



“Coromandel International Limited Q4 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Coromandel International Q4 FY2019 Earnings Conference Call hosted by Motilal Oswal Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sumant Kumar from Motilal Oswal Financial Services. Thank you, and over to you, Mr. Kumar!

Sumant Kumar: Good afternoon, everyone. Welcome to 4Q FY2019 results conference call of Coromandel International. Today, we have with us Mr. Sameer Goel, Managing Director; and Ms. Jayashree Satagopan, CFO, representing the company.

I hand over the call to Mr. Goel for the opening remarks. After that, we will have a Q&A session. Thank you, and over to you, Sir!

Sameer Goel: Good afternoon, everyone, and thank you, Sumant for organizing this conference call. I will first give an overview of the business environment experienced during the year followed by the company performance. Jayashree will take you through the financials and then we can have the Q&A.

In India, the below normal Southwest monsoons and the deficient Northeast monsoons impacted the sowing of Kharif and Rabi season respectively. Overall acreage was down by 2.6% with a major drop coming from pulses, paddy and coarse cereals.

As per the second advanced estimate of production, food grain output is expected to come down marginally by 1% to 281 million tons. CSO estimates the agriculture and allied segment GVA for 2018-2019 to be moderated to 2.7% after recording 5% growth in 2017-2018.

What we also see is the major drop coming in the Rabi season, especially on our markets where rice sowing has been lower by around 25% . Also, a similar decrease has been seen in coarse cereals and oilseeds.

For 2019, IMD has forecasted near-normal monsoons with well-distributed rainfall at 96% of the long period averages. We will get further clarity on region-wide rainfall distribution in June, when the IMD will come up with the second stage forecast.

On the reform side, direct income support schemes introduced by various State Governments and the Central Government is expected to improve the cash supply in the market. Further, minimum support price announced during the year had been fixed with an objective to provide minimum 50% returns over the cost of production, though the procurement mechanisms are yet to be firmed up.

Major irrigation projects like Kaleshwaram in Telangana and Polavaram in Andhra which are in Coromandel's key markets are progressing well and once completed will improve the agriculture prospects of the region.

On the subsidy side, the nutrient rates under NBS are provisionally maintained at the same level for 2019-2020 as that in the previous years. The overall allocation of subsidy in the Union Budget has moved up by 7% to Rs.74,996 Crores, with the major increase coming for urea segment. The industry has received Rs.10,000 Crores under the special banking arrangement in March 2019, though there is a significant subsidy backlog of around Rs.30,000 Crores for the industry.

On the fertilizer industry performance, for the quarter, phosphatic fertilizer industry sales have improved by 6% to 40 lakh tons. Complex fertilizer sales are down by 11% while DAP sales, increased by 37%.

Raw material prices have stabilized over the last quarter due to moderation in global demand. Phosphoric acid prices for Q1 2019-2020 have been finalized at \$728 per ton. In Q4 2019, the prices were \$750 per metric ton.

For the full year 2018-2019, overall industry has grown by 6% to 186 lakh tons from 175 lakh tons last year, with 6% and 7% growth coming in from DAP and NPK segment, respectively. DAP demand was met mostly through imports, which has gone up by 57% to 66 lakh tons.

Coromandel Q4 and full year performance: For the year 2018-2019, Coromandel has made an all-around progress by improving its customer engagement, branding capabilities and furthering its operational efficiencies. The company has strengthened its R&D, product development and registration function. During the year, the company has introduced 10 new products in nutrition and crop protection businesses and has established key partnerships in the area of research, technology, sourcing and marketing to meet its growth aspiration.

Coming now to Coromandel fertilizer's performance for Q4. On the sales side, our phosphatic volumes were marginally down by 1% to 5.9 lakh tons as there was an overall slowdown in fertilizer offtake due to the weak seasonal conditions in Southern India. The 5.9 lakh tons comprise of 5.6 lakh tons of manufactured products and 0.3 lakh tons of imported DAP. The share of unique grade stands at 34%.

During the quarter, our phosphatic fertilizer plants operated at 79% capacity utilization, recording production of 6.9 lakh tons. Last year, it was 6 lakh metric tons at 70% capacity utilization.

Captive asset production from Vizag and Ennore has gone up by 27%. The phosphoric acid capacity enhancement project at Vizag is going on track and will be fully operational by October 2019.

For the full year period, our phosphatic sales volumes are up by 10% to 30.3 lakh tons with unique products growing by 10%. Its share in overall sales stands at 38%, similar to last year.

Overall, the market share has gone up from 15.8% to 16.3% with increase coming across all the operating states.

The sale number of 30.3 lakh tons comprise of 24.2 lakh tons of NPK and 6.1 lakh tons of DAP, of which imported is 2.7 lakh tons.

We have introduced our zinc-fortified NPK product during the year and it has been well received in the market. During the year, our phosphatic fertilizer plants operated at 85% capacity utilization, recording a production of 29.4 lakh tons. Captive acid production from Vizag and Ennore has gone up by 11%.

During the year, the business transitioned into DBT regime effectively connecting with the channel partners and the government to ensure timely PoS machine-based recording for the farmer purchases.

On the crop protection side, during the quarter, turnover was close to last year levels at Rs.358 Crores. Last year, it was Rs.362 Crores last. On a full year basis, Coromandel Crop Protection business registered a growth of 8% with the increase coming both from domestic and international operations. The business has taken progressive steps towards updating its portfolio from all generic to patented combinations or recently post-patented molecules. The business introduced 5 new products including 2 in-house patented combination molecules, which have received encouraging response from the market. The business received 75 new registrations in international markets, taking its overall count to around 1000. Coromandel opened a subsidiary in Nigeria, Africa during the year to improve its customer access and product registration capability.

The domestic formulation business had a good year driven by its channel initiatives and new product performance. The market development structure has been strengthened over the last few years and is supporting the business in establishing customer connect. Recently acquired biopesticide business has enabled access to developed markets like U.S.A., Canada and Europe and provided presence in complementary products segments. The bio business has performed well during the year, improving its product offering, sourcing capability and extraction efficiencies.

On the manufacturing side, Coromandel is in the process of completing its Mancozeb WDG facility at Dahej. New plants are being added in Ankleshwar and Sarigam for manufacturing recently off-patented technical products. During the year, business further strengthened its product development structure with scaling up of technology transfer, business development, regulatory and R&D functions.

In the month of January, an unfortunate fire incident occurred at the Coromandel Sarigam plant in the warehouse section due to an electric short circuit. There were no injuries or casualty and adequate control measures were taken to safeguard the fire from spreading to other sections. The plant is expected to restart its operations soon.

Retail business had a soft quarter and year, impacted by Northeast monsoon failure. Business had witnessed a flattish topline, mainly driven by fertilizer sales. On the agri-tech side, the business has tested out new delivery models, direct plant delivery, e-kiosk and farm advisory services. The business has pilot-tested drone-based crop monitoring and spraying services and the initial results had been encouraging. We expanded our farm mechanization services by launching the paddy harvesters through our custom hiring centers.

During the year, the Specialty Nutrition business continues to perform well through its focused product approach. It has introduced 2 new crop-specific products targeting crops like sugarcane and banana. The business has collaborated with multiple agri players across the value chain to improve its customer connect initiatives.

Single Super Phosphate business registered a 9% volume growth, improving its sales to 5.7 lakh tons. It continues its leadership position with a market share of 14%. Two new products launched during the year have been received very well by the farming community.

Overall, Coromandel has significantly progressed during the year in a tough business environment, improving its customer connect, market development and branding initiatives, product offering and people's capability. With the stable business environment, government agrarian reforms and forecast for a near-normal monsoon, we expect a healthy growth in farm sectors during 2019-2020.

Coromandel will continue to focus on improving its customer connect and develop its research and agri-tech interventions to improve its farmer's value proposition.

I will now hand it over to Jayashree to talk about the financial updates.

Jayashree Satagopan:

Thank you, Sameer, and good afternoon all for joining the conference today. Let me first take you through the Q4 results followed by the full year financial results.

In Q4 FY2018-2019, company recorded a consolidated turnover of Rs.2,638 Crores, growing by 9% with nutrients and allied businesses contributing to 86% share and the remaining 14% coming from Crop Protection business.

Q4 last year figures. Nutrient was 85%; CPC, 15%.

In terms of subsidy/non-subsidy breakup, Q4 revenue share is around 80:20. Last year was 79:21.

Overall, EBITDA for the quarter is Rs.259 Crores against Rs.185 Crores last year, which is a 40% increase year-on-year. The margins were supported by stable exchange rates and lower rental cost during this year.

In terms of subsidy/non-subsidy breakup, Q4 EBITDA share was 73:27. Last year, it was 65:35. Consolidated net profit after tax for the quarter is Rs.110 Crores as against Rs.90 Crores in Q4 fiscal year 2018.

Let me cover the full year financials now. In the period April to March 2019, company recorded a consolidated turnover of Rs.13,225 Crores, growing by 19%. Nutrient and allied businesses contributed to 86% share. 14% was from Crop Protection business. Last year, nutrient was 85% and CPC 15%.

In terms of subsidy/non-subsidy breakup: year-to-date revenue share is around 80:20 compared to last year of 77:23.

Despite tough extent environment, the company has recorded year-to-date EBITDA of Rs.1,443 Crores against Rs.1,257 Crores last year, which is a 15% growth on a year-on-year basis.

In terms of subsidy/non-subsidy breakup, year-to-date EBITDA share was 68:32 vis-à-vis last year 66:34. Consolidated net profit after tax for the year is Rs.720 Crores against Rs.691 Crores in FY2018.

Subsidy outstanding as of 31st March 2019 is Rs.2,393 Crores versus last year's number of Rs.2,627 Crores. The subsidy value of Rs.2,393 Crores outstanding includes approximately Rs.1,100 Crores of subsidy claimed and pending with DoF for disbursement. This number is before the special banking arrangement of Rs.204 Crores received in March. Last year, the company received Rs.617 Crores under the special banking arrangement.

During the quarter, the subsidy payout from the government was low and Coromandel has received Rs.432 Crores subsidy vis-à-vis last year which was Rs.861 Crores.

The company has filed DBT claims up to end of February. We are working with the government on some software-related issues to submit the balance claims of March.

As regards GST during the quarter, company received GST refund of Rs.275 Crores. Refunds have been filed up to February 2019 for the year. Coromandel has received overall GST refunds of Rs.608 Crores for the year.

Foreign exchange management - During Q4, rupee remained ranged between 68.36 to 71.83 levels and closed at 69.16. Coromandel has been following the Board-approved hedging strategy and is dynamically covering its exposure for optimizing the premia cost and minimizing any adverse impact due to currency depreciation.

Financing costs - Interest cost for the quarter was at Rs.65 Crores, up from Rs.51 Crores last year. Increase in interest cost is primarily on account of higher level of borrowings due to high inventory as well as subsidy receivables.

Thank you once again for joining us on the call, and we will open the session for question and answers.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Viraj Parekh from KR Choksey. Please go ahead.

- Viraj Parekh:** Good afternoon Sir and thanks for the opportunity. Actually, I missed out your commentary on phosphoric acid prices. I just wanted to confirm, what you mentioned is at \$728 per metric ton. Am I correct on that, Sir?
- Sameer Goel:** That is right, for the 1st quarter.
- Viraj Parekh:** Thanks a lot.
- Moderator:** Thank you. The next question is 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 P&L side. One is looking at the 3 items. Given that rupee-dollar on a quarter-on-quarter basis has rupee strengthened, is there any forex gain that we have? And second is if you can comment a bit on the depreciation charges, which has slightly been on the higher side. I mean, because if I am correct, we do not have specific plant that we have kind of commissioned in this quarter. And third is, Sir, on the balance sheet side, if you can also talk a bit more on your inventory. Where has the inventory been on the higher side? Is it primarily on the finished goods? And what is the reason behind it to build this kind of inventory ahead of the season?
- Jayashree Satagopan:** Thanks, Sudarshan, for the questions. With the rupee appreciation during the quarter, we did see a forex gain to the extent of about Rs.28 .30 Crores on a mark-to-market basis that has been factored in the financials. We did have an accelerated depreciation relating to one of our assets that amounted to close to Rs.8 Crores, which has been included in the depreciation. Thirdly, on the inventory front, the inventory increase is primarily on account of finished goods and to some extent on raw materials. The finished goods inventory, especially on fertilizer, we had taken a strategic call to produce and hold it for the season. Compared to last year to this year, our finished goods inventory has gone up by 2.4 lakh tons. The raw material inventory is also slightly on a higher side, primarily driven by higher raw material prices and a higher forex rate compared to the figures of previous year. So, quarter-on-quarter, it is not high but compared to last year, the raw material prices have gone up and rupee was also averaging around 65. Now it is around 69. So both these factors are impacting the inventory.
- Sudarshan P:** Sure. And Madam, with respect to the outlook for phos acid prices and even the prices of ammonia, what we are seeing is that the prices have come up on a quarter-on-quarter basis. Give some color on, because I think the first half of the previous year, we have been seeing a rising trend, and of late, we are seeing a declining trend. How do we see the strength probably for the next few quarters, 2 or 3 quarters?
- Jayashree Satagopan:** We get visibility primarily for a quarter, especially on the phos acid prices. We do believe that we should have the prices around this range. Again, it depends upon the demand-supply situation globally. Ammonia prices have been coming down from the peak of 391. In April, it was about 299. We expect ammonia to continue around this range of 320 to 280. We are not seeing any big spikes coming there.

Sudarshan P: Madam, I mean, you ended on a Q-on-Q basis the landed cost given that rupee appreciated would be lower. And since we had already by not having inventory there in the system, would we also be having some inventory loss which will be there, a part of the raw material, which explains why the gross margins kind of fell? Because I think the first half you might have also benefited from the raw material, benefiting on gains when the pipe was continuously moving up?

Jayashree Satagopan: Well, it actually goes into your cost of goods sold. We did not have a loss in terms of inventory. But given the fact that you see raw material prices are softening and the MRPs are being held at the current level, which had gone up during the year, there has been some amount of discounting that is happening in the market. That is one of the reasons that you would see that margins were normalized. We have taken some price protection into consideration.

Sudarshan P: Thanks a lot Madam. I will join in the queue.

Moderator: Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: Good afternoon Sameer Ji and Jayashree Madam. Thanks a lot for taking my question. Just first on the fertilizer business, the outlook going ahead into the June quarter. So do we need to, I mean, is there an expectation that the MRPs will need to be reduced heading into the season to pass on these lower raw material costs? And also, now that we are looking ahead to our phosphoric acid commissioning around October, how much of a benefit to the margins can it have in the fertilizer business and partially in FY2020 and then more fully in FY2021?

Jayashree Satagopan: We are seeing softness in the raw material prices. Also, forex has been more or less stable in the last couple of months. While the industry players are looking at what could be the MRP, we do believe that there could be a correction that could happen. The second one is in terms of phos acid. The plant is expected to be commissioned in October 2019 and get fully operational from then onwards. There will be a value gap of approximately \$120 to \$150, again depending upon the prices of phos acid compared to the rock conversion that we do in our integrated facility. That would be the flow-through that will come into the margins. The additional capacity that will come in for the full year is going to be about a lakh ton of phos acid. For this year, we are expecting 50,000 tons.

Abhijit Akella: Got it. That is helpful, Madam. And also just wanted to check on the working capital front now. You are now with the new financial year having begun. Have you seen signs that the government has started to release some of the backlog? So what is the outlook for subsidies going ahead into the June quarter?

Jayashree Satagopan: Yes, good question, Abhijit. Currently, in the last 24 days, we have received just about Rs.30 Crores of subsidy from the Government. While we have submitted close to Rs.1,000-odd Crores of subsidy claims that are pending with them, money flow has not been very forthcoming. We will have to wait when the new government comes in place. That is what we are hearing from the circles. So subsidy money should start coming, especially on the DBT. Hopefully, by end of May, June is what we are expecting a good inflow to come in.

- Sameer Goel:** The current position, the government has a lot of people on the election duty. So hopefully, once that settles down, things will start flowing in.
- Jayashree Satagopan:** So we will have some amount of strain on the working capital in the first quarter till we get the subsidy from government.
- Abhijit Akella:** Right. Also, just to clarify on that point, is there some element of the software-related problems also that you spoke about? That is the reason for this or is it more the election-related disruptions?
- Jayashree Satagopan:** I think it is mostly the election one. The software-related issue is primarily in terms of submitting the monthly claims. Typically, companies submit claims either weekly, fortnightly or monthly. With the bug in the system, our March claims are yet to be submitted. Having said that, these months are off season, so we may not have a huge amount of POS acknowledgment. We are working with the Department of Fertilizer as well as the NIC to have this sorted out. We are hoping in the next couple of weeks, the system-related issues must be set all right. We do not see that as a constraint going forward because most part of last year, after the initial hiccup, the system was more or less stable.
- Abhijit Akella:** And one last thing and I will just get back in the queue. Your accelerated depreciation of Rs.8 Crores you spoke about, is that something that is going to continue in coming quarters? And also, your capex plans for FY2020, if you could just give us some thought? Thank you.
- Jayashree Satagopan:** Yes. The accelerated depreciation is a onetime. It is not likely to continue. That is about Rs.8 Crores as I was mentioning. In terms of the capital expenditure for the next year, we are looking close to Rs.450 Crores to Rs.500 Crores of capex. Our phos acid plant at Vizag will get completed. That will be close to about Rs.150-odd Crores. We are also looking at putting up a new pilot and a multipurpose plant for CPC business. Apart from that, we are looking into our normal maintenance capex as well as some strengthening of the infrastructure across all the plants. All these 3 things put together should be around Rs.450 Crores to Rs.500 Crores in 2019-20.
- Abhijit Akella:** And how much was the capex this year, Madam, year gone back?
- Jayashree Satagopan:** Around Rs.300 Crores.
- Abhijit Akella:** Right. And I am assuming that out of the Rs.500 Crores you are talking about next year, a significant portion will be towards the infrastructure centering. Is that correct?
- Jayashree Satagopan:** No, I would say it is one-third. Rs.150-odd Crores will go for the phos acid project. CPC between pilot plant and the new plant that we are putting up for the recently off-patented molecules, would be about Rs.100 Crores to Rs.120 Crores. And then we have an infrastructure improvement, which could be about Rs.30 Crores, Rs.40 Crores. Apart from that, you have normal maintenance capex across the plants.
- Abhijit Akella:** Thank you so much. I will come back in the queue for anymore.

- Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.
- Vishnu Kumar:** Very good afternoon and thanks for your time. Just wanted to understand the behavior of the fertilizer offtake in the market. There seems to be a very high offtake of urea this quarter. Even if I go back 2 years fourth quarter, the offtake seems to be substantially high. This is our phos acid number, I mean NPKs have come off. So is there any trend change in the behavior of the farmers probably because of lack of price inflation, which is reflecting? Just wanted your thoughts.
- Sameer Goel:** I think on urea, there was dryness in the market as certain amount of production capacity was not available. And secondly, because the Rabi season has been good in the North it filled up the primary market. DAP has also grown by 37%, again with the factors which are similar, particularly in the north side. For NPK, there was a cut down in sales, mainly because of the seasonality factor.
- Vishnu Kumar:** Okay. So this has nothing to do with price inflation for farmers not being there and the input costs being substantially high. Nothing to do on that side.
- Sameer Goel:** Nothing to do on that side.
- Vishnu Kumar:** Got it, sir. And secondly, just wanted to understand the drop in the unique grade share versus last year. Is there any specific reason or because of just the crop mix?
- Jayashree Satagopan:** No, there is no specific reason. With the higher MRP overall, some of the generic grades have gained traction. That is the reason why you would see generic rates percentage being higher in the quarter.
- Sameer Goel:** But overall on the year, we have grown by 10% on the unique grades.
- Vishnu Kumar:** Got it. And just one last question here. Madam, if you could repeat the subsidy/non-subsidy share for their top line and the fertilizer and Crop Protection and on the EBITDA side for this quarter?
- Jayashree Satagopan:** For this quarter? Okay. Subsidy/non-subsidy for Q4 this quarter is 80:20. Last year, it was 79:21. On EBITDA, 73:27. Last year, it was 65:35.
- Vishnu Kumar:** 65/35. And one last question on the forex gain of Rs.30 Crores, Rs.40 Crores, you mentioned this is adjusted against other expenses. Is it right?
- Jayashree Satagopan:** Forex gain is about Rs.30-odd Crores and this was going to other expenses
- Vishnu Kumar:** It is directly in the cost it is adjusted. So it will be about gross profit?
- Jayashree Satagopan:** It is in other expenses.
- Vishnu Kumar:** It is in other expenses?
- Jayashree Satagopan:** Yes.

- Vishnu Kumar:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Girish Raj from Quest Investments. Please go ahead.
- Girish Raj:** Thanks for the opportunity. If you can just throw some color on the decline in MRP and the discounting intensity over third quarter or fourth quarter to first quarter FY2019.
- Jayashree Satagopan:** We have not seen much of a change in the MRP during the quarter. Most of the companies are holding to the earlier MRPs. However, there has been discounting that has been happening.
- Girish Raj:** Sure. So there must be some discount...
- Jayashree Satagopan:** Particularly on DAP.
- Girish Raj:** On DAP, not on the NPKs.
- Jayashree Satagopan:** Yes. The others also but more on the DAP.
- Girish Raj:** Can I share some intensity of discounting
- Jayashree Satagopan:** Most imported DAP have been relatively lower priced compared to manufactured DAP.
- Girish Raj:** Okay. So in that case, we had some DAP consignment that came at end of third quarter FY2019. And what is the DAP prices now? So what would be the impact on inventory-related gain or losses on that?
- Jayashree Satagopan:** See, the DAP prices have been coming down and currently we are about \$396 CFR. Beginning of January, there was about 404. Not much of a difference between January to April.
- Girish Raj:** So just to confirm this, despite the decline in DAP prices and raw material prices, we should not see any inventory-related losses going forward?
- Jayashree Satagopan:** We should not see inventory-related losses. It also depends upon how each company is holding their inventories
- Girish Raj:** And discount related, what is the intensity?
- Jayashree Satagopan:** For some of the grades, there have been discounts in the market. As I mentioned, the DAP has been having a slightly higher discount compared to some of the other generic grades.
- Girish Raj:** Okay. Okay. I will go to the working capital excluding the subsidy. We have gone through one full cycle of DBT. Now assuming raw material prices remains at 728 or whatever levels you have mentioned for others also, how should the net working capital trend in FY2020 versus FY2019?
- Jayashree Satagopan:** If you look at FY2019, especially for Coromandel, there have been 2 areas which was impacting the working capital, which was inventory and subsidy. Trade receivables have been well managed despite an increase of 19% in our turnover. Inventory also, quarter 4 was a strategic call

taken both in terms of producing and holding inventory for the Kharif season because monsoons being near normal, you have to keep your products ready and available for sale during the peak season. For phos acid, given some of the global demand-supply situation, we had taken a call to hold enough phos acid with us. So between the quarters, you will see in some quarters there will be strategic falls in terms of holding inventory. Otherwise, working capital will get normated to your business levels.

- Girish Raj:** Okay. Let me put it this way. Interest expenses in FY2019 and so FY2020 should come down?
- Jayashree Satagopan:** If we get the subsidy receivable on time, it should come down.
- Girish Raj:** It should come down. Okay. And on the Crop Protection side, our Mancozeb capacity would have increased. The capacity available for FY2020 would be 30% higher and then there are other capacity addition. All this should translate into revenue growth. Is the understanding fair?
- Jayashree Satagopan:** Yes. We would expect revenue growth definitely on the Crop Protection business. And in terms of these products, which are Mancozeb as well as the new products that are being planned. We are looking into introduction of close to 7 molecules in the coming year. Three of them would be our own patented molecules. The rest of them are being worked out, both in terms of combinations and co-marketed products.
- Girish Raj:** And should we look at high teen numbers?
- Jayashree Satagopan:** I think we should look at a double-digit number.
- Sameer Goel:** The quarter 1 could be subdued because we had a fire in the warehouse. We are looking for revocation at Sarigam.
- Girish Raj:** Okay. And so Rs.30 Crores OCI loss in fourth quarter, what was it related to?
- Jayashree Satagopan:** The OCI loss was the impairment taken on our investment in Foskor.
- Girish Raj:** Thank you very much. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of H. R. Gala from Finvest Advisors. Please go ahead.
- H.R. Gala:** Yes. Most of my questions are answered. And by the way, congratulations for really good set of numbers.
- Jayashree Satagopan:** Thank you very much.
- H.R. Gala:** Now in Crop Protection and the biopesticide, what is going to be our future strategy for growth?
- Sameer Goel:** We will continue to invest in Crop Protection. We are looking at having multipurpose plants for manufacturing patented molecules and we will continue to do value addition. We are very happy to see the progress with biopesticide that has given us access, particularly in developed countries

like U.S., Canada and Europe. And there it comes at a significantly higher margin. So we continue to build that capacity and grow the market, both in the international markets. and the domestic market.

H.R. Gala: Okay. And as far as the bio pesticides are concerned, how much was revenue this year?

Jayashree Satagopan: We have a revenue of Rs.167 Crores on bio pesticides.

H.R. Gala: Okay. And how much margin are we getting in there? Is it comparable to the normal crop protection?

Sameer Goel: Better than crop protection.

H.R. Gala: Better than?

Jayashree Satagopan: Yes.

H.R. Gala: Okay. And just to get the breakup of subsidy/non subsidy, which you gave in your initial remarks, interestingly, you said something 80/20 and 77/23. What was that?

Jayashree Satagopan: 80/20 is the revenue share of subsidy/non-subsidy. 78/22 is for the previous year.

H.R. Gala: No, I think at full year sales, you said 86/14?

Jayashree Satagopan: 80/20. Subsidy/non-subsidy is 80/20. 86/14 is nutrient and life businesses is 86%. Crop Protection is 14%.

H.R. Gala: Okay. So 80/20 and 77/23?

Jayashree Satagopan: Correct. That is subsidy/non-subsidy.

Sameer Goel: We also do quite well in our specialized nutrients, which is basically nonsubsidized, and that is a good thing.

H.R. Gala: Okay. Okay. I followed. And 68/32 and 66/34 was the EBITDA breakdown?

Jayashree Satagopan: Correct.

H.R. Gala: Okay fine. Thank you very much. Wish you all the best.

Moderator: Thank you. The next question is from the line of Bharat Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Hi madam good afternoon Rohan here. First question on this agrochemical or Crop Protection business for the full year, can you give us some breakup of how much was exports out of this Rs.1,800 Crores from Crop Protection?

Jayashree Satagopan: It is focused around 50% - 55%.

- Rohan Gupta:** Okay. And you also mentioned in your opening remarks that the global business was under pressure but you have done pretty well in domestic markets. So despite that, in the current quarter, we have seen a muted growth. So do you see that any, the growth in export business in the current quarter are equally distributed in both segments?
- Jayashree Satagopan:** We have the overall year. Can we come back to you on this?
- Rohan Gupta:** Okay. Madam, second question on the fertilizer. Do you maintain that with the falling phos acid prices, that now the new inventory coming in the market will be having a markdown and the retail prices will come down? But, and we are significantly holding inventory of, you already said, the 2.5 lakh ton of almost higher inventory we are holding. But keeping all this in mind, do you still want to maintain that there would not be any significant inventory-led losses? So generally, we have seen that with the competition also, we will probably when phos acid prices will fall, the price correction in the market will be much sharper and that is where probably we have to offer the higher discounts to the dealer, to mitigate that fall in phos acid prices. So in that current scenario, any particular strategy you have that why we would not be expecting any inventory-led losses going forward, mainly in Q1 and Q2?
- Jayashree Satagopan:** We have taken price protection, which is primarily for the inventory that we are currently holding. When the MRP comes down and you are holding inventory, which is at a slightly higher cost, that will get discounted.
- Rohan Gupta:** Right.
- Jayashree Satagopan:** Yes, we have provided in our Q4 numbers.
- Rohan Gupta:** Okay. So can you suggest at how much we have provided for that?
- Jayashree Satagopan:** We will not able to share the exact numbers with you.
- Rohan Gupta:** Okay. And when is the prices keeps on falling, I mean, phos acid prices falls further, then we may see that further inventory-led losses. So that probably is a scenario looking forward. I mean, that maybe in Q1 and Q2, we may continue with this kind of scenario or do you see that phos acid prices are now stabilized here and would not fall any further?
- Sameer Goel:** So Rohan, we see a near-normal monsoons. We expect a very good Kharif season to happen. So we do expect consumption to go up, which requires more of production. We have strategically built up inventory so that we do not lose out on any market share. And as far as phos acid prices are concerned, like Jayashree says, it is a question of demand and supply.
- Jayashree Satagopan:** And just to add on to it. If you see quarter-on-quarter, even with the past years, there are going to be some quarters where you will see a fall in prices; in other quarters, rising prices. Typically, as a policy, we do not keep much of finished goods inventory. However, for Kharif season, which is a bigger season in the country, we would like to hold inventory so that we do not miss the dealer shelf space as well as serving to the farmers. So it has been a strategic call to build and hold inventory. So if you do not do this on a quarter-on-quarter basis, you do not have such high levels

of inventory, we are not likely to get this impact. So it is just another way to look at the whole situation.

Rohan Gupta: Fair enough. Just last question and I will come back in queue. So out of the total subsidy pending, you mentioned Rs.2,393 Crores, roughly Rs.2,400 Crores. Roughly Rs.1,000 Crores, you have already processed the bill and that is still Feb. So a balance, Rs.1,400 Crores, is the pending subsidies all or what is related to that?

Jayashree Satagopan: We have Rs.1,000-odd Crores subsidy that has already been submitted to the government, we have another close to Rs.1,000 Crores, which is relating to the DBT. Out of that, we have Rs.300 Crores where we have not been able to still generate and submit. That is because of the issues with website. Apart from this, we have our old balance, 10% claims, on account payment, freight and urea, which accounts to Rs.550 Crores.

Rohan Gupta: Is this Rs.550 Crores still pending and which includes all pending subsidies as well? And do you expect that, that can be cleared in the next 3 to 4 months?

Jayashree Satagopan: We are looking at getting these cleared in the quarter. As we were mentioning in the earlier calls, the challenges with this freight subsidy is relating to the original invoices for freight. Tracking it out, getting it certified and then submitting to the government is taking little bit of time. That is the only challenge we are seeing. Hopefully, in the next 3 to 6 months, the old claim should become nil in our books. Then onwards, it should only be the DBT claims as we get the POS acknowledgment the same month or the subsequent month that will be submitted to the government.

Rohan Gupta: Fair enough madam. Thank you so much.

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

Bharat Sheth: Good afternoon Sameer and Jayashree. Sameer, on this unique grade, you said strategy to take it, I mean, 50% of fertilizer or a couple of FY2021, whereas this year we have almost remained same level of, I mean, 38% full year last year. So can you give some more color? So what exactly, where do we stand in, all in our strategy?

Sameer Goel: We are continuing to build on the unique grades. This year, partly the issue was in terms of some of the supplies on phos acid. So we cannot produce some of the unique grades. We are also looking at launching new products, which our new R&D team has done. We are going to test out other new products. So we hope to continue to make the growth trajectory. Let us not forget at one time, we were at around 24%, 25%. So, the objective is to keep increasing our unique grade share.

Jayashree Satagopan: Just adding on to Sameer's point. As you know, the MRP has gone up substantially last year 2018-19. The demand for DAP and generic products have also been very good. And to some extent, our generic products also give a very healthy margin. It is a question of how you balance

your overall portfolio and maximizing your margins. At the same time, continue to focus on the unique grade, which provides a solution to the farmers.

Bharat Sheth: Okay. Sameer, on this, a couple of times, you mentioned that patented on crop protection, patented technical products. So is it our own or third party? Or exactly can you give some more color on patented and how much currently we are doing? And how do we see, I mean, or is it a CRM business?

Jayashree Satagopan: On the Crop Protection side, as Sameer was mentioning earlier, our strategy is to look into recently off-patented molecules, which can be manufactured, where we can manufacture the technicals in our plants and also come up with formulations for the branded traded products. We are looking into 3 products for the year, which are going to be technical. These are off-patented molecules. And we are looking at unique formulations for these. These are going to be patented combination molecules as far as Coromandel is concerned. Last year, we have introduced 2 in-house combination molecules which were patented. One is Prospell, the other one is Lancia. One is combination of Mancozeb and Azoxy. The other one, Lancia, is a combination of Propineb and Tricyclazole. Both these products have been received well. And in the coming year or two, we have a couple of combination products that we are looking into for introduction.

Bharat Sheth: Can you give some more color on 3-year strategy? How much revenue do we expect out of crop products from this kind of a product and which I believe has better margin than the other product?

Jayashree Satagopan: Bharat, if you look at Coromandel's portfolio over a period of time, we were having a lot of generic molecules and some of these generics were also really old. Consciously, it is a part of shifting the product portfolio. Company has been looking into acquiring and developing technical expertise for the off-patented, relatively newer molecules. This, we believe, should become a good share in our overall product portfolio. This year, for instance, all our new products that were introduced have given us revenue of about Rs.70 Crores. The intent is to continuously focus on new-generation combination molecules to add substantially into the portfolio. If you ask me a number, it might be difficult to share. But directionally, this is what we are looking at as a strategy.

Bharat Sheth: And this is mainly for domestic market, I believe, correct?

Jayashree Satagopan: Yes, formulation is primarily for domestic market. We do export formulation in a very limited manner. For exports, we do mostly technical, and we do have technical sales in the country on a B2B basis.

Bharat Sheth: Okay. And just last question, if you permit. I mean, do you have any strategy on SSP, I mean, to grow the volume because...

Jayashree Satagopan: Yes. Even on SSP, the focus is on providing unique grades and solution to the farmers. In 2018-19, we had introduced 2 unique SSP products, which have also been received very well in the market. We sold about 30,000 tons of this product and received excellent response from the

farmers. And we will continue to look into SSP not being a commodity, but working with the research and development team and coming up with value-added products for the farmers.

Sameer Goel: For SSP, we continue to be market leaders, where we beat our share by 1 percentage point.

Bharat Sheth: Sir, in the initial remarks, you gave, I mean, some color on the irrigation projects. So when do we expect, I mean, some of that will expect to start, I mean, those irrigation projects?

Sameer Goel: First is Kaleshwaram, which is basically in Telangana. This is first to get Godavari water. The current expectation by the government is around July, August, it should come. We will have to wait and watch how it comes. The Polavaram project is already there. This again connects Godavari to Krishna and basically gets into Krishna barrage. The government has to build up a canal system, secondary canal systems. We will have to wait and watch. As you know, there is election on. So depending on government and how the thrust happens after the elections, we will have to see that. But the Kaleshwaram project is going full steam.

Bharat Sheth: And Polavaram?

Sameer Goel: Polavaram, the main canal is ready. They had some initial hiccups in the main canal, which is connecting to the rivers there the secondary canals, which have to be built.

Bharat Sheth: Okay great. Thank you, that is all from my side.

Moderator: Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla: Thanks for the opportunity. A couple of questions. On the fertilizer front, we have been guiding and attaining the EBITDA per ton and we have been able to put at that and grow that in this particular financial year. The phos acid kept to increasing, are we guiding for any number for the next couple of years?

Jayashree Satagopan: So we are looking around Rs. 3,000 to 3,200 per MT.

Ranjit Cirumalla: So that would be higher than this particular year?

Jayashree Satagopan: Yes.

Ranjit Cirumalla: And secondly, on the Core Protection side, any particular reason why the plant has been not restarted for it is been almost 3 months now, the Sarigam unit?

Sameer Goel: In Sarigam, the fire happened on 25th of Jan. There was both the liquid and the solid that had to be collected very carefully and disposed off. Now the whole disposal is up and we have now requested a permission to restart the plant. So the government will come and have to look at the plant and see what measures have been taken to restart it.

Ranjit Cirumalla: Which will be done by the local pollution board authorities?

- Sameer Goel:** Yes. It is Gujarat pollution control board.
- Ranjit Cirumalla:** And that we expect it to be, come soon?
- Sameer Goel:** As soon as possible. I mean, again, the elections are running so people have been busy with that.
- Ranjit Cirumalla:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pratik Tholiya from Elara Capital. Please go ahead.
- Pratik Tholiya:** Thanks for the opportunity. Madam, you said this Rs.30 Crores of forex will be for Q4, correct?
- Jayashree Satagopan:** Yes, on a mark-to-market. Yes.
- Pratik Tholiya:** Yes. And what will be the forex number for full year?
- Jayashree Satagopan:** It will be about Rs.20-odd Crores, if I remember.
- Pratik Tholiya:** Rs.20 Crores of forex gain?
- Jayashree Satagopan:** Yes, on a mark-to-market. There will be a forward premium, which will be a cost and then mark-to-market is primarily sprucing up your exposures to the closing rate.
- Pratik Tholiya:** Okay. And what was this number last year?
- Jayashree Satagopan:** I would like to come back to you on this, Pratik. I do not have the last year number. I think it will be in the annual report. I can come back to you.
- Pratik Tholiya:** Okay no issue. Thank you.
- Moderator:** Thank you. The next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.
- S Ramesh:** Hello, good evening. I just had a couple of questions. One is on the capital expenditure details. You have mentioned Rs.300 Crores for FY2019. So can we have a breakup in terms of how much was spent on phosphoric acid? How much was spent on the crop protection chemicals?
- Jayashree Satagopan:** We have close Rs.80 Crores to Rs.100 Crores for phos acid plant and about Rs.50 Crores on crop protection. The balance is maintenance capex across the plants including crop protection and fertilizers, fertilizer SSP.
- S Ramesh:** Yes. And what is the total project cost for phosphoric acid?
- Jayashree Satagopan:** Rs.280 Crores.
- S Ramesh:** Rs.280 Crores. So you are going to spend another Rs.150 Crores. So all get capitalized next year?
- Jayashree Satagopan:** Yes.

- S Ramesh:** And whatever capex are indicated for the non-phosphoric acid projects next year that will also get capitalized by March 2020?
- Jayashree Satagopan:** Most of it should get. There could be a couple of projects, which can have spillover.
- S Ramesh:** Just one last question. You had mentioned that the Mancozeb capacity expansion was completed in the third quarter. So when do you expect that additional capacity to start contributing to revenues?
- Jayashree Satagopan:** The additional capacity has been created at Dahej. As soon as we have the Sarigam plant up and running, both the plants together will bring in the total capacity. We can start it from the day when we start Sarigam.
- Sameer Goel:** WDG has been set.
- Jayashree Satagopan:** Yes. In addition to that, we also put a WDG formulation plant at Dahej.
- S Ramesh:** Sir, right now, only the 35,000 capacity is in operation for Mancozeb. Is that correct?
- Jayashree Satagopan:** Correct. The Dahej facility is in operation.
- S Ramesh:** Okay. Okay. And just final, one final thought. In terms of your longer-term target for the CPC business, can we expect the share of formulations to go up to that extent where we possibly see higher margins? So is that assessment correct?
- Jayashree Satagopan:** Yes. We are looking at growing the formulation business.
- S Ramesh:** Okay, thank you very much.
- Moderator:** Thank you. The next question is from the line of Ayush Bhutada from Aequitas. Please go ahead.
- Ayush Bhutada:** So our new pilot and multipurpose plant for CPC, so that will also commission this year, next year itself or will it take time?
- Jayashree Satagopan:** I think that will be in 2021. We will start the work in 2019, 2020. Some part of the facility will get completed. Our multipurpose plant, hopefully, will be early part of 2021.
- Ayush Bhutada:** Okay. And sir, I wanted to talk about the bio pesticides division. So this contributed Rs.167 Crores this year, right?
- Jayashree Satagopan:** Yes.
- Ayush Bhutada:** So what are our plans and how do we, what kind of growth do we see in the bio pesticides division going ahead?
- Jayashree Satagopan:** We are looking at double-digit growth on the biopesticide business as well. So the focus is to see how we could maximize our reach in the export market and also use our distribution network and the retail channels for the domestic market.

- Ayush Bhutada:** Okay. So currently, we do not need any additional capex on the bio pesticides division to scale up?
- Jayashree Satagopan:** We have actually spent some capex in the year 2018-19 for the extraction capabilities and sourcing capacity.
- Ayush Bhutada:** Okay. So at current capacity, what kind of maximum revenues can we achieve?
- Jayashree Satagopan:** I think we can look into another 20%, 30%. And we have to look into additional extraction capacity after that.
- Ayush Bhutada:** Okay. Right. And last thing, so ammonia prices, you mentioned currently at around 299, right?
- Jayashree Satagopan:** Yes.
- Ayush Bhutada:** Okay, thank you. That is it from my side.
- Moderator:** Thank you. We will take the last question from the line of Resham Jain from DSP Mutual Fund. Please go ahead.
- Resham Jain:** Yes, Resham Jain here from DSP. So I just wanted to understand what has happened this year. Do that, whatever execution has happened, substantial account actually not substantial the overall amount has gone into inventory. So just wanted to understand, on FY2020 basis, how does the cash flow situation look like because your inventory will get, I assume they get normalized. And in addition to that, you may have this old subsidy claim also will proceed. So just how are you looking at the cash flow situation for FY2020?
- Jayashree Satagopan:** Cash flow situation should improve based on the working capital improvements. As you rightly said, inventory will normalize, and hopefully, we get the subsidy claims on time from the Government. It should be positive in the coming year.
- Resham Jain:** Okay, thank you.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.
- Sameer Goel:** Yes, thanks. I think, overall, given the situation and the market, it has been a very resilient performance across the businesses. And we hope this will continue in 2019-20 with the expectation of a near-normal monsoon and through all the initiatives that the company has taken towards brand building to increase our customer connect. We look forward to grow the business. The phosphoric acid plant is also coming up that will help us in terms of increasing our supply of phos acid so that we are less dependent on acid. Overall, the focus on crop protection will be to continue to grow the new generation and the combination molecules. We are also very happy to see some of the changes which have happened in our other businesses like specialty nutrition, which is growing at a very fast pace. We will continue to grow in this segment, given the fact that in the country the usage of drip irrigation and foliar sprays is increasing. Same thing applies

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for our organic business. We have combined our Single Super Phosphate business with our fertilizer business so that we can have greater access to the markets, both in South and East of India but also to tap in north and west of India. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.