



“Coromandel International Limited Q4 2014
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Coromandel International Limited's Q4 FY 2014 earnings conference call, hosted by JM Financial Institutional Securities Limited. 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 call, 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. Jaisinh Suchak of JM Financials. Thank you and over to you Sir!

Jaisinh Suchak: A very good afternoon to all our participants. It is a great pleasure to I welcome you all to the Q4 and full year FY 2014 earnings call for Coromandel International. We have with us today, Mr. Kapil Mehan, Managing Director and Mr. Sankarasubramanian, Chief Financial Officer for the Company. The call will begin with a brief management discussion on the performance for the quarter and year-ended March 31, 2014. This will be followed by an interactive question and answer session. I would like to now hand over the floor to Mr. Mehan for the opening remarks. Over to you Sir!

Kapil Mehan: Thank you Jaisinh for your introduction. Let me take this opportunity to welcome all our investor friends to this call. We had our Board meeting yesterday and these results were taken on record. First and foremost, I would like to just mention that it is for the first time that Company has crossed Rs.10,000 Crores of turnover.

Having said that let me just give a little overview on the agricultural scenario during the quarter and then the demand scenario for agricultural inputs and then we can get into the Company's performance. I think agriculturally this quarter remained quite active with most of the crops in good condition and also for farmers with the expected returns and better prices, taking care of their crops. Acreages were more or less normal in terms of Rabi crops, which are primarily, wheat in the North and Central India and paddy in the south and eastern part of the country.

Most of the application of fertilizers happens in the month of December and January but in the latter part of the season generally speciality nutrients and pesticides are applied more; In the states of Andhra, Karnataka, and northern states we saw maximum application of pesticides which sort of resulted in our formulation sale of pesticide being good as well as our retail sales recording very good increases during this quarter. Only towards latter part of the quarter towards.e March we had some unseasonal rains in the north and western parts. So there I think some crops were affected especially in Maharashtra and in the north, but not significant enough to have any major adverse impact on the cash flows for the farmers. We expect that with the prices being good production is also expected to be good. Though

final estimates of production are yet to flow in, our field estimates suggest that production levels are expected to see a growth of more than 4%. Our internal estimate that will be closer to 5% than to 4%, but we have to wait for the final estimates, which will take maybe six to nine months time from now to come out.

On the fertiliser front sales are beginning to align themselves to the real demand in the market and we saw that the sales of DAP during the fourth quarter of 2013-2014 coming down to 13.5 Lakh tonnes against last year's 23.72 Lakh tonnes. Complexes sales were more or less static at 18.62 Lakh tonnes during this quarter versus 18.9 Lakh tonnes during same quarter last year, and the same trend is seen in the sales for the year also where DAP sale is down from 91.81 Lakh tonnes to 98.7 Lakh tonnes and for complexes the sale is down from 72.9 Lakh tonnes to 71.36 Lakh tonnes, which is a marginal drop, but the overall complex and DAP sales came down from 16.4 million tonnes to 14 million tonnes during the full year and for the quarter they came down from 4.3 million tonnes to 3.18 million tonnes. This is a reflection of demand and sales getting aligned. So the imbalance, which had got created in the second half of 2011-2012 in terms of pipeline inventories, etc. that, is slowly getting absorbed into the system and barring a few states, I think, we are now seeing that inventory is at moderate levels in most of the markets.

Just to give you a sense where these stock levels are because that is obviously a concern for most of us in terms of the pipeline inventory; we had started the year with about 7.2 million tonnes of inventory with about 4 to 4.5 million of DAP and about 3 million of complexes that has now come down to roughly about by end of March 2014 that has come down to about 4 million tonnes and against normal inventory of about 2 million tonnes, which should be there in the system both with the private rate as well as with the institutional customers, so we are seeing an excess inventory of about 2 million tonnes largely concentrated in few states like UP, Maharashtra, and to some extent in Andhra, but Andhra is relatively less as compared to the total demand in the state. In other states marginal quantities of inventories are left and we would have expected that in Rabi all these inventories would have got liquidated but with the domestic production and flow of imports coming in I think that sort of did not happen and we still have some inventory But from 5 million tonne excess inventory at the beginning of the year we are now talking about 2 million tonnes of excess inventory in the pipeline. So that is a healthy sign and that also will get absorbed during the coming season.

Coming to the Company's operations, I think, the results are with you. We have been able to turnaround the operations during this quarter and what we started with July September quarter has continued and we have been able to consistently deliver results, which are superior to the previous quarter's despite the fact that some lag effect of carryover inventory had continued to play on our operations, but by and large all our operations have done

exceedingly well. Just to share some perspective our crop protection along with Sabero business has grown by almost 25% to 26%. So we have now touched a turnover of Rs.1300 Crores in our pesticides business.

On our specialty and organic business, while specialty has grown, but organic is where we saw some little bit of degrowth, but overall this unit also has done well and our retail has really done well with third party product sales almost doubling over last year sales and. Our EBITDA margins also have improved. During the quarter we were at about 8.2% this quarter as compared to 4% last year and 8% in the previous quarter. So, overall we believe that the worst of times perhaps are behind us barring some unforeseen circumstances which can get as a result of El Niño, but our view is that the impact of El Niño is being played out far more strongly in the media than what its actual effect even in the past has been. Given that moisture levels in the soil are good, and the reservoir levels are good with 59 out of 85 reservoirs in the country reporting more water levels than their ten year long period average, we expect the Kharif season to take off in a normal way and we should see normal acreage of most of the crops; Of course final view can only be taken once the final IMD forecasts are out in the next couple of weeks, but even IMD forecasts are talking only about 5% delineation and in 2009-2010 when we had almost 20% delineation we have seen that agricultural production had grown by 0.8% and I think that underlines the resilience of the agriculture to these kind of events and with the economics being good, and the returns being good, I think farmers go out of the way to invest and take care of their crops, change the cropping mix etc., to make sure that their fields are occupied with the crops.

On other front, you would have seen from our balance sheet our total debt equity has come done from 1.04 to 0.64 as at the end of March. Our long-term debt to equity has come down from 0.37 to 0.15 and the net debt to equity has also come down from 0.72 to 0.35 and same trend continues even for consolidated basis. Our receivables are in a much better shape than they were a year ago, both in terms of Coromandel standalone as well as Liberty. Subsidy also is about 20% better than last year.. So, overall I think while the year did see a higher EBITDA as compared to last year despite prior period income etc., our financing costs, depreciation and tax rates were high; In the previous year we had a tax credit due to commissioning of our C-Train project and that had helped us achieve higher PAT last year, but this year we are in full tax bracket. With these words I think we can move on to question and answers, but before that in case Shankar you would like to add anything.

Sankarasubramanian: On the overall working capital position, there has been a considerable improvement. In fact as planned we could redeem the bonus debentures ahead of its repayment schedule and this payment has been done out of the internal accruals without resorting to additional borrowing and that is also one of the main reasons for the reduction in long-term debt equity ratio significantly from 0.37 to 0.15 now and similarly overall debt equity has also

significantly improved. The benefit of this bonus debentures redemption will play out in the finance charges as we move forward. In fact the improved collection in the Q4 also helped in reducing the financing cost for the quarter and overall debt levels have significantly come down and our subsidy levels which closed at Rs.1100 Crores as on March 31 have significantly improved now with collections up to February. In fact at this point of time, we are at historical lows in the subsidy receivable numbers. Things are much better on the liquidity front which has been our main focus in the last two quarters, and that has reflected in our balance sheet size.

Also in the financials we have given effect of the merger of Liberty with Coromandel, the standalone financials include Liberty. So we have to see the financials for the year ended March 2014 including Liberty whereas the previous year standalone financials do not include Liberty; also as part of the merger we have written off goodwill of Rs.137 Crores against the reserves and that has been reflected in the financials. In spite of that, overall debt equity is still at a very comfortable level. We can move on to question and answer session.

- Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. Our first question is from Viraj Mehta of Franklin Templeton. Please go ahead.
- Viraj Mehta:** Sir, can you just give us numbers for tonnage for complexes and MOP and urea for this quarter?
- Sankarasubramanian:** Production for the quarter is 4.57 Lakh tonnes and sales of our manufactured product are 5.05 Lakh tonnes and urea is 1.37 Lakh tonnes, Potash 0.4 laks tonnes.
- Viraj Mehta:** Was there any trading?
- Sankarasubramanian:** Urea and MOP are trading.
- Viraj Mehta:** Within complex was there any trading?
- Sankarasubramanian:** Within complex no trading happened during this quarter.
- Viraj Mehta:** If you can just give us the number in terms of revenues and gross level profit or EBITDA from fertilizer business and non-fertilizer business?
- Sankarasubramanian:** In terms of topline it is 80:20. In terms of overall EBITDA share it is 64 and 36.
- Viraj Mehta:** Sir, if I see your balance sheet there is a reduction of large chunk on gross block. Is that due to non-consolidation of TIFERT?

Sankarasubramanian: In the consolidation financials yes. We stopped the consolidating TIFERT from current year onwards.

Viraj Mehta: Sir, I did not catch the subsidy level number, if you can just repeat that?

Sankarasubramanian: Rs.1112 Cr including Liberty. Coromandel is Rs.1039 Cr and Liberty is Rs.73 Cr, total is Rs.1112 Crores.

Viraj Mehta: Right now if I cross calculate the EBITDA per tonne for our product it comes to around Rs.2100 in complexes. Would that roughly be the correct number with which the company is working with?

Sankarasubramanian: We have always been communicating EBITDA on an average should be around Rs.2000 / MT . I think that is what is playing quarter-after-quarter.

Viraj Mehta: That is true, but even going forward let us say when economies of scale should play out for us, currently for the year we would be at 2.4 odd million tonnes, but let us say utilization goes up to 2.8 or over a couple of years to 3 to 3.1 then should the economies of scale increase our EBITDA tonnage?

Sankarasubramanian: Operating leverage should definitely help in better absorption of fixed cost, but we need to see at that point of time how other input costs and other market prices operate, so that is what we always maintain a sustainable EBITDA of Rs.2000 per metric tonne.

Viraj Mehta: What have been our phos acid costs for next quarter?

Kapil Mehan: \$715 per tonne.

Viraj Mehta: \$715 and what was it for this quarter?

Kapil Mehan: For the quarter under review was \$680.

Viraj Mehta: We are hearing a lot of rumors that the costs have actually gone down. Phos acid costs had gone down recently to around \$650 levels also, but that does not seem to be the case?

Kapil Mehan: They never went down to \$650 and were close to \$680/ MT

Viraj Mehta: Thanks a lot. Best of luck.

Moderator: Thank you. Our next question is from Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thank you for the opportunity. I just have two questions. First is on the gross margins. Margins have improved on year-on-year basis, but have declined sequentially. So the question is have we taken any price discounts or is there any impact in terms of repricing of inventory for the New Year in this quarter?

Kapil Mehan: As we have always said that quarter-on-quarter movement of prices and movement of margins etc., in agri based business will not give you the correct perspective because cropping pattern change, the input usage is changed and international prices change, so it always has an impact; Our fertilisers business has faced a challenging business environment with oversupply resulting from demand collapse close to 37% to 38% over the last two years. Sales have come down from almost 21.5 million tonnes to 14 million tonnes this year and that is very big drop in sales. Last year we also had seen some price reduction taking place from Rs.24000 per Mt of DAP to Rs.22500/ MT so that impact also obviously is there absorbed during this year partly, because partly we had kept some provisions last year and partly it has happened during this year. Considering all that our 8.2% EBITDA margin, I think it is quite healthy

Viraj Kacharia: My second question is we recently announced a joint venture with Yanmar for rice transplanters and agri products. I do not understand what is the rationale for getting into this segment because we already have a lease model through our retailed segment?

Kapil Mehan: Basically, the rationale for getting into this segment was to have some degree of indigenization attempted so that we could bring down the cost of delivering the service to the farmers. More importantly to maintain these machines, service network has to develop, distribution network has to be developed, sort of reasonable number of operators need to be trained and that cannot be done if the market does not grow to a threshold level and basically to kick-start that process and also to participate in this emerging opportunity of farm mechanization, which over the next ten years we believe will become a big business. It will no more be a tractor led business only, but it will be more farm operations led and farm labor intensive pieces getting done through machine, which not only help mitigate the shortage of labor, but also helps to improve the productivity of the farms and that is what our last three years work has shown that while there is definitive comfort and convenience that the farmer gets and reduction in risk of availability of labor, but more importantly it leads to an increase in productivity and that is what the farmers have begun to realize. We wanted to participate in this opportunity because the core purpose of Coromandel is to help farmers improve productivity

Viraj Kacharia: Because JV partner Yanmar they also have a range of agri products, so apart from paddy transplanters, what are the farm mechanized products are we looking to venture into?

Kapil Mehan: I think paddy transplanter will be the first one to enter into and then there will be series of other equipment which will come in and Yanmar specializes in rice de-weeders and rice transplant harvester, etc., This is just a beginning of the partnership and as and when we get more and more comfortable with each other, and as we know more and more each other, I think there will be opportunity for lot of Yanmar and other equipments to come into the market.

Viraj Kacharia: Would we be using our current dealer network?

Kapil Mehan: That will also be one of the networks that we will be using because we have very strong and a wide relationship in Andhra and Karnataka with farmers directly which is a very unique relationship and a large relationship that we will definitely be leveraged for this business also.

Viraj Kacharia: Thank you very much.

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

Prakash Goel: Thank you for the opportunity. I have primarily two questions; one with regard to margin per tonne. We are coming from an environment wherein the material prices were falling and traders were very active and which was also leading to a lot of discounting at a dealer level and to an environment where the prices are inching up and inventory related problem in the trade is coming down, we are of the opinion that the Coromandel has potential to make margin higher than Rs.2000 per tonne, we would like to get your view on that Sir?

Sankarasubramanian: There can be an opportunity especially when the capacity utilization improves and the operating leverage improves, but on a steady state there maybe positives and negatives on the inventory side and on the market side.

Prakash Goel: Just for our understanding, are you submitting the cost related data, which was required last year?

Kapil Mehan: We are submitting the data every six months the cost audit data as per the Company Law requirements that data will be submitted. We have submitted in the past also and we will continue to submit that data to the government.

Prakash Goel: So that was nothing new that which has come in the last year circular where the cost related data need to be submitted. So that was not a new thing?

- Kapil Mehan:** No. The only difference is that the Company Law data we upload every year. Here we give them in two tranche's of six months each.
- Prakash Goel:** The second question is with regard to the working capital. The interest cost is quite chunky this year. How much of this is hedging related costs and other which is not related with the borrowing of the 240 Crores.
- Sankarasubramanian:** Premium costs are not forming part of the finance costs now. They are grouped under the other expenditure.
- Sankarasubramanian:** Of course you have to take the other income which is the interest income, so basically you should look at net of that. Financing cost is Rs. 180 Crores, net of Rs. 60.76Cr of income on surplus money deployed
- Prakash Goel:** Thanks a lot Sir. All the best for the future.
- Moderator:** Thank you very much. Next question is from the line of Abhijit Dey from BNP Paribas Mutual Fund. Please go ahead.
- Abhijit Dey:** Good afternoon. Congratulations on a good set of numbers. Just one housekeeping question; can you just explain how the standalone revenues is higher than the consolidated revenues for the March quarter?
- Sankarasubramanian:** As per the SEBI listing requirement the Q4 number needs to be the residual of the full year number minus nine months number. Nine months is without Liberty whereas full year number includes the full year of Liberty financials included in that. So this is more of a reporting requirement. So to have a clarity you should refer to note 15, which gives the quarterly number of Liberty whereas the top sheet reflects the full year number of Liberty included in this quarter as per the listing requirement.
- Abhijit Dey:** Secondly, Sir, if I can ask what is your outlook on DAP imports for the current quarter for the current year?
- Kapil Mehan:** DAP import is basically residual supply source to meet the gap between the demand and supply and if you look at the last year's trend where imports have come down from almost 6 million tonnes to about 3.7 million tonnes and this year also we are seeing that there is an excess inventory of about 2 million tonnes in the system and if that is taken into account import requirement will really depend on how the demand picks up during this season, and I think people would like to see the outcome of seasonal factors and the sowing etc., so we do not expect major imports coming in during the first quarter, but the gap really emerges during the first flush of Rabi sales when you have more demand than what the domestic

supply can meet. So we should see imports happening more in the second quarter from August onwards than now, but we do not see major surge in imports taking place because people by and large have not been able to maintain margins. They have been discounting in the market place by more number of importers being there and trying to compete for the same pie and we do not see that being a major factor and even if the prices were to come down and working capital concerns, the subsidies, related issues, the discounting in the market, the fact that the trade is not paying on cash and carry basis, I think some of these factors will keep a natural check on imports.

Abhijit Dey: Will the industry able to increase prices of DAP from Rs.22500/ MT to back to the Rs.24000 / MT levels in this current Kharif season? Do you think that will happen?

Kapil Mehan: There is no reason to do so, because the Rupee has appreciated, the international prices are relatively stable. Actually the K prices have come down, the N prices, the urea prices are down so there has to be adequate reason for us to increase the prices because we are very conscious and aware of the fact that while we have the pricing freedom, but we also have the responsibility to maintain prices at a level, which is affordable by the farmer and we do not want the demand to get impacted. We also do not want anybody to say that the industry takes advantage of demand supply mismatches etc. So, I think pricing is a far more complex issue now than it used to be in the past. So, we will take price increases only in case there is definite need to do so.

Abhijit Dey: I was saying this just to highlight the fact that imported price have also gone up for DAP?

Kapil Mehan: Well imported prices have not really gone up. Actually they are at about 450 to 460 levels right now and I think they will remain at that level given that there are enough supplies coming in from both China as well as Saudi Arabia. I think the international supply system has also adjusted to the lower demand in India and I think the operating rates globally, have all adjusted to this. Some countries have seen improvement in terms of import of phosphates, but India will see increasingly more and more emphasis being given on complex fertilisers and on specific combination of NPK and other fortified products.. For example Coromandel's stated strategy is to go for more crops specific, area specific, formulations of complex fertilisers rather than selling plain vanilla DAP; We have even gone to the extent of fortifying some of these and have started selling fortified DAP also. So, we will continue to move more towards specialization and customization of our offerings to the farmers than plain vanilla DAP.

Abhijit Dey: Thank you.

Moderator: Thank you. Our next question is from Balvinder Singh of Prabhudas Lilladher. Please go ahead.

Balvinder Singh: Thanks for taking my question. What is the kind of volume growth that we are looking on manufactured fertilisers for FY 2015 or say the kind of capacity utilization that you are looking because I think last quarter that is in the December quarter you have guided for around 85% capacity utilization for fiscal 2015? You still hold that.

Kapil Mehan: While we had given last year a number of 70% to 80% which was dependent on demand, working capital and raw material availability, etc., but with the inventory levels in the market coming down, our own pipeline inventory is coming down. We will definitely see an improvement in operating rates going forward but we would refrain from putting any number out at this point of time, because it is a function of so many variables.

Balvinder Singh: The 85% utilization that you gave for next year probably you are...?

Kapil Mehan: Well our efforts will be that having put up the capacity and having bought more capacity through Liberty also, we will continue to drive capacity utilization upwards so that our operating leverage is better, but we would not like to put out any number because of too many variables. We have recently taken turnarounds of our plants. Our plants are fit to produce as much as the market demands and we will produce to demand and not produce to overstock or wait for the demand to come up. It is a norm that is emerging in the industry as last one and half years have been tough for us and we have to learn that we have to maintain a certain discipline in demand and supply and our production levels.

Balvinder Singh: To put at the other way around assuming that it is a normal monsoon year what kind of volume growth can we look in Coromandel for the next year?

Kapil Mehan: As a policy we do not give these kinds of guidelines but our effort would be to continue to have the similar kind of growth that we have seen in the recent past.

Balvinder Singh: On the trading side, I mean the current global DAP prices have moved from \$300 to \$500 and then it has again come down to around 450 to 460, so don't you think at \$450 to \$460 it makes sense for importers to start importing again?

Kapil Mehan: That is what I mentioned in response to an earlier query that imports again will depend on what the market realizations are because the realizations have been lower than what the stated prices because in most of the DAP dominated markets the prices have been low; especially in the northern states and then the working capital that you required to fund the subsidies dues the working capital that your require to fund your sales to the dealers, etc., all these factors will continue to be the considerations for the importers to moderate their import levels; Upto 2010-2011, 2011-2012 anything that you could import was getting sold, but that is not the case anymore.

- Balvinder Singh:** What is the current DAP realization?
- Kapil Mehan:** DAP current price is Rs.22700 per tonne at MRP level and most of our markets we are operating with normal margin structures.
- Balvinder Singh:** I wanted to understand, is this Rs.22700 / MT after giving all kind of discounts?
- Kapil Mehan:** This is the selling price to the farmer without local tax. So on top of it you will have dealer margins, you will have the freight costs and excise duty, so all that put together I think about Rs.1200 to 1300 will go.
- Balvinder Singh:** So it will be around Rs.21500 / MT?
- Kapil Mehan:** Rs.21500 / MT or so.
- Balvinder Singh:** Thanks Sir. I am done.
- Moderator:** Thank you. The next question is from the line of Pratik Poddar from ICICI Prudential Asset Management. Please go ahead.
- Pratik Poddar:** Good afternoon. Most of my questions are answered just one industry level question do you expect one time correction to be subsidy provided by the next government?
- Kapil Mehan:** We really do not know because under NBS policy the rates for this year have already been announced with correction.
- Pratik Poddar:** I was referring to the provision which has been made in the budget.
- Kapil Mehan:** With respect to budget provisions it is a constant demand of the industry that the government must provide adequate budget so that it can continue to pay the subsidy and I think the problem is more with the urea sector than with the P&K sector at this point of time because urea subsidy is without any limits so whatever are the cost increases the government has to pick up the bill as the selling price is fixed whereas here the subsidy is fixed and last year the subsidy was Rs.12350/ MT for DAP and that continues to be same, potash subsidy is down so government will save about Rs.1000 Crores subsidy on that which will go towards a little less than a month's subsidy requirement for domestic producers, so in that sense I think P&K sector is relatively better and we have seen that over the last three to four years. Earlier the budget used to get over by July-August this year we got payments up to November or even part of December also within the financial year and now as we enter this year, we have already received most of the on account payment for up

to the month of February also, so I think at least for P&K fertilizers so long as the subsidy rates are coming down, will continue to be better even at current levels of budget.

Pratik Poddar: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Manish Mahawar from Edelweiss. Please go ahead.

Manoj Bahety: This is Manoj here. Good afternoon. Sir I have couple of questions. First is on our retail business, a year back we were having plan to have around 1000 retail outlets which I think we have taken a pause this year, so what will be your plan for the coming year for addition of retail outlets?

Kapil Mehan: I think we are currently at about 800 outlets and in the last three months we have opened about 160 outlets more. Our last year's average number will be around 630 to 640 levels and that has now gone up to 800 and most of the year we will operate with 800 outlets and may be towards the end of the year we may add another 150 to 200 outlets, so FY 2015 early FY 2016 we are talking about 1000 outlets in the business.

Manoj Bahety: It will be in the same states or it will be growing in other states?

Kapil Mehan: As of now we have consolidated into Andhra and Karnataka. Andhra we have now 600 outlets and Karnataka we are adding 100, so Karnataka will have 200 outlets. The next states will really be Maharashtra and Tamil Nadu, so by end of this year we will start opening up outlets in those states also.

Manoj Bahety: In the retail outlets what is the mix between fertiliser and non-fertiliser that is one and secondly how much of our sales in particularly those states where this retail outlets are there, how much of our sales happen through dealers and through retail outlets as a percentage of outlet?

Kapil Mehan: Andhra we sell about 30% of our fertilisers through retail outlets and in terms of overall share of our own versus other currently it is at about 25% and 75%.

Manoj Bahety: 25% is outside and 75% is ours right?

Kapil Mehan: Yes overall.

Manoj Bahety: Obviously, I think margins for outside sales will be significantly higher than our own fertiliser sales?

- Kapil Mehan:** Most of it is non-fertiliser product so that is what it amounts to, so definitely as the share of non-fertiliser grows that is where the margin improves and but if we are selling more of our own pesticides or speciality nutrients that also improves the margin. It is the non-fertiliser sales through retail outlets which really drives the margin improvement.
- Manoj Bahety:** What proportion business you would like to do of own products vs. others' products through retail outlets?
- Kapil Mehan:** Well we would like more and more third party products to go through it as well as provide distribution support to our own products also, both fertilisers as well as pesticides and speciality nutrients so there is no definite target that we are driving on that front. But we are keen that non-fertiliser sales should continue to grow at the rate at which it has been growing and last year we have seen almost 90% growth in our non-fertiliser non-company products.
- Manoj Bahety:** What is the proportion of fertiliser versus non-fertiliser in the retail outlets? It is same 75-25?
- Sankarasubramanian:** It is around the same number.
- Manoj Bahety:** Lastly if you can talk a bit about your other non-fertiliser business like organic manure if you can share the volume numbers there as well as water soluble fertilisers?
- Sankarasubramanian:** Organic manure will be around 1.3lac MT for the year , because fourth quarter is an off season we have done only 15000 MT.
- Manoj Bahety:** Are we still retaining the earlier target because I think we are seeing enough challenges in scaling up this business for last two years, so we were talking about to have medium term target of around 1 million tonne of sales in organic manure?
- Kapil Mehan:** I think see there are lot of supply chain configurations and optimizations we have done during the last period and most of that work is over so now I think this year that business is sort of starting on a clean slate and that should help us to grow this business because fundamentals of this business, the need for organic carbon in Indian soil is definitely required. There is no doubt in our minds that this is the business of the future and only getting your supply chain right, getting your distribution costs right is the critical success factor going forward in this business and that is what we will continue to drive and we will continue to focus on this business to grow that and we are giving adequate marketing inputs to make sure that this business grows.

- Manoj Bahety:** Sir if you can talk a bit about what where the issues with supply chain which has been fixed?
- Kapil Mehan:** Well see the quality of supplier base, the inventory levels that we maintained in our warehouses versus their warehouses, how much secondary transportation costs that we can incur, how far we can go from the production base to the market, so I think some of those issues you learn as you go along and that is what we had got places where more inventory got built up than the demand and market also needs to be properly segmented because in some crops, in some soils these organic fertilisers have a better technical fit than general purpose crops, so I think a lot of learning has happened over the period and that is what last year we were sort of trying to consolidate our position and there was additional working capital which had got into that business which needed to be contained. So I think those issues have been more or less fixed and I think we will start seeing growth in that business once again from this year onwards.
- Manoj Bahety:** Thanks for taking my question. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** Thanks for taking my question. I just wanted to understand a little bit on the dealer credit that you started, what used to be a cash and carry business became credit period business, what kind of credit do you still give?
- Kapil Mehan:** See it depends on seasonality of the business. I think it varies from 30 days to 90 days depending on when you are selling.
- Puneet Gulati:** You also mentioned that in AP you sell 30% of fertilisers through your retail network, was not it used to be higher earlier?
- Kapil Mehan:** No it has been around that level only. We are talking of the total sales because we sell to institutions also, we sell to private trade also and we sell through our retail outlets also.
- Puneet Gulati:** 30% of AP is sold through your own retail?
- Kapil Mehan:** That is right.
- Puneet Gulati:** Lastly if you can give a number for Sabero's capacity utilizations?

- Kapil Mehan:** Sabero has achieved turnover of about Rs.726 Crores during the year and we believe that it has a potential to go about Rs.1000 Crores. So we can say it is little over 70% is the current capacity utilization level.
- Puneet Gulati:** That means it has remained pretty much same over last six months?
- Kapil Mehan:** That is right because we had a little disruption in operations in second half and that sort of restricted our operations to that level. You are right.
- Puneet Gulati:** Last year you gave a number of revenue breakup and EBITDA breakup between fertiliser and non-fertiliser. Is that for consolidated or standalone?
- Kapil Mehan:** Consolidated.
- Puneet Gulati:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Good afternoon Sir. Good set of numbers. Few questions, on the production side, if I heard correctly you said there was production of 410,000 tonnes right, manufactured fertiliser production in the quarter?
- Sankarasubramanian:** 4.57 lac MT
- Bhavin Chheda:** So the capacity utilization was much less than the previous quarter. It was an intentional reduction of production or was there any shutdown or any other related events?
- Kapil Mehan:** It is an off-season quarter. January and May, is primarily the off-season and during this time, we also take our annual shutdowns and maintenance time out, which can vary from plant-to-plant, but generally it is about 30 days off which we normally take in March and April and that impact will always be there in these two quarters. So it is more trying to match demand and supply.
- Bhavin Chheda:** Sir, what would be the DAP import numbers for fiscal FY 2014, DAP and complex overall import numbers?
- Kapil Mehan:** DAP is around 3.3 million tonnes and complex is around 4 lakh tonnes.
- Bhavin Chheda:** Do you expect these numbers to remain at current levels, increase, decrease what is the view on that?

- Kapil Mehan:** It will be a function of how the demand for phosphatics plays out in Rabi. We expect that there will not be any major increase in import as compared to the last year in Kharif, but Rabi it will all depend on how the rains play out and how the pipeline inventory comes down; we do not see any major surge in imports happening, because demand is likely to remain more or less at the same level as of last year given some monsoon related concerns being expressed so domestic production will be sufficient to meet the demand.
- Bhavin Chheda:** Sir, this Liberty Phosphate SSP business had seen a margin pressure in FY 2014. So, has it stabilized at lower levels, improved or what is the outlook on SSP business?
- Kapil Mehan:** We will see an improvement in SSP business because the discounting which had happened during the last four to five months is coming slowly to an end, because every SSP company which publishes results is reporting losses and that is something, which is not sustainable in the long run. People had responded early to the price corrections, but those raw material price corrections never happened. With the result I think almost all SSP players have lost money in the business. Our margins also came down, but the only thing is we did not move into the negative.
- Bhavin Chheda:** Sir, my last question on Sabero, you said Rs.1000 Cr is the peak potential I am assuming current capacity and not from new Dahej plant, right?
- Kapil Mehan:** From the current plant.
- Bhavin Chheda:** What would be the potential from Dahej plant and what is the runrate at Dahej plant right now?
- Kapil Mehan:** Dahej plant currently we are doing only formulations, so most of the value addition is captured in technical manufacturing and formulations has very small margin, and that is also mostly for exports, but once we take a decision on technical manufacturing at Dahej then you will see major improvement coming in and that is something, which currently we are in the process of discussing and finalizing in terms of what to produce in Dahej. So we have some ideas on that.
- Bhavin Chheda:** Is there any export potential in pesticides also and how much would be the exports as a percentage of overall sales in pesticides?
- Kapil Mehan:** Sabero, I think 60% now is exports and 40% is domestic. We have the pipeline of registrations in most of the growing markets especially in Latam and Africa and that will continue to see the growth of exports.
- Bhavin Chheda:** Thanks a lot and best of luck.

- Moderator:** Thank you. The next question is from Jasdeep Walia from Kotak Securities. Please go ahead.
- Jasdeep Walia:** Good afternoon Sir. Can you let us know the gross debt number for the consol entity?
- Sankarasubramanian:** Rs.124 Crores is included in the current liabilities as current maturities of LT loans and balance is appearing in the balance sheet.
- Jasdeep Walia:** So, whatever the long-term and short-term debt consol number is there in the reported number, just have to add Rs.124Cr to that?
- Sankarasubramanian:** Correct. That it has to be taken out from the other current liabilities, which is included in Rs.507 Cr.
- Jasdeep Walia:** Sir, what would be the year end acceptance's number?
- Sankarasubramanian:** Rs.1230 Cr.
- Jasdeep Walia:** What has been the performance of TIFERT in this year? If you could just give us the headline numbers in terms of let us say sales, EBITDA, PBT or whatever you are comfortable with?
- Sankarasubramanian:** TIFERT is treated as an investment after it has gone into production and so we are not consolidating the financials.
- Jasdeep Walia:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Amar Mourya from India Nivesh Securities Private Limited. Please go ahead.
- Amar Mourya:** Thanks a lot for the opportunity. Just wanted to check, if the sales from the production units 4.57 lac MT what is the traded volume? sales?
- Kapil Mehan:** The sale of MOP is 40000 tonnes and urea is 137,000 tonnes.
- Amar Mourya:** Sir, second question is now based on the inventory level obviously we are seeing a decline in the inventory level overall in the industry but given the El Niño do we expect to continue the similar kind of growth rate what we had produced during the quarter or it would be better than that. Just wanted to have your own review?

- Kapil Mehan:** Fourth quarter and first quarter are always low quarters because these are off-season quarters. We will always be having our turnaround during this period. We do the necessary plant maintenance during this period. We also produce carefully to the level that of inventories that we want to carry into the season, so you will always see that these two quarters, the production and sales will be somewhat less than what it will be in the period from July to December.
- Amar Mourya:** What is the volume growth during the year?
- Kapil Mehan:** The total domestic volume has grown from 18.57 Lakh tonnes to 23.67 Lakh tonnes is our production increase whereas our sales increase for complexes and DAP is 21.48 Lakh tonnes to 23.34 Lakh tonnes which is a growth of 8.6%. What has happened is that we have replaced lot of imported product sales of last year with our own manufactured product sales this year. So that will continue to happen, because we will concentrate more and more on our own production and that also of our own special customized grades of complex fertilisers rather than producing plain vanilla DAP even DAP we have started now zincated DAP sale.
- Amar Mourya:** So, we are likely to grow somewhat 10% level during this year also?
- Kapil Mehan:** Well our internal targets are to grow at a higher rate than that because we still have a lot of unutilized capacities. As we have shared earlier that non-SSP capacity with us is around 35 Lakh tonnes as against that we have produced around 22.6 Lakh tonnes and our effort would be to ramp up this capacity utilization and go as close to about 90% as possible.
- Amar Mourya:** So the current utilization levels are around sub 70%?
- Kapil Mehan:** It is little less than 70%.
- Amar Mourya:** Sir, despite that the margin improvement which we had seen is also flowing from the economies of scale or it is more to do with the inventory changes?
- Kapil Mehan:** Well it is a combination of all the factors. I think it is also a good mix of raw material pricing as well as product pricing. It is a function of inventory changes. It is a function of higher capacity utilization as compared to last year, so all these factors have contributed to improvement in the margin structure.
- Amar Mourya:** Any idea like 1% change in the utilization level would add what percentage or what basis points to the EBITDA margin, if you have some figures?

Kapil Mehan: It is not stable. You must appreciate that all our raw materials are linked to international pricing, and also to Rupee Dollar exchange rates. So it is very difficult to take such a definite view on these things.

Amar Mourya: Appreciate it. Thanks a lot. That is all from my side.

Moderator: Thank you very much. Ladies and gentlemen due to time constraints that was the last question. I would now hand the floor back to Mr. Jaisinh Suchak of JM Financials for closing comments. Over to you Sir!

Jaisinh Suchak: Thank you Karuna. On behalf of JM Financial I would like to thank the management team of Coromandel International and all the participants for joining us on the call today. I will now hand over the floor to Mr. Mehan for the closing remarks. Over to you Sir!

Kapil Mehan: Thanks Suchak. I think we did get very incisive questions coming in from our investor friends and only thing I would like to add here is that I think the working capital pressure and the inventory overhang that we had seen over the past few years, and the investments that we have made in our Sabero, in Liberty, in our C-Train, all of these have started paying back even TIFERT, where there are civil issues still in that country with elections of the popular government not having taken place, but for the last two months that plant is now producing at about 70% levels, which I think is a good level for them to steadily keep supplying the raw materials to us. So we will have better raw material availability coming out of Tunisia during the coming year and we hope that these inventory pressures and working capital pressures are behind us. I think our teams have worked very hard to come to where we are and I think that effort will continue over the next few quarters so that we are back to normal. That is all I have to say, Jaisinh. Thank you very much for organizing this conference.

Jaisinh Suchak: Thank you so much Mr. Mehan.

Moderator: Thank you all. On behalf of JM Financial Institutional Securities Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.