



# “Coromandel International Limited Q2 FY16 Earnings Conference Call”

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**MODERATOR:**      **MR. ROHAN GUPTA – EMKAY GLOBAL FINANCIAL SERVICES LIMITED**

**Moderator**

Ladies and Gentlemen, Good day and welcome to Coromandel International Limited Q2 FY16 Earnings Conference Call hosted by Emkay Global Financial Services Limited. As a remainder, all participant lines are in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rohan Gupta from Emkay Global. Thank you and over to you, sir.

**Rohan Gupta:**

Thanks Aman. Good afternoon Ladies and Gentlemen. On behalf of Emkay Global Financial Services, I first welcome all the participants who have logged in for the conference call of Coromandel International for Q2 FY16 and H1 FY16 Results.

From the management Mr. Ravichandran sir, Mr. Sameer Goel sir and Mr. Sankarasubramanian sir are present. Sir, Good afternoon to all of you. First time we have, Mr. Sameer Goel who has joined as a Managing Director in Coromandel International, welcome sir and I will first request you if you can give or share brief about the quarterly result and industry perspective and then we can follow it up with the Q&A session sir. Over to you sir, please go ahead.

**S.Sankarasubramanian**

Rohan, Mr. Ravichandran, Vice Chairman will do the brief introduction.

**V Ravichandran:**

Good afternoon to all of you. So as all of you know that this quarter is a very challenging quarter for the agri industry. We know first quarter the monsoon started with a big bang, it was 116% above normal, 116% of normal till end of June, then suddenly July, August and September three months there was a significant deficit, July was 84% and then August was 78% and September 76%. Then progressively the deficit went up, and finally southwest monsoon ended with a 14% deficit. 14% deficit may not see very alarming but then the spatial distribution was really bad. If you look at the southern part it had a 15% deficit, but then places like Telangana had more than 20%, then if you look at the central part of India especially Marathwada, then Madhya Maharashtra they had almost 40% deficit of rain. So the 14% is disguise and signs that on average some place like Northeast had very good rain but not agriculturally significant for our business.

So you must also be seeing the results of agro-chemical companies reporting recently, the drop in sales as well as significant drop in margins. Not only that, the current year performance is affected by current year situation, it is a second year of drought like situation so whatever actions the companies took last year in terms of a certain risk, so they have to pay for that kind of risk taking as well in the current year. So there were two impacts, one is current year impact plus the impact of certain practices of the past. So that is what you are now seeing in many cases.

. So we are all hopeful that this is only one time stress situation, all this happens and we have to see the business from or longer-term perspective.

Having said that, I think we also briefed in the last quarter that our strategy for the year is that we will sell as much as possible during the season time and then we will like to avoid the repositioning of stocks in the first quarter, so first quarter we did not do much of sales and we reserved all our quantity for the second quarter, basically on our judgment of what the monsoon will like to be. Also the IMD prediction itself of 14% shortfall was dot on the forecast but the prediction in terms of southern region went completely wrong. They predicted above normal or normal monsoon for southern parts, but they had 15% shortfall. So that had some impact on our performance. However I can say that we have put our best efforts in terms of containing the problem and then see what we could do in the future.

So this is about monsoon prediction, Let us look at the industry . We all know that the first quarter industry had a phenomenal growth, there was a growth of almost 62% compared to the previous years in terms of volumes but the overall volume up to the half year is only 26%, it means a significant drop in terms of growth rates for the second quarter which came in at 9%. This growth is also not uniform, they are skewed in some markets and there is low growth in other markets. While the DAP segment grew significantly, the complex segment had a moderate growth. As you know, complex is predominant in the southern peninsula whereas DAP is significant in the northern markets.

Products other than the complex and the DAP, which is significantly traded in India is MOP and MOP had a drop in sale of up to 10% in the 1<sup>st</sup> half, the main reason being the monsoon shortfall. Secondly though the planting acreage was good but there was worry that the yield may not be as good as what normally used to be for a normal monsoon period. Also, because of the disturbances in the sugar market due to low prices and the sugarcane farmers not getting paid, the consumption of potash-based fertilizers which normally go for sugarcane dropped.

So coming to our performance, we continue to have stress on the phos acid availability. Tunisia as well as our joint venture in TIFERT and FOSKOR continue to have certain difficulties. So we decided that we will do more production of low grade fertilizers with our own acid to maximize the contribution revenue which Shankar will take you through in terms of performance. And we decided to import DAP. So we took a call on importing a little bit extra quantity based on our judgment on what the monsoon would be, however that did not turn out to be the way that we wanted, so we landed with additional working capital at the end of half year because of extra imports.

The phosphatic volumes grew by about 8%, our overall manufacture volume is little better than last year and sale of imported fertilizers is significantly better than last year because of imported DAP. And imported DAP, I recollect in the first quarter I mentioned, that Forex is going to be the critical factor and the FOREX depreciated in the month of August. Luckily little bit of appreciation in Sep has happened but then because of the stressed monsoon situation we could

not pass on the cost fully. So the margins on imported DAP is not to our expectation, so overall the margin is little lower than what we expected

Our volume witnessed a 10% growth in the phosphatics in the first half but our market share has taken a little bit beating because last year we had some volumes for institutional customers, ie some companies took material from us. But this year because our expectation of monsoon and our own confidence in the marketing of all products, we did not sell much through co marketing. So the market share had fallen because of that, but if you remove that part we have grown in that market.

In terms of the non-subsidy businesses ie agrochemicals, special nutrients, organic, retail all others have stressed performance, reason being that they all depend on the same monsoon condition. Secondly, as I said in the case of markets like Punjab there are disturbances from the farmer side because of the widespread infestation of whitefly, which has affected the cotton crop. Also there are certain actions we have to take to contain our working capital by taking back the stocks what we placed last year in the market. So the agrochemicals, the SND, the organic- they all had a stress performance. So while the fertilizer business did well, better than last year, the other business had difficulty. So as I said in the beginning- one is the poor monsoon conditions and secondly that we have to take back some stocks to curtail our working capital, especially the receivables in the market, both in agrochemicals and SND business, so that has pulled down the overall performance of the company.

So now I will leave it to Shankar to take through the financial performance and if you have any questions I will be more than willing to answer that.

**S. Sankarasubramanian:** Good afternoon. On the operational side, fertilizer plants operated at 75% capacity during this quarter and our production of complex fertilizers is 6.6 lakhs tons, marginally ahead than last year's 6.4 lakhs tons. During this quarter we restricted our DAP production to 20,000 tons and the rest of them were high value complex grades which has helped us to improve the EBITDA performance for the quarter.

Sale of our own manufactured products is 7.6 lakhs tons as against 7.5 lakhs ton of last year and our imported DAP sale volume is 1.2 lakhs ton as against 60,000 we did last year. Overall, the company side the phosphatic volumes went up by 8% during this quarter. We registered a sale volume of 8.7 lakhs ton as against 8.1 lakhs ton in the last year corresponding period. Of course as Mr. Ravichandran mentioned our sale volume of potash was down, during this period our potash sale volume was 40,000 as against last year 60,000 we did. And urea where we handle under the government contract, it is more to do with the availability, we handled 80,000 tons during this quarter as against last year's 2 lakhs ton.

On the market share front, during this quarter we have registered a growth in our addressable market, in fact our market share overall is 15.8% but one of the important point here is in our core markets like Andhra Pradesh we have improved our market share from 57.5% last year to

62% this quarter. So a combination of efforts in terms of improving our share in the captive markets and also increasing the sale of specialty products in fertilizer helped us to improve our overall EBITDA margin. So during this quarter our consolidated turnover is around Rs.3,565 crores registering top-line growth of 3% and of this fertilizer business constitutes 85% and balance 15% coming from all other non-fertilizer business- agro chemical, crop protection, and retail and specialty nutrients.

On the EBITDA share there has been a significant shift from non-subsidy during this quarter as Mr. Ravichandran mentioned because of the stress we witnessed in agro chemical business and also low volume growth in other categories. Our share of fertilizer to non-fertilizer business is 70% to 30% as against going trend of 65% to 35% .This is mainly due to one time impact we have to take during this quarter in terms of stock write down and other sales return which we witnessed in agro chemical business. So hopefully the improved cost structure of agrochemicals and the rupee depreciation augment well for expanding the margin structure especially for our export business from erstwhile Sabero.

Our consolidated EBITDA for the quarter is Rs.314 crores as against 347 crores for the quarter and for half year it is 406 crores as against 469 crores last year. Net profit after tax is 173 crores against 180 crores of the previous period, our PAT for the half year is 188 crores as against 212 crores of last year. Overall, debt equity long-term is very comfortable at 0.09 and of course we had higher levels of inventory and receivables. Major portion of the receivables are basically due to increased volume of sales witnessed during August-September and we are sure that it will taper off as we move into next quarter.

Net debt equity is at 0.85, it is higher than the corresponding period last year. There has been significant improvement on the subsidy front, we have received subsidy up to July and as we speak we have received our August subsidy, there has been a significant improvement on the subsidy outstanding. But one area of concern for us on the 10% subsidy front which continues to get delayed and we are hopeful to get some money disbursed before the end of the next quarter.

This completes my update on the financial front and we can move on to question-and-answers.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Sujit Jain from Yes Securities. Please go ahead.

**Sujit Jain:** Sir there is an increase in inventory if I were to look at the half yearly balance sheet of close to about 600 crores, so at a time when in southern peninsula the water reservoir levels are low and probably the Rabi crop is expected to be muted, what explains this high inventory? And also the short-term loans and advances figure has dropped by 300 crores in which we typically house the figure of subsidies, so what is the subsidy outstanding as on second quarter?

**V Ravichandran:** On the inventory, as I mentioned to you, we took a chance in terms of our own judgment on the monsoon, so we are about a ship of DAP extra, so that is about say 100 crores. Now coming to

liquidating the stock, now you know the prediction for northeast monsoon is very-very good, they are talking about 115% of normal monsoon. Second is, Tamil Nadu gets about 42% to 45% of the rains only due to the northeast monsoon. And between Karnataka, coastal Andhra Pradesh, Rayalaseema and Tamil Nadu, more than 30% of the full year monsoon comes only from the northeast. Now given the prediction of good northeast monsoon and our strength in Tamil Nadu, coastal Karnataka, coastal Andhra and Rayalaseema we have no reason to worry about liquidating this quantity. Also note, there are institutional buyers in these states so we are working actively with institutional buyers to see how we can liquidate the stocks. In fact what quantity we are carrying extra is not even 15 days of requirement in the market place, so I do not think there is too much of worry. As the monsoon turned out the way we wanted we would run shortage of material actually in spite of our imports.

**S. Sankarasubramanian:** On the subsidy front, you are right, actually the reduction in loans and advances is mainly due to subsidy reduction as compared to March. In March we had Rs. 1,789 crores roughly outstanding and that has come down to Rs. 1,400 crores as on 30th September.

**Sujit Jain:** So this inventory rise you are saying is it on account of DAP or it is on account of complexes?

**V Ravichandran:** Mainly DAP.

**Sujit Jain:** And the second question is, there has been some churn at the core management level as well at the middle management level. What has been the issues and how the company is addressing those issues?

**V Ravichandran:** There is no churn, see as part of some rotation and then giving exposure, we have done some changes. First is, Mr. Sameer Goel has joined as MD so there is no churn, because Mr. Kapil left and we were looking for a Managing Director and Sameer with his vast experience has joined us. Second, we have moved head of Human Resources as a part of rotation career planning, to head the SSP business, the one we took over from Liberty. So in this way now we have recruited Head of HR. The third is, we have inducted new Head of Marketing as the previous incumbent has super annuated. So there has been no churn in terms of people leaving the company and all this, it is a planned move in terms of giving exposure to certain key people as part of the progression.

**Sujit Jain:** And one last question is on some of the segments, which of course we do not give segmental results but what has been rough EBIT margin in let's say agro chemical division that is crop protection division, the retail division and as well as the Liberty business....

**V Ravichandran:** Agro EBIT margin is better but then since the volume is less the total quantum of EBITDA is less.

**Sujit Jain:** If you could quantify the rough band of EBIT margin for the agrochemicals business sir?

**S. Sankarasubramanian:** Agro chemical is around 15%.

- Sujit Jain:** And that has been even during this quarter?
- S. Sankarasubramanian:** Yes, in fact our margins are much better during this quarter especially from technical, thanks to gas price reduction in Sarigam unit which we acquired from Sabero. We could see expansion in EBITDA margin in technical business. There has been also increase in price realization of some of the key molecules what we are manufacturing and exporting, so in terms of margin percentage per se this quarter has been good but because of absolute quantum of sale reduction, the share of non-subsidy business has come down.
- Sujit Jain:** So what has been the volume or top-line decline in Sabero or the entire crop protection business?
- S. Sankarasubramanian:** On the Sabero front, more or less we are there closer to last year but on the formulation business there has been a 15% de-growth.
- V Ravichandran:** That is because I told you we have to take back some stock, so that has been netted off in the current year's sale. Otherwise if you look at comparable basis, we would not have de-grown much but the take back has brought the sales down.
- Moderator:** Thank you. Our next question is from the line of Prakash Goel from ICICI Securities. Please go ahead.
- Prakash Goel:** My question is with regard to the margin in the non-subsidy business which appears to be on a very high side in this quarter, if you have already explained I could not understand the reason for it.
- V Ravichandran:** See there are two things, one is if you take the agrochemicals, some molecules we had good margin expansion because of the price increase we could realize in the export market especially in the Mancozeb. The second thing is, in terms of the cost, Sarigam gas price has come down substantially so our margin has expanded in the technical side of the business which is a significant part of the overall agro chemical business. This mix between technical and formulation is in favor of technical this quarter compared to last quarter and last year's same quarter our margin expanded.
- Prakash Goel:** This technical part, is it within the Sabero, the fall in gas prices has impacted Sabero?
- V Ravichandran:** Yes, gas is within Sabero and also volumes are better.
- Prakash Goel:** Within Sabero?
- V Ravichandran:** Yes.
- Prakash Goel:** On the NPK side, what kind of sustainable margin we are likely to make going forward, you have been answering this question even in past, we just want to hear like what is the kind of trend that we are likely to maintain?

- S. Sankarasubramanian:** Yes, we still maintain the same position. As I mentioned our margins are generally higher during Q2 and Q3 and that you have seen in the current quarter performance as well, our margins are better in Q2 and on an annualized basis we should do Rs.2,000 per MT
- Prakash Goel:** At EBIT level?
- S. Sankarasubramanian:** At EBITDA level.
- Moderator:** Thank you. Our next question is from the line of Balwinder Singh from B&K Securities. Please go ahead.
- Balwinder Singh:** Just quickly on the non-subsidy, you highlighted that it was 15% of revenues and 30% of EBITDA, right?
- S. Sankarasubramanian:** That's right, top-line 15%, 30% EBITDA
- Balwinder Singh:** And I missed that comment on the write-off of inventory which you were saying on the non-subsidy business side.
- V Ravichandran:** As we said write-down not the write-off We carried certain materials in the month of March, and these prices have suddenly crashed so we have to be realistic and we passed on that difference to the market, so we took the write-down. No write-offs, write-down basically.
- Balwinder Singh:** And next thing is if you can highlight what was your manufactured capacity utilization for the quarter or say for H1 and where do you see it going at the end of fiscal 2016, maybe an average for FY16 or maybe the exact rate for FY16 whatever you can share.
- V Ravichandran:** For ago chemicals or for fertilizers?
- Balwinder Singh:** For manufactured fertilizers.
- S. Sankarasubramanian:** 75% is for the quarter as I mentioned, we did 75%. It is too difficult to give any guidance for the year because we have to see how the Rabi season plays out but our aim would be to come closer to 70% -75% on an annualized basis.
- Balwinder Singh:** And what is the DAP farm gate price now?
- S. Sankarasubramanian:** It varies between 23,700 to 24,500.
- Balwinder Singh:** And have you taken any kind of price increase in H1?
- S. Sankarasubramanian:** We have taken one in July and one more price increase we have taken in mid of September but it varies in different grades, we have operated in different price range. Basically we have taken a price increase to offset the currency depreciation.



- Moderator:** Thank you. Our next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** Just had a couple of questions, first is if we see our gross margin in Q2, despite an unfavorable business mix or low share of contribution from non-subsidy business, we are not able to cover part of the FX impact, we still have reported around 24% gross margin. So what factors have led to that, I mean if you can just clarify on that.
- S. Sankarasubramanian:** See, product mix we optimize towards our unique grade where we have a better margin structure, so it is only the mix change which has helped us to improve the margins and also the right timing of our input raw material purchase that has helped us to expand the margin structure.
- Viraj Kacharia:** And can you quantify the impact of stock take backs and price adjustments which you have done on the agro chemical side, agro chemical and specialty nutrients?
- S. Sankarasubramanian:** This is not part of our reporting and may not be able to quantify.
- Viraj Kacharia:** So if I look at the margin which we earn in the non-subsidy business it is around 18% in Q2 versus last year being around 20%, so despite the growth and favorable margin contribution from Sabero ,is it right to assume that the impact has range of around 2% margin I mean from the take backs?
- S. Sankarasubramanian:** On the technical side the margin has expanded but the impact came from the formulation and there again as we mentioned percentage of margin remained intact or grown, but it is only the absolute profits that have come down.
- Viraj Kacharia:** Now just one more question was on the inventory side, as you indicated the bulk of the inventory of finished goods of DAP. Now if we see in Q2 in environment where the industry is facing with huge pipeline inventory, is it right that bulk of our sales volume growth has come from actual consumption rather than channel filling?
- S. Sankarasubramanian:** Absolutely, we have not positioned any material, in fact our sale has been aligned to the actual consumption. In fact nothing gets stored in our warehouses, it gets moved on.
- Viraj Kacharia:** Okay. And if we see our overall P&K volume and if we also include urea volume it has been on a declining side, especially the urea and P&K has been flat in this quarter whereas our distribution cost has increased by 11%. So why there is a variance in that?
- S. Sankarasubramanian:** Urea volume is guided by what ships government allots to us, we only act as a handling agent for urea and what you are referring to distribution cost is for our manufactured products and imported DAP. So during this quarter we have handled the higher volume of our own manufactured products and DAP around 8.80 lakhs as against corresponding period last year of 8.10 lakhs. So this has got nothing to do with urea, urea freight cost is not very significant.

- Viraj Kacharia:** And again on the borrowing side, it is primarily related to working capital, right?
- V Ravichandran:** Yes.
- Viraj Kacharia:** Because we have seen almost 400 crores to 500 crores increase but as you have guided in last quarter that our interest cost would be much lower, so interest cost has been declining but the borrowing levels has increased, so is it what the trend should be in coming quarters?
- S. Sankarasubramanian:** Mr. Ravichandran had mentioned, because of the bad monsoon situation in the southern markets where we operate predominantly, there has been a built up in inventory and that is reflected in the form of higher inventory. Major chunk of the receivables are what we sold in August-September, so these collections will come through and as we move to the next quarter we should see significant improvement both in the inventory levels and the receivables and correspondingly the borrowings will also come down.
- V Ravichandran:** In subsidy also, the 10% gets added every time so the number gets accumulated, so we are working with the government how to get it released as quickly as possible. That will make a big difference in terms of our working capital position.
- Viraj Kacharia:** We are expecting this by this quarter end?
- V Ravichandran:** Something will start moving because we are now making the government realize that there is something pending for almost three years now, so come November it will be three years. So we are saying that this money has to be released.
- Moderator:** Thank you. Our next question is from the line of Trilok Agarwal from Birla Sun Life. Please go ahead.
- Trilok Agarwal:** Two things I wanted to check, one is you mentioned about the outstanding subsidy number, can you just repeat that?
- V Ravichandran:** 1,400 crores.
- Trilok Agarwal:** And what is the situation in terms of, how active are the traders in the market currently, what is your sense in that given despite the currency has settled so far and what are the margins those guys are currently enjoying compared to manufacturer which was a very adverse situation for the manufacturers at least till last quarter or couple of quarters ago?
- V Ravichandran:** See, if we look at the manufacturers, predominantly manufacturers are focused on complex grades and we as a company focus more on unique grades, Traders yes, in the case of DAP but then as I said because of poor monsoon condition the DAP international price has come down. So whatever margin they are getting earlier there is not too much of difference, but the volumes are not anyway moving.

**Trilok Agarwal:** And sir can you share the numbers, what is the contribution of your sales of unique grades compared to total and has it improved on a quarter-on-quarter or a year-over-year basis?

**S. Sankarasubramanian:** We will not get into specifics but there has been a significant volume growth of our own unique grades compared to corresponding grade last year.

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

**Abhijeet Akela:** First, if you could just comment a little bit on the inventory position in the market sir, the channel inventory, is it significantly higher than normal levels and do you anticipate any requirement for discounting or credit expansion to move that?

**V Ravichandran:** See in the case of fertilizer, I would not say there is significant increase in inventory but certain parts of India for example northern parts a lot of material was pushed in the first quarter. But anyway season is going to be there now, so this inventory will go away. In fact the imports have come down substantially after the August period, so quantity came only up till the period of August. So people have realized that this volume is more than enough for the whole year. So there have been certain states carrying some inventory but if you look at Maharashtra, if you look at Karnataka they are not carrying too much of inventory. And now a days traders do not carry inventory at all, the inventory is all the company's. In the past, traders used to carry inventory because there was no pricing risk in the market place but now they do not carry too much inventory, they only carry inventory for 15 days, 10 days sale and all inventory is with the company. And inventory is not much with the company, except some parts could be maybe in UP, some here and there but they will all go away in the Rabi season.

**Abhijeet Akela:** And second, this phosphoric acid availability. Is that still enough of a constraint to prevent you from going towards full utilization of your capacity or is that getting resolved?

**V Ravichandran:** Actually this year if you ask me first quarter we had some problems, second quarter we tied up the quantities and at this point of time I would say that there is enough quantity of acid available because the conditions are not that favorable in terms of higher volume what we would be able to do this year. So for the availability for next six months we do not see any problem.

**Abhijeet Akela:** And in the non-subsidy side you mentioned about Sabero's sales being flat and the domestic formulations having come down by some 15%, if you could also just comment a little bit on SND and retail?

**S. Sankarasubramanian:** So more or less in SND, we registered flat growth and the retail segment has grown in non-fertilizer category, there was a setback on the fertilizer volumes in Retail. Single superphosphate has registered a significant volume growth over the corresponding period last year. And organic business regained volume, in fact there was a dip in our performance in the first quarter but we have improved on our performance in the second quarter thanks to the retail outlets. Organic fertilizer in spite of poor monsoon situations still maintained last year volumes.

- Abhijeet Akela:** For the first half would these trends be similar sir that agrochemicals has declined, Sabero is flat...
- V Ravichandran:** Yes, for formulation business there was a decline, there was a clear decline in formulation business because first quarter is not a very significant quarter anyhow and there was a decline in the first quarter so that gets carried on.
- Abhijeet Akela:** And how do you see the domestic market now shaping up sir for agrochemicals and SND. Do you see any recovery in your core markets?
- V Ravichandran:** You will see some more stress in the market for the third quarter in agrochemicals, I would be wrong if I say that all the cleaning work has been done by the companies, it has not been done so there is still pressure in Punjab. So I think somehow this will fade out in third quarter. And fourth quarter is not a significant quarter. So hopefully if the monsoon turns out well next year, the things will be much-much better. Most of the companies who placed material last year in the second half were under pressure, then this first half has failed, the second half is not looking that great for the northern parts because there is no monsoon there, then there is a very violent pest attack which is now difficult to control. So we are going to have some problems, so you will see some more cleaning up happening in this third quarter.
- Abhijeet Akela:** And gypsum, is there any stabilization in sales or is it still under pressure?
- V Ravichandran:** That is better.
- S. Sankarasubramanian:** There has been a marginal growth in the gypsum volume.
- Abhijeet Akela:** And one last thing, the insurance claim that we have been waiting for, what timing do you expect for that settlement of that?
- V Ravichandran:** Should happen in month's time.
- Abhijeet Akela:** So in 3Q we should expect the receipt of that?
- V Ravichandran:** Yes.
- Moderator:** Thank you. Our next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.
- Chetan Thakkar:** I just had a question on the SSP volumes, can you share that please including Liberty?
- V Ravichandran:** Production for this quarter is 2.14 lakhs ton as against 1.6 lakhs ton last year and sale is 2 lakhs ton, more of same volumes as last year.

- Moderator:** Thank you. Our next question is from the line of Amar Maurya from IndiaNivesh. Please go ahead.
- Amar Maurya:** I would like to ask what was the revenue mix and EBITDA mix for the fertilizer and the non-subsidy business in Q2 FY15 last year?
- S. Sankarasubramanian:** Current year is 85-15 on top-line and 70-30, last year it was 82-18 and 64-36
- Amar Maurya:** And apart from that what is the EBITDA per ton if we are looking at for this quarter?
- S. Sankarasubramanian:** We do not give our EBITDA on quarterly basis, on an annualized basis we have been targeting Rs.2,000 and we have been achieving that number.
- Amar Maurya:** And as you have told earlier but I did not get the exact number, what is the industry wide inventory that you are looking?
- V Ravichandran:** The fertilizer?
- Amar Maurya:** Yes, complex fertilizer.
- S. Sankarasubramanian:** Around 2.5 million tons, as Mr. Ravichandran said the imports have significantly come down in the month of September in spite of DAP prices softening considerably, basically people are waiting for the Rabi season to clear the material. So there is not much of field inventories which are lying except for DAP in the northern states.
- Amar Maurya:** And can you give me the volumes for MOP?
- S. Sankarasubramanian:** For the industry or for Coromandel?
- Amar Maurya:** For Q2 FY16.
- S. Sankarasubramanian:** 40,000 for Coromandel for Q2.
- Amar Maurya:** And NPK manufactured and imported?
- V Ravichandran:** NPK there are no imports, 7.6 is the manufactured product, DAP is 1.2.
- Moderator:** Thank you. Our next question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.
- Atul Mehra:** Sir just one question on the exports front, so last quarter we had some weakness in overseas markets like Latin America, so how has that been shaping up for us?

- V Ravichandran:** Overseas market Latin America continue to have struggle, in certain molecules there is a significant drop in terms of consumption but some products like Mancozeb there is a significant margin expansion as well as volume growth. So there is drop, especially in Brazil. Some molecules have lost significantly in Brazil.
- Atul Mehra:** And overall what would have been the exports growth during the quarter?
- S. Sankarasubramanian:** More of a flattish number as compared to corresponding quarter last year. On one side there has been a drop on account of certain molecules due to the product shift on account of GM Soya but people have opted for combination formulations and the sale of acephate also improved during this quarter. So churning out of products is happening on molecules, some are going out and some are coming in, and this is a constant process that happens in agrochemical business. Overall, it looks like situation is favorable to regain volumes in export.
- Atul Mehra:** And secondly sir, given overall better forecast for northeast monsoon, so with that forecast in mind would we look at second half being much better for us in terms of growth?
- V Ravichandran:** Your guess is as good as mine.
- Atul Mehra:** And on the ground is there any shift again happening where farmers are now looking at higher consumption in terms of complexes and phosphatic fertilizers, is that trend starting to pick up in any manner?
- V Ravichandran:** See one thing we are seeing now, if you remember two years back when the prices went up very steeply there was a significant drop in volume, but subsequent price increases were very moderate, there were no runaway price increases. So we are finding now the farmers are coming back to use phosphatic fertilizer but then the last two seasons have been really bad in terms of the monsoon conditions. But for that, the consumption would have gone up at least 15% - 20%. So the acceptance of price which was a very big deterrent earlier is now no more there. So we hope the monsoon turns out to be good, definitely the consumption of phosphatic fertilizer would again come back to earlier days. So if you ask me for the Rabi season, yes if the monsoon turns out to be the way it is predicted definitely we see consumption going up.
- Moderator:** Thank you. Our next question is from the line of Sumantha Khan from ICICI Prudential. Please go ahead.
- Sumantha Khan:** Sir on the interest cost, really looked good that it has come down from the 1Q levels, do you think this can now be maintained given that ongoing subsidy has been paid till August.
- S. Sankarasubramanian:** Yes, one is subsidy reduction which has really helped in bringing down the interest cost. And some portion of the cost which are relating to foreign currency liabilities are in form of forward premiums, they are getting reflected under the other expenditure. But overall the interest cost

both in terms of the rate of borrowing as well as the absolute quantum of borrowing, our aim would be to bring it down as we move forward.

**Moderator:** Thank you. Our next question is from the line of Ashwin Agarwal from Akash Ganga Investment. Please go ahead.

**Ashwin Agarwal:** You said the subsidy was around 1,400 crores, could you give the breakup of what is the absolute amount of the 10% retention which is pending since last three years?

**V Ravichandran:** That is about 800 crores.

**Ashwin Agarwal:** So this 800 crores you expect in addition to the regular payment, you expect 800 crores to be settled in few months?

**V Ravichandran:** No, processing will start. There is no disbursement from November 2012, so process of disbursement we hope will start, so it may take maybe six months or eight months to get it cleared.

**Ashwin Agarwal:** And there is naturally no interest payment on this 10%?

**V Ravichandran:** Yes, there is no interest payment.

**Moderator:** Thank you. Our next question is from the line of Alok Deshpande from HSBC Securities. Please go ahead.

**Alok Deshpande:** Sir do you share the sales for your agrochemical business either Sabero or the other business on a half yearly basis?

**V Ravichandran:** No, we do not share the segmental part, it is the single segment we report.

**Alok Deshpande:** So sir then what was this number for whole last year FY15?

**V Ravichandran:** We do not share that also. Overall share of non subsidy businesses- 18% was the top-line share and 36% was the bottom line, that is for the year as a whole.

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

**Bhavin Chedda:** Sir how was the export performance in the agrochemical in the quarter, if you can share the absolute number or the growth rate what it would have seen?

**S. Sankarasubramanian:** It is almost same as last year.

- Alok Deshpande:** And how much was it last year, I think \$100 million was the export in the agrochemicals so I was just looking at the quarterly run rate what would it be.
- S. Sankarasubramanian:** Full year export is 100 million Bhavin, for quarterly export numbers, I can get back to you.
- Moderator:** Thank you. Our next question is from the line of Sandeep Baid from Quest Investment. Please go ahead.
- Sandeep Baid:** Sir you have mentioned that you are carrying about 300 crores of extra inventory on DAP and given that the prices have come down and the price increase that you have taken is not sufficient, net of discount, would that mean that you will have lower margin for that in the current quarter?
- V Ravichandran:** Yes, maybe yes.
- Moderator:** Thank you. Our next question is from the line of Bharat Seth from Quest Investment. Please go ahead.
- Bharat Seth:** Tunisia is returning back to normal and we hope that we have taken some extra effort to put our phosphate facility on stream. So can you give some sense of availability of phosphoric acid and prices because of improvement in phos acid availability going ahead?
- V Ravichandran:** See, in the last quarter we expect the prices to soften because DAP prices have softened compared to the first quarter, we do not see the availability problem for the next six months, three months of this quarter we do not see the availability problem of phos acid, we have tied up all the quantities and now TIFERT has started production so they have about 40% capacity at this point of time, 40% - 50%. But I am sure it will improve over a period of time, they have stability coming up in that region. And FOSKOR in the year 2015-16 continue to have some struggle, only in last 15-20 days we have seen some improvement. Our team is working with FOSKOR. So our availability of phos acid will significantly improve and we hope that by law of average, the monsoon should be good next year so we will have enough acid available at that point of time.
- Bharat Seth:** And one more question sir, I mean Shankar said that in second half we expect to improve the utilization to 70%, 75%, does it mean that we expect better volume in second half vis-à-vis first half?
- S. Sankarasubramanian:** Bharat, overall even now quarter two we have done 75% capacity utilization, so we are saying we are under way to achieve that 70%, 75% we never give guidance for the year.
- Bharat Seth:** You said that how much is the total FOREX premium write-off that we have taken...?
- V Ravichandran:** It is not a write-off, forward premium is a cost that we incur.
- Bharat Seth:** How much is that we have incurred?



- V Ravichandran:** It is reflected under other expenditure.
- Bharat Seth:** But how much that has been included in Q2 vis-à-vis last year?
- V Ravichandran:** I will come back to your specific query.
- Bharat Seth:** And sir second thing, how much is gross borrowing and net borrowing as of 30th September?
- V Ravichandran:** Gross borrowing is reflected in the balance sheet, the total debt as on 30th September is 2721 including the working capital of 2499 and long-term loan of 223.
- Bharat Seth:** So does it mean that in second half we see some interest amount going up or because of whatever receivables we have received and things have again normalized by November?
- V Ravichandran:** See we said that there are two things, one is we have sold significant quantities in August and September in line with our strategy, so going forward the collection has to come. Second thing is we are hopeful that the 10% subsidy amount will start coming in. So once these two happen, there is no reason why the borrowing should go up.
- Bharat Seth:** But again do we see year end some previous year level?
- V Ravichandran:** It depends on the monsoon in third quarter, so we do not know when the government pays.
- Moderator:** Thank you. Our next question is from the line of Balwinder Singh from B&K Securities. Please go ahead.
- Balwinder Singh:** Just a follow-up, what is the total inventory in the system of complex fertilizer against the normal level of around say 2.5 million tons?
- V Ravichandran:** All India basis?
- Balwinder Singh:** Yes.
- V Ravichandran:** It is somewhere there only, it is not too high this time.
- Balwinder Singh:** So more or less inventory is kind of normal on a pan India basis except for north India where inventory is high?
- V Ravichandran:** Yes, because what happened is people have now cut down on the imports because after August the situation was not turning out for a favourable monsoon. Situation was not as per prediction so people have started cutting back on the purchases.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference back to Mr. Rohan Gupta for closing comments. Thank you and over to you, sir.

- Rohan Gupta:** Thanks Aman. Sir thanks for giving us your valuable time. Just quick question from my side, sir on non fertilizer business we have definitely seen very good margins of almost (+17%) at EBITDA level, so I understand it is primarily coming from little bit from higher Mancozeb prices and you have mentioned the gas benefit, is it going to remain there or the margins will decline further?
- V Ravichandran:** See Mancozeb we are seeing some significant shift in terms of consumption, so in terms of pricing for Mancozeb, it may remain for another 12 to 18 months.
- Rohan Gupta:** And this gas benefit is for longer term, right?
- V Ravichandran:** As far as I see it, I do not see any hardening at least for next six to 12 months.
- Rohan Gupta:** So probably it will be safe that though we have seen a significant pressure on top-line of non fertilizer business but margins at least we should be expecting at these levels?
- V Ravichandran:** Yes, for the next six months, definitely yes.
- Rohan Gupta:** And sir in our fertilizer business we are holding higher inventory of imports of DAP, so is it also an indication that probably for next six months we are not going to do any trading of DAP and whatever we have our whole focus will be on just clearing that inventory?
- V Ravichandran:** Yes.
- Rohan Gupta:** And sir on this phosphorus or potassic fertilizer which you mentioned that is going to be affected because of sugarcane so that is all primarily imported, I mean potash generally we trade or it is also going to have some impact on any of the category of complex fertilizer?
- V Ravichandran:** See basically we are using this in 10-26-26 which is product for sugarcane and potato, now potato is mainly in West Bengal so we do not see any problem there. What has happened, because of the cane dues, we also did not want to take risk with placing the material. Otherwise we could have sourced some volumes but predominantly Maharashtra is a huge sugarcane belt our focus is in Maharashtra, Karnataka and those markets.
- Rohan Gupta:** So that would probably see some pressure?
- V Ravichandran:** Yes.
- S. Sankarasubramanian:** But there may be softening on the MOP prices so that will help in making up some lost volumes.
- Rohan Gupta:** And sir during the call you also mentioned a little bit about the gypsum, so you mentioned that demand has picked up for gypsum, I think we have been accumulating gypsum from last 2.5 years. So have we been able to clear huge inventory or you are just seeing the traction?

- V Ravichandran:** See actually we had earlier old inventory but every year we used to sell more than we used to produce. When demand was extremely good, we used to place 300,000-400,000 extra than what we produce. But last year we were just clearing what we were producing, that means the old inventory is remaining.
- Rohan Gupta:** Can you quantify sir how much will be the inventory of gypsum, old inventory?
- V Ravichandran:** No
- Rohan Gupta:** Okay sir. Thanks a lot for giving us your valuable time. Before we close the call sir would you like to make any closing comment?
- V Ravichandran:** I think we have clarified hopefully all your points and if you have any specific query you can always get back to Shankar.
- Rohan Gupta:** Great sir. Sir once again thank you very much and here on behalf of Emkay Global Financial Services I also thank to all the participants who have logged in for con-call and thanks for joining. Special thanks to the management and thank you and all the best sir.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of Emkay Global Financial Services Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.