"Coromandel International Limited

Q1 FY '24 Earnings Conference Call"

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MODERATOR: **MR. PRASHANT BIYANI – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Coromandel International Limited Q1 FY '24 Earnings Conference Call, hosted by Elara Securities Private Limited.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now handover the conference to Mr. Prashant Biyani from Elara Securities Private Limited. Thank you, and over to you, sir.

Prashant Biyani: Good afternoon, and thank you, everyone, for joining Q1 FY '24 Earnings Con Call of Coromandel International, hosted by Elara Securities. I would like to thank the management for giving us the opportunity to host the call. From the management side, we have Mrs. Jayashree Satagopan, President, Corporate and CFO, Mr. Sankarasubramanian S., Executive Director - Nutrient Business, and Dr. Raghuram Devarakonda, Executive Director – CPC, Bio and Retail Business. I would request the management to give their opening remarks on the results, post which we will start with the Q&A session.

Thank you, and over to the management team.

Jayashree Satagopan: Good afternoon everyone, and thank you, Prashant, for organizing the conference call.

Let me first give an overview of the business environment experienced during the quarter, followed by the company's performance and then we can have a Q&A session.

On the global economy, there has been a muted recovery in the global growth as inflationary pressure, overall slowdown in the demand and geopolitical issues continue to persist. The commodity prices like energy, fertilizer and metals have dropped from the 2022 peak levels following the build-up of gas inventories in Europe and lower-than-expected recovery in China, although food prices remain stable.

As far as the Indian economy is concerned, it is progressing well and is projected to be the fastest-growing large economy. IMF in its latest economic outlook has revised India's GDP growth upwards by 0.2% to 6.1% in 2023. This reflects the momentum from the stronger-than-expected growth in Q4 as a result of stronger domestic investments.

During the quarter, tax collections remained buoyant. However, the inflationary concerns still persist.

Indian agriculture: After a slow start to the Kharif season, the Southwest monsoons have picked up in the last one month. As on 27th July, the country has received 7% higher rainfall compared to a long period average. This has resulted in improved crop sowing by 1% with major increase coming under paddy and maize.

Amongst our key markets, there has been good recovery in monsoons with the exception of East, with catchment regions of Krishna and Godavari basin receiving good rainfall in July, the associated reservoir levels have been continuously improving. As on 27th of July, all India reservoir levels stand at 111% of the long period average. This bodes well for the agri input consumption. And we expect the agri scenario to be favorable in the upcoming months.

Policy updates: During Q1, the government approved the NBS rates for the first half of the year. These are in line with the moderation in raw material prices of key commodities. To encourage balanced use of fertilizers in conjunction with bio and organic fertilizers, government has recently announced PM Pranam (Program for Restoration, Awareness, Nourishment and Amelioration of Mother Earth) scheme. It aims to promote balanced fertilizer usage and incentivizes states to adopt alternate fertilizers. Towards this, government continues to provide support to the industry towards promoting Nano DAP and Nano-urea fertilizers along with focus on drone-based application deliveries.

Fertilizer industry performance: Global availability of key commodities remained at comfortable levels, and the industry witnessed softening of prices of major raw materials. Domestically, the fertilizer consumption in Q1 was impacted by delay in the onset of monsoon. This resulted in build-up of channel inventory. However, with the revival of monsoons in July, the consumption is fast improving.

For the quarter, DAP and complex fertilizer industry's primary sales volume was marginally up by 1%-Current year, at 54.9 lakh metric tons vis-a-vis 54.5 lakh metric tons in the previous year, with higher imported DAP sales. DAP and complex fertilizer industry's consumption indicated by the POS sales was up by 4%. In the current year, POS sales were 38 lakh metric tons vis-a-vis 36.4 lakh metric tons in the last year.

Coromandel's performance: Coromandel posted a steady performance in Q1 registering a volume growth in fertilizer and sustaining its profitability, despite the challenging business environment of delayed monsoon onset impacting crop growth sowing and agri inputs application. Nutrient and Allied business performance was led by a robust 18% sales volume growth in phosphatic fertilizers.

The Crop Protection segment performance during the quarter was affected by industry headwinds and sub normal rainfall in its key markets.

Coromandel ensured that agri inputs are made available to the farmers in its key operating markets and promoted the use of balanced nutrition and integrated pest management to help rejuvenate the soil and farm productivity.

Company's Nutrient segment performance: Nutrient and Allied business segment revenue increased by 2% during the quarter, registering a growth during the year both in terms of turnover and profitability. On the sales front, the business registered a sales volume of 8.6 lakh metric tons during the quarter 18% higher than the last year at 7.3 lakh metric tons. Manufactured DAP-plus complex volume is 7.6 lakh metric tons, higher by 10% over last year.

Company's market share, including NPK and DAP grew during the quarter to 15.6% vis-a-vis 13.3% in the last year. In SSP, the quarter 1 sales was at 1.8 lakh metric tons, registering a growth of 13% over previous year. Market share for the quarter went up to 13.7% from 11.9%

in the last year. During the quarter, our DAP and complex fertilizer plants operated at full capacity and produced 9.4 lakh tons. Last year, the same number was 7.9 lakh metric tons of fertilizer. Phos acid production during the quarter was at 1.1 lakh metric tons, same as previous year.

Major capital expenditure projects, like the sulfuric acid plant and the desalination plant at Vizag are progressing well and are expected to be commissioned in August 2023. During the quarter, the company conducted soft launch of Nano DAP, our cutting-edge nanotechnology-based fertilizer developed at its R&D centre. The product is expected to be introduced in the second half of the year and can provide impetus to sustainable farming practices by providing site-specific nutrition and improving nutrient use efficiency.

As part of the Pradhan Mantri Kisan Samriddhi Kendra (PMKSK) initiative, the company is progressing well and has established approximately 8,800 stores till date. These stores complement our retail Mana Gromor stores, ensuring availability of quality agri inputs.

On the Crop Protection side, the business had a tough quarter, especially in domestic markets as high channel inventories, pricing pressure and delayed monsoon arrival impacted the operation. The export business has performed well and has grown by 17% during the quarter with major increases coming from the Latin American market. The business continued to work towards improving its manufacturing efficiency. It is expanding its product portfolio and plans to launch novel combination and technical products during the year.

It has also started the preparatory work for establishing the large-scale multi-purpose plant and has acquired 50 acres of land at Dahej. As part of its expansion in the Specialty Chemicals segment, the company has identified few complementary chemistries and plans to introduce products in the second quarter by leveraging its technical capabilities and existing plant infrastructure.

The bio products business of the company is expanding its non-Azadirachtin portfolio and is working on alternate plant extract-based products. Pilot trials have been successful and the business expects to commercialize the product during the year.

Our retail stores operated well during the quarter, focusing on providing all-round agri solutions, including products, farm advisory, mechanization services. Business is also exploring to scale up its financial services offering.

As part of the strategy to identify new growth opportunities in adjacent and step-out areas, Coromandel acquired majority shareholding in Dhaksha Unmanned Systems Private Limited, Dhaksha, a Chennai-based differentiated drone start-up. Dhaksha is a leading player in drone space in India, providing complete range of unmanned aerial systems, technology solutions across agriculture, defence surveillance and enterprise applications.

With that, let me now take you through the company's financial performance.

Turnover: Coromandel recorded a consolidated total income of INR5,738 crores during the quarter vis-a-vis INR5,783 crores for the quarter in the prior year, a de-growth of 1%. The decrease in revenue is mainly on account of the falling raw material prices and subsequently a lower subsidy rate in the fertilizer business compared to the previous year. Nutrient and Allied business contributed 90% share, and the remaining 10% came from the Crop Protection business for the quarter. Subsidy versus non-subsidy share of business stands at 86% and 14% during the quarter. Previous year, it was 83% and 17%,

Profitability: Consolidated EBITDA for the quarter was INR709 crores against INR685 crores during the last year. Subsidy business share in EBITDA stands at 84% during the quarter, previous year it was 77%. Net profit after tax for the quarter on a consolidated basis was INR494 crores in comparison to INR499 crores for the corresponding quarter last year.

Subsidy: During the quarter, company received INR2,069 crores towards subsidy. Comparative figure last year was INR136 crores. Subsidy outstanding as on 30, June 2023 was at INR2,816 crores versus INR2,731 crores in the previous year.

Interest: During the quarter, company earned a net interest income, excluding the Ind AS interest of INR11 crores vis-a-vis the interest income of INR22 crores in the same quarter in the last year. Company maintained its surplus fund in Board approved securities, and these are earmarked for specific growth-related investments.

Credit rating: The company's balance sheet continues to be strong, and long-term rating by CRISIL continues to be at CRISIL AAA/Stable and the short-term rating at CRISIL A1+. The company's long-term credit rating by India Ratings and Research, a Fitch Group Company, continues to be at IND AAA/Stable and short-term debt rating at IND A1+.

Forex: During the first quarter, rupee traded in a relatively narrow range of INR81.62 to INR82.93. Coromandel continue to follow its conservative approach in terms of hedging the forex exposure, and this has immensely helped in limiting the impact of currency fluctuations.

With the improved coverage of Southwest monsoon across India, we expect the agri inputs consumption to pick-up well in the second quarter. We are committed to driving integrated farm management practices and introducing novel technologies that can enhance the efficiency of agricultural solutions and improve the sustainability of Indian farms.

Thank you very much for your interest in Coromandel and joining us in the call today. We look forward to your interactions. We can open the session for question and answers now.

Moderator: Thank you very much. Our first question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Sir, can you talk about EBITDA margin per ton for manufacturing in NPK and DAP fertilizer. It seems it has gone up Y-o-Y. So what is the reason for that?

Jayashree Satagopan: Hi Sumant, as I have been mentioning in the past, we should be looking at the EBITDA per ton on an annual basis. There will be seasonalities on a quarter-to-quarter basis depending on the volumes, the raw material prices, the subsidy rate, so on and so forth. So when you look at it on an annualized basis, I think we will be in the range of INR5,500 to INR6,000 as we had indicated earlier.

Sumant Kumar: So this INR5,500 to INR6,000, you're talking about manufacturing NPK and DAP EBITDA per ton?

Jayashree Satagopan: Yes, this is a manufacturing product EBITDA per ton.

Sumant Kumar: Ex of SSP, correct?

Jayashree Satagopan: Yes, This is not SSP. This is only NPK and DAP.

Sumant Kumar: Okay. So my question is the ammonia price has declined significantly. So is that also a reason for margin expansion, or we have already cut the price of NPK or DAP manufacture fertilizer?

Jayashree Satagopan: With the raw material prices coming down, not just on ammonia but across all the key commodities, we have also seen a large moderation that has happened in the subsidy rates effective 1st of April 2023. So MRPs are more or less at the same level. However, there has been a reduction in the subsidy rates. So that takes care of the reduction in the raw material prices to a large extent. What you also see is the plant running at near full capacity, Phos Acid production also at its full capacity, along with the other operational improvements happening at the plant, which is helping to sustain the margin level.

Sumant Kumar: Why I'm asking ammonia because ammonia is one-third of the peak price. And phosphorus is 50% of the peak price. That is why I'm asking, are we getting any benefit of higher decline in raw material prices?

Jayashree Satagopan: Yes, we have seen that in the first quarter. There is a benefit that definitely flows from the low raw material prices and ammonia prices have come down even during the quarter. What it was in the beginning of the quarter and what it has actually closed in the end of the quarter, there is a difference. So the benefit of raw material prices do flow into the margin. But to some extent, it also gets offset because of the correction that has happened in the NBS rates.

Moderator: Thank you. Our next question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: So I just wanted to understand on the SSP side of our business because we have seen last year our volumes going up by 19%. Even in first quarter, we have registered good 13%, 14% of volume growth. And what we could understand is that government is now providing the freight subsidies for sending SSP to the distant regions, which earlier was not the case. Plus, if I go through your annual report, we have revived our old Pali plant capacity which has helped us to improve the production rates. So all these measures, coupled with the fact that government is now incentivizing SSP, if you can share your qualitative thoughts on this. And if it's possible to share how much is the contribution in terms of EBITDA from the SSP business in FY '23 or probably in Q1 of FY '24, that would be helpful?

Jayashree Satagopan: Okay. So there has been good traction from the government in terms of incentivizing the production of SSP units. Apart from the Pali unit, we have also started operations at Ennore. These are two units in addition to what we traditionally used to operate for SSP plant. That has actually helped us in improving the tonnage of production. Having said that, the freight subsidy that was for SSP was only for a certain point in time. So the industry is continuing to work with the government to ensure that there is freight subsidy that is given. SSP unlike NPK, there are units which are closer to the market. So the intent is to see how SSP production can meet with the demand of the markets closer to the respective areas. That's been the overall philosophy.

And unlike in NPK, the major raw material for SSP is rock and to some extent sulfuric acid. While the sulfuric acid prices have trended down, the rock prices are holding at closer to last year's level. Even when the phos acid prices had increased, there was a lag in the rock prices as you all have observed. Now when the phos prices have come down, the rock prices will follow the trend, but it will have a lag effect. And therefore, to some extent, this will impact the margins in the SSP business. Normally, in SSP business, the SSP products have a margin of about INR2,000 to INR2,500 in some cases where we have value-added SSP, it can go up to INR3,000 per metric ton. That's a broad range one has to look into.

Nirav Jimudia: Okay. And ma'am, one more statement in the annual report where we mentioned that through our R&D initiatives, we have identified a suitable substitute raw material. This would probably helped and this was about the Kakinada plant where we were able to increase the production of one of the trains by close to 21%. And with this now, we have an assured supply of that raw material, which earlier was not the case. So if you can just help us understand what is -- what actually we have breakthrough into? And could this be a substantial savings in terms of our fertilizer business where our EBITDA could be improved or could provide some sort of fillip to the absolute EBITDA or even the per ton margins, if you can share your views?

Jayashree Satagopan: Yes. Now again, a good question, Nirav. What we continuously do is to look out for different sources of raw materials and different types of raw materials. Our plants have the flexibility to operate with different RM in terms of grades, whether it is sulfuric acid so on and so forth. And this is one such initiative that was taken up last year. And when we do such R&D initiatives and get it into production, there could be two things that can happen. Depending on the RM prices, which we are sourcing, there could be savings that can accrue to the company. The second thing, it can help in improving the throughput.

So last year, we had a good improvement that has happened in the throughput while getting into alternate materials. And depending on the price situation, we will take a call whether we have to go with our traditional method or do a combination of those with the newer materials. So that's something that the company continuously does. And thanks to our manufacturing team, they have delivered immense flexibility in terms of processing multiple types and grades of raw material, which is what is giving the flexibility to the fertilizer business in terms of quickly adopting and increasing the throughput.

Moderator: Thank you. Our next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Two questions and one clarification from me. For the clarification, the subsidy EBITDA for the base quarter was 87% or 78%?

Jayashree Satagopan: I didn't understand your question.

Tarang Agrawal: The subsidy share of EBITDA in the base quarter, that is Q1 of FY '23, was it 78% or 87%?

Jayashree Satagopan: One second. You're asking the subsidy versus non-subsidy business right?

Tarang Agrawal: Correct.

Jayashree Satagopan: So for the first quarter, the non-subsidy business is at 14%, subsidy business is at 86% this year.

Tarang Agrawal: And last year?

Jayashree Satagopan: Last year, the non-subsidy...

Tarang Agrawal: I'm talking about the share of EBITDA, not the revenue.

Jayashree Satagopan: It was 84% during this year. And in the last year, subsidy business share was 77%.

Tarang Agrawal: Perfect. That's helpful. Two questions, ma'am. One, ma'am, if we see the volumes, there has been a significant uptick in your trading business as well as your DAP business. If you could give us a sense on how the operating dynamics for this market were in this quarter versus the base period. So that's one.

The second question is, was there any provision that you took in Q4 '23 as a matter of prudence and consonance with lightening up of raw materials? If so, could you quantify the amount?

Jayashree Satagopan: Yes. Tarang, I'm going to just pass on this question to Sankar who's in the call, and I can come back to you on the financials. Sankar, over to you.

S. Sankarasubramanian: **Good afternoon.** On the volume front, we have taken up DAP trading this quarter, basically we want to utilize our capacity for our NPK production, and we focused on DAP imports. Hence, we have seen the uptick in our DAP volumes. And also we have imported NPK fertilizer during this quarter. So this has helped us to balance the volumes between our own manufacturing as well as imports, and that has also increased the volumes for this quarter.

Tarang Agrawal: Sir, but was there a change in the operating dynamics of the market in this quarter versus the previous quarter for such a sharp delta that we've seen in both DAP as well as trading?

S. Sankarasubramanian: Well, not really, of course it's not a consuming month. It's more of a positioning which happens. So consumption happens only when the season starts in July. So we had adequate volumes through enhanced production. If you look at our production numbers for the last year first quarter and this quarter, there's a significant volume increase in our production because we carried out our annual turnaround in the last month of the previous year. So all of our plants ran flat out in the first quarter that has helped us to position the material closer to the marketplace. And that's why you're seeing the significant volume jump in this quarter.

Tarang Agrawal: Yes, ma'am. On the provision question in Q4 '23?

Jayashree Satagopan: So we have made the necessary adjustment in the books as a conservative principle based on the likely subsidy reduction that is supposed to come in. This has also been disclosed in the notes to the accounts. As the new NBS rates have come in, we didn't see any material change that warrants any accounting related disclosure. So all of those have been considered in the previous quarter.

Moderator: Thank you. Our next question is from the line of Vishal B from Bandhan Mutual Fund. Please go ahead.

Vishal B: Just one question. When we look at the prices of raw materials, rock has been pretty steady and whereas acid has come down substantially. So can this lead to compression of spreads for our manufactured portion of DAP and NPK in the coming two quarters?

Jayashree Satagopan: As I was mentioning, Vishal, when the raw material prices have gone up steeply, rock was following. It did not happen simultaneously. Similarly, when we're seeing correction in the phosphorus acid prices, the rock prices are trending down, but not at that same pace. So you are right, when the acid prices are lower and the rock prices are slightly higher, the value that capture could be lower than otherwise. But you should also look at it. Coromandel has both integrated manufacturing as well as granulation plants. So when Phos acid prices come down along with all other raw material prices, the granulation plants margin also go up. So this is a very nice balance that we have. We have both backward integrated as well as the granulation plant, it sort of complement each other.

Vishal B: Okay. So when you say for the full year, INR5,500, INR6,000 per for manufactured, this assumes that the rock should fall subsequently, right? I mean, in case that doesn't happen, then this number could be at risk in case of that scenario only.

Jayashree Satagopan: This is considering a balance of multiple factors. There is raw material prices, not only of rock, there is phos acid, there is sulfuric acid, there is ammonia, urea. And then there is also the government subsidy related. I mean there is a factor of MRP price increase or decrease. We will be taking into consideration all these factors, we believe that about INR5,500 to INR6,000 is an achievable margin for the year.

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

Bharat Sheth: Congratulations, Jayashree and Sankar, on excellent number in a challenging environment. First, can you give -- throw some light on the economics of Nano DAP and raw material of the availability, whether it's again imported or available domestically? And how do we see these dynamics to play out?

And second, and any color on this our investment in this drone business? So is it generating revenue or not? What is the potential? And when it will start, I mean, contributing to bottom line of the company?

Jayashree Satagopan: Thank you, Bharat. I'm going to leave this question on Nano DAP to Shankar. And let me come back on the drones.

S. Sankarasubramanian: On Nano DAP in terms of raw material availability, they are all indigenously available and we have established sources for that. So we don't anticipate any challenge. And capacity is coming up in Kakinada, and hopefully, we should be able to commercialize the plant in October. About the prospects, we have been carrying out extensive field tie-ups in the marketplace, and we could see potential close to 50% of current use of DAP can be replaced with Nano DAP.

But these are very early stages. Once the product is commercially available from October onwards, we'll be essentially promoting these products in those states where imported DAP use is in abundance. So we'll be targeting these products, Nano DAP, in the northern markets, especially states like MP, UP, Punjab, Haryana where there is extensive longer use of DAP. So that's our approach.

Jayashree Satagopan: Okay. On the drones, you had a question. As you know this is a start-up where we had earlier invested about 18.5% and are taking it up to 51%. The transaction is yet to get completed. It will hopefully be done by end of July. And the drone company is looking into offerings in multiple segments. They have recently received an order of 400 drones from IFFCO on the agricultural front. And they are working on defence and emergency procurement area for logistics-related drones. Now there are applications on the enterprise side. They have been working with some of the oil majors. And obviously, there is also a play on the defence which can happen at a later point in time.

When we look into the technology itself, we know this is very future-oriented and drones are going to play a major role in each of these areas, all the more agriculture, where we are seeing that labor availability is posing a challenge. And when we use drones especially for our liquid fertilizer, specialty nutrients or crop protection chemicals, the drones help in ensuring the sprays are even, the efficacy seems to be better. So it is a very good future for the use case for drones. The question is, is it happening today? Yes, it is a start-up. They have qualified in the multiple categories. And with Coromandel coming in, we will be able to provide the management, bandwidth, the guidance and help them actually reach new scale. So that's what is going to be the initial one to two years. As we go along, multiple orders will come, and we expect this to also have a steady stream of income and EBITDA. Obviously, being a 51% company, it will also flow through the company financials and we'll be able to share with you more in detail as we go along.

Bharat Sheth: Can you give some color on the Q2 phos acid price and trend of the other input and simultaneously price of the final product?

Jayashree Satagopan: So, as you know, the raw material prices have all been coming down. So we expect that trend to continue. As far as phos acid is concerned, the price for Q2 is fixed at $850 per metric ton. And the MRP, as I was mentioning earlier, is a factor of multiple things. One is the raw material prices. The second one is the subsidies that the government is giving. And more importantly, we also need to see what is going to be the affordability of the farmers. So considering all of this, the MRP gets moderated during the year. So at this point in time, the MRP prevailing for July is more or less similar to the MRP of the last quarter.

Moderator: Thank you. Our next question is from the line of Arjun Khanna from Kotak Mutual Funds. Please go ahead.

Arjun Khanna: Two questions. The first is in terms of the specialty chemicals CDMO piece. So we've talked about it in the annual report and as part of the press release comment by Executive VC. He talks about the company identifying new complementary chemistries and plan to introduce these products in Q2. Could you help us with what are these chemistries you are looking at entering into? And would the CDMO discussions with innovator start off only post the MPP in Dahej? Or it's something that could start before?

Jayashree Satagopan: Very good set of questions. Thank you for bringing this up. I have Raghu with us on the line. And I'm going to request him to respond to both the specialty chemicals as well as CDMO as we have seen some good amount of progress in both these fronts in the last quarter. Raghu over to you.

Raghuram Devarakonda: **Good afternoon.** So on the Specialty Chemicals front, the idea is to use the existing assets to make products that are targeted towards this segment. So we have identified those molecules that we can potentially manufacture using the existing setup. This is in the first phase. The other bit is we already have some of these ag-chem that we are manufacturing. We find that some of those ag-chem molecules are relevant for specialty chemical end use. So we are exploring those as well. So this is in the first phase as far as the specialty chemicals story is concerned. So we should be able to see some action in this area in the current quarter.

Moving to CDMO. I don't know if we covered this in some part, over the previous call, but I will repeat. So we do have inquiries that have come up from some of the Japanese innovators as well as European ones. And as you can appreciate, the gestation period for such transactions do take time. But for the moment, the status is that they are -- some of them have come and done their due diligence. And they are comfortable with what we have in these plants in Gujarat. So it's progressing in the right direction for tapping into the CDMO opportunity.

Arjun Khanna: Sure. Just a follow-up on this. In terms of, say, announcements of contract signing, is this -- would this require the MPP plant to be ready at Dahej or existing facilities itself is something that we could process these contracts on when they come?

Raghuram Devarakonda: We have opportunities to do both. So we need to see how it concludes. And once they conclude, we'll definitely come forward and update.

Arjun Khanna: Sure. And in terms of timeframe, we expect this -- the CDMO line business to happen in the next 12 months, 18 months, two years or longer? Is there some timeframe that could be provided?

Raghuram Devarakonda: I think 18 months is a fair estimate as things stand right now.

Arjun Khanna: Sure. Sir, the second question I had was in terms of the Nano DAP since we are launching in October, I just wanted a sense what kind of capacity are we coming with in terms of how do we see the size of the end market at this point in time and given that it's not under subsidy. So in terms of pricing, etc.. efficacy for the farmer, how do we go about the pricing? And is it sold through those terminals? Or is it a free pricing in the market? Thank you.

Jayashree Satagopan: For the Nano DAP, the initial capacity creation from Coromandel is about 2 crores bottles per annum. This plant will be coming up at our Kakinada facility. And since, this is going to be a product which is not subsidized, the pricing will be based on market conditions. Obviously, given the fact that the company has always been endeavouring and working on keeping the farmers' interest first in line, the pricing will also be on those lines. So as we are closer to the time for launching the product, we will be sharing more particulars with you.

Moderator: Thank you. Our next question is from the line of Naushad Chaudhary from Aditya Birla. Please go ahead.

Naushad Chaudhary: Congrats on a decent set of numbers. Firstly, just a follow-up on the previous question. As we discussed in the last quarter as well, in terms of your cash deployment beyond FY '24. Any incremental development you would like to share with us? How are we planning to deploy in '25, '26?

Jayashree Satagopan: So there are two, three things that we have explained in the past, Naushad, and we just want to reiterate the same. One is there is a good amount of investment that will happen in our core businesses, which is fertilizer and crop protection because we are looking at strengthening our dominant position in fertilizer. At the same time, we're also looking into getting into new technology areas like Nano DAP and other Nano products.

Similarly, on the crop protection, we had earlier guided that we are looking into setting up new multiproduct plant in Ankleshwar a and a new site at Dahej. Apart from this, there are adjacencies that have been identified like specialty chemicals as well as CDMO, which will call for further investment.

The third area that we're looking into is the step out option, which is not part of the core but could provide a good runway for Coromandel in the future years to come. You would have seen in the last year, we have moved into mining, which is adjacent but going backward integrated. This year, we are looking into investment in Dhaksha, which is again for future-oriented technology, having some adjacencies on the agri space, but also has applications across various other segments. We have been looking into similar growth areas, considering the macro indicators and the trend looking into areas where it can complement our business.

When there are opportunities for both organic and inorganic growth, the company will seriously evaluate and invest. The intent is to see how as Coromandel, we can continue to add-value to all our stakeholders. So that's how the cash accumulated by the company will be utilized. You would have also noticed in the past several years, the company has been using its cash reserves for funding all its capital investments.

The current sulfuric acid plant for example, which is coming up at Vizag, desalination system, or the INR1,000 crores of investment that has been announced for CPC and Speciality chemicals, this is all going to be funded with internal accruals. So I'm sure over the period in time, there will be enough projects that will come our way, which will help in the growth journey and help in purposeful deployment of cash.

Naushad Chaudhary: See, I'm trying to understand in terms of the deployment within fertilizer and non-fertilizer. So broadly, if you have to give us the percentage what percentage would go to fertilizer business in next two to three years? And what percentage would be non-fertilizer investment?

Jayashree Satagopan: The way these days, we look into investment is not fertilizer or non-fertilizer. Fertilizer is a dominant business for us. We continue to be a leading private sector player in this area and we'll continue to invest in that business. It all depends upon the business case. Similarly, there are interesting new areas that are coming like CDMO or specialty chemicals. So each of the projects will get their due share based on the merits of the case. We are not doing a segregation of same amount to invest only so much in a certain type of business. If it is attractive and it makes value in a longer term, there will definitely be investment allocated for that.

Moderator: Thank you. Our next question is from the line of S. Ramesh from Nirmal Bang Equities. Please go ahead.

S. Ramesh: So continuing on the discussion on the plans in CDMO and MPP. So if you can help us understand your thought process on CDMO, are you going to be just doing manufacturing contracts? Or will you be involved in the entire innovator process, starting with Microlab, Kilolab testing, filing dossiers and taking it through the commercial launch. What is the thought process in CDMO? And are you looking at only agrochemicals? Or will you also look at pharma?

Jayashree Satagopan: Raghu, do you want to take it or should I?

Raghuram Devarakonda: Yes. See, for starters, we're going to do ag-chem because that's what is familiar to us. And we also have people and connections and relationships with some of these innovators. So it's going to be an ag-chem oriented to begin with. And what were the other questions? Sorry, I didn't catch..

S. Ramesh: The second part is in terms of your overall business model, will you be just doing manufacturing as an extension of the manufacturing of the innovator? Or will you start right from the early stage of initial R&D, product development right through the filing of dossier and then taking it through the commercialization?

Raghuram Devarakonda: That's right. So the eventual destination is what you have described, but you'll appreciate, I mean, the customers would like us to graduate step-by-step. So we're going to start with manufacturing and then graduate step-by-step. So all the conversations that we're having right now is to manufacture their final active ingredient. That's the nature of conversation we are having right now.

S. Ramesh: Okay. So just two related thoughts there. One is the promoter group company, TI, has also decided to enter the CDMO business and they have identified a business model and they have got an alliance with Anupam to sign, another emerging CSM company. So is that going to be under a specific agreement between Coromandel and the TI Group that you will not cross each other's stuff? Or what is the understanding within the group? Because it's part of the same group, that's why I'm asking the question from an investor's perspective.

Jayashree Satagopan: Ramesh, each of the companies have their own growth journeys and they have identified mega trends on which they are working. At this point in time, as Raghu was explaining, we are into agrochemicals. And in agrochemicals itself, there is a huge opportunity for CDMO given the China plus One. And that's why we have started. There could be opportunity in specialty chemicals as we go along. And that probably is a couple of years down the line. At this point in time, we have not thought as much on the pharma side. The current thinking is around agrochemicals, and at some point in time, getting into specialty chemicals.

S. Ramesh: Okay. If I can squeeze in the last thought on your subsidiaries and associated companies, in Dhaksha and the mining investment, when do you expect these investments to turn profitable on a consolidated basis? And is there any cash loss you'll have to incur in the next four to eight quarters before they turn profitable?

Jayashree Satagopan: No. As far as the BMCC is concerned, there are two steps before we get the rock out of the mine. The basic mining where we remove the over burden, those processes have got stabilized. And we knew as we got into the mining operation, there is a lot that have to be done to get consistent output out of that. So we are in the process of getting the second part, which includes crushing, screening, and then getting the rock out in a consistent manner. And we hope in the next two to three quarters, that process will also stabilize and as shipment happen, that operation should get profitable.

As far as Dhaksha is concerned, it is early start-up, as I was mentioning, they just started getting orders. Coromandel's goal will also be to help them become a player of scale by providing management guidance, inputs, support, so on and so forth. So Dhaksha also will become a profit-making entity because they just started getting the orders. So they are going to be taking a new manufacturing location where the drones will be manufactured, tested and then shipped to various customers. So both of them will go on the right traction and there is enough focus that is being driven by Coromandel to ensure that our investments actually bear the fruits.

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

Vishnu Kumar: On the Chemical business, on the Specialty Chemicals, is there any additional capex in thought as to how much we probably might consider to additionally invest in the next couple of years? If there is a broad thought on that?

Jayashree Satagopan: So Vishnu currently -- yes. Currently, what we have considered, the INR1,000 crores is mostly going in for agrochemicals. There could be some portion of it which can go in for slight modification or tweaking, alteration of our existing plants, where the products can be meeting the specialty chemical segment. We are in the final stages of getting an overall business case for speciality chemicals, considering certain chemistries which are turning out to be very, very attractive. Once that gets completed in the next three to four weeks' time frame, the capital expenditure required for that will also be estimated.

So to your question, the answer is, currently we do not have anything major planned. But based on the business case, I do believe there will be some good amount of investment required for this segment as well.

Vishnu Kumar: Understood. And also the channel inventory, if you could talk about on the fertilizer. We understand channel inventory is slightly higher. And this week, in Telangana, the rains have been pretty excessive in certain districts and some parts of interior Maharashtra, Karnataka are not doing that well. So how do you see the Kharif season -- rest of the Kharif season playing out in terms of volumes?

S. Sankarasubramanian: See, there is a widespread coverage of rain in all our key addressable markets. Even if you see Telangana got rains recently. Maharashtra and Karnataka also received good rainfall. So in those markets we are operating very significant mileage in terms of brand connect and we don't anticipate any problem. Channel inventory is significantly higher compared to last year around the same time, but we don't see any challenge from our point of view.

Vishnu Kumar: And final question on MRP. You mentioned that we will consider. Is it likely at the end of Kharif because we are seeing a steep fall across even as you mentioned phos acid has come down and other products -- I mean other RM also has come down. Should we expect MRP cut in the next month itself? Or we will wait for Rabi starting to go ahead and announce the cut?

S. Sankarasubramanian: In terms of the price, Jayashree gave numbers, where she said rock prices are holding steady. And also, I think we are seeing the bottom in terms of the global commodity prices. In fact, there is some slight uptick in the price of DAP, urea in the recent past. We have to wait and see and also there can be a potential correction in the subsidy going forward as well. So we will take a view after we have some visibility on how the NBS rates are going to be for the Rabi season and then take a call after that.

Vishnu Kumar: Got it. So as of now, next couple of months, we don't anticipate either a subsidiary or MRP, that is if I can...

S. Sankarasubramanian: No.

Moderator: Thank you. Our next question is from the line of Rohan Gupta from Nuvama. Please go ahead with your question.

Rohan Gupta: Congratulations on good set of numbers. Sir, on complex fertilizers, I mean overall, I think last year, we produced 35 lakh tons. I think that is the next -- probably best utilization we can see. With the DAP manufacturing hardly 4 lakh tons. So almost 80%, 85%-plus is a complex fertilizer production. So do you see that this year, we have further scope for any change in mix and further manufacturing of complex fertilizer while consciously going for trading on DAP? And how much utilization we can increase further?

S. Sankarasubramanian: See, our preference always need to focus on NPK production. And given our opportunity on the imported DAP at a price point, it makes sense for us to import DAP better than producing and release that capacity for NPK. And also within NPK, we choose the grades which meets our requirements. These include input raw material prices, whether it's urea, ammonia and phosphate. So that's a flexibility Coromandel enjoys having a wide range of products. We can send over any train, which is the production line for a fertilizer for any grade. So that optimization mix, we keep doing it even within NPKs.

So our utilization will be more or less the same as last year because we also did well. And also we use different types of input raw materials, which can increase the throughput. And we also continuously work on improving the up time of machinery through digital enablement of our maintenance at factory, this has improved uptime and availability of machine. So we do expect incremental volumes to come through, through productivity measures, better raw material mix as well as change in product mix. So production throughput changes depending on the grades we produce. So we keep deploying depending on what subsidy we get and what raw material input prices are.

Rohan Gupta: Sir, Jayashree ma'am also mentioned that you will completely invest in fertilizer business. However, the growth in the fertilizer industry still will remain muted or maybe at best 3% to 4%. So is this something we are looking at acquiring any assets and that is what's going to drive the efficiency and make the business more sustainable for us? Because if we keep on investing from the current base, the markets may not be growing in that direction, right? So how do we plan to grow in the fertilizer business?

S. Sankarasubramanian: With the increased demand for food grains and also the change in dietary patterns, the foods and vegetable segment, horticulture segment is growing and this requires nutrient. And India still continues to be the lowest consumption of nutrient across the globe. So going by the trend and the increase in arable land, the need for real improvement is always there. So we'll be definitely looking for enhancing our capacity and coming up with products which can improve the yield. So it may not be the same generic grades of DAP and traditional NPK, it can be coated fertilizer, slow release fertilizers and fertilizers which can improve the fertilizer yield efficiency.

And we have enough space to operate in our key addressable markets where we are currently in and definitely we will look to grow the volume. But first, we will evaluate our brownfield expansions, which means increasing our capacity within our existing facilities before we look out any other organic Greenfield. So we feel with the increased demand for the fertilisers there is enough scope for us to increase the volume and increase the capacity utilization or add-on capacities in our existing facilities.

Rohan Gupta: Sir, do you still envisage roughly double-digit growth for fertilizer business in terms of volumes sustaining for next three to four years, is it possible?

S. Sankarasubramanian: It's very difficult to predict. They've got various factors in terms of monsoon and the spatial distribution of monsoon and the pricing of fertilizer. So we don't want to give any estimates--but direction-wise, we would like to grow the volume. And we feel there is enough space for us to grow the volumes.

Rohan Gupta: Sir, just a couple of bookkeeping question. What is the debt number right now? And what is the phos acid prices contract right now?

S. Sankarasubramanian: $850 is the pros acid price. And what is the first question, is it debt or DAP?

Rohan Gupta: Sure, debt number. Yes. What is the debt on the book right now?

Jayashree Satagopan: So we don't have debt on the books. We don't have any borrowings. There could be some very short-term working capital limits that, which primarily is for managing the day-to-day operations. There are arrangements with the buyers where they extend credit for our imported products

Rohan Gupta: So even short-term working capital, no debt right now on the balance sheet?

Jayashree Satagopan: No. We have from working capital facilities in debt. That will always be there. But nothing for the long term, yes.

Moderator: Thank you. Due to time constraint, that was the last question for our question-and-answer session. I would now hand the conference over to the management for closing comments.

Jayashree Satagopan: Thank you. Thank you very much for the interest and very interesting set of questions. Due to time constraints, there is as much that we could take. And I know there are still a few questions in the queue. Feel free to reach out either to me or to Anuj, and we'll be happy to engage with you. Thank you again.

Moderator: Thank you. Ladies and gentlemen, for the questions that were not answered, you can contact the management off-line. Thank you. On behalf of Elara Securities Private Limited, that concludes the conference call. Thank you for joining us, and you may now disconnect your lines.