

Conference Call Transcript

Coromandel International
Q3FY13 Results
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Corporate Participants

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Managing Director

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CFO

Questions and Answers

Moderator: : Ladies and gentlemen, good day and welcome to the Coromandel International Ltd Q3FY13 Earnings Conference Call hosted by Edelweiss Securities Ltd. As a reminder, for the duration of this conference, all participants' 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 this conference, please signal an operator by pressing '*' and then '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. Manish Mahawar of Edelweiss Securities Ltd. Thank you. And over to you Mr. Mahawar.

Manish Mahawar: : Thanks, Inba. On behalf of Edelweiss Securities, I welcome all the participants in the Earning Call of Coromandel International. From the management, we have Mr. Kapil Mehan -- Managing Director; and Mr. Sankarasubramanian -- CFO for the call. We will start with brief opening remarks from the management followed by Q&A session. Now without taking any further time I would like to hand over the call to Mr. Mehan, over to you sir.

Kapil Mehan: : Thanks, Manish, and good afternoon to all of you and thanks for joining our quarterly call on the earnings and other announcements. Let me start by saying that this has been a very challenging quarter from operational perspective as well as from business environment perspective. First let me take you through the results and then we will talk of the other announcement.

Total income was down by 9.84% from Rs. 2,561 crores to Rs. 2,309 crores. Net profit is down from Rs. 134 crores to Rs. 69 crores, which is 48.6% YTD performance turnover is down about 7.5% net profit by about 25%.

If you look at the business environment challenges arose from oversupply in the market, Rupee depreciation in May end or early June and then the monsoon failure in the early part of the season due to which the demand has been quite badly affected.

And if I were to give you some numbers on the demand, during this quarter alone the demand came down by almost 25% from 57.3 lakh tons last year to 43.2 lakh tons this year; however we managed to improve our market share during this period from 10.9% last year to 12.4% this year. Our market share usually tends to be lower this quarter because we are not active in the northern and eastern part of the country where usually consumption takes place during this time of the year..

On top of that, the Rupee volatility also had an impact. Most of the raw material prices also were firm except Phosphoric Acid which was lower by \$30 compared to last quarter but the impact of that could be felt only towards the end of the quarter; however Ammonia prices were very, firm, so much so that for the first time we saw that Ammonia prices to India were higher than the rest of the world by \$30-\$40 whereas the historical trend has been that India prices are

\$30-\$40 cheaper than the rest of the world. The rabi acreage of rice was badly affected and that is one of the key markets for us where the area was down by 40% in our core market of A.P... We had to carry more inventories so we incurred more warehousing costs. Our Ammonia cost was high as compared to previous quarter as well as earlier quarters. Due to oversupply situation there was some discounts which had to be extended to the market, credits had to be extended and that all lead to higher interest costs during the quarter. So all this put together impacted our main business of Fertilizers and that is quite evident in the results too. Our Crop Protection business continues to do well and we have actually improved our position on the Formulations business as well as on the technical sales. Sabero also came out with much better performance as compared to same quarter last year ; on a YTD basis it has already moved almost 50+ crores positive from last year's losses to current year's positive, this quarter also that movement continued. Of course there is still more work to be done there before we begin operating at an optimal level. Our Retail business continues to do well. There also the fertilizer offtake was affected, but our non-fertilizer business grew by almost 31%-32% and that has been a very healthy growth with distribution of pesticides, seeds, specialties, animal feeds, etc. All of that growing very healthily. So these are the broad highlights of our operations; We have achieved mechanical completion of our C-Train Project in Kakinada and are waiting for some regulatory clearances before we can commence the commercial production and that should start any time now.

On TIFERT also we have now moved forward, so all the plants are now under commissioning stage and we hope that by next week we should be taking in the Sulphur,.

And also let me just give you a little heads up on the other announcement we made. We have got the board approval yesterday and we have signed definitive agreements for acquiring promoter stake of Liberty Phosphate as well as other group companies, we have signed to acquire up to 56.28% of shares from the promoters of Liberty Phosphate Ltd, and 100% shares of Liberty Urvarak Ltd.; In case of Tungabhadra Fertilizers & Chemicals Company Limited, we are entering into a business purchase arrangement / slump sale. . The key rationale for us to acquire this business has been manifold and it adds substantially to our portfolio, it adds to the product range that we have, it also improves our geographic footprint and makes us one of the significant players in Western and Northern parts of the country. With this we will have more manufacturing locations spread across the country; we are present at seven locations across the country in Udaipur, Kota, Nimrani, Vadodara, Pali, Hospet and Rae Bareli where one plant is under construction right now. They have a total installed capacity as of now 9.6 lakh tons that is what is our estimate of their production capacity. Of course, they have consents of 8.08 lakh tons and they have had production of about 6.4 lakh tons in FY12 all units put together. Unit in Rae Bareli would add another 1.32 lakh tons and that would take it to 10.92, adding our own 1.32 lakh tons we're talking of 12.24 lakh tons of capacity of Single Super Phosphate coming under Coromandel fold so that clearly makes us one of

the leaders in this industry.

Another aspect which is very critical for this particular product segment is that it has very specific agronomic technical fit for certain crops like Oilseeds, Paddy, etc. and there it has a clear advantage over any other Fertiliser.

Another advantage with this product is that it has substantial local content in it in terms of raw materials, whether we talk of Sulphuric Acid or Rock Phosphate; significant quantity of the raw materials are domestically sourced, hence they are less prone to currency fluctuations. And if you look at countries like Brazil, Australia which have conventionally have not been very rich in Phosphate resources, the usage of Single Super Phosphate has been very, high in those locations. Brazil consumes about 30% of its Phosphate Fertilisers in the form of Single Super Phosphate and India's usage is currently about 7% or 8%. So we believe that there is a lot of room for SSP to grow.

Another aspect which is very critical from our perspective is that it is one of the most affordable Fertilisers containing Phosphates and Sulphur only for Rs.350 a bag. So we have now a price point for almost every crop requirement, every farmer requirement right from Rs.350 a bag for SSP to Rs.1250 a bag for DAP. So this takes our total capacity to 5 million tons which makes us one of the significant players in the Phosphatic segment.

We expect that we will be able to ramp up the capacity utilization of these units and also leverage the distribution network that this company has in the markets of Rajasthan, MP, Maharashtra, Gujarat, UP, Punjab and Haryana where we have been traditionally not very strong. So this truly makes us a pan India player as far as Fertilisers is concerned.

As you are aware we have decided to pay a price of Rs. 241 per share and our total outgo is likely to be 348 to 375 crores depending on the final subscription to the open offer..

So with these opening remarks we can start with the Q&A for the next 40 minutes or so. Over to you, Manish.

Moderator: : Ladies and gentlemen, we will now begin the question-and-answer sessions. The first question from Nitin Gosar of Religare Asset Management. Please go ahead.

Nitin Gosar: : I would request you to kindly brief us on the current ground level situation in terms of the agronomics or maybe the farmer economics as of now, whether he is making enough profit or how is his financial condition? Also on the inventory in the system and at the dealer level and how it is vis-à-vis the normal range which we generally have at this juncture? And how is import as a substitute right now and how viable it is?

Kapil Mehan: : You have asked actually many questions at the same time. The ground level situation as far as farmer economics is concerned, for most of the crops the farmer economics continues to be very favorable even at these price levels of Fertilisers. the reluctance is because of the sudden spurt in prices that he has seen, he is still wanting to source some product which is available at old

price, Other than I think that in case of paddy, cotton, all other crops, the economics are very good, the prices are very good, whether it sugarcane, wheat, paddy or soya beans. Another factor which has happened is that inventory levels have been run down in the pipeline. Earlier because of short supply even the farmers used to stock up which they have stopped doing now. Similarly the retailer also used to stock up they have also stopped stocking now. So all the inventory has travelled to distributor level or is with the Companies . Our estimate in the inventory situation is that normally the pipelines would carry about 2-2.5 million tons of inventory between state government institutions, dealers and distributors. That inventory is today may be close to 4-4.5 million tons, so it is about twice of what it should be normally that is our estimates, so there is no definite number which is available, there is no database which calculates these numbers, but these are our in-house estimates. On top of that the companies are also carrying about 1.5-2 million tons of inventory, which normally should be less than 1 million ton with the company. Total put together there is inventory overhang of about 2.5-3 million tons and our expectation is that if the monsoon is normal this inventory will get absorbed during the next season or so.

Nitin Gosar: : And imports as of now like keeping in mind the DAP prices which have come off?

Kapil Mehan: : Imports have almost dried up, last month itself the import was down to 100,000 tons. Actually the last two months the imports have come down. The imports were very heavy in of August, September and October when almost 1.3 to 1.4 million tons used to arrive every month but from November onward they have come down; November imports were around 3 lakh tons and for December it was around 1 lakh tons and this month so far no vessel has arrived, maybe one or two vessels will arrive and after that there are no known contracts which will arrive in February and March.

Nitin Gosar: : Just coming on to earlier reply that you gave on the farmer economics, I usually believe that you always had the commentary that the farmers are the smartest people on the street and they know what to purchase, how to purchase and make maximum amount of it. Keeping in mind the current MSPs do you think he should be of the view that "Let us flock around, let us find out the agri-input which is available at the cheapest cost" and in the due process he finds himself running out of the season and all of a sudden, it does not really go well with the person whose total income is relying on Agri which is a very down time bound situation?

Kapil Mehan: : Any consumer would do that especially when there is a sudden spurt in prices. So there would be that psychological tendency to go and look for cheaper material, but at the same time we also know that there is always a carryover reserve of P&K Fertilizers in the soil and if he under applies or half applies fertilisers in one season it will not have major impact on the productivity but if he misses for more than two seasons or three seasons then it begins to have an impact on his productivity.

Moderator: : Thank you. Our next question is from Pratik Poddar of ICICI

Prudential Asset Management. Please go ahead.

Pratik Poddar: : If you could just highlight the working capital situation as of now for Liberty Phosphate as well as for Coromandel?

Sankara Subramanian: : Our receivables are approx. Rs 2000 crores and our subsidy is around Rs. 1000 crores and they have been funded by the vendor credit up to 180 days. Net working capital remains more or less at the same levels of 30th September. In case of LPL, net working capital is around Rs. 120 crores.

Pratik Poddar: : My second question would be related to Liberty Phosphate. Do we have any long-term supplies for indigenous Rock Phosphate?

Kapil Mehan: : Almost 50% of the rock supplies comes from (RSMML), which is Rajasthan State Mines and Minerals Limited, they supply about 50% from the Udaipur mine, rest of it is imported from Egypt and other countries. SSP can use different qualities of rock without impacting the production. So commercially wherever it suits you, this is a very versatile process whereby you can actually use almost any type of rock so long as it has certain minimum percentage of P2O5;.

Pratik Poddar: : So do we have a long-term agreement with RSMML, right?

Kapil Mehan: : RSMML sells rock based on the off takes;, but being a government company there are no formal ten-year or five-year type of contracts.

Pratik Poddar: : Now with the acquisition of Liberty Phosphate, I believe you would also be entering the North market?

Kapil Mehan: : We will have a product which is mostly manufactured, so we will have a network which will sustain itself. We have now 4 million tons almost capacity of DAP and Complex Fertilisers which we would be able to leverage this network also.

Pratik Poddar: : So can I assume that some of the NPKs or DAP which were manufactured in the South will also be sent to the Northern side of the state or it would be just that this would be limited to your four South states?

Kapil Mehan: : The growth in Complex Fertiliser volumes and market share has to come from non-core markets because core markets we are already having very high market share. We will improve our market share of course in Andhra also, but that will be marginal. We will look to improve our market share in non-traditional markets will increase in production with commissioning of our C-Train project in Kakinada.

Pratik Poddar: : One last question regarding the diesel price hike. Now what I understand is for commercial users we will have to pay the market price, will that affect you?

Kapil Mehan: : We did not have a major impact because we are not a major consumer of diesel, and in any case we had stopped buying diesel about two months ago when we had switched over to open access power which works out

much more economical as compared to DG power.

Pratik Poddar: : No effect on the transportation cost as such?

Kapil Mehan: : Yes, transportation cost definitely will be impacted. May not be a road transport because I do not think the truckers rates are going up, but railways have already increased freights earlier. So maybe in the coming budget we should see some increase on account of diesel but that is picked up by the government, so as of now we have no worry on that.

Moderator: : Thank you. Our next question is from Bhavin Chedda of Enam Holdings. Please go ahead.

Bhavin Chedda: : Just on the volume side if you can give us the production and sales volume and traded volume in the quarter and for nine months?

Sankara Subramanian: : Production for the 3rd quarter is 5.5 lakh tones, cumulative April-December is 15.73 lac Mt. Sales manufactured product 4.5 lac Mt, cumulative 14.22 lac Mt. Traded Phosphatic is 1.1 lac Mt and cumulative 2.3 lac Mt. Total Phosphatics for the quarter 5.65 lac Mt, Cumulative 16.54 lac Mt ; Urea have been 2 lakh tones, cumulative 3.5 lac Mt

Bhavin Chedda: : In terms of sales breakup if you can give what was the subsidy number in the quarter?

Sankara Subramanian: : Subsidy number is around Rs.750 crores.

Bhavin Chedda: : There was no earlier year subsidy, right?

Sankara Subramanian: : No, earlier year subsidy in the current quarter.

Bhavin Chedda: : What would be the manufacturing and the trading volume target for this year which is almost over now, what is the FY14 looking like, what you will manufacture and import?

Kapil Mehan: : We do not give guiding numbers on these matters, but our plants will continue to work at more or less the same operating rates which are currently running at about 70-75% level.

Bhavin Chedda: : So on expanded capacity your capacity stands at 4 million. So theoretically we can run it at 75% in year one?

Kapil Mehan: : Yes, 70 to 75% that is right.

Moderator: : Thank you. Our next question is from Himanshu Nayar of Quant Broking. Please go ahead.

Himanshu Nayar: : What are your expectations for the NBS subsidy now for FY14 because there have been talks that number might go down? And if that happens, is there a possibility of facing a situation like last year when volumes were abnormally high to benefit from the subsidy change?

Kapil Mehan: : I think there are two ways to look at it, the international prices have softened. So there is a case for reduction in subsidies or reduction in selling prices to farmers, but given the macro situation of the country and the need for containing subsidy, I think in all probability the subsidy will get reduced, and in a way it is good also because dependence on subsidy will

further go down. And this year the chances of more dispatches, etc. happening from the plants and ports during this quarter is not there, because the import arrivals during this quarter are likely to be fairly low and so is the production as compared to Jan-March quarter of last year.

Himanshu Nayar: : And on the pricing front, do you expect retail prices to now come down given that international prices are also falling and obviously the inventory also in the system is high?

Kapil Mehan: : As I mentioned, in case the subsidy is revised downwards, the advantage of lower international prices will be going towards reducing the government subsidy outgo rather than selling price of the Fertilisers in the market.

Moderator: : Thank you. Our next question is from Atul Rastogi of CIMB. Please go ahead.

Atul Rastogi: : What would be the Phos Acid contract prices now?

Kapil Mehan: : It is \$770 per ton up to March.

Atul Rastogi: : And what would be the average Ammonia price for 3rd Quarter?

Kapil Mehan: : Ammonia prices is a market-linked derived price but we expect that price to be between \$650 and \$700.

Atul Rastogi: : What was it for 3rd Quarter?

Kapil Mehan: : 3rd Quarter it was 720-730 levels.

Atul Rastogi: : Just a question, at DAP price of 520 and Ammonia price of \$700, even if Phos Acid is \$800, manufacturing margins in DAP would be very, very thin, right?

Kapil Mehan: : Yes, they would be tight, but that is why we are expecting that Ammonia will correct by at least \$50-\$75 during this quarter, Phosphoric Acid has also corrected. So there will be a reduction of maybe \$40-odd in the cost.

Moderator: : Thank you. Our next question is from Abhijeet Akella of IIFL. Please go ahead.

Abhijeet Akella: : First, just on Liberty Phosphate, what is the timeline you are looking at in terms of the completion of that process and from when could we begin consolidating it?

Sankara Subramanian: : We will be taking over the management in 25 days' time, by 1st week of March after buying out the promoter stake and reconstitute the board. Open offer process likely to take three months. By April- May we will complete the open offer process. So end of May I think the entire transaction should have been completed.

Abhijeet Akella: : But in terms of consolidating within our financials, when will that begin?

Sankara Subramanian: : Once we complete payment in March 1st week and acquire promoters stake, we will be crossing the 51%. So we will be consolidating with Coromandel financials from 4th Quarter onwards.

Abhijeet Akella: : So basically one month impact in Q4?

Sankara Subramanian: : That is right.

Abhijeet Akella: : I think we have announced plans to acquire around 87% in total. So the remaining 13% also do we plan to acquire or how we are thinking about that?

Sankara Subramanian: : No, the share purchases agreement which has been signed gives us an option to go up to 56.68% plus open offer 26%. We need to wait and watch out for the open offer response. And anything we do as part of the acquisition in open offer, we should not cross 75. So we need to get back to 75% unless otherwise we decide to take any alternative action on this.

Abhijeet Akella: : Just wanted to understand what would be EBITDA per ton on SSP be currently and how would it compare to our existing product mix? Would it be significantly lower or would it be in line with what we may currently, roughly around...?

Sankara Subramanian: : It will not be in line with the complex grade, generally the EBITDA margins typically for the plant what we operate is around 1200 per ton to 1500 per ton but in the case of Liberty they have access to cheaper source of Sulphuric Acid the margin levels are comparatively higher by Rs.300-Rs.400 per ton.

Abhijeet Akella: : So we could be looking at Rs.1500-Rs.2000 per ton of EBITDA?

Sankara Subramanian: : These are at gross margin level

Abhijeet Akella: : And just with regard to Kakinada, again could we begin to see the commissioning this quarter and so the increased depreciation and interest expense will that start getting booked in this quarter?

Sankara Subramanian: : Yes, it will happen for two months in this current year February-March.

Abhijeet Akella: : And the Liberty acquisition is being funded entirely through debt?

Sankara Subramanian: : Internal accruals, no debt has been tied up with this.

Abhijeet Akella: : I'm sorry I just missed the debt number you gave one in the call, if you could just give that and also what you would expect it to be after the Liberty acquisition is closed?

Sankara Subramanian: : We had surplus funds which has been used for funding Liberty acquisition. So there will not be any specific addition to long-term borrowing because of Liberty acquisition.. In terms of our working capital borrowings it is more or less same as March number, it will be around Rs 2000 crores

Moderator: : Thank you. Our next question is from Prakash Goel of ICICI Securities. Please go ahead.

Prakash Goel: : Wanted to find out about the inventory level. What is in the

inventory level at the end of the quarter in Coromandel?

Sankara Subramanian: : The overall inventory level has significantly come down from September level for both raw materials as well as finished goods. So right now we may have around 2.5 to 3 lakh tons of finished goods inventory at the field as well as in the factory.:

Prakash Goel: : I understand that part, the increase/decrease in stock is just 30 crores. So you are saying that remaining adjustment would have happened in the consumption of raw material? So the total drop in the inventory level is close to 650 crore if your inventory level is 2000 crores?

Sankara Subramanian: : You are absolutely right.

Prakash Goel: : I wanted to find out as to how you account for transaction with Mana Gromor Centres. When you sell that as to when you account for the sales when you transfer from factory to MGCs or the sales...?

Sankara Subramanian: : No, when the actual sale happens i.e when the farmer walks into the shop and buys the fertiliser that is the time we recognize the sales.

Prakash Goel: : And for the subsidy purpose?

Sankara Subramanian: : Subsidy claims can be made for based on the dispatches both in trade as well as MGC, but the recognition of subsidy income will be based on the actual sales.

Prakash Goel: : When I look at your P&L, the MGC volume neither the subsidy part nor the money that needs to be realized from farmer both does not get accounted, the moment you dispatch from your factory...?

Sankara Subramanian: : No, that will get into P&L, only when the MGC sells.

Prakash Goel: : And when I look at your subsidy receivable number that number includes the quantum transferred to MGC?

Sankara Subramanian: : What is accrued in the P&L is to the extent of sales made, and not based on dispatches.

Prakash Goel: : One of my colleagues also asked this question earlier if the subsidy support is likely to be cut, what is your expectation?

Kapil Mehan: : We agree with that view because there is so much of talk of need to reduce the deficit, etc. and now that international market is soft so I think the Government of India will take advantage of that situation and reduce the subsidy.

Prakash Goel: : But at the same time nothing is going to happen in Urea or are you expecting something in line with diesel is going to happen to Urea as well?

Kapil Mehan: : Our expectation and need for increase in Urea price is very much there. I think it would be a negative impact if there is no increase in Urea price because it may lead to NPK imbalance and that is not good in the long run for our soil or for the productivity so that is something which must happen. We understand empowered group of ministers has been formed and we hope that

they will take a holistic view of the situation and then either put Urea under NBS or increase this price substantially.

Prakash Goel: : It is second year in a row when we are seeing the issue with the volumes; when do you expect it will start taking the impact on the productivity in the country with respect to the food grain?

Kapil Mehan: : Normally, depending on crops and areas, I think two to three seasons it begins to impact the productivity.

Prakash Goel: : How is it different from 1993 situation when there was a collapse I'm not talking about going back to the controlled regime, all I'm trying to understand is what will force the government action, like the productivity started falling because of the P&K consumption came down post de-controlling the prices in 1993. This time around what we are seeing different and going back to the control regime obviously is not a choice but in terms of as to when the government will get alarmed by the food grain production drop. Can you say something which happened in 1993 which caused the alarm situation?

Kapil Mehan: : The difference between 1993 and this is very different because farmers economics were different at that time compared to what they are now because the food grain prices were generally and the increases used to be minuscule whereas now for the last five years progressively the government has been increasing prices of food grain also. The fruits and vegetables prices have been up, the prices of other cash crops have been up, sugar cane, cotton, chillies, all prices have moved up. So the farmers' economics is definitely much better today than what it was in the earlier period. The P & K fertilizers were decontrolled and that is why continued lack of use for a few years let the government to increase the subsidy. The government never put back the price control in real sense. In 1997-98 when they started recommending a price which of course became almost a mandatory price but this time the situation is different as compared to past.

Prakash Goel: : Basically, the farmers can much more afford the increased prices, it is a question of urea being cheaper?

Kapil Mehan: : Farmers, today are much more business savvy and their affordability is much better today than it was at that time.

Moderator: : Thank you. Our next question is from Bharat Subramaniam of Sundaram Mutual Fund, please go-ahead.

Bharat Subramanian: : In terms of SSP, now we have been reading there has been a fair bit of capacity addition being lined up 4 million-5million tonnes. So if you can just throw some color on what is the actual capacity which you expect would hit the market in the next couple of years and would that change the dynamics of SSP and would it put pressure on the Rock availability for the existing firms?

Kapil Mehan: : There is enough Rock available, and there are Rock mines being developed in MP, the Rock mines which are being developed in eastern part of the country as well as low quality rock is coming out of Egypt in much

larger numbers. From Jordan it comes in large measure. So we do not expect that Rock will be a constraint. I think a lot of new capacities that have been announced in the last two years or so, but we have to see how much of actual capacity actually comes on stream, because these products have to be marketed also, and most of the producers today are running about 50% to 60% of capacity utilization due to a variety of constraints and mostly they are around cash flows, working capital and lack of extended distribution networks.

Bharat Subramanian: : No sir, more in terms of domestic Rock?

Kapil Mehan: : Domestic Rock I think availability will reduce as a proportion of the total requirement but whatever currently is available that will marginally increase the additions from M.P., etc. but Rajasthan we understand that RSMML has no plans to increase their production from current levels.

Bharat Subramanian: : The pricing for the existing Rock would be on auction basis?

Kapil Mehan: : I believe they tried auction basis, but they have gone back to monthly pricing.

Bharat Subramanian: : We have been reading some press reports that in terms of regulating imports, is there any thought process given the inventory in the system. Is there any move to regulate imports for some period of time until the inventory gets absorbed?

Kapil Mehan: : We also heard about such moves but there is no such notification or circular of any of that nature. Yes, if you look at in terms of government trying to manage its finances and cash flows, obviously, it makes a lot of sense for the government to restrict the movement of fresh fertilizers into the market so that their subsidy dues do not become due and as it is the market has enough stock to see it through the next season. So from a pure cash flow management perspective it makes a lot of sense.

Moderator: : Thank you. Our next question is from Falguni Dutta of Jetage Securities. Please go ahead.

Falguni Dutta: : What is the prevailing MRP for DAP now?

Kapil Mehan: : It is Rs. 24,000 per ton.

Falguni Dutta: : This is after considering the discounts given?

Kapil Mehan: : No, this is the MRP.

Falguni Dutta: : Post the discount that we would be giving, what would it be?

Kapil Mehan: : Post discount it would vary from company-to-company, maybe Rs. 22,500 to Rs. 23,000.

Falguni Dutta: : On this manufacturing cost of DAP if I take \$770 as Phos Acid cost and \$680 as Ammonia, then would it be fair to take Rs. 32,700 a ton cost of manufactured DAP?

Kapil Mehan: : I have not done the calculation. You must be right.

Moderator: : Thank you. Our next question is from Tarun Surana of Sunidhi

Securities. Please go ahead.

Tarun Surana: : My question was regarding operating rates for our manufacturing during Q4. Will it slow down a bit or any plans to take any shutdowns and complete the maintenance and begin from April at full capacity?

Kapil Mehan: : Yes, we will spread our turnarounds in this year as well as next year and they will not be operating at full rates.

Tarun Surana: : The other question is regarding industry. Assuming that monsoon is normal in FY14, do we see scenario in industry going back to the levels of FY12 in terms of volumes despite much higher MRP now compared to FY12 levels or the demand destruction is kind of permanent in nature to the extent of 20% to 30% and we would see volumes even lower?

Kapil Mehan: : I think from this level we should grow next year. We may not reach in one-year to the levels of FY12. But even in FY12 if you leave aside the pipeline inventory at the end of the year we are talking about 18-18.5 million tons of consumption which may come down to maybe 14.5 or 15 million tons thereabouts this year. Next year we should see that going back to that is 17 to 18 million tons that is what our current estimate is.

Moderator: : Thank you. Our next question is from Abhijeet Dey of BNP Paribas. Please go ahead.

Abhijeet Dey: : Just wanted to know the industry wide inventory for NPK fertilizers as of December?

Kapil Mehan: : As I mentioned earlier the companies are carrying somewhere around 1.5 to 2 million tons whereas normally they should be carrying half of that. Similarly, the trade and distribution institutions of the state government they are carrying maybe 3.5 to 4 million tons which is again twice of what normally they should be carrying. Both DAP and NPK put together, complexes basically.

Abhijeet Dey: : This would be excluding Urea, right?

Kapil Mehan: : Yes, this excludes urea and MOP and SSP.

Abhijeet Dey: : So you are saying the normal level would be half of the current?

Kapil Mehan: : Yes, that is right.

Moderator: : Last question is from Vaibhav Goyal of SBI Life Insurance. Please go ahead.

Vaibhav Goyal: : I just wanted to understand government's discretion because the way Urea policy has been designed and way gas price increase has been spoken about, probably subsidy increase would be visible again for the next financial year, and if we speak about subsidy being lower on the complex side it will not be impacting overall subsidy burden to the government. So what is the point reducing the subsidy on one side and looking at much higher subsidy on the other side?

Kapil Mehan: : I can only surmise here and government has its own views and

constraints, etc. in terms of revising the prices of Urea, but definitely it is long overdue that the Urea price correction happens immediately and that really is the requirement of the day so that you narrow the price gap between Phosphatic Fertilizers and Urea thereby encouraging farmers to use balanced fertilization.

Vaibhav Goyal: : But with the kind of difference that is prevailing and the way urea is being consumed, as such it is not reducing overall burden to the government as well as problems for the industry?

Kapil Mehan: : Absolutely, I fully agree with you.

Vaibhav Goyal: : Will the fertilizer association representing all those things, still you have a fair point that government would be reducing the subsidy part?

Kapil Mehan: : That is what the current thinking seems to be based on the discussions that we have had with the government.

Moderator: : I would now like to hand the floor back to Mr. Manish Mahawar for closing comments. Over to you sir.

Manish Mahawar: : Other expenses has gone up substantially if you look at on a YoY as well as QoQ basis, is there any specific reason? You have already mentioned the power cost I think.

Sankara Subramanian: : Power cost, warehousing charges, rebates and discounts, these three contributed for the increase over the last year.: :

Manish Mahawar: : Liberty Phosphate is mainly present in the central, western and the northern market. Is it commercially viable to move your fertilizer from South to North or what is basically freight subsidy available? I wanted to understand the mechanism.

Kapil Mehan: : The railway freight is paid by the government to ensure uniform selling prices in the country and so long as that policy is there, there is no impact as far as movement to other states is concerned.

Manish Mahawar: : It means you can basically move your Fertiliser from South to North, right?

Kapil Mehan: : Yes. In North, where else will they get Phosphatic Fertilizers from? The difference is very little, whether you move from Kandla, Mundra there or from Vizag to there.

Manish Mahawar: : Is it possible to give some number on this organic manure what is the sales volumes for the nine months and this third quarter and retail outlet numbers which we have opened?

Sankara Subramanian: : Number of outlets more or less remain the same, we have not added anything during this quarter. And in respect of volume of Compost for this quarter it is around 35,000 tons.

Manish Mahawar: : And nine months, sir?

Sankara Subramanian: : It is 1,75,000.

Manish Mahawar: : I thank the management to take out the time for the call

and give us an opportunity to organize this call. Mr. Mehan, would you like to make any closing comments?

Kapil Mehan: : No, I think we have covered almost everything. Only thing I would like to say is that this is a seasonal business and we should take a long-term view, and our view is that the Agriculture business in India is a robust business, the fundamentals continue to be strong and that is the reason that we decided to go ahead with the acquisition Liberty Phosphate group so that we could strengthen our position as the market is somewhat down.

Moderator: : Ladies and gentlemen on behalf of Edelweiss Securities Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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