"Coromandel International Limited Q2 FY25 Earnings Conference Call"

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MODERATOR: **MR. NITIN AGARWAL – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Coromandel International Q2 FY '25 Earnings Conference Call hosted by DAM Capital Advisors 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 "*"then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Agarwal from DAM Capital Advisors. Thank you, and over to you, sir.

Nitin Agarwal: Thank you, Siddhant. Hi, good afternoon everyone, and a very, very warm welcome to Coromandel International Q2 FY '25 Post-Results Earnings Call hosted by DAM Capital Advisors Limited.

On the call today we have representing Coromandel International Management, Mr. Sankarasubramanian S. – Managing Director and Chief Executive Officer, Dr. Raghuram Devarakonda – Executive Director (CPC, Bio and Retail Business), and Ms. Jayashree Satagopan – President (Corporate) and CFO.

I will hand over the call to the Coromandel Management Team to make the "Opening Comments" and then we will open the floor for questions. Please go ahead, sir.

S. Sankarasubramanian: Good afternoon, everyone, and thanks, Nitin, for organizing this Q2 call for Coromandel. First I will give you the overall business environment what we witnessed during this quarter followed by our business performance and Jayashree can take us through on the financial updates. Then we can have Q&A session.

As you all know, the monsoon has been good at 108% of the long-term period average and we have witnessed a strong Kharif season. Actually, our south markets received 114% of the normal rains.

Northeast monsoon which is likely to bring rains to Rayalaseema and Coastal Andhra has started on a strong note, and we do expect a very strong Rabi season. IMD is predicting above normal monsoon, and as we speak, the reservoir levels are looking very healthy. The storage, especially in the southern markets are much better than what it was in the last year.

Also, the crop acreage was good in Kharif. Except for cotton, rest of the crops we have witnessed growth over the last year and better than the average of five years as well. So, we do expect this positive trend to continue in the Rabi season with improved reservoir levels and increased acreages. Overall, food grain output is likely to be good, which is very good from the food inflation point of view.

On the policy front also, the government has been increasing the MSP, and there has been a recent announcement on increasing MSP for the Rabi season. It has been a 2%-7% increase in number over the last year for various crops.

Also, the government has been advocating the PM-PRANAM scheme and they have released funds to farmers to improve the liquidity in the market.

As you all know, the NBS rates for Rabi have already been announced ahead of time. There has been marginal increase in the nutrient rate for P, whereas N and S have seen some reduction.

Government, in order to focus on availability of DAP, has given special package for DAP and also encourage industry to actively source DAP and agreed for compensation beyond certain cutoff rates. So overall, there have been some challenges in supply chain linkage due to global geopolitical situations. There has been a challenge in DAP availability, which is improving now.

On the industry front, raw material prices have started moving up in the recent past. After reaching the lows in June, July, we have seen spikes happening due to Middle East flare-ups and also due to limited participation by China in exports. Certain supplies of raw materials have been impacted due to production outages for certain industry players.

The industry's production more or less has been maintained well, and there has been a growth in production by 4%. Of course, the imports are down due to supply-related challenges, and the consumption has moved up because of the good monsoon, especially on the NPK side.

If I have to look into Kharif consumption data, it's very heartening to note that the NPK has witnessed a significant growth of a million-ton, an increase of 18% over the corresponding period of last year, replacing DAP. And this is a good trend to be in, because this encourages balanced nutrition, and that is what Coromandel has been advocating for many years now.

So, consumption overall has been down basically due to a drop in DAP consumption, made up adequately by NPK. Potash has largely moved up due to improved availability. In Single super phosphate, there has been a marginal reduction, but the industry is moving more towards value-added products.

Overall, I would say that the industry performance in a given situation of global commodity supply chain challenges has performed well, and the farmers have started using more of agri inputs to improve productivity.

Coming to specifically Company's performance in Q2, fertilizer plants operated at over 100% capacity. Production during the quarter was at 8.8 lakh tons, 13% growth over last year, being one of the record performance for fertilizer operations.

During this quarter, we restarted our phosphoric acid, Sulphuric acid plant at Ennore. Our project announced in the early part of the year in April for Phosphoric acid and Sulphuric acid facility at Kakinada is progressing as per plan. We have released major orders and there has been good progress during this quarter.

This project is likely to be commissioned by March '26, and hopefully when this plant is ready, overall 60% to 70% of our captive acid requirements will be met internally, giving us a lot of operational flexibility and raw material security.

Recently, we announced acquiring the additional stake in BMCC, basically to consolidate our position. Currently, we hold 45%. With this announcement of additional acquisition of 8.8%, we will be crossing 50%. We will be holding 53.8%.

We are also in the process of stabilizing our fixed processing plant at Senegal, which is just commissioned last week. And hopefully, we should streamline the production and see increased volumes coming into India. During the quarter, we have significantly increased the usage of Senegal rock at Vizag and ensured the output of acid is in line with our expectation.

As part of our expansion plan, having created raw material linkages for both acid and rock, as a next logical step, the Board in its meeting held yesterday approved the Company's plan to expand the granulation capacity by 7.5 lakh tons. This will be a Brownfield expansion coming up within Kakinada, which will take the capacity of Kakinada plant from 22.5 lakh tons to 30 lakh tons, making it as the largest fertilizer complex in the country.

This is in line with the government's thrust on Atmanirbhar Bharat in phosphatics. With a lot of global challenges in availability, Government has been encouraging industry to go in for captive production. As a Company, we have been consciously securing our raw materials. And now phosphatics facility is also coming up. As next logical step, we have decided to move in for granulation train.

As you all know that industry is still importing 6 to 7 million tons of DAP and NPKs, especially major imports coming to north part of India. And that is where Coromandel is looking to fill this and substitute the imported DAP with NPKs.

We have been a strong player in NP and NPKs in the southern part of India. And now we will try and see how we replicate this story in the north to replace the imported DAP. This will also help in balanced nutrition, improving the yield for the farming community.

Overall, on the operational side, the business has registered a very strong volume growth during this quarter. On a quarterly basis, we have done 13% volume growth over the last year and 7% on a half yearly basis. On a half yearly basis, we have reached 21.5 lakh tons, which is one of the record sales volumes we have done in the recent past.

On the consumption basis, our market share has gone up for the quarter. During this quarter, there has been a significant increase in our consumption market share from 17% of last year to 20%.

During Q2, our SSP sales volumes have grown by 9%. We have started focusing more on differentiated fertilizers like GroPlus, which has got micronutrients in SSP.

During this quarter, we have launched the Urea SSP, which is basically a combination of N and P in SSP. It has got the same ratio of N and P, similar to what we have in DAP. It has been very well received in the market and can be a good substitute and alternate for DAP. And the advantage what we have is that we get freight subsidy for this product. So, as a business, SSP has turned out well this quarter, with the focus on unique grades and also differentiated products and Urea SSP.

As you know we are into drone spraying services. We have created separate vertical. We have been driving this business for the last two quarters. And we have done 40,000 acres. We have this unique advantage of having drones supplied from our group Company, Dhaksha. We have also partnered with some of the institutional players in this segment to improve the drone spraying services.

Another business which we started off last year in November, Nano DAP, has been received very well in the marketplace. During this quarter, we have focused mainly on the consumption part, whatever we placed in the earlier quarters. A lot of market development activities and awareness campaigns have been carried out. We have engaged with various research institutes in terms of improving and ensuring that this product brings in desired impact for the farmers in terms of replacing DAP. Slowly, awareness is coming in and we are getting good response, especially for the crops with higher foliage. Government has also been giving thrust to this product as a good alternative to DAP. So, we will be scaling up these volumes and we have created the state-of-the-art plant in Kakinada and hopefully we should do better in the coming quarters.

On the specialty fertilizers, our volumes have grown compared to last year and we have done very well on the sulfur segment. Especially states like Karnataka and Maharashtra, we have performed very well on the specialty nutrient category. We are also in the process of establishing additional capacity for sulfur, which will be coming up by the end of Q3.

Overall, the nutrient business has done very well in a given situation of volatile commodity prices. We are able to focus on our own unique grades and give trust to the business.

Crop protection business, which had soft quarters in the last year, has really played out well during this quarter. The business has improved on the top line as well as on profitability. The margins have moved up. In the formulation business segment, there has been a volume growth of more than 20%, thanks to the new formulations we have introduced during this half year.

They are all performing very well and received well in the marketplace, and we continue to work with innovators to bring such new products to improve our formulation business in India.

Thanks to the positive response to Mancozeb demand in the global market, there has been a considerable uptake in volumes and exports have grown by 10%. It's been good revival in demand for Mancozeb and anticipating this, we are also trying to see whether we can increase our capacities to meet the market requirement. This buoyancy in Mancozeb demand is likely to sustain for the coming quarters as well.

As you all know, in yesterday's Board meeting, the Board approved putting up a multi-purpose plant at Ankleshwar. This is again a Brownfield expansion we are looking to put up for fungicide plants for recently off-patent molecules. We will be amongst the first ones to get into this product. In terms of volume may not be significant, but they are high value and generate a good amount of top line and we will be focusing in Latin American markets as well as formulations for the domestic market.

We will be investing 170 crores in this plant which will take 18 months to come in and in parallel we are working on product registrations as well as scaling up volumes in the period to come. This will also help us to understand new chemistries and bring in new process technologies, which will help us to attract CDMO players who are looking to tie up with us. So, this will be a good start on the CDMO opportunity which we have been talking about for the few quarters.

So, we will continue to engage in these prospective discussions with innovators, and we will continue to focus on R&D trials to come up with a new set of molecules. This investment of multi-purpose plant is the beginning, and we need to add some more in the days to come to see that we grow the crop-protection business on a faster pace.

On bioproducts, where we are one of the largest players in the neem-based bio-pesticides, we are trying to diversify this segment. We improved our sourcing capability to set up the new systems to handle the neem seeds. We sourced neem at competitive price which will help us to have some visibility on the margin structures in the coming quarters.

In retail business, where we have a significant presence in the Southern markets and is one of the largest player in the agri-rural retail chain, we have done very well across the product categories. Our non-fertilizer segment has grown well, thanks to increased footfalls in our retail outlets.

We have opened 45 new stores during the half year. Retail is a way for us to expand and improve the business. We have seen that whatever new products we are introducing in various business segments, retail could scale up the volumes and go to market much better than the trade channel.

Retail has launched Nano DAP and they have received very good response. The direct connect with customers is really helpful to understand the psych of the customer and ensure that we position the products well.

So, overall, across all the business verticals, the company has done well. And while in terms of overall profitability it may be marginally lower than last year, but in terms of sequential performance over the previous quarters, we have grown both on top line and as well as bottom line. And our Q2 performance is also better than street expectations.

I would now request Jayashree to take us through financial performance. And then we can have Q&A later.

Jayashree Satagopan: Good afternoon, everyone. And thanks, Sankar. The financial performance for the quarter and the half year is as below.

As far as the turnover is concerned, the Company recorded a consolidated total income of Rs. 7,498 crores during the quarter and Rs. 12,281 crores during the half year, vis-a-vis the corresponding period of Rs. 7,033 crores and Rs. 12,771 crores, respectively. This marks a growth of 7% for the quarter and a degrowth of 4% for the half year. The decrease in revenues is mainly on account of drop-in subsidy rates in the fertilizer business as compared to last year.

Subsidy business' share in revenue stands at 84% during the quarter and 83% for half year. During the previous year, it was 84% for the quarter and 85% for half year.

On profitability, the consolidated EBITDA for the quarter was Rs. 975 crores, as against 1,059 crores in the previous year. For half year, it was Rs. 1,481 crores, vis-a-vis Rs. 1,768 crores during the previous year.

Subsidy business' share in EBITDA stands at 73% during the quarter and 72% for the half year. The corresponding numbers of the previous year was at 81% and 82%, respectively.

Net profit after tax in the quarter was Rs. 659 crores in comparison to Rs. 755 crores for the corresponding quarter last year and Rs. 968 crores for the half year, as against Rs. 1,249 crores in the previous year.

As far as subsidy is concerned, during this quarter, the Company has received Rs. 2,868 crores towards subsidy claims. In the previous year, this amount was 4,243 crores. For the half year ended, the Company received Rs. 3,855 crores of subsidy. The previous year, the corresponding number was 6,312 crores. Subsidy outstanding as on 30th September 2024 was at 1,714 crores. In the previous year, this number was 1,497 crores.

The Company had closed the quarter with net cash, which is including deposits, mutual fund investments of Rs. 4,214 crores and it is focused on improving the working capital levels to further enhance the net cash position.

As far as FOREX is concerned, recently we have seen the rupee depreciating. Coromandel continued to maintain a conservative position and hedged its exposure accordingly.

We thank you all for your continued interest in Coromandel and joining our call today. We look forward to the interactions and the question and answers.

Moderator: Thank you very much, ma'am. We will now begin the question-and-answer session. Our first question is from the line of Prashant Biyani from Elara Securities. Please go ahead.

Prashant Biyani: Ma'am, what drove the profitability improvement in crop protection and especially the non-subsidy non-CP business?

Jayashree Satagopan: Hi, Prashant. Thanks for your question. In crop protection business, we have seen a good growth happening in the domestic formulation business. And during the first half, the Company introduced 10 new products including one patented molecule of ISK. So, all these products have received very encouraging response and that has to some extent showed the profitability.

Apart from that, some of the cost measures that have been taken at the plant over the past couple of years have also led to a better cost position compared to the previous year's, which has also helped in shoring up the margins.

Prashant Biyani: And ma'am, on the non-subsidy non-CP part?

Jayashree Satagopan: The non-subsidy non-CP part is mainly specialty nutrients. Some of it is also in the retail business, and we also have the recent launch of Nano products. The specialty nutrients business has been doing pretty well. It's continuing its trend like in the past years, and there has been some good actions in terms of sourcing the materials at the right cost. And these have also contributed in improving the margin.

Prashant Biyani: Ma'am, secondly, if Sankar sir can answer this, rock prices have increased off-late, I guess from the lows. And how are we stocked up on the inventory of Rock phosphate, till which month? And do you also expect phosphoric acid prices to increase from here? If yes, then what could be the immediate levels that we can look at?

S. Sankarasubramanian: See, phosphoric acid price for the Q3 is yet to be settled, but there will be a definite increase compared to what it is right now because the DAP prices have moved up and generally, these prices do move in tandem with the DAP. Other input prices have gone up, so the industry is negotiating to get better rates, but there will be an increase over the previous quarter.

In terms of the Rock prices, the advantage what Coromandel has got in terms of access to mines, understanding the cost structure and increasing the supply from Senegal is helping us to manage better in terms of the Rock sourcing. We always ensure that we cover for three to four months ahead considering the sailing time and also the challenges what we have in the geopolitical situation. And to that extent, always we have a positive carry on strategic materials like Rock phosphate.

Prashant Biyani: Sir, then going forward, if you see the ammonia prices, subsidy on N has reduced, but prices have increased. So, how would it change the complex portfolio mix for you going into H2? Will it be more towards NPK only? And if then, in which grade it will be?

S. Sankarasubramanian: See, this has been a temporary phenomenon. There have been some production outages by large players in the Middle East and prices should soften. Probably one month spike is there, but we don't expect this to sustain for a long time. So, ammonia prices can come down.

Having said that, the Rabi subsidy is what has been already announced. So, we need to see how we optimize the product mix and also there can be some flexibility in terms of the farm gate prices later December, going into January, which could help us to pass on this cost if this cost is likely to remain where it is now. But I don't believe that these higher ammonia levels are likely to remain.

There can be some temporary challenges in the margin structure, but it should get normalized, and we do keep optimizing the grades, there is a flexibility in switching over from one NPKs to another NPKs, and we have pricing flexibility and input cost advantage. And our own captive production of sulphuric acid and Phos Acid also help us to sustain the margin.

Prashant Biyani: And ma'am, lastly, before I jump back into the queue, how much was the revenue from nano-fertilizer as well as Dhaksha in Q2?

S. Sankarasubramanian: Nano-fertilizer in terms of our focus for Q2 as I mentioned was more on the consumption side. We have done roughly 16.8 lakh one liter bottles in terms of the volumes, during the first half. We can scale up the volumes and we will be focusing on doing it in Q3.

In terms of the Dhaksha probably we will address it separately or Jayashree can add that. Mainly its orders are in terms of agri drones, which Coromandel has purchased, and there are some balance orders executed with other fertilizer companies as well. Other defense orders are in pipeline waiting for the execution to happen.

Moderator: Our next question is from the line of Parth Mehta from Vallum Capital. Please go ahead.

Parth Mehta: Just wanted to ask, so you mentioned that the new MPP in the crop protection side will help meet the growing demand for the identified products in domestic and export geographies. If you could just help me which are the products that you have identified and in the domestic and the export geographies that would help us grow.

S. Sankarasubramanian: I think Raghu is on the call. Raghu probably can take through, but we don't want to get into specifics on which products for obvious reasons, but broadly, Raghu can talk through on what we are trying to focus on.

Raghuram Devarakonda: I think at the moment whatever Sankar mentioned, for the obvious reasons, we don't want to divulge their specific names, but as you are aware dependence on Mancozeb is quite significant. So, with this approach, it's going to broad base our portfolio in fungicide and thereby de-risking dependence on that. And besides the CAPEX will take a while to execute as well. Once we go live, I am sure we can share more details on the specific products. Suffice to say that these are relatively younger products. I think again Sankar in his initial address mentioned that these are recently off-patent molecules so that there is a longevity and therefore, there can be sustained demand for such molecules going forward. And these contemporary AIs lend themselves to good combination. So, they combine very well with other molecules. So, we plan to formulate some novel mixtures in the meantime, some of which are already in the pipeline for registration. So, by the time the CAPEX gets executed, we will also be receiving some of these registrations so that we can quickly leverage the capacities that are coming online. I hope that kind of addresses your question.

Parth Mehta: Yes, that was helpful. And I just wanted to understand are we coming up with any of the new molecules that are being developed in our R&D or are they more of from the tie-ups that we have done.

Raghuram Devarakonda: So, as you are aware, we are a generics player, but for the new molecules, I mean when you say new, if they are patented, we are in the process of bringing such molecules from innovators. We are not innovators. We don't do discovery on our own. There are plans for bringing in patented molecules through our distribution channel globally.

Parth Mehta: Just last one if you can help me, how is the Chinese molecules fairing out right now in the export market scenario situation globally in terms of volumes or prices?

Raghuram Devarakonda: Yes, at the moment, the prices have bottomed out is the general sentiment globally, and the expectation is that they will start going up sometime middle of next year, that is the calendar year. And I mean, these prices we believe are not sustainable for too long because the Chinese would also like to recover whatever they have invested in. So, because of the previous, as you may be aware, there was a glut in the system, the inventory in the pipeline as well as there was a drop in the commodity prices in Brazil for soybean, cotton and so on, which kind of reduce the grower's willingness to spend money on additional sprays.

So, all of those are easing up, particularly the inventory is nearly gone. The excess capacities will continue to haunt. Maybe the smaller players, the marginal players would have been pushed out. So, the total available capacity might have shrunk. And thirdly, the commodity prices are also expected to go up.

So, all the three factors that led to a significant price drop are now easing off. So, that should eventually lead to an improvement in prices. So, this is what we understand of the scenario as far as the Chinese players are concerned in the market.

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

Vishnu Kumar: In terms of the fertilizer business, the operational profitability is better than expected for most of us. So, is there anything that we have done differently or is the vault, because we understand that pricing was relatively not that great for us, given the RM and the end market prices. So, what has led to kind of slightly better, at least from what we were considering? Is it any operational costs or mix? Any help would be great.

S. Sankarasubramanian: As you are aware that last year we commissioned Sulphuric acid plant and that's been well timed and very helpful. When the global Sulphuric acid prices went up, we could produce Sulphuric acid at a much lower price. And also the power generation, what we envisaged, we could operate our turbines at full capacity and that has significantly reduced the conversion costs.

So, our ability to scale up the projects to 100% plus capacity, improved operational efficiencies, ensuring that the intermediates like phosphoric acid where we capture the value addition, we operate at full capacity and the timing of our raw material purchases and the type of rock what we use and the sources of acid we use is completely different.

We have product flexibility in terms of optimizing the NPK mix, depending on the subsidy and the market price, ability to source and use different types of raw materials, whether it is rock or acid, and our intermediate capacity is helping us to generate power and also alternate water source like **RO plant** which we put up last year, all these been helpful to manage this sort of a volatility in commodity prices and come back with the margins. Had the commodity prices have been stable, our numbers would have been much healthier than what we are reporting now.

Vishnu Kumar: How much would probably be a structural cost savings for us like as you mentioned on the power and the RO and water, others I understand can move up and down. So, how much could be a structural cost savings that we are going forward we should see?

S. Sankarasubramanian: See, Sulfuric acid alone can potentially give us close to 160-170 crores per annum, both in terms of the delta between the imported sulfuric acid price and the cost of production and the power generation. So, half year will be somewhere between 40-45 crores and that can get doubled. It's not only helping us in bringing down the cost but also in terms of the environmental norms, and we are one of the world class facilities with norms much less than the global standards.

Vishnu Kumar: Sir, also on the, you mentioned that this quarter or rather we have seen in Kharif that the DAP consumption has been markedly lower and NPKs probably come up well. Is it this, this is because of the profitability for traders was very low or since from a import replacement angle government would probably want us to probably import lesser DAP. So, should we see structurally this is going to be a theme for, so DAP will go down? Is this a more of a short-term issue or like we will bounce back and DAP will come back?

S. Sankarasubramanian: No, absolutely. In fact, it looks to me a structural shift which is happening, especially in the North markets, which are predominantly using DAP for many years. To some extent, the shortfall in the availability has also helped people to try out the NP grades like 20:20 as well as NPK grades. And government also encourages balanced nutrition, and it's a combination of multiple things. Lack of availability, making people to look for alternates and that has helped in improving the volume of NPK fertilizers by a million ton. And there has been a general increase over the last four years in terms of the share of NPKs versus DAP in the overall phosphatics. This augurs well and this helps in multiple nutrients. As a Company like Coromandel, we are not only focusing on primary nutrients in NPK but also trying to see whether we can add secondary nutrients like boron, zinc and come up with unique grades.

So, more and more, I think industry should move towards customized fertilizers. That's what our approach would be to ensure balanced nutrition, improve productivity for the farmers and the government is also supporting for this.

Vishnu Kumar: This 0.75 million ton of capacity, when are we likely to have it, in terms of commercial sales, when should we begin? And in the interim to capture the market before we launch the product, are we going to do additional marketing and how should we see the approach from now to when the plant comes in?

S. Sankarasubramanian: Good question. The plant will take two years to come in and rightfully we can't be waiting for the capacity to come in and start selling. In fact, currently our volumes could have been much better if we had additional production. We are operating at 100% capacity. We are supplementing it with imports. Our imports are predominantly on DAP. In fact, currently our sale volumes are much higher than what we produce. Our overall production is in the range of 31 to 32 lakh tons, whereas we are inching towards 40 lakh tons. So, we will try to grow this volume for the next two years as well until we have our own capacity.

So, we will be also focusing on newer geographies, northern markets where our efforts will start now in terms of seeding the market with NP, NPK fertilizers and developing our market for these grades. It may take a while before the switch happens from DAP to NPK and that's what we will be exactly doing during this project implementation time so that as and when the plants are ready, we will be able to supply those materials from our own manufacturing facility. Till such time, we will be meeting it with imports.

Vishnu Kumar: So, this area that we will target will still be within the zone where our freight subsidy is there or we will stretch it outside also.

S. Sankarasubramanian: In Phosphatics freight subsidy operates across India up to 1,400 kilometers. So, I don't see any challenges.

Moderator: Thank you. Our next question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

Resham Jain: So, just two, three questions. The first one is you mentioned in your opening remarks that you have opened 45 new stores in this quarter. Is that correct?

S. Sankarasubramanian: 45 new stores in half year

Resham Jain: This will be possibly the highest number of stores you have opened it seems. So, what is the strategy on the retail front, let's say, over the next two, three years?

S. Sankarasubramanian: We are very keen to increase the footprints, and we have enough space to operate even in our key markets like Andhra, Telangana where we may look to increase the numbers from what we are in. At least currently we are around 750 to 800 stores. Our aim would be to increase it by another 20% at least in the coming two or three quarters.

But we are very, very cautious in terms of where we are opening. So, we ensure that we break even at the earliest. Based on our learning curve, we don't take longer period nowadays to reach the break-even level.

So, our choice of location and the product segments and categories will play an important role. Our aim is to scale up the volumes, not only to certain markets, but also look at pan India. So, we may be looking at western markets as well where we can target certain geographies and crop segments. So, our aim would be to increase our retail footprints, and we got our model right. Our ability to connect with farmers has been far better than what it was few years before. So, we will try and expand and exploit this opportunity.

Resham Jain: So, sir, from number perspective, these 750-800 stores can go to what number, let's say, in next three years?

S. Sankarasubramanian: We are in the discussion stage. We can let you know once we come up with strategy. I don't see why can't we double it in next two, three years' time. But still in the drawing board. As I mentioned that we are not in a hurry to increase the centers, but we will do it in a systematic and cautious way.

Resham Jain: So, the second question is the incremental or higher subsidy for DAP versus NPK. So, does that mean that our overall production will be higher of DAP versus NPK, at least in the near term?

S. Sankarasubramanian: As a Company we have been focusing on NPK productions and we import DAP. We will continue this strategy.

Resham Jain: Despite the higher subsidy for DAP, that doesn't change anything from your overall production mix perspective.

S. Sankarasubramanian: Yes, but additional compensation in DAP is helping to manage the gap between the subsidy and MRP versus the cost. It doesn't add really to the margin. So, our strategy would be to optimize our production towards NPK and import DAP to meet the supply commitment.

Resham Jain: And sir, just your guidance on the overall non-subsidy piece, which has been doing quite well both from revenue as well as profitability perspective. Over the next 2-3 years, given there are multiple projects which are going on, how should one look at the overall non-subsidy piece?

S. Sankarasubramanian: See, crop protection is one area where, as Raghu mentioned, we missed out in terms of market growth because of the gestation period involved in terms of putting up facility and product registration. So, a lot of efforts have gone in the last 2-3 years in identifying the new molecules and a lot of R&D trials have happened. So, hopefully, we will be releasing every year some new products.

As you have seen this year, we have done 10 formulation products, which have increased the domestic formulation sales. We are also looking to introduce new generation molecules to reduce our dependency on Mancozeb and increase our presence in Latin American markets. So, we will be driving our focus on CPC to capture as much as possible both in the domestic and global markets.

Specialty nutrients have been growing steadily. We have been improving our top line by 10% and EBITDA has been consistently growing. That is one category we will try and see how best we can improve. In single super phosphate, which we don't talk much, but we have been consistently growing on volumes and bringing in value-added products and capacities have been growing up. So, while it is also part of the subsidy business, we have changed the overall approach to this business and that is running out very well for us in terms of the new grades volumes and improved margins and profitability.

Besides this, in retail, we have seen increased footfalls in all our retail outlets and that is helping us to scale up the non-fertilizer category where we make margins. So, our focus would be to increase the volumes of non-fertilizer category in the retail segment.

Bio business is a very niche segment. Currently we are focusing on export markets, and with our neem base, we are trying to diversify other product categories. We are looking at new product segments in bio. So, that is also likely to see traction in the coming periods.

We have reached some size and scale in fertilizer business, we have done adequately on backward integration, and we will continue to grow the piece in terms of mining, improving the value chain. In terms of the volume with this announcement of capacity, we are there as being the largest supplier in the phosphatic segments.

So, our focus from coming quarters will be on driving the other non-fertilizer segments to grow on the top line and also look out for step out opportunities which are available. As and when it materializes, we will be able to articulate. So, our aim would be to grow more on the non-subsidy piece in the coming quarters.

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

Bharat Sheth: Sankar, my question is, from three years' perspective, what would be our capacity for this nutrient business including SSP and how do we see what kind of a backward integration is that point of time we will have in terms of whether sulfuric acid or rock, phosphoric acid and how that will play out?

And second thing, when you are talking of this replacement of DAP with NPK, so how much scope is also there for replacing DAP with phosphate SSP? So, if you can give some more color and how that thing will really play out, and last question is on the Nano DAP. So, how much that will also over a three-year period, if you can give some color?

S. Sankarasubramanian: The fertilizers I think with the current capacity of 35 lakh, de-bottlenecking which is happening right now and the new capacity of granulation 7.5 lakh tons what we have announced, our overall capacity will go up to 45 lakh tons in the next two years' time. With import of 5 lakh tons at least we can be a 5-million-ton player on base phosphatic fertilizers, plus we have SSP of a million ton. Plus, we do MOP and Urea of a million ton.

So, effectively, if you look at the fertilizer segment, it's 6 million tons of phosphatic plus a million ton of Urea plus half a million ton of MOP. That's the size we are looking at as far as the fertilizer business is concerned.

And in terms of Nano, like I mentioned that we are not in a hurry. We are actually ensuring that the farmers understand the product and they come back, and they use it as a replacement, not as an add-on. We are doing the brand promotion and channel engagement, and we are doing it in large scale pan-India. Definitely, we see the promising future for Nano, not only in India, but we are looking at export opportunities. A lot of inquiries have come from Latin American markets, and we can scale up our volumes. And that's a good business segment to be in, supplementing our specialty fertilizers, which we have grown over a period of time.

I don't remember what is your third question next? One is on the fertilizer. Other one is on…

Bharat Sheth: What kind of backward integration that we will have? I mean, once we reach this NPK capacity or this DAP capacity of say with this expansion, how much of backward integration we will have?

S. Sankarasubramanian: See, I think we will be close to 60% of the total intermediate capacity requirement and we keep some import to trade-off because there are always opportunities available to buy at low prices for products like sulfuric acid. So, we may not go in for 100% and phosphoric acid, at least you can say that to be 60% of the total requirement will be backward integrated.

In terms of rock, we will see how it goes with the current mining operations. With the expansion of phosphoric acid plant at Kakinada, our requirement will be in the range of 2 to 2.5 million tons and our aim will be to see how best we can increase our mining operations.

Once we are successful with the current mining operations, we may also look at increasing our mining presence. So, that will be our overall game plan, but as of now we are quite comfortable with the capacities what we have for intermediates.

Bharat Sheth: Jayashree, would you like to give some more color on this Dhaksha, how are we playing out, how much order do we have in and how do we expect over a couple of years?

Jayashree Satagopan: Thanks, Mr. Bharat Sheth, for this question. On Dhaksha, currently the focus is on two areas. One is the defense orders that have been procured for about 240 crores. The team is in the process of executing the order. So, we are awaiting the PDI from the government authorities. Once it is through, over the next two quarters, the defense drones should be completed and shipped. So, that's the main focus.

Apart from this, there is a lot of activities going on in terms of the agricultural drones. Currently, the large players with whom Dhaksha has been engaged are the fertilizer companies. New team members have been recruited both for sales and service so that they can work along with the other major agro-chemical companies as well to see how we can get some agriculture-related orders.

There is also work going on with the government in this respect because the Namo Didi Drone scheme also will come into play as we expect during the later part of this year. While all of these is happening on the execution front, the team continues to participate in some of the other newer drone development by the R&D team. So, that work is also parallely happening.

So, in the next two to three years depending upon the execution of these orders, Dhaksha should be able to garner more orders to come from the defense. The R&D work that is happening on the newer drones as well as improvements in the agricultural drones should also help it to consolidate and get better.

Bharat Sheth: And last question on say, since we are sitting with 4,000 plus crore kind of net cash, so what will be our capital allocation including for Dhaksha additional investment, then other facility? So, if you can share more color?

Jayashree Satagopan: I think the cash that we have, like in the past we have indicated, it will be mainly for the business growth within Coromandel. So, each of the businesses come with their own proposals for growth.

You would have also seen that in this Board meeting, there has been a sizable capital that has been approved by the Board for both nutrients as well as crop protection businesses. If there are further opportunities that are there, either in the core or adjacencies or any step outs, some of this cash that has been built up will be appropriately used. All of it depends upon how strategic is it, what are going to be some of the financial parameters that it meets up with. So, that has been the norm with which we have been looking into allocating the capital.

On the same front, if there are interesting opportunities like we had Dhaksha coming up in the past or BMCC-related investments that had happened in the last two years, those also could be funded through this pool of surplus that has been accumulated.

Bharat Sheth: So, how much can revised CAPEX for this year, next year and for 2027 do we have in plan?

Jayashree Satagopan: So, this year, we are more or less in line with what has been estimated and indicated to you all. The main CAPEX for this year has been this sulfuric acid and the phosphoric acid plant of 1,000 plus crores, which has been announced for Kakinada. So, that spans over a period of a couple of years until March 2026. Similarly, the two major CAPEX programs that have currently been announced will also go for the next two-year period.

As Sankar was also mentioning, there are a lot of projects that the teams are looking into to see how we can accelerate some of the growth initiatives within the Company. And as we roll up the business plan for the year, I am sure that we will come up with some more interesting proposals and subsequently taking the management and the Board approvals. We will be happy to share it with all of you.

Moderator: Thank you. Our next question is from the line of Prashant Biyani from Elara Securities. Please go ahead.

Prashant Biyani: Sankar sir, the point that you outlined regarding capacity of say 4.5 million ton and import of 5 lakh ton, sir, where would we be seeding or selling these volumes? Would it be in our core and periphery markets? And how much volume do we do right now say in North and regions around North? And where could that volumes be in the next five years?

S. Sankarasubramanian: See, the primary market, AP, Telangana, Karnataka and tertiary markets, both Maharashtra and Bengal, we have been fairly supplying now. We don't have any presence in some of the key states like MP, UP and Rajasthan. If you look at next two, three years, a lot of irrigation projects are likely to come up in MP and Maharashtra also is adding additional crop acreages. So, we have done a detailed amount of strategic approach for additional volume. What I can say is we will be looking for North markets where we don't have significant presence in terms of NPKs. While we are supplying SSP and also specialty fertilizers, we have not supplied NP and NPKs. Our aim would be to create those and seed markets there first. And of course, our existing core markets, primary markets, our aim would be to capture the additional volume through our retail outlets.

As I mentioned earlier that we will be increasing our footprints in the key markets. So, our additional volumes can come here. And we don't see a challenge of selling like 50,000 tons between these markets. As India continues to import 6 to 8 million tons, and there can be a potential increase in volumes of overall industry size likely to move up in the next three years, absorbing this additional volume would not be a challenge and we have a blueprint developed for the same.

Prashant Biyani: And sir, do we have a fertilizer business presence right now in UP or Rajasthan side to make the market ready for our large volumes in 2-3 years?

S. Sankarasubramanian: We have a significant presence in SSP. We are promoting value-added products there. We have presence through specialty fertilizers. Of course, crop protection, we have separate teams selling there. And with Nano being a pan-India operation, and we have presence in Northern markets.

So, I think as a Company, we will be moving towards more of an all India player for the nutrients. Rather than looking at the key South markets, we look at pan-India operations with a complete range of product portfolio right from SSP to DAP and Nano and specialty fertilizers. The whole market is available for us. So, that's the way we will look at and try to expand our volumes.

Prashant Biyani: And where do we stand in terms of latest business developments in Spec-Chem or CDMO, if anyone can answer that?

S. Sankarasubramanian: CDMO, we have been evaluating some opportunities and our initiative on a multi-purpose plant is also a step in that direction to see how we can showcase our capabilities which can help in attracting the innovators. And Spec-Chem, we are again in the drawing board in terms of looking at the key segments where we want to go in. And probably once that fine print emerges in the next two quarters, we should be able to articulate our strategy much more sharper.

Moderator: Our next question is from the line of Ranjit from IIFL Securities. Please go ahead.

Ranjit: The first question is on the MPP CAPEX. So, I believe this since you commented that this is a recently off-patent products I believe to be SDHIs, the question is how far would we be backward integrated into this or we are only going to target the manufacturing of technicals and would be importing the intermediates?

S. Sankarasubramanian: Raghu, you want to address that?

Raghuram Devarakonda: So, as an approach to manufacturing, obviously cost efficiencies are something that we need to keep in mind. So, the backward integration is still a point where we have significantly many suppliers for the key starting material.

So, that is how far we go and that depends on the molecule that we are planning to manufacture or the set of molecules in the multi-product plant. So, depending on the molecule, we have figured out up to which point we need to backward integrate. We can't go right up to the end. There is no need also because that is going to inflate CAPEX significantly. So, we have planned it in such a way that we will be able to source in an effective manner and then process the material to make the technical AIs.

Now, as far as the downstream products are concerned, as I mentioned, we are not stopping with just making AIs, but in parallel, for some of them we have already received the registration, for some we are going to receive the registration for some of the formulations that we can produce using the AIs that we plan to manufacture with this multi-product plant. Both backward and forward, we are putting in the effort to extract maximum value out of this.

Ranjit: Second question is to Sankar sir. In the last call, you had mentioned the couple of plans. One is what we have seen the Board approving on the CAPEX front. You also had mentioned bunching out of fertilizers and foraying into related chemistries. So, is there any progress on that front and by when can we expect an announcement on that front?

S. Sankarasubramanian: As I told last time, we have now commenced our granulation project. We need to keep something for next quarter as well. We are working on it. As and when it materializes, definitely we will come back. It is very much in our radar. We will get you to know soon.

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

Rohan Gupta: Sankar sir, you mentioned that almost in the next two years, you plan to definitely overall complex fertilizer to 4.5 million ton, another trading and even further in SSP and Urea, MOP trading and all that. I think that you have always been mentioning that the fertilizer margins you have always been targeting with a close to Rs. 5,000 to Rs. 6,000 per ton. That gives a clear picture about the fertilizer business over next two years.

Sir, on non-fertilizer business, you have stopped giving and sharing that is slightly more detailed at how you think that in next two to three years, whether the fertilizer business contribution to EBITDA will be 50% or less than that and all. So, where you see that the other businesses, I mean non-fertilizer business piece will be contributing to the profitability or EBITDA in next three years?

S. Sankarasubramanian: See, as always mentioned, I don't want to grow one business at the cost of other. Fertilizer will have its own growth traction. Obviously, significant share comes from fertilizer, but a lot of efforts have been taken in the last year on non fert segment and also going on now. Raghu has been driving the new products, been engaging with various innovators. So, I think the real growth in CPC is yet to play out. Our decision to invest even when the Chinese prices are the lowest shows our interest on growing the crop protection business. And definitely you will continue to see the volume growth happening in crop protection. Many of the actions what we have initiated last year will start yielding itself and we have pipeline of new products coming in.

See, with the current range of molecules, what we have, whatever we are doing, we are doing the best both in terms of top line and the bottom line. If we have to grow, it can be through inorganic or it has to be through organic. Organic takes its own time, and that's what we are focusing on now. And as and when any opportunity comes to grow inorganically, we may even look at that.

It's very difficult for me to put the timeline and the timeframe by which we will increase the share to 50%. All our efforts and investments and strategies will be to increase the balance towards non-subsidy business. As and when we get clarity and then we may do investments, we will definitely share that at appropriate time.

Rohan Gupta: Also sir, with the government focus on some non-supportive policies on policy front on fertilizers, do you see that there is a need in future that you have to demerge this business because of the working capital related challenges and the interest cost portion where the government wanted to cap the profitability? So, you see that to benefit from that, I mean, you need to leverage the balance sheet while the Company itself is generating solid cash flows. So, do you see that that you have to demerge the fertilizer business to be the part of the, I mean, to benefit from the government policies in future?

S. Sankarasubramanian: Any such restructuring will be to only create shareholders' value. It cannot be based on any policies or any current regulations. We need to see as we go along and government always encourages integrated play, and they have been encouraging industry to go in for backward integration.

So, I think they also support in terms of ensuring that the incremental margins are retained in the business and reinvested in the business to grow the capacity. So, we will be continuously engaging with the government. That may not be the reason why we need to restructure. If there is a value creation opportunity for the shareholders, then we may look at this, but not from the policy point of view.

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

Sumant Kumar: Last year we talked about the 1,000 crore CAPEX in-crop protection. So, can you talk about the timeline of the capitalization of the asset and the commencement?

S. Sankarasubramanian: I don't know what you are referring to. Probably it maybe CAPEX plans of specialty chemicals & CDMO. I think I have answered there in terms of work in progress. We are going back to the drawing board in terms of identifying the segments in which we want to operate in specialty chemicals. And you know, in terms of CDMO, it's a long-term process. We are engaging with various potential innovators and partners. It will take some time. So, as soon as it materializes, we will share it. But our investment will be based on after signing up and identifying right partners. We may not do upfront investments.

Sumant Kumar: The technical plant also will take time.

S. Sankarasubramanian: See, we are making a beginning now. This multi-purpose plant, what we are doing has got potential to add another line in the same civil structure. We are in discussion stage at the various stages of a CDMO engagement, we may not be able to disclose at this point of time. We may do it and take up the investment as and when we sign up the commercials with the potential partners.

Moderator: Our next question is from the line of Himanshu Binani from Anand Rathi. Please go ahead.

Himanshu Binani: So, sir, I have two questions. One is on the share of the unique grades to the overall volume. So, what has been the share basically for the second quarter?

And the second question was largely around that since we have been like backward integrating for quite some time and that has been like able to reap benefits and going forward also with the kind of like cost savings which we have outlined particularly from the sulfuric acid as well as from the phosphoric acid plant and the energy savings also. So, I do understand that yes, the RM prices globally has been like volatile as well as the subsidies from the government. So, the question was like how do we see the EBITDA per ton moving? So, our guidance has been somewhere around the Rs. 4,500 to Rs. 5,000 per ton. So, do we see that it should like increasing going forward? So, how should one actually look into this?

S. Sankarasubramanian: Yes, the sustainable EBITDA, the range what you are indicating, we are quite comfortable with that and the reason being that our improved value addition and increased intermediate capacities is helping us to sustain this margin in spite of huge volatility in the global commodity prices. We are able to absorb the price shock and the challenges and subsidies and able to come up with this number because of our increased share of captive manufacturing of both Phosphoric acid and sulfuric acid. If the environment improves, definitely the margin should also go up. But as I mentioned earlier, but for these challenges in commodity prices, our margins would have been much higher than what it is now.

In terms of share of unique grades, I think my colleague says it's around 36% on the overall phosphatics volume. That's the number for this quarter.

Himanshu Binani: 36%?

S. Sankarasubramanian: Yes.

Himanshu Binani: For this quarter?

S. Sankarasubramanian: Yes.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

S. Sankarasubramanian: Thank you very much. Thank you for your insightful questions. Very helpful and definitely we look forward to such fruitful interaction, which helps us to sharpen our thinking as we grow to build this business. Thank you very much for your interest in Coromandel.

Jayashree Satagopan: Thank you all and wish you a very Happy Diwali.

S. Sankarasubramanian: Happy Diwali to everybody. Thank you.

Raghuram Devarakonda: Happy Diwali. Thank you.

Moderator: On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.