



“Coromandel International Limited
Q1 FY2019 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2019 Results Conference Call of Coromandel International hosted by Emkay Global Financial Services. We have with us today Mr. Sameer Goel – Managing Director and Mrs. Jayashree Satagopan – Chief Financial Officer. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Tholiya of Emkay Global. Thank you and over to you Sir!

Pratik Tholiya: Thank you, Janet. On behalf of Emkay Global Financial Services, I would like to welcome all the participants who have logged into the conference call of Coromandel to discuss the Q1 results. We have with us from the management team Mr. Sameer Goel, Managing Director; and Mrs. Jayashree Satagopan, Chief Financial Officer. At the outset, I would like to thank the management for giving us the opportunity during this conference call. Thank you so much, Sir.

I would like to request Mr. Sameer Goel to first give the opening remarks, followed by Jayashree Satagopan, who can take us through the Q1 performance. Thank you, and over to you, Sir!

Sameer Goel: Good afternoon, everyone, and thanks, Pratik, for managing the conference call. Like you said, we will give an overview of the business environment experienced during the year, followed by company's performance and the Q&A session.

Broad-based agricultural parameters have shown an improved trend over the past 1-month after a slow start to the Kharif season. First, the minimum support price for Kharif crops has been announced in line with the vision to double the farmers' income by 2022. The government has fixed the crop MSP by at least 1.5x to the cost of production. Government is considering MSP-based deficiency payment scheme in which the farmers are paid the difference between MSP and the market price, though finer details are yet to be evolved.

Other welfare schemes like in the State of Telangana, the Rythu Bandhu, which is the farmer's friend's scheme, has been extended to 58 lakh farmers by providing investment support of Rs.4000 per acre before the crop season. Based on the initial feedback received, the funds distributed under the scheme have been utilized by the farming committee towards agriculture input purchases. The state government has further announced the plans for disbursement of the Rabi funds from the next month onwards.

The good news was that the GST Council has revised the GST rates on fertilizer-grade phosphoric acid from 12% to 5%. With this inverted duty structure, and the subsequent GST credit accumulation is likely to come down substantially, improving the working capital situation of the phosphatic industry.

The government has also issued clarification with respect to the additional customs duty on the phosphoric acid sourced from the U.S. in light of the ensuing trade standoff. Phosphoric acid will

continue to attract the 5% customs duty, and there will not be any escalation on account of the same.

Major irrigation projects in our home markets of Telangana and Andhra are progressing well. The Kaleshwaram-led irrigation project is expected to be partially operational from August this year. Once the project gets completed by 2022 it will be able to irrigate 37 lakh acres of land in Telangana.

Moving on, there has been a good recovery in the crops sowing over the past month. As of July 27, the total acreage under Kharif has moved up to 738 lakh hectares, reducing the gap over the last year to 7% only. This gap was 22% by June end. With the monsoon showing signs of revival in East, Northeast and Gujarat, there is a possibility that the shortfall in the acreage will be covered in the coming weeks.

In our home markets of AP and Telangana, sowing is up by 7%. There is a 35% increase in paddy acreage, while cotton has seen a marginal reduction of 3%.

India experienced an early monsoon onset, followed by a gradual slowdown in the last 2 weeks of June. Since then, rain has recovered well. As of July 29, India has received normal monsoon at 95% of the long-period average.

Andhra and Telangana markets have received normal rainfall, which is at 95% and 102% of long-period average, respectively. South India reservoirs have seen a good inflow. As of July 26, their storage stood at 58% of capacity versus 25% a year ago. All major dams like Srisailem, Sriram Sagar, Tungabhadra and Almatti have seen a good inflow over the last 1-month and are well above the last year level. For the first time in 9 years, Srisailem has started producing power, which is a very good sign. And obviously, the excess water will be used for irrigation.

DBT has been rolled out pan India. The initial challenges with respect to connectivity at farmers' ends are resolved; however, there are still some system-related issues relating to opening stocks during Q1, which are now being addressed by the Department of Fertilizer. The subsidy payout under DBT has started, and we are seeing government settling the claims within 2 to 3 weeks. The industry and the government are engaging closely with the channel partners to ensure reporting compliance at various transaction points.

During the quarter, phosphatic fertilizer industry sales have seen a growth of 12%, moving from 32.8 lakh tonnes to 36.7 lakh tonnes, mainly on account of low channel inventory at the beginning of the season. There has also been a higher import of DAP at 20.6 lakh tonnes in Q1, which almost doubled from last year level. Higher raw material prices impacted the domestic DAP production, which went down by 40% to 8 lakh tonnes. Domestic manufacturers utilized the phos acid to convert into NPKs instead of using it for DAP.

Complex fertilizers have done well, growing at 24% on both production and sales. Raw material prices remained firm during the quarter, as plant closures in China and higher global demand impacted the availability. Phos acid prices for Q2 have been finalized at US \$758 per metric tonne, up by 4% from \$730 level. In the last 6 months, the industry has resorted to multiple price increase. And on average, the DAP prices have moved up by 20% to 25% from Rs.21620 per metric tonne to Rs.26600 per metric tonnes. We are seeing a shift to lower grades from DAP, especially around grades like 20-20 and also impacting the single-support phosphate sales.

Coming now to Coromandel Q1 performance. Coromandel had a strong performance during the quarter, improving its capacity, operational and sourcing efficiencies and customer connect initiatives despite the erratic distribution of the monsoons in our key operating markets. During the quarter, 5 new products were introduced across the businesses, which have received an encouraging response from the farming community. New product introduction includes in-house patented crop protection molecules, crop-based water-soluble fertilizer and value-added single-support phosphate. Our agronomists and integrated marketing structure have supported the nutritional business in improving the customer level engagement and promoting the balanced nutritional practice.

R&D and tech transfer teams are being strengthened in crop protection, and we have an exciting product pipeline. Bio business has been integrated, and we are working on building business synergies in research and in the marketing area. We are testing out a few technology initiatives in product distribution and crop advisory space that will help us in differentiating our products and service offering to the farmers.

Coming to Coromandel fertilizer performance. On the sales side, our phosphatic volumes are up by 5% to 6 lakh tonne. The major share of this growth has come from unique grades, which have grown by 29%. Its share in overall sales stands at 30% compared to 25% during Q1 last year.

The sale number for 6-lakh tonne comprises 5.6 lakh tonne on manufactured products and 40000 metric tonnes of DAP imported. On the traded products, MOP sales are slow by 49% to 20000 tonnes as business utilized the available products to maximize its in-house fertilizer production. Lower dispatches from Kandla impacted urea sales, which stand at 70000 tonnes versus 1.8 lakh tonnes last year. This was because of rake availability, and also the fact that the monsoons have got delayed in Northern India.

During the quarter, our phosphatic fertilizer plants operated at 79% capacity utilization, up from 77% a year back, recording its highest ever Q1 production of 6.8 lakh tonnes.

Captive acid production from Vizag and Ennore went up by 11%. Also, there has been a considerable improvement in the acid supplies from our joint venture, TIFERT in Q1. Phosphoric acid capacity enhancement project is on track and will come up in the second quarter of FY 2019-20.

The crop protection business had a good quarter as turnover improved by 16% to Rs.422 Crores from Rs.365 Crores last year, with growth coming across all its segments: exports, formulations, domestic B2B, bio and retail. Margins are beginning to improve as our strategic tie-up, and overall raw material availability is beginning to show signs of improvement.

During the quarter, the business introduced in-house patented combination molecule, Mancozeb and Azoxystrobin and the core-marketing product. The initial response has been very good, and we expect more differentiated products to be launched in the coming quarters. We have further strengthened our R&D and tech transfer functions to speed up concept to commercialization towards developing a strong product pipeline.

Export growth was well spread out, with APAC, Africa, South and Central America regions showing double-digit growth. Brazil market is expected to have a higher soybean acreage in the coming season, due to the impact of restriction of soybean exports from the U.S. to China. The Mancozeb capacity expansion project at Dahej is progressing well and is likely to come up by the year-end.

During the quarter, we have integrated the biopesticide business and is showing good turnover and margin growth. Going forward, bio business, with its promising microbial pipeline and the complementary markets, will provide synergies for our crop protection portfolio.

The retail business had a slow start to the year. Erratic rains and lower sowing in June in AP and Telangana impacted its turnover, while Karnataka stores have progressed well during Q1. With better rains in July, the situation has improved. Overall sales share from non-fertilizer segment has moved up to 50%. It was 47% last year. Business has opened up 16 stores in Maharashtra and is testing out technology-based new delivery approaches in the markets. Our custom hiring and service centers opened in partnership with the AP government for providing farm mechanizations are progressing well and are seeing a good demand from the farming community. While retail turnover has been a bit slow, but the margin improvement is there, and we are in line with our budget expectations.

Specialty Nutrient business continues to show a very strong performance and continues its approach towards introducing crop-based solutions. During the quarter, the business launched two water-soluble fertilizer, targeting sugarcane and banana segment with the help of its JV partner, CSQM.

Organic fertilizer volumes are close to last year level. In the city compost segment, we continue to be market leaders with a market share of 26%. We have commenced the biomining project at Vizag and now have produced roughly 1,750 metric tonnes from the site.

Single-super phosphate has had a very good quarter. Sales volume grew by 27% to 1.07 lakh tonnes compared to the industry and compared to the industry growth of 18%. Business has maintained a

no. 1 position with a market share of 10%. The business has stabilized the new production technology at Udaipur unit, and overall production was up by 40% to 1.4 lakh tonnes.

New value-added products launched during the quarter have received a very good response. Overall, it has been a good quarter for Coromandel. We will focus on sustaining this growth trajectory by improving our level of customer engagement, developing technologically superior farming solutions and continue to invest in infrastructure and capability development to drive business growth.

I will now hand over to Jayashree to give the financials.

Jayashree Satagopan: Thank you, Sameer, and good afternoon to everyone on the call.

A quick glimpse on to the financial updates. In terms of turnover, in Q1 fiscal year 2018-19, the company recorded a consolidated turnover of Rs.2528 Crores, growing by 10%, with Nutrients and allied businesses contributing to 84% share and the remaining 16% coming from crop protection business. Q1 last year, nutrients was 86%; and CPC, 14%.

In terms of subsidy/non-subsidy breakup, Q1 revenue share is around 75-25. Last year, it was 76-24.

Profitability. Overall EBITDA for the quarter is Rs.214 Crores against Rs.159 Crores last year. The improved profitability in Q1 can be attributed to higher sales across the businesses and focus on unique and differentiated product offerings.

Manufacturing units have done well in terms of capacity utilization and operational efficiency improvements. Our raw material sourcing has been good, ensuring stock availability as per the market requirement. Sharp rupee depreciation had an impact on the raw material cost, which was partially passed on through price increases taken during the quarter.

In terms of subsidy/non-subsidy breakup; Q1 EBITDA share was 63-37. Last year, it was 59-41. Consolidated PBIT for the quarter ended June 30, 2018, is Rs.188 Crores as against Rs.144 Crores last year. PBIT shares before unallocable expenses from nutrients and allied business was 75%, while the share of crop protection segment was 25%. Q1 last year, the ratio was 70-30.

Consolidated net profit for the quarter is Rs.90 Crores as against Rs.73 Crores in Q1 FY2018.

Subsidy. The government has initiated the process of disbursing subsidy under DBT and is settling the claims. Major system issues with respect of opening stocks have been resolved now, and we have received subsidy up to December 2017. As of June 30, subsidy outstanding is Rs.2388 Crores. Last year corresponding period, this number was Rs.1745 Crores. We expect this number to ease as we are in the process of submitting the claims up to June 2018.

Working capital. During the quarter, the company witnessed a higher working capital situation, primarily on account of subsidy, GST credits accumulation and a higher level of planned inventory. The collections during the quarter have been pretty good.

During July, we have now received a GST refund up to March 2018 amounting to Rs.265 Crores. We have further collected the GST refund orders for the month of April and May and expect the credit to our account very soon. Further, with the easing of GST rates on phos acid, we expect the credit accumulation on account of inverted duty to come down substantially, which will further ease the working capital situation.

The company has consciously increased its inventory during the quarter to bulk up its stock for meeting the Kharif demand. Overall, Coromandel's Q1 financials have been strong. And with the benefits accruing in terms of lower GST rates on phos acid and likely DBT inflows, the working capital situation is likely to improve in the coming quarters.

Thank you all for the participation, and we now can open the Q&A session.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question answer session. We take the first question from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Congratulations for a decent performance during the quarter. I have a couple of questions. One is more strategic, and the remaining are more bookkeeping in nature. Sir, the question for you is that if I look at Coromandel's performance over the last 10 years, the peak performance in 2011-2012 after which we virtually halved our net profits, which came to close to Rs.350 Crores, Rs.400 Crores. And from there, we again crossed a new high in the last year. So, the key question is that in the last 2, 3 years, what has been done to basically mitigate the cyclicity of the businesses? While I understand that agriculture inherently is a cyclical business, but within that, what is Coromandel doing to actually ensure that there is some sustainability of growth which one can see and such kind of fortune swings dramatic fortune swings are minimized to the maximum extent?

Sameer Goel: Do you have some other question?

Kashyap Pujara: Yes. The remaining are more bookkeeping. I wanted to basically take some breakups. So I missed the EBITDA contribution about subsidy and non-subsidy business. So that is one figure I wanted. And if you could also throw some light on what is the kind of revenue we have in the phosphatic fertilizer and SSP. So the fertilizer side put together, the Specialty Nutrients and organic fertilizer side and the retail side, if you can break up that also, it will be more helpful.

Sameer Goel: Right. So I will answer your first question, and then Jayashree can answer the others. On the phosphatic side, obviously, the monsoon does play a role. But the good thing is that government is doing a lot to address the cyclic nature of this monsoon, and a lot of activities have been done. As a company, we have ensured the end-to-end planning across businesses and SBUs. So no longer, we have a shortage in a particular material like phos acid. the manufacturing and marketing know

what acid is available and therefore, how to convert. We have a full end-to-end visibility. With our unique grades and products, we are giving what the farmer wants and are continuing to build that base. And that has really helped the business in increasing the share of unique grades. The other thing, which has been done, is to improve plant efficiency and to ensure that our capacity utilization keeps going up. There is a lot more emphasis on our own manufactured products, including phos acid and other intermediates. Usage of alternate rocks and acid strategy has helped us to diversify our risks. We are increasing our operating efficiencies across the plants.

On the marketing side, we have not only been introducing new products. We have integrated our marketing structure for nutrients. Early on, we had each of the SBUs having separate marketing. So SND had a separate marketing, SSP had a separate marketing. We consolidated them into an integrated nutritional marketing structure, thereby getting closer to the farmer. And this is also helping us in the DBT implementation. We have built up an agronomist structure, which helps us to manage the pyramid of influence. This is done crop-wise to create demand at the farmer level and has helped us in increasing our market share in our captive markets. We are also able to increase the consumption levels.

On the retail side, we continue to increase our profitability by the stores and also reduce the loss-making stores and increase our focus in non fertilizer. The fertilizer actually gets us the footfall, and along with it, the farmer is buying the non fertilizer products. Further, adjacent categories, including insurance and credit, helps to increase the farmers' footfall. Our retail business has been turning profitable quarter-on-quarter

At the same time, there is an increased importance on non subsidy businesses and these businesses have been growing faster like our specialty nutrient business and crop protection business. On the crop protection side, one of the things which we are doing is to increase our capability in technology transfer speeding up the introduction of products from concept to commercialization. During the quarter, This year, on crop protection, we have a number of new product introduction contributing to roughly 8% of the turnover. Our strategy continues to be providing the best solution for the farmers and increasing our customer connect.

Kashyap Pujara:

Sure. Actually, it will be helpful if you could give some breakup on the retail and the specialty products because those are incrementally getting chunkier within the nutrient and allied businesses as a segment. And maybe the growth profile of these businesses and the profit margins or the gross margin of these businesses will be much better or arguably, the return of the retail business being asset light will be much better. So if we can actually understand that those businesses are scaling up much more and 5-year out, the character of the business will be completely different, that could actually help us understand the quality of the business much more.

Sameer Goel:

So we do not give the breakup on the sector, but what we can say is that these businesses are growing the top line and bottom line by a high double-digit. And our intent, in the long run, is to take our subsidy to non-subsidy business to 50-50 on the bottom line.

- Kashyap Pujara:** And could I have the breakup of that current EBITDA how much is subsidy versus non-subsidy I just missed that?
- Jayashree Satagopan:** Yes. Subsidy versus non-subsidy is 63-37.
- Kashyap Pujara:** In this quarter?
- Jayashree Satagopan:** In this quarter. And nutrient and other allied business versus crop protection is 77-23.
- Kashyap Pujara:** 77-23. And what is the same computation in the prior year?
- Jayashree Satagopan:** Prior year subsidy versus non-subsidy EBITDA is 59-41, and the nutrient and other allied businesses versus crop protection was 72-28.
- Kashyap Pujara:** Sure. And I just have one last question. Apologies to have taken up so much time. That is regarding the working capital release because given the inverted duty structure, which now goes away, and I think you were mentioning on the call last time that there was Rs.800 Crores worth of subsidy outstanding which was to come. I do not know whether that has come or that is still pending. If you can just give a sense as to how much cash flow do you actually expect this year based on receiving subsidy outstanding. So what is the end of year figure should look like? And how much will be the working capital benefit because of the credit accumulation going away?
- Jayashree Satagopan:** The credit accumulation of inverted duty is likely to benefit about Rs.200 Crores in terms of working capital on an annual basis. And as far as subsidy is concerned, we had a total of Rs.2388 Crores outstanding as of June, out of which around Rs.1000 Crores relate to DBT. Currently, we have generated claims up to January 2018. And once the issues with this site are sorted out, it is a question of a couple of weeks that we will be able to generate claims upto June 2018. What we understand is once these bills are generated and submitted, the government is actually clearing up DBT at a faster pace in, say, about 2 weeks' time. We have received DBT claims of close to about Rs.98 Crores so far.
- Sameer Goel:** The good thing is that after this all the DBT claims will be through the POS machine. There will no longer be 90%-10% and a backlog on the balance 10%. We have already seen that in the case of urea., the government is clearing it within 7 days, which is a very good sign. There are enough funds currently available with the government for the NPK sector. So once this process is streamlined, that will get cleared within 14 days. So now this is all electronically driven through POS machines. We are seeing good level of recording on the POS machines. We have also set up a full team to ensure that we educate the dealers and retailers in our markets so that they can use the POS machines. If we look at the POS machine sales, our market share is actually going up.
- Kashyap Pujara:** Sure. Thank you so much.

Moderator: Thank you. We will take the next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan P: Thank you for taking my question. Sir, my question is on the phos acid. I mean, if I remember correctly, in the fourth quarter, you did mention that there is even if you are looking at the annual report, there has been a fair amount of buildup on the inventory side, and part of it is largely coming in from the raw material side. So if you can give some color on while I understand that you would have gone into an agreement specifically at a certain rate, but we would also be benefiting from low-cost inventory, especially in the light of us taking some kind of price increase. So I mean, as we move to the second quarter, would we still continue to benefit from the low-cost inventory? Or the additional \$20, I mean, 630 to 650, which we have contracted for, I mean, have we taken price increase for that as well as the rupee-dollar movement? And if not, what is the probability of us taking another increase after we've already taken the Rs.2000-odd?

Sameer Goel: So you have a couple of questions you are asking. Firstly, our commercial team works well in terms of forecasting how the price increases are happening. And if we find that the price may go up, we do contract earlier, and that is why the inventories have gone up for not just phos acid, but for other raw materials also. So that is something, which we have done, and that gets reflected, in the higher inventory. The other thing is that we are looking at the exchange rate also. In DAP, we had 3 price increases. In the NPK side, only 2 increases have been given. We watch how the situation is, and are able to take appropriate price increases

Sudarshan P: And I mean, the average cost of phos acid in the first quarter, Sir? I mean, if you can give some color if not the exact figure.

Jayashree Satagopan: It should be around \$700/MT.

Sudarshan P: Okay, sure. Madam, the second question what I have is on the crop protection business. What we're actually seeing across is there has been a sharp increase in the raw material prices, especially because of China. With the light of us putting up additional capex, if I am correct, we put an additional 10,000 tonnes for Mancozeb?

Jayashree Satagopan: Yes.

Moderator: Sir, we have lost the line with Sudarshan also. We will proceed with the next question. It is from the line of Mr. Nitin Gosar from Invesco Mutual Fund.

Nitin Gosar: I just wanted to understand on the product level macro level how the imports versus and the business product increasing for India? And secondly, where are we on utilization level?

Jayashree Satagopan: Our planned capacity utilization during the quarter was 79%, which is up from 77% a year back.

- Nitin Gosar:** Got it. And what is your thought process on how is the macro shaping up on import versus indigenous production?
- Jayashree Satagopan:** So in terms of DAP imports, we saw higher imports happening during the Q1.
- Sameer Goel:** DAP import went up from 10.98 lakh tons to 20.63 lakh tons, which was an increase of 88%, while the production actually came down by 40% on DAP. The main reason here was that the companies were keeping the phos acid mainly for NPK production and contracting imported DAP. There were some traders who imported DAP because they did not import this in the month of February-March. As far as NPK is concerned, the production grew by 24%, while the import growth was 11%.
- Nitin Gosar:** Yes, okay. So now incrementally, players are trying to move towards complex NPKs rather than that if they have production capabilities?
- Sameer Goel:** I can just talk about our company. We normally like to manufacture NPK grades and within that also, selling unique grades because that is what the farmer demands. DAP, we just keep for utilizing our capacities additionally or look at even imports at times if you find that there's an opportunity, we think, for DAP import, which we mainly did for our institutional sales.
- Nitin Gosar:** Okay, got it. Secondly, Sir, you mentioned in the opening remarks that there is a shift from low grade, shift towards the low-grade DAP versus?
- Sameer Goel:** No, I did not mention. There is no low-grade DAP. What is happening is that the DAP price is going up. The farmers are now looking at shifting to grades like 20-20, which is priced lower than DAP.
- Nitin Gosar:** Okay. And Sir, last question, you mentioned on easy grade shift, but I missed on that number. And within our overall production, how much is NPK right now versus DAP?
- Jayashree Satagopan:** In terms of overall sales, our unique grade stands at 30% compared to 25% last year.
- Nitin Gosar:** And we have all our production coming from NPK and we do not manufacture DAP right now?
- Jayashree Satagopan:** Our DAP manufacturing during this quarter so far is 1.32, and complex is 5.52. Total production is 6.84.
- Nitin Gosar:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Resham Jain from DSP Blackrock. Please go ahead.
- Resham Jain:** Thank you. Sir, I just had one question. You mentioned on DBT that the new DBT outstanding is quite high as of now. But you also mentioned that within 7 days of bill raising, you are able to get

money from the government. So I was just trying to understand, is it a delay from our end? Or is it a delay from government and in terms of the release of subsidy under the new DBT?

Sameer Goel: When the DBT is claimed through the POS machine, which is basically all system-driven, then the government has promised that they will settle the bills within 7 to 14 days. That is once the entire POS system kicks off. Currently, as per the old scheme, we are having claims -10% balance claims and freight and others. And even on the DBT submission, we are doing month per month where there are system issues at the government level, and we are trying to get that rectified. We have submitted up to the month of January, and we are now going to submit until the month of June. This is not a delay from our side as much as the 2 government systems, which are being integrated. We have the added problem as far as AP and Telangana is concerned. One was that when AP-TG got bifurcated, then Telangana government actually ended up increasing the number of districts from 23 to 46. So that became the additional problem.

Resham Jain: And Sir, one more question. On the overall EBITDA percent, which you always give that in terms of the overall guidance going ahead, this increasing price of phos acid, do you, feel that in the coming quarters, you will be able to maintain whatever we have done in the previous year, last year?

Jayashree Satagopan: Yes. Our estimate in terms of the EBITDA per tonne remains the same

Sameer Goel: And as long as we continue to do 2 things: one is increase our share of unique grade, and also to convert more of rock into phos acid.

Resham Jain: Thank you. All the best. Thank you.

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

Dheeresh Pathak: Can you give the manufactured volume numbers, NPK volume numbers for the quarter?

Sameer Goel: This is for the Coromandel or for the industry?

Dheeresh Pathak: For the company?

Jayashree Satagopan: Yes. The manufactured is 5.6.

Dheeresh Pathak: Lakhs?

Jayashree Satagopan: Yes, lakh tonnes. And for imported, it is 0.4 lakh tonnes.

Dheeresh Pathak: 0.4? This includes both NPK as well as Urea?

Sameer Goel: No, this is only the NPKs.

- Dheeresh Pathak:** Okay. Was there any Urea traded?
- Jayashree Satagopan:** Urea we had 0.72 lakh tonnes.
- Dheeresh Pathak:** 0.72 lakh? Okay. And the manufactured in volume includes SSP volume, right of Liberty as well as your standalone?
- Sameer Goel:** No, only NPK.
- Dheeresh Pathak:** Only NPK. So what was the SSP volume?
- Jayashree Satagopan:** Sales is 1.07, production is 1.17.
- Dheeresh Pathak:** 1.17 lakh, okay. And this a reduction of customs duty and asset leading to Rs.200 Crores of working capital reduction, can you just explain? I am not familiar with what was the impact earlier and why it was impacting?
- Jayashree Satagopan:** When we end up paying a higher import duty on our inputs, and 5% GST on fertilizers output, the differential can be claimed by way of refund from the government. And we have been filing our GST refund returns on a monthly basis from July 2017 since GST was implemented. The sites had numerous problems, and we were able to submit the claims up to March 2018, only in April 2018. We just received the credits for that period to our account yesterday. As you see, there is a lock-up of working capital, though you will eventually get the money, it has taken more time to get the refund credits into your account. Working capital could free up to the extent of Rs.200 Crores.
- Dheeresh Pathak:** Okay. Rs.200 Crores is the reduction in working capital or it is the cost of servicing that working capital?
- Jayashree Satagopan:** It is a reduction in working capital.
- Dheeresh Pathak:** Reduction in working capital? Impact on P&L would be like 8% of this, right?
- Jayashree Satagopan:** Yes. Close to that.
- Sameer Goel:** Early on, the duty on phos acid was 18%. We made representation through the industry body to get it down. And finally, they agreed at the first meeting to get it to 12%. Now that has reduced to 5%, so no longer we will have this issue of inverted duty structure, more or less it will get nullified.
- Dheeresh Pathak:** Okay. Just to confirm, for all the grades of NPK as well as MOP and SSP, output GST is 5%?
- Jayashree Satagopan:** Correct.
- Dheeresh Pathak:** And for the input, which is phos acid, it is now at 5%, ammonia is 1% to 5%?

- Jayashree Satagopan:** No, ammonia is 18%.
- Dheeresh Pathak:** So there is no inverted duty structure for ammonia?
- Jayashree Satagopan:** While you will have 18% as input for rate for ammonia, based on the total sales that happens within the state of AP, we will have enough credit to utilize; there will be some small amount of inverted duty, we can claim it. Or we can plan the timing of our returns in such a way, we will be able to utilize the credit accumulation. In any case, that's not a substantial sum.
- Dheeresh Pathak:** Okay. Because of the value-add and the pricing of ammonia, you are saying, net-net, the duty on the input will not get lost.
- Sameer Goel:** It is across the business. It is not just related to fertilizer.
- Dheeresh Pathak:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Abhijit Akella from IIFL. Please go ahead.
- Abhijit Akella:** Good afternoon. Thank you so much for taking my question. Just a couple of clarification on the numbers. The 5.6 lakh tonnes of manufacture, how much would the DAP out of that? Is it about around 1.5 lakh?
- Jayashree Satagopan:** 1.28 is DAP, complex is 4.33.
- Abhijit Akella:** Okay, 4.33. And this total 5.6 is a little bit down from last year. Is that correct, Madam? Last year was about 5.72 if I am not mistaken?
- Jayashree Satagopan:** Correct. Our DAP production has been lower this year. Last year, we had 1.77. This year, it is 1.32. What you were referring to, 5.61 is the sale. Total production of 6.84. DAP is 1.32 and complex is 5.52. Last year corresponding period production at 6.61, with the breakup of 1.77 and 4.84. Our production has gone up compared to last year.
- Abhijit Akella:** Right. I was referring to both sales and demand. So sales is down by about 2%, but the production has gone up year-over-year, you are saying, right?
- Jayashree Satagopan:** Right.
- Sameer Goel:** Last year, there was a bit of an impact, which we saw, because if you remember, the GST got implemented. So end June, and especially in our retail outlets, we saw pickup on sales because the farmers were actually expecting a 12% GST rate to come, which at the last minute got changed to 5%. So because of that, there was a lot of purchase which happened in pre-season.

- Abhijit Akella:** Understand. Got it. In terms of the competitiveness of domestic manufacturing versus imports of DAP sale, how do you see the current situation? Is the increase in phosphatic prices far outstripping the increase in DAP prices overseas? And therefore, has it become more competitive to import DAP into the market?
- Sameer Goel:** No, I do not think it was the import. So with the rupee depreciating imports are actually costlier, I mean people have to take in price increases, and therefore, you saw the three price increases happening. Domestic manufacturing is always more profitable. Our endeavor was to convert more and more of acid, which we have bought into NPK because that makes more sense.
- Abhijit Akella:** Right. So on a full year basis, last year, we did about 6 lakh tonnes of DAP, the 6.3-lakh tonne. Is it fair to assume that we'll be at a similar kind of number this year also in terms of full year?
- Sameer Goel:** What was last year?
- Abhijit Akella:** In terms of sales.
- Jayashree Satagopan:** Yes. In terms of sales, we had close to 5.4 lakh tonnes of DAP sales. It would be around those numbers.
- Sameer Goel:** It is an early prediction, but like I was saying, there is still a shift from DAP to NPKs because of the high price hike and this happened 6-7 years back as well. In a way, it is good for us because it will help us to keep selling more of unique grades and increase its share.
- Abhijit Akella:** Sure. Got it. And the one other thing on the subsidy itself. You mentioned that Rs.1000 Crores out of this Rs.2300 Crores is the DBT related subsidy. So the rest, I presume, is the pre-DBT system, is that so?
- Sameer Goel:** That is actually freight and 10% balance. The good news is the government early on was not processing the 10%, but now they have started processing and giving that. It is just a reconciliation with the government has to do in their system. We are working with them towards that. Hopefully, these things will get resolved very soon.
- Abhijit Akella:** By the end of the year, would it be fair to make an assumption that 1% to 10% subsidy is hopefully clear in coming months? The year-ending subsidy outstanding could be comfortably lower than what it was last year? In last year, we ended at Rs.2600 Crores or so.
- Sameer Goel:** If you are commenting on the industry, we need to wait and watch because, obviously, there is allocation done on subsidy for urea and for NPK. The good news is that the government recognizing the fact that urea is getting diverted has decreased the subsidy on urea. As far as NPK is concerned, that subsidy ratio has gone up, so hopefully, we should have enough of subsidy to clear up this backlog. Once the DBT system stabilizes, the government expects the overall subsidy

claim to come down further because any of the diversions and all gets cleared up. They are saying that they will be in a position to request the finance ministry for more budget.

Abhijit Akella: Okay. One last quick question, Sir, and I will get back. Just in terms you mentioned, you talked about the some of the teething problems related to this DBT implementation in terms of farmer connectivity and all that. Is that having any material impact on just the offtake in the retail outlet level? Or you think it's not significant, and overall, industry volumes, etc., will just continue unimpeded because of all these issues?

Sameer Goel: These are early days to talk about this, as this is the first major season. We have to test. We have seen that the system does get slowed down a bit. But what I understand, there are 2 things. Firstly, at our own retail stores, we are in touch with the farmers. We have identified 300 major stores and given them additional POS machine. In a way, it is a positive thing because then the farmers do not see any queue and use the PoS machine. As far as the system slowdown is concerned, my understanding is that the farmer keeps the bills, and does the PoS billing later. So that is something, which they do once the system opens up. Yesterday we had a meeting with the Government and we have said that we will work with them in improving the robustness of the system.

Moderator: Thank you. Next question is from the line of Bhavin Chheda from ENAM Holdings. Please go ahead.

Bhavin Chheda: Good afternoon Sir. Sir, in case of a crop protection business, how much was the export business this quarter, and what was the growth rate on a Y-O-Y basis?

Sameer Goel: Yes, we will just give you that number on the export side.

Jayashree Satagopan: Year-on-year growth is 17% overall.

Bhavin Chheda: Overall exports?

Jayashree Satagopan: Exports.

Bhavin Chheda: That will be largely crop protection, right? We do not have anything in Nutrient?

Jayashree Satagopan: Yes.

Sameer Goel: Exports have grown by 46%.

Bhavin Chheda: In crop protection?

Sameer Goel: Crop protection.

Bhavin Chheda: And absolute number if you have?

- Sameer Goel:** We do not give that breakup, please.
- Bhavin Chheda:** Okay. Second question, how much of the phos acid requirement is now captive the in this quarter?
- Jayashree Satagopan:** Well, we had 52000 tonnes of phos acid, which is captive.
- Bhavin Chheda:** Right. In this quarter?
- Jayashree Satagopan:** Yes.
- Bhavin Chheda:** Okay. And how much would outside purchase right now?
- Jayashree Satagopan:** We normally do not share those numbers.
- Bhavin Chheda:** Okay. If not in tonnage, then on a percentage basis, how much phos acid it would be? And this 52000 includes deferred, right?
- Sameer Goel:** We will get back to you. We have various sources of giving us phos acids, so and TIFERT is one of the sources. Foskor, which is another JV is also another source.
- Bhavin Chheda:** Okay. And the last question on the volume guidance, if any, on the NPK FY2019 what kind of capacity utilization or volumes you are looking at?
- Jayashree Satagopan:** As you are aware, we do not give volume guidance.
- Bhavin Chheda:** You normally give capacity utilization, so any guidance on capacity utilization?
- Sameer Goel:** Just on this, our objective is to continue to increase our unique grade share. And the whole thing is not about volume generation as much as quality generation in terms of selling and improving the unique grade share. So that figure we want to take it up to 43% is where it is, yes.
- Bhavin Chheda:** From 30% to 43%?
- Sameer Goel:** The 30% is in the current quarter. Last year, I think we ended up at 38%, from 38%, we need to go to 43%.
- Moderator:** We take the next question from the line of Sumant Kumar from Motilal Oswal Securities.
- Sumant Kumar:** Sir, my first question is regarding other expense. So we have seen a significant increase in other expense in Q1 FY2019. So what was the key reason for that?
- Jayashree Satagopan:** There are 3, 4 reasons that other expenses have gone up. One is on account of exchange impact, which is a forward premium that we have incurred in covering our exposures, and also the mark-to-market impact. Second, compared to the same quarter last year versus this year, we had a slight

increase in the rental for the port. There has also been some increase in stores and space across our plants. We have seen some powers cost going up, especially in Gujarat. So these are the 4 reasons why we are seeing an increase in the other expenses.

- Sumant Kumar:** What was the exchange impact in Q1?
- Jayashree Satagopan:** Exchange impact is close to Rs.35 Crores.
- Sumant Kumar:** Okay. And this quarter, we have seen around Rs.878 Crores stock adjustment. So this adjustment is mainly related to fertilizer or crop protection also?
- Jayashree Satagopan:** This is mostly relating to fertilizer.
- Sumant Kumar:** So how much is will be the fertilizer?
- Jayashree Satagopan:** Fertilizer, at the most you can take 90% of that relating to fertilizer.
- Sumant Kumar:** Okay. So can you tell me how much is the inventories we have? All the inventories in tonnage or anything like that?
- Jayashree Satagopan:** We will have to come back to you. We can take this offline.
- Sumant Kumar:** Thank you so much.
- Moderator:** Thank you. We take the next question from the line of H. R. Gala from Panav Advisors. Please go ahead.
- HR Gala:** The quantity numbers which you have shared there is no clarity. Let me just tell you, when Q1 FY2018 concall was there, you had said that the sales manufacture was 0.29 lakh tonne. Against that, how much you have sold in this quarter? I am talking about sales, not production.
- Jayashree Satagopan:** Just 1 minute. So total sale during this quarter...
- HR Gala:** Of DAP?
- Jayashree Satagopan:** Yes. Total sale is 6.01, out of which, DAP is 1.28.
- HR Gala:** Okay, so 5.6. Because some time back, you said that 5.6 is the total sales of manufactured products.
- Jayashree Satagopan:** Correct. And then we had a sale in the quarter which, is 0.40, so 5.61 plus 0.40 adds up to 6.01, total sales during the quarter.
- HR Gala:** 5.61 is the sale of complex, right?

- Jayashree Satagopan:** No, 5.61 is the sale of our own manufactured products, DAP plus complex. DAP is 1.28 and complex is 4.32.
- HR Gala:** So that comes to 6.01.
- Jayashree Satagopan:** Correct.
- HR Gala:** Okay. And how much was the total trading volume vis-à-vis 2.95 lakh tonnes in the first quarter 2018?
- Jayashree Satagopan:** we have urea, MOP and I will give you that breakup. Last year, we had urea and MOP: 1.76 of urea, and MOP of 0.34. This year, urea is 0.72 and MOP is 0.17.
- HR Gala:** And how much was SSP?
- Jayashree Satagopan:** The SSP total sales last year was 0.84. This year, we have given you 1.07.
- HR Gala:** 1.07. Okay. So that clarifies the situation. Just a request to the management. A lot of time on the con call is wasted just to understand the production and sales number. Can you not give that in your press release, so that we can concentrate on some more strategic matters anyway? Please consider that suggestion.
- Sameer Goel:** Sure.
- HR Gala:** Yes. The second question is what kind of capital expenditure you will have this year in FY2019?
- Jayashree Satagopan:** This year, we have planned approximately Rs.500 Crores of capital expenditure. This is between the phos acid plant that has been put up at Vizag and some expansions planned for the CPC. Over and above this, we have the normal capital expenditures that we incur on a year-on-year basis.
- HR Gala:** Okay. So can you give the break up how much will be the phos acid?
- Jayashree Satagopan:** The total phos acid plant is about Rs.276 Crores, which spread over 3 years., For CPC, we are estimating about Rs.90 Crores to Rs.100 Crores of capex. For all the other plants put together, we are estimating close to Rs.100 Crores in terms of the normal capital expenditure that we incur on a year-on-year basis.
- HR Gala:** Okay. So that is Rs.200 Crores and Rs.276 Crores over a period of 3 years?
- Jayashree Satagopan:** Yes.
- HR Gala:** Okay. So that is quite fair enough. Another question is we have always been discussing about manufactured fertilizers...On manufactured fertilizers, we are seeing that we are earning about EBITDA margin per tonne of something around Rs.2200 to Rs.2500, because the selling prices,

the subsidy levels and your raw material costs keeps on fluctuating. So does it hold good in this quarter also?

Jayashree Satagopan: Okay. When we talk about Rs.2200 to Rs.2500 per metric tonne, this is on an annualized basis. Given that there are going to be some quarters, where you might see raw material price increases, exchange impact, etc, we also see the benefits in terms of higher pricing coming over the quarters. So on an annualized basis, we expect that Rs.2200 to Rs.2500 to stand good, even for the current year.

Moderator: Thank you. We take the next question from the line of from Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Good afternoon Sameer Sir and Jayashree Madam. Thank you again for taking the questions. My first question is on the soil health card scheme of the government. I just wanted a feedback on your side in terms of its on-ground implementation. And you have also mentioned in your past annual reports that the consumption has been influenced due to price gap between urea and complex fertilizer. Yes. So do you see soil health card scheme can converge the price difference or help it or influence healthy and the influence consumption towards complex fertilizers or correct the imbalance for that matter?

Sameer Goel: So just to answer your first question, over 10 Crores of soil health card were distributed between 2017 and 2018. And the government plans to also distribute another 5 crores more cards for the second half. This is a massive education program, it is not just about the NPK, but it is also about what micronutrients, carbon and other nutrients are deficient in the soils. In our retail outlets, we do our own soil tests and have started this well before the government started. We have a Nutrient Manager program, which basically talks about balanced fertilization and also use of organic and other inputs properly to improve the return on investment. So I guess the government's objective is to reduce the ratios of N, which is leading to other environmental issues.

Lokesh Manik: So if it is my correct my understanding, I was under the impression that as per the soil health card, the farmer would be given more subsidy based on your requirement for NPK in the soil as determined by your soil test?

Sameer Goel: Probably this could be the intention of the government going forward, not immediately. When the DBT scheme is implemented in full, probably the recommendation will come that if you are going for this particular crop, this is the type of balanced nutrition you need. At that point of time, they may say, we will give you assuming you are needing just 2 bags and using 4 bags of, they can say, we will get subsidy on 2 bags and not on the other 2 bags. But that will take some time, the whole DBT and E-POS have to stabilize.

Lokesh Manik: So that would be another 5 years, would that be correct?

- Sameer Goel:** We cannot say that, but the government is quite keen on doing the NPK balance and also the soil rejuvenation to improve productivity.
- Lokesh Manik:** And with the softening of global commodity prices also have an influence on the consumption of complex fertilizers?
- Sameer Goel:** Sorry?
- Lokesh Manik:** The softening of commodity prices globally for agri produce would there a consequent implication on consumption of complex fertilizers in the country.
- Sameer Goel:** There are various reason why the consumption happens. You have good monsoons, the irrigation increases, then the consumption itself goes up. Even in the case of this season, though the prices of the fertilizers are going up, consumption has improved. One has to see the implementation of MSP which is based on 1.5x returns on the input cost. So there are various factors that impact that. Definitely, there will be some shift, if one fertilizer is priced higher as compared to others, especially the imported DAP and farmers may shift to other fertilizers even to single super phosphate, which is what we have seen in the market.
- Lokesh Manik:** Sir, in your quarterly result in this quarter, you had good results and one of the reasons I can attribute that is to almost a fixed freight and distribution expense will not increase. So would my understanding be right because of distribution that is contributing to profitability or it would be on the realization front?
- Jayashree Satagopan:** As we mentioned earlier, there are multiple factors that have actually led to the good result. One, we are seeing growth in the revenue per se Second, it is also operating efficiencies that have come at the plant Third, we have also seen that the raw material sourcing has been done in a smarter way. Fourth, to compensate for some of the increases that we have seen in the base raw material, as well as exchange fluctuation, we have been able to take some price increases and maintain those. So it is a combination of all these 4 that has actually resulted in the good results for the quarter.
- Sameer Goel:** And of course, increasing the share of unique grades.
- Moderator:** Thank you very much. Ladies and gentlemen, due to time constraint, that was the last question of the day. I would now like to turn the conference over to the management for their closing comments.
- Sameer Goel:** Thank you, everyone. Thanks for the time. Sorry for the disconnect, which happened in between. We are very hopeful with the monsoons going the way they are and the predictions especially in our home markets. With the type of efforts that the government is putting in and the company also fully geared up with the right strategy, we expect the momentum to continue.
- Jayashree Satagopan:** Thank you, everybody, and appreciate your interest in Coromandel.

Moderator: Thank you. Sorry, Sir, please go ahead with your closing comments.

Pratik Tholiya: Yes. On behalf of Emkay Global Financial, I would like to thank all the participants in this call. I would also like to thank the management for giving us the opportunity. Thank you so much, Sir.

Sameer Goel: Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services, we conclude today's conference. Thank you, all, for joining us, and you may disconnect your lines now.