



“Coromandel International Limited Q3 FY 2018 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Coromandel International Limited Q3 FY 2018 Earnings Conference Call hosted by Axis Capital Limited. 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 the operator by pressing “*” then “0” on your touchtone phone.

I now hand the conference over to Mr. Kashyap Pujara from Axis Capital. Thank you and over to you, Sir!

Kashyap Pujara: Thank you, Lizzan and Good Afternoon, Everyone and Thank You so much for standing by. It is a great pleasure to have with us the management of Coromandel International to discuss Q3 FY 2018 Results.

From the management side, we are presented by Mr. Sameer Goel -- who is the Managing Director; and Ms. Jayashree Satagopan -- who is the CFO.

Without taking much time, I hand over the floor to Sameer Ji. Over to you, Sir!

Sameer Goel: Good Afternoon, Everyone and Thanks, Kashyap for organizing this concall. What I will do is I will first give an overview of the business environment experienced during the quarter and also talk about the budget, followed by the company’s performance which Jayashree will do and the Q&A will follow.

So just to start off, during the quarter India received below normal Northeast monsoons which was down by 11% from normal levels. However, these numbers stand much better compared to last year which recorded a 22% increase over the corresponding period last year.

Majority of our key operating markets like Rayalaseema, Tamil Nadu and parts of Karnataka, which receives 30% to 50% of its annual rainfall during this quarter, had received good rains.

However, just to note, it has been a bit erratic, there was actually late withdrawal of South West monsoon and delayed onset of North east monsoon. Also distribution wise, some of the interior districts did not receive adequate rainfall.

The good news is that as far as the Southern regions are concerned, the reservoir levels were better. As of January 19th, the total live storage available in this reservoir is at 41% compared to 30% of last year. However, storage across India is lower by 8%.

For the Southwest monsoon 2018, the global weather agencies suggest normal summer rainfall in our addressable markets. So that will be a good start for the next season.

On the Agriculture side, Rabi sowing has been marginally down mainly on account of lower wheat acreage in M. P. and Oil Seeds in Rajasthan. However, improved rains in Southern area

particularly in Tamil Nadu, has led to higher Paddy sowing in Tamil Nadu, Andhra and Telangana, which is up by 40% to 22 lakh hectares.

Overall when we look at Rabi season as of January 19th it has come down compared to last year. Last year was 622 lakh hectares and now it is 618 lakh hectares. Wheat acreage has declined by 4%. Rice went up by 40% also Pulses moved up by 5%.

Horticulture segment continues to grow and as per the first advance estimates, its production for 2017 - 2018 is expected to move up by 2% to 305 million tonnes; last year it was 301 million tonnes. Overall, we are likely to see a record food grain and Horticulture output this year.

Now as per the CSO, the gross value added in Agriculture and allied activities is predicted to grow by 2.1% for FY 2018 versus 4.9% in FY 2017 though there is likely to be a potential upside to these numbers.

During the quarter, the minimum support price of Rabi crops were announced signaling a moderate increase across the crop segment. Wheat increased by 7%; Gram increased by 10%; Mustard by 8%; and Sugarcane increased by 11%.

On the policy and reform front, DBT has been rolled out across India in a phased manner from October to February. Coromandel has streamlined its processes to meet the DBT requirement and strengthened its field presence and engagement with the channel partners.

One good news was that the GST rates of Phos Acid have been brought down from 18% to 12%, though there is still an inverted duty structure. Also Sulphur rates were slashed from 18% to 5%. The Phos Acid rate has been effective from 25th of January.

One significant change on Single Super Phosphate policy is regarding marketing arrangement with registered fertilizer company. Now the product needs to be in the brand name of the manufacturers and subsidy will be eligible for SSP unit itself.

Another news for the market is that the Government of Telangana is planning to implement Input Assistance Scheme for Farmers providing financial assistance upto Rs. 4,000 per acre for each for Kharif and Rabi crops. For this, the State Government is likely to spend around Rs. 12,000 crores annually.

Coming now to the Union Budget. As you may be aware the Union Budget of 2017 - 2018 was announced yesterday and it has outlined many pro-agriculture and rural measures. A lot of emphasis is given to post-harvest output prices.

So MSP of all Kharif products as per the Government should be at least 1.5 times the production cost. One needs to see how they are going to implement this because each of the states have a different costing structure. They are also upgrading 22,000 rural haats into Gramin Agricultural

Markets. These Gramin Electronic Platforms will be connected to the e-NAM and exempted from regulations of APMC, which will provide farmers facility to make direct sales to consumer and bulk purchasers. Around Rs. 2,000 crores have been provided for this.

They have launched Operational Greens to address price volatility of perishable commodities like Potatoes, Tomatoes and Onions and the sum of Rs. 500 crores have been provided for this. The institutional credit has increased from Rs. 11 lakh crores, up from Rs. 10 lakh crores.

Also and particularly for our market, they are setting a Fisheries and Aquaculture infrastructure development fund of Rs. 10,000 crores.

There is also a boost to Organic Farming which is by FPO's and village producers and basically large clusters probably 10,000 acres each will be encouraged. Also, they have some schemes especially on groundwater irrigation - 96 irrigation deprived districts (with less than 30% of the land holding under irrigation) will get presently another sum of Rs. 2,600 crores.

I think the big move actually as far as we are concerned is on subsidy allocation for the NPK sector, that is now being moved up by 24% to Rs. 25,090 crores. While the overall quantum of subsidy remains as Rs. 70,000 crores but this will be redistributed between Urea and NPK. The demand of Urea is coming down because of the issue around the Neem-coated Urea. So the Government is encouraging more of NPK - while the Urea subsidy has come down by 10%, the NBS subsidy which is for NPK has gone up by 24%.

Coming now to the industry front:

Overall, it has been a good quarter for industry and growth was observed across all the three segments Phosphatic, Urea, and MOP. Further, we expect some moderation in the industry stock as of end December Phosphatic stocks with the states stands at 1.5 million tonnes versus 2.3 million tonnes last year. Phosphatic sales during Q3 were up 20% to 56 lakh tonnes with major growth coming in from North and South markets. Cumulatively, the industry sales were up by 7% to 138 lakh tonnes. Imports have been now coming down for the second year in succession and they have been down by 11% to 42 lakh tonnes. With domestic capacity expansion, comfortable availability of acid and stable raw material situation during the first-half of the year, industry improve the domestic DAP production.

One thing is that we have seen the raw material prices starting to move upwards from October 2017 onwards. Phos Acid prices for the quarter has been finalized at U. S.\$ 678 per metric tonne. The industry has resorted to a price increase in January- On an average, DAP prices for the industry is going to be up in the range of Rs. 2,000 to Rs. 2,500 / tonne.

Coming to Urea:

Urea sales have been up by 4% to 234 lakh tonnes, while MOP sales have grown by 18% to 26 lakh tonnes during the year.

Coming to Coromandel Fertiliser performance:

Phos Acid availability during the second-half of quarter remains tight. However, Coromandel optimized its product mix to balance its market requirement. Further, captive acid production improved by 16% which resulted in higher capacity utilization at 89% for Q3 with production volume moving up by 23% to 7.5 lakh tonnes.

For the cumulative period capacity utilization stands at 89% with a production growth of 17% to 22.7 lakh metric tonnes. Phos Acid augmentation project at Vizag is on track and is slated to be completed by the first-half of 2019, providing additional 1 lakh tonnes of captive acid and making Vizag units self-sufficient in acid requirement.

Phosphatic sales in Q3 were up by 23% to 6.25 lakh metric tonnes with improved performance in South and East markets. Cumulatively, for April to December period, sales are up by 14% to 21.7 lakh metric tonnes.

Overall, market share stands at 16% versus last year of 15%. We have grown across all the states improving our market share.

During Q3, share of unique grades stood at 41% (last year was 42%) registering a volume growth of 21% to 2.6 lakh metric tonnes. Cumulatively the unique grade stands at 36% (last year 32%) with the volume growth of 28%.

During this quarter, Coromandel did not import any DAP vessel and the market requirement was met through domestic production. On the traded side, MOP sales were down by 29% to 0.3 lakh metric tonnes due to supply issues while Urea sales improved by 41% to 3.9 lakh metric tonnes.

Coming now to the performance on non-subsidy businesses:

The Crop Protection business had a good quarter on turnover basis registering growth in both domestic and export markets. However, the raw material prices weighed negatively on the business profitability. There were strict norms from the Chinese Government for pollution and effluent controls which led to the closure of high polluting chemical industries resulting in rise of raw material and intermediate cost.

Also, the Brazil market had carryover channel inventory of Mancozeb, which has resulted in price discounting. This is expected to clear as the season has been good this year.

Domestic formulation business did well on specialty and captive generic front improving its channel presence and branding initiative. Retail business improved its performance in the non-Fertilisers sector and during Q3 non-Fertilisers share stand at 58%.

During the quarter, we have opened our first store at Maharashtra at Solapur which is a region in Western Maharashtra. Further 20 stores are being planned in Q4. Business has successfully partnered with the AP Government in the opening of 5 custom hiring and service centers in East and West Godavari.

Specialty Nutrition business continues to perform well in Q3. Our new products on Chilli and solanaceae crops were launched during the year and are receiving positive feedback from the market. Overall domestic volume in Q3 was up by 28% with a growth registered across all three segments Sulphur, Water Soluble, and Micro Nutrients.

Organic business was up by 39% in Q3 driven by improved performance of organic compost. Currently, we are the leaders of city compost with the market share of 22%. During the quarter, the business commenced production of city compost on a pilot basis at Vizag. The quality of the product has been compliant with FCO and lifting will start in Q4.

Our Single Super Phosphate business continues to maintain its leadership position with a market share of 13%. Business improved its performance during Q3 on account of higher volumes, better realization, and cost rationalization. Cumulative volumes are up by 7% to 3.7 lakh metric tonnes. With the policy change with respect to branded names of manufacturer brands, we expect the industry and the consumers to become more quality conscious.

Overall, it has been a good quarter for our business, though challenges are witnessed on the pricing on the Crop Protection front. With moderate channel inventory and better reservoir level in South, we expect the consumption to improve further in Q4.

I will now hand over to Jayashree to give the financial updates.

Jayashree Satagopan:

Thank you, Sameer and Good Afternoon All. Moving on to the financials. In Q3, company recorded a consolidated turnover of Rs. 2,695 crores, registering a growth of 19% vis-à-vis Q3 2016 – 2017, with the Nutrients & allied businesses contributing 86% share and the remaining 14% coming from Crop Protection business. Correspondingly in last year, Nutrients business was 86 % and Crop Protection was 14 %.

For the period April to December consolidated turnover is Rs. 8,619 crores against last year Rs. 7,905 crores, registering a 9% year-on-year growth. Nutrients share is at 87% and Crop Protection 13% which is similar to last year.

In terms of subsidy and non-subsidy break-up – Q3 revenue share is about 75 - 25; last year was about 73-27.

For year-to-date, revenue share from the subsid, business stands at 78% vis-à-vis last year's 77%.

Overall the EBITDA for the quarter was about Rs. 319 crores against Rs. 238 crores of EBITDA last year, registering a growth of 34% year-on-year. The increased profitability in Q3 can be attributed to some of the factors like increased sales in terms of volume and Unique Grades which were up by 21%. Our Unique Grades share was 41% in the quarter.

The capacity utilization of our plants and Phos Acid continues to be good. Plant capacity utilization was 89% and Phos Acid plant utilization for the quarter was 114% which led to better operational leverage resulting in improved absorption of fixed cost.

Improved liquidation in the market and sale of Phosphatic Fertilisers overall also helped. Improved collection led to a reduction in finance cost and prudent forex management with a combination of options and forward contracts resulted in lower forward premium cost.

We also saw improved performance in our Speciality Nutrients business where there was a volume growth of high margin product and very positive feedback on Speedfol Chilli. The improved share of non-Fertilisers in the retail segment to 58% and turning around with the Karnataka stores also contributed positively to the EBITDA margin.

Cumulative for the nine months period, the EBITDA stood at Rs. 1,059 crores vis-à-vis Rs. 710 crores last year.

In terms of subsidy- non-subsidy break-up, Q3 EBITDA share was around 62-38; corresponding period last year was 58-42. On a cumulative basis, EBITDA share from subsidy business stands at 61% vis-à-vis last year 54%.

Profit before interest and tax consolidated for the quarter ended 31st December 2017 is Rs. 294 crores against Rs. 212 crores last year. PBIT share before unallocable expenses from Nutrients and other businesses were about 81% while the share of Crop Protection segment was about 19%.

The year-to-date period consolidated PBIT is Rs. 984 crores vis-à-vis last year Rs. 635 crores. Profit after tax – consolidated profit after tax for the quarter is Rs. 172 crores as against Rs. 112 crores in Q3 2017 fiscal year.

Cumulatively net profit after tax is Rs. 590 crores against Rs. 333 crores in the corresponding period last year.

Subsidy outstanding at the quarter end has moved up to Rs. 2,271 crores vis-à-vis Rs. 1,992 crores in Q3 last year. The net subsidy number at the start of the year was Rs. 2,050 crores after considering the special banking arrangement.

Overall, we have now received on account subsidy up to July 2017. As of December 2017, 10% subsidy receivable stand at Rs. 883 crores.

The balance sheet continues to be strong with a net debt-equity ratio of 0.39 compared to 0.56 during the corresponding period last year. The borrowings have come down substantially, interest cost has seen a reduction, primarily due to the strong collection during the quarter.

This completes the update and we can open the session for Question-and-Answers. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir, my question is around that 1.5x of cost which the Government announced yesterday, there seems to be a little bit of an ambiguity with respect to what will be the cost considered? Will it be something like a C2 or C1 including the interest and rent or what would be the cost in your opinion, sir?

Sameer Goel: Sudarshan, it is a good question. Since the budget just got announced, we will have to see the details which comes out. You are absolutely right in terms of what cost they take also the cost of production is going to differ for different states. So that is some clarity which has to come out. But I think overall the intention of the Government to provide MSP is a good because they are now considering the cost of production involved. So we will have to wait for this.

Sudarshan Padmanabhan: Sir, then with respect to the Agri inputs that is the Mancozeb part of the business while the sales have been pretty good I mean the EBIT margin seems to be kind of lower. I mean, is it primarily because of the fact that you talked about some pricing pressure in Brazil, or the raw material cost actually increasing on account of Chinese factor and how do we see this going forward, sir?

Sameer Goel: So there are two things which happened on Mancozeb. Firstly, in Brazil, there was last year's channel inventory of Mancozeb. And there are other players who are bigger players there and that probably put pricing pressure on it. Also, there was lesser incidence of Asian rust on Soybean and therefore, there was less use of the compound. The good thing is that the season has just started, and the season has been good. So we do expect the channel inventory to come down going forward as far as Brazil is concerned. Separately on the pricing side, in terms of raw material pricing, there was this issue around China and also some of the consolidation which is happening around the industry.

Sudarshan Padmanabhan: Sure, sir. Just if I can squeeze one more question in. Your comments on that Phos Acid prices going up by another \$100 or so last year I mean this Rs. 2,500 per metric tonne, would it be enough for the entire industry to absorb the cost? And second is from your side you should actually be higher given that you are a little bit more backward integrated compared to other players.

Sameer Goel: So this was only for the quarter. We will have to wait and watch what happens and this is our offseason. Like you know Q4 is a bit offseason so it was more on the quarter. Also, the fact that in Q3, there were some issues in terms of the supply and availability of Phos Acid coming in.

So, the industry has passed on the cost increases on this and also on Ammonia. We will have to wait and watch how things happen in the beginning quarter of next year as such. But we will continue our policy of focusing on Unique Grades, which are our own unique products. And also our Phos Acid supplies so we will be converting more rock into Phos Acid.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: I just had a couple of questions. One is on the raw material side, the price increase which you have taken from January will that fully cover the increase RM prices which we have contracted the material for?

Jayashree Satagopan: So if you look at it, as we moved into the quarter we were also having some opening inventory with us and as Sameer was mentioning, that we will also be taking our annual maintenance in this quarter. So given that our stock of raw material plus the additional procurement that has come in, we think we would be adequately covered for the quarter. However, given the trend of the raw material that is firming up as we move into the next quarter, we will have to take a call, this is not only for us but also for industry as a whole.

Sameer Goel: But just one correction, Viraj. The raw material price increase has come effectively in February.

Viraj Kacharia: No, I understand that. So basically, where I am coming from is, if we look at not just in next three years I mean if I look at for next one year or two years, I mean what we and other players in the industry has benefited also from the lower raw material cost which is played out in last 1.5 year. Now initially what we expected was this trend in the raw material a part of it is a structure in nature. But as we are seeing the hardening of prices going forward basically I am just trying to understand, are we looking to maintain the same profitability which we have maintained in say in FY 2018 or what kind of challenges we see in that?

Jayashree Satagopan: So that is our intent to maintain the profitability around the same Rs. 2,250 to Rs. 2,500 per metric tonne. Combination of factors like smart buying on the raw material, planned capacity utilization, higher leverage of the cost, all these factors will play in.

Sameer Goel: Will continue to focus on Unique Grades and also on our Phos Acid production.

Viraj Kacharia: Okay. Second question was on the other expense, if we see year-on-year for this quarter, you see the sharp de-growth in other expenses. So just want to understand what factors are driving that?

Jayashree Satagopan: I will have to specifically come back to you on this. The main thing in terms of absorption of cost.

Viraj Kacharia: No, but on a year-on-year basis from a base of Rs. 210 crores to Rs. 150 crores, I mean I understand as utilization increases absorption the cost plays out.

- Jayashree Satagopan:** We also had good forex gains coming. We also had some benefits coming in on account of exchange, the rupee has been appreciating during this quarter specifically and we have also started working on taking options. So a combination of these has helped in the overall reduction.
- Sameer Goel:** We have also improved our collections, we got the overall channel inventory down, so our collections have come up.
- Viraj Kacharia:** Just last question was on the subsidy part. Since now DBT has been rolled out in all our addressable markets, is there any clarity on past subsidy dues and paid before the season start?
- Sameer Goel:** Three things which have happened here – One is I understand they are going to ask for additional budgets for NPK which will come in. They are also looking at the special banking arrangement. Third, they have increased the overall subsidy on the NPK. So that is a good news for us for next year. So we have to wait and watch... as far as government is concerned, at least they were saying that they will clear the past dues but we have to wait and watch this.
- Viraj Kacharia:** Whatever stock we are carrying in a channel right now and other stocks which are with us, there is no stock which is pertaining to the previous subsidy DBT regime. Am I correct in thinking that or there will be some?
- Sameer Goel:** No, so we will have to wait and watch what they are doing. Like I said, the channel inventory overall of the industry has come down; that has got to do with the increased consumption and also because DBT is getting implemented, it now makes sense not to carry too much of channel inventory.
- Moderator:** Thank you. We will take the next question from the line of Apoorva Bahadur from ICICI Securities. Please go ahead.
- Apoorva Bahadur:** Sir, it will be great if you could share the sales volume breakup for the quarter for the company?
- Sameer Goel:** So Phosphatics, we had 6.25 lakh MT in sales and last year the same period it was 5.06 lakh and that is a increase of 23%. For Urea, it is 3.91 lakh compared to last year of 2.7 lakh which is increase of 41% and MOP went down to 0.29 lakh MT, it was 0.41 lakh MT which is (-9%), we had some issues in terms of supplies.
- Apoorva Bahadur:** Sir, another thing, basically in the budget, as we have seen the subsidy allocation for NBS has increased. But I wanted to know what part of it could be attributed to or could go towards the increased raw material prices and what would be towards the expectation of increased NPK consumption?
- Jayashree Satagopan:** This is primarily the allocation of subsidy for the fertilizer industry on NPKs. So the subsidy rate per se has not yet been announced. So only that will determine whether it is going to be higher or lower. So this is just overall allocation between Urea and NPK.

Apoorva Bahadur: Given the raw material prices going up, part of it could be attributed to the higher raw material cost as well, right?

Sameer Goel: We have to wait and watch but at least the discussion which we had with the Department of Fertilizers they wanted to hold the subsidy, so we will have to see on that.

Apoorva Bahadur: Lastly, your experience on DBT roll out. So how has been the farmer feedback?

Sameer Goel: It is again early days here. Currently, the good thing is that the rollout is happening in a non-peak season. We will have to wait and watch what happens during the kharif season. There are certain challenges which the Department of Fertilizers is taking a note of- mainly on connectivity and sometimes even system problems which are there. Also, the POS machine are still to be fully distributed. So that is something which is happening, but they are taking care of these teething problems. We will have to wait and watch how the system goes out. We do definitely expect that during the kharif season when it is a peak season how the POS machines are going to behave and how the connectivity is going to happen. From our side, we are educating our channel partners and we have already increased our feet on the street to increase presence at Retail and the Consumption Level. So that is something which we are looking at. We do expect a positive response on this on NPK consumption because there is definitely a lot more awareness on balance fertilizers and maybe because that is part of the reason why the government has also increased the subsidy on NPK.

Apoorva Bahadur: Just wanted to know the total number of retail outlets that we are operating now, for our retail business point of view, so how many stores are we operating and how many of those are profitable?

Sameer Goel: Overall we have 800 stores, out of which 550 are profitable. Good news has been that like Jayashree mentioned, this time our retail stores especially with the better rainfall in Karnataka, the South Karnataka stores are again turning profitable. So that is something which is a very positive trend.

Moderator: Thank you. We will take the next question from the line of Abhishek Agarwal from Prithvi Finmart. Please go ahead.

Abhishek Agarwal: There is a continuous talk on the use of soil test result and having soil card before using fertilizer for the particular land and crop, because soil quality has been deteriorating over the period due to inadequate use of the nitrogen-based product. So how much it is feasible and will this help growing need for the Micronutrients and who will provide the service, so what is your view on this?

Sameer Goel: As far as the government is concerned, they have distributed almost 10 crores of Soil Health Cards up-to-now (12 crores landholdings). Again the thing here is to make at least the farmer aware about the Soil Health status. As far as we are concerned, we do help the farmers and provide the service of looking at balanced nutrition. We have been doing this even earlier of looking at the Soil Health status and then recommending what sort of nutrients are required. Now, the first impact of looking at Soil Health Card and if they link it to the Aadhaar, is that the balance nutrition will be there. So the NPK ratio should benefit, therefore our bulk NPK fertilizer should benefit at the expense of

nitrogen. Already we are seeing on urea with the new coating, at least the diversion seems to have come down. Definitely, we are seeing this thing not just on soil health cards but also in terms of farmer practice with the growth of fruits and vegetables and also in the drip irrigation schemes. The government is providing an increased focus on promoting the water soluble and micro nutrient fertilizer.

Abhishek Agarwal: Sir, how difficult it is to pass on the increase in the price of the raw material for non-subsidy product?

Sameer Goel: I think it is totally market dependent and it depends on what the competition is doing. So there is nothing which is there. A lot depends on the demand and supply.

Abhishek Agarwal: What is the scope of the Micronutrient Fertilizer in India and how big can it be?

Sameer Goel: There is a scope of increasing the Micronutrient Fertilizer. Even with the base fertilizer, we do provide sulphur, zinc and other nutrients. Currently, the micro nutrient industry size is between Rs.1500 to 2000 crores. A lot depends on how the farmers are willing to use what sort of drip irrigation they have, what sort of spray they have and a lot is dependent on how we can educate the farmers.

Moderator: Thank you. We will take the next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: You mentioned about subsidy allocation which is higher by 24% Vs last year on NPKs. Just wanted further view on the understanding. If I were to just do an understanding that the subsidy rates remain the same, then it would effectively mean that 24% higher allocation is meant for higher volume offtake which is equivalent to 24%. But government may not be budgeting the same subsidy rate as compared to last year. Would that be the right understanding?

Sameer Goel: No, I think it has also got to do with the rates which are there. While we are hoping for a banking arrangement to come, this is also to clear some of the past arrears of the NPK industry. Apart from that fact, Government is actually trying to say that urea consumption is coming down because of Neem-coating and therefore they held the subsidy to that level. So I do not think there is a direct link to consumption as such. It is also a question of clearing the past arrears.

Moderator: Thank you. We will take the next question from the line of Abhijit Akela from IIFL. Please go ahead.

Abhijit Akela: Just one clarification on the other expenses line itself. If it is possible to share how much was the FX gain element within that, that would be very helpful?

Jayashree Satagopan: We can take this offline, Abhijeet. I do not have the numbers currently with me.

Abhijit Akela: Then just on the subsidy numbers as they stand right now, if you could please just give those to me ...again I missed, I think you said Rs.2200 crores?

Jayashree Satagopan: Yes, the current subsidy outstanding is about Rs.2271 crores.

Abhijit Akela: At the corresponding period last year it was Rs.2000 crores?

Jayashree Satagopan: Yes, Rs.1992 crores.

Abhijit Akela: With this DBT implementation happening, how are you seeing the movement in terms of clearance of fresh fertilizer subsidy? I understand that during the pilot there was a lot of delay from the government side and clearing those subsidies. So are you seeing those issues being resolved now?

Sameer Goel: Because this is on consumption, government is saying that they will clear it within seven days but we had bugs in the system and they are now working towards to clear that especially in the initial pilot testing. A lot has also got to do with the understanding by the trade channel in terms of this getting implemented. But now with a lot of education both from the government side and also from companies, those things have become less challenging. So we do hope things would definitely improve. Of course, one of the big things here in the DBT business is that when the sale is happening to the farmer, he has to punch in through the POS machine. What the government has said is that they are willing to blacklist any retailer or even stop any retailer who does not do that. Separately, for tracking the fertilizer movement, Government has developed a new system which is called the RO module, so that to trace the movement of fertilizer right from the plant towards the retail channel. So that is something the government is doing and I think there is progress on the same. From our side, we have educated the retailers, we are educating the dealers and also putting more feet on the street so that we can keep educating right up to the retailers and the farmers level to do that. Last year, we had strengthened our marketing team and also put up an Agronomic Structure more to do with educating the farmers and that has helped the overall business both our Unique Grades and also Non-subsidy business.

Jayashree Satagopan: Just a couple of points to add here; while the pilot districts were tested, there were a lot of issues that were coming, both in terms of awareness as well as the system robustness. While the government has been addressing and continue to address the robustness of the IT system, still as the companies go through under the complete DBT regime, we will have to wait and watch. So it might take a few weeks, months for it to stabilize so that is something that we must all be conscious of. The second thing is also about how the subsidies are going to be handed over to the companies because it is also going to happen only after the end consumer buys it at the retail point. So instead of subsidy claims happening all through the year (90%) and then 10% based on the consumption, now everything is going to be based on consumption. So there are going to be a few months of the years where the consumption is going to be higher based on whether it is a carryforward rabi season and also whether the government is going to stick on to the seven days that they have been telling, depending on the funds, we could see some deferment there also. So these are early days. We will have to wait and see how this whole thing pans out as we go through the DBT regime. Good thing

of course is everything is getting right and there is visibility all the way to the farmer where the material is moving, how it is getting consumed; so there is a lot of information that the government is gathering which possibly at a later point will help in also driving consumption of more balanced fertilizers. So that is going to be a positive thing.

Abhijit Akela: One last quick clarification; regarding the Crop Protection business you spoke about margin pressures over there because of the China supply issue. Do you see those persisting into 4Q and maybe into 1Q also or do you think the industry is able to take the price corrections required to bring back the margins to historical level?

Jayashree Satagopan: The pricing in China is expected to be tight. We still do not know over a longer period how this is going to be. Raw material prices have firmed up and continues to remain there. At least in the first half of next year we think that there is going to be pressure on the raw material. Now how much can be passed on is again going to be dependent on various factors -- demand/supply, competitive pricing actions and also how the season overall turns out to be- with the good monsoon and if there is a pest infestation, obviously you will have farmers willing to pay a higher price for it. From a margin standpoint, all these first would be taken into account to see how we can hold the margins to the current levels. Of course, last year the margins were higher and we had also guided that there could be some possible reduction during this year.

Sameer Goel: Just to add to that, Brazil seems to have a good season. So we will have to watch how the consumption happens there. The channel inventories are definitely coming down in the LATAM market.

Moderator: Thank you. We will take the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: What is the total Phos Acid requirement for the year?

Jayashree Satagopan: 7.5-8 lakh tons.

Dheeresh Pathak: How much is captively produced?

Jayashree Satagopan: About 1.8-2 lakh.

Dheeresh Pathak: You will have the 1 lakh capacity, right?

Jayashree Satagopan: Correct, that would be by Q2 of next year.

Dheeresh Pathak: You are spending Rs.200 crores on this?

Jayashree Satagopan: It will be about Rs.250-300 crores.

Dheeresh Pathak: This is Brownfield expansion, right?

- Jayashree Satagopan:** Yes.
- Dheeresh Pathak:** This would have a value add of \$100/ton roughly?
- Jayashree Satagopan:** \$100 plus.
- Dheeresh Pathak:** Where do you source the rock phosphate from?
- Sameer Goel:** We have our partners, we have variety of sources which we have, our plants are flexible to take.
- Dheeresh Pathak:** So buying rock phosphate and converting into phosphoric acid is \$100 plus per ton EBITDA, correct?
- Jayashree Satagopan:** Yes.
- Sameer Goel:** That is the value addition.
- Moderator:** Thank you. We will take the next question from the line of Akshya Saye from Dolat Capital. Please go ahead.
- Akshya Saye:** If you could share the subsidy outstanding number for the industry?
- Sameer Goel:** Industry was around over Rs.30,000 crores.
- Akshya Saye:** The breakup between NPK and Urea?
- Sameer Goel:** We do not have that now, we can get back to you on that.
- Akshya Saye:** Secondly, on DBT, wanted to understand in the states wherein it has been rolled out particularly the southern states, so the subsidy disbursement procedure is starting at the retail level or at the district level?
- Sameer Goel:** No, it is at the retail level only. So far very little have been disbursed. So they are looking at how to streamline the process to get it done.
- Akshya Saye:** The other states which has not been still compliant with the DBT, the procedure is at the district level itself, right?
- Sameer Goel:** The way the subsidy was done earlier, 90% was on primary dispatches and 10% was on dealer sales to retail. Now this will be 100% on consumption. As we speak of 1st of February, practically all the states are getting covered under DBT.
- Akshya Saye:** So you had mentioned earlier that POS machines have not been deployed across, so...?

- Sameer Goel:** No, there are some supply issues on POS machine, it is supposed to be deployed across 2 lakh outlets, there are some glitches which are there, so it is getting dispatched.
- Akshya Saye:** What will be the number out of this 2 lakh outlets, how many have been deployed so far?
- Jayashree Satagopan:** 2.4 lakh POS machines have been dispatched.
- Sameer Goel:** So what we are looking earlier, the retail was 2 lakhs, what we have also done is to have now multiple machines especially for retail outlets especially during the kharif season to take care of the rush.
- Moderator:** Thank you. We will take the next question from the line of Lalaram Singh from Vibrant Securities. Please go ahead.
- Lalaram Singh:** My question is around the margins of the Fertilizer business. So over the last 1.5-years, we have seen strong margin expansion in that business which is I think a combination of benign raw material prices, at the same time improving mix towards specialized fertilizer. I want to understand what is the outlook for the company going forward – do you think that these margins can be sustained?
- Sameer Goel:** What we said earlier was that we would like to maintain margins to get 2250 to 2500.
- Lalaram Singh:** So that would be our endeavor?
- Sameer Goel:** Yes, that is right.
- Lalaram Singh:** Secondly, on the Crop Protection business, do we see that the margins from here should inch upwards?
- Sameer Goel:** I think we have already answered that; a lot will depend on demand and supply, we definitely have endeavor to increase the margins upwards.
- Lalaram Singh:** In the competition business, Mancozeb would account for how much percentage of our business?
- Jayashree Satagopan:** I think it would be 50%.
- Sameer Goel:** We have got 15 other molecules which are there. We are quite diversified.
- Moderator:** Thank you. We will take the next question from the line of Girish Raj from Quest Investment. Please go ahead.
- Girish Raj:** So when I look at our manufactured volume mix, I see DAP volume used to be 11% and it has grown to 22% approximately in the nine months FY'18. We were of the opinion that more of NPK we would drive that particular thing. So how is the margin profile looking in that scenario?

- Sameer Goel:** When we look at our volumes for Q3, this was the quarter where DAP is used more; depending on the market, DAP volumes went up by 33%, while Complex went up by 21%, overall the Phosphatic grew by 23%, but still the bulk of our sales are on Complex, so we sold this quarter 5.04 lakh MT Complex as compared to 1.21 lakh MT DAP.
- Girish Raj:** Sir, I am comparing FY'16 full year which was approximately 11%, FY'15 ...
- Sameer Goel:** I just gave the April-December level. One of the policies which we did if you remember was to stop imports of DAP. We have not increased our imports of DAP. This is part of Make in India policy. One of the things which we did for DAP was to relaunch it under Godavari DAP which is in high demand in addressable markets in AP and Telangana. On top of that we have introduced zincated DAP, which is sold through our retail outlets, and that is doing very well. It is what is called DAP zinc and we sell it as part of our Unique Grades strategy.
- Girish Raj:** This is well within our profile of EBITDA margin per ton?
- Sameer Goel:** DAP margins are normally lower, because it is an imported product, our endeavor is to keep increasing our Unique Grade shares.
- Girish Raj:** So what is the ideal mix of NPK and DAP according to...?
- Sameer Goel:** It all depends on the government but normally for us as a thing we will take 80%-20%.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Kashyap Pujara for his closing comments.
- Kashyap Pujara:** Thank you, everyone for patiently hearing all the answers. Thank you Management of Coromandel for being here. Look forward to seeing you again soon.
- Sameer Goel:** Thanks, Kashyap. Overall, the things have worked out well. We hope with the various changes government is doing and the company is making, we can make a difference with the farmers and therefore continue to have the good run.
- Jayashree Satagopan:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Axis Capital, that concludes today's conference. Thank you for joining and you may now disconnect your lines.