



# Coromandel International Limited Q4 FY15 Earnings Conference Call

**May 4, 2015**



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**MR. G VEERABHADRAM- PRESIDENT, COROMANDEL INTERNATIONAL LIMITED**

**MODERATOR:** **MS. GAURI ANAND – VICE PRESIDENT - AGRI INPUTS, GAS UTILITIES, INSTITUTIONAL EQUITY RESEARCH, PHILLIPCAPITAL INDIA PRIVATE LIMITED**

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Coromandel International Q4 FY15 Earnings Conference Call hosted by PhillipCapital India Private Limited. 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, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Gauri Anand of PhillipCapital. Thank you and over to you ma'am.

**Gauri Anand:** Thank you, Inba, Good Afternoon, everyone and I thank you all for joining us on Coromandel International's Q4 and Full Year FY15 Post Earnings Conference Call. Today, we have with us Mr. V. Ravichandran – Vice Chairman and Mr. Sankarasubramanian – Chief Financial Officer. I welcome both of you and your entire team to the call. We would begin the call with opening remarks from you, following which we will have the forum open for interaction. I will request you to brief us on the quarterly results and outlook. Thank you.

**V. Ravichandran:** Thank you. Good Afternoon to everybody. The year 2014-15 was a very challenging one for Agriculture due to the poor monsoon compared to 2013-14 both in terms of the quantum of rain as well as spatial distribution. In fact, the Rabi season was more challenging than the kharif ; Kharif though it started very badly, towards end it made up, whereas Rabi really let us down in terms of the overall monsoon. There are some areas where the deficit was high as 40% especially areas where Coromandel operates, the southern and western parts of India. This is likely to impact the food grain production by about 3% as per the estimate available at this point of time, whereas the crop acreages are down by about 5%; also all of you must be aware that there were subsequent damages because of unseasonal rains, which are likely to impact the availability of cash in the market.

In terms of the Fertilizer consumption as an industry, Urea consumption remained almost the same as the previous year, whereas in DAP and Complex there was an increase of about 12% over the previous year with imports up about 13%. In terms of the pipeline inventory there has been substantial reduction compared to the last two years. The stock at the end of the year is estimated to be about 3.5 million tonnes. With the Complex consumption being up and the Urea consumption remaining same, the NPK ratio was little better compare to the 8.3:2.4:1 in 2013-14 to somewhere around 7.2:2:1 in 2014-15, still far away from the ideal consumption ratio of 4:2:1.

Coming to Coromandel in particular – I should say in terms of the volumes we had a fairly good year. The capacity utilization is up to 70% compared to 65% in the previous year. Our production was higher by about 7% at 24.2 lakh tonnes against 22.6 in the previous year. Our Urea volumes were very robust even though they do not add much to the bottom line. . Our market share in complex and DAP went up marginally on all India basis to 16.2% from 16% and in the Complex we were at about 26% compared to 23%.

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Coming to our financial performance during the quarter, our EBITDA is down and the main reason behind it is high cost of Ammonia. For the entire industry, prices of raw materials get determined at some point of time and subsequent movement of key inputs may affect EBITDA margin either favorably or unfavorably. A quarter's performance cannot be used to evaluate the industry because there are bound to be these kind of movements on account of negotiation of prices of key raw materials especially Phosphoric Acid just before the quarter starts.

I now handover to Sankar to take you through our financial details after which we will can move to the Q&A session..

**Sankarasubramanian:**

Good Afternoon. The turnover for the quarter is Rs.2997 crores, a growth of 37% over the last year basically driven by the fertilizer volumes. EBITDA for the quarter is Rs.160 crores compared to Rs.179 Cr in corresponding period last year. The drop in EBITDA margins as Mr. Ravichandran explained is basically due to higher input cost especially ammonia as well as phosphoric acid the impact of which we had to take in the fourth quarter. As rightly mentioned we should not look at quarterly EBITDA. Over the period of four quarters, if you see the trailing EBITDA number it is in line with our always stated guidance of Rs.2000 per metric tonne.

The consolidated turnover for the year is Rs.11306 crores, growth of 12.5% over the last year; 82% of the top line for the year came in from fertilizer business and 18% from non-fertilizer business. EBITDA for the year is around Rs.854 crores as against Rs.805 crores last year and the share of non-subsidy business is at 36% similar to last year's number.

The consolidated PAT is up by 12.6% to Rs.402 crores as against Rs.357 corers. If you see the subsidy levels outstanding as on 31<sup>st</sup> March, we have close to Rs.1,800 crores basically due to non-disbursal of subsidy during the fourth quarter. The money will be released in current month. These pending subsidy bills right from December 2014 have resulted in higher short-term borrowings as a result of which the net debt-to-equity has moved up from 0.47 last year to 0.7, however, long term debt-equity continues to go down, there was a repayment during the year. Currently, long term debt-equity ratio is around 0.11.

Overall, the share of non-subsidy business especially in fourth quarter was not in line with our expectations basically due to adverse market situation as articulated by Mr. Ravichandran. We have gone slow on our agrochemicals sale in the fourth quarter in the domestic market, however, this has been quite adequately made up by increasing exports through Sabero. The total exports for the year are now close to \$100 million and the Latin American markets have grown by 30% over the last year. With respect to SSP Operations our volumes have gone up from 5.37 lakh tonnes to 5.59 lakh tonnes. We retained our market leadership despite demand contraction due to poor monsoon; we continue to remain focused towards brand building exercise and expect these initiatives to yield results going forward.

We can move on to question and answers.

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- Moderator:** Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from Prakash Goel of ICICI Securities. Please go ahead.
- Prakash Goel:** We have two questions: One, with regard to the EBITDA margin sustainability. This Rs.2,000 per MT is it going to be sustainable going forward, what is the view of the management in light of the fluctuation that we have seen in the recent time?
- Sankarasubramanian:** As we mentioned, fourth quarter is an aberration because of the high cost of Ammonia and Phosphoric Acid and rupee depreciation. If you look at the four quarters average, still our EBITDA is at Rs.2,000 per Mt. We have been sustaining this margin and we will continue to sustain this margin going forward as well.
- Prakash Goel:** What has been the breakup number in Q4 from the subsidized and non-subsidized business?
- Sankarasubramanian:** It happens to be same 64:36 for the Q4FY and the top line is 86% from Fertilizer and 14% from Non-Fertilizer.
- Prakash Goel:** So there has been a slowdown in Q4 in the non-subsidized business as well?
- Sankarasubramanian:** For domestic Agrochemical formulations business we decided to reduce our exposure in the marketplace due to adverse market situation.
- Prakash Goel:** What is the cost you are getting the short-term borrowings and what has been the reason for the sharp increases – is it because of the subsidy outstanding or is it any other CAPEX which has been done?
- Sankarasubramanian:** The debt is high mainly, due to subsidy outstanding as well as field inventories at the year-end. .As far as cost of borrowing is concerned it is 8.8% and predominantly we have it in the form of commercial paper which we raise at rates close to 8.5%.
- Moderator:** Thank you. The next question is from the line of Balwinder Singh of B&K Securities. Please go ahead.
- Balwinder Singh:** Sir, on this non-subsidy business what is the contribution at revenue and EBITDA both for Q4 as well as FY15?
- Sankarasubramanian:** Q4 EBITDA share is 64:36, for the year also it is 64:36; on the top line 86:14 in Q4 and 82:18 for the full year.
- Balwinder Singh:** Regarding this Phos Acid negotiation, at what price it has been reached for the next couple of quarters?
- V. Ravichandran:** April to June it is USD 805/ MT.

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**Balwinder Singh:** If you can just give out the sales volumes on the manufactured side as well as the traded side for year as well as Q4?

**Sankarasubramanian:** Q4 manufactured sale is 6.45 lakh tonnes and traded DAP volume is 0.35 lakh MT, so total Phosphatic is 6.8 lakhs tonnes.

**Balwinder Singh:** Apart from DAP, you have traded in anything or?

**Sankarasubramanian:** MOP is 0.41 lakhs tonnes, Urea is 4.35 lakhs tonnes.

**Balwinder Singh:** For the whole year for traded?

**Sankarasubramanian:** Own product sale is 23.96 lakh MT; traded volume is 1.65 lakh MT of DAP; 1.53 lakh MT of MOP and Urea of 10.22 lakh MT.

**Balwinder Singh:** What is the expected capacity utilization or what kind of growth do you see in sales volumes for next year?

**V. Ravichandran:** There are multiple factors which come into play when we talk about capacity utilization, even during the year 2014-15, our capacity utilization was lower because of the non-availability of Phosphoric Acid. We have a joint venture in Tunisia, TIFERT which had some problem because of Arab spring, so the production was not up to our expectations. Then Foskor, our other supplier who supplies significant volume to us from South Africa had some problem because of which availability of Phosphoric Acid was significantly lower than what we can use. As a result capacity utilization got affected Even though the marketing conditions were not that favorable because of the problems of monsoon, we would have definitely done better than current levels if Phosphoric Acid was made available to us.

For the year 2015-16 as all of you must already be aware the monsoon is predicted to be 93% of long period average. The redeeming feature of this estimate is that in South and West we expect to get normal monsoon whereas in the north we are expecting deficit monsoon. So only the time will tell us how the predictions come true. We should do try and better last year's volumes subject to availability of Phosphoric Acid and monsoon.

**Balwinder Singh:** On this Phos Acid, if we see your price has gone up to USD .805 / MT whereas more or less DAP price is at USD 460/ MT. Do you not think imports would be favored rather than manufacturing, so how does that look like?

**V. Ravichandran:** Indian farmers consume a variety of products, DAP is only one part of the entire range of products which they consume, there are a range of complexes which are not competitive to import, so they have to be manufactured only in India like 16:20:0, 20:20:0, 17:1:7:17 Firstly not many countries make this product; secondly, even if they are made they are very costly to import. So if at all you only import DAP and all other complexes you have to make in India. Nowhere in the world,

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Complex fertilizers are traded in such volumes, only DAP is traded in large volumes. So Complex fertilizers will continue to be produced in India and sold in India and we continue to focus more on complex fertilizers instead of DAP.

- Moderator:** Thank you. The next question is from Abhijeet Akela of IIFL. Please go ahead.
- Abhijeet Akela:** First, just to clarify, the increase in freight and distribution cost, which seems quite sharp year-over-year. Is that entirely in line with the volume growth or were there any unusual items there?
- V. Ravichandran:** No, it is generally in line with the volume growth and some inflation in the freight cost, anyway for the primary freight we get reimbursed by the government.
- Sankarasubramanian:** Just to add to that, the increase what you are seeing over the corresponding period is basically due to higher volumes we handled in this current year, so last year fourth quarter production was low, sale was low, but whereas this year we have shown significant improvement in volume. It is more to do with the quantum of dispatches made in the current year for the corresponding period.
- Abhijeet Akela:** Just on the increase in loans and advances, that is largely because of the subsidy increase, is it?
- V. Ravichandran:** Absolutely.
- Abhijeet Akela:** So now going forward, now that you are saying that the money has started moving this month, say over the next 3-months or so, how much can we expect the subsidies to come down by?
- Sankarasubramanian:** We are hopeful to get up to March or so, it should come back to Rs.1,000 crores level from Rs.1,800 crores
- Abhijeet Akela:** And the inventory build-up is attributable to what exactly?
- V. Ravichandran:** We made some strategic purchases to take advantage of some low prices in the market.
- Abhijeet Akela:** So I guess by the June or the September quarter the inventory should start to look lower?
- V. Ravichandran:** Yes it should significantly come down
- Abhijeet Akela:** On the non-subsidy side, if you could give us a little bit more granularity in terms of how each of those divisions – Specialty Nutrients, Agrochemicals, Compost have performed?
- Sankarasubramanian:** We do not give segmental information, but overall what we can say on annualized basis for the year we have seen more of a flattish growth in the Domestic Formulations business and Specialty Nutrients due to the monsoon conditions; erstwhile Sabero's export business has done very well; in fact top line has grown by 25% with the corresponding increase in the EBITDA level as well. Retail business has also been impacted by adverse monsoon situation especially in Telangana in

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the Rabi season. But in spite of the drop in volume, still Retail has maintained EBITDA number on an overall basis. Overall, we would say, fourth quarter was muted but on an annualized basis still we reported improvement in the both top line and EBITDA numbers for Non Subsidy business.

**Abhijeet Akela:** How about Gypsum sales?

**Sankarasubramanian:** Gypsum sale is significantly lower corresponding to a last year number, in fact the growth what has been achieved in the rest of the businesses was offset by the drop in Gypsum volume. With revival of cement production we think situation will improve. Overall, there has been volume drop to the extent of 30-35% on Gypsum for the whole year. They started showing revival from fourth quarter, it should improve from next year onwards.

**Abhijeet Akela:** So this overall non-subsidy pie which this year was around 36% of EBITDA. Do you expect that FY16 could be a year in which it moves up substantially or can a recovery take some time longer also?

**V. Ravichandran:** The subsidy business also moves up. We cannot move the non-subsidy to 40% at the cost of subsidy business. We should ensure that the all the businesses grows.

**Abhijeet Akela:** On Urea, are there any possible regulatory changes in terms of maybe price decontrols or something like that which could in turn lead to an improvement in farmer demand for non-Urea Fertilizers?

**V. Ravichandran:** At this point of time, it does not seem to be happening, so we have to wait and see.

**Abhijeet Akela:** Not even a token price increase of say 10% or something like that?

**V. Ravichandran:** But that would not make a huge difference. What would now move the consumption of non-urea fertilizer, it is rupee stability. If the rupee does not depreciate, I expect DAP and Complex to do much better than what they have been doing in the last few years. So even if the price of Urea goes up and the rupee depreciate, for the reduction in consumption of Urea, there will be matching reduction in consumption of non-urea fertilizers. So we should only hope that rupee continues to remain the way it is.

**Abhijeet Akela:** Post Mr. Mehan's departure, is the company looking out for a full time replacement or will the current arrangement basically continue over the...?

**V. Ravichandran:** We have already started looking out for someone, but it takes time, but investors should not get worried about it too much, because there is a very strong management team, so there are no disturbances in terms of operations, Some strategic directions from time-to-time maybe missing which I am providing now, so stakeholders should not have any worries on that.

- Moderator:** Thank you. The next question is from Sudarsan Padmanabhan of Sundaram Mutual Fund. Please go ahead.
- Sudarsan Padmanabhan:** My question is largely on this Ammonia prices which had escalated in the last quarter and corrected this quarter and apart from that the Phosphoric Acid prices which has been escalating. If I am looking at how this impact is going to be for your 4Q, have you taken any kind of inventory write-down which can be quantified?
- V. Ravichandran:** No, we do not take any inventory write-down at all
- Sankarasubramanian:** Ammonia prices went up in November-December; we keep buying Ammonia on a monthly basis to meet our production. It is a natural process when the cost of production goes up, that impacts the quarterly performance. The reduction in Ammonia prices happened only in February and March, which goes into the stock but what we produce and sell during the quarter takes this impact fully. The Ammonia spike has flown into this current quarter.
- Sudarsan Padmanabhan:** Is it done this quarter or a part of it will continue for the coming couple of quarters?
- Sankarasubramanian:** Nothing is there, in fact, as Mr. Ravichandran mentioned earlier, our carryover inventory in the next quarter will be at a current prices
- Sudarsan Padmanabhan:** On your long-term guidance of EBITDA of Rs.2,000/tonne, one would assume that as and when your capacity utilization goes up from say 65% to over 85% the next year or the next couple of years, your fixed cost absorption would increase and probably your EBITDA per tonne should be much higher than what you are looking at. Is there something that I am missing or are you looking at some kind of a rub off in pricing?
- Sankarasubramanian:** No, last two to three years we are around this 60 to 70%. Going forward as and when the capacity utilization moves up to 85% to 90% as we mentioned earlier that should have a positive impact on EBITDA, right now we are still at 70% due to various reasons.
- Sudarsan Padmanabhan:** Any number that you would be looking at internally that it could be probably at 85-90%, assuming that the prices would remain a bit stable or normalized?
- Sankarasubramanian:** We have been indicating Rs.400/tonne at 85-90% capacity utilization.
- Sudarsan Padmanabhan:** Any price changes that have happened on the end market for DAP or other complexes?
- Sankarasubramanian:** We have taken a price increase in October and that stays. Other players in the industry have taken the correction in January. We have to wait and see as Mr. Ravichandran said how rupee moves and how the international price of DAP moves, it is a function of both exchange rate and price of DAP. At this point of time, we are operating at the same price.



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- Moderator:** Thank you. The next question is from Bhavin Chhedha of Enam Holdings. Please go ahead.
- Bhavin Chhedha:** Sir, volumes you mentioned 6.45 lakh mt of Phosphatic fertilizers for the quarter and 23.93 lac Mt for the year, these are without SSP, right, can you give the SSP volumes?
- Sankarasubramanian:** This production is 5.38 lac MT sale is 5.59 lac MT for the year; and for the quarter sale volume is 1.3 lac MT.
- Bhavin Chhedha:** When we match your volumes with the Urvarak website there is a mismatch which is much higher than what it used to be. So, where would the mismatch be? I think there is some other website which has given the updates so we get that volumes which is showing 5.96 lac MT as the Ammonium Phosphatic sales for the quarter.
- Sankarasubramanian:** We are not aware of the reason; probably there is a lag effect between what they report.
- Bhavin Chhedha:** If you can give the number of the subsidy accrued during the quarter and the trading sales during the quarter?
- Sankarasubramanian:** It is around Rs.840 crores and also the turnover of traded products is around Rs.460 crores.
- Bhavin Chhedha:** What kind of capacity utilization you are looking for next year? Depending on the demand situation you will be taking a call?
- V. Ravichandran:** There are two things; one is the demand situation, also there is the issue of availability of Phosphoric Acid which is another key factor in the capacity utilization, because even if the demand is there and Phosphoric Acid availability becomes difficult like last year the capacity utilization maybe low
- Bhavin Chhedha:** You are saying your Phos contracts you are not very sure on the quantity availability for next year and depending your availability from Tunisia plant?
- V. Ravichandran:** Yes, because now the plant has started, we are very hopeful things will be better than last year, but it is too early days.
- Moderator:** Thank you. The next question is from Viraj Kacharia of Securities Investment Management. Please go ahead.
- Viraj Kacharia:** One, you did indicated something on the inventory situation for the system as a whole for Complex. Can you just give an idea what is your inventory in the system at the moment?
- Sankarasubramanian:** 3.5 million tonnes as industry as the off season pre-position material are lying in the system, but the additional carry over inventory has almost got liquidated.

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- Viraj Kacharia:** On the farm mechanization, we have with another JV partner. Any color on how is the ramp up or what are the plans for FY16 on that?
- V. Ravichandran:** They have done fairly good volumes in the last year, the products have moved to the market, so we will know by maybe another three to four months the response on the customers, but we also have aggressive plans for the coming years in terms of new products as well as in terms of ramping up volumes next year, they are looking good at this point of time.
- Viraj Kacharia:** What kind of products are we talking about?
- V. Ravichandran:** We have got rice transplanters at this point of time, we are talking about introducing maybe Harvesters and whole range of farming equipment.
- Viraj Kacharia:** These are primarily imported?
- V. Ravichandran:** Right now, they are imported and sold. Over a period of time, we will indigenize a part of them definitely.
- Moderator:** Thank you. The next question is from Atul Mehra from Motilal Oswal Securities. Please go ahead.
- Atul Mehra:** If you can just talk about the volume growth of DAP and volume growth of Complex for the quarter?
- Sankarasubramanian:** There is no manufactured DAP sale volume, we have only imported, and for the current quarter it is 0.35 lac MT of imported DAP and last year there was no imported sold during the quarter. On the manufactured DAP we have done 0.83 lac MT in the current quarter, corresponding period last year was 1.35 lac MT,
- Atul Mehra:** This major uptick that we are looking in terms of sales growth is because of Urea trading, is it?
- Sankarasubramanian:** Out of overall turnover, significant growth has come from Urea.
- Atul Mehra:** If you can repeat those numbers in terms of Urea as well what would be the sales this quarter as against last year?
- Sankarasubramanian:** Urea sales for the quarter was 4.35 lac MT and last year we did 1.37 lac MT.
- Atul Mehra:** DAP versus Complex, are we looking at the shift in terms of mix for us happening?
- Sankarasubramanian:** Yes, we have been positioning ourselves more as a Complex manufacturer and we are promoting unique grade which gives better EBITDA margin and also it helps us to come out of the situation of Phos Acid short supply, and wherever we need to meet the market requirement, we are resorting to importing DAP.

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- Atul Mehra:** In FY15 what we would have been the mix between DAP and Complex as against the previous year?
- Sankarasubramanian:** Sale of manufactured DAP is close is 2.61 lakhs MT for the current year as against 5.81 lakh tonnes last year. And in terms of traded DAP, we have done 1.63 lakh tonnes in the current year as against 0.33 lakh tonnes last year. Complex sales is balance i.e. 21.34 lac MT on manufactured volumes for the current year as against last year number of 16.13. So that is the reason why our Complex market share also moved up to 26%.
- Atul Mehra:** At the industry level, if the consumption level remains the same and there is no drag of excess inventory will it start getting reflected next year in terms of higher demand and offtake from us?
- V. Ravichandran:** Yes, but as I told you, the key challenge is the rupee.
- Moderator:** Thank you. The next question is from Amar Mourya from India Nivesh Securities. Please go ahead.
- Amar Mourya:** Wanted to know, what would be the key reason for the revenue growth during this quarter and why the margin has taken a hit? I heard that the Urea was the key reason.
- V. Ravichandran:** Yes, the volumes were better than last year in this quarter, not only Urea, even Complexes. The margins are lower because our Phos Acid price was determined based on the Ammonia prices obtaining at a point of time, subsequently, Ammonia prices went up. When the Ammonia prices go up, the margins will take hit.
- Amar Mourya:** It is likely to prolong in the coming quarter also?
- V. Ravichandran:** This is something which is beyond anybody's guess. The thing is we have to manage the buying and selling in such a way that we do not get caught in any surprises. That is all.
- Moderator:** Thank you. The next question is from the line of Gauri Anand of PhillipCapital. Please go ahead.
- Gauri Anand:** I had two questions: One was could you just give some timeline as to when this NBS subsidy rates could be notified and we also gather a report which suggest that the freight will be clubbed with the subsidy. So, how does it change our standing – does it benefit us? The other question is on your crop protection business, between you and Sabero, would you be today about Rs. 1400 crores revenue? And you also indicated about \$100 million of exports in your opening remarks. Also a detail on that a little bit more?
- V. Ravichandran:** On NBS, we are not seeing any significant difference or a change in terms of rates compared to what it was in the last quarter. On the freight, we also hear like what you heard that freight may get added to the subsidy. If that happens then we have to manage the business in such a way that our profits are maximized.

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- Gauri Anand:** So does it improve your competitive standing sir?
- V. Ravichandran:** Obviously yes, because we have the three plants sitting in the consuming markets. Today the freight rates are reimbursed by the government. We are looking forward to some changes in the policy. Whatever you are hearing, we are also hearing same things. So, we do not know when it will come, it can come anytime now, because the year has already started. On the pesticides, the turnover figure what you pointed was correct. Also, on the exports it is USD100 million.
- Gauri Anand:** What is the strategy there? You are like Rs.1400 crores of revenues between you and Sabero. About to get to registrations in Brazil this year, what is the update there? Where do you see this revenues going up to?
- V. Ravichandran:** I will ask Mr. Veerabhadram to answer this question.
- Veerabhadram:** Export growth continues to be strong for us because of the main product Mancozeb which continues to be in good demand. We are hoping we will maintain and grow our volumes and continue to maintain our volumes in Brazil, and we are expanding in Mexico. So overall Latin America continues to be the growth engine as far as exports are concerned. And we continue to grow in Africa and continue to grow in Asia pacific. My guess is we will maintain the same growth rate for the year as last two to three years.
- Gauri Anand:** Where do you see the revenues from crop protection going from now to let us say in the next 3-years?
- Sankarasubramanian:** As we mentioned earlier, we do not give any specific guidance on any future turnover, but what we can say is we are trying to improve the capacity utilization of Sabero, which is currently around 60-65% and we are also happy to share that we have got the consent for 100% capacity utilization. Increase in capacity utilization will help in improving the EBITDA for the technical products of Sabero. Besides that, we are also focusing on introducing new products; we have set up our R&D center at Hyderabad where we have come up with a plan to introduce new products from '17-18 onwards. One or two products every year which are off-patent generic molecules. Besides that, in our Formulations business we are building volumes on specialties and focused captive technicals. We have our own 800 retail outlets where we have been distributing the products. . So, we are aspiring to achieve a top line growth of 20-25% with a significant expansion on EBITDA going forward. **Moderator:** Thank you. The next question is from Bharat Seth of quest Investments. Please go ahead.
- Bharat Seth:** Last year what was the margin that we earn in SSP, you said there was a low offtake because of other reason. So can you guide us on SSP side?
- S. Sankarasubramanian:** SSP: Our margins suffered a setback because of low realizations, in fact, there were carryover inventory issue what we faced in phosphatic had a rub off effect on SSP and there was also this monsoon setback in addressable markets of Western India and Central India both in Kharif and

Rabi ; but things are improving there. In case of SSP we are focusing on our brand building and our quality platform. All these should yield results and we should be able to improve our margins. While we are maintaining our market share what we were trying to look at is to expand our EBITDA margin from where we are currently.

**Bharat Seth:** Can you guide us on where do we see sustainable margin?

**S.Sankarasubramanian:** Overall, we should aim for Rs.800-900 of EBITDA margin in SSP.

**Bharat Seth:** Can you say how much we earn around approximately in last year?

**S.Sankarasubramanian:** We are down by 20-30% from these numbers.

**Bharat Seth:** Our capacity is around 1 million, correct?

**S.Sankarasubramanian:** Yes, close to 1 million.

**Bharat Seth:** There capacity utilization is substantially low?

**S.Sankarasubramanian:** That was 55%, there is a scope to improve, now we are trying to build the market, we have to wait and see how this freight policy plays out and how we will be able to take advantage of this in our SSP market.

**Moderator:** Thank you. The next question is from Rohan Gupta of Emkay Global. Please go ahead.

**Rohan Gupta:** Sir, first question is on the huge inventory which we have at the end of the year. This inventory is related to DAP or raw material which we are carrying almost Rs.2400 crores?

**S. Sankarasubramanian:** It is not huge inventory. In off season, when we produce, we do not sell entire volume; as we move into the season, the application time is very short and we need to carry the inventory in the field.

**Rohan Gupta:** It is mostly finished goods inventory which you are talking about?

**S. Sankarasubramanian:** It is partly finished goods and partly raw material. As Mr. Ravichandran mentioned, there are strategic purchases on urea, ammonia and other potash raw material which are there. So, it is equally spread between raw materials and finished goods.

**Rohan Gupta:** Second, because your product mix has now changed significantly to more of Complex as compared to DAP; this year almost 90% is Complex and hardly 10% is DAP. So now going forward, do you see that you will keep on manufacturing Complex Fertilizer more, and DAP whenever required you will do trading more?

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- V. Ravichandran:** No-no, that depends on the availability of Phosphoric Acid. DAP takes twice a quantum of acid what the Complex Fertilizer on an average takes. So when the acid availability is less, we try to maximize Complex and then try to import the DAP wherever there are gaps.
- Rohan Gupta:** Because sir in Complex now like this year we have sold almost 21.35 lakh tonnes, that is almost 30% increase over last year. Where you see that we can push how much Complex more – can we see the significant increase in market share or a similar volume growth in Complex Fertilizer this year as well?
- V. Ravichandran:** If you look at the Complex Fertilizers, the Southern India itself consumes 4.1 million tonnes. So there is a huge opportunity to sell Complex. Last year all this happened in spite of a poor monsoon. So if monsoon conditions turn out to be normal our consumption of Phosphatic Fertilizers should go up and it may also improve because there is a more focus on balanced nutrition. If Urea prices change along with those of phosphatics the balance again will be in favor of the Complex and the DAP. The only thing which can affect the story is the rupee/dollar exchange. Otherwise, as we go forward, everything points to a better market for Complex and the DAP compared to Urea.
- Rohan Gupta:** Sir, if my understanding is right, DAP being the highest value product and Complex definitely is on a lower side so as our margins also, we will be making lower margins in Complex or DAP?
- V. Ravichandran:** No, you have to apply theory of constraints here and when Phosphoric Acid is the constraint, you have to maximize revenue on Phosphoric Acid. So Complex gives the best contribution per tonne of Phosphoric Acid compared to DAP. So based on that your revenue may come, but bottom line may improve for every tonne of acid, you get more value in Complex than in DAP.
- Rohan Gupta:** So the EBITDA margins will come down?
- V. Ravichandran:** No, the average margin will not come down, it will go up. What will happen is your turnover number will come down, because Complex generally value wise they are less than DAP are not better.
- Rohan Gupta:** According to that logic, with share of Complex Fertilizers increasing in sales mix we should have seen a significant improvement in EBITDA/tonne in last year FY15 also?
- V. Ravichandran:** As we mentioned, this fourth quarter is an aberration in terms of Ammonia price and Phos Acid. So it should be seen in that context such a one-off issue of inventory which had impacted the fourth quarter, but on an annualized basis, the EBITDA margins did improve, Complex would improve the overall EBITDA percentage.
- V. Ravichandran:** Also you will have to understand it is the margin per tonne of acid. So margin per tonne of acid is always better in Complex compared to DAP. Volatility in Ammonia prices can affect both ways. So on an overall basis, if we produce more Complex, the EBITDA will always be better.

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- Rohan Gupta:** In our loans and advances, that is roughly Rs.2500 crores, how much is the subsidy portion and how much we have received in last month?
- Sankarasubramanian:** Rs.1789 crores is the subsidy outstanding as on 31<sup>st</sup> March. We are likely to receive the major portion of it in the month of May. So, far have not received any amount.
- Moderator:** Thank you. The next question is from Ritesh Gupta from Ambit Capital. Please go ahead.
- Ritesh Gupta:** Just wanted to get a sense on the growth rate for exports. You told that it is around \$100 million, so roughly say Rs.620 crores or so. On that it comes to about 35% or so growth rate from last year. Is that a correct assumption or there was some other exports as well?
- Sankarasubramanian:** That is right.
- Ritesh Gupta:** Which are the key technicals that you sell in export market?
- Sankarasubramanian:** Mancozeb, Chlorpyrifos, Acephate, these three are the major molecules we sell.
- Ritesh Gupta:** This is predominantly because of the growth in these particular molecules or is it more because you are gaining market share from other Indian players who will also be exporters?
- Sankarasubramanian:** Very few companies have the registration to sell in Latin America. So we have got this Chlorpyrifos registration last year and we realized the benefit in this year.
- Ritesh Gupta:** It is directly through your bulk supplies to the dealers in Latin America or to any B2B?
- Sankarasubramanian:** It is for institutional sales on a B2B basis.
- Ritesh Gupta:** But then how does your registration help you out in that sense because...
- Sankarasubramanian:** Even to sell to B2B customers you need to have registration with a local company and we have our subsidiary companies operating there with registrations acquired over last few years. Registrations are coming through every year and one such registration which came in last year has helped us to achieve increase in exports
- Moderator:** Thank you. Ladies and Gentlemen, that was our last question. I now hand the floor back to Ms. Gauri Anand for closing comments.
- Gauri Anand:** I thank you for taking time and giving us a brief on the results and outlook. I thank all the participants for logging into the call.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of PhillipCapital India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.