



“Coromandel International Limited  
Earnings Conference Call”

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**UBS**



**MODERATORS: MR. GAUTAM CHHAOCHHARIA  
MR. KAPIL MEHAN  
MR. P. NAGARAJAN  
MR. S. SANKARASUBRAMANIAN**

**Moderator:** Ladies and gentlemen, good day and welcome to the Coromandel International Q4 FY'11 Earnings conference call hosted by UBS Securities India Private Limited. As a reminder, for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing “\*” followed by “0” on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Gautam Chhaochharia for UBS Securities India Private Limited. Thank you and over to you, Sir.

**Gautam Chhaochharia:** Hello everyone. We have with us Mr. Kapil Mehan, Managing Director, Mr. Nagarajan, CFO, and Mr. Shankar Subramaniam VP Finance from Coromandel. They will start with the overview of the 4Q FY'11 results and then we can move on to Q&A. Mr. Mehan can we start?

**Kapil Mehan:** Good evening everybody and welcome to this conference call. Over the next few minutes we will share with you the performance for the year and the quarter and I have with me my colleagues, Mr. Nagarajan and Mr. Shankar Subramaniam joining me on this and they will add in wherever it is required. In terms of our business environment, I think Q4 has been relatively quieter quarter as compared to the previous quarter because of some delays in the seasonal rains as well as some of the seasonal factors that delayed sowings in some parts of the country as well. Imported fertilizers also took a slight break during this quarter because our prices were contracted at last year's prices and international prices have moved up. However, the demand fundamentals continued to be strong with

now prediction of a **normal** monsoon, and the government having decided on the subsidy numbers. I think that for the most part of Q4, there was a sense of uncertainty around the subsidy levels that the government would announce. If you recall, the government had announced per nutrient subsidy that was based on very low international prices and finally in the month of March, the government came out with a new notification revising those subsidy numbers upwards. That uncertainty is now behind us and we will now see that normal operations would begin from this quarter onwards.

Our sales in the quarter were marginally lower primarily on account of imported fertilizer sale, which was down by over Rs.200 Crores during the quarter, even though sales of our manufactured fertilizers as well as non-fertilizer were higher as compared to the previous year. Adjusted EBITDA also was more or less at the same level as compared to last year even though at an aggregate level, it may look as if it has dropped by about 1.8%, but on an adjusted and like-to-like basis it is only marginally down as compared to last year. Specifically addressing the financial analysts, who would like to hear more on the quarterly numbers I would like to emphasize that for agri input companies revenues should be looked at in a slightly longer timeframe. We should look at least two seasons of performance before reaching any conclusions. Either way two seasons would really comprise of 12 months preceding, but I think we should always look at 12 months preceding number. We will try and put together that data in future so that we can share those preceding 12 months numbers also, but if you look at our annual numbers, our sales has grown from Rs. 6452.11 Crores in 2009-10 to Rs. 7636.38 Crores in 2010-11, it is a growth of 18.3%. This is on

account of good growth in all our businesses especially crop protection business, which has done exceedingly well. Our retail business has also done very well and of course our complex fertilizer business continues to drive the profitability and topline for the company. EBITDA for the year grew by 34.7% to Rs.1135 Crores from Rs.842 Crores last year. PBT for the year stands at Rs.988.46 Crores, which is an increase of 39.5% over last year's PBT of Rs.708.44 Crores. We also had our highest ever profit after tax for the company at Rs. 694.46 Crores, which is 48.3% higher than last year. We have also proposed a final dividend of 300% in addition to interim dividend of 400% in January 2011. Our production this year is slightly higher than last year despite the fact that we had advanced our annual shutdown into this quarter from the first quarter when it is normally scheduled. Sales are more or less at the same level as last year and we also sold a higher quantum of imported fertilizers, which this year at 4.6 lakh tonnes as compared to 2.5 lakh tonnes last year.

Coming on to our projects, our Kakinada project where we are putting up one more granulation train is well on schedule. Our project in Tunisia did suffer a delay of about three months due to disturbances there and now it is slowly coming back on track and almost 95% of the work is complete We expect the balance work to be completed by September this year and production to start after that, With the completion of the TIFERT project supply of phosphoric acid to our units will increase. Another factor, which I must share with you, is that our retail business has done exceedingly well. This is the first full year of operations of all our 423 centers in Andhra Pradesh. The Business is now EBITDA Positive. So these are my opening remarks; I would now request my colleagues if they

have anything else to add and then we can take question and answers?

**P. Nagarajan:** Thanks Mr. Kapil Mehan. This is one of best years we had especially in terms of our bottomline. We achieved highest ever PBT and highest ever PAT. One of the reasons for the lower volume in the fourth quarter is the annual shutdown that we took in the month of March, which we would have normally done it in month of April. We preponed it and that has been the reason for the slightly lower volumes in Q4. Otherwise I have nothing more to add to what Mr. Kapil Mehan has said. Thank you.

**Moderator:** The first question is from the line of Grishma Shah from Envision Capital. Please go ahead.

**Grishma Shah:** Sir couple of questions that I would like to understand. Our raw material to sales as a percentage was 57% in Q4 and that was around 69% whereas for the full year we are at around 62%. So just wanted to know your outlook on the raw material price going ahead?

**Kapil Mehan:** The raw material prices have been on the rise during the last few months, but this should get reflected in the revised subsidy rates likely to be announced soon. The prices are moving up, but that is not a major area of concern at this stage.

**Grishma Shah:** Okay and what about the tax rate during the quarter? It has been fairly low during the quarter compared to the full year tax rate and what we have been seeing in the last year?

**Kapil Mehan:** There have been two reasons for it. One is we had higher profitability from Jammu unit which is tax free and the second reason is we had reversed the provision that we had made in the

earlier years towards to MTM loss on account of bonds. Since the bond loss was not treated as a tax deductible expenditure the provision reversal is also not taxable.

**Grishma Shah:** Okay so combined both of them lead to 11% kind of a tax rate in Q4?

**Kapil Mehan:** That is right.

**Grishma Shah:** Sir what would be our Capex going ahead?

**Kapil Mehan:** We have planned Capex of about Rs.500 Crores underway in terms of our expansions and other facilities, which are being created in should result in larger volumes of sales. These are all organic opportunities that we are pursuing, including the project in Kakinada,

**Grishma Shah:** Just another question as I look at your balance sheet you have a debt of around Rs.1663 Crores and you also have cash balance of around Rs.960 Crores so are you thinking of paying of debt or is it the function of working capital, how does it go ahead?

**Kapil Mehan:** The cash balance is the subsidy we had received during last week; besides we also we liquidated bonds on the last day of the year, so they have being temporally parked in bank deposits and it will be used to retire the debt or to pay the creditors

**Grishma Shah:** Sir you mentioned that the retail business has turned EBITDA positive. Could you elaborate how this business is going to shape up in the next three to five years for you and how do want to take it forward?

**Kapil Mehan:** See we have already started opening centers in Karnataka. We will be adding 200 centers this year that is in Andhra and Karnataka. So, the market in Andhra will be more or less fully saturated. Then we will concentrate on Karnataka and going forward our plan as of now is that in the next three years we should see at least 1000 retail outlets.

**Grishma Shah:** Could you give us the sense of economics in this business as in is that the same business that you are talking about in terms of handling the small farmlands and doing the entire management of them?

**Kapil Mehan:** That also is the part of the program that we have and as we started the farm mechanization services which is picking up nicely and I think in the years to come that will also grow but what is driving current growth in the business is volume of non-fertilizer products. Farmers come to these centers and to us for for advice on their problems. They come for sourcing quality pesticides; they come for sourcing animal feeds from these centers, speciality products from these centers. We also have a small activity of lifestyle products because you know lot of farmers are coming to these centers and they do need something for their own consumption also. So, we have that activity also even though that part of the portfolio is not very profitable at the moment, but going forward we believe in the long run rural population will have far more surpluses as the living standards improve and the propensity for seeking good quality, niche products will only increase. We are our positioning ourselves to serve that segment of the market also.

**Moderator:** The next question is from the line of Prakash Goel from ICICI Securities. Please go ahead.

**Prakash Goel:** Just on the volume number for the full year I could not register the number what was the number for this year's own production?

**Kapil Mehan:** The sales for the year are 26.02 lakhs of own manufactured products. Well in addition we also sold about 2.6 lakhs of traded fertilizers. This, is as compared to last year's sales of 26.57 tonnes lakhs of own products and 2.5 lakhs tonnes of traded potash.

**Prakash Goel:** We have started the year with 15% volume growth guidance would you like to maintain the guidance for next year?

**Kapil Mehan:** We do not give any volume or numbers guidance and as I had mentioned in my opening remarks, the fundamentals are very strong. In terms of the demand prospects, in terms of our ability to tie up raw material for which we have contracts with suppliers, we are well positioned., Subsidy - which was being expressed as an area of concern over the last four months has now been adequately addressed by the government. Subsidy number which was based on \$450 of DAP is now increased to \$612 Potash which was at \$350 is going up to \$420, urea which was reckoned at \$280 is going up to \$350. The government has taken note of rising prices in the international markets and that does help in a way to sustain the growth in demand because we will now need to take only marginal increases in prices of our products to the farmers. One powerful effect of nutrient based subsidy is that we have been able to take price increases during the last year and this year also from April onwards we have taken a price increase for all our complex fertilizer including DAP.

**Prakash Goel:** I would just like to understand given the current raw material prices and now you have the government subsidy number as well. So what



is the kind of price increase you need to maintain margin at last year level?

**Kapil Mehan:** We will be taking a price increase of about 8-9%, which we have already affected, and the new product that is moving out now is moving out at the new price.

**Prakash Goel:** Okay, and will that be sufficient to maintain the margin?

**Kapil Mehan:** Again that would be a forward-looking statement to make, but I think if you take the increase in subsidy and you take 8-9% increase, some products increase even 12-15% also, so if you take all these factors in to account along with the raw material prices I think your calculation will be better than ours.

**Moderator:** Thank you. The next question is from the line of Varun Guntupalli from Edelweiss Securities; please go ahead.

**Varun Guntupalli:** First question is with regard to the breakup of the sales volume in the manufacture and traded fertilizer in this particular quarter sir if you can put some numbers on that?

**Kapil Mehan:** This quarter in terms of our own manufacturing, our sales is to the tune of about Rs.900 Crores and traded fertilizer is about 173 Crores as compared to last year's Rs.379 Crores and Rs.827 Crores for own manufactured products.

**Varun Guntupalli:** With regard to volumes sir?

**Kapil Mehan:** Volumes last year-, our sales was 4.66 lakh tonnes and this year it is 4.18 lakhs tonnes.

**Varun Guntupalli:** Both manufacture and traded?

**Kapil Mehan:** Last year imported was 1.3 lakhs tonnes, this year it is 24,000 tonnes.

**Varun Guntupalli:** With regard to this farm gate price, which you have said that you have already taken in April 8-9% . Taken together along with the price increases in December and January we have taken close to 10-15% price hike right?

**Kapil Mehan:** This is over and above that.

**Varun Guntupalli:** But it is like if the government is pegging the subsidy for DAP at \$612 and MOP at \$420, is it not expected to be surprising for us to maintain our margins without the price hike and is the government okay with the kind of price hike which we have taken in April even after government is pegging it at \$612 and \$420.

**Kapil Mehan:** See, under nutrient based subsidy the government has left the pricing to the industry and we believe that this increase is required to be passed on and we also have to slowly make the farmers sensitive to these price increases so that in one go they do not get a shock, so it is a part of an overall strategy to keep increasing the prices periodically so that we slowly keep aligning ourselves to the international market. Further as the overall prices are going up and the interest costs are going up, we also need to improve the margins to take care of some of these cost increases.

**Varun Guntupalli:** With regard to the other expenditure in this quarter, it seems to be on a higher side as percentage to the revenue, it is almost 300 bps kind of an increase year-on-year I suppose, any particular reason?

**Kapil Mehan:** As I told earlier that we had preponed our turnaround which should have happened during the last year has happened during this year.

**P. Nagarajan:** The increased traded products also has contributed for the increase freight and distribution cost.

**Kapil Mehan:** Also the loss on account of bonds has also been booked as operating loss because whatever provisions that we had made they had to be reversed and the loss has been slightly higher than that, the compensation that the government is likely to give we have restricted it to 50% at this stage. I think if you read the notes you will get a better idea

**Varun Guntupalli:** I have gone through the notes, basically even after excluding that part actually we were looking at a variation of 300 bps But going forward do you see that it will be at the last year's level, or is it a one off thing? .

**Kapil Mehan:** Yes, this is one-off thing that we had preponed the turnaround and taken up many maintenance jobs together which has led to this increase.

**Varun Guntupalli:** My last question is with regard to this farm gate price, from March of last year till now we have taken almost close to 30% kind of a farm gate price hike. Don't you see any impact with regard to the demand for the fertilizer from the farmers side, will it not cost demand destruction with such kind of farm gate price hikes?

**Kapil Mehan:** Well, the first two price increases that we had taken in, April 2010 and January 2011, there was no impact on demand whatsoever. Our interactions with farmers and trade partners indicate that this kind of increase, which is less than 10% will not have any major impact on the demand or even minor impact on the demand and the demand would be driven more by the commodity prices and the offtake that will happen from the farms, which is now underway and that will

determine what the farmers will use and current indications are that commodity prices generally are up. Whatever wheat is coming in, the government is picking up all the wheat, the cotton prices are very good, the pulse prices are very good, so the demand fundamentals on agricultural front are pretty strong.

**Moderator:** Thank you. The next question is from the line of Prasad Deshmukh from DSP Merrill Lynch. Please go ahead.

**Prasad Deshmukh:** How much of organic manure did we finally sell in this year?

**Kapil Mehan:** 1.2 lakh tonnes.

**Prasad Deshmukh:** How many acres were serviced in this farm mechanization for the whole year?

**Kapil Mehan:** 4000 acres.

**Prasad Deshmukh:** In terms of the fall in volume this quarter, is it just because of the shutdown or was there some problem on the raw material supply?

**Kapil Mehan:** It is a combination of both; shutdown also was taken primarily to take care of the supplies coming down slightly, but our production if you look at during the quarter was actually higher than last year. Last year we had 4.74 lakh tonnes production during the quarter, this year we have 5.2 lakhs tonnes and last year production was lower because of the unfortunate incident that we had in Kakinada. This year production of 5.2 lac tons while it is more than last year it could have been much higher had we not taken the shutdown and had the phosphoric acid supply from Tunisia remained uninterrupted.

**Prasad Deshmukh:** So is the situation back to normal now as far as the raw material supply is concerned?

**Kapil Mehan:** Raw material supplies are likely to resume by the end of this month or early May and we expect that the total disruption would be roughly about three months, February, March and April and from May onwards it should be normal from Tunisia.

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

**Manoj Bahety:** I have a couple of questions, first question is on inventory in your balance sheet, like if I see, inventory in your balance sheet has gone up from Rs.926 Crores last year to Rs.1500 Crores, so mainly is it because of that maintenance shutdown and will we see spillover impact in the next quarter, once we liquidate this inventory and come back to the normal level of inventory?

**P. Nagarajan:** Well, the inventory of both raw materials and finished goods are slightly higher. The raw materials essentially, because as you rightly said the shutdown was taken and to that extent the raw material inventory has been built up and on the finished goods, Q4 being an off-season, what we produced was also in the plant and this will be liquidated in the first and second quarter of this year.

**Kapil Mehan:** Generally speaking, the January-March quarter is a lean quarter. The season really begins from June onwards and this carries on right into August and September is slightly down then again it begins to pick up, so this February to May period is the low-season period and the inventories tend to be higher, you also must factor that the costs also are higher this year as compared to last year, but you are right that we are carrying more inventory both of our raw materials and finished goods, which would get liquidated in the first half of this year.

**Manoj Bahety:** Okay. Sir my second question is in the current budget, the government has announced this capital deduction under Income Tax Act for fertilizer sector, since Coromandel is planning to do around Rs.500 Crores of Capex, how it works, like as soon as the plant gets commissioned the Rs.500 Crores will be deductible from your existing taxable profit?

**P. Nagarajan:** That is right. It has been given the infrastructure status and as per the current regulations governing infrastructure sector the depreciation for the entire investment is allowed in the year of capitalization and that will definitely have a positive cash flow for the year as well as it improves our project and the investment financials.

**Manoj Bahety:** The **deduction** is available in the year when the plant gets commissioned, so even your past CWIP, which you have already incurred that will be eligible for **deduction** right?

**P. Nagarajan:** Right. The only point is the expenditure must be relating to some major projects, one that we are planning to take it in Kakinada will come under that category.

**Moderator:** Thank you. The next question is from the line of Suhel Kapoor from Crisil; please go ahead.

**Suhel Kapoor:** Sir you had mentioned that the non-subsidy business has been one of the major drivers, sir could you just throw some light as to how much it contributed to the topline and to the EBITDA for the full year?

**Kapil Mehan:** See on a full year basis, it is around 14% of the topline and 27% at EBITDA level.

**Suhel Kapoor:** Okay sir topline would be excluding subsidies right?

**Kapil Mehan:** No that is including subsidy.

**Suhel Kapoor:** Okay sir. Like you mentioned that you have done close to about 1.2 lakhs of compost this year, Sir as far as I remember the company has got plans to scale it up to 10 million?

**Shankar Subramaniam:** Let me correct you it is one million, 10 lakh tonnes.

**Suhel Kapoor:** Correct sir, so 10 lakhs tonnes, do we expect it to happen over the next three to five years?

**Kapil Mehan:** Absolutely. That is what we are working towards.

**Suhel Kapoor:** Okay, sir some more questions on this, since we are at the year ending would it be possible for you to share how much of the plant protection division has contributed to the topline?

**Kapil Mehan:** We do not share these numbers because they are still not in a range which can be shared, but I can only say that the business has grown very well and it is also turned in handsome profit, our Ankleshwar unit has done exceedingly well and has run to full capacity during the year, our formulation branded business has grown over 25% during the year. So that is all I can add at this stage

**Suhel Kapoor:** Sir one question with respect to the increased subsidy which has been fixed, have you contracted any DAP urea or MOP for importing and trading for this year in FY'12?

**Kapil Mehan:** The DAP has been contracted, certain complexes have been contracted, potash is not yet contracted, and the negotiations are still going on with the supplier. Urea is still canalized, so we cannot

import directly, but for our raw material requirements, we are importing through the existing canalizing agency. Once we get our permission for- direct import that is pending with the government, we will be in a position to import directly urea for our consumption, but for our sales we will have to wait till decanalization happens.

**Suhel Kapoor:** Okay, Sir would it be possible for you to share the number as far as the contracts are concerned or the time line?

**Kapil Mehan:** Well the contract for phosphoric acid has been done on the normal tenure of quarterly basis, while we have long-term contracts, some run for 10 years, some run for 3 years, and some run annual, but those are volume contracts, the pricing is in fact every quarter based on benchmarks as per the contract.

**Suhel Kapoor:** So sir this quarter's price would be?

**Kapil Mehan:** This quarter price of phosphoric acid you set at \$980.

**Suhel Kapoor:** Sir based on the calculations, which we had done, we kind of thought that the subsidy level is not so good to motivate the imports, so are we missing something, are the imports also expected to be strong for this quarter?

**Kapil Mehan:** Well, they may not be very strong for this quarter, but I think from the next quarter onward they would be strong because the price increase, which has been affected recently from this month onwards, which is taking the price from Rs.10,750 to Rs. 11,700. I think that would make imports viable.

**Suhel Kapoor:** Okay, last question from my end. Sir if we go back to the previous subsidy mechanism, there were some arrears of subsidy, which we



had carried forward in FY'10 and FY'11, now with moving over to the NBS in FY'12 is there a possibility of any such arrears?

**Kapil Mehan:** Well now the subsidy is more certain, so that kind of uncertainty is not there what used to be there in the pre NBS period, but there are still certain heads like freight etc., which are still not very clear and the final numbers for which will come only after a lag of about three months, six months or even a year depending on when the government takes those decisions, so to that extent that uncertainty is over a very, very reduced number.

**Moderator:** The next question is from the line of Bharat S from Sundaram Mutual Fund; please go ahead.

**Bharat S:** Just two questions from my end. In terms of the sales volume that you have said, it has been kind of flat between FY'10 to FY'11, but we were just looking at the numbers of AP as a state, which had some 10-15% volume growth for this period, does that mean that we have lost a bit of market share to other players in this period?

**Kapil Mehan:** Yes, there would be marginal decline in the market share during that period because market has grown faster and once we have our **C Train** project ready, we would regain that market share,.

**Bharat S:** In terms of the growth number that we are seeing in this market specific to the region that we operate, on an average we had 14-16% growth over the last three years. Is that kind of a sustainable demand number that we are seeing?

**Kapil Mehan:** I think last year particularly has been first year of freedom for the market, so market I think has grown very aggressively, but I think going forward we should see moderate growth in consumption

unless there is a major change in the cropping pattern but otherwise 5-7% with the current cropping pattern and seasons being normal it is the growth demand that we expect.

**Bharat S:** Lastly in terms of our phos acid contracting, to what extent of production are we backed up in terms of phos acid contracting as on date in terms of long term contracts?

**Kapil Mehan:** Long term contracts I think we have on the open about 20%, 80% is covered through either our own production or through long-term contracts.

**Bharat S:** 80% production in terms of **own** capacities you are saying?

**Kapil Mehan:** That is right.

**Moderator:** Thank you. The next question is from the line of Miten Lathia from HDFC mutual fund; please go ahead.

**Miten Lathia:** What proportion of our output will come from the Jammu unit from let us say FY'12 onwards?

**Kapil Mehan:** It is a very small percentage. We only do formulation business- there of our pesticides.

**Miten Lathia:** So, it will not be relevant to our tax rates overall per se?

**Kapil Mehan:** Overall it is not very significant to the tax rate, but this quarter it was significant because full impact has been accounted for during this quarter.

**Miten Lathia:** Just to put it in perspective, let us say pre NBS what was the retail selling price of DAP and what is it after the 9% hike that we have

taken a few days ago and hence may be we can try and put the equation in to this?

**Kapil Mehan:** Pre NBS, we are talking of prior to 01/04/10, at that time the price was Rs.9350 per tonne to the farmer, but we ended the year with Rs.10,750 and now it has been raised to Rs.11,700.

**Miten Lathia:** On a very, very ballpark basis this Rs.11,700 would give you just \$ 612 FOB DAP price sort of?

**Kapil Mehan:** That is right, it is based on that with a reasonable margin on imported DAP.

**Miten Lathia:** Margins have been volatile through the full year, obviously we started the year with higher margin and ended the year with a lower margin, and on an average basis does this 8 to 9% price rise hike reinstate our margins to last year's level.

**Kapil Mehan:** Margins have been returned to sort of an average of that we had last year.

**Moderator:** Thank you. The next question is from the line of Amol Kotak from ASK Investment Managers; please go ahead.

**Amol Kotak:** One area of concern, which I think all the participants are highlighting is the fact that constantly the commodities prices are going up and in your opening remarks you suggested that raw material should not be a major area of concern, so these are quarterly contracts and NBS rates are going up, so how confident are you throughout the year, these margins would be sustainable?

**Kapil Mehan:** We only reset the price on a quarterly basis, the volumes are committed, the volumes are contracted, based on the market price,

the prices of raw material gets reset that is all I mentioned, so that does not mean that we do not have the contracts in place and there are benchmarks, there are formulas for fixing those prices, so even the chance of any misunderstanding or negotiations getting delayed, etc., does not exist.

**Amol Kotak:** On a regular basis given the increasing pricing scenario do you think the government would constantly revise the NBS price going forward also.

**Kapil Mehan:** It would be a combination of both. We can witness the scenario of rising international prices, I think partly we have to pass onto farmers, partly government has to relook at their subsidy number because country cannot afford to cut down on fertilizer consumption because that would endanger the food production and that is more dangerous than adjusting the subsidy levels for fertilizer, and the NBS framework allows that to happen, you can adjust the farm gate price as well as government can take a view on the subsidy number and you put these two together, I think that will make the fertilizers available.

**Shankar Subramaniam:** Just to add to what Mr. Kapil Mehan had said it is not necessary for the prices to definitely be in one direction, it can also come down, and so it is ultimately a question of supply and demand.

**Amol Kotak:** My worry is pertaining to be current raw material prices , which have increased so severely in the last four months. My second question is pertaining to the bonds, which has been encashed, can you give us the amount.

**Kapil Mehan:** Rs.499 Crores.

- Amol Kotak:** What is the balance amount outstanding?
- Kapil Mehan:** Rs.499 Crores.
- Amol Kotak:** Could you just help me with what has been the total subsidy booked in FY'11?
- P. Nagarajan:** About Rs.4263 Crores for the current year as against last year of Rs.3564 Crores.
- Moderator:** Thank you. The next question is from the line of Abhijit Akella from JM Financial; please go ahead.
- Abhijit Akella:** First, just wanted to be clear about the subsidy increase that you referred to, the \$612 reference price, as far as I am aware on March 9, I think the government had updated the subsidy rates to I think of \$580 reference price, so has there been a further increase beyond that.
- Kapil Mehan:** Beyond that also if you have been reading the press, it is already reported that the government has internally moved their decision to revise that price from \$580 to \$612, because that is the price at which the contracts for supply have been finalized.
- Abhijit Akella:** That will be effective April 1 is it?
- Kapil Mehan:** That will be effective April 1, that notification is likely to be issued anytime.
- Abhijit Akella:** Okay understood. Secondly just on the raw material side if you could also indicate what levels ammonia and sulphur prices are currently at that you are contracting?

**Kapil Mehan:** Ammonia is in the range of about \$500 per tonne currently and sulphur is in the range of \$230-240 per tonne.

**Abhijit Akella:** Just on potash I believe the industry has been staying away from negotiating because of high prices, so how do you see that scenario unfolding?

**Kapil Mehan:** I think there is lot of stock which is out there in the market from previous year's imports and that should continue to see the country through for sometime and in case the international prices continue to be at a high levels, then we will produce the complex fertilizers, which have either low potash and or less of potash because agronomically if you miss application in one season, it may not impact the production of that particular period, but we also have to know the fact that it cannot be for a very long period, may be for one or two seasons So we have to see how the international market responds to this because India is the largest importer of potash fertilizers in the world accounting for close to 20% of the global trade for potash, so if 20% goes out, our belief is that the prices in the international market may not be able to hold on to those levels.

**Abhijit Akella:** Is there a specific comfort level you know at which we are looking to negotiate for potash, any level of price?

**Kapil Mehan:** We are discussing with the suppliers, we do recognize that there is a change in the demand supply fundamentals in the international market and we need to acknowledge that and recognize that and increase the price, but the spot prices are too hot at this stage, so we do not wish to enter into the market in these circumstances, so we will wait for the contract and spot prices to align before we finalize,

but I cannot put a number on the table, because we are in discussions and negotiations with the suppliers.

**Abhijit Akella:** Finally just on the speciality nutrients division and the MGC division, is there any sales number for the year that you could share, last year I believe MGC did around Rs.100 Crores, if I am not mistaken.

**Kapil Mehan:** Well MGC have done over Rs.250 Crores of non-fertilizer business during the year and that is going extremely well and that is the reason that the retail business has turned EBITDA positive. Our speciality nutrient business also includes compost and water-soluble fertilizers and other micronutrients like sulphur and micronutrient mixtures and that is doing pretty well. We are not in a position to share the exact number with you, but it is growing well and we continue to be the market leader in that.

**Abhijit Akella:** When you say MGCs have turned EBITDA positive that is only from the non-proprietary products business, is that what do you mean?

**Kapil Mehan:** Yes, there is a combination of both our own manufactured products as well as non-proprietary products and they also buy fertilizers from the main fertilizer business at exactly the same price our dealers would buy.

**Abhijit Akella:** So it is EBITDA positive including all the products, own as well as third party), and finally Sir on the real-estate on which the MGCs are set up, is that owned by the company or is that leased?

**Kapil Mehan:** Most of it is leased, we have now initiated a process of acquiring these pieces of land as well as existing center, so we have a capital

program for that and when I mention that Rs.500 Crore program, there is a Rs.50 Crore provision that we have kept for expanding in this space.

**Moderator:** The next question is from the line of Ramchand Hegde from Primus Investments Advisors. Please go ahead.

**Ramchand Hegde:** Just a couple of questions from my side. One is given the understanding you said that \$612 is going to be probably coming in very soon, so the contracts for the next quarter have been filed on basis of this. You mentioned that the subsidy probably will get moved to \$612, where are you covered for the next....?

**Kapil Mehan:** The raw material prices have been covered reckoning \$612 as a price and we have covered for the first quarter. First quarter price has been finalized, but quantifying contracts continue, because they are long-term contracts.

**Ramchand Hegde:** Is it possible to quantify in some measure how much has been the supply related problems for this year, because you had flat volumes of sort?

**Kapil Mehan:** We had disruption only from Tunisia to the extent of two months. Our total would be about 50,000 tonnes of acid.

**Ramchand Hegde:** You said you are going to start getting supplies from May onwards.

**Kapil Mehan:** End of April, early May the shipments will start.

**Ramchand Hegde:** With a new plant coming up in Saudi any sense on what the market dynamics and the impact would be for India.



**Kapil Mehan:** Well I think the ramp up of Saudi capacity addition will happen gradually. I do not think they will start producing 2.5 lakh tonnes per month, which is the rated capacity. We believe that they will start production only by end of this year, which can happen in the October to December quarter and India is a natural market for them and we believe that there may be a short period of adjustments that international market will go through, but overall, if we look at global demand growth and the global commodity prices, the plants today around the globe are stretched, so I think this capacity which ramp up will happen over a period of maybe four or six quarters will get absorbed smoothly, but there may be a small blip, but I do not think that blip will be sustainable, if the demand supply fundamentals continue to be strong.

**Ramchand Hegde:** Sir last question from my side. You said the production volumes this quarter was higher, the overall sales was lower, if one corroborates the fact that you ended up with higher inventories also, was it a conscious decision to basically move it to FY 2012 because you had (a) higher subsidy and (b) the price increase probably which was coming through.

**Kapil Mehan:** No, it is not that simple and straight. If you recall during this quarter, we had unseasonal rains etc., in Andhra and that did impact the sowing which happened in January, February and that impacted our offtake also and this being generally an off season period, I think the sales had slowed down, also another factor which I think you know earlier the dealers used to pre-stock up but looking at the availability which was comfortable during the previous year, I think the pre-stocking at the state level has not taken place, so all of these factors if we put together lead to little bit of depression in the sales.

**Moderator:** The next question is from the line of Madhuchanda Dey from Kotak Infina; please go ahead.

**Madhuchanda Dey:** I have two questions one is if you could just tell us what is the exact status of the capacity expansion and what kind of volume contribution can we expect from the expanded capacity in the next two years.

**Kapil Mehan:** See the project as we had reported last year is already three month in to its execution, we are currently at the engineering stage and all the long lead items have been ordered, civil work has already started on the site and we hope to complete all the piling work during this quarter before the onset of monsoon and this plant is expected to add, at its full capacity six to eight lakh tonnes of production and that will be available from second half of next financial year, second half of FY 2013.

**Madhuchanda Dey:** Little long-term question whenever we talk to anyone in the government the stated intention is to discontinue the direct subsidy scheme and there is a long-term intention of giving subsidy directly to the farmers etc., first of all in your understanding is this viable and should this happen in any form how will it change the business dynamics of fertilizer company like yours?

**Kapil Mehan:** I think I would not like to speculate on whether it is feasible or not, I think we have to see what kind of technology solutions which are available which will enable the government to pass on subsidy directly to the farmers, but yes there are complex questions of subsidy being passed on and the fertilizer usage being there, because if the farmers take the subsidy and do not apply fertilizer, I think the whole purpose of this subsidy would be defeated, so we have to

move very carefully on that in terms of ensuring that the fertilizer use is not affected, at the same time, the inefficiencies of the system which generally get associated with subsidy at manufacturer level while lot of that has been addressed in the nutrient based subsidy, but I think the government is very serious, industry also is very serious to make it happen and we are working together with the government to put together a system which will enable the government to achieve the twin objectives of ensuring that there is fertilizer use and inefficiencies of the subsidy system are also eliminated, so that is #1, #2 in terms of its impact on a company like ours I think our degree of freedom will definitely improve and our ability to introduce new products, our ability to introduce fortified fertilizers, our ability to do more brand building and building long term relationships with the farmers and leverage our market access which we believe we have a superior edge over the competition in terms of our own retail network etc., I think all these factors will begin to play out and improve our performance.

**Madhuchanda Dey:** Sir, you feel that despite this particular concern that you have on the end use of the subsidy, do you feel it will be long-term positive for your pricing power in the system?

**Kapil Mehan:** Yes, yes any day.

**Moderator:** Thank you. We have a follow on question from the line of Varun Guntupalli from Edelweiss Securities, please go ahead.

**Varun Guntupalli:** With regard to the phosphoric acid pricing you have said we have contracted at \$980 for this quarter right, sir. It was earlier at \$920 for a short period of time or it was from \$830 to \$980 directly?

**Kapil Mehan:** It was \$830 to \$980 directly; \$920 was an interim price, which was finalized so that the supplies do not get interrupted.

**Varun Guntupalli:** For how long was the \$920 price Sir?

**Kapil Mehan:** It was there for about a month.

**Varun Guntupalli:** Okay Sir, so like in the month of March we had procured at \$920.

**Kapil Mehan:** No early April.

**Varun Guntupalli:** Early April okay and right now we would be getting it at \$980 for the rest of the three months April to June onwards, okay sir, and another question is with regard to the breakup of this Rs.500 Crores Capex if you can give the Capex in Kakinada plant around Rs.330 Crores to Rs.350 Crores was what you are mentioning right?

**Kapil Mehan:** Kakinada is around Rs.350 Crores, our normal maintenance Capex is around Rs.100 Crores and our retail Capex is about Rs.50 Crores.

**Varun Guntupalli:** You had some Capex plan for SQM as well right, what is the status of that?

**Kapil Mehan:** That is included in the normal Capex; that is a small amount.

**Varun Guntupalli:** Okay sir and when is it expected to start production sir, SQM?

**Kapil Mehan:** That is expected to start in second half of this year FY 2012.

**Moderator:** Thank you. The next question is from the line of Sameer Narayan from BNP Paribas, please go ahead.

**Sameer Narayan:** I just to want understand two things, first is what is the current balance sheet involvement of our retail business, how much of capital is it absorbing right now?

**Nagarajan:** For setting up new centers we spent about 7 lakhs on an average per shop, otherwise not much of major Capex involved plus we bought equipments for farm mechanization services.

**Sameer Narayan:** Okay, therefore 423 into roughly 7 lakhs is a good number?

**P. Nagarajan:** That is already spent.

**Sameer Narayan:** In addition since 400 centers, so therefore you would probably be looking at another Rs.30 Crores?

**Kapil Mehan:** Yes, over the next year. These are the Capex based on leased premises that we take, going forward we would also invest in buying these properties, when the stores begins to perform we will be buying those the land and buildings that would be additional Capex, so Rs.50 Crore is a combination of both that we will be making going forward.

**Sameer Narayan:** Okay and the second question was you mentioned the MOP is at \$420 as per the new NBS, now if you look at the way it has been moving it has been virtually one way climb from 360 odd in September to 480 now, is there a certain threshold after which we probably go back and again make a request to the government for probably dealing with this.

**Kapil Mehan:** I think some line has to be drawn and that line has been drawn to what level we can keep going back to the government and to what level the international market recognizes the demand in India,

because India is the number one importer in the world and India will get reasonable discount to the spot prices in the international market and that is what this whole issue is about and that is why we believe that if India remains out of the market for some period this will have its impact on the global prices.

**Sameer Narayan:** Sir, you have mentioned regarding this infrastructure status being accorded to fertilizer, so Kakinada expansion will probably come on stream in FY'12?

**Kapil Mehan:** No, Kakinada stream will come on FY'13.

**Sameer Narayan:** Fully commissioned FY'13, so therefore in that case the ability to take the tax reduction would be in FY'13, so in FY'12 you do not see any material change in tax rates?

**Kapil Mehan:** Yes in FY'12, we do not see any material tax change, only in FY'13 this impact will be there.

**Moderator:** Thank you. The next question is from the line of Amit Adesara from Bharti AXA Insurance; please go ahead.

**Amit Adesara:** You mentioned that you have taken a price hike from April 1; have your competitors also followed the same?

**Kapil Mehan:** We understand that price increase is more or less in the same range for competitors also.

**Amit Adesara:** Okay and typically these price increases are taken similar across the country or you have different prices for different states?

**Kapil Mehan:** They are similar across country, because the freight is paid by the government, so we have no reason to have different prices in different states.

**P. Nagarajan:** Subject to local taxes.

**Kapil Mehan:** Of course, the local taxes vary from state to state, so to that extent the farm gate price will vary, but the factory gate price is common for all states.

**Amit Adesara:** Lastly Sir, in terms of volume, which will be the top three, states that your volumes would be...?

**Kapil Mehan:** Our will be Andhra, Karnataka, Tamil Nadu and Maharashtra.

**Amit Adesara:** Despite having elections in Tamil Nadu you did not face any pressure in terms of not increasing the prices?

**Kapil Mehan:** Elections are over and there was a not of much of sowing happening in that period of time in any case.

**Moderator:** Thank you. The next question is from the line of Prasad Deshmukh from DSP Merrill Lynch, please go ahead.

**Prasad Deshmukh:** Just one thing, when we are saying that the supply of raw material was impacted in Q4 and the volume will be taken up in Q1, will it happen at the rate which is contracted for this quarter or will it happen at the rate contracted for the last quarter?

**Kapil Mehan:** No it will happen at the rate contracted for this quarter because it was a force majeure type of situation; we cannot claim supply at last quarter's price.

**Prasad Deshmukh:** But just the volume will be intact for the year. Thanks a lot sir.

**Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Alchemy Shares. Please go ahead.

**Dikshit Mittal:** Can you tell us the new NBS rates, which have been, revised upwards, so per kg if you share some information on that?

**Kapil Mehan:** They have not yet notified, what we have as of now is the rates, which are notified for \$580. The approximate number is only for \$612, but I think it will be better that we wait for the notification to come out because while we have removed these numbers for our internal working, the actual numbers are different, so it would not be appropriate for us to spell out these numbers in public domain.

**Dikshit Mittal:** Just to understand the realization of DAP as you said you are charging out Rs.11,700 from the farmer and assuming Rs.19,000 is the subsidy, in that case you are getting around more than Rs.31,000 realization on the DAP, so sir if it is converting to dollar that comes \$670 per tonne, you said it is based on \$612 per tonne, what is the difference in that?

**Kapil Mehan:** Custom duty and handling charges.

**Dikshit Mittal:** So 612 is the FOB price.

**Kapil Mehan:** No 612 is the CFR India price.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand the conference over to Mr. Gautam Chhaochharia for closing comments.



**Gautam Chhaochharia:** Thank you Mr. Mehan, thank you Mr. Nagarajan.

I will just take two minutes more of your time with couple of questions from my side. First question is for FY'12. In FY'11 you had a capacity utilization of 80% for production. This capacity utilization, theoretically can go up to what levels given that we have shutdown in Q4 of FY'11 because the new trade will only come in FY'13, but from a production side what is maximum which you can ramp up?

**Kapil Mehan:** We can if we have no interruptions and everything is normal and smooth we can ramp it up to 3 million tonnes.

**Gautam Chhaochharia:** Another question is that given the non-subsidy was 27% of EBITDA in FY'11 and retail should start contributing much more in FY'12 and even **farm** mechanization should scale up beyond the pilot stage, so do you see the non-subsidy moving up in FY'12?

**Shankar Subramaniam:** You must be aware that we are working on a vision of increasing the non-subsidy business to a much higher level and we should basically look up to that level as a goal.

**Gautam Chhaochharia:** That is it from my side. Thank you very much.

**Kapil Mehan:** Thank you everybody for being on the call and we will meet again after three months.

**Moderator:** Thank you. Ladies and gentlemen on behalf of UBS Securities India Private Limited that concludes the conference. Thank you for joining us. You may now disconnect your lines. Thank you.