



**“Coromandel Earnings Conference Call Hosted By UBS  
Securities”**

**October 23, 2013 14:00 Hrs. India Time**



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**Moderator** Ladies and gentlemen, good day and welcome to the Coromandel International Limited Q2 FY14 Earnings Conference Call hosted by UBS Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gautam Chhaochharia. Thank you and over to you, sir.

**Gautam Chhaochharia** Thank you Mallika. We have Mr. Kapil Mehan, Managing Director of Coromandel and Mr. Sankarasubramanian, the CFO. I will just handover to them to give a quick overview on the numbers and then we can go to the Q&A session.

**Kapil Mehan** Thank you Gautam for organizing this call and I extend a very warm and hearty welcome to all the participants to our Quarterly call. Let me begin by giving the overview of the industry and agri input sector in general.

Based on very good spread and extent of rainfall, the sowing this Kharif season has been very good. The cropped area went up by almost 4.5%, during this Kharif as compared to the previous year and over the normal periods. We have close to 105 million hectares of planting taking place in Kharif which I think is a good base for the production, likely to be much higher than last year, and I think we will see some record production numbers coming in for this year as far as agricultural GDP growth is concerned. The price levels also generally have remained high for the agricultural commodities, and that again means that there is more cash which is flowing into the rural areas; investments that the farmers would make into this business of agriculture will be far better.

And for Rabi also now the new MSPs have been notified and that augurs very well for the industry and also given the fact that most of the reservoirs across the country are almost full and the moisture level in the soil is also good and that sets the base for a good Rabi sowing and let's hope that what we have seen in agricultural sector in the first half will get carried over into next half as well.

Coming specifically to our operating results for the quarter, I must say that all our agricultural input businesses have continued to perform very well. Our pesticide business in both Coromandel and Sabero has done very well, and you are all aware of Sabero Financials also. I think they have turned around to realize the desired levels of operating results. We still have some unutilized capacity out there.

Our retail has continued to perform very well with non-fertilizer revenue growing, as well as the fertilizer sales and throughputs through the network also doing well over the previous years. Our business of specialty nutrients is settling down now with the new structure in place, and that is also showing signs of improvement with water soluble fertilizers as well as Micronutrient Mixtures.

Our fertilizer plants have run at close to 87% of their capacity during this quarter and that's a significant jump over previous year. We actually had production of 7.95 lakh tons during the

quarter as compared to 5.59 lakh tons during last year. And the sale of our own manufactured products also went up from 5.53 lakh tons last year to 7.5 lakh tons during this quarter of this year. And of course, it was a deliberate decision to reduce our sale of imported fertilizers, so that came down from 90,000 tons to 29,000 tons during this quarter.

Overall, we have seen our sales growing, we have also seen that our market share has grown on a half yearly basis, from 13.7% to 17.8%

The fertilizer market has grown, the reported sales have grown, and the consumption has also gone up. Our estimate is that while the sales reported is around 6.2 million tons of complexes and DAP, the consumption is in the range of 9 to 9.5 million tons. That has happened because of pipeline inventory getting liquidated. So I think, the season by and large has played out the manner in which we had seen in early June.

Coming specifically to our Q2 results; our consolidated revenue is up by 20% to Rs.3,215 crores from Rs.2,675 and EBITDA is also up by 25% on an operational basis if which we adjust Rs.107 crores of prior year income which was there during the second quarter of FY13. The EBITDA has moved up from Rs.238 crores (without prior year subsidy) to Rs.298 crores. Similarly, the PBT (excluding prior year subsidy) has gone up by 17.8% from Rs.198 crores to Rs.233 crores. So percentage increase in PBT is slightly less than EBITDA primarily because of higher depreciation charge due to "C" train project, as well as higher interest outflow that we had during this quarter.

Our non-subsidy businesses have grown by close to 30% during the quarter, thereby taking the share of non-subsidy businesses in terms of top-line to 18.5% with fertilizer share at 81.5% and EBITDA share is at 36% for non-subsidy business and 64% for subsidy business.

Coming to our subsidiaries and associates, TIFERT, we have received some acid during the quarter, and the plant was taken for a shut down and that is now again in the process of being restarted. Our "C" train has been stable and it's been consistently producing very high quality products from that plant, and we have produced close to 1.7 lakh tons during this quarter from that train. Our capacity utilization, as I shared earlier, has been of the order of about 87% during the quarter, which is in line with our annual capacity utilization expected to be between 70% to 80%. At Sabero also, the capacity utilization has been of the order of about somewhere around 70%, and that has also moved up from Q1 which was around 60%-65%

Our application for increase in capacity to 100% of the rated capacity has also been submitted after the inspection has been done by the appointed agency and we are now waiting for the final clearance, so that Sabero from a regulatory perspective has full capacity available to it. On Fertilizer pricing, if you recall, we had increased our prices in the month of July due to the rupee depreciation but then the international prices of raw material came down and we reverted back to the original prices of April, from 1<sup>st</sup> of August 2013.

Raw material prices by and large have been coming down through the quarter and tight control on our inventories and flow of raw materials is in almost just-in-time kind of a manner and that has helped us to keep our inventory levels low as well as avoid the risk of any inventory write-downs.

On our Specialty nutrient division, I had already shared that new structure is in place and that is now beginning to get traction in the market and it's working quite well. There has been no significant inventory impact during the quarter despite prices coming down. Only in respect of MOP we had some carry over stock at market price of \$490, which was consumed during the quarter against this year's price of \$427, but if we take rupee depreciation into account, I think that wasn't as bad as one would have expected.

So broadly, this is what we have to say about this quarter. Maybe Sankar can share some details about the balance sheet as reported during this quarter. And then we can move over to the Q&A.

**Sankarasubramanian**

Overall inventory and the raw materials have remained at same level as March 2013 and our raw materials has marginally moved up because of the material-in-transit at the fag end of the quarter that is represented both in inventory as well as in trade payables. Our government receivables are now close to Rs.1,200 crores almost the same level as on 31<sup>st</sup> March 2013 when we had Rs.1,264 crores. .

And market receivables have come down from our March level, we were at Rs.1,600 crores, now we are at Rs.1,500 crores level. The overall, the borrowing levels have eased and the liquidity has improved. On a gross debt equity basis, we have moved on from 1.04 to 0.95. Our long-term debt to equity continues to be at 0.34. If we reckon the cash, our net debt equity is at a very comfortable level, it moved down from 0.72 to 0.61. Overall, we have seen improvements in the way we expected this quarter to pan out. The reduction in the debt levels has been reflected in the financing costs as well. On quarter-on-quarter basis there has been an improvement in the financing costs.

**Kapil Mehan**

Yes, we can take Q&A, Gautam now.

**Moderator**

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Viraj Mehta from Franklin Templeton. Please go ahead.

**Viraj Mehta**

One, for this quarter, has there been final agreement on Phos acid, and what are the prices for that?

**Kapil Mehan**

Yes, for October, December quarter, the price has been finalized at \$609 per ton.

**Viraj Mehta**

Sure. And sir, what will be the market inventory, so you had mentioned the inventory had come down a lot especially in the south region in the June call. So what is the inventory position as of now?

**Kapil Mehan**

The pipeline inventory according to our estimate is in the range of about 4 to 4.5 million tons, which was around 7.2 million ton at beginning of the Kharif season in April. So to that extent, it has come down by around 3 million tons during the six month period. And normal inventory we estimate is in the range of about 2 million tons, so we can say still there is an overhang of about 2 to 2.5 million tons over and above what should be the normal inventory.

- Viraj Mehta** Sure. But if you can throw some more light on which regions have higher inventory.
- Kapil Mehan** Most of this inventory is in the North and East and Central India.
- Viraj Mehta** Okay.
- Kapil Mehan** South India is much less, except Tamil Nadu, which is still carrying some inventory. But they are also depleting quite fast.
- Viraj Mehta** Sir, have the imports started again according to your information?
- Kapil Mehan** I think August import was quite healthy at about 1 million tons, which has come down in the month of September to about 0.5 million tons. The Chinese export window is now over, and at these prices we don't expect that much material is likely to come. Total imports so far in the first half of the year have been about 2.4 million tons against 4.2 million tons in H1 of last year 6 million tons for the full year 2012-13.
- Viraj Mehta** Sure. Sir, just last question on market receivables, 2.5 years ago, we used to deal in cash or at max 10, 15 days credit. Now, our receivables from the market are close to 1,500 crores, which would translate roughly into 1.5 months kind of debtors. So what are the receivables levels at which we can assume for next two, three years, what will be the strategy for the company on that respect?
- Kapil Mehan** Well, our strategy would be to move towards the days when we would like to sell on cash and carry and that's why we are investing in our sales and marketing resources, in terms of people, brand, and network. , Our retail outlets are beginning to now get far more footfalls than they used to get earlier. The brand building activities that we have undertaken are slowly beginning to yield the results and we are creating enough demand in the market for our products and our brands.
- Moderator** Thank you. Next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.
- Bhavin Chedda** Sir, just continuing from the earlier question regarding the industry update, the way these raw material prices have fallen the DAP import price right now is at \$ 370 FOB. If DAP prices in India are not reduced then imports becomes much more viable because as I am seeing the margin at that import prices are huge, so why is it than your see the imports to be on a reducing trend, if you can clarify on that.
- Kapil Mehan** See, two three reasons, the primary reason is that only China was selling at these prices and Saudi was following it. And now with the Chinese export window having closed, from 15<sup>th</sup> of October, no more Chinese products will be coming and if it comes it will be at a very high price, so Chinese import is unviable. The prices in the Russian region, Morocco, North Africa and U.S. Gulf are at higher level as well as freight costs are higher, but even if they had to land anything here, it will not

be less than \$415 - 425/ MT which is far lower than the price levels in South America and Europe. So we don't expect that there will be much diversion of Russian production or North African production or even the USA production to India.

Anybody importing also runs the risk of liquidity crunch. He has to contend with higher collection periods, he has to contend with delayed subsidy payments and foreign exchange volatility. Even though the rupee has been fairly stable over the last few weeks until and unless there is a fundamental improvement in current account deficit and FDIs we don't know how long the rupee stability will last and we all wish and hope that will last longer than it would, but I think we will have to wait and see how it turns out.

**Bhavin Chedda** Okay. Sir, there has been other concern which was reported in the Press that the government is asking for cost sheets and monitoring the profitability. So what will be your view on that, there would be a pressure to reduce prices or since obviously there will be some players who will be making the losses even at this level, though it averages out in the industry.

**Kapil Mehan** As far as cost data is concerned, I think the department has now accepted the industry's stand that it will be sharing the cost data as it is shared with the Ministry of Corporate Affairs and the same cost audit data whatever has been given to the Ministry of Corporate Affairs is now made available to the Department of Fertilizers and that data is accepted as a sort of a referral for them to determine the reasonableness which itself is indefinable. So far there is no clarity on what is the definition of reasonableness because that can vary from person to person from time to time, from context to context. Issues like reasonable price, profitability, cost, etc. under NBS are untenable. We don't see that as a significant risk, but yes, that concern is valid and we are aware of that concern and the industry body is engaging with the government on those issues.

**Bhavin Chedda** Okay. Sir if you can share the subsidy number in the quarterly results?

**Sankarasubramanian** Subsidy outstanding as on September 30, 2013 is Rs.1,188 crores and our subsidy revenue is Rs. 862 crores in this quarter on a stand-alone basis as compared to Rs.905 Cr crores last year.

**Bhavin Chedda** Okay. And sir, on the Liberty side still that results are on a declining trend, so any view that you can share on what is affecting that SSP volumes business and what's the outlook there?

**Kapil Mehan** A couple of things are affecting the SSP business. First is that we have some high cost inventory which was purchased before we moved in and that is now more or less liquidated. So Liberty was suffering from that high cost inventory. And number two, I think some of the marketing arrangements that we had with other companies have not played out as per plan. So that impacted our volumes, but going forward now we have strengthened our sales network as well as Coromandel network is being used to sell the products of Liberty. So I think we are working on improving both volumes as well as our marketing structure so that we can come back to normal levels.

- Moderator** Thank you. Next question is from the line of Viraha Kacharia from Securities Investments Management. Please go ahead.
- Viraha Kacharia** Sir, I just have two questions, one is on the raw material cost. I mean if you see the actual levels and also as a percentage of sales, it has spiked up quite a lot in second quarter. I mean this is despite you have your international prices correcting. So what's your rationale for a sudden spike in raw material costs.
- Kapil Mehan** You will have to look at total cost of goods sold as a percentage of sales excluding prior year subsidy secondly, we had high cost potash at \$490 last year's carryover stock which got consumed in the first half and also there is the urea trading which gets into our raw material costs because we don't separate out that cost.
- Viraha Kacharia** Good, on a gross margin basis, it's almost about 310 basis points contraction on a standalone basis, and that's pretty significant. So just want to understand, what's the driving factor behind that?
- Kapil Mehan** See the exact calculations we can come back to you but broadly these are the three reasons that we have given you earlier.
- Viraha Kacharia** Okay, and just one more question was on the inventory part. How much is actually finished goods, and how much is raw material?
- Sankarasubramanian** Rs. 441 crores is our manufactured finished goods and urea and other imported products are approximately Rs. 374 crores.
- Viraha Kacharia** Okay, so the remaining is raw material and Material in Transit?
- Kapil Mehan** Yes.
- Viraha Kacharia** Okay and just one more thing was on the trade receivables part. You had mentioned in the first quarter that you had seen a 40% reduction in your trade receivables, and on incremental basis, you will be focusing on cash and carry sales. So that to an extent is not reflected in the second quarter, so has something changed or are you still trying to provide discount or giving longer credit period or to push the sales or how is it like?
- Kapil Mehan** A major portion of the receivables relate to Northern states, where the consumption happens in the Rabi season. So the materials, which are lying there to be liquidated, but receivables still remain outstanding. But whatever the fresh sales we are making, our credit terms have been considerably improved compared to what it was in the last year. So now, we have been extending credit between 30 to 45 days and not more than that. So that way our fresh credit terms to a market has

considerably improved, but still we have the carry over receivables, which we should be able to bring down in this Rabi season

**Viraha Kacharia** Okay, and just final question, you have been giving guidance of having a long-term target of achieving 50% of your EBITDA from non-subsidy businesses. So if you can just throw some light on how you aim to achieve that target, from a product strategy perspective...

**Kapil Mehan** Focus on non-subsidy businesses continues, as we shared earlier, our top-line has moved up from, historical levels of 10%-12%, to around 18.5%, and EBITDA which use to be around 30% has now moved to 36%. We are moving towards our goal of achieving 50% EBITDA from non-subsidy businesses. Further our fertilizer business also is a growing business and in the sense that this metric is driving to keep our businesses more stable, and have more stable revenue streams.

**Moderator** Thank you, so much. Next question is from the line of Ram Hegde from Primus Invest. Please go head.

**Ram Hegde** Could you give the number on what's the outstanding receivable from the government?

**Kapil Mehan** Rs.1,188 crores.

**Ram Hegde** And on Sabero side, I missed your comment on expanding capacity, where are we on that?

**Kapil Mehan** Yes, Sabero has improved the capacity utilization through debottlenecking of environment management systems and the plants can now produce to full capacity. Currently, they are producing at about 65% to 70% levels. And that should go up further, because we now have permission up to 75% and permissions for 100% capacity utilization are under consideration by the Gujarat Pollution Control Board. The inspection which was to be done by independent agency has been carried out and we are waiting for that clearance, so that should help us to improve the capacity utilization numbers going forward.

**Ram Hegde** And you also alluded to some shutdown at TIFERT, Could you elaborate on that, what's happening there?

**Kapil Mehan** Yes, whenever a new chemical plant starts, you run it for a few months and then you take a shut down just to check all the equipment; that process was going on, and that is now coming to an end, and now the plant likely to start again in the next few days.

**Ram Hedge** And finally, any sort of guidance in terms of volumes on your own manufactured for this year?

**Kapil Mehan** We don't give any guidance of that nature as a policy.

**Moderator** Thank you. Next question is from the line of Manish Mahawar from Edelweiss. Please go ahead.



- Manish Mahawar** Sir, just some of the data point I wanted to ask you, one thing sir, just you have given sales break up of fertilizers, basically subsidy and non-subsidy business. So this is on a consolidated basis, right?
- Kapil Mehan** Yes, that's right.
- Manish Mahawar** Okay, and just I would like to know, is there an inventory loss we have booked in this quarter. If yes, then what is the quantum?
- Sankarasubramanian** There is no such specific inventory loss, and these are all in the normal course of business only, except for Potash, what Mr. Kapil has highlighted earlier.
- Manish Mahawar** Okay, but we've also booked some amount in Liberty, the high cost inventory liquidation that has happened in Liberty, this quarter?
- Kapil Mehan** But that's just a difference between replacement cost and lower raw material prices versus what we carried over. So that of course, impacted the margin, and that's what we were referring to. But there is no loss as such there, Liberty still continues to be profitable, and I think once we pick up the volumes and the old raw materials are over, I think Liberty will come back to its normal profitability levels.
- Manish Mahawar** Sir your other expense expenditure, actually if you look at it on consolidated as well as a standalone basis, it's quite high, and the volume, if you look at the volumes were up by around 30%, more than 30%, despite as percentage, if you look at it percentage terms, it's still on a higher side. Is there any one-off item in the other expenditure or something?
- Sankarasubramanian** Manish, this other expenditure includes the premium what we incur on the foreign currency borrowings, whether it is buyers credit or suppliers credit.
- Manish Mahawar** Okay.
- Sankarasubramanian** **The** number is around Rs.58 crores for this quarter. And also, when we handle higher volumes, the freight expenditure will be higher, so you need to look at it along with volume handled during this period. So these two are the significant amounts that's part of the other expenditure.
- Manish Mahawar** Sure, and sir, can you give me your organic manure volumes number for the quarter and the first half?
- Kapil Mehan** See the volumes have been slightly lower during this quarter, primarily because of heavy monsoons, you couldn't get adequate amount of supplies. And this quarter the numbers is around 34,000 tons as compared to 57,000 tons last year.

- Manish Mahawar** And just last sir one bookkeeping question, if you look at your balance sheet, if you look at your fixed assets actually in the net basis, it is Rs.1,800 crores in roughly on FY13, as of 31<sup>st</sup> March, and as on September it's around Rs.1,400, 14.5 billion roughly. Is there a Rs..450 -350 crores reduction in the fixed assets, while your depreciation is only I think is 100 crores or roughly around Rs.120 crore Is there any substantial receipts from sale of fixed assets or something is there?
- Sankarasubramanian** Last time, we had consolidated TIFERT. From the 1<sup>st</sup> April onwards, since TIFERT has commenced the commercial operation, we don't need to consolidate TIFERT's numbers, so we carried this note in the first quarter results also. So our current numbers are without TIFERT project.
- Manish Mahawar** Okay, then Q2 is excluding basically TIFERT.
- Sankarasubramanian** Correct. Because post commencement of project, we stopped the consolidation and we are reflecting TIFERT only as investment in our books.
- Moderator** Thank you. Next question is from the line of Falguni Dutta from Jetage Securities. Please go ahead.
- Falguni Datta** So what would be the current ammonia prices?
- Kapil Mehan** Ammonia prices are around \$480 to \$490 dollars per ton, landed in India.
- Falguni Datta** Okay. And our DAP realization is same at Rs.22,270/ MT
- Kapil Mehan** Rs. 22,500/ MT, at the farm gate plus local taxes.
- Falguni Datta** Okay. Then sir, would it in that case be fair to roughly say that at this exchange rate, and given this ammonia and Phos acid prices, roughly at the net level we should be making about 10% margin on DAP?
- Kapil Mehan** See, that's for you to calculate. I wouldn't be able to comment on that, because there are many other elements which will get into this cost including the carry over inventory of the previous period et cetera.
- Falguni Datta** At the net level taking everything into account broadly.
- Kapil Mehan** I would not be able to comment on that because as a policy, we don't comment on these numbers and estimates
- Moderator** Thank you. Next question is from the line of Punit Gulati from HSBC. Please go ahead.

- Punit Gulati** Just two things, you mentioned that the credit period has now come down to 30 to 45 days, has the cash discount also come down?
- Kapil Mehan** Yes. That continues for a number of days credit that we offer, when we have terms operating in different markets from zero number of credit days to sixty days. Average will be somewhere around 30 to 45 days and for the equivalent mode of credit and cash price option is always available to the customers.
- Punit Gulati** Okay, secondly you acquired the AP power plant. Has that been helping at all?
- Kapil Mehan** Yes that has been helping both to make electricity available to us as well as make it available at much lower costs. So whatever we had budgeted savings, those savings have been achieved.
- Moderator** Thank you. Next question is from the line of Balwinder Singh from Prabhudas Lilladher. Please go ahead.
- Balwinder Singh** Firstly, in the June quarter you had mentioned about achieving 70 to 80% capacity utilization in your manufactured fertilizers for Fiscal '14, so you stick to that and what is the kind of capacity utilization we can look at in fiscal '15?
- Kapil Mehan** We have not yet gone to Fiscal '15 to start talking now, but for fiscal '14, we still maintain that we should be in that 70% to 80% capacity utilization level. You would have seen that in the second quarter we have achieved a capacity utilization of 87%, as I shared earlier during my opening remarks.
- Balwinder Singh** Okay. And sir, what is the kind of fertilizer margins that are sustainable in the medium term over the next two to three years. EBITDA per ton that one can look at, not exactly from a guidance point of view, but more from understanding about the industry, what kind of margins are sustainable on which government would not object?
- Kapil Mehan** Well, I cannot comment on how the government will view price levels etc., but what we know is that we have been very reasonable and responsible in our pricing in a very competitive environment. We have to keep our prices competitive, so that we continue to remain relevant to the farmer and then produce.
- Moderator** Thank you. Next question is from the line of Jaisinh Suchak from JM Financial. Please go ahead.
- Jaisinh Suchak** Just wanted to ask, in terms of the fertilizer sales, what proportion for the quarter was done through our direct marketing channel. And, what proportion goes to the institutional client, if we can know that?

- Kapil Mehan** We had done about 2.5 lakhs tons through our channel, which is around, I would say 30%. Retail was 23%, and the rest is through trade and institutions.
- Moderator** Thank you. Next question is from the line of Atul Rastogi from CIMB. Please go ahead.
- Atul Rastogi** Sir, just two things, one on the subsidy, have the subsidies flows come down or they have virtually stopped?
- Kapil Mehan** No, they are still coming in. They have not stopped, they were slow in the April/May; but after that, they have been quite regular.
- Atul Rastogi** But over the last quarter your subsidies have – they have gone up quite sharply?
- Kapil Mehan** Yes, the last quarter had carryover subsidy receivable of the previous year. So they were cleared out, and our sale also in April, May, June was much less. So subsidy dues had gone down, but now in July, August, and September the sales was also very high. Our subsidy monthly bill also has gone up to Rs.250 crore or so per month. And that's the reason that they are gone up, but they are all correct, most of them.
- Atul Rastogi** Okay. And secondly just to, I know you have been asked before early also, but on the pricing thing at least on the incremental side the margins could be quite high, assuming current price remains the same. So do you think that post this inventory clearance there could be price reduction.
- Kapil Mehan** See we can't comment on what will happen in future. But what we believe is that the prices are stable, I mean, we are now already three weeks into October, and they have remained stable, and our expectation is that, they will remain stable in the near term due to the reasons that I explained earlier.
- Atul Rastogi** That's more like, because import volumes cannot happen that's why...?
- Kapil Mehan** No, import volumes can happen, there is enough depth available in the world market, but may not be able all of it at \$390 or \$395.
- Moderator** Thank you. Next question is from the line of Jasdeep Walia from Kotak Institutional. Please go ahead.
- Jasdeep Walia** Sir, my first question is on the gross debt level, what is the absolute amount of gross debt that you had at the consolidated levels?
- Sankarasubramanian** Consolidated gross debt is around Rs.2,525 crores.
- Jasdeep Walia** I guess the gross debt was approximately Rs.2,562 crores last year, at the same time.

- Sankarasubramanian** March it was around Rs.2,946, and last year same time it was Rs.2,639.
- Jasdeep Walia** Sir, and out of your total current liabilities how much is acceptances?
- Sankarasubramanian** We avail sellers line of credit instead of suppliers credit for interest arbitrage
- Jasdeep Walia** Okay. Sir, my second question is that, if I just take out average pricing of DAP, and the raw materials which go into it, which is Phos acid and ammonia, now, my average prices for DAP comes to around \$428, Phos acid I believe last quarter was \$715, and ammonia price is \$430. Now, at these prices if I calculate gross margins and DAP, they come to almost negligible levels, whereas, when I see the volume numbers for the industry, lot of companies were selling DAP in the last quarter. How was it viable, sir?
- Kapil Mehan** I think first and foremost, this \$428 for the quarter, I think you can recheck the calculation, because our number is much higher. Because a lot of materials came in the month of July and August, which were maximum materials came in the month of August, because of the levels of \$440, \$450, \$460 and even some \$500 also of the prior contracts. So that \$428 is not correct. The number is much higher than this, and second is that this ammonia price of \$430 that you are taking is our FOB price, the landed price in India has been in the order of \$470 or \$480 or thereabouts. But on an average there has been, I would say the standard kind of a margin which was available for domestic manufacturing.
- Jasdeep Walia** I got it. And sir how much time does it take for global prices to reflect in Indian markets or it is dependent on the situation basically?
- Kapil Mehan** It depends on who is the importer. If there is an older importer, he has to average out his cost like anybody would do. And if it is a new importer, obviously for him every shipment is a new business opportunity. So he has to look at it in that fashion. And as far as raw materials are concerned, generally there is 45 to 60 days lag before, those costs and realization will become effective in Indian markets.
- Jasdeep Walia** And sir, are you looking at further expansion of your complex fertilizer plant, given that in your peak quarter, you are running at almost 87%-88%?
- Kapil Mehan** I think we would like to go to, near 100% and once we achieve that on an annualized basis, I think once we are close to that, then we will examine further opportunities for growth.
- Moderator** Thank you. Next question is from the line of Viraha Kacharia from Securities Investments Management. Please go ahead.

- Viraha Kacharia** I just had a follow-up question on the raw material part. You said, a lot of high inventory got liquidated in Q2. So how much of that excess inventory is still with us, I mean what I really want to know is, on an incremental basis to see an improvement in margin because most of the high inventories are very well liquidated and now on a fresh basis, you have a much more better price realization?
- Kapil Mehan** The inventory especially of phosphates, they will still be there, because there has been a significant drop in the raw material price from last quarter to this quarter. So that will continue for some more time. But that impact will average out as we see during the quarter. So it is not that in a declining market inventory is always an area of concern, and the only way to deal with it is to work with lesser inventory and that's what we are trying to do.
- Viraha Kacharia** Okay. And most of this inventory is in the form of finished goods, not in raw material costs?
- Kapil Mehan** Some raw material also, as well as finished goods of course, are there. But that also is at much reduced level as compared to the previous years.
- Viraha Kacharia** And in terms of sales volumes, you said, you had sales volume of around 7.96. How much will be complex, and how much will be urea?
- Kapil Mehan** So that is all complex and our own manufactured volumes.
- Viraha Kacharia** Okay, and urea for this quarter?
- Kapil Mehan** Urea for this quarter was **2.24 lakh tons**
- Viraha Kacharia** And sir, just last question was on the urea, you said that the company bids for contracts and handles urea at the port. So how does it work? Does the company bear the subsidy exposure or it's up to the canalizing agencies or if you can just throw some light on the mechanism?
- Kapil Mehan** No, we don't have any subsidy exposure on this. We get it on the net of our handling costs, we get it from the government, and that's At MRP levels.
- Moderator** Yes, next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.
- Rohan Gupta** Sir, first question is on Sabero, as you have said that during the call that now you can in fact operate at a higher level, because the clearance has already been given. So are we right now operating it at close to 90%-95% utilization level or still we are facing some teething issues?
- Kapil Mehan** We are currently running at about 65-70%. And going forward only we are expecting the permission to come because all the inspections and everything is over.
- Rohan Gupta** So the permission has yet not come.

- Kapil Mehan** The permission has not yet come.
- Rohan Gupta** Okay, sir. Any idea that by when we can expect that?
- Kapil Mehan** We are expecting any day, but we cannot predict. It's a regulatory clearance. So it can come anytime.
- Rohan Gupta** Okay. Sir second is on this TIFERT operation if you can just give us some sense that what kind of production we did at TIFERT for the quarter end. You also mentioned that was there was a plant shutdown at the TIFERT, so any particular reason for that?
- Kapil Mehan** Yes, this was sort of a normal inspections that you do after running the plants for about three months, and that inspection has been done and whatever, minor repairs et cetera had to be undertaken that has been done and plant is about to restart, again.
- Rohan Gupta** Okay. So what sort of production volume was there from TIFERT during the quarter?
- Kapil Mehan** I don't have the exact numbers because, we get numbers pretty late from there. Once we get it, we can share with you.
- Rohan Gupta** Okay, just on the receivables front, you said that a large portion of the receivables is also pending from Northern region where the product is expected to be sold in Rabi. So sir, what are the receivables from the Northern region?
- Kapil Mehan** These are commensurate with our normal sales and available pipeline inventory levels
- Rohan Gupta** Okay. I just wanted to understand if there is a lot of money stuck in Northern region and it can come probably come in by end of December. Kapil Mehan No, it is there but, it is normal. I mean this is not something which is unusual or anything.
- Moderator** Thank you. Ladies and gentlemen due to paucity of time, we will take the last question from Laxmi Narayanan from Cataraman. Please go ahead.
- Laxmi Narayanan** I have three questions, first is, end of Q4 last year we had government subsidy outstanding of around Rs.1,264 crores and that has come down, in spite of our, great growth. Can you just let me know what actually explains that, has it been that the government has started giving us money; that's the first question? Second, question is, out of our total standalone revenues of Rs.2,891 crores this quarter, how much pertains to the government sales, I'm not talking about the subsidy, but how much is exposed to the government? And the third question is how the farmer behavior has changed, because I remember last year you had actually mentioned that farmer is actually down trading and he is actually buying into a cheaper fertilizer. So these are three questions?

- Sankarasubramanian** In terms of the subsidy receivables, we have received subsidy up to July as long as the fund is available generally government has been paying promptly. So our payment has almost come up to July, now August is under active process. So that is one reason why the receivable – subsidy receivables levels are more or less at the same level as March.
- Laxmi Narayanan** Yes, out of that standalone revenues, how much is attributed to the government, I think the receivables too from the government in that?
- Sankarasubramanian** Well, 82% is the subsidy related business and 18% is from non-subsidy related.
- Laxmi Narayanan** Sir, that subsidy related business some part you get directly from the farmer, right, but what is exposed to the government?
- Sankarasubramanian** Rs.860 crores is exposed to the government, it comes from the government, balance comes from farmers and dealers.
- Laxmi Narayanan** Got it, and then finally, how the farmer behavior has changed, has it been, still the down trading is taking place?
- Kapil Mehan** See, as far as the farmers are concerned, we have observed two trends, one is that they have more or less gone back to the normal application days when the seasonal factors are good, when they saw that the rains are good. So well they have planted more acreage to the extent of about about 7/8 million hectares. But the fact, is that they have gone back to more or less same levels of application. But across products, you are seeing that, their tendency is to use more of sub Rs. 1,000 per bag products, as opposed to using Rs. 1,200 or Rs. 1,300 product. So that little bit of down trading continues, but I think the application rates in terms of per acre application, I think is fast returning to normal levels, what there were there three years ago.
- Moderator** Thank you. I now hand the conference over to Mr. Gautam, for his closing comments.
- Gautam Chhaochharia** Yes, thank you, sir. I think you have covered all the relevant issues, thank you very much.
- Kapil Mehan** Thanks, Gautam. Thank you for organizing this call.
- Moderator** Thank you. Ladies and gentlemen, on behalf of UBS Securities that concludes this conference. Thank you for joining us, you may now disconnect your lines.