank you, sir.

Management: Thank you, everyone. If any of you have further questions, please feel free to reach out to our IR team. Our email ID is ir@nbapl.com. Thank you.

Operator: Thank you.

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