



“Coromandel International Limited  
Q3 and Financial Year 2014 Earnings Conference  
Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Coromandel International Q3 FY'14 earnings conference call, hosted by JM Financial. As a remainder all participants' line 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 this conference call please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jaisinh Suchak. Thank you and over to you Mr. Suchak!

**Jaisinh Suchak:** Thank you Margaret, a very good afternoon to all the participants. It is a great pleasure and I welcome you all to the third quarter FY'14 earnings call for Coromandel International. 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 performance for the quarter ended December 31, 2013. 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 day to all the investors who have joined into this call and welcome you to our conference call on Q3 earnings report that was approved by the board on Friday last that is on January 24, 2014. Let me begin by giving a little overview on the market environment. I think we have seen one of the best agricultural years in recent history where the sowings are as we speak they are running at about 5% higher than last year in terms of acreages. Most of the major crops other than sugarcane we have seen acreages going up; . But I think as we progress further into the season sugar cane acreages will also pick up. The demand for fertilizer has been reasonably robust, but not exactly reflecting what we saw in Kharif where we saw that demand for fertilizer was very good. At this time it has been somewhat subdued as it is a function of the markets which are active during the season which are primarily the northern and central parts of India where most of the consumption happens in this quarter which is the states of UP, Punjab, Haryana, Bihar, Madhya Pradesh and then so on and so forth and there the demand for DAP and complexes has not been as strong as it was evidenced in the other markets during Kharif, but nevertheless it has been better than last year. The overall sales of the industry have remained more or less constant, but with our strategy of concentrating on our brand equity, concentrating on further improving our reach in the market, and accessing all the challenges of distribution our sales have grown from 5.64 lakh tonnes in October-December quarter last year at 6.72 lakh tonnes this year. Nine months sale have also increased from 16.54 lakh tonnes to 18.29 lakh tonnes and if we look at our market share that actually went up in the quarter from 12.34% to 14.62% and on a YTD basis it has gone up from 13.2% to 16.2%. Even though the market share has gone up in Q3, but it is primarily reflecting our market mix which is more predominant in

Andhra, Karnataka, West Bengal, Orissa, Maharashtra, etc and this quarter is not a very big demand quarter for these states whereas other states where we have secondary presence the market is better.

Coming to our quarterly results, all the results are with you, so you would have seen that our turnover has increased from Rs.2424 Crores to Rs.2756 Crores which is about 13.7% increase. Subsidy income that we have booked has come down from 31.2% to 27% for further quarter and EBITDA is up from 129 Crores to 219 Crores during this quarter which is an increase of 70.4% year-on-year and similarly YTD basis also there is an increase however in terms of reported EBITDA adjusted for past year subsidy is up by about 2.6% which is really the reflection of lower numbers during the first two quarters. Also I must sort of caution here that we are in agriculture business and this is something which have communicated earlier also and comparing quarter on quarter numbers can sometimes be very misleading because the product mix changes, the crop mix changes, the market mix changes and different segments of our businesses have different windows of application and each cropping cycle represents a different scenario so comparing quarter on quarter sometimes can lead to conclusions which may not be correct. Overall in terms of areas of concerns, rupee depreciation was the major concern last quarter, but this quarter it has been relatively stable, however the working capital levels have continued to remain challenging with both receivables from the government as well as from the market remaining high and that is one area which will get sorted out as we go along. I think the market inventories in terms of the distribution pipeline they have come down substantially from the beginning of the year, where we had estimated about 7.2 to 7.5 million tonnes that is now down to about 3.2 to 3.5 million tonnes which means a liquidation of about 4 million tonnes. We have to see that in the context of sales which have actually dropped by about 10% during the first nine month period and we are very happy that with our marketing interventions and programs that we ran and the fact that we have strengthened our frontline field force we have been able to increase our volumes by about 10% during the first nine month of the year. Our other businesses have grown very well. Pesticide has grown in line with the industry growth. The speciality nutrients have grown. The retail has turned around and is now moving towards a good level of EBITDA. The delta movement between last year to this year is quite substantial and the only area where I think we have not done well is in the area of organic fertilizers where we had run into few inventory issues and pipeline inventory building up more so that has been more or less corrected now and we have seeing that for the fresh sowing areas the demand for organic Manure is again going up and also I think overall the pricing environment has remained more or less stable as compared to last quarter. There is not much change except some discounting etc which happened in the northern states because of high inventory level, so I think that was a cause of concern but our fresh sale into those areas have been very, very restricted because we were having carry

over stocks in those states which we are trying to liquidate, so that is on the Q3. You would have also noticed that the board has approved the merger of Sabero into Coromandel so that we have single entity to manage and derive all the synergy benefits that comes from scale and from consolidated business that gives us a very reasonable respectable size business in an agrochemical market and that process has been set in motion and it will take its own time. This merger becomes effective from April 1, 2014. We expect that sometime in the middle of next year we should get the approval for that. The Swap ratio has also been approved by the board at 5:8 of course all these approvals etc are subject to various regulatory permissions and processes that we will go through from now. The liberty merger is going on schedule and as of now we have shareholder approval as well as creditors approval for Coromandel and Liberty Urvarak, and Liberty Phosphate the shareholders meeting is scheduled this week and we expect once that outcome is known then the process will move to the next step of going to the court and moving on with that we hope that process should get over in time for us to have consolidated accounts of Coromandel and Liberty coming in for 2013-2014 itself. So with these few remarks I would request Mr. Sankarasubramanian in case he wants to add anything to what I have said so far.

**Sankara Subramanian:** I have nothing more to add and we can move on to Q&A.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Viraj Mehta from Franklin Templeton. Please go ahead.

**Viraj Mehta:** I just had few questions. How much of the EBIT has come from the fertilizer business if you can just split up between fertilizer and non-fertilizer in terms of revenue and EBIT?

**Kapil Mehan:** The topline the split is 82% and 18% which is same as last quarter and EBITDA is 66% and 34%

**Viraj Mehta:** You also mentioned that working capital has remained high, can you quantify in terms of receivables from the government, subsidy outstanding and receivables from the market?

**Sankara Subramanian:** Subsidy we have received up to August as on December 31, 2013 and subsequently we have received September subsidy also in first week of January. If you look subsidy has marginally gone up compared to corresponding period last quarter. The last quarter was around Rs.1188 Cr and now it is around Rs.1338 Crores, but if you factor in the money which came in first week of January, we are have back to the same level what we were in September 30, in fact it will go down below that. On the market receivable side we are fairly at the same level as we where in September 30, 2013 basically November-December sales are on credit basis.

- Viraj Mehta:** If we look at the merger of Sabero how much then is the topline we are looking for the pesticide business of us, total pesticide business, how big it will be for us?
- Kapil Mehan:** Last year was around Rs. 1000 Crores and this year in first nine months is..
- Sankara Subramanian:** Last year it was Rs.1029 and this year the estimate is around Rs.1300 Crores topline.
- Moderator:** Thank you. The next question is from the line of Hardik Shah from Birla Sun Life Insurance. Please go ahead.
- Hardik Shah:** Sir I would like to know about the gross debt and net debt levels?
- Sankara Subramanian:** Currently at this point of time we do not publish the quarterly balance sheet numbers, but what I can say is in terms of the long term debt equity we are marginally down compared to September from 0.34 to 0.32. Total debt equity on a net debt basis after adjusting for cash and bank has moved up from 0.61 to 0.84 levels on a standalone basis
- Hardik Shah:** Okay Sir. This subsidy levels are you expecting to be at this level by the year end or any improvement are you expecting?
- Sankara Subramanian:** As of now we are likely to get the October month subsidy as well, we have to wait and see as it progresses.
- Hardik Shah:** What about the regular receivables, how much is it in terms of value, can you quantify?
- Sankara Subramanian:** Non-subsidy will be in the range of Rs.1700 to Rs.1800 Crores.
- Hardik Shah:** How is the performance of liberty in terms of EBITDA and topline?
- Kapil Mehan:** See Liberty during this quarter has done a EBITDA of about 7 Crores, you would have seen the published results this is again Liberty Phosphate and Liberty Urvarak which is unlisted entity, both put together is about 6.8 Crores which is little subdued as compared to past, because of primarily high cost inventory that was carried over from previous quarter into this quarter whereas our market share in our volumes have remained intact.
- Hardik Shah:** Final question, what is the raw material price trend that you looking at now, is there any price increase which is expected raw material cost?
- Kapil Mehan:** There will be some price increase but the price of phosphoric acid is yet to be finalized, most of the supplies have come in on provisional basis and price discussion is still going on,

but having said that I must say that the international market for phosphates has hardened over the last few weeks. The market for urea has hardened over the last few weeks. The market for sulphur has hardened over the last few weeks, but ammonia is stable whereas the potash market is as we have seen the last quarter also that from August onwards it has been softening and now I see there was a lack of clarity in the international market on what the price levels are likely to settle down, but now I think there is a reasonable amount of clarity which is emerging post settlement of prices in China, but we still have to wait and watch and see how this market will move.

**Moderator:** Thank you. The next question is from the line of Bharath Subramanian from Sundaram Mutual Funds. Please go ahead.

**Bharath Subramanian:** Sir in terms of your key products on DAP and 20-20 could you just take us through the pricing over to us and compared to Q2 of FY'14 and as there been any pricing changes between the quarters?

**Kapil Mehan:** There have been no changes in the quarter except that in states like UP because of over availability I think there has been erosion of pricing there, but more in the terms of discount rather than revising the prices downwards, but effective realization were slightly lower in State of UP and little bit in Bihar, but otherwise rest of the country I think pricing pretty much remained stable.

**Bharath Subramanian:** How much would have been our exposure among these states?

**Kapil Mehan:** Our exposure is very minimal in these states and we were also trying to sort of sell our pipeline stock and that is what we concentrated and our strategy has been to send this year stocks only to markets where there is a demand and not pump more where it is not required, so we had dispatched very small volumes into state of UP.

**Bharath Subramanian:** There had not been any price change I think volumes that we have reported probably our top line should have been a bit higher than where it is I just checking from the discount angle whether there have been channel discounts as in the case of earlier quarters?

**Kapil Mehan:** Our volumes I think if you look at year-on-year basis as I mentioned earlier that going quarter on quarter in our business can be very misleading because the market mix, the cropping mix, the product mix everything changes with the crops and it is very difficult to say that quarter A is comparable with quarter B because the timing of application, the type of products which get applied in different crops is very different.

**Bharath Subramanian:** My second question is in terms of gross margin, we have seen a gross margin basically improve not to 25 odd percent while operating EBITDA margins are kind of flattish, so below the material cost what exactly has increased sequentially?

**Kapil Mehan:** We have mentioned it earlier also I think the forex premium which are classified as other cost have gone up the rates of premiums are up by almost 200 to 300 basis points for different tenors and that is one factor. Second is that our freight costs have also gone up because we are covering wider market now as well as the freight rates have moved up, so there is a little bit of movement on that, so I think these are the two major contributors to cost.

**Bharath Subramanian:** Could you just quantify the forex impact on the other expenses Sir?

**Sankara Subramanian:** See on the forex side the premium has gone up because of the absolute outstanding payables which we stay hedged, so we have to incur this premium, so to that extent there has been an increase in premiums but in terms of marked-to-market impact there has been reduction as compared to the previous quarter. Besides that, the other expenditure also carries some sort of provision for carry over inventory in some of the states where we have taken possible erosion in realization in line with the current market price, so that is also one of the factors which has been considered in the other expenses as compared to the previous quarter especially in the northern states and in states like Tamil Nadu where the pipeline stocks are more. We have taken care of this adequate value erosion on the products.

**Moderator:** Thank you. The next question is from the line of Vikas Goyal from ISEC. Please go ahead.

**Prakash Goel:** This is Prakash Goel from ICICI Securities. Sir just I would like a possible as Sankar said that there is some value reduction has been accounted in other expenses, how much would that be?

**Sankara Subramanian:** It is very difficult to quantify the number. I can say that what is required has been taken care of.

**Prakash Goel:** Basically when you are trying to find out this quarter we had a very healthy volume growth and operating leverage should have also favored the company, so you are expecting much high margin in this quarter compared to what the company has reported, is that material impact or not that material impact for our consideration?

**Kapil Mehan:** All we can say in terms of current quarter production itself the margins have been intact and in fact on a Q-on-Q basis there is no deterioration in the margin, but what is required has

been provided for. There has been no degrowth in the margin in respect of fresh production.

**Prakash Goel:** So we should not expect this kind of write down in the next quarter that is what I was trying to understand?

**Kapil Mehan:** Yes because it is all pipeline stocks, once that gets liquidated the need for further provision would not happen.

**Prakash Goel:** On overall basis the tax rate has gone up any specific reason for the same?

**Sankara Subramanian:** You are comparing with last year corresponding quarter?

**Prakash Goel:** 34% on the overall basis in consolidated?

**Sankara Subramanian:** Two things in the consolidated financials the profit impact of almost 12 Crores from TIFERT based on the final audited results for December 31, 2013 as well as the management results for January to March. That is the reason standalone to consolidated when PBT is down the tax remains the same, gone up for Sabero and Liberty effective tax rate is higher.

**Prakash Goel:** The TIFERT will accounted as line by line?

**Sankara Subramanian:** TIFERT has been accounted. It is the final time. We will not be consolidating TIFERT hereafter because up to the project commission stage we are considered as part of run by line financials. The major impact has been grouped under other expenditure. The impact of 12 Crores is basically grouped under other expenditure.

**Prakash Goel:** But logically it will be going into the minority adjustment, it will not line by line, so we hold only 15% stake, is my understanding right Sir?

**Sankara Subramanian:** Yes to that extent of 15% I am quantifying. It is not a minority interest, we take the portion of 15% on the TIFERT financial and we consolidate.

**Prakash Goel:** Does this consolidation happen on line by line basis?

**Sankara Subramanian:** Yes, line by line item.

**Prakash Goel:** Will that continue in future also?



**Sankara Subramanian:** Future we are treating this as an investment, after the project commissioning from first year onwards it will not be consolidated, so going forward there will not be any impact.

**Moderator:** Thank you. The next question is from the line of Manoj Bahety of Edelweiss. Please go ahead.

**Manoj Bahety:** Good afternoon Mr. Kapil, good afternoon Mr. Sankar. Sir just a couple of questions from my side, if you can share a bit more details on non-subsidy business mainly water soluble fertilizer, organic manure, you mentioned that organic manure, there has been some build up of pipeline inventory, so where are we vis-à-vis our targets and also on retail business if you can add that where are we in terms of number of the stores and what will be our target this year as well as for next year?

**Kapil Mehan:** As far as other businesses are concerned as I have already shared that the share of top line stands at 18% and share of EBITDA stands at 34% as we discuss now and all the businesses on a year-on-year basis our pesticide has shown healthy increase, our retail has shown very good increase, other businesses like Sabero etc has done well, so overall it has been a healthy quarter as far as non-subsidy businesses are concerned. Again comparing quarter and quarter margins and quarter on quarter numbers can be misleading but year on year there is growth in these businesses which is quite healthy. As far as organic manure is concerned I think we are now beginning to see reversal of the downward trend that was there, but that was a deliberate attempt to sort of reduce the pipeline inventory in the system so we are now again seeing an uptrend and our team is very confident that we will be increasing the volumes. We have done in this quarter about 10% say less than what it was last year, last year it was 35000 tonnes and this year it is 32000 tonnes but if I look at December sales, December sale was much better than last year December sale so we are confident that this business is here to stay and there is a need for organic carbon content in Indian soils to go up and we will continue to drive this business and work towards the prompting its uses amongst the farmers.

**Manoj Bahety:** Sir what will be expected volume for organic manure, what is the volume which we have done this year till now YTD?

**Kapil Mehan:** YTD volume is at about 120,000 tonnes as compared to about 170,000 tonnes that we had last year for first nine months.

**Manoj Bahety:** In water soluble fertilizer also there has been degrowth or there we have seen some growth?

**Kapil Mehan:** Water soluble fertilizer there is a healthy growth. Quarter on quarter actually it is very, very good growth but even on YTD basis it is in the range of about 20% growth.

**Manoj Bahety:** Sir my second question in terms of capacity utilization you were always talking about 70% to 80% kind of capacity utilization on your expanded manufacturing capacity, so still we are holding that for this year as well as for next year?

**Kapil Mehan:** This year I think now that we are left with only one quarter I think we will be more like 70% thereabout and I think next year it should improve because we will have not the burden of pipeline inventory going next year. Next year definitely it would be better than what we have got, we are likely to achieve this year.

**Manoj Bahety:** In terms of excessive inventory, how our position is vis-à-vis industry as a whole you said that industry is still having 3.2 to 3.3 million tonnes of inventory, so in terms of our inventory still it is higher like till September I think it was high inventory which we were carrying in our balance sheet?

**Kapil Mehan:** Yes our inventory actually if we look at in terms of total industry inventory I think our inventory is much lower than our market share.

**Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

**Bhavin Chheda:** Good afternoon sir. Few questions, on the earlier this 70% utilization number is on what capacity?

**Kapil Mehan:** We have a rated capacity of 36.25 lakh tonnes and this quarter we have done about 85% capacity utilization in October-December quarter. Previous quarter also our capacity utilization was around that level and first quarter of course it was low because that again was a deliberate decision not to build in more inventory, so for the full year we expect to be closer to 70% capacity utilization levels.

**Bhavin Chheda:** This quarter you are saying production was around 7.7 lakhs right?

**Kapil Mehan:** Yes 7.77.

**Bhavin Chheda:** What was the first nine months production number?

**Kapil Mehan:** First nine months was 19.09 lakh tonnes.

**Bhavin Chheda:** Will it be possible to share a rough geographical mix of our sales volume in the quarter and nine months because we are still confused of lower than expected operating profit because as we understand there was some discounting which when in northern state but your

exposure is much less, so our margin expectations were higher as there has been sharp drop in raw material prices which is not reflected in the results, so we are negatively surprised by the sharp fall in raw material is not reflected in margins?

**Kapil Mehan:** I think Sankar did mention that we had carry over inventory while our fresh sale into those markets have been less, but we had carry over inventory of previous period there plus also we have made provisions for whatever balance inventory is left with us so that the future earnings are not impacted by the inventory carry over

**Bhavin Chheda:** Going on the SSP side again Liberty is showing a declining trend and if I backward calculate the margins on SSP are at Rs.500-550 / MT whereas I see some competitors making Rs.800, Rs.900 a tonne so what is the different between our SSP margins and competitor margin so is there something on the cost front or the market front why we are so different?

**Kapil Mehan:** For the first two quarters that we had the results I think most of the comparable companies had made losses in SSP and primarily the reason for that has been that high cost inventories have got into this year from previous year and similarly the price also has been coming down till very recently and that had continued to impact the margin, whereas realization has been intact as far as SSP is concerned so it is more on inventory effect in the declining market, but we are not aware of anybody making Rs.900 per tonne.

**Bhavin Chheda:** Can we expect after this inventory correction wherever is happening what the sustainable margins would be in SSP business?

**Kapil Mehan:** I think EBITDA would be in the range of about Rs.900 to 1000 per tonne that is the level that one should expect in that business.

**Bhavin Chheda:** My last question I will come back later if you can share the subsidy number which is accounted in the quarter and if it has a prior subsidy?

**Sankara Subramanian:** There is no prior subsidy in this quarter, so subsidy recognized during this quarter is Rs.744 Crores.

**Bhavin Chheda:** This is standalone or consolidated sir?

**Bhavin Chheda:** Standalone is Rs.744 Cr and Consolidated is Rs.783 Cr

- Moderator:** Thank you. Our next question is from Atul Rastogi from CIMB. Please go ahead.
- Atul Rastogi:** Good afternoon Sir. Thanks for taking my questions. My question was on Sabero we saw the margins also drop there compared to the last quarter, now given that it is largely exports margins should have gone up also. What do you think that has happened? How do you see it going forward?
- Kapil Mehan:** First and foremost quarter-on-quarter comparison whether it is domestic or exports is not a very relevant comparison, but we did have for a brief period some disruption in our production plant and that is why the production was little less than what we would have anticipated, but year-on-year if you see there is a healthy growth and I think this is more like the one time kind of an event which has reflected in this quarter's result and going forward I think we should improve our EBITDA margins.
- Atul Rastogi:** Secondly, I think, Mr. Subramaniam mentioned that net debt to equity has gone up while gross debt to equity has almost remained the same. Is there some investment or cash which has reduced?
- Sankara Subramanian:** It is basically for working capital requirements.
- Kapil Mehan:** Actually year-on-year if you look at our net debt to EBITDA has moved from 0.85 to 0.84 whereas from March 31 to now it has moved from 0.72 to 0.84. So, there is marginal improvement.
- Sankara Subramanian:** It is mainly for the working capital. I think what I said was the long-term debt equity has come down from 0.34 to 0.32 and the net debt to equity has moved up from 0.61 to 0.84 from September to December.
- Atul Rastogi:** You would not have any urea receivables subsidy, right?
- Sankara Subramanian:** We do not have. It is based on MRP.
- Moderator:** Thank you. The next question is from Abhijeet Akella from IIFL. Please go ahead.
- Abhijeet Akella:** Good afternoon Sir. Thank you so much for taking the questions. First, just wanted to clarify if possible that EBITDA margin has come down compared to last quarter and most of the decrease we are saying is because of the inventory write down in the northern markets. Would that be a fair understanding?
- Kapil Mehan:** Yes, some portion of it is because of that, but not to a large extent

- Abhijeet Akella:** Just on the specialty nutrients division, overall would it be possible to give what the revenue growth of the overall division has been so far?
- Sankara Subramanian:** 9% has been the growth rate for overall specialty nutrients, excluding crop protection.
- Abhijeet Akella:** Sir, for the tax rate expectation for this year and for FY 2015 what are we expecting?
- Sankara Subramanian:** The current quarter tax rate should hold good for the rest of the year.
- Abhijeet Akella:** Why the second quarter tax rate was lower ?
- Sankara Subramanian:** Second quarter there was a one time credit, so the second quarter tax rate was lower.
- Abhijeet Akella:** So, around 32% for the standalone business?
- Sankara Subramanian:** Yes.
- Abhijeet Akella:** Are we planning any plant shutdown in March quarter or June quarter?
- Sankara Subramanian:** Depending on the plant maintenance requirement it may happen. It varies for Individual plants depending on when they want to do. Every year we do the shutdown that will be planned as per the market requirements as well as based on plant requirements.
- Abhijeet Akella:** This year we have not already taken one right, in the June quarter this year did we take one shutdown already?
- Kapil Mehan:** Yes, we had extended shutdown in another part of the year, April. At least to the extended shutdown carrying on from March in to April and we actually started our plants most of the plants in May only.
- Abhijeet Akella:** So may be next year also it will be in Q1 only at the earliest?
- Kapil Mehan:** It could be partly straddling across both the years but we have not yet frozen the exact dates and times because that will be a function of how much is the market demand and what is the need for the plant to be taken down for maintenance.
- Abhijeet Akella:** Sir you mentioned that phosphate and urea prices have been hardening in the international markets, in that context do you foresee any necessity to take some price increases of your products in the domestic market and also in the context of the looming elections what are

your thoughts about possible timing of the announcement of the New Year's subsidy by the government?

**Kapil Mehan:** We expect the subsidy to be announced before the closure of the year because that is very critical for fertilizer availability and sustained operations, so I am sure that government will announce the subsidy before the next year begins. I don't know whether this something which will be covered under by election code or not but that is something which is there, I think the prices while they have hardened but I don't think that immediately there is a need for any price revision but there is a need to do any price revision I think that correction will happen as and when it is required.

**Moderator:** The next question is from the line of Puneet Gulati from HSBC, please go ahead.

**Puneet Gulati:** Good afternoon, thanks for taking my question, just wanted a little more color on the marketing interventions and programs that you highlighted wherein you said you have been able to increase your market share if you can give some more light on that?

**Kapil Mehan:** We have strengthened our marketing organization. We have added more people, more feet on the ground and we have also restructured our marketing organization to handle all the channels of distribution that is retail, private trade and institutions, the cooperatives and other institutional customers, so we have now sales force to cater to all these requirements. In addition last year we had consolidated all our brands and branding is now under an umbrella brand of Gromore and we are investing reasonably well in sustaining and growing the equity of these brands amongst our user farmers.

**Puneet Gulati:** But how is that different compared to what you did last year?

**Kapil Mehan:** As I mentioned we have strengthened, we have added more people, we have restructured our sales organization to cater to each of these different channels because the skills required to meet the requirement of customers in each of these segments is very different and we have increased our spend in the market through umbrella branding and using the electronic media as well as other activities that we do in the field like farmer meetings, demonstrations in the fields, campaigns and participation in local fairs etc.

**Puneet Gulati:** Lastly you gave this break up for fertilizer and non fertilizer is that for standalone or consolidated?

**Kapil Mehan:** This is for consolidated.

**Moderator:** The next question is from the line of Rohan Gupta from Emkay Global, please go ahead.

**Rohan Gupta:** Sir, just a couple of things from my side, once again a little bit understanding about the EBITDA margins and the drop in EBITDA margins in the current quarter versus previous quarter but as Sankar Sir mentioned that almost sequentially they have maintained EBITDA margin so that it would be fine if you read that there is close to Rs.30-35 Crores write down we have taken in the current quarter number.

**Kapil Mehan:** See, we cannot comment on these numbers you would appreciate that.

**Kapil Mehan:** Raw material prices again are something which when they fall that doesn't mean they will immediately be reflected in the results because you have transit stocks, you have carry over stocks, all that gets impacted and this year the forex costs have been much higher, the freight costs have been much higher, so I think we have to take all those things in to account and then look at our results and we believe that our EBITDA margin is a reasonable margin and sustainable as we see it.

If you see really what we went through in January to June period margins had really come under pressure because of the factors which impacted the business when volumes were down the EBITDA margins had come down very, very low than March period as well as in April period. You have to see it in that context the reported margin of all manufactured sale is much more than imported, I mean this year we have actually imported only 29000 tonnes of DAP.

**Rohan Gupta:** Absolutely sir, in line with that even own manufactured has a better margin in terms of EBITDA margin, considering even that fact wanted to understand where we can go in future? Sir one last thing you had mentioned about inventories in the Northern market, you mentioned that we have very little inventory in Northern market, is that because of the reason that we are consciously not putting new inventory in those north markets or our inventories have been consumed, have we taken a conscious decision by the management not to go or not to focus much in the North markets right now.

**Kapil Mehan:** That is the strategy that we followed throughout the year in all the markets that even within Andhra when there was a, our last year carry over inventories were there, those areas we were sending it very cautiously, that caution has been exercised throughout the year in all the markets, not alone in Northern markets..

**Rohan Gupta:** Why I was asking this question because if in Northern markets they stabilize then do we have plans to once again go ahead aggressively in those markets or we will continuously have a strategy not to focus on those markets at all?

- Kapil Mehan:** We will try to achieve our targeted market share in those markets also. We are the largest private sector complex fertilizer player in the country as well as we have other growing businesses in crop protection and speciality nutrients and organic fertilizers and we have to have the whole country as the market for all those businesses and for fertilizers also it is imperative that we go in to those markets and that provides us more width and depth of the market which is required for our volumes, we will maintain our reasonable presence in those markets also.
- Rohan Gupta:** Sir, I remember and recall our earlier con call where you had mentioned probably in FY 2015 you are looking for a capacity utilization of close to 85% as well as fertilizers is concerned, sir would you like to maintain those sort of numbers in the current scenario or you have revisited those numbers?
- Kapil Mehan:** I think we still maintain that on a sustainable basis 85% approximately capacity utilization is what we should be doing all the time. This year is an aberration because of carry over inventory etc.; next year definitely we would like the capacity utilization to go up.
- Moderator:** The next question is from the line of Gauri Anand from Philip Capital, please go ahead.
- Gauri Anand:** Sir, the subsidy that you have mentioned for standalone operations does it also include subsidy income on trading or is it only on manufacturing?
- Kapil Mehan:** There is a little bit of potash and DAP which is included in this.
- Sankara Subramanian:** Not very major volume, it is very insignificant volume. We did not do much of import or trading this year. It is only potash volume of 14000 tonnes are there and there are no other imported fertilizers.
- Gauri Anand:** Sir, my question, I am sure everybody here would have asked you again and again, we see excellent volume growth but a very soft revenue growth for the quarter and we also have the subsidy number which is published by the Department of fertilizers and your volumes against it, so if we sort of do a rough math we get a number of about Rs.1200 Crores on subsidies and against that you are indicating about Rs.720 Crores, so sir I request you to offer your comments on this?
- Kapil Mehan:** See Rs.1200 Crores is the total subsidy outstanding and last year 10% subsidy is not yet paid from November of 2012 and subsidy and freight also has not been paid for this year. This year's 10% from April also has not been paid, so all of that adds up to this and September payment we were to get in November that got delayed in to December, finally it came in first week of January only, that is why you are seeing a somewhat inflated number



which at least it should have been close to Rs.1000 Crores, not Rs.1200 Crores, if we were to account for that subsidy received in first week of January.

**Sankara Subramanian:** Gauri, one think we should know is subsidy is based on the dispatches but what is recognized in the financial results is based on the sale, so these two are not comparable. Subsidy income is recognized for the actual sales made.

**Gauri Anand:** No, but you have done volumes of 7,70,000 right for the quarter which is your manufactured volumes.

**Sankara Subramanian:** It depends on various products, we are talking about mix of various grades.

**Gauri Anand:** Standalone revenue growth has been 4% against that volume growth has been 40%, now if you can tell me as to where we have slipped?

**Sankara Subramanian:** Are you comparing with the corresponding quarter last year?

**Gauri Anand:** Yes.

**Sankara Subramanian:** There is a price reduction from 24000 to 22500 and subsidy also has come down by 2500, so there is a value reduction of 4000 rupees per tonne of DAP.

**Gauri Anand:** On about 200,000 of volumes or even 150000 thereabouts, so all that is already taken, so where is this mismatch?

**Sankara Subramanian:** Probably we will take this offline and clarify your doubt.

**Moderator:** The next question is from the line of Pratik Poddar from ICICI Prudential, please go ahead.

**Pratik Poddar:** Sir, just one small question, two months back there was a conference where you mentioned that you would be getting subsidy till the month of December and i think it was in the month of November that we had a chat, so just wanted to understand as to what is the mismatch?

**Kapil Mehan:** Normally we should have received October subsidy in December . We will continue to get our payment because subsidy has a lag of two months, that got delayed, not only that got delayed even the September one got delayed, so September one came in first week of January and October most of it has already come in so we are seeing that as on January we are more or less on track as far as subsidy receipts as per our earlier estimates was concerned, so there is a delay of about 20-25 days.

- Pratik Poddar:** Sir, this vote on account budget that will take place do you expect any subsidy receivable say in the month of April or is it when the new government comes in and then they will disburse?
- Kapil Mehan:** Well, the normal routine as we have seen in the past is that on voted account budget will get, the government gets authorization to spend till the period the new budget comes in, so I think subsidies will continue to be paid from April onward also.
- Pratik Poddar:** 2009 also when the similar situation took place you did get?
- Kapil Mehan:** Yes, yes, that is what I am saying; past experience is that it is paid.
- Pratik Poddar:** This under providing thing, this is just an industry question, underproviding thing do you think it will continue or next year there could be rationalization on that front?
- Kapil Mehan:** Our request is always with the government to provide but government has its own considerations, so this year already you have seen that special banking arrangements to the tune of almost Rs.14000 Crores have been made by the government to clear past deals.
- Pratik Poddar:** That was there last year but anyway sir just one question on the inventory right now and also did we take any inventory write down in Q2?
- Kapil Mehan:** Yes we had partly in Q2 also but I think it was much less as compared to Q3?
- Pratik Poddar:** Because just because if I am not wrong in the month of September only we get to know that the raw material prices are falling so would it be prudent if you could just inform it earlier only that we would take an inventory write down in the next quarter?
- Sankara Subramanian:** It is not inventory write down, just to correct it is more of a reflection of market pricing which prevailed in October November especially in Northern markets when the market realization came down.
- Pratik Poddar:** But that is a very small part of your sale, the opening comments you mentioned that only UP has an issue and that also is not a focus area for you?
- Sankara Subramanian:** Not in terms of the fresh sales but whatever carry over inventory which was there.
- Pratik Poddar:** Will the credit period be 7 days for fresh sales?

- Kapil Mehan:** Fresh sales credit period vary from 30 days in some states to 60 days also but there is no pipeline inventory which is getting created.
- Moderator:** We will take the last question for the day and that is from the line of Amar Maurya from India Nivesh, please go ahead.
- Amar Maurya:** Thanks a lot, most of my questions have been answered, one clarification, sir in the changes in inventory this particular quarter it has gone up significantly if I see the quarter-on-quarter, any specific reasons for this?
- Kapil Mehan:** Earlier I think we had run down our finished good inventories to a very low level, so this quarter deliberately in order to service more markets and have stocks available for sale in the coming season we had increased the inventory a little bit but our raw material inventory and transit inventory are pretty much under control.
- Amar Maurya:** So this is particularly coming from the finished good inventory citing that the demand is likely to improve.
- Kapil Mehan:** That is right.
- Moderator:** Thank you Ladies and gentlemen, due to time constraints that was our last question. I would now like to hand the floor over to Mr. Jaisinh Suchak for closing comments.
- Jaisinh Suchak:** Thank you Margaret, 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. Over to you sir.
- Kapil Mehan:** Thanks Jai for organizing this conference and thank you all the participants who were logged in. I think it has been a very useful conversation that we had and also we could get more clarity on your requirement thank you very much once again for your enthusiastic interest and response to our conference call.
- Moderator:** Thank you, on behalf of JM Financial that concludes this conference. Thank you for joining us and you may now disconnect your lines.