



“Coromandel International Q1 FY-16 Post Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Coromandel International Earnings Conference Call hosted by PhillipCapital India Private Limited. As a remainder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after presentation concludes. Should you need assistance during this 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 Ms. Gauri Anand from PhillipCapital India Private Limited. Thank you and over to you, Ma'am.

Gauri Anand: Thank you, Malika. Hello, everybody. On behalf of PhillipCapital I welcome you to the Q1 FY-16 post earnings conference call of Coromandel International. Joining us today on the call are Mr. V. Ravichandran – Vice Chairman and Mr. Sankarasubramanian – CFO. Sir, I welcome both of you on the call. Now I request you to brief us on the results and outlook. And there after we will open the floor for Q&A. Thank you, sir. Over to you.

V. Ravichandran: Good afternoon to everyone. Thanks for being with us in the afternoon. Let me just take you through what happened in last three months, April to June and what is the latest in terms of the overall monsoon and the reservoirs and crop position, etc., and Sankar will take you through the performance for the quarter. And then any questions we will try to answer.

Now if you look at the monsoon. The monsoon started with a bang with a surplus in the month of June, though there was a little delay. But then the monsoons were extremely good and there were excess rains till June. Subsequently in the month of July, there was a huge gap and then again in the last one week there are good rains all over except the few places. As of yesterday, the monsoon is about minus 4% compare to the normal. So this is now going as per the predictions of both IMD and Skymet. Except for the places like Rayalaseema and some parts of Bidar in Karnataka and Marathwada and Vidarbha in Maharashtra, in most of the other places rains were good- they are extremely good in Madhya Pradesh especially West Madhya Pradesh, East Madhya Pradesh, Chhattisgarh, Orissa, West Bengal- these are having excellent rains. This has helped to bring the monsoon deficit which was significantly higher about minus 12% to minus 4% as of yesterday.

If we look at distribution, the Southern Peninsula is having deficit of about 15%. But we are hopeful that in the month of August and September, when the monsoon retreats, we have rains in some places. But we lost the opportunity of monsoon in the ongoing phase, especially in Rayalaseema area.

In terms of crop acreages, we are about 26% more as compared to last year, with all the crops registering significant improvement in prices because of the incentive government has announced this year. Due to Rs. 200 per quintal bonus announced on Pulses, acreage have gone up by about 51%. Whereas, in the case of rice and other cereals there have been marginal increases. The reservoir levels on all India basis are up compared to last year. But in the areas where we operate especially in Andhra and parts of Karnataka, reservoir levels are not as per our expectation. So we only hope that in the next few months they will get covered.

In terms of the volumes of production- On all India basis, supply of Phos acid was affected, so overall there was a marginal drop in the production of fertilizers in India. However imports went very steep- almost 180% increase over the last year in terms of Q1 imports. The sales in Q1 were significantly higher especially the imported DAP, As we know, the subsidy policy is not yet announced for the freight. In the respect of the NBS. normally the NBS get announced in the month of March, this time it got delayed because of the lack of clarity on the freight policy. So what happened the NBS rates were announced only in the month of June. So that affected our cash flow in the month of April and May, which has led to increase in the interest cost. Even though it is in line with last year, but we are supposed to reduce interest compared to previous year.

There have been delays in subsidy disbursement for the period January to March. So this has affected the interest cost and also because of this there is an impact on the payables because we have to roll our foreign currency payment which has impacted the performance.

So I now leave to Sankar to take you through the first quarter performance then we can talk about all your questions.

S. Sankarasubramanian: Good afternoon. On the fertilizer side our overall production volume for the quarter was marginally up by 2%. Our production was more towards complex fertilizers, we did not produce any DAP during this quarter obviously due to lack of phosphoric acid. Our production volume for the quarter is 4.7 lakh tonnes as against 4.6 lakh tonnes during last year. Sale of owned manufactured product is down at 3.6 lakhs tonnes versus 4.2 lakh tonnes last year. Since we have not manufactured our own DAP, our manufactured sale volume is down compared to last year. But we made up for this drop in manufactured volume by improving the imports. Our imported DAP for the quarter sale is 1.3 lakh tonnes and last year we did not do any imports.

On overall basis, our sale is up by 16%, the ratio of import to manufactured has significantly increased during this quarter basically to meet the market demand for DAP. On the Urea side our volume what we handle through government contract is more or less stable at 1 lakh tonnes similar to last year. On the Potash we have improved our volume by 15% over the last year. So overall for the industry, as Mr. Ravichandran explained, there has been significant growth in both DAP volume as well as Complex especially driven by DAP increase in the northern market and consequently the market share of Coromandel has dropped from 18% to 13% during this quarter. And as mentioned earlier in his communication, the subsidies have significantly impacted our working capital during this quarter. Also, whatever we have produced we have moved to the markets and we are carrying the inventory to ensure that the material is available during the season once it becomes active. So higher level of inventory and subsidy affected working capital and the borrowing levels were higher mainly driven by the delay in subsidy disbursement. And obviously, the mix change between the imported and owned fertilizer resulted in shrinkage of margin that is reflected in the EBITDA percentage.

Overall, on absolute profitability side, fertilizers business has made up for the shortfall in acid through imports, but profitability percentage has shown drop. As we communicate always, it may be misleading to look at the EBITDA percentage on a quarter-on-quarter basis as it should get smoothed out over a period of time.

On the non-subsidy business, coming to agrochemical business, it faced a lot of headwinds during the first quarter mainly from the domestic market due to weak Rabi season especially due to unseasonal rains in the Rabi season. The industry witnessed a lot of stock return and we also had to take some stocks back during the first quarter. Due to this our domestic formulation business had an impact during this quarter. Coupled with that, our exports to Latin American market suffered a setback basically due to drop in off-take of some of the molecules on account of shift in the consumption pattern and also adverse weather conditions in Latin American market. We started focusing on other markets like Asia and Africa to make up for the drop in Latin American exports. With respect of Specialty Nutrient and Retail business, it is too early as season has just commenced and their business performance is more or less in line with last year.

On the Single super phosphate we have gained market share. We have moved up from 12% to 16% and there has been a significant volume growth over last year - almost 57% and we did 1.25 lakh metric tonne during this quarter. Our various strategic initiatives in terms of building brand and promoting the quality of the product is really paying up and it should improve the overall performance for the year for the SSP business. Our branding initiatives have been well accepted by the farming community and should show improved performance in the coming quarter.

Coming to the financial results for the quarter, our top-line has registered a growth of 16% at Rs 2,181 crores as against last year Rs 1,881 crores - subsidy business contributes 81% of the total turnover and balance coming from non-fertilizer business. The share of EBITDA is 56% from fertilizer business and balance 44% is coming from non-fertilizer business. Overall, EBITDA for the quarter is Rs 92 crores as against last year Rs 122 crore primarily due by higher foreign exchange premium we incurred to hedge the foreign currency borrowings and also under absorption of fix cost basically due to lesser production. That should be made-up in the future quarter as and when the production gets scaled up.

On the consolidated basis, our net profit after-tax for the quarter is Rs 14 crores as against last year Rs 35 crores. On the balance sheet side, the long-term debt-equity is down to 0.1 as against last year corresponding 0.18. Net debt equity is 0.75 against 0.81 of last year. Subsidy outstanding for the quarter is around Rs1,500 crores as on 30th June. We received a significant amount only in the last week of June and some subsidy amount in the first week of July. Actually on a Q-on-Q basis our subsidy has moved-up from Rs 968 crores to Rs 1,500 crores. These all are the major highlights for the quarter. We can now move on to Q&A session.

Moderator: Thank you very much, Sir. Ladies and Gentleman, we will now begin the Question and Answer session. The first question is from the line of Abhijeet Akela from IIFL. Please go ahead.

Abhijeet Akela: Sir, first, just on the EBITDA margin you mentioned that one of the reasons was the under absorption also I think the mix shift towards traded volumes and you also mentioned the higher FX premium. So is it possible to just tell us how much the FX premium was and also how you see let's say second quarter and thereafter faring both in terms of raw material cost. I believe Ammonia prices have been on the decline and also the mix shift going forward?

V. Ravichandran: The additional premium will be in the range of Rs 18 crores to Rs 20 crores- basically the additional interest burden coming from the delayed subsidiary disbursement. And secondly, Sankar explained the mix between own and import, we have resorted to import of DAP. The Phos Acid prices did not get settled on time. But own production improved because we changed the product mix to lower "P" grade product and these products do not move in the first quarter, they normally move during the middle of second quarter and third quarter. So although we produced more, but we sold less of own manufactured product only because the season was not favorable for the low "P" grade fertilizer in the first quarter. So overall volume increased, but then the EBITDA margin came down because of mix of own and imported.

Now coming to the outlook, though we do not give any firm guidance on outlook, let me tell you, as I said the monsoon has covered India and difference is about minus 4%. West Bengal is good, in last one week in Maharashtra, there have been good rains in Vidarbha and Madhya Maharashtra. In Andhra Pradesh, Rayalaseema is a big market the rains have skipped Rayalaseema in the first place. So hopefully in August-September we should get some rains. On Telangana and Coastal Andhra, the rains have been fairly good. In some parts of Karnataka, there is still not good rain, especially southern interior part and northern part there have been deficit. So if it rains in August and September as per prediction, even if it is minus 4%, then the thing should be good because as of today the monsoon conditions are definitely favorable as compared to last year.

Abhijeet Akela: Okay, great. That is really helpful, sir, thank you. Just to also check if phosphoric acid availability is still constraint or....

V. Ravichandran: No, second quarter and third quarter we are tied-up, our price have been finalized in advance so, we have got the price finalized for next six months. So August-September we do not see any problem. Coming third quarter also, we do not see much problem, there will be some shortages. Our joint ventures partners have started production in the first quarter which was stopped in between, again they have started production. Tunisia has declared emergency; if this emergency does not continue for long period of time, we should get good amount of acid from Tunisia.

- Abhijeet Akela:** Okay, great. And so for full year basis the typical guidance we gave for around say Rs. 2,000 of EBITDA per tonne that is still something we are comfortable...
- V.Ravichandran** Yeah. We see that by managing our mix.
- Abhijeet Akela:** Right, perfect sir. And finally this freight cost line I think it is up by almost 30 odd percent for the quarter. So is that in line with the volumes as well for any unusual...
- S. Sankarasubramanian:** It includes freight cost incurred for the dispatches made, which was higher than last year corresponding period.
- Abhijeet Akela:** Understood sir, got it. So just the subsidy booked for the quarter so, if you could just give us that in the revenue?
- S. Sankarasubramanian:** The income side?
- Abhijeet Akela:** Yes, sir.
- S. Sankarasubramanian:** What we have booked for Q1 is Rs 613 crores.
- Abhijeet Akela:** 613 crores, perfect. And finally in terms of raw material prices everything is comfortable with regard to our current pricing sir or any need to revise prices or something like that?
- V.Ravichandran** No, we do not see too much of the problem except if the rupee depreciates then we have to take another pricing action otherwise we do not see anything at this point of time to the pricing action any further.
- Abhijeet Akela:** If you could just also comment on the import situation sir, any pressure you are seeing from importer or the market is looking...
- V. Ravichandran:** This time monsoon condition is very good in the northern part so most of the imports go to that side basically. We do not see much of pressure coming in southern part.
- Moderator:** Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.
- Bhavin Chedda:** Sir, you mentioned the reason for lower profits mainly trading but if we try to back calculate the manufacturing EBITDA run-rate for last two quarters has not been up to the mark of Rs. 2,000 a tonne. So what has changed there is it that the less volumes is leading /not leading to the recovery of fix cost and how then we achieve annualized EBITDA of Rs. 2,000 a tonne on manufacturing volumes?
- S. Sankarasubramanian:** Bhavin, as you see always, our first quarter and fourth quarter are off season periods and we do not operate at higher capacity. Even if our annual capacity utilization is close to 70% the

capacity utilization in these two quarters will be below that level. So, to that extent it will be a muted EBITDA during first quarter and fourth quarter and then it peaks-up during Q2 and Q3. So that is the reason our guidance has always been on Rs. 2,000 average EBITDA for the year and not quarter-on-quarter....

Bhavin Chedda: Yeah, we understand that. So considering that you think the manufacturing EBITDA was in line with the seasonality?

S. Sankarasubramanian: Yes, in fact even for the current quarter whatever volume we sold of manufactured products, it is in line with what we did last year as well. So there is not much of a gap.

Bhavin Chedda: Okay. And sir this Rs 18 crore you mentioned that the FOREX premium which has been accounted in under which head you account this?

S. Sankarasubramanian: Other expenditure.

Bhavin Chedda: It is there is in the other expenditure, okay. And sir, last question what was the trading sales in the quarter?

S. Sankarasubramanian: Volume?

Bhavin Chedda: No, value wise.

S. Sankarasubramanian: Volume is 1.3 lakh tonnes, I can get back to you on the value about Rs, 400 crores roughly.

V. Ravichandran: Roughly about 400 crores.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: Sir, just one thing in terms of the subsidy receivables you spoke about that being better off in terms of subsidy receivables coming back. Can you tell you the number right now in terms of what the outstanding would be?

S. Sankarasubramanian: 1,500 crores.

Atul Mehra: And this was as of Q1 end, right? So post that we would have seen some amount of recovery?

V. Ravichandran: Yeah, we have to receive money but there is one core amount which is stuck in that which is the 10% amount it is about 700 crores.

Atul Mehra: 700 crores?

- V.Ravichandran:** 700 crore, so you can imagine 8% interest amounting to 56 crores we are losing interest just on that core amount. That is amount pending from November 2012 till today. So, every year it keeps adding and increasing the amount. Other than that, we have to receive money for April and May which we are hopeful to receive in a couple of days. We have to receive money for June, then we will receive the money for imports of January to June. So this money will come. So the core 10% subsidy which the government has to clear is for everybody not only for us.
- Atul Mehra:** Right. And secondly, in terms of domestic agrochem for us so, how is that business have been doing during the quarter?
- V.Ravichandran:** In domestic agrochem, there was a lot of problem last year, last year rabi season failed. A lot of material has been put into the market. Because of which one would have seen the results of other competitors in the same space. A lot of material had to be taken back, otherwise receivables keep coming for next two years. So, what has happened is that the monsoon was delayed so there was not much buying taking place in advance by the north Indian customers. So first quarter was muted on top of which we took back a lot of stocks. So now, second - third quarter should be good because rains except some parts, is evenly good across India and cropping is also better. So we see whatever loss in the first quarter we wish to at least make up in the second third and fourth quarter.
- Atul Mehra:** Right. And my final question is in terms of overall phosphoric fertilizers. So are we seeing that last two years - three years the overall demand situation being pretty weak so, is that changing this year or it is not?
- V.Ravichandran:** If you take last 2-3 years, first year, there was an excess material put in the market due to too much imports. That took one year to correct, so pipeline stocks got corrected and we saw that correction happening last year. This year, the pipeline stocks are low across industry and the monsoon is definitely better than last year. So, overall Indian phosphatics business should be good if there is no rupee depreciation significantly and the price is stabilized I think consumption will improve only from now onwards.
- Atul Mehra:** Right. And just one perhaps last one will be on the export business so, you spoke about LATAM not doing as well. So, generally as a business for FY-16 what could we actually build in for something like Sabero?
- S. Sankarasubramanian:** See, in this business some molecules go out of system and some other molecules picks-up. There is another molecule Mancozeb that we operate, its major manufacturing is being carried out at Sarigam unit. So the demand for Mancozeb has significantly gone up and there has been price revision upwards also. So we are hopeful to make-up for the drop in insecticide sale in export market to Latin America by improving our sale of Mancozeb. And with the currency depreciation, it should also help export margin as well. With the reduction in the input gas price and utilities, our margin structure in Sabero is also showing a significant improvement in the last two quarters. With a consistent production performance and the drop in gas prices,

there was a marginal expansion. All this should help us to neutralize the effect of drop in exports to Latin America.

Moderator: Thank you. The next question is from the line of Manan Mehta from HDFC. Please go ahead.

Manan Mehta: Sir, essentially my queries are three prompt. First, we want to understand the agro environment which has been erratic because of the rains over Rabi and this time also for the Kharif at the beginning I mean there have been certain delays. How significant is the impact likely to be on agrochemicals for FY-16 and over the medium-term?

V. Ravichandran: It is not that breaks do not happen in the monsoon conditions. They normally tend to be a ten days and then there will be revival again ten days like that. So this time the gap was little long in the first 20 days of July. But if you look at the last one week to ten days there has been excellent rainfall. In fact, there has been flooding situation in West Bengal, very good rains in Gujarat, Rajasthan, Madhya Pradesh, Chhattisgarh, even Vidarbha and Marathwada got good rains. So this has now improved the sentiment overall so, agrochemical should not suffer too much this year because conditions are very conducive at this point of time, unless there will be excess rains and the field gets washed away which I do not think will happen. Agro environment as of today is not too worrisome because minus 4% on a big variance from a long period average is acceptable. Except maybe in places like Rayalaseema, some parts of Karnataka where conditions are not that favorable, but we only hope that August, September should cover the shortfall. So if that happens agrochemical should see growth, except for that to be offset against the returns of last year.

Manan Mehta: Okay. Sir, my second query is with regards to the policy initiatives. One, how is the freight subsidy accounted in Q1 of FY-16 for you since there is lack of clarity over the policy. And two, with regards to this 10% of subsidy which is set for all players from November 2012, what would be the outlook as to by what timeframe can we expect the subsidy to be cleared and what are the initiatives or actions which are taken by the government to ensure that?

V. Ravichandran: See on the first part, you have talked about freight subsidy. We have accounted as per the current price subsidy policy which means 100% reimbursement for the railway freight and the equitable distance for the road freight. So there is no change in the freight policy revenue recognition what we have been doing last year we continue to do. With regard to 10%, there is a system change which government introduced two years before, whereby the retailers and distributors have to acknowledge the receipt of material in mobile based information system and that data update has happened for most the companies and specific to Coromandel we have carried out 100% up to March '14. The data that has been updated in the mFMS and is being migrated to main fertilizer monitoring system that generates the subsidy bills. So we have been talking about it in the last two - three quarters but I think we are in the final stage. But we want to confirm only after we receive it. But you know it is a big amount, so it will make significant difference to the interest cost.

- Manan Mehta:** Correct, understood. Also sir, with capacity utilizations being around 70% level. What sort of CAPEX plans would we be having both for complex fertilizers as well as for the agrochemical?
- V. Ravichandran:** We do not have any big CAPEX plan, except normal replacement CAPEXs which we do. We have got enough capacity; we can do more if we do complex fertilizers normally. In agrochemical also, we do not see much CAPEX except for some debottlenecking at the Sarigam plant.
- Moderator:** Thank you. Next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** I just want to better understand the forward premium which you book in other expense; can you just explain it is on account FOREX borrowing or hedging the account payable?
- V. Ravichandran:** Yeah, it is a combination of both. Sometime we avail buyer's credit, sometime we avail supplier's credit, So whatever the hedging cost we have for the credit period is accounted under the other expenditure.
- Dheeresh Pathak:** But you would always have decided because even in the previous quarter comparable this is like part of the business operations this is not one-off FOREX element, right?
- S. Sankarasubramanian:** The reason here what Mr. Ravichandran also mentioned is due to delay in subsidy disbursement, we have to go in for an extended credit beyond the normal credit what we generally avail as part of our working capital cycle. So this impact is basically due to that additional credit
- Dheeresh Pathak:** So normally you would have got the subsidy for the Jan, February, March period in April, correct normally?
- V. Ravichandran:** On the April May subsidy, with announcement that happens in the March on NBS rates, we get April subsidy in May and May in June. So we got the subsidy only in the month of June even for the period January to March which has forced us to roll over some of the credit what we avail in FOREX. So that has impacted the FOREX premium and FOREX outgo.
- Dheeresh Pathak:** Do you think in this quarter, this year it is for about you are getting paid in about six months or so, earlier you were getting paid in three months.
- V. Ravichandran:** Normally what happens you do not get paid for the period December to March till the budget gets cleared,. So budget happens in the month of February then by April you get the allotment done. So this time that money came in the month of June for us.

- Dheeresh Pathak:** Okay. And when you hedge at what time do you hedge your input cost or your imported material when you make sale?
- V. Ravichandran:** Most at the time of bill of lading. So we do not take any open exposure generally. We are very pragmatic in terms how we manage our FOREX.
- Moderator:** Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas:** Sir, first question, can you just give the split of the subsidy and non-subsidy business in revenue and EBITDA?
- V. Ravichandran:** 19% came from non-subsidy in the top-line and on the EBITDA side 56% is from fertilizer and 44% is from non-fertilizer.
- Rakesh Vyas:** Sure. Sir, given that most of time the Phos Acid contracts are concluded quite early into the quarter at least for last two - three quarters. We have not seen the supply of Phos Acid reaching in time and also in quantum. So what gives us confidence that next quarters we will have adequate supplies to run our plants at optimal level?
- V. Ravichandran:** No, we already contracted for next two quarters. In the last quarter (April to June quarter), there was delay in finalizing the price So now what we did for the period July to December- the contracts have been finalized and it has already started coming. We have our own JV partners, especially TIFERT; then we have our partners in GCT, and FOSKOR. Now FOSKOR had problems with Phos Acid production. In terms of TIFERT, they had production in the first quarter we got a shipment, then there was a stoppage. So if you ask me, fairly we are clear as to what will get between now and December. Now accordingly we are planning our imports of DAP and what product we should make. So we spend more on fertilizer so we will keep up the volumes. We only hope the season continues to be good and makes up the shortfall in Rayalaseema we should have fairly good year.
- Rakesh Vyas:** Got it, sir. And what is the price that we have finalized
- V. Ravichandran:** \$810, \$5 more than the previous quarter.
- Rakesh Vyas:** Sure. And if you can just specify as to how much acid you expect this year to come through in quantum?
- V. Ravichandran:** See that is very difficult to give, I told you what is visibility but there can always be delay there can always be some problem here and there.

- Rakesh Vyas:** Sure, okay, got your point. And sir, my last question relates the agrochemicals. What has been the export sales percentage this quarter as there have been a significant impact compare to earlier years?
- S. Sankarasubramanian:** Specific data point, we will come back to you later.
- Moderator:** Thank you. The next question is from the line of Ajit Jain from Yes Securities. Please go ahead.
- Sujit Jain:** Sir, this is Sujit Jain from Yes Securities. You said that the subsidy was at 1,500 crores and subsequently in first week of July some has been paid so, what is the current number that is outstanding?
- V. Ravichandran:** Current is 1,500 crores, correct?
- S. Sankarasubramanian:** No, as of 30th June it is 1,500 crores so this includes the billing what we have done in April to June so, it is a moving number.
- Sujit Jain:** So post the payment in July first week what would that number be?
- S. Sankarasubramanian:** We have received a major portion in the fourth week of June after considering the collection subsidy amount outstanding is around 1,500 crores.
- Sujit Jain:** As on June end?
- S. Sankarasubramanian:** Correct,
- Sujit Jain:** Okay. And in terms of EBITDA margins, could you indicate what the EBITDA margins would have been for the pesticides business plant protection business?
- S. Sankarasubramanian:** We do not give segment wise EBITDA margin. It is not required.
- Sujit Jain:** Okay. But in terms of the normative margins that we would like to have how far the margins have been below in terms of in both plant protection and as well as the SSP business of Liberty?
- S. Sankarasubramanian:** The SSP business improved on volumes and the absolute EBITDA has moved up. The margin side it is better than the corresponding year of last year first quarter. The share of EBITDA from the non-subsidy business is around 44%.
- Sujit Jain:** Okay. And can you comment in terms of the return on capital employed that we would have expected and that we have been able to garner so far on our Liberty investment?

- S. Sankarasubramanian:** Liberty is more of a strategic investment and should not be viewed in the short-term for 1-1.5 years. We are here to make a long-term shift on the consumption pattern for the small and marginal farmers. Currently we are operating at 50% capacity utilization. As and when we move towards close to (+80%) we should be getting back the number what we target to achieve at the time of acquisition. R
- Sujit Jain:** It is a fair point. But what would have been the expectation? What is that number that you would look at and aspire when we eventually go to 75%-80% capacity?
- S. Sankarasubramanian:** See EBITDA for at least Rs. 1,000 in that business per tonne.
- Sujit Jain:** Okay. But in terms of the return on investment what is the expectation that when things go smooth and when the capacity utilization is to get level of 75%-80%. What is the expectation?
- S. Sankarasubramanian:** It should not be more than four years.
- V. Ravichandran:** It should be around +20%.
- Moderator:** Thank you. Next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** Yeah, you said that we took certain price corrections in domestic market for fertilizers?
- V. Ravichandran:**
- V. Ravichandran:** There has been rupee depreciation, there are some cost increases, so we have taken appropriate price correction to overcome that disadvantage.
- Viraj Kacharia:** Okay. And the market share which we are talking about in Q1. So the market share which you mention is for complex, right?
- V. Ravichandran:** Overall, DAP and complex.
- Viraj Kacharia:** Okay. So the change is primarily because the seasonality element DAP being higher this season?
- V. Ravichandran:** No, not only that the imports were higher from the other player.
- Viraj Kacharia:** Okay. And just last question, you mentioned that the company had to take back stock in the domestic agrochemical market and we also had some issues in export. Is it possible to quantify this expense?
- V. Ravichandran:** In exports there are no issues of take back. The take back is only for the domestic market.

- Viraj Kacharia:** Yeah, so is it possible to quantify how much impact what I mean for that?
- S. Sankarasubramanian:** It is only on domestic business -10% to 12% return was there.
- Viraj Kacharia:** And whatever adjustments we have to do it is already been done, right? There is no for the...
- V. Ravichandran:** There will be some more take backs.
- Moderator:** Thank you. Next question is from the line of Balwinder Singh from B&K Securities. Please go ahead.
- Balwinder Singh:** Firstly, if you can highlight what is the Phos Acid price that has been finalized for second quarter and third quarter. And what are the current DAP prices farm gate prices in the market?
- V. Ravichandran:** Phos Acid has been \$810.
- S. Sankarasubramanian:** DAP prices ranging between 24,500 to 25,000 before VAT.
- Balwinder Singh:** Sir 24,500 to 25,000?
- S. Sankarasubramanian:** 24,500 to 25,000 before VAT. VAT varies from state to state
- Balwinder Singh:** Okay. And next question is on the imports. What is the going forward scenario of imports because at Phos Acid prices of 810 whereas your global DAP price continued to remain at around 460-470 so, I believe imports will continue to happen in the market. So in that sense how do you see the margin trajectory going forward for manufactured fertilizers?
- V. Ravichandran:** We have given an overall guidance on the margin percentage. So it is too much to cut between what is manufactured. See our aim as a company is to ensure that we do everything to come around that what we indicate as EBITDA margin. So we resort to low "P" analysis fertilizer, we resort to import, so we do all this as a management decision to ensure that we are closer to the number.
- Balwinder Singh:** Right. Sir I understand that our yearly guidance is Rs. 2,000 and you strive hard to achieve that but last two - three quarters we have not been able to achieve. So I was just wondering are we confident of achieving this number going forward.
- S. Sankarasubramanian:** See I mentioned in the earlier call also, this should not be looked at on a quarterly basis We should look at weighted average on an annual basis.
- V. Ravichandran:** There are so many things happen in this, sometime you carry more inventories at the end of the year to take care of new season coming up. So you will look on an average for the year, so there will always be ups and downs during the quarter and during the month as well. We will try to maximize during the season periods generally.

- Balwinder Singh:** Yes, I understand. Sir and lastly any kind of volume number that you see on the manufactured fertilizer or what kind of growth volume do you see on the manufacture fertilizer for the next for FY-16 or for the next two years?
- V. Ravichandran:** First of all this business is monsoon dependent,. I can't give number for next two months where is the question of giving the next two year numbers to you because we are not able to predict how the monsoon will behave. Monsoon could be normal throughout India but could be abnormal in the states where we operate, Even if it is normal in the states where we operate and abnormal in the Andhra Pradesh where we have significant sales, this number is very difficult to predict. So our aim is to maximize the capacity utilization basically.
- Balwinder Singh:** Yeah, so what kind of capacity utilization do you look going forward? Last year I think it was 66%-67% on the manufactured side so...
- V. Ravichandran:** Around 70.
- Balwinder Singh:** So can we scale it up to 80%-85% over the next one or two years?
- S. Sankarasubramanian:** Subject to acid availability we should be targeting because having created capacity our aim will to be only maximize....
- Balwinder Singh:** Right. And what can be the peak capacity utilization in complex fertilizer business, can we achieve...
- V. Ravichandran:** It is 95.Even 100% we can do.
- Moderator:** Thank you. Next question is form the line of Rohan Gupta from Emkay. Please go ahead.
- Rohan Gupta:** Sir, just missed NPK sales volume for the quarter sir. 3.54 is total sales volume?
- S. Sankarasubramanian:** Manufactured sales volume is 3.54 Lakh . 1.3 is imported. Imported all DAP. Total is 4.8.
- V. Ravichandran:** Small quantum of DAP was manufactured, roughly about 10,000 tonnes.
- Rohan Gupta:** And sir going forward in the coming quarter you were saying that NPK sales volume will be much larger in terms of total share of fertilizer sales volume. So you are going to reduce the DAP trading?
- V. Ravichandran:** No, we are continuing to do so. The DAP trading depends on acid availability. If we get plenty of acid, we would like to make own DAP. If acid is going to be a shortage, we will try to maximize use of acids for complex fertilizers and then try to import the DAP. So for second quarter we will go for some imports

- Rohan Gupta:** And sir, could you give us some sense how much Phos Acid inventories we are holding at the end of the June quarter?
- V. Ravichandran:** That's not the right question at all. What number I give is not going to help you. My job is to ensure that we maximize production in whatever acid is available to us. The product mix can change, y there are so many things that can vary the output. So one cannot make a guess on Phos Acid how much I will produce in future.
- Rohan Gupta:** But sir you mentioned that second quarter will be NPK sales because that is the consumption of NPK, right?
- V. Ravichandran:** Yes, second quarter and third quarter generally for NPK consumption, yes.
- Rohan Gupta:** And sir, this subsidy pending thing which you mention This is for the industry and when you see that the whole problem is getting solved and when you will get the whole payment.
- S. Sankarasubramanian:** Rohan, we have already spoken about it. We are at the final stage, let's see, wait for one more quarter and see how it progress.
- V. Ravichandran:** Okay. Now it is the government only. Now we have done all, that we are supposed to do.
- Rohan Gupta:** So even the running second quarter also we have extended the buyer credits further and were going to have a further additional premium on hedging?
- S. Sankarasubramanian:** Rohan, we said that delay which has happened in the first two months led to the additional roll-over in that. Now when we are getting into the season, normal cycle kicks-in. Fresh disbursement is happening. This roll over is nothing to do with the 10% overdues. Once the normal subsidy cycle sets in, then the working capital cycle will take care of it.
- Rohan Gupta:** Yeah. So the normal cycle would have started but the old subsidy which is still 800 crore...
- S. Sankarasubramanian:** It has been there for last two years Rohan, it is not something this quarter.
- V. Ravichandran:** No, you are right, if we do not get for another two years then it will impact us because every year we are adding 300-400 crores in our kitty so hopefully we should get this year.
- Moderator:** Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.
- Bhavin Chedda:** Yeah. Sir, your sales volume of 3.6 does not include SSP volumes, right?
- S. Sankarasubramanian:** Yeah, SSP is 1.26.
- Moderator:** The next question is form the line of Manish Mahawar from Edelweiss. Please go ahead.

- Manish Mahawar:** Sir just question on this year volumes as you not indicate anything basically what type of volume you will do in this year. But my question is that suppose your dynamics on industries remain same like you will not manufacture DAP. Do you see any growth in your manufactured fertilizer this year because I think last year we manufactured roughly 2.5 lakhs to 3 lakhs DAP in the last year?
- V. Ravichandran:** No, see if the season turns out to be good in August-September, definitely we should do more than last year, subject to availability of Phos Acid going forward. As I said we have visibility only for the next two months on Phos Acid or maybe some visibility in the third quarter. But fourth quarter we do not know because our price are yet to be discussed, finalized, and then we should know what happen to our partners. So we do not know at this point of time, it is too early to predict some of those events.
- Manish Mahawar:** Okay. And sir in our plant 3.6 million metric of plant I think so some portion we cannot manufacture the complex I think that is purely on DAP per se?
- V. Ravichandran:** No, in all plants we can make complex.
- Manish Mahawar:** Okay. 100% you can make a complex.
- V. Ravichandran:** Yes.
- Manish Mahawar:** And Sankar could you possible to give me a growth number of Sabero this quarter possibly?
- S. Sankarasubramanian:** I do not have it immediately, I will come back to you.
- Moderator:** Thank you. The next question is from the line of Prakash Goel from ICICI Securities. Please go ahead.
- Prakash Goel:** Sir, I have one request and one question. The question is with regard to what has been the break-up of the non-subsidy in terms of revenue and EBITDA which the company has been giving for a while?
- V. Ravichandran:** 19% is the top-line, 44% at the bottom-line.
- Prakash Goel:** 45% at the bottom-line.
- V. Ravichandran:** 44%, yeah.
- Prakash Goel:** Okay. May I place a request that we would like this number to be reported in the segmental basis because now everything is consolidated. For an outsider it becomes very difficult to just go by the quarterly number that we are getting. So in the segmental reporting the number is so

substantial why it is not being reported separately? So that is request if management can take request.

S. Sankarasubramanian: Yes, at this point of time as per the requirements of financial reporting, they all are treated as single segment. As and when the change happens, we would report as per regulatory requirements.

Moderator: Thank you. Next question is from the line of Amar Maurya from India Nivesh. Please go ahead.

Amar Maurya: My first question is on the Latin America side. What is the contribution of Latin America to the total Sabero revenue?

S. Sankarasubramanian: See we did exports of \$100 million and major portion came in from Latin America last year.

Amar Maurya: Okay. Sir, you eluded that there was some molecules issue in Latin America what was that like exactly?

S. Sankarasubramanian: In terms of crops switch-over, the move was towards GM crop that has reduced the consumption of insecticides like chlorpyrifos.

Amar Maurya: Okay. So chlorpyrifos was the...

S. Sankarasubramanian: Correct,

Amar Maurya: Okay. So sir then if that is so I mean if the farmers are moving from hybrid to GM is that the overall consumption for such kind of chemicals is likely to impact in the longer-term also?

S. Sankarasubramanian: It keeps changing s

V. Ravichandran: It is like world population, finally the whole population only grows. Same with insects also you suppress somewhere, somewhere else insect's effect will happen. So insects will only grow, it will never come down.

Amar Maurya: Okay. So sir what was the impact like what was degrowth if you can just elude me what was the degrowth because of this molecule impact?

S. Sankarasubramanian: We have to wait and see for the full year to play out.

Amar Maurya: Okay. So meaning if I see then Latin America overall outlook for this year is what I mean is that...

V. Ravichandran: Two - three things in Latin America. One is the Brazilian Real, since the Real is depreciating very-very fast. The overall import is also coming down in Brazil.

S. Sankarasubramanian: Apart from Latin America market, we do sell in Africa and Asian markets and we have a product which can cater to different requirements as well. Now that Latin America will have an impact it can be made up in other product range as well as other continents.

Amar Maurya: Okay. So meaning we are normally looking for newer geographies too...

S. Sankarasubramanian: Yeah, absolutely.

Amar Maurya: So do we have registrations for that?

S. Sankarasubramanian: Yes, we do not operate only in Latin America we operate across the globe.

Amar Maurya: Okay. In terms of that like what is the geographic mix if I can?

V. Ravichandran: Africa, Europe, Asia, we operate in all these countries.

Amar Maurya: We would go through the distributions or registered...

S. Sankarasubramanian: Yes.

Amar Maurya: Sir, my second question is pretty long-term. If I look your EBITDA margin from financial year '10 till financial '14, it has been consistently coming down. I mean when we expect to reach to the historical level of EBITDA margin. Can we and if yes, by when?

V. Ravichandran: If you look at it, it was before NBS policy. Then the NBS policy came in and the NBS policy is only for Phosphatic and not for the urea. Now if the NBS comes from urea definitely the shift will happen in terms of the balance between urea and complexes. Second, monsoon has been erratic over this period. Third, there was overhang of the pipeline stocks. Some stability has come in terms of consumption. The farmers have accepted this price. Now from now onwards the question is how much will prices move up. See the impact also happens because of rupee depreciation. If rupee does not depreciate too far and not too much under instability in terms of world environment, I am sure the growth of phosphatic will happen from now onwards. And then if the urea policy comes then, it will accelerate the improvements.

Moderator: Thank you. Ladies and gentlemen due to paucity of time that was our last question, I now hand the conference over to Ms. Gauri Anand for her closing comments.

Gauri Anand: Thank you, Malika. Thank you, Mr. Ravichandran and Mr. Sankar for this briefing. I wish you all the very best. Thank you very much, everyone for logging into the call.

S. Sankarasubramanian: Thank you.

V. Ravichandran: Thanks, Gauri for arranging this call.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of PhillipCapital India Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.