



“Conference Call to Discuss the Amalgamation of
Liberty Phosphate Ltd & Liberty Urvarak Ltd with
Coromandel International Limited”

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**MANAGEMENT: MR. KAPIL MEHAN – MANAGING DIRECTOR,
COROMANDEL INTERNATIONAL LIMITED.
MR. SANKARASUBRAMANIAN – CHIEF FINANCIAL
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MODERATOR: MR. JAISINH SUCHAK – JM FINANCIAL.

Moderator: Ladies and gentlemen good day and welcome to the conference call to discuss the amalgamation of Liberty Phosphate Limited and Liberty Urvarak Limited with Coromandel International Limited hosted by JM Financial. As a reminder for the duration of the conference, all participant lines are in listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference has been recorded. Please note the duration of the conference would be half an hour. I would now like to hand the conference over to Mr. Jaisinh Suchak. Thank you and over to you sir.

Jaisinh Suchak: Thank you. A very good evening to all our participants. It is a great pleasure that I welcome you to the conference call to discuss the amalgamation. We have with us today Mr. Kapil Mehan, Managing Director and Mr. Sankarasubramanian, Chief Financial Officer for Coromandel International. The call will begin with a brief management discussion on the amalgamation. This will be followed by an interactive Q&A session. I would like to now hand over the floor to Mr. Mehan for the opening remarks. Over to you sir.

Kapil Mehan: Good evening to all of you and thanks for joining into this call. As you would be aware The board has approved the merger of LPL and LUL Coromandel last Saturday and this call is primarily to address your queries if any on this matter

Let me just begin by saying that Liberty Phosphate and Coromandel were in very similar businesses except the fact that Liberty has an overriding presence in Single Super Phosphate (SSP) and gave us access to the markets of Rajasthan, Gujarat, Madhya Pradesh and to some extent UP and Maharashtra. We share common customers, we share common distribution network and also there are some overlaps in the fieldforce that cover these markets. Raw materials are common in terms of rock phosphate, and sulphuric acid There are a lot of other complementarities which we can leverage in these markets so that Coromandel's products can also be given to farmers in these states. Similarly the products manufactured by Liberty can be given into Coromandel network. The primary driver for this merger is to really leverage the two networks, leverage the two field forces, to step up the volumes so that the capacity utilization of Liberty facilities can be increased. The rationale is not really on cost optimization because Liberty does operate on a very low cost model. So this is more a revenue driven synergy rather than cost driven synergy. So with these opening remarks, I would request for any Q&As. I would also like to mention that the way that full transaction has been structured it is EPS as well as ROE accretive for Coromandel. So with these brief opening remarks, we would welcome any questions that you may have.

Moderator: Thank you very much sir. We will now begin the question and answer session. Participants who wish to ask a question may press * and 1 on the touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. First question is from the line of Puneet Gulati from HSBC. Please go ahead.

- Puneet Gulati:** I want to understand what is stopping you from merging Sabero which was acquired before Liberty?
- Kapil Mehan:** I think this call is primarily for Liberty merger and I think when we do the conference call for Coromandel or Sabero, we will address the issue of Sabero. That is my short answer, but we have to be ready to do any of these restructuring options and restructuring is not always one way and we have to evaluate what is best for the business and its growth and the shareholders. We have not yet reached any conclusion on restructuring as far as Sabero is concerned.
- Moderator:** Thank you. Next question is from the line of Umesh Patel from KR Choksey. Please go ahead.
- Umesh Patel:** Sir just wanted to know your views on demand of SSPs as it is the next cheapest product after urea and is a better alternative compared to complex fertilizer as well as NPK. Also wanted to know what is the current prevailing price of SSP?
- Kapil Mehan:** The current prevailing price for SSP varies from state to state because the freight costs are not reimbursed by the government. The prices vary from Rs. 6500 to Rs. 8000 per tonne depending on which state that you are talking about. The price is a function of how far the marketing territory is from manufacturing point. That is really the function of pricing as far as single super phosphate is concerned. As regards to your query on low price of SSP in addition to urea, I think we need to make a distinction that these are two very different fertilizers. While complex fertilizers are multinutrient carriers of nitrogen, phosphate and potashic fertilizers in different proportions to suite different crops of all needs, SSP carries phosphate and sulphur in addition to calcium. So this has a role to play in specific crops like oil seeds or pulses and also in areas where you need to have certain amount of soil correction. So each fertiliser has its own technical fit as far as different crops and areas are concerned and yes it's relative per unit price is lower than that of complex fertilizers and some farmers prefer to use these fertilizers and we believe that for a country like India, we have to encourage usage of SSP as a fertilizer not only for specific crops like oil seeds and pulses, but also for general field crops where farmers can get better efficiencies of fertilizer use.
- Umesh Patel:** Sir just wanted to know what is the status of new UP plant and its capacity and current run rate?
- Kapil Mehan:** UP plant has been commissioned. We have obtained all the permissions as of sometime in July and the capacity is 1.32 lakh tonnes per annum.
- Umesh Patel:** How much?
- Kapil Mehan:** 132,000 tonnes and it is a 400-tonne per day plant. We are currently running one shift at 200 tonnes per day, but very soon we will be ramping it up to two shifts to produce 400 tonnes per day.

- Moderator:** Thank you. Next question from the line of Bhavin Cheddha from Enam Holdings. Please go ahead.
- Bhavin Cheddha:** Just few for the academic thing. How much number of shares Coromandel is issuing and if you can update us on the latest gross debt and cash numbers of the Liberty?
- Sankarasubramanian:** it will be 25 lakhs Coromandel shares - means 0.9% dilution for Coromandel shareholders and what is your second question?
- Bhavin Cheddha:** How much is the net debt if you can give gross debt and cash numbers separately which..
- Sankarasubramanian:** We have proforma number as on March 2013. We are yet to finalize for this quarter. Total debt equity of LPL is 0.65, Coromandel is 1.04 for the year ended March 13. Combined debt equity will be moving from 1.04 to 1.18. This is including Liberty Urvarak another SSP company which also gets merged.
- Bhavin Cheddha:** Sir will there be any accumulated tax benefits which would involve in the transaction or there would not be any?
- Sankarasubramanian:** No, whatever benefit they had in commissioning the Rae Bareli that has already been availed by standalone company Liberty Phosphate.
- Bhavin Cheddha:** So this would be immediately EPS and ROE accretive from day 1 right?
- Sankarasubramanian:** Yes, this will be EPS and ROE accretive.
- Bhavin Cheddha:** And sir last question on if you can update us on the capacity utilization which Liberty Phosphate is running on right now?
- Kapil Mehan:** We are currently running at about 60% whereabouts.
- Bhavin Cheddha:** 60% of 9 lakh tonnes sir?
- Kapil Mehan:** 60% of our approved capacities of 9 lac tonnes
- Bhavin Cheddha:** And sir other thing on this Liberty Urvarak Limited, what is this exactly because we have the numbers of Liberty Phosphate which gets published and gets listed. So is there any activity in Liberty Urvarak Limited also? And if you can share their capacity and numbers
- Sankarasubramanian:** Liberty Urvarak has capacity of around 1 lakh tonnes and they have been producing close to the capacity.
- Sankarasubramanian:** They have the facility in Nimran.
- Bhavin Cheddha:** And they are profitable also?

- Sankarasubramanian:** They are profitable.
- Bhavin Cheddha:** Because if I am seeing the FY13 numbers of Liberty Phosphate, they did a turnover for Rs.460 crores, EBITDA of some Rs.60 crores and write-off Rs.33. These were excluding Liberty Urvarak number right?
- Sankarasubramanian:** Correct, Liberty Urvarak's, turnover last year was Rs.90 Cr and EBITDA was around Rs.10 crores and they did production close to 90,000 tonnes.
- Moderator:** Thank you. Next question is from the line of Devang Mehta from Canara Robeco AMC. Please go ahead.
- Devang Mehta:** You just highlighted that the whole rationale for the amalgamation being a revenue driven synergy rather than cost driven, but my sense was that you could have got that synergies easily even after not merging the entity. Can you explain the revenue synergies in detail?
- Kapil Mehan:** The revenue synergies will come by having access both to Coromandel's as well as Liberty's expanded network of dealer, distributors and field-force, etc., and also having advantage of the Umbrella brand as well as that of Double Horse brand of Liberty. So it is a combination of these factors which will drive the synergies and enable the Liberty business to grow as well as Coromandel revenue to grow in states of Rajasthan, MP, Maharashtra, Gujarat, and UP.
- Devang Mehta:** Because in terms of fertilizer, the secondary freight is not subsidized. So anyways it would be difficult for Coromandel to transport fertilizers to up in the Northern states?
- Kapil Mehan:** Primary freight is reimbursed. The secondary freight is not reimbursed. Secondary freight is not reimbursed anywhere. The closer we can go to the markets, relatively better it is, but the primary freight is reimbursed. That is why the complex fertilizers and DAP carry a uniform selling price across the country unlike SSP where the entire freight is borne by the company is concerned. You have different prices in different areas of the market.
- Devang Mehta:** And one last thing on this Tungabhadra Fertilizer and Chemicals, is it a part of Liberty Urvarak or is it a separate entity?
- Kapil Mehan:** It is a separate entity and that also is part of the acquisition that Coromandel announced with the Liberty group, but that transaction is not yet complete because of certain regulatory approvals which are still awaited and as soon as they come in, that transaction will also get closed.
- Devang Mehta:** As of now the resolution which is passed does not include Tungabhadra Fertilizers & Chemicals?

- Kapil Mehan:** It does not include Tungabhadra Fertilizers. Moreover Tungabhadra Fertilizer acquisition is a slump sale of that company. So it would not need any merger or amalgamation as in the case of Liberty Phosphate and Liberty Urvarak.
- Moderator:** Thank you. Next question from the line of Abhijit Akhela from IIFL. Please go ahead.
- Abhijit Akhela:** First just wanted to clarify that you said 25 lakhs shares being issued of Coromandel?
- Kapil Mehan:** Yes.
- Abhijit Akhela:** And that would work out to 2.9% dilution you said?
- Kapil Mehan:** 0.9%.
- Abhijit Akhela:** And also just on the utilization outlook for Liberty, how do you see that progressing over the foreseeable future and also if you could just comment on what the demand environment and capacity scenario for SSPs in India currently and what is your outlook for that is?
- Kapil Mehan:** The capacity currently I think is upwards of 7 million tonnes in India, but capacity utilizations have tended to be somewhere between 50 and 60% due to seasonality of the business and the fact that a lot of people are not able to support the working capital requirements to run their plants to full capacity. Which is why they have lower capacity utilization rates. Demand has been good this year; however, the carryover effect of last year's pipeline inventory is still there in the market and that is slowly going away. So going forward, the operating rates will tend to improve over a period of time and we expect that in the next 3 years' time, we should be running our plants to near capacity.
- Abhijit Akhela:** So how much would the SSP inventory in the channel right now be sir and how much would the annual demand be?
- Kapil Mehan:** The annual demand is around 4.5 million tonnes and currently we believe that inventory may be of the order of approximately may be 1 million tonne or so in the pipeline.
- Moderator:** Thank you. Next question is from the line of Manish Mahawar from Edelweiss. Please go ahead.
- Manish Mahawar:** Sir just one question again on your synergy. Actually you said that there are revenue driven synergies, but I am still not able to understand the benefit accruing to Coromandel after merger?
- Kapil Mehan:** See basically both the teams will work jointly in the market and product streams of both the companies will have access to these markets and the field force of Coromandel will expand. The dealer network of combined entity will expand. For example in some other states, Liberty was selling to about 40% of the dealers whereas Coromandel was selling to 60% of the dealers and with the combined entity common dealers if eliminate it improves the reach for the

product substantially, both for Coromandel products as well as products and that is where the synergy kicks in.

Manish Mahawar: But anyway sir like if you can also do without merger as well this thing actually?

Kapil Mehan: It creates its own complexities in terms of inter-company transactions and reconciliations and transfer pricing and all those issues. So it is better that since nature of business is same, customers are same, the distribution channels are same, then why have two sales representatives visiting the same dealer, try to sell two different types of fertilizers, trying to maintain two sets of accounts, etc. So the ground level complexity is addressed to this simplified structure.

Sankarasubramanian: Further, we need regulatory approvals to market Liberty's products in Coromandel if they operate as a two separate entities.

Manish Mahawar: But we will continue with the Liberty's brand actually in the market, right sir?

Kapil Mehan: Yes.

Moderator: Thank you. Next question from the line of Gautam Chhaochharia from UBS. Please go ahead.

Gautam Chhaochharia: Sir couple of questions. Is it possible to use their plants to manufacture stuff beyond SSP?

Kapil Mehan: Yes.

Gautam Chhaochharia: What all can you manufacture from their plants?

Kapil Mehan: That is still under evaluation, but theoretically it is possible to produce fortified SSP. You can produce SSP with fortification of micronutrients, etc., and you can also produce different grades of SSP which India has not seen so far and that is something which our R&D team will evaluate as to how we can do that and of course granulation is a standard thing which a lot of companies do and we will also do. So these are a few ideas that definitely can be explored plus these sites can also be used for manufacturing other products that Coromandel currently manufactures in Vizag or Kakinada and down South. They can now be manufactured in these locations and that will make them more competitive.

Gautam Chhaochharia: Second question is around Sabero. The similar arguments on synergy exist there also. So any plans, thought process to merge that also?

Kapil Mehan: Sabero, we are still working to consolidate that company and restructuring options are being discussed and evaluated, but no decision has been taken so far.

Moderator: Thank you. Ladies and gentlemen due to time constraints we are going to take last question from the line of Lakshmi Narayanan from Catamaran Capital. Please go ahead.

Lakshmi Narayanan: Sir just to understand in terms of the total capacity of Coromandel plus Liberty Phosphate and Liberty Urvarak and if you just put together the entire capacity and how much it comes to and, how large is the second player. That is one question. The second question is that I went through the annual report of Liberty Phosphate, for some reason I find that the in the cost of material consumed the imported content has actually gone up in the last financial year. Now is this just because of the dollar fluctuation or there is something more to it?

Kapil Mehan: The total capacity of Coromandel complex fertilizers including DAP is 36.25 lakh tonnes whereas capacity of Liberty Phosphate for SSP installed capacity is about 10.92 lakh tonnes. Coromandel has 1.32 so that makes it almost 12.24 lakh tonnes of SSP capacity and we are the largest player in this. Number two is Khaitan and, then there is Rama Phosphate. As far as complex fertilizer and DAP concerned, I think IFFCO has larger capacity than us. So that is really the position of these two industries. Imported content went up last year because in between Rajasthan State Minerals Corporation which supplies rock phosphate for SSP has some disruptions as well as for sometimes their prices were very high whereas the international prices had come down. So to take advantage of that position, Liberty management had resorted to import as opposed to sourcing more material from the local Rajasthan State Minerals Corporation.

Lakshmi Narayanan: Sir just one other question if I can just squeeze in. What I understand that there are two types of SSP. One is either in the granular form and other one is in the powder form. Now is this making a granular form, is it more higher value added product or if so then what is the configuration we are looking at? Are we moving towards more of the granular thing or how do you think about this?

Kapil Mehan: Both powder form as well as granulate form have their role to play. Granular form is more used in where application of fertilizer is mechanized and you need granules to go through the machines whereas powder SSP is used more in areas where you need soil correction also in addition to supplying nutrients to soil. So both have a role to play and granulation is some sort of a value addition to the product and Liberty also has currently about 50% of the capacity to do granulation of the powder SSP that it produces, but both forms technically are equally effective.

Lakshmi Naryanan: In terms of cost, is there is a differential between.....

Kapil Mehan: To granulate, you do end up using some energy and it adds to the cost and so does it adds to the price.

Moderator: Thank you. I would now like to hand over the floor back to Mr. Jaisinh Suchak for closing comments. Thank you.

Jaisinh Suchak: Thank you Chitrashu. On behalf of JM Financial I would like to thank the management team of Coromandel International and all the participants for joining us on the call today. I will now hand over the floor to Mr. Mehan for closing remarks.

Kapil Mehan: Thanks Jaisinh and thank you all the investors for your queries. Whenever we have any change in the company, we reach out to you to communicate first with you after all the regulatory communications and thanks for your insightful questions. I think they are always very helpful for our internal planning and internal work plans. Thanks a lot.

Moderator: Thank you sir. On behalf of JM Financial, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.