



# “Coromandel International Q3FY15 Earnings Conference Call”

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**MODERATOR:** **MR. GAUTAM CHHAOCHHARIA – ANALYST, UBS  
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**Moderator:** Ladies and gentlemen, good day and welcome to the Coromandel International Q3FY15 Earnings Conference Call hosted by UBS Securities. As a reminder, all participant lines will be in the listen-only mode. 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 ‘\*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gautam Chhaochharia of UBS Securities. Thank you and over to you sir.

**Gautam Chhaochharia:** Thanks. Good afternoon everyone. We have the pleasure of hosting Mr. Kapil Mehan – Managing Director and Mr. Sankarasubramanian – CFO of Coromandel International. We will start up with a quick overview and then will follow up with Q&A. Over to you, Mr. Mehan.

**Kapil Mehan:** Thanks Gautam and good afternoon to everyone. First and foremost, let me wish all of you a very Happy New Year even though a little late but this is I think the first call that we are having in the year 2015, so my best wishes to all of you.

Let me start by giving an overview on the agricultural scenario as it has unfolded over the last few months into the Rabi season. Crop acreages for most of the crops have been lower than last year; against 61.8 million hectares sowings which had happened by mid January last year we are currently at about 57.7 million hectares as per latest data available from Ministry of Agriculture. The storage level in most of the reservoirs continues to be of a matter of concern at 56% of the overall capacity. We have also seen deficit rainfall in Telangana, AP and Maharashtra and that has had an impact on the agricultural operations. The cropping patterns have changed, rice sowing which used to happen in Telangana area has not happened and actually farmers are being advised to go for alternate low water consuming crops. So overall it has been a bit of a challenging period as far as sowings are concerned. The late rains which came in the Central and Northern India are aiding revival of wheat productivity. Precipitation in the last 2 to 3 weeks is very good for grain formation as far as wheat crop is concerned. As far as wheat is concerned, we may not see much of a decline in production even though the area has declined by about 3% whereas we will definitely see pressure on pulses and oilseeds and the aftereffect of continued stress on the water availability from the kharif crops like cotton and sugarcane which have been affected in states of Maharashtra and in the states of Andhra Pradesh. Some states like Tamil Nadu, Karnataka, UP, Central India especially MP etc., have had a good run as far as their cropping is concerned.

Coming to input consumption, we are seeing a growth in complexes and DAP but that is primarily driven by reduction in pipeline inventory which had got built up into the system and has now come down to below 2 million tonnes and I think once another half a million tonne gets consumed, we will be in a reasonable input balance as far as availability of P&K fertilizer is concerned. We have seen the sales for the first nine months growing from 11.1 million tonnes to 12.1 million tonnes and imports have also grown from 3.5 million tonnes to 3.8 million tonnes with production going up from 8.1 million tonnes to 8.3 million tonnes in this intervening period

and the closing stocks have actually come down to about 600,000 tonnes as far as overall industry is concerned.

The pipeline inventory which we have been tracking very regularly and closely for the past 2.5 years or so, and which was at 4 million tonnes at the beginning of the year is now below 2 million tonnes as per our estimate and Coromandel's pipeline inventory is now down to about 20,000 tonnes which is pretty low. Surprisingly, because of availability issues, the urea sales has been lower than last year from 23.4 million tonnes to 22.6 million tonnes with production being more or less same and imports also has been around 6.3 million tonnes versus 6.5 million tonnes last year and closing stock is hardly about 100,000 tonnes as at end of December. We are seeing a good revival of demand as far as potash is concerned. Sales have grown from 1.6 million tonnes to 2.1 million tonnes in this period. Imports have grown from 2.6 million tonnes to 3.4 million tonnes. The sale of NPK complexes like 10-26 as well as 12-32-16 and 14-35-14 and 15-15-15, etc., have all grown and that is a good sign.

As far as agro chemicals are concerned, the carryover impact of last kharif has continued to impact the applications especially on cotton during October-December quarter also. So demand has been somewhat subdued. There have been concerns in the pipeline stocks getting buildup so that has led to slower payments coming in from the market as far as our dealers are concerned.

Speciality Nutrients is also under stress conditions, the water soluble fertilizers, etc., has continued to do well and that has shown healthy application rates with the price gap between water soluble fertilizers and field grade fertilizers coming down, I think there is a tendency also now by the farmers to resort to wherever possible wherever they have the facilities to do so, to switch over or at least supplement efforts with application of these water soluble fertilizers through the micro irrigation route. That is one segment which has grown. On retail front while Karnataka has grown reasonably well, Andhra has been static given the fact that we have had almost 30% rainfall deficit and resultant crops also have not been sown adequately. The demand for fertilizer has come down over the previous year.

So with that result, the environment has been challenging. Nevertheless, we did manage to increase our market share as far as complexes are concerned because the strategy of the company is to grow its presence in the complexes market which are more customized, differentiated and are more suitable for the crops and geographies specific to those areas. We have managed to increase our market share for the first 9 months from 23% to 27% whereas for the quarter, our market share was same at about 22-23% levels primarily because our core markets do not have active season during October-December quarter whereas Northern and Central Indian markets consume a lot of fertilizers during this quarter and our presence there is not as good as we have in Andhra, Karnataka, Maharashtra, Odisha and West Bengal which are our core markets. So overall we have managed to maintain our market share at 16% when we add DAP and complexes also to this.

If we look at our overall consolidated sales for this quarter, our sales has grown by about 7.5%, our EBITDA has grown by about 2% and our profit after tax has grown by about 28% and that is the direct result of lower financing cost which are down by about 25%-26% as compared to the previous year. We have also seen the successful start of commercial operations of our joint venture Yanmar Coromandel Agrisolutions Company and we have also completed the merger of Sabero into Coromandel. So the results that you see are including those of Sabero.

As we have always maintained we must look at our business in terms of at least 4 quarters which gives you a summary of the 2 major sowing seasons that fall between kharif and Rabi. It is always challenging to look at our business in terms of quarter-on-quarter kind of a scenario. So we should always look at least 4 quarters at a time and if we look at 4 quarters, our PBT has moved up from about Rs.420 crores in the previous year to Rs.609 crores during the current year on a trailing 12-month basis. Our PBIT has moved from Rs.674 crores to Rs.836 crores. On trailing basis our EBITDA margin has improved from 7.1% to 8.3%. Profit after tax has grown from Rs.297 crores to Rs.413 crores.. During the quarter, we also had the impact of cyclone which hit the coast of Andhra on 12<sup>th</sup> of October and had a devastating impact on the entire coast line in and around Vizag; we were also not spared from that. I must say that our teams did a fantastic job. We had very safe shutdown of the plant before the cyclone hit the coast; great job was done by the local administration and the government, in forewarning so that we could do a safe shutdown. I am very pleased with the fact that we had an absolutely incident free cyclone which hit our plant. We had almost 70% of our roof sheeting blown away and we did have an impact but not very significant in the overall context of our business but we did lose production of almost about 70,000 tonnes of fertilizers and of course, there was disruption in production of phosphoric acid and sulfuric acid, etc., also during the period; but overall I think we were back in operation reasonably fast. Insurance companies also have proactively engaged with us in terms of assessing the losses that we have incurred and as you will see from the notes to the quarterly results announcement, we have lodged our claim and the work is going on and we have received some ad hoc payments from the insurance company for capital restoration work that is being done and Sankar will let you know how we are dealing with this in our accounts. This quarter also saw the rupee depreciating from the middle of the quarter till end of the quarter going to almost Rs.63.90/USD and that obviously had its own impact on our cost structures but I am pleased to inform you that for the quarter our margin without trading was better than the trailing 12 months as well as year-on-year for the quarter; for the last 5 quarters we have been seeing that year-on-year quarterly performance is improving, though we are not yet close to our potential. There is still scope to improve from here onwards and I think that is what we all look forward to do. With these few remarks we can move to Q&A.

**Kapil Mehan:**

Also we have with us Mr. Veerabhadram– Head of Crop Protection business. I welcome him also to this conference. Bhadram would you like to add anything?

**G. Veerabhadram:**

Just to add one point, we have started a R&D Center at ICICI Knowledge Park, Hyderabad to focus on off patent product synthesis research.

- Kapil Mehan:** Yes, that is actually a very big development. Thanks Bhadram for reminding me. We have started an R&D facility in ICICI Knowledge Park where we have put together a team of 20 scientists to work on developing and fine tuning new chemistry so that we can begin to grow the portfolio and also develop combination products. Once we are ready with those, we will then have a steady pipeline of products to be introduced in the market. May I now request for any queries, questions, comments, observations that you may have.
- Moderator:** Thank you sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Atul Mehra from Motilal Oswal Securities. Please go ahead.
- Atul Mehra:** Sir just broadly if you can give some light on the performance of subsidy as well as non-subsidy percentage during the quarter?
- Sankarasubramanian:** On the topline, fertilizer business is around 82% and non-fertilizer is 18%. On the EBITDA share, 63% is from fertilizer business and 37% is from non-fertilizer business.
- Atul Mehra:** If you can share the numbers for last year as well that will be helpful for us.
- Sankarasubramanian:** I think coincidentally we had the same share last year as well.
- Atul Mehra:** So that means the growth generally has been similar on both the businesses during the quarter?
- Sankarasubramanian:** Yes, in fact you have to see these numbers in the context of a drop in gypsum volume. There has been a decline in the gypsum volume as compared to last year corresponding period. That degrowth has been made up in other businesses like pesticides and specialty nutrients which have done better than corresponding period last quarter and that is the reason the share remains the same despite a fall in gypsum income.
- Kapil Mehan:** We must also see in the context of the fertilizer business having been affected because of demand contraction in the year 2012-2013 and it has only been from middle of last year that it started picking up. So we are seeing an impact of that also coming in when we look at year-on-year growth numbers.
- Atul Mehra:** Alright and within the non-subsidy business, how would exports have fared during the quarter?
- Kapil Mehan:** Export, we have done well and Sabero registered a topline growth of 40% overall and major share of that increase has come from exports.
- Atul Mehra:** Right which means domestic business is typically on the crop production side also has been flattish in that sense.
- Kapil Mehan:** Yes, domestic business has been flattish as far as Agchem is concerned.

**Atul Mehra:** And sir secondly if you can broadly talk about working capital, how it has panned out during the quarter and the consequent interest cost savings where can we see the trajectory moving ahead?

**Sankarasubramanian:** We have improved significantly on our borrowing level and that is reflected in the financing cost coming down significantly from the corresponding period last year as well as from the previous quarter but there has been some sort of delay in the subsidy receipt. We have received subsidy only up to September. In fact October-November subsidies are being disbursed in this month. To that extent there has been an increase in the subsidy receivable for the period ended December 2014 as compared to September. While subsidy has gone up the fertilizer trade receivables have come down significantly. There has been a slight increase in the inventory level as compared to previous quarter but overall working capital levels are lower than the corresponding period last year.

**Atul Mehra:** Right and sir one final question in terms of raw material prices for us, so have you seen some kind of a rub-off effect on lower cost of phos acid as well in terms of the new contracts we could be entering into somewhere during Jan or Feb if you can just throw some light on that.

**Kapil Mehan:** As far as phosphoric acid is concerned, the prices were stable because in July-September, we had agreed for a 6-monthly price and the international market has also been relatively stable, but we did see an unprecedented increase in ammonia prices. They went up by almost \$100-120 per tonne during the quarter and that impact also is there in this quarter's cost structure but that is now relatively behind us because since last 3-4 weeks, the price of ammonia has also been coming off and we are now more or less back to the level what we were in month of October. We have seen a decline and rise in sulfur prices, but that also has now again started to come off. This kind of a volatility in prices in the short run will continue to be persist. Potash has been stable because we have an annual contract which runs through up till March. The real concern during the quarter has been really the ammonia price increase as well as the rupee depreciation which happened in the second half of the quarter which obviously has an impact on the cost structure; but as we speak now, that also has sort of eased off in the last 2 weeks or so. So I think definitely from cost perspective, things have improved in the few weeks.

**Moderator:** Thank you. Our next question is from the line of Sudarshan Padmanaban from Sundaram Mutual Fund. Please go ahead.

**Sudarshan Padmanaban:** Sir, you just mentioned about the Hudhud monsoon and other things, but if I am actually looking at the numbers just ex of Sabero on your standalone side and just looking at the fertilizer margins, it appears that there has been some kind of a drop in your EBITDA per tonne. I know that you have mentioned that the impact is not so high. I am sure that there would have been some kind of a fixed cost impact and probably what can be an apple-to-apple comparison if you are looking at it?

**Sankarasubramanian:** Hope you are looking at the consolidated financial side because the standalone financial includes 9 months of Sabero's financials.

- Sudarshan Padmanaban:** Sure, it is only on the consolidated side.
- Sankarasubramanian:** As Mr. Mehan mentioned that the current quarter includes the increased share of imported finished goods. Due to drop in production in Vizag on account of Hudhud cyclone, we had to resort to imports. The share of imported DAP, MOP and urea in the overall turnover is slightly higher and that has resulted in drop in EBITDA percentage as compared to the previous quarter but if you correct for that traded turnover percentage, then our EBITDA margins for manufactured product are in line with our previous two quarters.
- Sudarshan Padmanaban:** In the previous quarter we also had some issues with respect to supplies and you are also talking about things getting settled down. Now are those issues completely sorted out or?
- Sankarasubramanian:** No, there has been some supply issue in Kakinada. In fact if you look out our Q3 production volumes, for the current year it is around 6.74 lac MT as against corresponding period previous at 7.39lac MT. There has been a drop of almost close to 9% drop in production volume. Despite that our overall sales have grown by 2.2% on account of increased imported volumes. The mix change has resulted in the EBITDA percentage coming off.
- Sudarshan Padmanaban:** And do we see this supply issues being ironed out in this quarter? Where do we stand as of now?
- Kapil Mehan:** As of now, we have carryover shipments. So this month we are running flat out. I think we will continue to do so, till about end of February and this quarter's price of phosphoric acid is still to be finalized which we hope would be done in a few days' time, because discussions are currently going on. While having said that, we should also appreciate that we are now entering a slightly longer offseason phase of the year where the next wave of demand post this month will really start coming from May end and it will peak sometime in July. So we are entering a period of 4 months or so of offseason. The supply requirements are also relatively less as far as these next 4-5 months are concerned. We are not overly worried about the supply of raw materials during this period but getting them at the right price would be the key issue.
- Sudarshan Padmanaban:** And finally on the subsidiaries, of course if you are looking at the topline from Sabero, it has done extremely well, probably the margins are a bit under pressure. We were having these issues with respect to pollution. If you are looking at what Sabero has actually reported and what is the potential of Sabero, I think there is a big gap. Still we can do a lot better when these pollution issues are getting resolved. Can you throw some light specifically on this from Sabero's angle and throw a little bit on Liberty as well, how that has performed?
- Kapil Mehan:** As far as Sabero is concerned, the environment management systems that we have put in place are reasonably working well. Of course stability of those operations is still a bit of a question mark and as you rightly say; but we have potential to grow the capacity utilization and the topline of Sabero much beyond what we have done so far, and there is an improvement year-on-year, quarter-on-quarter and also we are now seeing more stability coming in the production stream and that will continue to drive the growth for erstwhile Sabero's business.. As far as Liberty is

concerned, there has been price pressure in the market and intense competition especially from the manufacturers in Rajasthan which has kept the price points low, but our buying has been very timely and efficient. As a result while most of the people are reporting very subdued or negative performance in SSP we are maintaining our performance at same level as last year with volumes going up a little bit. There were some regulatory delays in getting permissions for granulation facility in the new plant that we started last year in Raebareli that has also come through now. Similarly Hospet plant also had some regulatory approval issues which also are getting resolved. Going forward about 40,000-50,000 tonnes of additional capacity will be available for us to ramp up volumes as we go forward. Bhadram, would you like to add anything on Sabero?

**G. Veerabhadram:** Sabero's environmental issues are really not an area of concern, it is only question of little more stability in production that has to come in and we continue to grow because as we ramp up volumes we have a chance to grow this business more and I think definitely we continue to see growth in production levels as most of the environmental issues are behind us.

**Moderator:** Thank you. Our next question is from the line of Manoj Baheti from Edelweiss. Please go ahead.

**Manoj Baheti:** Sir, my first question is on manufacturing versus import economics for DAP. At current prices of ammonia, does import of DAP makes more sense than manufacturing in India?

**Kapil Mehan:**

**Kapil Mehan:** There was a brief period when the DAP price in the international market had moved up sometime in October-November and the ammonia price had also moved up. So imports which were coming at old prices of 460-465 or thereabouts, they definitely had a better margin structure than domestically manufactured DAP for about 4-6 weeks, but after that again things have now changed because international price of DAP is now close to \$490-\$500 per tonne and ammonia has come down by close to \$100 per tonne. So I think margins are more or less restored back and I want to add one thing more that during the quarter of October-December, we did take a price increase in all our P&K products to the extent of 4%-5% and these results have impact of that also in the financials that we have reported. Of course pipeline inventory, etc., whatever has moved out of the factories has to be sold at the printed prices but having said that, there was a challenge as far as rupee depreciation and ammonia was concerned and we had tried to partly mitigate that through increase in prices and that is why we have been able to maintain our margin or marginally grow them as compared to last year as far as our manufactured products are concerned. Also our strategy is to go for grow complexes as opposed to DAP. Our DAP manufacturing was minimal during this quarter and we did concentrate on our core business which is of complexes and that I think has worked out well for us.

**Manoj Baheti:** Right sir. My second question is you already mentioned that you received the subsidy till September and thereafter for next 2 months you expect to receive it shortly. Are you seeing some change in the subsidy release from the government like post change in the government. Is it fast



and also post December do you again see because on the budget getting over whether the subsidy will continue to get released or there will be some issue there?

**Kapil Mehan:** As far as payment procedures are concerned, there is no change in the way that the government processes these bills but there are discussions which are happening with the industry on how to improve that and how we can make it better – but that is still work-in-process. As far as subsidy availability is concerned, I think for the P&K sector, the subsidy budget is still available. Under the nutrient based subsidy the government’s ability to provide for budget on a predictable basis is much higher as opposed to urea. Budget is still available and we may see another month or so payments being made and then the new budget will get announced by end of February.

**Manoj Baheti:** And sir lastly if you would like to touch upon your retail business, how much of our sales especially fertilizer sales is happening through our own retail stores and in terms of number of retail stores, where are we placed right now?

**Sankarasubramanian:** The number of stores remains the same. There is no major addition during this quarter. Both Andhra Pradesh and Karnataka put together, we have 800 stores now. In terms of our volume, due to poor monsoon in Telangana, retail fertilizer sales are relatively less as compared to our trade channel. . Otherwise, other business segments have done well. Other than fertilizer, all other segments have grown as compared to corresponding period last year.

**Manoj Baheti:** And organic manure also did well or it also got impacted?

**Sankarasubramanian:** It is more of a flattish growth as compared to corresponding period.

**Manoj Baheti:** And sir lastly on are you expecting something in the budget which will bring down the price gap between urea and non-urea? Are there some talks happening between industry and the government on this?

**Kapil Mehan:** Well, our expectation and hope is that there will be some rationalization; from soil health perspective and from balance nutrition perspective, there is an urgent need to correct this price imbalance between different nutrients and I think that issue is well-appreciated and understood at all levels within the government and our earnest hope is that something happens about it.

**Moderator:** Thank you. Our next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

**Bhavin Chheda:** Sir you just mentioned that the Sabero business had a 40% topline growth on Y-o-Y?

**Kapil Mehan:** Yes.

- Bhavin Chheda:** And the margins there were also more or less have improved on Y-o-Y basis?
- Kapil Mehan:** No, margins marginally improved because our manufacturing volumes are better this time as compared to last year but there are some setbacks on the effluent treatment and we had to go in for outside treatment of effluents and that has increased the cost structure and pushed down the EBITDA a bit, but it is better than last year.
- Bhavin Chheda:** And sir what was the subsidy number accounted in the quarterly result in the trading sales if you can give that number?
- Kapil Mehan:** Trading sale is roughly around Rs.456 crores and subsidy income for the quarter is around Rs.817 crores.
- Bhavin Chheda:** And there has been sharp increase in inventory in the quarter, so what was that related to? Increase in stock has been Rs.349 crores which is in the results. .
- Kapil Mehan:** That is right. Our field inventory has gone up there were some finished goods as well as some MOP and urea consignments which we received during second fortnight of December. This has resulted in an increase in inventory.
- Bhavin Chheda:** So it is finished goods inventory?
- Kapil Mehan:** Absolutely.
- Bhavin Chheda:** And sir what was the production volume number for the quarter and 9 months if you can give complex fertilizers?
- Kapil Mehan:** Our manufactured production volume for the quarter is 6.74 lakh tonnes and the year-to-date is 17.7 tonnes.
- Kapil Mehan:** SSP production (including ranipet and erstwhile Liberty) for the quarter is 1.76 lac MT and 4.23 lac MT year-to-date.
- Bhavin Chheda:** So we should be on track to do a manufacturing of 24 lakh tonnes – 25 lakh tonnes for the year or we will see some slippages there?
- Kapil Mehan:** We cannot guess at this point of time. We have to wait for 2 more months.
- Bhavin Chheda:** And sir last question on the insurance front, you said the profit is not accounted till it is received which means all cost related to the one-month shutdown impact has been proportionately booked in the quarterly results?
- Sankarasubramanian:** Physical inventory losses in terms of raw material and finished products due to the cyclone have been charged off and corresponding insurance claim receivable has been set up. Similarly

whatever impacts have happened to the fixed assets, as and when we spend the money we will get the insurance claim; but in respect of additional operational expenses that we incurred and the loss of profit on account of production volume loss both for intermediates and finished products, the claim is under scrutiny and that has not been reckoned . It will be reckoned as and when we get the final clearance from insurance company.

**Moderator:** Thank you. Our next question is from the line of Jasdeep Walia from Kotak. Please go ahead.

**Jasdeep Walia:** Sir could you take us through your wish list for the budget?

**Kapil Mehan:** I have already mentioned that we expect that something to be done to the urea pricing whether it is bringing it under NBS or increasing it or at least laying a road map for future increases and narrowing the gap between NBS fertilizers and urea. I think that is number one. Number two, we also expect the government to rationalize the duty structure as far as duties of raw materials, and finished fertilizers are concerned. Then of course is a general economic stimulus in terms of GST and in terms of tax issues which are related broad to the general economy.

**Jasdeep Walia:** Sir could you give us the sales volumes for the quarter for complex fertilizers, then traded complex fertilizers, urea and SSP?

**Sankarasubramanian:** Manufactured complex fertilizers is 5.86 lac MT, imported is 0.65 lac MT, urea is 2.75 lac MT, potash is 0.32lac MT and SSP is 1.49 Lac MT.

**Moderator:** Thank you. Our next question is from the line of Gauri Anand from Philip Capital. Please go ahead.

**Gauri Anand:** Sir one on quarterly numbers, you just explained that there have been some costs which have been absorbed. So does this mean that the loss on account of this Hudhud cyclone, basically you have recognized the cost but not the revenue, is that understanding right?

**Sankarasubramanian:** No ,in terms of stock losses and whatever repairs we have done to our assets, we have set up an insurance claim receivable but certain operational expenditures what we have incurred are part of the loss of profit claim and that would be reckoned only as and when the claim is finalized.

**Gauri Anand:** Would you want to guide us as to....

**Sankarasubramanian:** No, it is too premature at this point of time to...

**Gauri Anand:** Alright and sir the second question is on this input cost, I mean while the crude has actually cracked, you are not seeing any softening in your material cost. So is it likely to fall with the lag effect, what is your sense?

**Kapil Mehan:** See as far as crude and gas prices are concerned, I do not think the gas prices have also fallen to the extent of crude prices globally and most of the manufacturing capacity for nitrogen-based fertilizer or fertilizer raw material is gas based. So to that extent the cost structures have not moved as much as you will see in petrochemicals or in petroleum products. Having said that, ammonia has its own usage, its own market and as far as the hydrocarbon-based fertilizers are concerned, the only impact is on nitrogenous fertilizers and P&K are out of it in any case. They are impacted very minimally in terms of transportation cost, etc.. We do not expect that there will be like-to-like relationship between crude prices decline and prices of fertilizers; but definitely the prices of agricultural commodities do have an impact on fertilizers and some people believe that the correlation between corn prices and petroleum prices does exist and that may have an indirect impact on the fertilizer demand. That may begin to impact but it will take maybe another few quarters for that kind of a correlation to begin working and impact the prices on the ground.

**Gauri Anand:** Sure sir and sir just on this phosphoric acid negotiation for this quarter that is January-March, are we likely to role forward with the same or we may get some discount?

**Kapil Mehan:** I do not think it is appropriate at this stage when we are in the thick of discussing these prices to give our view either way. So I think let us keep it that way and hope that thus possible price is achieved.

**Moderator:** Thank you. Our next question is from the line of Abhijeet Akela from IIFL. Please go ahead.

**Abhijeet Akela:** Just on the volumes sir, the volume growth strategy I just wanted to understand a little bit. So my impression was that post the Kakinada plant commissioning, the volume growth strategy would be mainly to focus on the Northern markets where we do not currently have a big market presence and try to drive growth from there because you are already saturated in AP and Tamil Nadu to a larger extent. So I just wanted to understand how that strategy is shaping up? Are we seeing initial promising signs because so far in the reported volumes at least we have not seen that much of volume growth? So if you could talk a little bit and also about your outlook for the next 2-3 years? Are you on track to achieving 80%-90% utilization?

**Kapil Mehan:** Our strategy to open up those markets and seed those markets is on track. The footprint of our sales teams in those markets is much larger and we have seen some benefits of that coming through; during this quarter when Andhra season was really under pressure it was really the Central India and the Northern India which have helped us to an extent. Having said that, we have also gone through the issue of huge channel inventory from 2012-2013 till about middle of 2013-2014, with demand also collapsing due to high prices. We are coming out of that now. If you see our trailing results for last 5 quarters, I think we have been improving our performance

year-on-year. Coinciding with this, there has also been a pressure on availability of phosphoric acid from our traditional sources and we had to resort to other sources of getting phosphoric acid especially from Morocco. That also is I think slowly coming back into normal. So I see no reason why we should not be doing 85%-95% capacity utilization going forward and the additional tonnages will be put through the system because the domestic capacity is still short of the total requirement. We are seeing the revival of demand, also we are seeing the application rates coming back close back to normal as far as complexes are concerned and our investment on branding, on developing new formulations, and on developing fortified products continues and I think we should see all these strategies playing out in the next few quarters.

**Abhijeet Akela:** Right, so between now and when you hit 85% or so, I guess that would be almost a million tonnes of incremental volume.

**Kapil Mehan:** Yes, close to million tonnes.

**Abhijeet Akela:** So out of that would the majority of that come from the Northern states or how would you see that contributing?

**Kapil Mehan:** I think partly it will get absorbed into states of Tamil Nadu and Maharashtra where we have seen compression of demand because of seasonal factors. We will definitely improve our position in Eastern India and the balance will go to the Northern markets of UP and Bihar.

**Abhijeet Akela:** And this would largely be grow through input substitution?

**Kapil Mehan:** This will be largely through revival of demand because pipeline inventory is going down as well as import substitution.

**Moderator:** Thank you. We will take the last question from the line of Alok Deshpande from HSBC Securities. Please go ahead.

**Alok Deshpande:** Can you give some color on what are the operating margins you are able to achieve on the crop protection or the agrochemical business?

**Sankarasubramanian:** Combined EBITDA for the crop protection is around 14%

**Alok Deshpande:** Okay, sir just one last question. In terms of Sabero's exports, what are the main regions where you are targeting these exports and what are the current challenges if any you are facing there?

**G. Veerabhadram:** The exports actually are distributed across Latin America, Africa, and Asia Pacific. LATAM is our focus market. We have subsidiaries in Brazil, Mexico, and Argentina where the crop profiles match. This time the challenges have been good weather in Asia Pacific and Africa but Brazil saw deficit rainfall, so some little pipeline stock is building up there now. Other than that, the export demand is quite positive and doing well.

- Kapil Mehan:** I think fungicide demand is very robust.
- Alok Deshpande:** Okay and in the backdrop of falling global agri commodity prices, do you see any challenges there?
- Kapil Mehan:** Corn prices are major driver of commodity perceptions and sentiment. Futures price of \$4-\$4.5/bushel are still very good for farmers to support the nutrient application as well as taking plant protection measures. So we do not see that having an impact but if the price were to go below \$4 future price, then it may have an impact on the consumption of inputs.
- Moderator:** Thank you. I now hand the floor back to Mr. Gautam Chhaochharia for closing comments. Thank you and over to you sir.
- Gautam Chhaochharia:** Thank you Mr. Mehan and Mr. Sankarasubramanian for the call.
- Kapil Mehan:** Thank you Gautam for organizing the call.
- Moderator:** Thank you sir. Ladies and gentlemen on behalf of UBS Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.