



“Coromandel International Limited Q1FY15
Results Conference”

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**MANAGEMENT: MR. KAPIL MEHAN – MANAGING DIRECTOR,
COROMANDEL INTERNATIONAL LIMITED
MR. S. SANKARASUBRAMANIAN – CHIEF FINANCIAL
OFFICER, COROMANDEL INTERNATIONAL LIMITED**

Moderator: Ladies and gentlemen, welcome to the Q1FY15 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 remainder, 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 the conference call, please signal an operator by pressing “*” then “0” on your touchtone 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: Hi Karuna, thank you very much. Good afternoon ladies and gentlemen. On behalf of Emkay Global Financial Services, I welcome all the participants who have logged in for the conference call. Thanks to the management, Mr. Mehan and Mr. Sankarasubramanian for giving us their valuable time. Sir, I will first request if you can just give us a brief about the current quarterly results and how you see the situation panning out going forward and then we can follow it up with the Q&A session .

Kapil Mehan: Good afternoon everybody and thanks Rohan for the introductory remarks. Let me begin by giving you an overview of the business environment that we have seen during the quarter. We have had a new government and there is lot of optimism. I think a lot is being written and talked about that and we do share that optimism that this government will be reform oriented and we should see long pending reforms taking place in fertilizer sector also; for example the imbalance in the nutrient use ratios. I think our initial interactions with the government do indicate that there is a realization of this issue within the government and they are keen to correct this. Also I think the focus of the government on agriculture and ensuring the rural economy continues to thrive is very much evident. If we will look at the budget for this year, there is a lot for agriculture sector and that augurs well for all agri input industry.

Specifically coming to this quarter’s demand fundamentals, I think we are all aware that monsoon was delayed and there was almost over 40% deficit in the monsoon during the first quarter and unlike last year, this year we saw that sowing of most crops has got delayed. By the end of June, for most of the crops other than sugarcane and soya-bean, we were at around 45%-50% level of sowing as compared to last year. And sowing is the lead indicator for the demand of agricultural inputs going into the crop cycle. Last year while we saw early onset of monsoon and early sowing, this year we are seeing delayed onset as well as delayed sowing and I think that we must keep at the back of our mind when we are looking at the quarterly results. Having said that, I think as we have always maintained that quarterly results for agri input businesses are a very difficult parameter to look at because the demand shifts of a few weeks here and there can make a difference to the quarter’s performance.

Having said that I think if we look at the company’s results, our production for complex fertilizers has been up from 3.23 lakhs tonnes last year to 4.59 lakhs tonnes during this year and sale of our

manufactured fertilizers also has been higher at 4.16 lakhs tonnes versus 3.57 lakhs tonnes during last year and this has to be seen in context of larger sale which has taken place in the industry also. We have seen industry sales growing up from about 17.5 lakhs tonnes to about 23 lakhs tonnes and I think that is again exactly as we had anticipated because pipeline inventories are at much lower level as compared to the past, and our market share stands at about 18% for the first quarter.

Our performance for our Plant Protection business on production front has been satisfactory and we have continued to grow both in our Ankleshwar technical manufacturing facility as well as in Sabero. There we have seen higher production resulting into higher sales. Sabero results are already available with you where sales has grown from Rs.181 crores to Rs.221 crores during the quarter while the profits have improved. The interest costs have come down there.

Coming to the financial results of Coromandel: Our consolidated turnover for the quarter is Rs. 1,881 crores which is lower by about Rs.15 crores from last year's Rs. 1,897 crores. Our reported EBITDA for the quarter is Rs. 122 crores versus Rs.109 crores last year and this has to be seen in context of prior period income that we had during last year where as we have nil prior period income during this year. I think if we look at other businesses, while topline we continue to be at 76%-24% at consolidated level and at EBITDA level it is 60:40, 60% fertilizers and 40% non-fertilizers. Our non-subsidy businesses which is largely Crop Protection business has continued to do well. Our Specialty business has done well. Our Retail business was affected during the quarter because of delayed onset of monsoon and lower level of sowing etc. SSP business which has got merged with the company, we had seen production down to about 87,000 tonnes from 1.01 lakhs tonnes last year and sales being lower at 80,000 tonnes as compared to 1.04 lakhs tonnes during last year. This was primarily due to very low sowing levels in major crop which is soya bean which consumes SSP in MP and Maharashtra and in Rajasthan. But as we speak now, things are much better.

In Sabero, the EBITDA is up by 23% from 19.62 crores to 24.14 crores and plant is operating now currently at about 70% of its potential capacity and that is something which is really good and this is where I think we can perhaps switch over to Q&A maybe Sankar, would you like to add.

Sankarasubramanian:

No, we can move to Q&A.

Kapil Mehan:

And also for your information, I have our senior colleague Mr. Veerabhadran with us who is in charge for our Pesticide business. He is the President of our Crop Protection business as well as Whole-time Director of Sabero Organics and he is also in this call. So then we will now request that you please ask your queries.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Viraj Kataria from Security Investment Management, please go ahead.

Viraj Kataria:

Just have couple of questions. First is on the overall volume growth for the first quarter, you did highlight in the press that we did a lot of channel selling that drove the volume growth. Now if that

is the case given the overall weak demand primarily due to monsoon which you highlighted, what are we seeing in Q2 that gives us an increased confidence in terms of volume growth?

Kapil Mehan:

I think we are seeing much better demand fundamentals now. The sowing at this part of time I think across the country is very brisk barring some areas in Gujarat where still, I think there are concerns in Saurashtra and Kutch region,, the rains have not really started.. But barring that, I think that in most of the country sowings are very brisk and we will see much better level of sowing in the month of July as opposed to the month of June. But overall we should see some drop in the overall sowing for the Kharif as such because we do not think that Soybean sowing is going to be made up to the full extent and even if it gets made up, it will be with short duration variety whose productivity also is less and requiring lesser quantity of agri inputs. So that is only one crop. The major crop for this season which is paddy is likely to reach its normal level or may be slightly below the level that we saw last year. But I think by and large, other crops should catch up over 90%-95% levels during the year end and that should lead to consumption levels being maintained on slightly depressed, but we still believe that the sales of the industry will be better than last year especially for fertilizers whereas for plant protection, even if there is a little slowness in the growth in the domestic crop protection chemicals, we have enough registrations in markets around the world and whatever little surplus is left in India will be absorbed by our international customer base.

Viraj Kataria:

Sir second question is on the other expenses like where we have seen a significant increase over last couple of years. So just want to get a sense what is the key variable in that and what has been driving that?

Kapil Mehan:

The major expense is that is our forex hedging cost and freight and distribution cost and...

Kapil Mehan:

I think Mr. Sankar would like to add to that.

Sankarasubramanian:

Other expenses includes all expenses other than freight and distribution which means it includes power fuel and consumables, foreign exchange difference, administrative expense, travel, sales promotions, all are grouped under this. To the extent of the increase in production level, there will be increase in power and fuel and as well as other expenses. In fact there has been a significant reduction in exchange difference compared to corresponding period last quarter because of the way we managed it during this quarter. We need to see this with reference to the level of production. Also the current quarter of standalone results include financials of Liberty as well whereas the corresponding period previous year is excluding Liberty. With the merger of Liberty, we are reporting on a consolidated basis from current year onwards. It is more to do with the increased level of operations.

Viraj Kataria:

Sir just one last question. Now incrementally we have been manufacturing more from our own production facilities and that has been the trend for last couple of quarters. However given the weak environment that clearly is reflected at our EBITDA levels, are we engaged in some kind of discounting in the quarter to push the sales?

- S. Sankarasubramanian:** There is no discount being offered for the fresh sales which are happening in the current year. We are selling at MRP except that sometime we may have to extent some cash discounts to collect the money before the due date. Whatever discounts have to be incurred in respect of previous year's sales have already been provided for in the previous years. So there are no fresh discounts in this year.
- Moderator:** Thank you. Next question is from the line of Balwindar Singh from Prabhudas Liladher. Please go ahead.
- Balwindar Singh:** Firstly, I missed the non-subsidy portion. You said it is 40% at EBITDA level, what is it at the revenue level?
- Kapil Mehan:** 76:24.
- Balwindar Singh:** And this is at consol level right?
- Kapil Mehan:** This is at consol level.
- Balwindar Singh:** Sir coming to this quarter's performance, I think that there is some disappointment in terms of margins given the fact that we have always been highlighting that we will be able to do Rs. 2,000 king of margins in fertilizers. So my working suggests that fertilizer margins are not more than Rs 1,600-1,700. Is it correct?
- Kapil Mehan:** I think you are correct. This is simple arithmetic, but I think if you look at our EBITDA margin for the quarter has improved year-on-year basis and that has been improving for the last three quarters. Every quarter it has been improving. You also have to see the EBITDA margin in context of our production and capacity utilization where fixed cost absorption is at a much lower levels. But if you look at before fixed cost, our contribution actually is slightly higher than last year same period. So that way operationally there is no issue at all, but EBITDA level it is slightly lower than Rs. 2,000. But Rs. 2,000 you should look at in the context of about 50% capacity utilization.
- Balwindar Singh:** No, I completely understand that. What I meant was that given that already the environment is not very good, so probably we might have given some discounts or may be cash discount...
- Kapil Mehan:** There is no drop in our EBITDA because of discounting.
- Balwindar Singh:** So I mean where is the margin disappointment compared to quarter-on-quarter. When I compare it quarter-on-quarter, last quarter our margin was Rs. 2,000.
- Kapil Mehan:** In agri businesses never compare quarter-on-quarter because you will also get misguided and misled.
- Sankarasubramanian:** Balwinder, one clarification. If you want to compare even on a quarterly basis if you look at the volumes of fourth quarter versus that of current quarter, there has been a drop. So to that extent,

there will be an under absorption of fixed overheads. We maintain Rs. 2,000 is an annual sustainable EBITDA driven by the capacity utilization levels. Generally the first quarter being offseason period, naturally you will have an EBITDA lower than that. But if you look at annual average and even if you look at the trailing four quarters, there has been a significant growth over the corresponding trailing four quarters average of the previous year.

Balwinder Singh: So sir to put it the other way round, if our annual margin guidance is Rs. 2,000 per tonne that means that in the subsequent quarters we will be doing more than Rs. 2,000 in order to arrive at a yearly figure of Rs. 2,000.

Sankarasubramanian: Yes. That is what happens every time.

Balwinder Singh: Okay and why is the interest cost high this quarter given that the debt came down in March quarter as such?

S. Sankarasubramanian: See there are two things. We have slightly shifted our strategy in terms of foreign exchange exposure with a fully hedged cost being costlier, we shifted to rupee borrowings. When we take a dollar borrowing, the dollar interest rate alone gets grouped under the financing cost and the premiums are grouped under other expenditure. If you see our other expenditure, has shown a significant drop basically because our premiums have come down almost by Rs.22-23 crores. Since we shifted from dollar borrowing to rupee borrowing, our total interest burden gets booked into financing cost. In terms of cash flow, there is an improvement and debt is at the same level of fourth quarter. But due to the shift in borrowing mix from dollar to rupee there has been an impact on the reported interest charges.

Balwinder Singh: Okay, sir what is the current subsidy due?

Kapil Mehan: Outstanding is around close to Rs. 900 crores plus.

Balwinder Singh: Last question and then I will jump back to the queue. Would you like to give any color on the production levels for FY15?

S. Sankarasubramanian: We do not give any guidance on volumes.

Balwinder Singh: And capacity utilization?

S.Sankarasubramanian: That gives the same answer.

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

Bhavin Chedda: Sir you mentioned the sales volume of 4.16 lacs MT is it including SSP?

Kapil Mehan: No, excluding SSP.

- Bhavin Chedda:** This is excluding SSP of 80. So sales would be like close to 5 lac MT?
- Kapil Mehan:** Yes, about 5 lakhs tonnes.
- Bhavin Chedda:** And Mr. Sankar, you mentioned your volumes are down quarter-on-quarter, but if I am not mistaken March quarter was 4.57 lac MT. So do I have a wrong number for quarter 4 because this quarter is 4.58 lac MT and if I have a March...
- Sankarasubramanian:** Yes, right. On production levels you are right, but if you look at the sales quarter-on-quarter basis we are down.
- Bhavin Chedda:** And sir what was the reason of higher purchase of finished goods and the higher inventory, we are not able to tally that number. So why the purchase of finished goods should increase substantially when actually your trading volumes are more or less similar to quarter 4 or quarter 1 last year.
- Sankarasubramanian:** There is one shipment we contracted to meet the domestic demand that came in the last week of June. That is getting reported in purchase as well as in change in inventory.
- Bhavin Chedda:** So there is a trading material which is unsold and the same is getting reflected in both the..
- Sankarasubramanian:** That is right , also it includes urea stock and inventory of own manufactured products that is reported in the change in inventory.
- Bhavin Chedda:** And sir what would be the industry inventory number of DAP and complex as on 1st July if you have some color on that?
- Kapil Mehan:** See the inventory with the industry is around, I think 8.5 or 8.6 lakhs tonnes whereas for the pipeline inventory is now down to about 30-32 lakhs tonnes. That is the current level of inventory at the moment.
- Bhavin Chedda:** And have you a DAP figure in that? 32 lakhs, what would be the DAP number?
- Kapil Mehan:** DAP would be about, I think it is about roughly half and half and about 30-32 lakhs tonnes.
- Bhavin Chedda:** DAP should be around 50%.
- Sankarasubramanian:** Yes.
- Bhavin Chedda:** And what would be the subsidy number in the quarter?
- Sankarasubramanian:** The income is around Rs.507 crores.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Lucky Investments. Please go ahead.

- Sachin Kasera:** Can you highlight what is the status on the debtors, has they come down compared to March?
- S.Sankarasubramanian:** They are more or less at the same level as we were at the start of the season. We collected the opening dues, but of course we have also invoiced and sold on credit now. Hence the receivables are more or less the same.
- Sachin Kasera:** Second was on Sabero sir, what was the utilization level for the quarter and now do we have the permissions placed to work at full capacity?
- Kapil Mehan:** Yes, I think our current operating levels are at about 70% of the capacity and we are in the process of getting the permission. I think there was some delay in inspection agencies to submit the report and now they have I think done their inspection and we are expecting that shortly we should get the permission for 100% plus utilization.
- Sachin Kasera:** Second sir what is the planned capital expenditure for the current financial year, FY15?
- S.Sankarasubramanian:** It is sustainable CAPEX of Rs.100 odd crores.
- Moderator:** Thank you. Next question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.
- Atul Mehra:** Just couple of questions. First in terms of you spoke about policies, any specific thing that the industry is demanding on how the policy should be shaped up going forward?
- Kapil Mehan:** I think our first request to the government has always been for the last two years is that there is a need to correct the imbalance in the views of nutrient ratios and that means urea selling price needs to go up and one way to do that would be to put urea under nutrient based subsidy scheme so that while once a year the subsidy number gets recalibrated, but during the year whatever cost increases etc. happens, the industry is able to pass it on to the farmer as the industry will have the freedom to fix the selling prices. So that is really what we expect the government to do. Second thing, we expect the government that over a period of time they must provide for full budgetary allocation as far as subsidy payouts are concerned because that puts a huge burden on the working capital for each company and that is something which I think the government is very keen on both these issues and third of course is that there is a issue of inventory duty structure where raw material and finished goods carry more or less the same level of duty and that needs some correction. I think these are the couple of demands that we have with the industry and of course industry stand is always that and then industry expects that the government at some day will start giving this subsidy directly to the farmers.
- Atul Mehra:** Right and any particular timelines that the government may be looking at on in terms of the policy action that could come in?
- Kapil Mehan:** Well, I do not think we can expect that government will give us timeline for this, but I think consultation process is going on and government seems to be very keen to carry out the reforms as early as they can and I think industry is also seriously working on various options and

deliberations and giving its input to the government so that government gets industry view as well as some other stakeholders also. So I think that process is going on currently.

Atul Mehra: And secondly sir, in terms of given the really sharp imbalance of nutrient consumption, how is the farmer activity expected in terms of correction of the nutrient consumption levels in the absence of may be any kind of government reform that come in?

Kapil Mehan: I think already we are seeing that in wheat growing areas where they have cut back on application levels in the last 2-3 years. This year, the productivity has been slightly lower than what the farmers were expecting given that there was excellent weather, excellent crop growth conditions. So two-three seasons you do not apply these fertilizers, you will begin to see an impact on your production and that is the point that the farmer goes back to his normal rates of application and I think we are now seeing by and large more or less all crops are coming back to normal level of application except in case of may be marginal farmers who do not sometime have the resources to apply the full dosage of fertilizers and other inputs, but I think pricing according to us is a barrier to consumption now.

Atul Mehra: Sure sir and just one final question in terms of subsidy versus non-subsidy business. So how do you see this particular ratio actually panning out over the next 1 or 2 years?

Kapil Mehan: I think our effort will always be that we balance our revenue portfolio at 50:50 level at least in EBITDA terms and I think while this quarter, EBITDA for non-fertilizer is pretty high at 40%, but overall level, we need to move to 50:50 levels. So that is what our efforts will be in that direction.

Moderator: Thank you. Next question is from the line of Rahul Badethalav from Commonwealth Bank. Please go ahead.

Rahul Badethalav: Just further question following the question before on policy. What price point do you think that the farmers would be encouraged to start purchasing more DAP compared to urea, should they start increasing the price of urea?

Kapil Mehan: I think our experience is that when the price of DAP and urea is in the ratio of 1.5 to 2x. It is in that band when the farmers begin to apply fertilizers which would mean that if urea prices around 11,000-14,000 range, I think the incentive for farmers to use more urea and less DAP will be gone.

Rahul Badethalav: And it sounds like country wide, DAP demand was probably around 10 or 11 million tonnes prior to the introduction of MBF for DAP. To what level do you think DAP demand could grow if urea prices were in 11,000-14,000 range.

Kapil Mehan: I think DAP demand is already now at around close to 8.5-9 million tonnes levels, but I think if the urea price goes to this level of Rs. 11,000 – Rs. 14,000 and DAP price does not move up any further, we should see that 10 million tonnes coming back in the matter of may be 1-1.5 years.

- Rahul Badethalav:** And one argument or one line of thinking that the number of investors here in Australia are wondering is that if you increase the price of urea and price of DAP remains the same, what is the thinking around the affordability of the farmer? Can they afford and actually purchase more with a higher price?
- Kapil Mehan:** Yes, I think there will be some rationalization of usage itself of urea and secondly, there is always an increase in the food prices. There is increase in minimum support prices based on the costing of agricultural commodities every crop season. So I do not think that should be a major issue, but yes if that kind of a calibration is not done and the minimum support prices are not fixed according to the cost of cultivation, then the farmer has fixed amount of rupees per acre for his crop. Then the usage of some may come down, but it would not happen like that.
- Moderator:** Thank you. Next question is from the line of Jasdeep Walia from Kotak Mahindra Bank. Please go ahead.
- Jasdeep Walia:** Most of my questions have been answered, just one remaining. Why have you shifted from dollar borrowings to rupee borrowings because as I understand you said that the hedging premium has come down YoY?
- Kapil Mehan:** The absolute hedging premium has come down, but the rates are pretty high and commercial papers pricing were slightly better than the fully hedged cost of FOREX borrowings.
- Jasdeep Walia:** Could you quantify it sir?
- Sankarasubramanian:** All inclusive cost is around 9.2% in the case of a foreign exchange borrowing whereas commercial paper, it is around 8.68%.
- Moderator:** Thank you. Next question is from the line of Pratik Poddar from ICICI Asset Management. Please go ahead.
- Pratik Poddar:** Sir could you just give me the gross debt number or the net-to-net number. Would it be possible?
- Sankarasubramanian:** We do not publish quarterly balance sheet, but I can say that, net debt-to-equity on a consolidated basis is around 0.8
- Pratik Poddar:** Fair enough and you mentioned that you have not offered any discounts for fresh sales which have happened this year. Is this an industry wide phenomena or it is more Coromandel specific?
- Kapil Mehan:** I think it depends on its market which state you are talking. As per our information, discounting still continues in the Northern states even for fresh sale whereas in Andhra, Karnataka, Maharashtra, Orissa, I think we have the normal trade terms are operating and there may be case of some delivery terms doing better or credit terms being slightly different, but by and large I think there is a sort of stability in the margins which are being offered to the trade.

Pratik Poddar: So what you seeing is only in the Northern states there is some problem, otherwise rest is okay.

Kapil Mehan: Yes, that is right.

Pratik Poddar: Sir just one question, if I just go back to the budget which was just presented and if I just look at the subsidy allocation to urea and to non-urea, there has been a reduction in non-urea subsidy allocation. So I just wanted to understand or what are your thoughts about this if you could talk about that a bit.

Kapil Mehan: I think from an overall industry perspective, it is a good thing because our dependence on government is going down and the subsidy at current levels of sales which is last year it was only 14.5 million tonnes and this year the subsidy on potash has been reduced and that is something which is good. So that is why the budget has been adjusted to reflect the reduction in subsidy level as well as reduction in the overall sale that is expected. In terms of consumption as compared to last year 14.5 million tonnes, we expect the sales to be better this year.

Pratik Poddar: So just for my understanding, would there be a stress in terms of payments. So my understanding was that basically there has been some at the expense of non-urea manufacturers, the urea guys would benefit because the allocation towards urea has increased.

Kapil Mehan: Urea actually had huge amount of over dues and if you recall, special banking arrangements have made twice last year, Rs5,000 crores at one point and Rs10,000 crores at another point. And actually these revised estimates as well as vote on account number and the budget estimates increases basically reflects retiring those debts and still I think the payment of subsidy to urea still continued to be delayed because the subsidy bills are going up there substantially in view of less of APM gas available and domestic gas availability also is very tight. So they are depending more on the imported LNG which is still at a very high price. So that is why their subsidy bill will be pretty high. This Rs36,000 crores also will not be sufficient to clear their bills whereas Rs24,670 crores of subsidy allocation for decontrolled fertilizers will last up to November or may be December bills.

Pratik Poddar: So say versus last year, you do not feel any stretch in terms of or the balance sheet would not give stress.

Kapil Mehan: Subsidy accounts, we do not feel that stress will be so much, but only it has always been the case that last quarter it becomes a bit of an issue because the government runs out of the budget and we hope this year if the projected revenue targets of the government are met. Except last year, in the past we used to get additional allocations in winter session as well as during the following budget session in February. So if that happens and I think that will be very short period between December to February when subsidy flows will be tight.

Pratik Poddar: Sir just one question on the industry side, do you see fertilizer consumption on the industry level growing this year or?

- Kapil Mehan:** We expect that fertilizer consumption per se may not grow, but definitely the domestic sale of decontrolled fertilizers will grow as well as urea also will grow if the government does not revive its prices upwards.
- Pratik Poddar:** So you are saying that the overall growth rates in fertilizer consumption will not go up.
- Kapil Mehan:** Overall, I think this is given the Kharif, we will see some stress on the overall demand. The growth in consumption may not happen because last year we had about 17.5-18 million tonnes of complexes and DAP consumption was there and urea consumption touched over 30 million tonnes. I think they should remain at same level or urea may go up a little bit. But you will see increase in sales of decontrolled fertilizers because pipeline inventory is much less as compared to last year. It is a little bit of a paradox to understand that consumption may stay same and sales go up. It is primarily because of the pipeline inventory impact which was visible during last year.
- Pratik Poddar:** And what is the traditional growth rate, I am just trying to understand what happens next year, not this year. If the monsoons are normal, the whole industry would grow by 1% to 3%.
- Kapil Mehan:** Normally the fertilizer consumption in agricultural growth should go hand in hand. So if there is a 4% growth in agriculture output, there should be a 4% increase in fertilizer consumption also because half of agri productivity depends on fertilizer use. The fertilizer use also has to take place apart from better seeds, better irrigation, better plant protection, better farm practices, etc.
- Pratik Poddar:** And how does Coromandel plan to outperform this growth, could you just highlight.
- Kapil Mehan:** We have still unutilized capacity which will take us couple of years to catch up and I think that is where our growth in the near future will come from both in terms of DAP complexes as well as in terms of Single Super Phosphate, SSP.
- Pratik Poddar:** But if the industry growth mirrors the agri GDP growth, so I was just wondering because our growth rates have generally been in double digit, so?
- Kapil Mehan:** Yes, but we did grow at same rate as industry because we still depend a lot on imports and..
- Pratik Poddar:** So there would be import substitution?
- Kapil Mehan:** Absolutely.
- Pratik Poddar:** But sir in NPK, there is no imports right that is what....
- Kapil Mehan:** NPK is a far more balanced application of fertilizers and far more effective way to fertilize your crops and that is why our entire effort is always to look for new grades of fertilizers through different crops and through different files and that is what we build our brands around and that is how we are able to customize our offerings to the farmers and they benefit and we benefit.

- Moderator:** Thank you. We will move on to the next question that is from the line of Sanhit Jain from Resurgence Capital Services. Please go ahead.
- Sanhit Jain:** I want to understand that soya bean cropping is 92% less than last year. So how we are going to tackle with this situation because you are saying that soya bean is the major crop for the oil seeds and it is going to have impact on the fertilizer consumption. So how it is going to impact us?
- Kapil Mehan:** We are concentrating on other areas also and we are promoting our products in the other oil seed crops. So we expect that with this late monsoon rains, lot of oil seed acreage will shift to mustard in the month of August and September. So that will partly make up. Partly, we are also seeing that the mostly soya bean growing areas where sowing is very brisk and we expect that it will still reap the levels of 80%-85% of the normal level of sowings during current Kharif season we also have rest of the year with us, but overall I think oil seed production will be under pressure this year in the country and we have alternate plans to promote our use of whatever volumes that we target on soya bean, they have been diverted to other crops like pulses like other oil seed crops like sugarcane.
- Sanhit Jain:** Sir second question is that do we have any plan for further expansion or are we looking for M&A or something like that in the near future FY2015?
- Kapil Mehan:** See, M&A acquisition is a very much part of our growth strategy and if you look at our history, we have grown through this. So this is very much part of our strategy to grow inorganically, but as you would appreciate that we cannot discuss these things prematurely. We constantly keep evaluating opportunities in space around agriculture and agriculture inputs. As and when there is a strategic fit, there is a value creating opportunity we do get in, but I cannot put any timeline to it or I cannot give more details on that.
- Moderator:** Thank you. The next question is from the line of Ram Hegde from Primus Investments. Please go ahead.
- Ram Hegde:** I have one question regarding the non-fertilizer business. Could you just give some color in terms of the performance that of the individual segments?
- Kapil Mehan:** Yes, the major portion is crop protection chemicals and if you look at the results for Sabero that is very major portion in that. So we also have our own branded and technical manufacturing of crop protection chemicals in Coromandel. So that is also done well. But segment results are not published because we have not been publishing those in the past and we are not required also to do so. But at a broad level as we have shared, we have 76:24 ratio at topline between our fertilizer and non-fertilizer business and at EBITDA level, it is 60:40.
- Ram Hegde:** So the Agchem portion in the standalone part which is non-fertilizer piece. Has that also grown?
- Kapil Mehan:** That has also grown.

- Ram Hegde:** Could you give the non-fertilizer revenues for the last year corresponding period?
- Kapil Mehan:** I think topline is same.
- Sankarasubramanian:** Topline for last year I think is 75:25.
- Moderator:** Thank you. Next question is from the line of Manoj Baheti from Edelweiss. Please go ahead.
- Manoj Baheti:** Sir I have couple of questions. First is Mr. Sankar mentioned that the increase in inventories on account of import of one cargo which is non-urea right?
- Kapil Mehan:** Yes.
- Manoj Baheti:** So my question is that if we are having surplus capacity, the reason for imports.
- Sankarasubramanian:** To meet the immediate market requirements especially to cater to the institutional segment. We have various channels to address and when the requirements are at the same time for all of the channels We need to import
- Manoj Baheti:** But sir for that, we must be having some inventory pipeline or it was not there.
- Kapil Mehan:** Yes. We had produced less of DAP in this quarter and suddenly there was more demand for DAP. So we had to then resort to some import of DAP. So this was basically to take care of mismatch between our production and the requirement that was there.
- Manoj Baheti:** And how the economics right now sir import versus manufacturing?
- Kapil Mehan:** I think the import price is going up now and latest prices we hear are close to \$470 per tonne. So at that level I think the margin is pretty tight as far as import is concerned. As we have imported earlier, our import price was lower than that.
- Manoj Baheti:** And as you mentioned that this year you are hardly seeing any growth in terms of fertilizer consumption, though sales may go up. So if industry continues with the same level of the production level, do you see next year again we will be entering with a significant pipeline inventory which we have taken last 1-1.5 years to clear?
- Kapil Mehan:** No, it would not happen because imports are down in the last year also. .This year we do not expect imports to be at significant levels and domestic production as of now is running ahead of last year. Domestic sale is running ahead of last year. And if import remains at the same level, there is a scope for domestic production to go up and the share of domestic production will grow.
- Manoj Baheti:** So you are expecting a lower level of imports this year. There is no plan to take a production cut. Right now sir our plants are running full or is at lower levels?

Kapil Mehan: No, we are running at slightly lower capacity utilization primarily because of some raw material mismatches here and there, but otherwise there is no reason why they should be running at lower levels.

Moderator: Thank you. Next question is from the line of Gauri Anand from PhillipCapital India Private Limited. Please go ahead.

Gauri Anand: Sir, first I wanted to know what would have been your phosphoric acid and ammonia costs for Q1 and what is it in Q2. The second is if you can comment on the crop protection business for the year in India and for Brazil because for Sabero and Coro combined seems these two are the large geographies and third is on the regulatory bit that you seem to be suggesting that the reforms in urea will finally play out, but given that we have some elections ahead, will it happen? So these are the three things sir.

Kapil Mehan: I think phosphoric acid price during the first quarter was settled at \$715 per tonne and ammonia has been around \$500 to \$510 per tonne. I think may be some shipments must have been at \$520 or so level but average between around \$500 to \$520 per tonne. Second quarter, we are seeing that ammonia continues to be stable and phosphoric acid price is yet to be finalized. So we have to wait and see how that gets settled. As far as crop protection business is concerned, I think most of the cash crops other than soya bean are doing well. So you may see some compression of demand as far as herbicides are concerned, but overall I think insecticide demand and herbicides for other crops as well as fungicides, will continue to grow. I think our expectation is that plant protection should grow between somewhere at 6%-8% during the year because more and more farmers are resorting to plant protection measures. The crop prices continued to be good especially for fruits and vegetables where maximum amount of fungicides are used, though they continue to be healthy. Wheat which is a next crop and the delayed rains will help its sowing. We should see better consumption as far as plant protection chemicals are concerned. In terms of regulatory issues, we believe that urea is something which should have been done long ago and this government which is saying a lot on reforms, saying a lot on bitter pill, etc. So our initial discussions with the government indicate that government is keen to resolve these issues. Government is keen to correct the imbalance use of different nutrients and I think these are government announcements and our discussions with them give us that kind of a confidence that the government will decide these things faster. Of course these are political decisions and political decisions do get impacted by issues on hand and one of the issues on hand is pending elections in states like Maharashtra, etc. So I think that will have an impact, but government is looking at various formulations. So there is a serious discussion which is happening within the government and government is also engaging with the industry on various options, etc., on this front. So that is what gives us the confidence. We do not have anything more than that.

Gauri Anand: Sir this DAP prices, now that they have started rising. So do you expect phosphoric acid prices to be negotiated at a higher level for this quarter?

Kapil Mehan: There will be some adjustments, but our view over the next 1-2 quarters is that DAP prices should not harden any further or rather they should start softening because there are no fundamental

reasons why the DAP price should harden because the corn which is the major driver of DAP consumption in US and also to some extent in Brazil, I think those prices are pretty low now come down below \$4 per bushel and that price I think the next season application or the pre-season buying by the trade is not going to be there because farmers will cut back on the application of these fertilizers in case that corn futures do not improve. Today corn futures are for December I think running at less than \$4 per bushel. So there are no strong fundamentals to sustain these prices.

Gauri Anand: Sure and sir would you like to comment on this Brazil harvest also and how the crop protection outlook for the quarter which has gone by?

Kapil Mehan: Soya bean prices are still high. Soya bean acreages are increasing, and I think the Ethanol program of Brazil is very much on and so there acts on agriculture and agricultural growth continues to be this. I think South American countries will continue to drive the global Agchem market and that is something which Indian companies I think will bank upon.

Gauri Anand: And one last question. Sir you mentioned last year the revenue mix was 75:25, what could have been the EBITDA mixture?

Kapil Mehan: EBITDA is 60:40.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand over the floor back to Mr. Rohan Gupta of Emkay Global for his closing remarks. Over to you sir.

Rohan Gupta: Thank you Karuna. Sir just couple of questions from my side and then we can wind up sir. Sir especially on the DAP, the consignment which you mentioned. So you still have some surplus capacity and as you mentioned that there is some opportunistic call you have taken on DAP imports. So are you seeing that the other companies have also taken the call and is there a huge DAP import which you are seeing in the current scenario?

Kapil Mehan: There are few importers who depend only on imports. Imports by manufacturers are much less than the past and I think serious importers only will import going forward because non-serious players who don't understand the demand dynamics will not be able to fully appreciate how these things move will find it hard to survive and sustain this business. There is a very high working capital involvement.

Rohan Gupta: I am coming from a question that we have seen problem of high inventory in the system being started only due to higher imports by traders or manufacturers having almost 2.5-year impact.

Kapil Mehan: Complex fertilizers from agricultural point of view is always a preferred option and Coromandel's strategy is very clear that we are a complex fertilizer company. We will continue to drive volume growth of complex fertilizers, fortified fertilizers which deliver much superior value to the farmer in terms of balanced nutrition as well as giving micronutrients, etc. So our strategy will always be that we are a complex player and that is why we have been driving our entire marketing effort of

educating farmers of building our brand is around that core value and that is something which we will continue to do and over a period of time I think markets will continue to move to DAP. DAP is a fertilizer which has a very high nutrient content and that provides the best balance as far as the balanced use of fertilizer is concerned. Globally also wherever DAP is used, it is used more as a blending fertilizer rather than used directly to the farms. It is only in India that such a substantial direct usage of DAP happens.

Rohan Gupta: So even in shorter term, probably you are still looking for the trading opportunities in DAP rather than having your own manufacturing value, you still have a one million tonne of DAP capacity. So we can expect that it is likely to remain idle for some more time.

Kapil Mehan: Not remain ideal, it remains idle only if there is a mismatch of raw materials. Sometimes shipments gets delayed, sometime the adequate amount of raw materials may not be available. Otherwise import is only an option for us in case we do not have our own production. So it is not about opportunistic import only. It is basically to mitigate sometime shortage that we may have in our own production which we try to make up with an import here and there.

Rohan Gupta: Sir second question is on subsidy payment. Till what time we have got the subsidy payments of the government and is there any expected further delays from the payment from the government.

Kapil Mehan: We have received some own account subsidy which is 90% of the subsidy up to February. We are expecting March-April to be released soon because in between there were some changes in the procedure for payment of subsidy that I understand has been resolved. So we should be that to normal as far as subsidy payments are concerned substantially this month and fully from next month onwards.

Rohan Gupta: Sir just last thing on sir dealers. So in how many days we are able to collect the payment from our dealers and distributors now?

Kapil Mehan: That depends on the month of sale. In offseason, we have extended credits from 90 to 105 days which in season will be in the range of 15 to 30 days.

Rohan Gupta: Thank you very much for giving us your time. It has been really very helpful. All of us hope that probably going forward things should improve. I will request if you would like to have any final remarks to make and then we can wind up the call sir.

Kapil Mehan: No, I think thank you very much for organizing this call and I think we have had some very insightful questions from our friends on the call. So thank you all of you for your keen interest and we hope to talk to you again in the next quarter.

Moderator: Thank you very much sir. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.