



“Coromandel International 2Q FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Coromandel International Q2 FY2020 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a remainder, 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 conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ranjit Cirumalla from B&K Securities. Thank you and over to you, Sir!

Ranjit R. C: Thanks Nirav. Good morning, everyone. On the behalf of Batlivala & Karani Securities, I would like to welcome all the participants who have logged into the second quarter results concall of the Coromandel International.

From the management team, we have with me Mr. Sameer Goel, Managing Director; and Mrs. Jayashree Satagopan, CFO of the company. Thank you management for giving us the opportunity to host this call. I would like to request Sameer Sir to first begin with his opening comments and followed by which Jayashree Madam can take us through the quarterly numbers, post which we will have a Q&A session. Thank you and over to you Sir!

Sameer Goel: Good morning everyone and thanks Ranjit for organizing this conference call. I will first give an overview of the business environment experienced during the quarter followed by the company's performance. As you all know, southwest monsoons recovered sharply during the quarter and ended up 10% above average from 32% deficit at the end of June.

In the company's addressable market in South, the rainfall was 16% higher than the five years advantage. Good monsoons resulted in higher reservoir levels compared to last year and long period averages. Major reservoirs across the country are filled up to 89% of capacity, which is 17% higher than long period average and 15% higher than previous year.

The two major reservoirs in AP are filled up to the brim at 100% capacity and as we speak even the main reservoir Sriram Sagar on Godavari in Telangana is overflowing.

Crop sowing has picked up well and all India crop sowing is at par with last year. This was at minus 20% during mid-July. In AP and Telangana, crop sowing area has grown by 1% over last year and this is significant improvement from -23% as of mid-July.

Overall, the cotton acreage in AP and TG has gone up by 5% and the rice acreage is up by 6%. The season has got extended even up till October.

On the subsidy front, DBT claims generation process has fully stabilized. Government has put emphasis on linking the soil health card with balanced nutritional consumption.

The new AP government has launched Rythu Bharosa scheme in October, which entitles each eligible farmer a sum of Rs. 13,500 per year for agri inputs. This is similar to the Rythu Bandhu scheme introduced earlier by the Telangana Government. With these schemes, farmers will have additional cash at their disposal to spend on agri inputs. The central government, as you know, has also announced upward revisions in the MSP for Rabi crops.

Coming now to the fertilizer industry for the quarter, phosphatic fertilizer industry volume is at 61 lakhs metric tonnes versus 60.8 lakh metric

tonnes of previous year. On the regional front, South volumes have gone up by 10%, West by 5%, and North by 2%. East and Central regions volumes have gone down by 25% and 7% respectively. Complex volumes for the quarter are at 31.5 lakh metric tonnes versus 31 lakhs metric tonnes the previous year.

Raw materials have shown a softening trend. Phos acid prices for Q3 have been fixed at \$625 per metric tonne compared to Q1 price of USD 655 per metric tonnes.

For the half year, phosphatic fertilizer volumes are at 97.6 lakh metric tonnes versus 97.4 lakh metric tonnes of previous years. Complex volume for the first half is at 47.7 lakh metric tonnes versus 48.3 lakh metric tonnes of previous year. DAP volume is at 50.1 lakh metric tonnes versus 49.1 lakh metric tonnes previous year.

On regional front, for the first half, South volumes have gone up by 3%, North by 10%, West is flat, and East and Central region volume has gone down by 15% and 5% respectively. In the last couple of months, industry has passed on the benefit of soft raw material prices to the consumer and overall MRP has been brought down by around 10%. If you look at the MRP trend on March 19, 2019, the price of DAP per rupees per metric tonne was Rs. 29,500, in May it was Rs. 28,600; July it was Rs. 27,000, and in October it is Rs. 26,000 per Metric Ton.

Coming now to the company's performance, Coromandel registered a strong performance in Q2 driven by its superior sales mix, efficient manufacturing, improved marketing capability and effective sourcing. This was well supported by an above normal southwest monsoon in most of the addressable markets, which improved crop sowing and agri input consumption. New products have been introduced in fertilizer, Single

Super Phosphates and specialty nutrition over the last 12 months and have gained momentum and continue to help the farmers in providing superior nutrition.

With continued focus on improving our offering in Crop Protection segment we have launched four new products.

Coming now to the nutritional segment. For the quarter, the nutritional and allied segments registered a very good performance. On the sales front, in Q2 manufactured phosphatic volumes were up by 8% to 12 lakh tonnes and over all volumes for the phosphatic fertilizer was down by -2% as the company focused only on manufactured product sales. Total volume for the company was down by 15% over last year primarily due to urea sales, which is down by 53% over the previous year as you are aware that we did not handle urea at Kandla Port in the West.

Company market share in Q2 is at 20%. Company improved its POS market share to 22% from 21% of last year. The point-of-sale market share is a true reflection of the actual consumption, which is happening in the market.

For the quarter, the share of unique grade stands at 39%. During the quarter, our phosphatic fertilizer plants operated 85% capacity utilization, recording a production of 7.7 lakh tonnes. Last year, the capacity utilization was 93%. We had slowed down the utilization in the month of July. The production was also impacted due to some issues in availability.

For the first half, in H1 manufacturing phosphatic volumes is down by 2% and overall volumes for phosphatic fertilizer is down by 9%. Total volume for the company is down by 16% over last year primarily due to its urea sales and delayed monsoons in the first quarter.

Market share of the company during the first half is at 17.4% versus 19% of last year. The important thing is the market share of point-of-sale has improved from 18% to 19%.

The share of unique grade stands at 35% versus 39% of last year. The main reason for this is as the prices of DAP go up farmers are now shifting to NPK grades. During the first half, our phosphatic fertilizers plants operated at 77% capacity utilization recording a production of 13.7 lakh tonnes. Last year it was 15.1 lakh metric tonnes at 85% capacity utilization. The company had looked at its capacity and paced it basis on the consumption.

Second phosphatic acid plant at Vizag was commissioned during the quarter in line with the plans and commercial production had begun successfully. With this Vizag plant will become self-sufficient for its acid requirement. Other major infrastructure projects for improving capacity, storage and efficiencies are progressing well.

Single Super Phosphate business continued its strong performance and registered a volume growth of 13% over last year to 1.9 lakh metric tonnes. SSP performance has been driven across the states, but especially in the big markets of North, Maharashtra and AP markets. We will continue to be the market leader in SSP sales and the market share is now at 17% up by 1% over last year. SSP production went up by 25% for the quarter at 1.9 lakh metric tonnes.

On the Crop Protection side, the crop protection segment has a soft quarter due to the lower production from its Sarigam factory. The segment registered a turnover of Rs.507 Crores versus Rs.570 Crores for the quarter last year. Sarigam plant resumes its operation from mid-July and the production has now been fully stabilized. The technical and

formulation plant for pymetrozine at Ankleshwar was commissioned successfully and pilot trials have been conducted for WDG facility at Dahej. The business introduced four new products, which are the new-generation products in the market during the quarter and we have entered into strategic tie-ups with global players for co-marketing arrangements for some of key molecules.

During Q3, the business plans to launch the pymetrozine, rice insecticide and also looking at a broad-spectrum fungicide to be launched. Investment in strengthening the product development team continues during the quarter and business is working on a strong product pipeline including several combination products, which will further enrich its portfolio in the international markets and the domestic market. The business has further strengthened the organization front to focus on customer connect initiatives.

Bio business had a good quarter and registered a growth over previous year. The business continues to focus on research and development and new delivery mechanism.

Coming now to our retail business, performance of retail has been very good, especially as the rainfall improved in its key operating market. The markets of North Karnataka and Rayalaseema received abundant rainfall, which was suffering from drought for the last couple of years. Sales from non-fertilizer business improved to 43% versus 37% in the first half of previous year. Retail business is a direct connect to more than 3 million farmers, piloting various agri tech solutions built on its value proposition of quality, trust and farm advice.

Coming now to our specialty nutrition business that has been performing well the business continues to have a focused product approach basically

on high-margin products. The crop specific water-soluble products launched in the last few years have been doing well. To strengthen the portfolio, two to three new products are being launched during the year, including products, which will be locally manufactured. As a part of the medium and long-term growth initiative, Coromandel is focused on strengthening its core business and investing in research and development, data analytics and agri-tech intervention.

Overall, it has been a very good quarter for Coromandel. With a healthy reservoir position and prediction of a normal northeast monsoon, we expect good traction in the upcoming Rabi season. Our focus will remain on farmer connect branding and marketing initiatives, operation and supply chain efficiencies and improved customer offering. Coromandel as a leading agriculture solution provider will continue to drive the productivity and support farmers' prosperity.

I will now hand over to Jayashree, who will take you through the financial performance of the company.

Jayashree S:

Thank you Sameer and let me provide updates on the company's financials.

For Q2 company recorded a consolidated total income of Rs. 4,867 Crores, which is 3% lower versus the same quarter prior year. Nutrients and allied businesses contributed 90% share and the remaining 10% comes from the Crop Protection business. Q2 last year the share was 89% for nutrients and 11% for Crop Protection. In terms of subsidy/non-subsidy share stands at 84% and 16% during the quarter previous year it was 82% and 18%. Profitability, EBITDA for the quarter is Rs.713 Crores against Rs.666 Crores of last year, which is a 7% growth on a year-on-year basis. EBITDA margin improved to 14.7% from 13.3% during the previous year. The

margins were supported by good sales mix, soft raw material prices and operational efficiencies. Subsidy business share of EBITDA was at 76%, which is at the same levels of the previous year. Net profit after tax for the quarter is Rs.503 Crores in comparison to Rs.366 Crores for the corresponding quarter last year registering a year-on-year growth of 37%. During the first half, company's consolidated total income is Rs. 7,008 Crores, half year ended September 30, 2018, was Rs. 7,555 Crores. Subsidy revenues are 82% of the total revenue for the first half versus 80% in the previous year. EBITDA is at Rs.908 Crores, which is Rs.880 Crores over last year, which is a 3% growth on a year-on-year basis. Subsidy share of the EBITDA is at 79% for the first half versus 73% during the previous year. Profit before tax is Rs.710 Crores as against Rs.692 Crores of last year. Net profit after tax was Rs.566 Crores, which was Rs.456 Crores in the same period last year.

Let me give you the impact of the recent tax ordinance. Company has evaluated adoption of the new corporate tax consequent to the recent tax ordinance. Coromandel does not have any carryover losses. MAT or LGC benefits are limited to the next three years.

ETR for Coromandel has been around 34% to 35% even after claiming the eligible tax benefits. Accordingly, the company has decided and opted for corporate tax rate of 25.17%. ETR for the quarter is at 18.1% with reversal of the deferred tax liability owing to the lower tax rate.

On the subsidy front, the DBT system has stabilized well and subsidy claims are online. Subsidy outstanding as on September 30, 2019 was at Rs. 1,849 Crores vis-à-vis Rs. 2,626 Crores during the previous year. Subsidy outstanding includes Rs.630 Crores representing the amount claimed and pending with the government. Rs.740 Crores relates to channel stock pending PoS acknowledgment. During the quarter subsidy

receipt from the government was healthy at Rs. 1,229 Crores, comparative figure last year was Rs. 1,107 Crores.

On the foreign exchange front, during Q2, rupee was volatile. It depreciated by about 6% in the month of August and subsequently retracted part of the loss.

Currency traded in the range of Rs.68.30 to Rs.72.41 during this quarter. Coromandel has followed the Board approved hedging strategy and is dynamically covering the exposure and managing the portfolio well.

The company has also adopted the lease accounting standard, AS 116 during the year and this has resulted in right-of-use assets to the extent of Rs.400 Crores in the balance sheet.

The net working capital position of the company improved during the quarter with good subsidy receipts and market collections. This has helped us in reduction of interest costs during the quarter.

Net interest cost was at Rs.56 Crores this quarter, which includes Rs.11.25 Crores regrouped as finance cost in line with the accounting standard AS 116.

Company continues to have a strong balance sheet with no long-term borrowings. Debt equity ratio stood at 0.45. In terms of financial performance, it has been a good quarter overall. Thank you all for your interest in Coromandel and joining us in the call today. We will open the session for question-and-answers now.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of S Ramesh from Nirmal Bang Securities. Please go ahead.

S Ramesh: Good morning and congratulations on the good result. My first question is on the balance sheet. If you look at your retained earnings compared to the profit after tax, the addition to the reserves is less by about Rs.124 Crores can you explain that difference?

Jayashree S: Should we come back on this question, Ramesh?

S Ramesh: Yes, please and overall in terms of the nutrient business, we understand that the outlook for the Rabi crop would possibly be better than what it was last year, the last year was a failure. So in terms of the volume growth, what is the kind of volume growth you can expect for manufactured sales in the second half?

Sameer Goel: As you rightly said, last year, Rabi was not a good season and this year we do expect a very good Rabi depending on how the crop sowing goes. Though, we do not give any volume estimates, but we are looking for a very good second half.

S Ramesh: Okay and in terms of your crop protection chemical business. If you look at the gross contributions, there seems to be still some lingering pain for the Crop Protection chemical business. So I understand that there are issues in terms of supply chain especially from products you have to get from China. So when do you see the gross margins in the Crop Protection chemicals improving in the next one or two years?

Jayashree S: The gross margin in Crop Protection is a combination of two elements. One is the price of the products that we are exporting, the other one is the raw materials that we are buying. So as far as the quarter is concerned we did see some price pressures in terms of the Mancozeb prices in the international markets. That has been the primary contribution for

reduction in the margins. For the raw material, we do have a China desk, and we have been able to source it effectively during the quarter.

S Ramesh: Okay. So one last thought on the Crop Protection Chemical business now what is the company's strategy in terms of trying to going up the value chain, so if you were to look at the percentage share of the higher value formulations, where do you see that in the next, say, two years?

Jayashree S: We do see a substantial change in terms of the product mix compared to what it was in the past. As you would have seen over the last few quarters, the company has consciously looked at some of the recently off-patented molecules, for which we have been setting up our manufacturing facilities, which will aid us both in the local and the international markets. Also, new formulations including patented molecules have been introduced last year. Two products namely Prospell and Lancia, which were introduced last year has received very good response from the market. In the current quarter, we are looking at introducing another new product, which is Pymetrozine. We have also strengthened the product development and regulatory team over the last one year and they are looking into several combination molecules apart from the off-patented molecules, and also co-marketing arrangements with some of the global companies, which will enrich the portfolio. With all of these, we do believe that the contribution margin on the formulation is likely to improve.

S Ramesh: One final question. Can you give us the share of the formulation business from the first half this year?

Jayashree S: **Could be around 30%.**

Sameer Goel: Total Crop Protection.

- S Ramesh:** Yes. Okay. Thanks.
- Moderator:** Thank you very much. Next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.
- Sumant Sumar:** My question is regarding the Crop Protection. We have given guidance of 8% to 12% revenue growth and EBITDA margin in the range of 14% to 15% so are we maintaining this guidance?
- Jayashree S:** Sumant, thank you for the question. Given the tough first quarter we had and also the production that has resumed only around mid of July at our Sarigam plant, we think that our full year estimates for Crop Protection would be at par with last year, our Sarigam plant did take little more time than expected in terms of its resumption. There could be some upsides with the new products that are planning to be introduced in the market. So that is where we stand in terms of the overall turnover.
- Sameer Goel:** The margins will be maintained, if not made better. Because when you look the hit in the margin has been basically in Q1.
- Sumant Sumar:** So when you talk about at par can we expect the growth in formulation business, how the formulation business and export business were bifurcating due to plants are down?
- Jayashree S:** The formulation business is likely to grow, and there may be some softness in the exports because in the first four months due to production shutdown we were not able to ship Mancozeb to the international markets. It would be difficult to catch it up in the balance eight months.
- Sameer Goel:** We also have a B2B business in our local market, which has grown by 7% in Q2 and which we expect to continue to grow that is dependent on our Ankleshwar plant.

- Sumant Sumar:** How is the realized degrowth for Mancozeb, can you quantify how the volume degrowth in the export business?
- Sameer Goel:** We do not give specific, but Mancozeb would normally come up in terms of volume at the same level as last year. There may be some pricing pressure.
- Sumant Sumar:** Okay and what is the capex guidance for FY2020 and 2021?
- Jayashree S:** FY2020-2021, possibly, we will share it with you in the Q3 earnings call. That is when our business plan will get completed. Directionally we should look for about Rs.150 Crores to Rs.200 Crores of capex.
- Sumant Sumar:** For FY2020?
- Jayashree S:** 2020-2021 you were asking?
- Sumant Sumar:** Yes. I am talking about the FY2020 also?
- Jayashree S:** Okay. FY2020, we have already capitalized about Rs.200 Crores, which relates to the new phosphoric acid plant at Vizag. Another Rs.100 odd Crores will get capitalized in October and we are looking close to about Rs.120 Crores in the Crop Protection. These are the main capex, apart from that the normal maintenance capex would be in the range of about Rs.70 Crores to Rs.100 Crores.
- Sumant Sumar:** So Rs.500 Crores, kind of capex?
- Jayashree S:** Approximately Rs.500 Crores. This is pretty much in line with what we had indicated earlier.
- Sumant Sumar:** Okay. Thank you so much.

Moderator: Thank you very much. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Thanks for the opportunity and congrats for a good set of numbers. Just continuing with the Crop Protection. Now you did mention four new products being launched, which is, again, with tie-up with international partners, but despite that the revenues will be flattish or probably the contribution of these products is more back-ended and hence may be visible in FY2021 and may not be in FY2020?

Jayashree S: Yes. It is both, Ankur. So the products which have been launched during the quarter, so you will see the upticks coming in the coming quarters and the year. A couple of them, one is an insecticide, which is named as Mythri, the other one is ARITHRI which is a PGR granule. Apart from that in a co-marketing arrangement we have introduced Fornax both in SC form as well as granular.

Ankur Periwal: Okay, fair enough and as I understand the product launches will be on a Pan-India basis across our distribution network?

Sameer Goel: It is as per the crops, which are there. For example, Pymetrozine, which is basically for Paddy this will be touching the South and the East paddy crops. But the good news is because of Rabi, the Paddy acreage is expected to increase in the southern markets. So we are catching the last of the Kharif season and then will catch the full Rabi season.

Ankur Periwal: Sure and in your initial comments, Sameer, you did mention the Kharif season is still continuing in the month of October. So probably some benefit of this will still be visible in the next quarter numbers?

Sameer Goel: Absolutely. There is a delayed Kharif and we will have to see when the Rabi gets started. There could be a couple of weeks delays on that also

because if the Kharif gets delayed then Rabi gets also delayed but having said that overall it is very good as a full year for the business.

Ankur Periwal: Sure and now in terms of the excess rainfalls that we have seen, again, the late monsoons. What impact it had on the Crop Protection business, probably herbicides, maybe still okay, but the rest of the Protection segment got significantly impacted in terms of lesser sprays if you can put some light over there?

Sameer Goel: Sure. So when you look at an all India basis because of the continuous rainfall and the flooding of different regions, there was a step-up stage both in the Crop Protection and also in our full year SND business. So that is one thing, but the business has regained sharply so that is something which is good. In the flooded areas, obviously, does get impacted a bit, but it has not been a big issue in terms of our addressable markets, It has actually helped to fill up the dams in AP and Telangana.

Ankur Periwal: Sure and how well are we prepared for the Rabi season, more from a Crop Protection perspective in terms of the crops and our product portfolio?

Sameer Goel: The good news is that we have introduced new molecules, as you will see, it will form a sizable portion of our business going forward and these are high-value molecules, and the new generation molecules.

Ankur Periwal: Okay. Fair enough. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Varshit Shah from Emkay Global Financial Service. Please go ahead.

Varshit Shah: Great set of numbers and congratulations for that. Sir, my question is a followup of the previous question. So on the Crop Protection side, as you mentioned, you have a couple of new launches lined up in the domestic

market. So I think that is what you have given. On the international side Sir what is looking ahead in terms of the next two quarters or maybe FY2021 and of course you addressed the part of the Mancozeb, where you said that the realization has been lower. Is there any new molecule, which you are trying to get from the exports market or new formulations, if you could throw some light on the growth around that part?

Sameer Goel: So like we already mentioned, our technology team and the R&D team are working on new molecules. In the local markets we have already launched new combination molecules and also co-marketing molecules and that has helped our growth. Overall, the turnover from the new products, we are getting a 59% growth as compared to last year, but albeit on a smaller base. Now we expect at least these molecules to see the full light in the coming Rabi season and therefore we will wait and watch but the initial response in the market has been very good. As far as the export markets are concerned, like we mentioned in our call, the WDG facility for Mancozeb is ready in Dahej. We would be able to launch some of the Mancozeb's combinations as and when we get the registration in the export markets.

Varshit Shah: Just to add to that. So is there any particular new geography. Maybe you could talk over last one year, how it has been and then how next one year looking in terms of registrations across the geographies and where you are ahead and where do you see the opportunity going ahead?

Sameer Goel: So the way we look at it is different. We look at a longer term. We are definitely looking at particular markets as part of our retail strategy and we have identified these key markets. Currently, we have a B2B business. We are looking at introducing B2C business. As you know, registration takes time, but that is something a dramatic shift you will see and we do expect the export business to play a substantial portion on top of the fact

that we also now have the Bio business, which has been integrated, which also takes us to the markets of North America and Europe.

Varshit Shah: Sir, just the last if I could squeeze in. So the Bio business the globally is also doing well in terms of growth, although it is on a lower basis globally also, very small. Do you see that this could also form a substantial part of exports maybe two, three years down the line?

Sameer Goel: So all the export is a major part of the bio business. Bio business is not the demand in the market it is more in terms of sourcing and efficiency and we are stepping up both the sourcing of, the neem seed and also improving the efficiency of our products. The good news is, globally, we are the only people who can actually did not give a very high concentration of Azadirachtin, which is actually a plus as compared to other competition. So biggest thing is to keep expanding the sourcing base of good quality neem seeds and then to get the best Azadirachtin and then is to expand the market so currently we are not able to feed the demand which is there in the market.

Varshit Shah: Thank you Sir and all the best.

Moderator: Thank you very much. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Yes, good morning Sir. Thanks for your time. If I split the EBITDA between the subsidy and non-subsidy business, there seem to be a 7% growth in the combined non-subsidy. Is it because of Crop Protection or the SND, Bio, which segment has grown faster within this bucket?

Jayashree S: We have seen growth both in SND and Bio, Vishnu, during the quarter.

Sameer Goel: And the EBITDA is okay.

- Jayashree S:** And EBITDA is also improved.
- Vishnu Kumar:** Is it like extremely fast growth like - I mean my calculation shows almost 30%, 40% growth on this bucket? Is that the right understanding?
- Jayashree S:** So in terms of contribution percentages, it has gone up pretty much compared to the last year and there has also been some amount of volume growth.
- Vishnu Kumar:** Okay. In terms of fertilizer per tonne EBITDA manufactured EBITDA per tonne, is it like flat or is it higher, at least, if you could give some qualitative commentary on that?
- Jayashree S:** So we normally look into a trailing 12 months rather than a quarter's EBITDA on the manufacturing products and if I look at the trailing 12 months compared to last year to this year we have definitely seen improvement.
- Vishnu Kumar:** Got it and looking forward what is the broad guidance that you would give for the manufactured EBITDA?
- Jayashree S:** About Rs. 3,500 per metric tonne is something that we should look at.
- Sameer Goel:** We will have to watch the prices, which, is softening with softening raw material. Having said that, one of the major strategic things was to make Vizag basically self-sufficient in phos acid and that has happened. So you can expect the EBITDA to continue to remain where it is despite the prices.
- Vishnu Kumar:** Is there a possibility to add more phos acid backward integration and ship into let us say the other location or you are maxed out in terms of backward integrating on phos acid?

Sameer Goel: A very good question. We have, what is called, the approvals of doing more on phos acid and shipping it out. We are looking into it.

Vishnu Kumar: Okay. I mean how much you can technically backward integrate, let us say now we are probably around 45, 50 with the new plant, how much can we get it to if your approvals go through?

Sameer Goel: See, there are other factors also, it is not just phos acid, we have to look at the sulfuric acid and other supply. So we are looking at all the angles, but just to answer your question, we have the capacity to increase the production for phos acid. Our main aim currently is to stabilize production. Once that is stabilized. The second thing is, as we see our consumption based (PoS) market share is increasing we will have to look de-bottle necking in other plants also. So the requirement of phos acid will increase, so therefore to say that we can completely supply phos acid on our own would not be the correct.

Vishnu Kumar: Debottlenecking, can it technically increase our fertilizer capacity also?

Sameer Goel: That is what I was saying.

Vishnu Kumar: Okay. Got it, Sir and just one question on the Crop Protection. Are there any rough plans to, like, probably, I mean, deploy a larger sum of capital, let us say, anywhere about Rs.300 Crores to Rs.400 Crores are there any conversations in terms of adding such kind of capacities or anything that can strategically lead to that?

Sameer Goel: So we are investing in multipurpose plants because we want to increase our share and availability of manufacturers, especially for the new molecule and this will be both in either tie-up with whether Chinese, Japanese or German manufacturers, and also in terms of having molecules, which are developed from our R&D lab. So that is where we

are looking at particularly on the combination site. Therefore, you will see a significant investment keep coming in, in a phased manner in the Crop Protection business.

Vishnu Kumar: Got it Sir. Thank you. I will come back in queue.

Jayashree S: See if I could just respond to Ramesh of Nirmal Bang on his question on the balance sheet retained earnings, change of Rs.100 odd Crores this is primarily on account of the dividend and dividend distribution tax that is the reason.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Yes. Thank you for the opportunity and congratulations. So just one question on the adjoining states where we have seen some amount of the competition seeing some pressure on their internal finances and all, are you seeing your market share getting increased in those states like Maharashtra, Karnataka, Goa and what can be the bottlenecks in terms of transportation and other factors, if you can just highlight on the thing?

Sameer Goel: Okay. There are a couple of things. Firstly, a point-of-sale market share go up almost both in Maharashtra and also we are seeing traction in Karnataka, although we were not able to supply fully to Karnataka because we wanted to concentrate on increased demand in AP, TG. So the good news is that overall agriculture has improved in all these states given the fact that the water availability was better. Now specifically coming to points like Maharashtra, we are not strong in Western Maharashtra because early on we did not have a full marketing setup, or in Western MP. Now what has happened there is after the DoF has passed the order for manufacture company we can now expand our marketplace

because we never used to get freight subsidy into Western MP, Western Maharashtra and also into markets like Eastern UP and on. So we have a concrete plan in terms of introducing products, which the farmers in those areas require and you will see a certain amount of innovation, which is happening in these markets where we are targeting with our unique grades promise particularly for these type of crops and this does not just apply to fertilizer, it also applies to Single Super Phosphate business has really taken a big jump because now thanks to the government intervention, only quality players will be able to roost the market and that has really helped. So that is the second thing and the third thing would be even our SND business, we are focusing on these markets because there is a lot of foods and vegetable there. So you will see that growth coming up, but at the same time what we want is the market to expand and not at the sake of competition because I am sure some of them will recover and we want the industry to continue to grow.

Resham Jain:

Okay. Sir, just one more question on the overall acreage in AP, Telangana, we have seen some portion of this irrigation project getting completed in phases, in your assessment, have you seen or are you expecting improvement in acreage over the next few years and any progress as of now?

Sameer Goel:

Can I just break it into two? The first thing is, for the first time after a long time, the left canal of Nagarjuna Sagar Dam started flowing, right and same thing they have given water both in the left canal and right canal. Now that has brought in almost 1.36 lakh hectares under paddy. It is unfortunate that I am just saying is that if Maharashtra and North Karnataka had released water earlier, probably they would not have seen the flooding, which they had seen after when the rainfall really came down and same applies for Southern Karnataka, and AP, TG could have got an earlier benefit of the water availability, and therefore, the Kharif

would have been even better or started earlier. So I think that is the good news about this current monsoon the way it is happened. Also both the governments have done well in terms of actually desilting the canals and also the big tanks, which again augurs well because what it does is any excess rainfall, which is there, it actually helps to regenerate the soil water. So that is a good thing and so I am just talking about the current products and maximizing the product. Now there are two big projects which are coming. One is the Kaleshwaram project, which is there in Telangana side, and then the Polavaram project, which is there in the Andhra side. The benefit of this will have to be seen as it comes, but we are definitely tracking the amount of acreage, which will come there. So the Kaleshwaram project is almost expected to get another 4 lakh hectares under irrigation. So that is something which is very good. The Polavaram project although the link canal has been made to Krishna barrage, they have to do the secondary canals and that will get water into the dry Rayalaseema area. So the Godavari water will come into Krishna and that will then send to Rayalaseema, but again the government currently is reviewing the Polavaram project because the new government has come. So we have to wait and see, but definitely, in the long run, it is very beneficial to us. We look forward for these and other project linkage.

Resham Jain: Okay. Thank you Sir.

Moderator: Thank you very much. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Yes. Thank you for the opportunity. First question is, what is our total phos acid requirement for the full year?

Jayashree S: In terms of procurement, after the phos acid plant two has been installed for full year, we will have to buy about 5.5 lakh tones of phos acid. Of course, this depends upon the product mix as well.

Dheeresh Pathak: And how much would you make yourself after the new plant?

Jayashree S: The new plant has a lakh of capacity.

Sameer Goel: Currently, we have added lakh as per the earlier question we could increase the capacity because we got the permission.

Dheeresh Pathak: No, sir, you added 1 lakh prior to that also, you are making something yourself, right, so total captive production of phos acid would increase to how much?

Sameer Goel: Again, depends on the acid, it will be in the range of 350,000.

Dheeresh Pathak: So earlier, you are making 2.5, now you added 1 lakh, right?

Sameer Goel: So we are adding both the plants. We are making 3.5 and now it will get to 4, 4.5.

Dheeresh Pathak: Okay. 3.5 plus 1, it become 4.5 and 5.5, you will buy from outside to total 10 is the requirement?

Sameer Goel: And it varies depending on the mix what we do.

Dheeresh Pathak: Correct. No that I understand obviously the various grades will vary, but just a broad sense, right? Okay. And what is the total capacity of the complex fertilizers that we can make?

Sameer Goel: So currently, it is 3.3 million.

Dheeresh Pathak: 3.3 million. This includes SSP.

- Sameer Goel:** DAP and NPK. No it does not include SSP.
- Dheeresh Pathak:** How much is SSP, sir?
- Sameer Goel:** So currently, SSP is operating at 6 lakhs, but we have a capacity where we can take it to 1 million.
- Dheeresh Pathak:** Okay and Sir this just on the DBT, this new DBT thing that was earlier run as a pilot, now how much of the volumes are sold as per that new DBT, if you can just explain?
- Sameer Goel:** So the DBT is an all India scheme. So every fertilizer bag which is sold, whether it is NPK or SSP, it is sold through the POS machine, and therefore goes into the DBT system and therefore, it is 100%.
- Dheeresh Pathak:** At the time of sale, that time the subsidy is being recognized. Earlier, it was recognized at the time you are selling to the distributor, right?
- Sameer Goel:** So earlier, 90% was paid when we used to start to invoice it from the plant to the dealer and 10% was when the retailer acknowledged the sale. Now 100% is only paid when the farmer buys the product at the retail shop.
- Dheeresh Pathak:** Okay and so now that it is 100%, can you tell like based on the earlier working capital that was there in the business versus the working capital that is now in the business is it the same, is it gone, is it improved?
- Jayashree S:** It has actually increased. If you look at it earlier, we used to get 90% as soon as you dispatch. Now we are getting 100% only when it gets sold at a retailer level. So obviously, the working capital gets locked and that has increased, but then the factor that we must look into was earlier on while we used to get 90%, the accumulated amount government used to clear at much later periods. Now what has happened with DBT, as soon as the

POS acknowledgment happens and we are able to generate and submit the claims to the government, normally within a month, we are able to clear the DBT claims that are being submitted. So there is a faster processing and receipt of subsidy by the companies. We have just completed a year, year and a half after the DBT has come into place. So there are some positives in terms of faster processing by government. The negative, obviously, if the stocks not get liquidated at the retailer level. So on an average we do see an increase in the working capital. However, the government currently is having a bit of a deficit in terms of disbursing the pending claims. So once that gets addressed, our total subsidy receivable from the government should improve working capital position. Currently, it is adverse, but we hope over the next year, year-and-a-half it should further improve.

Sameer Goel: But the good thing is the government has cleared quite a lot of the old claims, in our earlier call, we used to say that 10% balance claim is accumulating. So that has now really come down on that count and also they are clearing up the freight and the urea. So once that happens we are also hoping that this year the government may get some additional allocation that is what the Secretary Fertilizer has said. So that means, for the industry, all the old claims which have been submitted they can clear it.

Dheeresh Pathak: Okay. So this is helpful. But Sir, given the trade-off, the faster clearance versus the late recognition of the subsidy, can you like share like in terms for the subsidy business in terms of number of days what has been the elongation in the working capital?

Sameer Goel: Again, it goes by period. So firstly, let me just make a general statement, then we will come to specific. Overall, it is beneficial for the fact that the DBT everything is going through the POS machine and what the

government is doing and we are supporting that. Because the company also and that is what I said in a statement, has to change their focus from just doing primary sales. So the faster you can get liquidation and at the same time streamline your supply chain it will help across companies and companies which are not able to understand this model that is where they get into a problem. Now if the government clears all the old claims and our number has really come down there are some technical hitches from their side, some submission from our side and they are able to clear the whole backlog, it will be very good from everyone's point of view. More importantly is the DBT 2.0 is that farmers have the soil health cards, they are now giving a recommendation of balance nutrition. There were reports, government are also talking about DBT 3.0, which basically talks about even giving, having wallet cards or cash cards with the farmers, and they will probably going to pilot it, so that then this whole pricing thing if the industry becomes free from, what is called the subsidy regime and let the farmer decides which product to buy and therefore, companies who have the technology, superior products who are working closely with the farmers, who are addressing, what is called, a total crop solution, companies like us, and we have a retail outlet also with the upreach program will benefit farmer and overall, the country will benefit because farmers' productivity will then go up.

Dheeresh Pathak: Okay, Sir. This is very helpful. Just one last question, if I can. In the conversion from rock this thing to the phos acid, what is the value add, sir?

Jayashree S: We have a value gap currently about \$160.

Dheeresh Pathak: Okay. So this \$160 per tonne into 1 lakh tonne, that is the extra sort of EBITDA that you would capture, right, in this process. That is the way to think about it?

Sameer Goel: Sure.

Jayashree S: Yes.

Dheeresh Pathak: Okay. Alright. Thank you.

Moderator: Thank you very much. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Congratulations, Sameer and Jayashree, on good set of numbers.

Sameer Goel: Thanks, Bharat.

Jayashree S: Thank you.

Bharat Sheth: Sameer, you said that this time monsoon is good and reservoirs are all full and even northeast also is expected to be good so in that scenario can we really assume that next year also there will be some deficit of the monsoon, still we will be able to do better?

Sameer Goel: So Bharat, interesting thing. I wish I can predict the weather.

Bharat Sheth: No, subject to, I mean, let us say, plus, minus 5%, but even in that case, I mean, we can take care of, I mean, this reservoir level and some of the Kaleshwaram, some lift irrigation project has already started operating?

Sameer Goel: So there are two things, Bharat, what you are saying is, firstly, we are in states where both the governments are quite pro agriculture and other governments are also looking at it . You will see the campaign being launched by even the Prime Minister on balanced nutrition. So they are obviously getting more and more into the rural and the agricultural productivity area because that is what being talked about doubling the farmer's income. So that is on one side and obviously one of the reasons

how we can double farmer income are two counts. One is, of course, source of irrigation, but at the same time, increasing the sales, especially, what is called, the rainfed area, to have whether it is crops you have increased drip irrigation, you have crops which take less water, and therefore, improve the farmers' productivity and we have already seen a huge shift in the business to fruits and vegetable away from cereals. So the total output of foods and vegetables now exceed cereals. We still have a cereal mindset because all of us have born when we had this thing about famine and all happening with the first green revolution and obviously, the next round would be that and companies like us move into, what is called, ad tech and use of data in terms of helping the farmers to have double his output, at the same time reduce some of the consumption. So that is something which we are working on.

Bharat Sheth: And second, I mean, when do we expect this POS 3, I mean, this Phase III, we expect to start?

Sameer Goel: We cannot say as such. There are a lot of talks in the government and also the PMO is looking at it. Obviously they would have to probably pilot it out and then see how it happens, but knowing the way the government in the centers taking certain hard decisions we could expect it sooner than later.

Bharat Sheth: Okay and with retail is doing well, outlook for the retail and expansion in the retail?

Sameer Goel: Our basic thing currently is to ensure two things. One is that we have sustainable growth in retail and therefore we concentrate currently in our AP, TG markets and look at the whole supply chain. At the same time, use retail not just to sell fertilizer, but to improve what is called, the non-fertilizer, but more important is to improve the advisory services, which

we can give, which includes, new technology advice to the farmers, so that their income improves so that overall they gain . In a phase manner, we are looking at expansion into some of the neighbouring markets.

Bharat Sheth: Okay and just one bookkeeping question, Jayashree, what is our gross debt and net debt and how much is this old claim is outstanding?

Jayashree S: Okay. Subsidy I have given you the outstanding numbers. We had close to about Rs.750 odd Crores, which relates to the pending PoS acknowledgment and we had close to Rs.200 Crores, which was September-related POS acknowledgment, which was also got submitted in October. Of the old claims we have close to Rs.500 Crores. Yes. We will not say it as old claim I would say the balance claims that is about Rs.150 Crores. We are looking for some system correction from NIC. I think we are still working with the government on it. See, our credit is close to about Rs.80 Crores, we used to have about Rs.160 Crores. The balance has been submitted. On the normal freight, we are entitled to get the freight claims on an annual basis, only Rs.34 Crores relates to older period. The rest all is 2018, 2019, and it is currently under process. So we do not have much of old claims to your question, Mr. Bharat.

Bharat Sheth: Okay and how much is the gross debt and net debt?

Jayashree S: I will get back to you with these numbers. I do not have the balance sheet straight with me now.

Bharat Sheth: No problem. Thank you. That is all from my side and all the best.

Moderator: Thank you very much. The next question is from the line of Bhavin Chheda from Enam Holdings Private Limited. Please go ahead.

Bhavin Chheda: Yes, congrats on excellent performance. Sir, you made the statement that the Crop Protection for full year will be almost equivalent to FY2019. If I see that number, last year, we did Rs. 1,781 Crores of topline, which means in the second half we have to do almost Rs. 1,000 Crores, which is 25% growth. So is that understanding correct?

Sameer Goel: Yes. So firstly, it is not full year. You are saying full year?

Bhavin Chheda: I think you said that our full year number would match with the 2019 numbers.

Sameer Goel: So this thing is base that we should be coming more or less flat a lot will depend on, of course, one is, in terms of production. The other thing, like we are saying is the acceptability of the new products, which is going into the market and whether we could meet the growing demand and third could be on the pricing front as far as Mancozeb is concerned. We also have a few registrations, which we are hoping will come through in the year, so that we can supply to some of our international customers.

Bhavin Chheda: Sarigam plant is fully stabilized, right?

Sameer Goel: Sarigam plant has stabilized. We have to just ensure that everything is smooth now.

Bhavin Chheda: The second half basis as compared to last year we will surely be growing.

Sameer Goel: Currently, our forecast is that. We will have to watch, and it has also helped by the fact that we are going to also have a bumper rabi in India, and therefore, both our formulation business and the B2B business will be better.

Bhavin Chheda: Sure and regarding the fertilizer business, you said that the July month had a lower production, issue was phos acid availability issue or?

Sameer Goel: No. It was not that. What happened was, there are two things here. We had actually scaled down. If you remember in Q1 call the concern with all the investors was that why is our raw material going up and the sales have been down. So given the fact that in July also the estimates were not looking good because everything was not as per the IMD plan although directionally they were right, but we had scaled down some of our buying and there were some connectivity issues, which happened for not phos acid, but few of our other raw materials. For example, there was, you had this issue with the tension in Middle East so some of our connectivity of urea and of ammonia got slightly delayed.

Bhavin Chheda: Which is now sorted out, right?

Sameer Goel: That is all sorted out. So that was a temporary period. We were wanting to operate almost more than 100% capacity because of the increased demand, which came up with the scale which has happened and so we then focused on the AP and TG, we can meet the demand in some of the other markets.

Bhavin Chheda: Sure. So due to this bumper rabi, Sir, our fertilizer own manufactured volume will look to show a growth over FY2019 numbers, right?

Sameer Goel: Our focus is to increase the numbers. That is definitely there. When you see our overall numbers, one of the issues which happened to us was, we did not get, one is, we closed down Kandla Port and the government actually had issue in terms of allocation into Krishnapatnam Port. Overall, urea allocation I think they have got the demand down and therefore, there was a shortage as far as India is concerned and we did not get our

allocation. Good news is now they are giving us more number of ships for Krishnapatnam, which helps our retail business and also provides product to a dealer, but we just trade in urea.

Bhavin Chheda: Sure. And sir, the new phos acid, this 1 lakh capacity, which month have you started this?

Sameer Goel: We started in September. We were supposed to start in October.

Bhavin Chheda: And how much time you think you will take it to reach 100% utilization here?

Sameer Goel: So we would, as per the current capacity what we have envisage it will be able to reach, but there is always scope to increase it further by using, what is called, different types of rocks. So you will see that. So whatever is as per plan for this year, we hope that to be met.

Bhavin Chheda: So how much is the plan for this year, Sir technically, you are at 50,000 for this year in terms of six months for this fiscal. So you will be producing 70%, 80% of that, 60% of that, if you start the plant how much time it takes to reach 100%?

Sameer Goel: We have been close to what we have stated.

Jayashree S: It will be close to 50,000 tonnes this year.

Bhavin Chheda: 50,000 tonnes entire. So technically, we will be doing 100% utilization in the second half, right?

Jayashree S: Yes, we will scale it up, and we will end up around 50,000 tonnes

Bhavin Chheda: From the new plant?

- Jayashree S:** Yes.
- Bhavin Chheda:** In the second half?
- Jayashree S:** Correct.
- Bhavin Chheda:** Okay. Which technically means next year, you can easily do 1 lakh tonnes?
- Jayashree S:** Yes. That is the plan.
- Sameer Goel:** That is the plan. As I said on the call, we can probably do more.
- Bhavin Chheda:** Sure. Excellent. Thank you.
- Jayashree S:** Thank you. Before we close, I just want to respond to Mr. Bharat Sheth. The borrowings are about Rs. 1,728 Crores as of September 30, 2019. Last year, the number was Rs. 2,134 Crores.
- Moderator:** Thank you very much. Ladies and gentlemen, due to time constraint, that will be the last question. I will now hand the conference over to the management for closing comments.
- Sameer Goel:** So just firstly, if anyone had any questions, you can please get in touch with Jayashree or Saurabh or me anytime, and we are happy to answer those after the call, but overall it has been a very good quarter especially given that the South and the southwest monsoon behaved the way it is. Also we are expecting the northeast monsoons to be normal and therefore we do see expansion across all our business range especially with the new products which we are introducing. Se are seeing traction in the market, both on the nutritional side, which includes SSP, includes specialized nutrition and also includes our base fertilizer, and also on the Crop Protection side. So overall, we are happy, and we are also happy to see what the government is doing. We are hoping that they will find more

money to clear all the dues for the industry, but more importantly what they are doing to promote balance nutrition, which will be helpful for the farmers and overall our long-term strategy. The Board reviewed the long term strategy, and we are on track on terms of our long-term strategy to be a total agri input provider to the farmers for the benefit. Thank you very much.

Moderator: Thank you very much. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.