



# “Coromandel International Limited Q3 FY17 Conference Call”

**January 27, 2017**



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**MODERATOR: MR. GAUTAM CHHAOCHHARIA – UBS SECURITIES**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Coromandel International Q3 FY17 Earning Conference Call hosted by UBS Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gautam Chhaochharia from UBS Securities. Thank you and over to you, sir.

**Gautam Chhaochharia:** Thank you. We are pleased to have with us management from Coromandel to discuss 3Q Results as well as Outlook. We have with us Mr. Sameer Goel – Managing Director and Mr. Sankarasubramanian -- CFO. Over to you.

**Sameer Goel:** Good Afternoon, everyone, and thanks, Gautam for organizing the call. Let me begin by giving an overview of the Business Environment experienced during the third quarter followed by the Company’s Performance. Shankar will take the financials and we will then take the Q&A.

So overall it was an eventful quarter for the industry which was marked by multiple developments – US election, subsequent dollar strengthening, demonetization, high crop sowing and fertilizer sales and consumption and the deficient northeast monsoon.

Beginning with the Weather, the industry experienced a challenging business environment during Q3 with the Northeast monsoon deficient of 45%. In our southern markets, we were down by 62% of the normal level which is unprecedented. The reservoir levels at all India basis were marginally down compared to normal levels; however, in the southern states where we operate, it was at 28% which is almost half the long period average. However, at all India basis, the colder winters in north and central India and forecast of improved rains during the rabi season is likely to boost wheat yields and output during the current year.

On the Crop side, as per the latest CSO Survey, agriculture sector is likely to grow at healthy 4.1% during the full year 2017 as against 1.2% last year. Demonetization had an impact on the agriculture sector particularly on the lower output prices of perishables especially fruits and vegetables and aqua products in the rural economy. During the said period, crop acreages and fertilizer consumption has gone up amidst improved environmental condition experienced due to the normal southwest monsoon. Rabi sowing has been up by 6% with the major increases coming under wheat, pulse and oilseeds. Improved residual moisture and reservoir levels at the start of the season contributed to the trend. North and Central India has seen the major share of this increase; however, in our main markets of AP and Telangana, we have had a mixed share with Telangana benefiting from the good southwest monsoon resulting in higher sowing by 64% compared to last year while Rayalaseema region of Andhra getting affected by weak Northeast monsoon. Compounded with this, Karnataka and Tamil Nadu markets were really impacted affecting the overall industry sales and consumption of agriculture input.

The minimum support price of rabi crop has been announced during the quarter with the major incentives being given to pulses and oilseeds. Gram and lentil support price has increased by 14-16%.

On the Policy and Reform front, the nutrient-based subsidy rates have been retained at the same level in the second half of the year.

The direct benefit transfer has been rolled out in 16 districts during rabi 2016. As per the current system, subsidy will be disbursed to the manufacturer once the sale is made to the farmers. There have been challenges in terms of ground level implementation and the final mechanism is yet to evolve.

Government is focusing on strengthening domestic manufacturing industry.

In view of the constraints faced due to demonetization, government has extended the interest scheme on crop loans by two months for November and December due. Further, Crop Insurance Scheme for rabi has also got extended up till Jan 10, 2017.

Center has released roughly around Rs.2,000 crores through NABARD for funding the Polavaram project which is planned to interlink Godavari and Krishna river. Project is estimated to be complete by 2019 with an estimate cost of Rs.16,000 crores. That will help our major market in terms of getting source of water particularly for the dry Rayalaseema belt.

The structural reforms in terms of developing soil health, irrigation infrastructure, price discovery mechanism and output security are being implemented in various capacities and will help to strengthen the Indian agriculture going forward.

Now, coming to the Industry Performance: During Q3, the Phosphatic industry sales have gone up marginally by 3%- major share of the increase coming from north and central markets. Our major markets of south India and Maharashtra contracted by 4%. Overall in the nine months' period, the industry volumes were down by 7%. Channel inventory which was higher at the start of the season at 6-7 MMT is beginning to show signs of moderation. Higher consumption due to improved kharif season and higher rabi sowing along with lower sales during the year has contributed to this trend.

On the Supply side, DAP imports have come down by 29% to 4.2 MMT for the year, partly substituted by higher domestic manufacturing. Steep price correction in MOP during July has resulted in volume pickup in the subsequent period. Urea sales have dropped by 7% during the year as the benefit of neem coating is resulting in improved nutritional efficiency and reduced consumption. Major supply drop is seen in the import segment.

In line soft raw materials prices, industry took a price cut of around 5% in December. This is the second time during the year that the industry has passed on the benefit of benign raw material environment to our farming community.

Globally, crop protection industry sales declined during 2016 by 2.4% in all the regions except North America. Domestically, demonetization had impact on the discretionary spending and the market cash flows. Since agri economy is majorly trade-driven its impact was limited on the sales and consumption of agriculture input.

Coming to the Company's Fertilizer Performance: Overall Phos Acid availability has improved during the quarter. Furthermore, we improved our captive acid production at Vizag and Ennore plant. **Foskor** operations have stabilized with the uniform supplies coming from our partner. All three fertilizers units operated during the quarter with the production improving marginally in Q3 over last year to 6.1 lakh MT which translates to capacity utilization of 71%. Overall during April to December period, production was up by 12% to 19.4 lakh MT. There was partial disruption in operations in December at Ennore due to Cyclone Vardah. The cyclone impact was safely handled by our plant team and normal operations have resumed. Phosphatic sales during the quarter were impacted by weak Northeast monsoon condition in our major operating markets. Overall during Q3, Coromandel marketed 5.1 lakh MT of DAP and Complex Fertilizer as against 5.8 lakh MT last year. On a cumulative basis, we are more or less at last year level of 19.1 lakh MT. Share of unique grades have gone up by 42% compared to 37% last year in Q3. Cumulatively unique grade shares is at 32%. Cumulative pan India market share stands at 14.7% which is up by 1% over last year level. During the quarter, the company's focused on reducing the channel stocks in our key markets. Also, major growth in the industry has come from our tertiary on non-operating markets. Urea stocks which was considerably higher until last quarter has come down reasonably. On the traded products side, sales of MOP has gone up by 80% to 0.4 lakh MT while the imported DAP sales has come down due to adequate availability of phos acid during Q3.

So just to touch upon the Performance of the Non-Subsidy Businesses: Our Crop Protection business registered good growth numbers with PBIT improving by 48% and margin improvement to 19% from 14% last year. Demand of our key molecules continue to remain strong in international and Indian markets though the domestic formulations performance was impacted by northeast monsoon failure in southern markets. On the manufacturing front, the business completed Mancozeb de-bottlenecking project at Sarigam and the new Dahej project is progressing well and expected to be commissioned in January 2017 and will deliver output from February 2017 onwards. Retail sales were impacted initially in November due to reduction in cash-based transaction after demonetization implementation; however, business turned around and was able to install swipe machines with the support of State Bank of India and all our 800 centers had these machines within two weeks. This along with credit and cheque facility has facilitated agri input purchases by the farmers using the debit or RuPay card and has resulted in share of non-cash sales going up from zero to 61% within a period of a month. Similar swipe machines are being set up with our other distribution partners to simplify cashless transaction. Specialty nutrition and organic fertilizer had a decent quarter with business focusing on improving marketing and product capability. We are looking at establishing a new agronomic structure and introducing new products. The single super phosphate business, though down on volume front, focused on improving its manufacturing and distribution efficiencies which

resulted in improved performance. Overall, it was a very positive quarter for all our businesses and we intend to carry this momentum.

I will now hand over to Shankar to talk about the Financial Results.

**S Sankarasubramanian:** Good Afternoon. In Q3, company recorded consolidated turnover of Rs.2,271 crores, with Nutrients and allied business contributing 86% of this and balance 14% coming from Crop Protection business. This number is more or less same on a cumulative basis for nine months' period also, 86% coming from Nutrients and balance 14% coming from Crop Protection.

Just to touch upon the share of Subsidy and Non-Subsidy Breakup. For the Q3 period, 73% of our turnover came from subsidy business and 27% came from our non-subsidy businesses. On the profitability side, for this quarter ended December 2016, we had a consolidated PBIT of Rs. 212 crore against last year's Rs.142 crores. The share of Nutrients business is around 74% and Crop Protection is 26%. On a cumulative basis, the share from Nutrients and allied business is 71% as against last year's 79% and balance 29% came from Crop Protection business on nine months' basis.

Just to reflect in terms of Subsidy, Non-Subsidy business which we have been tracking: in Q3, our EBITDA share from Subsidy business is 58% and EBITDA share from Non-Subsidy business is 42% and on a cumulative basis also it is at the same ratio; 58% and 42%. Consolidated net profit after tax for the quarter is Rs.112 crores as against Rs.81 crores last year and year-to-date basis it is Rs.333 crores for this nine months' period against last year Rs.265 crores. Our long-term debt-equity is very marginal and it is almost becoming zero. Our overall borrowing levels still remain at a higher level because of the increased level of subsidy and the market receivables. Demonetization did play a role in slowing down our trade collections and also subsidy payments got delayed. While we have considerably brought down the inventory levels both raw materials as well as finished goods by moderating our production, but market receivables as well as subsidy is on the higher side. As on 31<sup>st</sup> December, subsidy outstanding is Rs.1,992 crores as against the corresponding period last year of Rs.1,582 crores. Hopefully, with the likely funding from government on the subsidy disbursements for August-September-October we expect the subsidy outstanding position to ease in the coming months.

This completes the update. We can go for our Q&A Session.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Abhijeet Akela from IIFL. Please go ahead.

**Abhijeet Akela:** Just hoping if we could get a volume breakdown for the sales this quarter between DAP, NPK, manufactured as well as traded?

**S Sankarasubramanian:** Manufactured sale for this quarter is 4.99 lakh tons and imported is 0.07, the entire thing is the DAP only, MOP we did 0.41 lakh tons and Urea 2.77 lakh tons, on the manufactured 4.99, our share of DAP sale is 1.73. SSP production is 1.62 and sale is 1.39 lakh tons.

**Abhijeet Akela:** Secondly, if you could just talk a bit about the margin expansion, it seems to have happened both in the Fertilizer business as well as Non-Fertilizer. So what are the key drivers in each of these?

**S Sankarasubramanian:** We continue to sustain margins what we did in Q2 basically due to softness of input prices, in the case of Fertilizer. While it got corrected in the farm gate price, but our efficiency in operations and procurement and hedging strategy have contributed to the improved margin structure. Also our share towards the unique grades also helps us to improve the margin on the Fertilizer business. On the non-Fertilizer business, all segments have done well, Crop Protection has done well with increased sale of specialties in the domestic market as well as high margin products in the exports front. Specialty Nutrients business also has grown the profitability, with marginal increase in gypsum volume. It is a combination of all segments, reasonably showing improved performance compared to last quarter.

**Abhijeet Akela:** Just if you could talk about your expectations from the upcoming budget for the sector and also any expectation you have in terms of this DBT roll out and the NPS rates are likely to be cut further for FY18?

**S Sankarasubramanian:** It is quite difficult to fathom what is likely to be the subsidy, we need to wait for it; but overall global commodity prices are benign. We need to watch out for exchange rate and that needs to be factored in any subsidy computation. So, as we speak, DAP prices have moved up compared to what it was a month before; it was around some \$ 300 levels with China cutting down production, there has been a spike in DAP prices, around \$330 and there has been a slight uptick in other input prices like urea as well as ammonia and sulphur price also moved up. So hopefully closer to the time when the subsidy is getting finalized, government will factor these input numbers while they decide on subsidy. On the DBT side, right now, pilot tests have been carried out in some of the states including state of Andhra Pradesh and Telangana. We are not sure how it will play out - we need to wait and see how it will happen because lot of ground level challenges are there in terms of documentation, data entry, network capability. On the expectations from the budget side, we continue to look for better level playing field for the domestic manufacturing, so we hope to expect some rationalization on customs duties on key raw material inputs and there will be much more focus on Make in India and that may be reflected in giving incentives for the domestic manufacturers to enhance the production. Also we look forward to some increased focus on products like single super phosphate which are farmers-friendly products. So we hope to expect the positive reforms and also of course GST is on the card. That will help in seamless connectivity removing the boundaries across states.

**Sameer Goel:** We also expect the government to look at helping us with the subsidy so that they do a larger allocation to it and also help the domestic manufacturers.

- Moderator:** Thank you. The next question is from the line of Manan Mehta from HDFC Bank. Please go ahead.
- Manan Mehta:** Sir, I essentially have two queries; one, on the subsidy position, what would be the last month for subsidy which would have been released to you? By when are we expecting or for which month are we expecting the subsidy to be released within the next couple of months prior to end of March? Is there any updates on (SBA) Special Banking Arrangement for the sector?
- S Sankarasubramanian:** Nothing has come out, there are some plan on financing subsidy through Special Banking Arrangements for August-September. Right now we have been paid up to July. So hopefully if any such decision happens on Special Banking Arrangements, that should help out in releasing money for August-September at least and by the time finance bill gets passed, then we should get the next year allocation in place by March end. Now with the finance bill getting passed a month before and with additional fund availability, it will help us in getting the money up to November-December or so. So generally, it happens every year after the finance bill, major chunk of subsidy comes in April-May - with one-month advancement, we do expect that should happen at least in March we expect some significant portion to come. In February, we expect Special Banking Arrangement to happen for releasing August-September subsidy.
- Manan Mehta:** Sir, in this year are we expecting the pushover subsidy to be higher than last year?
- S Sankarasubramanian:** 10% subsidy limit remains unpaid and that is actually significant for the company as well as for the industry. Last year by this time we were paid up to September but for this year it has been paid only up to July. With Special Banking Arrangement expected to come, we should be at par with last year.
- Manan Mehta:** Can you just elaborate on what could be the likely impact of GST implementation on fertilizer sector and Coro especially?
- S Sankarasubramanian:** GST Council has met and announced the rate, but they have not indicated what would be the specific rate for fertilizer. We presume at this point of time product of mass consumption is stated at 5%. One clarity that has emerged in the draft GST legislation is that subsidy is excluded from the purview of GST. So to that extent, I think the fertilizer price for the farmer will not be inflationary and these two components should address that. But we need to wait and see what will be the IGST rate, that is the input rate on the imported raw material. If that happens, it may result in inverted duty structure, then there should be a refund mechanism. It is in a discussion stage and we need to wait for the fine print to emerge. It can be positive because many of the areas like service tax will be eligible for credit and it would be seamless credit at each stage of value addition. So to that extent it is positive, but on the cash flow side, we need to wait and see how the inverted structure will have an impact on the liquidity. But if GST provides for refund mechanism similar to what is being envisaged for exporters, then that should ease out the liquidity pressure as well.

- Moderator:** Thank you. The next question is from the line of Rohan Gupta from Edelweiss Financial Services. Please go ahead.
- Rohan Gupta:** Sir, first wanted to check what prices fertilizer especially DAP to the farmers as of now?
- S Sankarasubramanian:** We have taken a price correction sometime in December-mid and January. The price is Rs.20,700 for DAP.
- Rohan Gupta:** Sir, earlier there was expectation that dealer discount will come down. So have we lowered the dealer discount in the current scenario in the last 3-4-months or they are constant remain like earlier?
- S Sankarasubramanian:** It varies from state-to-state. In fact, we have not been operating any significant discount in the southern market. Major discounts happened in the north. So that gets moderated when the price gets corrected.
- Rohan Gupta:** Because you mentioned the DAP imports in between were happening even at \$300 also, now it has gone up to \$330. So in that way if we work it out then fertilizer prices to the farmers should have dropped to maybe Rs.17,000 or like that. So do you see the prices to the farmers will come down further?
- S Sankarasubramanian:** No, at this point of time, whatever input costs are there, that has been passed on because the system was also carrying huge channel inventory and there have been impact on foreign exchange as well as the interest cost. So, there are no significant imports which have happened at the reduced price of sub-300, it is all quoted, but no major deals have happened. In fact, imports during this quarter is significantly lower compared to corresponding period last year for the industry as a whole. So taking into account, the inventory cost what is being carried in the system and the fresh purchases, the farm gate price what has been currently adopted is in alignment to that. So we do not expect any significant change and also input prices have started going up now. So I do not see any scope exists right now for any correction in farm gate price.
- Rohan Gupta:** So sir, what is the Phos Acid prices right now we have done the contract recently?
- S Sankarasubramanian:** The contract has been done for the quarter ended December at \$580, that is for the Q3, that is taken into account the average of \$605 for three quarters right from first quarter onwards.
- Rohan Gupta:** This April month which is just after two months now, so what is your expectation that Phos Acid contracts will be materializing at \$580 or will be higher than that?
- Sameer Goel:** Negotiations are on, we have to wait for that.
- Rohan Gupta:** Sir, second is on non-Fertilizer business. Definitely, margins have improved significantly. Can you also give the contribution apart from agrochemicals in the non-Fertilizer business, whether that was a significant chunk in the current quarter?

- S Sankarasubramanian:** All businesses have shown improvement over the corresponding period last year like Specialty Nutrients have grown and Retail segments on non-Fertilizer have grown. It is a fairly equal contribution across all segments, that has helped in improving the profitability for this quarter.
- Rohan Gupta:** Sir, you have been targeting to achieve 50% contribution from subsidy as well as non-subsidy. This year you have mentioned nine months have been 42%. So do you see that by next year you are close to that 50% contribution coming from both the businesses?
- Sameer Goel:** For next two years, we are looking at that.
- S Sankarasubramanian:** We are working towards that. Whether it materializes or not, we do not know. At this point of time, all our actions, initiatives, focus is trying to see how best we can increase our EBITDA margin and how to drive the non-Fertilizer business.
- Rohan Gupta:** Sir, in non-Fertilizer Agrochem itself, you have already completed one Mancozeb debottlenecking, right?
- S Sankarasubramanian:** That is right.
- Rohan Gupta:** One more is you are expecting that it will be completed by Feb?
- S Sankarasubramanian:** That is right, that is going as per plan.
- Rohan Gupta:** So that is for which product sir?
- S Sankarasubramanian:** Mancozeb.
- Rohan Gupta:** So it is Mancozeb already total?
- S Sankarasubramanian:** That is right.
- Rohan Gupta:** So how much total capacity addition we have done in Mancozeb by debottlenecking and by what we will be achieving in February?
- S Sankarasubramanian:** We are figuring out, because these products are all flexible to switch over from one grade to another grade. So we do not have any specific data of what is going to be Mancozeb capacity, it is very flexible one.
- Rohan Gupta:** It can be used for other products also?
- S Sankarasubramanian:** That is right.
- Rohan Gupta:** But if we just judge in total capacities term, will it be 15-20% debottlenecking on total overall Agrochemicals business or it will be less than that?

- S Sankarasubramanian:** On overall Agrochemicals business, we can say 20-25%.
- Rohan Gupta:** Including even Feb also?
- S Sankarasubramanian:** Correct.
- Moderator:** Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** First is on the Fertilizer business. We have seen the highest ever quarterly segmental margins in last five years and that is this point volume degrowth and price corrections in Fertilizer in December. So as you mentioned that some of it was because of surplus raw material gains, typically what about a per cent of raw material is sourced on a spot basis versus contracted basis and given that the seasonality of the business is, how much of the current RM gains we aim to retain in coming quarters?
- S Sankarasubramanian:** Rather than saying it has a one-time gain or inventory gain, I would say it is a smart buying which has helped us to sustain the margins. There are no long-term commitments in most of the materials other than the quarterly contracted prices for this. While there are supply contracts, the prices are decided based on the monthly movement. So we took a conscious call to moderate our production, moderate our procurements due to uncertain commodity prices which prevailed in the first two quarters. So that has helped us to avoid the inventory losses on raw materials and that has helped us to align our input cost in line with the market pricing. So I would say it is more of smart buying aligning with the market pricing rather than calling it as a one-time arbitrage opportunity, that has helped us to achieve this EBITDA. So as long as we continue to do this commercial procurement, we should be able to maintain the margin structure as well.
- Viraj Kacharia:** As you highlighted to a previous participant that we are seeing some increase in input cost for some of the materials and we have also passed on some of the gains end of December and starting first week of January. Going forward, if in case further pressure on the input cost side, are we looking to even increase prices to maintain to build up on the smart buying which you have done?
- S Sankarasubramanian:** We need to continue to work on it. As we always mentioned in a commodity business, the additional margin can come either by smart purchase or by managing our exchange rate better or by increasing the share of unique grades, which we continue to do - the combination of three and what we communicate as the average sustainable EBITDA of 2000 per MT. We will continue to do it and build on it.
- Viraj Kacharia:** Recently, Government of India relaxed freight subsidy norms for domestic indigenous PNK manufacturers for sales beyond 1400 Kms. So how much additional Coromandel can cater in terms of market potential, say U.P., Maharashtra or Madhya Pradesh over and above the supply

plans which government gives us and how does this change competitive dynamics in our core markets now?

**Sameer Goel:** Overall when we looked at this impact, Maharashtra we are anyway covering, right...

**Viraj Kacharia:** I thought we just only covered only West and Maharashtra so far?

**Sameer Goel:** No, we are actually covering Maharashtra as such. It is just a question of putting our resources together as far as the freight subsidy is concerned. In the other markets, we look at the opportunity rising and then take a call in terms of how much we need to expand our market. But we will continue to focus on core markets per se and continue to maintain our market share in those markets.

**Viraj Kacharia:** In terms of own markets, how does this explain the company dynamics because even other players would be getting an equivalent access because freight subsidy above 1400 km now is that not an issue?

**S Sankarasubramanian:** We continue to focus on home markets. If the opportunity is available for us to move to other states where it makes economic sense for us, we will do that. It does not make any significant negative or positive impact. As long as we can sell our entire volume in our home market that will be the best thing to do and we will continue to focus and drive on home market. But if this policy provides for opportunity to explore newer markets and for new grades, we will definitely focus towards that.

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

**Bhavin Chheda:** A few questions: First, if you can update on the inventory situation and the industry volume numbers for this fiscal and what had been your nine months' market share for South India and all India basis?

**S Sankarasubramanian:** On the industry volume, as we mentioned earlier, the production for the nine months' period DAP and Complex both put together it is 95 lakh MT as against last year 91 lakh tons, it is 32 current quarter versus 31 last quarter.

**Bhavin Chheda:** This is the industry sales volume number which used to be updated on Urvarak, right?

**Sameer Goel:** This is production. Coming to sales, quarterly sale is 47 lakh tons as against last year 45 lakh tons, there is a growth of 3% and on 9 months' basis sale is 130 lakh tons as against last year 139 lakh tons, negative growth of 7%. The major impact has happened due to slowdown of imports; if you look at the imports it is almost insignificant, 6 lakh tons in the current quarter as against last year 9 lakh tons. Cumulatively also, it is 47 lakh tons as against last year's 65 lakh tons, down by 28%.

- Bhavin Chheda:** So major imports are down?
- S Sankarasubramanian:** You are right.
- Bhavin Chheda:** Because I believe Urea sales in first nine months are also down 7%, right?
- S Sankarasubramanian:** Yes, Urea production is flattish but sale is considerably 8% down, you are right, 80 lakh tons for the quarter as against last year 87 lakh tons and cumulative is 224 versus 242, 7% drop.
- Bhavin Chheda:** Do you have the inventory numbers as of January 1<sup>st</sup> or whatever numbers there?
- S Sankarasubramanian:** Very difficult to quantify on overall India basis but with the import coming down and sale having picked up in this quarter the channel inventory must have got consumed especially in the north market. But there has been a challenge in the south market especially from Karnataka Andhra, and Tamil Nadu because of failure of Northeast monsoon- there has been a challenge in liquidation.
- Bhavin Chheda:** On DBT, I understand that DBT got implemented on a pilot basis in 12 districts out of 600 districts. So how has been your experience and which of your district was also covered and what is the roadmap like we are hearing quite different perspectives from different players, so if I take your 12-month view, then how would this DBT be spread over how many districts or what view you have because in the DBT the subsidy is now on sales basis versus the production basis what you get now, so does this 12 districts were covered and you got subsidy on sales, this is still you are getting on production basis?
- S Sankarasubramanian:** This is only a pilot trial - whether it will be a big bang approach of covering all districts - we need to wait and see. At this point of time, there has been an active involvement of all the government agencies as well as dealer community and the companies in terms of trying out this direct benefit transfer. In those districts, stocks have been uploaded into the dedicated machines which have been used for this direct benefit transfer. The central processing team is processing the payments. There are some technical glitches which are being encountered at this point of time. So the individual companies have not really got the subsidy right now, but logically it should come through at any point of time. It is only the initial technical glitches which are delaying these payments. But the government machinery is working on to resolve these issues to ensure that the payment comes, eligible products get the subsidy immediately on sale.
- Sameer Goel:** Just one correction; there are 16 districts which are under DBT currently, not 12.
- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Can you just share your manufacturing capacity of DAP, NPK and SSP separately?

- S Sankarasubramanian:** DAP and Complex, they are fungible, there is no dedicated production line for DAP and Complex. Overall Phosphatic is around 3.2 million and SSP is close to a million ton.
- Dheeresh Pathak:** 10 lakh tonne is the Liberty acquisition that you have done a few years back?
- S Sankarasubramanian:** Correct.
- Dheeresh Pathak:** In your own fungible DAP and NPK, their SSP is not added at all?
- S Sankarasubramanian:** No, that is not there.
- Dheeresh Pathak:** So just your requirement of Phos Acid is about a million ton if you run at full capacity, is that...?
- S Sankarasubramanian:** Depends on the mix, we can say it depends our captive production, we may require around 5.5-6.5 lakh tons. Our captive is around 2.5 lakh tons and we are planning to increase the captive as well. So overall at this point of time, if we run at full capacity we can say it is around 6.5 lakh tons.
- Dheeresh Pathak:** So you need 6.5 lakh tons outside of captive. What is the current sourcing of those, can you share that?
- S Sankarasubramanian:** Theoretically, the contracts are more than that, but there are separate disturbances from Tunisia and South Africa; South Africa part has got stabilized and Tunisia is being worked upon. At this point of time, with additional sources available for making up for the shortfall, we are not facing any challenge even if we were to increase our production.
- Sameer Goel:** Phos Acid is expected to remain soft.
- Dheeresh Pathak:** Obviously one is the demand side and supply side. If there is enough demand, do you have tied up your raw materials so as to you can go up to theoretically 100% utilization?
- S Sankarasubramanian:** Yes, theoretically, it is okay. Our augmentation of captive capacity also will help in bridging this gap. We are trying to increase it by 100,000 tons from 250,000 tons and that should happen in the next 18-months' time. So that should also help us to meet the demand.
- Moderator:** Thank you. The next question is from the line of Prashant Triwedi from Axis Capital. Please go ahead.
- Prashant Triwedi:** My question is going forward we are expecting imports to structurally come down. So what do you expect your capacity utilization be at in FY18 given that we have a very good stronghold in the southern market, so are we expecting around 80-85% kind of numbers going forward?
- S Sankarasubramanian:** We do not give any specific guidance, Prashant, but our aim would be to see how best we can get back to the higher level of capacity utilization and we will strive for it.

- Moderator:** Thank you. The next question is from the line of Falguni Dutta from Jetage Securities. Please go ahead.
- Falguni Dutta:** What is the current MRP of DAP?
- S Sankarasubramanian:** Rs.20,700.
- Falguni Dutta:** Is this net to you or there are discounts on this?
- S Sankarasubramanian:** In addition to this, we have to add VAT. Also sometimes in some markets depending on the competitive position there may be some discounts.
- Falguni Dutta:** If we do not consider the VAT, just on this Rs.20,700 post the discount... can you tell what would be the discount number?
- S Sankarasubramanian:** It is not very significant for us actually, because we do not operate in a very highly competitive intensive markets in the north, it may not be varying more than 2-3%.
- Moderator:** Thank you. The next question is from the line of Girish Raj from Quest Investments. Please go ahead.
- Girish Raj:** How is the fourth quarter volume for Coromandel Fertilizer distributed across Andhra, Telangana and Karnataka? Last year fourth quarter Phosphatic volume was around 7.9 lakh.
- S Sankarasubramanian:** We do not have any state wise volume. There is no specific thing. Depends on the monsoon pattern and behavior. Wherever the season starts earlier, the movement will happen. Generally, the season starts with rains in Maharashtra and then thereafter to Telangana, then to Andhra. Accordingly, we will try to preposition the materials in those states which get early showers.
- Girish Raj:** Last year fourth quarter was there any presale related to subsidy because there was a subsidy which was going on or reduction in subsidy was happening at that point in time, so was there any one-time element to the 7.94 number or that was a normal number?
- S Sankarasubramanian:** It depends on prepositioning volume and appetite. Whatever liquidation happens in January, that decides the prepositioning of February and March. So last time January offtake was good, so February-March prepositioning happened. It also depends on the forecast for May-June, how it is likely to be in terms of the monsoon situation - if we are confident of the season getting right, we may preposition the material. So it is a function of market demand.
- Girish Raj:** On the Crop Protection, which are our main molecules in terms of value and how much do they contribute to Rs.1400-1500 crores that we report on Agrochemicals?
- S Sankarasubramanian:** We are in various segments and domestic B2B exports and domestic formulations and we have a manufacturing capability for manufacturing close to 8-10 molecules in two of our active

ingredients plants – Ankleshwar and Sarigam & now Dahej is coming up. So we have a fairly sizeable capacity for Mancozeb followed by Profenofos, Phenthoate, Mono and Acephate. So all these technicals, we use it for our own captive formulation as well as for exporting as well as selling it as B2B in the domestic market. So these are all the main molecules and besides that we have other ranges of small volume but high value molecules as well.

- Girish Raj:** The five that you alluded would contribute 60-70% of the...?
- S Sankarasubramanian:** 70-80%.
- Moderator:** Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.
- Sandeep Baid:** Shankar, if you can give us some idea of what percentage of your overall sales comes from regions which are dependent on Northeast monsoon?
- S Sankarasubramanian:** In South, Karnataka, Tamil Nadu and Andhra especially Rayalaseema and coastal region. Predominantly, for us kharif is the major season, rabi is not significant but rabi is significant in the southern markets like Tamil Nadu, Andhra, coastal region, so rabi volumes were dependent on the northeast monsoon in these two-three states.
- Sandeep Baid:** So for your overall annual sales, what percentage of the sales would be happening in Tamil Nadu, Karnataka and Rayalaseema region during the rabi season?
- S Sankarasubramanian:** Tamil Nadu is not significant at all. In terms of the volume share, we are more kharif based where 55-60% of sale happens, balance happens in rabi. Rabi sales also is based on the reservoir level, so if kharif season is good, then based on that Telangana had a good season this time. Bengal season starts in rabi, so we have more presence in Bengal. So to that extent we can say 15-20% volume contraction which happened in this quarter can be attributed to that. We consciously decided to reduce the sale volume to ensure that we do not carry huge pipeline and move on to the next year. That is also one of the reasons why our sale volumes are down this quarter compared to corresponding period last year.
- Moderator:** Thank you. The next question is from the line of Abhijeet Akela from IIFL. Please go ahead.
- Abhijeet Akela:** Just a couple of quick clarifications; on the capacity sir, I was under the impression that we had debottlenecked to 3.57 mt a few years back. So is there something excluded now that you are citing this 3.2 mt number?
- S Sankarasubramanian:** 3.6 mil ton is the technical capacity what we have, consent capacity is 3.2 mil ton. So as and when we are going to touch the 3.6 mil ton, we may have to get the consent to operate the plant. Physical capacity has been created, approved capacity is 3.2 mil tons.

- Abhijeet Akela:** Theoretically, can you hit 100% utilization of 3.2 mil tons or the maintenance requirements will mean that you cannot hit 100%?
- S Sankarasubramanian:** Theoretically it is possible to reach.
- Abhijeet Akela:** Just on Mancozeb, how is the price trend currently shaping up sir? I believe there has been a sharp price increase in the last year or so. So if you could just talk a little bit about how the prices have trended and where they are right now – are they moderating now?
- S Sankarasubramanian:** We have to wait and see. The demand is outstripping the supply at this point of time. So we do expect that this trend to continue for some more time. But obviously, when capacity addition happens there can be moderation. But it would not be that significant because Mancozeb has the wide spectrum molecule and it finds application not only on a standalone basis but also is a combination with other molecules. So we do expect the price stability on this. At this point of time, there has not been any significant change in the price.
- Abhijeet Akela:** Over the past couple of years, how much would the price has increased approximately?
- S Sankarasubramanian:** I would not say price has increased, price remained where it was, only the input costs have come down, so that has been retained.
- Abhijeet Akela:** Just on the other non-subsidy businesses, if you could give some color about how they are trending the Specialty Nutrients, Retail business, Gypsum and the others?
- S Sankarasubramanian:** We do not give out segment wise data point at this point of time. Overall we can say there has been a significant increase in the Specialty Nutrients business; during this quarter the volumes have grown compared to last year corresponding period. In fact, we can say the volume has grown by 20-25% during this quarter on Specialty Nutrients business. On the Retail business, but for the demonetization, there has been some setback on the volumes, otherwise we would have grown significantly the non-Fertilizer business. But in spite of that, we have shown improvement in the non-Fertilizer segment in Retail. Organic manure volumes been marginally improving - there has been improved performance on organic variants during this quarter corresponding to last year period. Retail business has done very well on the Organic Fertilizer side especially the variants -we can say, volume growth has been 10-15%. So overall, all verticals including Gypsum has shown improvement over the corresponding period last year ranging between 15-20%.
- Moderator:** Thank you. The next question is from the line of Anand Bhamnani from Samiksha Capital. Please go ahead.
- Anand Bhamnani:** Sir, my question was regarding Crop Protection business. Recently, the Fertilizer industry came up with a list of technicals which are related to be banned from January 2018. So I wanted to understand, are we in anyway going to get positively or negatively affected from the ban?

**S Sankarasubramanian:** We deal with some of these products and there has been a phased implementation of this program over a period of next two years. In fact, they are talking about restricting these molecules from 2020 onwards. We have some of these molecules in our Retail business; also we do distribution through our main SBU. But they are not very significant which can have an impact on the performance of the SBU.

**Anand Bhamnani:** If you were to quantify ballpark estimate, would it be like 10%, 20% or 5%?

**S Sankarasubramanian:** In fact, it will be 5-7%, that too happening over a period of time.

**Sameer Goel:** Also, we have substitute, so we are already working towards.

**S Sankarasubramanian:** In fact, by the time it goes out, it will be replaced with new molecules. Even otherwise these sort of products some of them we have already planned for phasing out. So it does not make any significant impact on SBU.

**Moderator:** Thank you. That was the last question. I now hand the floor over to Mr. Gautam for his closing comments.

**Gautam Chhaochharia:** Thanks, Mr. Sameer, thanks, Mr. Shankar.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of UBS Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.