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Coromandel International Limited

Q1FY14 Conference Call Transcript

Moderator

Ladies and gentlemen, good day and welcome to the Q1FY14 Results Conference Call of Coromandel International Limited hosted by Emkay Global Financial Services. We have with us today Mr. Kapil Mehan, Managing Director and Mr. S. Sankarasubramanian, Chief Financial Officer of Coromandel International Limited. As a reminder, 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. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rohan Gupta, Senior Research Analyst of Emkay Global. Thank you and over to you, Mr. Gupta.

Rohan Gupta

Thank you, Faizal. Good afternoon ladies and gentlemen. Thank you for logging in the conference call of Coromandel International. Thanks to the management, Mr. Mehan and Mr. Sankarasubramanian. Good afternoon, sir.

Rohan Gupta

Sir, first I will request you if you can brief us on Q1FY14 results and as well as industry performance during the quarter post which we can proceed to the Q&A session.

Kapil Mehan

Good afternoon everybody. Thanks Rohan for arranging this call. Once again, welcome to our conference call on the first quarter results. Let me begin by giving you an overview of the agricultural scenario followed by the fertilizer industry scenario, and then we can move on to the Company's performance.

As you are already aware, monsoon has been good this year, so far and the water availability has improved considerably as compared to what we have seen in the previous year. This has led to sowings being at a very good level as at end of June. I think the sowing levels were almost 50%, 60% more than what they were at the same time by end of June. The sowing levels for most of the crops are now about 20% above last year's level and I think that augurs well for the agricultural input industry.

The minimum support prices also have been revised upwards for most of the Kharif crops, and that also acts as an incentive for farmers to increase acreages for these crops.

If we look at the acreages reported so far, we are seeing an increase in paddy acreage a major increase in pulses and big increases in coarse cereals, oil seeds. Sugar cane is a little bit down, only 48.45 lakh hectares as compared to 50 lakh hectares last year, by middle of July. And cotton area is up from 84 lakh hectares to about 100 lakh hectares as of now. So overall, acreages have gone up from 50.66 million hectares last year to 62 million hectares, but we still have another 30% to 35% of area to be covered in the rest of the kharif season.

Fertilizer availability continues to be very comfortable, primarily a result of last year's demand collapse, where the demand came down from almost say from 2.5 million tons to 16.5 million tons resulting in huge pipeline inventory getting carried over in the distribution channel. We had estimated that to be about 7 million tons of at the beginning of this financial year. That has now come down to little below 5 million tons at the end of June. And that actually has to be also seen as consumption for this quarter, and that is something which I think is happening for the good as far as industry is concerned, as working capital is concerned, and the sentiment on fertilizer and other input businesses is concerned. But production and sales during this quarter at the overall the industry level has been much below last year; the sale is only about 17.5 lakh tons as compared to little over 30 lakh tons during last year. So that's almost a drop of 35% to 40% drop. In this background, I think what Coromandel has been able to achieve with its own production, a sale of about 3.74 lakh tons against 4.17 lakh tons last year thereby increasing our market share..

Imports of fertilizers have been low, and we have also sold more urea and MOP during this year. So our overall sales volume of fertilizers stands at about 5.12 lakh ton this quarter as compared to 4.96 lakh tons during last year.. Our plant protection chemicals business, both in Coromandel and Sabero has continued to do well and we are meeting our planned numbers in those ventures. Retail has also done well, with contribution growing by almost 20%- 25% as compared to last year. There is a growth of close to 70% in sale of non-fertilizer portfolio in that business.

In Organic and specialty nutrients, restructuring and rationalization of our field force that we had talked about last time has been completed.

Before I go to Company performance, let me also touch upon this whole issue of rupee depreciation which has impacted our industry because we have a huge amount of raw material imports and exchange rate has moved from 54 levels to 60 or thereabouts and that obviously has an impact on the rupee cost of our raw material. And to give effect to this change, we have revised our selling prices from 1st of July and we have gone back to the original price levels prevailing in March 2013. While the increase which was required to neutralize the rupee depreciation would have been much more, the raw material prices have come down in the international market offsetting the impact of rupee depreciation to some extent .

Coming specifically to our quarter's performance, I think we have to see this quarterly performance in context of the huge inventory build-up and the receivables that we were carrying in our books, both in respect of dealers as well as from the government. This has had an impact on our financing costs, be it interest costs, or forward premium that we pay on our carry over foreign exchange exposures. There was some exposure which was open towards the end of the quarter for which we had to make a MTM provision of about Rs. 30 crores as reported in our results.

We had to cut back the production in the months of April and May basically to correct the demand supply balance, and also ensure that our stock levels are matching with the sales planned during this period. So in April and May virtually we had very low levels of production and in right earnest the production started from June onwards. Coming to other factors which I think make EBITDA and performance look subdued is that all the fixed costs had to be appropriated on a much lower volume; this is less than half of what we should normally be doing in a normal quarter. And so are the interest and financing costs and MTM provisions that we had to make.

On a more positive note, all our investments that we have made over the last three years have now started yielding results. Sabero has turned around and their bottom line for the quarter is more than what they for the entire last year. Similarly, the joint venture plant in Tunisia has also started production and phosphoric acid is on its way to India and we hope to receive that soon. Similarly, in respect of our C Train, some guarantee test runs for some products have been carried out successfully, and C Train is now stable and producing well.

We've just moved into liberty phosphates and –there also while April and May were quiet months, from the month of June we have started our normal operations there and I think they are well on their way to achieve their goals going forward.

In terms of subsidy, non-subsidy businesses breakdown the fertilizer business is about 75% and non-subsidy business is about 25%, whereas in EBITDA it is 60% and 40%

So with these few words, I think we can take some questions, but before I do that, Sankar would you like to add something to it on volumes?

Sankarasubramanian

Our focus during the quarter has been more on working capital. Our collections have substantially improved from June. Subsidy up to March has been received during the month of June and even trade collections have improved substantially. The benefit of the cash inflow in June will have an impact on the interest cost going forward as all these collections have happened in June second fortnight. So our focus is on bringing down the working capital levels and to that extent I think this quarter has been reasonably good for us. With the monsoon being good, we expect things to improve and working capital levels will taper off

We can now move on to Q&A.

Moderator

Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question, may press “*” and “1” on your touchtone telephone. [Operator instructions], the first question is from the line of Prakash Goel from ICICI Securities. Please go ahead.

Question and Answer Session

Prakash Goel

Yes, thanks a lot for taking my question, sir. Goel have two questions, what is the status of working capital as we speak, in terms of the subsidy receivable from the government and in terms of trade receivables and working capital loans. And the second question is on the likely volumes that we are going to achieve this year?

Sankarasubramanian

Prakash, our subsidy receivables number has come down substantially to Rs.800 crores.

Prakash Goel

Okay.

Sankarasubramanian

Trade receivable side also there has been a substantial improvement. 40% of our outstanding has been collected, and the fresh sales we are making on are on shorter credit and hence our receivables are well under control now.

Prakash Goel

Fair enough. Sir I just wanted to understand one structural question. With regard to the trading, our interactions suggest that whenever the price goes up, the opportunity for trading increases significantly. So does it not structurally cap the margin for the manufacturer in general or you did think differently?

Kapil Mehan

See that's also accompanied by raw material price movements. So the price increase necessarily does not mean that the imported product margins will also go up because of what happens in the international market on price of DAP or MOP. That in turn has a relationship with the prices of raw materials that we buy

Prakash Goel

Okay. That's all from my side. Thanks a lot and all the best for the rest of the year.

Moderator

Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain

Thank you, sir for taking my question. I have a few queries on Sabero Organics. Just wanted to know the current capacity utilization and till what level we can go, now that we have turned around the business.

Kapil Mehan

See, we are at about 60%, 65% of the achievable capacity of that plant. And we are now in the process of getting the capacity utilization approval from Gujarat Pollution Control Board from 75% to 100%. And once we do that, then I think there is a potential for the capacity utilization to go up further.

Runjhun Jain

Okay and what are the Sales, revenue we can expect at peak capacity?

Kapil Mehan

See, we can expect another 25%, 30% increase in production. And whereas peak capacity sales would be really a function of what the prices are prevalent at that point of time. Right now, we have achieved sales of Rs.180 crores in this quarter, so that definitely has a potential to go up further.

Runjhun Jain

Okay. And you are saying that you are applying for 100% approval, by when you can see any outcome on that?

Kapil Mehan

I think in the next two to three months we should have some positive news on that.

Runjhun Jain

Okay. And we have seen some margin improvements in the quarter, but if you see from past records, the margins used to be quite high. So do you see scope for further improvement in the margins and by how much?

Kapil Mehan

Yes, I think there is still a potential to improve margins there.

Runjhun Jain

So you'll see that in going forward also, with the new additional capacity permission coming up...

Kapil Mehan

Yes, as the capacity utilization improves, there is an overall improvement of efficiencies; the overheads get spread over larger volume of productions, all of that helps us to improve our overall margin structure. And there is still a potential to improve that margin structure.

Runjhun Jain

Okay. Sir, one book keeping question, what is the tax rate you are expecting on Sabero for the year. Tax rate.

Kapil Mehan

This will be on MAT, because they have carryover losses.

Runjhun Jain

One last question, what are your thoughts on merging of Sabero with Coromandel, like we did with Ficom in the past.

Kapil Mehan

Well, as of now there are no immediate plans; there is no discussion on this issue at the Board level. And obviously, we are informally evaluating various options and as and when we are ready with anything which is to be implemented, we will share with all of you.

Runjhun Jain

So currently is it safe to say that you want to continue Sabero as separate listed Company?

Kapil Mehan

Well, as we are talking, it's a separate entity.

Runjhun Jain

Okay, that's all from my side. Thank you, sir.

Moderator

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

Manoj Bahety

My first question was, in terms of capacity utilization at the start of the year we were talking about around 70% to 80% capacity utilization, including new plant. So after this first quarter numbers are we still on that or do you see the capacity utilization for the year will be lower than what you were talking?

Kapil Mehan

Well, we still believe that from this quarter onward, we will see much better capacity utilization, and on an annualized basis, we would still be between 70% and 80% capacity utilization.

Manoj Bahety

This 70 to 80% capacity utilization is of total capacity including the new capacity means 3.5 million tons, right?

Kapil Mehan

Right.

Manoj Bahety

But sir, what gives us that confidence that – I mean that means almost 2.4 to 2.5 million tons, of sales from Coromandel vis-à-vis last year which was I think 1.6-1.7 million tons of overall sales.

Kapil Mehan

Well last year it was 2.1 million tons, including imported DAP etc.

Manoj Bahety

But it included traded also right.

Kapil Mehan

Yes, imported DAP only, did not include urea and MOP which is another 800,000 tons.

Manoj Bahety

Okay, and sir also we were talking that with Liberty Phosphate, we will be able to penetrate northern part of India also with our complex fertilizer. So during this season is it happening?

Kapil Mehan

Well, see, the carryover inventory levels in north are particularly high and the kharif season is also a low season in those areas, because there are not many crops which take these fertilizers. So Rabi is the main season and we will be present during Rabi season in those markets.

Manoj Bahety

Okay, so my next question is on EBITDA Margin; I understand that the EBITDA margin got impacted because of the production cut as well as because of the fixed cost being apportioned on lower volumes. But...how were the gross margins during the quarter, I mean, was there a significant impact on gross margins also?

Kapil Mehan

The gross margin has been fairly ok.

Manoj Bahety

Okay, my last question is on the non-fertilizer sales, if you can share some details on organic manure as well as water soluble fertilizers and specialty fertilizers?

Kapil Mehan

Organic fertilizer volumes are more or less flat this year, because there is quite a bit of moisture in the soil due to which some of the operations supplies got affected. Whereas the volumes of specialty nutrients are more or less intact and have grown in fact wherever we have gone for restructured marketing approach based on crop units. On water soluble and specialties which are our proprietary specialties has also grown, whereas the bulk of specialty sales come from bentonite sulphur and that volume has come down a little bit. Otherwise it's doing well. Our retail is doing very well; our plant protection business is doing well. And as I said, our share of top-line from non-fertilizer business, non subsidy business is now about 25%, whereas EBITDA contribution from these businesses on consolidated business is 40%.

Manoj Bahety

And so, for organic manure are you still keeping the target of achieving 1 million tons of sales over next...

Kapil Mehan

Yes, that is our goal which our team is working towards.

Manoj Bahety

Right sir. Thanks, a lot for taking my questions. I wish you all the best.

Moderator

Thank you. Before we take the next question, we would like to remind all participants, please limit your questions to two per participants only. The next question is from the line of Viraj Mehta from Franklin Templeton. Please go ahead.

Viraj Mehta

Yes, hi this is Viraj here. Just a couple of things I wanted to know. So in spite of inventory being so high even right now it's around 5 million tons in the system. The production in the last quarter would have been at least 60%, 70% higher than the earlier two months. Why did we actually increase production in spite of such high inventory in the system? With this, if I compare, your production as a percentage to any other player in the industry we would have been the highest. So can you throw some light on that one?

Kapil Mehan

Yes, see the inventories are spread across different parts of the country and in some parts there is a season, and in some parts there is no season. So there is always a mismatch between where the stock is and where the demand is. And this year because the rains were earlier than usual, the demand in the states of Andhra, Karnataka, Maharashtra which are the primary markets for us, the sales we had started early, and more over our pipeline inventories have started moving there, and that's why we have ramped up our production from June onwards and currently as we are talking, our plants are running flat out.

Viraj Mehta

Okay, and so, if you look at our imports for complexes and DAP that's been virtually zero, less than 5,000 tons for the full quarter?

Kapil Mehan

Due to carryover inventory, there was no fresh imports during this quarter as far as Coromandel is concerned.

Viraj Mehta

And going forward also we would probably not have any kind of imports?

Kapil Mehan

Yes, we would do only just as a gap filling and not as a strategic choice. However, MOP we will continue to import because that item there is no local production.

Viraj Mehta

Sure, I agree.

Kapil Mehan

We will continue to handle urea on behalf of the Government of India because we have two ports contract, so those two ports we will continue to manage whatever the Government of India wants us to handle on those two ports.

Viraj Mehta

Sure, so and just to reiterate what you said on receivables, so receivables from government are down from Rs.1,400 crore plus to Rs.800 crores as of June, and receivables from our trade channel would be down by 40% which was roughly Rs.1,600 crores at the start of the year. Would that be correct, and that is including the fresh supply that you would have put in the market. Almost all of the sales this quarter would have happened on cash?

Kapil Mehan

Yes, this quarter sale is more or less on cash barring the last few days' sales of the month of June that would get collected in this quarter. Otherwise most of the sales are on cash and carry. Similarly, some sales that we do to institutions like

cooperative and federations et cetera, that also somewhere it is on cash, somewhere it is on credit. So it's a mix of that. But our retail sales of fertilizer have been very good. Our trade sale has been more or less on cash and carry. So the situation is getting better everyday.

Viraj Mehta

So with recent sales happening only on cash and carry, do we expect further improvement in this number in next 3 to 6 months also?

Kapil Mehan

Yes, it will continue to improve, as the pipeline inventory gets sold that much extra cash flow comes into our system.

Viraj Mehta

And sir, what is the price for fresh supplies of phosphoric acid?

Kapil Mehan

The new phos acid for July - September quarter is at 715 dollar per ton.

Viraj Mehta

So that is 55 dollars lesser than last quarter?

Kapil Mehan

It is 35 dollars less than last quarter. But, January - March quarter was at 770, and April - June was at 750 and for July - Sep quarter it is at 715.

Viraj Mehta

And ammonia, that has also corrected substantially

Kapil Mehan

Yes, ammonia has also been corrected quite well.

Viraj Mehta

Would we not have there any inventory losses on that?

Kapil Mehan

Not really, because with the rupee depreciation, and we as a policy, we hedge our exposures. So our rupee cost of these imports have been more or less covered by these adjustments in the raw material prices.

Viraj Mehta

Sure.

Viraj Mehta

Thanks a lot, sir. This was very helpful.

Kapil Mehan

Thank you.

Moderator

Thank you. We request participants to limit the questions to two per participant only. The next question is from the line of Aditya Jhavar from Espirito Santo. Please go ahead.

Aditya Jhawar

Sir is there any impact of inventory write-down that has come up in this quarter?

Kapil Mehan

We did not have other than potash, there is a little bit of inventory write-down, because the prices came down from 490 dollars to 427 dollar. Other than that we have not had any impact because, by March end we had run down our raw material inventories virtually to nil.

Moderator

Thank you. The next question is from the line of Pratik Poddar from ICICI Prudential AMC. Please go ahead.

Pratik Poddar

Yes hi, What is the proportion of institutional sales?

Kapil Mehan

I think about one third of the sales is to the institutions.

Pratik Poddar

This would be fertilizers only...

Kapil Mehan

Basically fertilizers.

Pratik Poddar

And how much of the sales would be through our own stores?

Kapil Mehan

Own stores, we have done about, another I think 20%, 25%.

Pratik Poddar

20%, 25%. And sir what was the target, I believe our target was around 40 odd percent.

Kapil Mehan

Well, see that target is – it is only for the state of Andhra Pradesh, not overall. But I am giving you the number 20%, 25%, is overall, the national.

Pratik Poddar

So for AP are we at 40% as of now?

Kapil Mehan

40%, is for Andhra Pradesh sale only.

Pratik Poddar

So for the current quarter, are we at 40% for Andhra Pradesh?

Kapil Mehan

Yes, we are actually more than that.

Pratik Poddar

Sir, and I mean, in your previous comments you mentioned something that Bentonite Sulphur volumes have gone down. If you can just help me with the reason for that or if you can just throw some light on that.

Kapil Mehan

Yes, that is because of, the pipeline inventories and the organizational changes that we have made in terms of having a separate team, so that team is moving in and taking charge. So in this transition we did lose some volumes, as well and some volumes were lost because we are trying to rationalize inventories in the pipeline also.

Pratik Poddar

And sir, last question, the forward currency contracts which we have taken, I mean, had we taken it for the whole year or what is the policy regarding that?

Sankarasubramanain

We cover for the specific due dates, whenever the payment is falling due and linked to the credit period what we take for underlying imports .

Pratik Poddar

But that would be for the whole year, right.

Sankarasubramanain

No, it depends on the credit. 90-days or 120-days, whatever we have availed for each of the shipment.

Pratik Poddar

So any average that you can give me, I mean or...

Sankarasubramanain

Average credit period is around 120-days.

Pratik Poddar

120-days. Okay, thank you. That's it from my side. Thanks.

Moderator

Thank you. The next question is from the line of Vishal Gajwani from Birla Sun Life. Please go ahead.

Vishal Gajwani

Hi, thanks for the opportunity. I wanted to know the FOREX loss that has been booked in this quarter of around Rs.30 crores. Will this be reversing going forward?

Sankarasubramanain

This relates to mark-to-market impact for the shipments which are yet to reach. As per the accounting standards we are supposed to restate the outstanding liabilities. These materials will reach us during July and the consumption may happen in August, September and the pricing to take care of the depreciated rupee.

Moderator

Thank you. The next question is from the line of Punit Gulati from HSBC. Please go ahead.

Punit Gulati

Yes, thanks for taking my question. Mr. Mehan and Mr. Sankar, I just want to understand, how closely is the government monitoring the price. Do you have to seek permission for taking price increases, is the competition also taking price hikes, if you can give a sense of what's happening on the ground from governments perspective?

Kapil Mehan

We have taken up the prices from 1st of July, and we understand few other companies have also done that, that's what our market information tells us.

Punit Gulati

Okay.

Kapil Mehan

We have not taken any permission from the government for these price hikes

Punit Gulati

Okay, and are you still selling some products at a discount vis-à-vis the MRP or everything is at MRP now.

Kapil Mehan

No, we are selling everything at MRP. And to some institutions wherever we had made commitments at the earlier price we are fulfilling those orders that also will be over by end of July.

Punit Gulati

Okay, and are you seeing any change in the way government is monitoring cost or asking for any specific data post modified so-called NBS.

Kapil Mehan

Yes, I think government also is still figuring out how to deal with this rupee volatility and the raw material price changes, while there is a desire at the government level to have a say in MRP, but how to give effect to that desire under NBS is still an issue and I think they are still trying to figure it out. We from industry side believe that so long as you have NBS, you have little scope for interfering with the costs until and unless the government goes back to the earlier regime of adjusting the subsidy levels and then making the MRP as a stable price. So I think right now there is a dilemma within the government how to do it, while retaining NBS and giving the freedom and controlling the subsidy. I think achieving all of this together may not be feasible at all.

Punit Gulati

Okay, so any indication, post the NBS government has indicated a price cut of 1,500 Rupees a ton, does that mean you still had an option not to cut or was it mandated that you have to cut the price at that point in time?

Kapil Mehan

That time it was more of an advisory as well as the fact that international prices have come down and government had reduced the subsidy after taking into account that balance reduction will be passed on to the farmer. So I think as a responsible Company, we had taken that view and I think our internal view in Coromandel was that if the total cost reduction has come down by 3,500 Rupees, and the government has reduced subsidy by only 2,000 Rupees, as a key player in this sector, we should also reduce our price by 1,500 Rupees. So I think it was done in that spirit, and that spirit will always continue to be there, because we are mindful of the fact that we are dealing with farmers and we are dealing with agriculture, and our pricing will never be anywhere closer to what can be termed as exploitative.

Punit Gulati

Okay, that's great. Thanks.

Kapil Mehan

Thank you.

Moderator

Thank you. The next question is from the line of Gauri Anand from Phillip Capital. Please go ahead.

Gauri Anand

Sir, my question is on volumes, now that these supplies from TIFERT will also commence, I did hear you, and you mentioned that of this 3.5 million ton your utilization rate will be about 60% to 70%

Kapil Mehan

70% to 80%.

Gauri Anand

70% to 80% which is a volume jump of almost 40%. So what gives this confidence is something that I would like to understand? And then second, how have the imports been let's say in the first quarter or till date. And is there a check on imports going forward by the government because I remember sometime in February/March, they had kept a check and that is when the imports came down.

Kapil Mehan

Yes, as far as your question on our capacity utilization is concerned, I think if you look at our June production itself, we were at about 70% of our capacity. July is going to be better and we now have visibility of raw material availability especially the phosphoric acid which had been a limiting factor. And I think we have now tied up all our supplies and that is coming on. So as we speak now for the last 10/12 days, we are actually running almost at 100% of our capacity. So we are confident that if everything goes normal, we should achieve this 70% to 80% capacity utilization.

As far as imports are concerned, they have been subdued in the first quarter because people have realized that there is only so much working capital that you can lock up in this business. And also key suppliers like US and Russia have realized that until and unless this inventory correction happens, the demand in the Indian market will not begin to revive. So they have also by and large stayed away from India. Saudis also, in between they had production problems and they have also been trying to divert their supplies to other markets, rather than aggressively carry to India. So I think import levels will come down substantially from last year's level until and unless there is a major revival of demand in rabi. Otherwise, I think the available inventory and domestic production with a little bit of imports coming in here and there, is sufficient to take care of the demand for the year.

Gauri Anand

Okay. is there is any overlapping between DAP and complexes as in DAP is a standard product but complexes are something very unique and -- so my question is, last time we saw some of the complex moving to DAP and higher consumption of DAP. So with the DAP imports coming down, will you again see a shift towards complexes, and which is how our margin -- volumes will be protected?

Kapil Mehan

See, I think as far as complexes is concerned, in the first quarter also we are seeing that the complexes sale is little more than 50% of the total, out of 17.5 lakh tons

Complex is 9 plus lakh tons, whereas DAP is around 8 lakh ton. So there is a definite market for complexes, especially in southern states and central Indian states. DAP is largely a northern India phenomena where most of the demand in the past also has been met by imports. And that's where most of the imported DAP from west coast has been going to, UP, Punjab, Haryana, MP. These are the states which really depend more on imports rather than on domestic supplies. In the southern peninsula, the demand is met from domestic production and that trend continues.

Gauri Anand

Okay, thank you, sir.

Moderator

Thank you. The next question is from the line of Abhijit Akela from IIFL. Please go ahead.

Abhijit Akela

Hello, good afternoon, sir, this is Abhijit here.

Kapil Mehan

Yes, Abhijit, good afternoon.

Abhijit Akela

Good afternoon, sir. Thanks for taking the questions. First, just on the price increases that you mentioned, so DAP we've raised by Rs.1,500, could you give us some rough sense of how much on average the other products would have gone up by in percentage terms?

Kapil Mehan

It would be I think ranging from Rs.900 to Rs.1,300 per ton.

Abhijit Akela

Okay, great. And also your Annual Report had mentioned that you had some 2,900 odd crores of forward hedging contracts as of March 31st for raw material imports and those were struck at a exchange rate of approximately 54 Rupees to the dollar, I think.

Kapil Mehan

That's right.

Abhijit Akela

So is it possible that we can see some benefit from that in the second quarter?

Kapil Mehan

No, because most of those raw materials have been consumed during this quarter they will not give any benefit coming into this quarter that – it's not that we have got so much of raw material, it will be used in July/September quarter.

Abhijit Akela

Okay, okay. This non-subsidy breakup that you gave, 40% of EBITDA, so that is consolidated EBITDA?

Kapil Mehan

Yes, consolidated EBITDA.

Abhijit Akela

Okay. Fine, great, thank you so much.

Moderator

Thank you. The next question is from the line of Abhijeet Dey from BNP Paribas. Please go ahead.

Abhijeet Dey

Just one question from my side. What accounts for the sharp increase in the purchase of traded goods figure for the quarter?

Sankarasubramanian

This is basically MOP, Murate of Potash shipments which are in transit and we have reckoned all material in-transit as part of purchases.

Abhijeet Dey

Okay, but obviously not sold, so it's in transit and you are yet to receive it?

Sankarasubramanian

Yes. That is why you see the huge purchase as well as the credit in the inventories...

Abhijeet Dey

Okay, So that is the reason.

Sankarasubramanian

That's it.

Abhijeet Dey

So I was wondering because if you have not sold -- in fact your MOP sales if I am not mistaken is lower on YOY basis for the quarter and despite that we have seen a sharp increase in purchase of traded.....

Sankarasubramanian

It is used both for consumption as well as for traded.

Okay, How much would that be, sir, if you can just approximately tell me out of that 378 crores, how much would the...?

Kapil Mehan

The major portion relates to that and some of urea is also there.

Abhijeet Dey

Yes urea I can understand, yes, of course.

Sankarasubramanian

Two-third will be relating to MOP.

Abhijeet Dey

Okay, Thank you very much.

Moderator

Thank you. The next question is from the line of Balvinder Singh from Prabhudas Lilladhar. Please go ahead.

Balvinder Singh

How is the consumption of complex fertilizer because I know there is huge inventory in the system and that is essentially getting liquidated. So how has consumption seen an improvement at the farmer level?

Kapil Mehan

I think its 50:50, whereas sale is slightly more than 50, the first sale. But if you look at the consumption of -- out of field inventory of about little over 2 million tons, about a million ton is complexes and about 1.1 million ton is DAP.

Balvinder Singh

Okay, thanks. Thanks a lot, sir.

Moderator

Thank you. Our last question is from the line of Atul Rastogi from CIMB. Please go ahead.

Atul Rastogi

Yes good afternoon, sir. My question is on the price like you said; you have taken the price hike, now, is that applicable for the inventory in the system also?

Kapil Mehan

That is applicable for the fresh production, which goes out of the factory because all our stocks carry printed prices, so whatever stock is available in the market before price revision get sold at the old price only.

Atul Rastogi

Okay so you...so I mean so, how the higher price to new production will not sell until that inventory clears, right?

Kapil Mehan

Yes. But we had very little inventory as on end of June in the field and most of the inventory was sold off.

Atul Rastogi

Okay. Just on Liberty, they had an expanded capacity of almost 9.5 lakh tons, so do you think they would also be able to achieve around 79% utilization rate?

Kapil Mehan

Yes, they will also be achieving I think about same level. I think through April they have...we had held back production in most of our plants partly due to annual turnaround and partly to sort of rationalize our inventory level with the Company as well as in the pipeline, but from June onward, I think all plants turn out producing to the full.

Atul Rastogi

Okay. And there also margins would be stable at 1,000, 1,500 Rupees, 1,200 per ton....

Kapil Mehan

Yes, there also better margins of about that level would be there.

Atul Rastogi

Okay. Thank you, sir.

Kapil Mehan

Thank you.

Moderator

Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Mr. Rohan Gupta. Thank you and over to you, sir.

Rohan Gupta

Thanks Faizal. So sir, thank you very much for the time and if you like to make any final comments before we can wind up this call, it will be appreciated.

Kapil Mehan

Now, I think all the questions have been very incisive and we will try to answer them as best as we could. And I think seasonal demand factors are good and we have all our raw materials et cetera everything tied up. So if there are no further unforeseen surprises we should see improvement going forward.

Rohan Gupta

Thank you very much. On behalf of Emkay Global Financial Services, I thank all the participants who have logged in for the call. Our special thanks to the management, we thank you both the gentlemen, sir. Thank you very much.

Moderator

Thank you, sir. Thank you, members of the management on behalf of Emkay Global Financial Services. That concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.