



“Coromandel International Limited Q2FY15
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Coromandel International Limited Q2 FY15 Earnings Conference Call hosted by Motilal Oswal Securities 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 now hand the conference over to Mr. Atul Mehra: from Motilal Oswal Securities. Thank you and over to you Mr. Mehra.

Atul Mehra: Thanks Karuna. Good afternoon everyone Motilal Oswal Securities is pleased to host this conference call of Coromandel International to discuss Q2 FY15 numbers as well as outlook going forward. We have with us from the management team Mr. Kapil Mehan – Managing Director and Mr. S. Sankarasubramanian – Chief Financial Officer. We will start the call with opening remarks from Mr. Mehan post which we can take Q&A. Thank you and over to you Mr. Mehan.

Kapil Mehan: Good afternoon everybody and thanks Atul for the introduction. Let me begin by giving you an overview of our industry and what has happened during the last quarter. After the initial set back on the rainfall up to June when the rainfall was deficit by over 40% we were really concerned, but around 10th or 12th July things started improving and we have ended the Kharif season with rainfall deficit of about 12% across the country; some regions though have slightly higher deficits than others. But by and large the farming activity, the sowing activity picked up briskly from middle of July. And as we speak now, we are more or less about at 99% sowing level of last year’s Kharif and hence one can expect that production to also come in at more or less the same number as last year. The major crops like rice have actually exceed last year’s acreages as per the latest estimate released by Ministry of Agriculture. Pulses are slightly down, core cereals are down sugarcane is at more or less the same level, cotton has seen at major jump of 11% increase in the acreage. We have seen an increase in MSP announced for Rabi, this is a positive step. MSP for wheat which was announced earlier has been further increased by Rs.500 per ton and similarly other crops have also seen increases about 2% to 4.5% in different geographies.

And now coming to our key markets, especially our addressable market is South were impacted little bit more than normal with rainfall in Andhra and Telangana being of the order of down by almost of 25% to 30%. But that was adequately covered by our aggressive marketing and strong brand. As a result, while the sales were down in these two territories we were able to improve our market share and maintain our sales volumes.

Overall, the fertilizer market also has grown during the first six months of this year. The sales of, DAP has grown by 14.7% from 3.230 million tons, to 3.705 million tons. Import is down by about half million tons from 2.49 tons to 1.94 million tons. With the result the closing stock with the industry as on end of September is pretty low at around 3 lakh tons. As far as complexes are concerned which is our main business, import is down from 0.233 Mio tons last year to 0.202 Mio tons this year whereas production is up from 3.17 million tons to 3.47 million tons. And sales is up by 19% from 3.09 million tons to 3.68 million tons. MOP sales have also grown by

28.4% from 1.1 million tons to 1.41 million tons and SSP has grown by about 8.6% from 1.84 million tons to almost 2 million tons. So overall if we see the segments that we operate in, the sales have grown quite significantly and that is as per expectation because in my last call also we had indicated the sales will show increases primarily because the pipeline inventory is now coming to normal levels; fresh demand will be met through fresh sales and that is what has happened through the quarter as well as through the first half of the year. Similarly if we look at urea sales, and that is a bit of a surprising number because sale is actually down 7.3% and that possibly is explained by the fact that farmers are now concerned about balanced fertilization and are not enamored only by price to apply more urea but they are also scientifically making sure that they give balanced nutrition to their crops. So I think that at least from a macro data perspective it is showing a positive sign. We have also seen in our interactions with the farmers that they are more careful about applying complexes as well as potash fertilizers; they are diversifying their fertilizer use so that there is no overdependence on one nutrient or the other. That augers well for agriculture, and the industry.

Coming to our own performance through the quarter. I think all our businesses have done well, despite challenging and difficult circumstances that we have seen during this period. Which of course as I mentioned earlier had started improving from second half of July/ August. While sales of manufactured products is 7.47 lakh tons against 7.5 lakh tons last year sale of imported complex fertilizers increased from 29,000 tons to 62,000 tons as we resorted to little bit of more imports because our own production was less. The main reason for reduced production has been the delayed finalization of phosphoric acid negotiation which got concluded only in the middle of August and that really led to a decline in the production of complex and DAP fertilizers during the quarter. We had reasonable supply of urea as per our contract with the government at 2.06 lakh tons this quarter as against 2.25 lakh tons last year. And MOP which is again imported we managed to increase our sales from 40,000 tons last year to 64,000 tons this year. You will be happy to know that our SSP business has begun to now get consolidated and we now have a single entity handling Coromandel and Liberty business as a separate SBU. We manage to increase our sales from 1.62 lakh tons last year to 2 lac tons this year which is an increase of about 23.5%. Overall our sales growth has been good and our market share has been going around 16.5% in the quarter and cumulatively we are around 17%, same level of last year. So we were able to maintain our market share despite difficulties in production due to phosphoric acid constraints. Phosphoric acid supply from our TIFERT plant have been better than last year but they are still not up to the requirements or up to the expectations that we had set ourselves for that activity.

Coming to now financials. Our consolidated turnover for the quarter is Rs. 3466 crores, it is up by Rs.250 crores and last year's level of Rs.3216 crores. Our EBITDA is up by 12.6% from Rs.308 crores last year to Rs.347 crores this year. At consolidated levels our long term debt equity is down to 0.16 in current quarter as compared to 0.38 last year and the net debt to equity is at 0.6 as against 0.76 last year. If we were to look at our overall business. Our subsidy versus non-subsidy breakdown for the quarter is top line is 82 is to 18% whereas at EBITDA level it is 64 to 36%. Our non-subsidy business has by and large done well and the businesses are reporting

growth in top line as well as in EBITDA margins. Sabero is progressing as per plans and company has reported quarterly turnover of Rs.271 crores versus Rs.220 crores last year. It is up by 23% and EBITDA is up by 7.5% from Rs.24.1 crores to Rs.28.66 crores. Our JV for manufacture of rice transplantr is taking shape and we have setup the company, the staff is being recruited and very soon the operations of that company on a direct import basis will begin and then we will start working on indigenization, and domestic market activity will run parallel and that is how we plan to ramp up that business.

So this is broadly what I had to say as opening remarks and I would now request Sankar to add anything in case he wants to add otherwise we will go to the Q&A

S. Sankarasubramanian: We can move to Q&A.

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 Balwindar Singh from B&K Securities. Please go ahead.

Balwindar Singh: Want to understand that this year like on the overall capacity utilization we are most likely to see 70-75% kind of a number given that everything goes fine next year and even monsoons are normal so what kind of a capacity utilization can we expect next year?

Kapil Mehan: You are asking about next quarter, or next half of the year or you are asking about FY16?

Balwindar Singh: FY16. So what kind of a capacity utilization are we thinking, assuming that everything goes fine monsoons and all are good and even we have phos acid availability so what can be the ramp up in your manufactured volumes?

Kapil Mehan: It is difficult to say what will be the ramp up in the coming year but I can only say that our efforts are on to secure as much supply of phosphoric acid as we can secure; subject to phosphoric acid availability at a peak capacity we should be running our plants at 85-90% capacity utilization levels. There is no reason why that should not be the case because India is a net importer of these fertilizers and if the domestic capacity is available to manufacture these fertilizers, they must be manufactured in the country. So our effort will be to ramp it up as much as we can.

Balwindar Singh: Okay. And on this fertilizers margins it seems that while we have been maintaining the Rs.2000 per MT kind of a number is sustainable one over the medium term. This quarter it seems like we are on the higher side say around Rs.2,500 to Rs.2,600 per MT so I guess the normalization of the inventory in the system has helped us but given the fact that we have recently seen an increase in Ammonia prices and may be phosphoric acid price has increased for Q3. So what kind of a number can we look at going forward?

Kapil Mehan: I will say two things, number one I think looking at margins on fertilizers on a quarterly basis can lead to confusions so it is better to look at these numbers more on an annualized basis which

is an average of two major cropping seasons and two consumption seasons. Having said that I think Rs.2,000 per ton EBITDA margins is a healthy margin for this business.

Yes raw material prices have increased and we have also increased our selling prices roughly by about 5% and that I think should help us to maintain our EBITDA margin target.

Balwinder Singh: Sir what is the current DAP MRP as such?

Kapil Mehan: Our MRP is Rs.23,800 per ton.

Balwinder Singh: And sir on the phosphoric acid side have we reached a negotiation for Q3?

Kapil Mehan: In the last negotiation that got delayed for the July September quarter prices were also agreed for Q3; so the prices are now applicable up to the end of December.

Balwinder Singh: And the price of that is at USD 765 / MT I guess?

Kapil Mehan: That is right, it is USD 765 / MT.

Balwinder Singh: And last question sir. Because of the Hudhud cyclone the Vizag plant has been operating at below full capacity utilization, so do we have the inventory to sail over Q3 or is it like our sales volumes are going to be lower in Q3 as such?

Kapil Mehan: Our production facility got disrupted during this period and we are now slowly putting it back into operation. As we had communicated to the stock exchange, we are likely to have production outage for half the month on an average from that particular facility but final numbers will be known only once we stabilize the production. So may be Sankar you would like to add anything?

S. Sankarasubramanian: In October we had a production disruption due to power outage. 50% of that monthly production at Vizag got impacted and we have partially restored the production and in the next few days we should ramp up the production to a normal level. We will not be able to comment at this point of time whether we will be able to catch up on this production but all our efforts are to make up for this loss of production in Vizag. From the point of view of insurance cover, we have also covered for loss of profit.

Balwinder Singh: Sir I just wanted to know are we carrying sufficient inventory for Q3 or not?

S. Sankarasubramanian: We have inventory, the field inventories are there so that will meet the requirements but of course Vizag produces certain specific grades. That will have an impact on the product availability especially in the first week of November.

Moderator: Thank you. We have next question from the line of Girish Raj from Quest Investment. Please go ahead.

Girish Raj: I just wanted your thoughts on this, the MSP prices may not have kept pace in the last five years, and lately the agri prices globally have been falling. So if this continues, in your view, can agri commodity prices in India sustain? How will it impact demand for our DAP and complex categories, that is the first question.

Kapil Mehan: I think in India the agri commodity prices are relatively lower as compared to the global prices. Wheat is still around \$300 or there about or little bit plus. India's wheat prices are in the range of \$220 at farmer level. So I think there is still a lot of gap between what the Indian farmer gets and what the global farmer gets. I do not think the subsidies will be disrupted in a big way and also in a short span of time. So I think we should not see much impact of commodity prices as far as the Indian consumption is concerned in a lot of cash crops. Prices are still good, the price of oil seeds continues to be good, the only commodity which is coming under major attention globally is corn where the prices have dipped below \$4 per bushel. But in India corn is not a very significant crop price; here rice and wheat are the major drivers and both come under MSP. So what you are saying is right for the rest of the world, it will not have major impact on consumption of fertilizers in India.

Girish Raj: Okay. In terms of corn will that impact?

Kapil Mehan: Yes. Corn is a sort of broadly used indicator of global fertilizer prices. And people have taken a note of that and that is why some people have already announced rationalization of their production volumes, etc. Also we must appreciate that capability of global industry to respond to demand swings is very fast and they do not carry significant inventories; as a result they have been able to adjust the demand and supply much more quickly in the last few years than we have seen in the past.

Girish Raj: So any impact on our DAP or complex category volume that you may see?

Kapil Mehan: No. I do not think so. As I had mentioned that in India we do not see any impact, but there is a price impact globally; we will have to see at that point of time because we have seen that while urea has been softer and stable, potash has been stable, sulphur has come down but ammonia has gone up, phosphate has gone up. So globally these commodities have their own demand, supply dynamics which drive their prices. If you ask me, fundamentally, crude prices have come down, oil product prices have come down, ammonia is totally based on hydrocarbon but ammonia price is going up. So while these dynamics have a role to play, in the short run they are driven by their own dynamics, more by production outages and the supply disruptions or sudden steep increases in demand; so one has to be nimble footed and very careful under these circumstances.

Girish Raj: Okay so the crude oil price correction is not of any benefit to our margin?

Kapil Mehan: Indirectly there is a small way on logistics cost it may have an impact; but one would have expected that the reduction in petroleum prices will lead to a reduction in gas prices and gas prices would lead to reduction in cost of ammonia that definitely has happened; but is it being reflected in the pricing of ammonia it is not.

- Moderator:** Thank you. We have next question from the line of Jasdeep Walia from Kotak Mahindra Bank. Please go ahead.
- Jasdeep Walia:** Sir in the last quarter you have indicated that you have shifted your source of working capital from acceptances to money borrowed domestically using CPs, etc. So the interest cost or the premium cost which used to come as part of your other expenditure is now coming as interest expenses below EBITDA?
- Kapil Mehan:** Yes. Part of that is shifted to.
- Jasdeep Walia:** Correct. So if we were to make a comparison on a like to like basis, what kind of adjustment do we need to make to this quarter's EBITDA to compare it with last quarter, second quarter FY14?
- Jasdeep Walia:** On annual basis the cost of your premium on cost of your hedging on currency, etc., used to be Rs.150-160 crores last year. So should I assume that Rs.30-40 crores should be the impact and this quarters EBITDA needs to be reduced by that amount to make a comparison with last year?
- S. Sankarasubramanian:** The Premium that we incur is a not a fixed number; it is the function of the level of borrowing and it is linked to the liquidity and collections in the market place. So we cannot straight away take the annual premium numbers and readjust, as our hedging strategy also keeps changing. In a fairly stable market we tend to be a little bit aggressive in our open position, and consequently we save on the premium. Premium reduction on account of the volume shift which has happened between the rupee borrowings to dollar borrowing during the quarter is around Rs.10 -12 crores.
- Jasdeep Walia:** That is it?
- S. Sankarasubramanian:** Yes. The rest of it is a result of a slight tweak in our hedging policy in terms of keeping the open exposure with strict level of take profit and stop loss and that has also helped us to manage the premiums better. Because there has been significant increase in the forward premium levels on annualized basis. It used to be a 6% in the previous year and now it has moved up to 8%.
- Jasdeep Walia:** So in spite of currency getting stable the premiums have moved up?
- S. Sankarasubramanian:** No, not absolute figure I am talking about the percentage. The reason for this shift was triggered more in terms of effective cost of dollar borrowings, which was higher than the alternate rupee borrowing.
- Jasdeep Walia:** Got it.
- Jasdeep Walia:** So net-net to compare this quarters number of EBITDA with last quarter I need to reduce it by Rs.10-12 crores that is it?

- S. Sankarasubramanian:** Yes. These premiums are function of the credit what you take which is again the function of liquidity and collection. So if the collection improves, hedging cost will significantly reduce and we cannot have such a benchmark based on one year figure or so.
- Jasdeep Walia:** So I guess the acceptances that you take from the market are general to finance your RMs and that requirement will remain same from year to year and it will not change more or less.
- S. Sankarasubramanian:** We do keep change depending on our appetite for forex exposure based on liquidity. If the liquidity is better and if there is an opportunity we tend to pay off the \$ liabilities. It is not that we always have a fixed credit periods.
- Jasdeep Walia:** Got it. And sir what kind of credits are you expending in the market in terms of days of sales for fertilizers? And what are the trends that you are going forward?
- Kapil Mehan:** Within 30 days now.
- S. Sankarasubramanian:** Yes. Right now it is 30 days in the major markets.
- Jasdeep Walia:** And this has come down from the credit levels which were there earlier in the market?
- Kapil Mehan:** Yes. First half of the year up to April-May that we were operating 60 days credit and from July onward it has been 45 days, 30 days and now even some places people are operating 15 days also.
- Jasdeep Walia:** Got it. And going forward do you see further rationalization of the credit being extended in the market or 30 days is a fair number?
- Kapil Mehan:** I think 30 days would be a fair number but there will be opportunities depending on how the demand-supply goes to move to cash & carry kind of a model what we used to operate three years before. But just to add to what Sankar had mentioned on forex premium, I think you need to look at it in a totality because forex hedging cost and interest cost are not fixed numbers. They are not switching from one bucket to the other bucket. There is also an overall improvement which has happened in the overall borrowing levels for the company and that is what one has to look at. It will be very misleading to say that hedging cost has moved into INR borrowing cost and vice versa otherwise there is no improvement. I think that would be a very misleading and wrong conclusion and assumption to draw from these numbers.
- Jasdeep Walia:** Got it. Sir what is the gross consol debt number as of September end?
- Kapil Mehan:** Sankar would you like to?
- S. Sankarasubramanian:** On a consolidated basis gross debt is around Rs.2350 Cr.

- Moderator:** Thank you. We have next question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** What was the subsidy receivable from the government outstanding as on September 30th?
- Kapil Mehan:** It is around Rs.1,100 crores.
- Bhavin Chheda:** And the subsidy which has been accounted in the quarter?
- S. Sankarasubramanian:** Rs.997 crores.
- Bhavin Chheda:** Okay. And urea trading sales how much it is, it has come down right, on Y-o-Y basis?
- Kapil Mehan:** Yes it is 2.06 lac Mt against 2.24 lac Mt last year
- Bhavin Chheda:** And sir after the production level in Vizag has come down and i think it will take couple of months to stabilize so you were looking at 70% utilization levels on a yearly basis so, will there be a pickup in the Q4 which may offset this numbers or what kind of guidance we can expect for FY15 levels.
- Kapil Mehan:** Actually for this year we have not been giving any guidance as far as capacity utilization numbers are concerned but guidance you are referring to is our last year's guidance. But as we have already mentioned to an earlier query as far as Vizag is concerned we did have a disruption in production in the month of October. Since then the plants have started operating. We are not yet at full capacity utilization level but production is increasing every day and in a few days' time we should be back to normal. So, production volume loss will not be very-very significant and whatever is that loss we have also resorted to some import of DAP, etc., during this quarter also. So I think overall we should be able to manage our numbers and maintain our shares appropriately.
- Bhavin Chheda:** Okay. I was just coming to the next question also seeing your sales mix from the Urvarak sheet that gives product wise sales volume all across. Last couple of quarters the DAP manufacture sales volume are down on a Y-o-Y basis and even quarter-on-quarter. So that has been strategically done to spare capacity for other complex fertilizer which may give you high margin and to push that or was it a phosphoric acid shortage or a problem or a disruption at Vizag plant which lead to lower own manufactured DAP volumes. Because your DAP trading volumes have gone up substantially. So what my understanding was that the trading would have made enough money for you to shift some production of DAP into other complex fertilizer and over a longer term it is more beneficial to push other complex fertilizer is that understanding correct?
- Kapil Mehan:** As we have shared earlier our strategy is to give products which are suitable for farmers requirement and we formulate these products in different combination of NP&K. Of course there are constraints of the fertilizer control order but we try to match the different needs, different farmer requirement, and different cropping pattern. So our stated strategy is to have products

which are more customized to the farmers' requirements and complex fertilizers are definitely more suited to farmers' customized requirement as opposed to DAP. We keep promoting, and educating the farmers. on use of complex fertilizers because they give better returns to the farmer; it helps us to improve our production rate also in the plant is the second benefit. So it is not entirely driven by higher margin or lower margin but basically we want to build our 'Gromor' brand which has very large and strong franchise amongst the farmers and that is what we would like to strengthen. Coromandel is known as a complex fertilizer company and we would like to build that position more and more and make it more stronger and you will be happy to note that this year we manage to increase our market share of complex from almost 24%-25% to 29% level. And that is our strategy and we will continue to drive that. So it is a part of a larger strategy than a response to a short term hiccups of phos acid availability or margin requirements.

Bhavin Chheda: Okay. And sir my last question on the non-subsidy business, the top line growth has been in single digit and if I adjust the top line of Sabero which is also a non-subsidy business than the standalone non-subsidy business top line has de-grown. So is there a particular side of the business which didn't grow on Y-o-Y?

Kapil Mehan: There are two reasons and I would request Sankar to add to that. One is that our gypsum sale has been lower than previous years due to very low capacity utilization of cement industry in the state of Andhra Pradesh because that is where we sell most of our gypsum; so that is one area which did not grow as per plan. Second is our non-subsidy business in the retail channel; if you would have seen the rainfall numbers in Andhra, and Telangana, there is almost 30% deficit rainfall. Other than North West India this was the other area which was affected due to poor rainfall and that did impact the offtake of non-fertilizer products from our retail outlets so there is little bit of compression of business. So these two have been the major factors for lower growth that you see in our non-fertilizer business. Sankar would you like to add anything?

S. Sankarasubramanian: Agrochemicals is more of a muted growth this quarter especially because of Northern markets where monsoons were not good during the peak season.. Besides that, as Mr. Mehan said, in retail business the delay in monsoon has impacted the fertilizer and non-fertilizer volumes in the beginning of the season.

Bhavin Chheda: And you are saying first half the gypsum has been lower on Y-o-Y as compared to first half last year?

Kapil Mehan: That is right.

S. Sankarasubramanian: Correct.

Bhavin Chheda: Despite that the company is making healthy operating margin so whenever the gypsum sales return there is a cushion for higher margins right?

Kapil Mehan: Cement industry in the state of Andhra has been I think perhaps the worst affected across the country and I understand their capacity utilization the rates have been around 50% and that

impacted the offtake of gypsum because the majority of our gypsum we sell for cement manufacturing.

Bhavin Chheda: Right. But the outlook for the Andhra cement industry is very bright so, that I think will bring on some on gypsum.

Kapil Mehan: Yes, that is right. That would definitely help us to improve volumes of gypsum.

Bhavin Chheda: And sir up to how much kilometers can you transport gypsum. So you are saying that your gypsum sale increase is only when the Andhra cement offtake increases. You cannot ship it to Tamil Nadu or Karnataka markets?

Kapil Mehan: We do sell in Tamil Nadu but we have unit in Tamil Nadu also in Ennore where some amount of gypsum is available. But farther you go lower the margin so we have decided not to comprise on our margins targets and that is why we have let go some of the markets in the process.

Moderator: Thank you. We have next question from the line of Abhijeet Akella from IIFL. Please go ahead.

Abhijeet Akella: Sir first question was just on the other expenditure in the standalone P&L it seems to have gone up at quite a healthy rate versus last year, Rs.338 crores has gone to Rs.383 just wanted to check what the drivers for that might have been?

S. Sankarasubramanian: Abhijeet one thing is that numbers are not comparable as compared to previous year because SSP is included in the current quarter,(Liberty which got merged has been included). And second thing is if you are comparing with immediate preceding quarter the volume of production has gone up. So this expenditure includes power and fuel, repairs and other expenditures related to the production. With the increase in scale of production as compared to Q1, the Q2 expenditure has gone up because of the level of operations have gone up. Besides that whatever regulatory requirement of CSR provisioning which needs to be done, has also been reported which was not there in the last year corresponding periods. The SSP operations, CSR expenditure, and increased volumes of operations are the three major reasons.

Abhijeet Akella: Okay. The reason I asked is because in 1Q the Y-o-Y increase was not that much at all, it was hardly Rs.13-14 crores or so, whereas the increase is considerably higher. In the second quarter. So just wondering why that might be so?

S. Sankarasubramanian: Liberty is the reason.

Abhijeet Akella: Okay. And secondly just to clarify you mentioned that the insurance claim that you have lodged for Vizag covers against the loss of profit also?

S. Sankarasubramanian: Yes.

Abhijeet Akella: So how much would that amount be?

- S. Sankarasubramanian:** We are still in the process of quantifying because we have just started the operation partially. So once we come back on the full scale of operations, we will assess the impact. Basically the insurance company compensates us for the gross margin plus fixed charges. What we mean by fixed charges is manpower cost, depreciation and other fixed cost of the unit.
- Abhijeet Akella:** Okay. So at an EBITDA level it would be breakeven or would it be better than that?
- Kapil Mehan:** I think we should wait for the estimates to come rather than speculate on this because real issue is between the company and the Insurer. I think it will be better that we give a proper estimation and first privilege of this information to the insurance company and let's keep it that way.
- Abhijeet Akella:** Okay. And just to clarify when you mentioned the peak capacity utilization will be around 85% to 90%. You are referring to the entire capacity including Liberty which would be around 5 million tons is that the number?
- Kapil Mehan:** Right now we take 1.2 million tons for SSP and 3.425 Mio MT for complexes.
- Abhijeet Akella:** So around 4.6-4.7 Mio MT in total.
- Kapil Mehan:** Yes.
- Abhijeet Akella:** Okay, perfect. Last question sir just on gypsum, what would the utilization levels be right now of the gypsum that we are producing, how much are we selling out?
- Kapil Mehan:** I think we are still selling about 85%- 90% of what we produce and it is that 10%-15% which is leftover that is what is really causing the concern on volumes.
- Abhijeet Akella:** Okay. So last year it was around 100% and this year it is down to 85%.
- Kapil Mehan:** Last year it was little more than 100% because we still have some gypsum accumulated from past which is being sold.
- Moderator:** Thank you. We have next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** How much phos acid do you need to run at 90% utilization of your capacity that you just talked about?
- Kapil Mehan:** We need roughly about a million ton of phosphoric acid, lot of that about 250,000 tons we have our own capacity, balance 740,00-750,000 tons we need to import.
- Dheeresh Pathak:** And what is the mix of that import? Can you just talk about from where does it come? Because you talked about the delay in phos acid impacting product.

- Kapil Mehan:** We have contracts with Morocco, TIFERT (which is our own venture and in which 50% off take of the plant which is 180,000 tons if for us), GCT (which is the state manufacturer of phosphoric acid in Tunisia), ICL, Foskor, Sterlite in India and also an off take arrangement recently made in Vietnam. So if all of this work we will have sufficient acid to achieve these capacity utilization levels. I cannot share individual numbers because they would be commercially sensitive.
- Dheeresh Pathak:** Okay. And when you talked about Rs.2,000 per ton being a healthy margin in the manufacturing complex business, this is also reflective of SSP margin or SSP margins are higher or lower than?
- Kapil Mehan:** SSP are lower.
- Dheeresh Pathak:** How much lower sir?
- Kapil Mehan:** They would EBITDA level which should be about Rs.900 per ton.
- Dheeresh Pathak:** Okay. And would it be fair to say that obviously one year or one quarter or one season could be impacted by variety of factors but over a slightly longer period would it be fair to say that inflation linked growth in this Rs.2000 per ton is a fair assumption to have?
- Kapil Mehan:** As it is little bit speculative to talk like that because these things really don't work in that way. We would rather have improved operations, higher production, higher sales rather than link this but what you are saying makes logical sense and Sankar would you like to add to that?
- S. Sankarasubramanian:** Rs.2,000 what we are making on an average is a current level of capacity utilization ; so once that improves to 80% to 85%, there will be better absorptions in the fixed cost and it naturally improves the margin structure.
- Dheeresh Pathak:** Right But since the time the industry got sort of came into the NBS regime FY11 onwards from that time to this time can you just give a sense of how have the margins moved? Have they remained same or have they come down or they have gone up?
- S. Sankarasubramanian:** Last two years there have been setbacks in terms of overall demand contraction. It resulted in higher market discounts. There have been quarters in which the margins have contracted; in the last two to three quarters with the improved offtake and liquidation of pipeline inventory, the sales terms are better and to that extent the margins structure have improved. On a Q-on-Q basis and on a trailing basis for four quarters we are doing Rs.2000/ Mt on an average
- Dheeresh Pathak:** And at that 90% utilization can it be closer to Rs.3,000/ MT or it will be closer to Rs.2500/ MT?
- S. Sankarasubramanian:** It is not linear, because the input prices are volatile, the output price is linked to input price and also the function of foreign exchange is there. As long as the costs are passed on and the margins are maintained, the volume should add to the profits. It is very difficult to put a number to it whether it will go up to the extent of inflation.

- Moderator:** Thank you. We have next question from the line of Prakash Goel from ICICI Securities. Please go ahead.
- Prakash Goel:** The point which I wanted to have a clarification is the increase in gas prices recently does it have any impact in the power bill or something like that?
- Kapil Mehan:** Very little. It will have an impact on our power bill which I think the number being put out is around 60-70 paise per unit. But we use very little gas for our operation so that will not have much impact. Power is definitely but that depends on the EB power that we get from the local distribution company and there a mix of coal-based power, plus gas-based power so still we are not there but there will be a marginal increase in that, not very significant.
- Prakash Goel:** Last two question, one is with regard to the MRP that you said about the Rs. DAP 23,800 / MT any discounts being offered to the customers?
- Kapil Mehan:** Normal discounts.
- Prakash Goel:** Farmer discount is how much as of now?
- Kapil Mehan:** Normal discounts.
- Prakash Goel:** Okay. Normal as in Rs.400-500 / MT ?
- Kapil Mehan:** Yes, Rs.450 is our normal dealer discount plus we deliver the product to him.
- Prakash Goel:** And the last question is with regard to Sabero. During the discussion I realize that the cost of power is very high and management is working towards bringing down the cost of power in the Gujarat operation. Any effort in that direction to improve the margin of Sabero businesses?
- Kapil Mehan:** Yes. We are working on the project to bring down those utility cost, etc., but once we have put something on the ground we will share with you.
- Prakash Goel:** Competition like GSFC and all are going aggressively on the wind power which is significantly cheaper so just as a suggestion from my side company can explore that part.
- Kapil Mehan:** Yes, we will examine that.
- Moderator:** Thank you. We take up the next question from the line of Prateek Poddar from ICICI Asset Management. Please go ahead.
- Prateek Poddar:** All my questions have been answered. Just one quick question sir. Is there any chances of reduction in terms of dealer creditor days going ahead further, so from currently 30 days any chances of this reducing?

- Kapil Mehan:** I do not think that we should take 30 days as a norm and if there are let's say few months and few weeks in a year when you are able to reduce that I think that may not make material difference to the annual numbers or even quarterly numbers. So 30 days is the norm that we should take as a normal.
- Moderator:** Thank you. We have next question from the line of Amit Mishra from Axis Capital. Please go ahead.
- Amit Mishra:** Sri just one thing, we have seen some sort of improvement in your utilization levels and imports are reducing, but broadly on a longer term perspective over the next two to three years what sort of utilization levels are we targeting and can we possibly reach (+90%) levels on the utilization side?
- Kapil Mehan:** Yes I think to an earlier query I did answer that in these plants if it is possible to reach 85-90% capacity utilization level. And that is what our efforts would be going forward so I hope that all our efforts to secure both phosphoric acid will bear fruit and we would be able to achieve higher levels of capacity utilization over the next two to three years' time frame.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question. I would now like to hand over the floor back to Mr. Atul Mehra for his closing remarks. Over to you Mr. Mehra.
- Atul Mehra:** Yes, I would like to than the management of Coromandel International for taking time out for this call. Thank you very much sir and wish you all the best.
- Kapil Mehan:** Thank you. And thank you very much for your very insightful questions.
- Moderator:** Thank you very much sir. Ladies and gentlemen on behalf of Motilal Oswal Securities Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.