



“Coromandel International Limited Q3 FY2023 Earnings Conference Call”

February 06, 2023



**ANALYST: MR. S RAMESH – NIRMAL BANG INSTITUTIONAL
EQUITIES PRIVATE LIMITED**

**MANAGEMENT: MR. S. SANKARASUBRAMANIAN - EXECUTIVE DIRECTOR
- COROMANDEL INTERNATIONAL LIMITED
DR. RAGHURAM DEVARAKONDA - EXECUTIVE DIRECTOR
- COROMANDEL INTERNATIONAL LIMITED
MS. JAYASHREE SATAGOPAN – CHIEF FINANCIAL
OFFICER - COROMANDEL INTERNATIONAL LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Coromandel International Limited Q3 FY2023 Earnings Conference Call hosted by Nirmal Bang Equities 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S Ramesh from Nirmal Bang Institutional Equities. Thank you and over to you, Sir!

S Ramesh: Good afternoon and thank you Rico. Good afternoon, ladies and gentlemen, on behalf of Nirmal Bang Institutional Equities I am inviting all for this Q3 FY2023 Earnings Conference Call with Coromandel International Management. Let me hand it over to the CFO, Jayashree Satagopan, who will introduce the management team and give the opening remarks followed by Q&A. Jayashree it is over to you.

Jayashree Satagopan: Good afternoon all and thanks Ramesh for organizing the conference call. Today I have with me Mr. S. Sankarasubramanian and Dr. Raghuram Devarakonda, Executive Directors of Coromandel, who will join in responding to your queries during the call.

Let me begin with giving an overview of the business environment experienced during the quarter, followed by the company's performance and then we will have the Q&A session.

Global economy:

As per the World Bank Global Economic Prospects Jan 2023 release, the real GDP growth is estimated to slowdown from 2.9% in 2022 to 1.7% in 2023, and then it is expected to increase to 2.7% in 2024. The decline in the GDP forecast for this year is reflective of synchronized policy tightening aimed at containing very high inflation in the US, worsening financial conditions and continued disruption from Russia's invasion of Ukraine. The combination of slow growth, tightening financial condition and heavy indebtedness is likely to weaken investments. Furthermore, these negative shocks and deeper weakness in major economics and rising geopolitical tension could push the global economy towards recession.

On the agriculture side, the food price index declined to 132.4 in December 2022 and continued to be in the falling trend from the record high of 159.7 in March 2022. The commodity prices continue to soften from their peak levels except for sugar and dairy products.

Coming to the Indian Economy, the World Bank has reduced the real GDP growth estimate as of Jan 2023 to 6.6% for FY2023 from their earlier estimate of 7.1% which was published in June of 2022. However, it articulated that India is in a better position to navigate the global headwinds. Indian economy is progressing well and is likely to remain the fastest growing large economy in the world.

The tax collections have been buoyant, reflecting the all-round performance of the economy. The monthly gross GST collections for the past 10 months were more than 1.4 lakh Crores. With tight monetary measures, inflation has cooled down recently. The headwinds around rupee depreciation, inflation control measures and energy prices need to be closely watched.

Coming to the Indian agriculture, the country witnessed above normal rainfall during the season. All India cumulative rainfall during October 2022 to December 2022 was higher than normal by 20%. However, a few states like West Bengal, Orissa and Telangana witnessed deficit in the rainfall during the period. The crop acreages for Rabi was 645 lakh hectares which is 4% higher compared to the prior year. Overall, it has been a good Rabi season.

Coming to the Fertilizer industry performance, Global supply of key commodities improved during the quarter and the industry continued to witness the softening of prices of major raw materials. Domestically, the fertilizer demand remained strong, supported by good monsoon and favorable policy measures from the Government.

For this quarter, DAP plus complex fertilizer industry's primary sales volume was up by 18%. Current year 70.9 lakh metric tons vis-à-vis 60.2 lakh metric tons in the prior year, with higher imported DAP sales. DAP plus complex fertilizer industry POS sale volume was marginally down by 2%. Current year 74 lakh metric tons vis-à-vis 75.8 lakh metric tons in the last year.

Major raw material prices continue to witness a downward trend from all time high prices. The Government is proposing a downward revision in NBS rate in line with the trend of falling raw material prices and this is under discussion.

On a year-to-date basis, DAP plus complex fertilizer industry's primary sales volume was up by 16%. Current year is 190 lakh metric tons vis-à-vis 163.6 lakh metric tons in the prior year. DAP plus Complex fertilizers industry's POS sales volume was marginally down by 1%. Current year is 177.6 lakh metric tons vis-à-vis 180.1 lakh metric tons in the prior year.

On Coromandel's performance, Coromandel delivered a robust performance during the quarter, registering a strong growth in turnover and profitability with the agricultural environment remaining favorable in most of its key operating markets, normal crop sowing

coupled with favorable policies from the Government. Record volume sales in NPK and high subsidy realization in the nutrients business primarily led to increase in the revenue during the quarter.

In crop protection business, domestic formulation and B2B business grew during the quarter, which was offset with headwinds faced in the export market. Coromandel ensured that all the inputs are made available to the farmers in its key operating markets and promoted the use of balance nutrition including organic fertilizer to help rejuvenate the soil and farm productivity.

Specifically on company's nutrient segment performance, the revenue increased by 72% during the quarter and 71% on a year-to-date basis. Company's SND and organic products registered a good growth during the year, both in terms of turnover and profitability. One new product, Gardina, targeted at the urban garden segment, was launched during the quarter.

On the sales front the business registered a record volume with sales of 10.5 lakh metric tons during the quarter, which was 27% higher than last year, where the volumes were 8.3 lakh metric tons. On a year-to-date basis, DAP plus Complex volumes was at 30.2 lakh metric tons vis-à-vis 27.3 lakh metric tons in the prior year, which is 11% higher. Manufactured DAP plus Complex volume was higher by 21% for the quarter and 11% on a year-to-date basis compared to prior year. Imported product volume, mainly DAP was higher at 88% for the quarter and 12% on a year-to-date basis.

Company's market share in Q3 was about 14.8% and on a year-to-date basis 15.9%. In the previous year, it was 13.7 in Q3 and 16.7% on a year-to-date basis. The market share for complex fertilizer grew during the quarter and full year.

SSP Q3 sales was at 2.2 lakh metric tons with a growth of 17% over last year and on a year-to-date basis, sales were at 6.2 lakh metric tons versus 6 lakh metric tons compared to the prior year. Market share on a year-to-date basis for SSP was at 14.9% vis-à-vis 14.7% in the prior year.

The urban garden is a growing segment and during the quarter, the specialty nutrient business launched a new product named, Gardina, to cater to the needs of this segment.

Our commercial teams have continued to ensure timely availability of raw materials to enable continuous production of the manufacturing plant by staying abreast with the latest developments in the global markets. During the quarter, our DAP and complex fertilizer plants produced 9.29 lakh metric tons of fertilizers. On a year-to-date basis, the plant operated at 102% of the capacity and produced 26.45 lakh metric tons of fertilizers. Phosphoric acid

production during the quarter was at 1.1 lakh tons and on a year-to-date basis it is 3.4 lakh metric tons.

Progress on our key capital projects is going as per plan. The work on sulfuric acid plant as well as the desalination plant at Vizag is progressing well and the commissioning is expected as per schedule in July 2023. With these initiatives, we would continue to promote balanced nutrition approach and support the farming community.

Coming to the crop protection business, the business registered a growth of 4% in revenue for the quarter and 3% on a year-to-date basis. Domestic formulation witnessed good growth with positive traction from the new products that were launched during the year and the prior year. Cost lag effect and price related challenges impacted our export performance. Domestic formulation witnessed good growth with positive traction from the new product launches made during the year. A new bio insecticide under the brand name of Azamax was launched by the business during the quarter.

With this, 7 new products have been introduced during the current year. The crop protection business continues to focus on refreshing and strengthening its portfolio and has lined up two new technical and three new formulations to be introduced in the fourth quarter.

The R&D and product registration teams are working on a rich pipeline of new and combination products to be launched in the coming year. The business is further activating some of its registration in the global markets through collaboration with key B2B customers. Multipurpose plant at Ankleshwar for manufacture of three new Technicals have been completed, and the business is envisaging purchase of additional land for further expansion of the business. On the bioproducts, the business is working on other plant extracts to expand its product offerings.

Our retail stores operated well during the quarter, focusing on providing all round agri solutions, including products, farm advisory and mechanization services. The business has launched a new ecommerce platform and has received good response from its end customers. Retail business has improved its operational efficacies and has leveraged technology to reach out to its farmers.

During Q3, 96% of the stores have been profitable and operated with negative working capital levels. The company continues to promote Ag-Tech solutions with farmers and started piloting cold storage solutions through its retail network. It further plans to scale up drone applications after successful completion of pilot tests in its key operating markets.

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

In terms of Turnover, Coromandel recorded a consolidated total income of Rs.8,349 Crores during the quarter and Rs.24,276 Crores for the nine months ended 31st December 2022 vis-à-vis corresponding period of 5,100 Crores for the quarter and 14,952 Crores for nine months. This represents a growth of 64% for the quarter and 62% for nine months. The increase in revenues has been mainly on account of volumes in the fertilizer business and higher subsidy realization.

Nutrient and allied business contributed to 92% of the share and the remaining 8% coming from crop protection business for the quarter and the same for the nine months as well. Subsidy and non-subsidy share of business stands at 88% and 12% for the quarter and 87% and 13% for the nine months. During the previous year, this ratio was 82% and 18% during the quarter and 81% and 19% for the nine-month period.

As far as the Profitability is concerned, the consolidated EBITDA for the quarter was Rs.781 Crores vis-à-vis 544 Crores last year, and for the nine months, it was 2523 Crores as against Rs.1770 Crores during the previous year. In terms of subsidy and non-subsidy share, it stood at 74% and 26% during the quarter and 77% and 23% for nine months. In the previous year, it was 70% and 30% for the quarter and 72% and 28% for the nine months period.

Net profit after tax for the quarter was Rs.527 Crores in comparison to Rs.382 Crores for the corresponding quarter last year and 1,766 Crores for the nine months as against 1,239 Crores in the previous year.

On the subsidy front, during the quarter, company received Rs.3,992 Crores towards subsidy claims compared to figures last year was Rs.2,296 Crores. For the nine months ended December 31, 2022, subsidy received is Rs.7,994 Crores. In the previous year it was 4,459 Crores. Subsidy outstanding as on December 31, 2022 was at Rs.4,359 Crores versus 1,336 Crores during the previous year.

On the Interest front, during the quarter, company incurred a net interest expense, excluding Ind AS interest of Rs.8 Crores vis-à-vis an interest income of 15 Crores in the same quarter last year. For the nine months period company earned a net interest income of 0.5 Crores versus 20 Crores interest income in the previous year.

Company continued to maintain the surplus funds in board approved securities and these are earmarked for specific growth related activities. The company also took some short-term



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borrowings to fund the near-term working capital needs, mainly to balance the tenor mismatch on investments.

Coming to the credit rating, Company's balance sheet continues to be strong. The company's long-term credit rating by India Rating and Research, a Fitch Group company, continue to be at IND AAA stable and short-term rating at IND A1+. The company's long-term credit rating by CRISIL continue to be at CRISIL AA+ positive and the short-term debt rating at CRISIL A1+.

On the Forex front, during Q3, rupee was volatile and traded in a board range of Rs.80.72 to Rs.82.94 to a \$1. Coromandel through its prudent and conservative approach of hedging the Forex exposure, limited the impact due to currency depreciation.

The Board in its meeting held on February 2, 2023 has approved an interim dividend of Rs.6 per share.

With good northeast monsoon and higher reservoir level, Indian agriculture continues to be in a bright spot. With strength in our key operating markets, Coromandel will continue to ensure timely availability of agri inputs to the farming community through our dealers and retail outlets.

Coromandel with its diverse presence across its agri value chain will continue to provide balanced nutrition and integrated pest management solutions to maximize farm productivity.

As we open the session for Q&A, please allow me a moment to introduce my colleagues who have joined the call today. S. Sankarasubramanian heads our nutrition businesses. Sankar has been with Coromandel and Murugappa Group for more than 30 years and prior to his business role, he has held the position of CFO of the company.

Dr. Raghuram Devarakonda heads the Crops Protection Chemicals, bioproducts and retail business of Coromandel. Raghu brings in experience from industry and consulting business. He joined Coromandel in August 2021. Prior to this, he has worked with the Murugappa Group between 2004 and 2013.

Thank you all for your interest in Coromandel and joining us in the con call today. We look forward to the interaction. We can now open the session for question-and-answers.

Moderator:

Thank you very much. We will now begin the question answer session. The first question is from the line of Tarang Agarwal with Old Bridge Capital. Please go ahead.

- Tarang Agarwal:** Good afternoon, thank you for the opportunity. I have three questions. The first is, if there is any update on BMCC mines, and when can we see some round of commercializations coming from them. The second, on the S3 plant, you said that the commercialization will start from July 2023. Just wanted to get a sense on what is the post-tax cash payback that you are anticipating for this plant once it commercializes and how much time will it take to run at optimal utilization and the third is phos acid prices for the quarter.
- Jayashree Satagopan:** On the BMCC mines, I would request Sankar to provide an update and Sankar, if you want you can take in SAP-3 and the PA price.
- S. Sankarasubramanian:** In respect of BMCC operations, we are seeing good traction in the last three months. In fact, we have deployed our team and we have engaged mainly focusing on the mining part and that has yielded good result and we are stabilizing the operations. We started receiving shipments and hopefully we should be able to achieve the target volumes what we plan for the year 2023-2024. So, at this point of time, whatever we envisage to do, we are on the right track.
- Tarang Agarwal:** Sir just a follow up. So my sense is about a third of your requirement were to be met by this mine. So can you anticipate that coming in from FY2024.
- S. Sankarasubramanian:** It should meet 20% of our requirement to begin with but the potential is high. In fact, it will be beyond what we envisaged earlier, potentially it is high, but next year we can say approximately 20% of our requirements can be met from this mine. In respect to sulfuric acid plant is your second query, right?
- Tarang Agarwal:** Yes.
- S. Sankarasubramanian:** Sulfuric acid plant will be commissioned by July and whatever we stated to achieve as per the plan we would be able to get the production as planned earlier. So, from August onwards we should be able to come back to full stream. We may require a month of stabilization. From August onwards, we should be achieving the rated capacity.
- Tarang Agarwal:** How much would the payback be sir, on this, I mean, in how many years.
- S. Sankarasubramanian:** See the sulfuric acid is more investment from the view point of securing the raw material. As currently our requirements are quite significant almost 1 million ton of sulfuric acid. A part of it 50% is being covered through our captive facility what we have envisaged. So, we look at more of augmenting our captive source of raw material. It is a function of import prices,

sulfuric acid versus the cost of own manufacturer, and also it generates other savings in terms of power and other utilities. So, I would see it is a supply security.

Tarang Agarwal: And the last one on phos acid prices.

S. Sankarasubramanian: We have finalized our fourth quarter price at \$1050 as against \$1175 which was there for the previous quarter. We have signed up with our joint venture partner, Foskor.

Tarang Agarwal: Thank you.

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

Bharat Sheth: Hi! Coromandel management team, thanks for the opportunity and welcome Sankar and Dr. Raghu on the board. So, I have a question first on the fertilizer. See Jayashree in view of declining fertilizer raw material price as well as final product price and the farm output price is also declining. So, with that background, how do we see fertilizer demand for FY2024, that is first question, and since we are operating almost at full capacity, so what will be our strategy to grow that volume, and second thing, our EBITDA per ton has increased substantially over last six to seven years from almost 2000 level to around 6000 in FY2023 because of several business initiatives as well as backward integration program. Can you give the margin trajectory how do we see now from here onwards? How much decline if at all if it happens can we anticipate or any further room to improve.

Jayashree Satagopan: The first one is in terms of the raw material prices coming down. We have seen this trend over the last few months, and we expect in most of the materials, this trend to continue. With that we would also expect some sort of a correction in the subsidy realization from the Government, which is what I was mentioning a little while ago.

Given those and the good monsoon conditions that is there and the increase in the overall area under cultivation, we expect the demand for fertilizers to continue to be good, both in terms of NPK, DAP as well as SSP. So given that there is a good demand for fertilizers, our production, our imports will be helpful in terms of meeting the farmer requirements.

As far as the capacity is concerned, you will see, I was mentioning that on a year-to-date basis, our capacity utilization is more than 100%. As I have mentioned in the past too we have taken a few actions at the plants for debottlenecking the capacities and also some intelligent mix of using certain raw materials has also increased the throughput.

Apart from it, as we have been sharing in the past, the type of product that we produce, meaning the grade, also determines the throughput at our plants. So, a combination of all of these three will help in terms of getting our capacity utilization at decent levels.

Apart from that, we would also be looking into strategically importing complex fertilizers. This year, we have imported DAP to a great extent because importing DAP vis-à-vis manufacturing made more economic sense. In the past we have also imported NPK so we will continue to resort to these practices, which happens on a month-to-month, quarter-to-quarter basis. Apart from this the business is also contemplating to see how we can increase the capacity, like we have alluded in the past. This will also mean that we will have to look at securing some of the key raw materials, which the business is actually tying up very well.

So probably as the business plan for next year gets firmed up, we will have a little more clarity in terms of how we go forward. But the demand for NPKs is quite good and we expect it to go up and based on that the business will come with the proposal for further capacity expansion.

The last one from your end was in terms of EBITDA per ton margin. Yes, over a period of time, the EBITDA per ton has been showing an upward trend and despite an increase in the raw material prices, given the fact that the commercial team has worked in terms of securing multiple sources for our raw materials and the flexibility that our manufacturing plants have exhibited in processing these raw materials have ensured that this has been on a good upward trend. Rs.6000 per metric ton is something that we should look at stabilizing and maintaining in the coming years though there could be some sort of adjustments in raw material prices or the MRP correction and so on and so forth.

Bharat Sheth:

Two more questions, with your permission. One is what is the potential of this nano DAP and how do we see the convergence of economic interest of Government, our company and farmers and farmers mindset for the acceptance of this nano DAP and what is our strategy whether we will be manufacturing and how is the raw material scenario for that. Is it again imported and second on drone side, are we going to enter into manufacturing or we will be just providing the services.

Jayashree Satagopan:

I will take the drones question first. As you know, couple of quarters back we mentioned that we have invested in an AgTech company which is manufacturing drones. This is part of our investment in agri start-up companies. We will be leveraging the drones manufactured by this company and two of our businesses have already done the pilot trials. CPC and specialty nutrients and we want to sort of scale it up because we believe AgTech is going to be the future. So that is the strategy around drones.

As regards nano DAP this is a very interesting area and I am going to once again request Sankar, as he is much more closer to the business to articulate on this question.

S. Sankarasubramanian: On nano DAP as a company, we have taken a lead in terms of developing this technology in-house and we have applied for patent and we have also applied to Government for the approval, which is expected anytime, and we are also carrying out field trials to understand the efficacy of the product, and the results are mixed. We have to wait and see. We have to carry out more such trials in the next season to establish nano DAP. We could see some improvements, partial replacements in certain crops with a higher foliage that is what our initial studies have revealed. It is too early stage to comment on how this will play out, but we are very much focused on it and we will be able to share more as we progress. But it is looking very promising and we have taken a lead on this.

Bharat Sheth: Sir can this cannibalize our NPK sales going ahead. Where it will replace.

S. Sankarasubramanian: See, the bulk fertilizers soil application that will continue to remain because predominantly, the NPK grades, including DAP what we consume is predominantly soil applications, the nano DAP is more focused on foliage. So, it may be an add on supplementary nutrient. It cannot replace in entirety and also it requires that sort of adaptation by the farmers, it will take time and also it involves additional costs in terms of spraying as well. It requires a lot of education, and the effect has to be seen on the ground. So, the question of replacement is too early to talk about, and our view is bulk fertilizers application will continue to remain and this will help to replace some portion of the top dressing stage as and when the farmer applies it.

Bharat Sheth: Jayashree, have we received any subsidy post Q3 and what is the Government, I mean, undertaking if we have not received, whether this will keep on increasing or not.

Jayashree Satagopan: No, the total subsidy outstanding is a combination of what we have already sold and raised as a claim and it also includes the channel inventory. So, the Government has been sort of giving subsidies. It has been a little slower compared to previous year, but we do not see a concern in this area. As you know, this year, the subsidy rates have also gone up compared to last year. Therefore, you would see the quantum is slightly higher, but that does not mean that we are not going to receive the subsidy.

Bharat Sheth: So, we have not received post December, correct. Is that fair understanding.

Jayashree Satagopan: No, we have received even in January. So, we continue to receive subsidy.



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- Bharat Sheth:** So how much subsidy we received so far post December.
- Jayashree Satagopan:** Around 1,200 Crores.
- Bharat Sheth:** Okay thank you. If I have any questions I will come back in queue.
- Moderator:** Thank you. Our next question is from the line of Ankur Periwal with Axis Capital. Please go ahead.
- Ankur Periwal:** Thanks for the opportunity and congrats for a good set of numbers. First question on the Crop Protection side. While you did mention in your initial commentary on the overall growth in the domestic market, while Mancozeb was slightly weak. If you can put some more light on what is the pricing or volumetric trend in Mancozeb as well as on non-Mancozeb Crop Protection portfolio, how has our performance been and some guidance there.
- Jayashree Satagopan:** As I mentioned during this year the business is seeing some amount of pressure, especially on Mancozeb given the fact that the ban of this molecule in Europe has happened and the excess capacity from our competitors, namely UPL and Indofil is now available for other markets as well as for India. So that has actually led to a bit of a pricing war if I want to use that terminology, and from our standpoint, the business has taken a pretty conscious call that beyond the point, we would not be subsidizing and selling the product for the sake of volume. So that has been the prime reason for sort of, I would say a lower increase in the revenue as such.
- In terms of absolute volume increase or decrease, let me come back to you. But from a team standpoint, the intent is to ensure that the production is happening, and we are able to sell at reasonable margin levels. Having said that, the business has also been focusing on seeing how do we derisk our portfolio from the old generics that we have had, especially in Mancozeb still is about 40%, 45% of our overall turnover. With that in mind, they have identified quite a good number of so-called patented molecules.
- As I was mentioning the multipurpose plant for production of three of such molecules got commissioned recently, and the first order has also been executed. This is for products like Azoxystrobin, Picoxystrobin and Cyproconazole. These three are relatively new products and a couple of them have very large potential. In the new land that is planned to be acquired, the business is looking into adding few more technical. So, from an overall portfolio standpoint, there is conscious efforts to move from the old generics though there is still a large demand for it, as we see lot of competition action there. Practically, we have to manage volume with these new products. That is the way one should look into the CPC technical business.

- Ankur Periwai:** Sure and just next question related to crop protection, again. We have seen some bit of margin pressure over the last couple of quarters, primarily because of RM inflation there, is large part of RM inflation only pass through given there is a decline in RM prices as well.
- Jayashree Satagopan:** Yes, I would think so. The raw material prices are coming down, which is a good trend, but in some of the molecules we are seeing that pricing pressures are there. That is where we have to manage between volume, price and margins. So, this is a very tactical operational call that we take on a monthly basis. I expect this to continue for a little while and the business also is working on a number of initiatives at the plant level in terms of cost optimization, both on the conversion cost side, on the fixed cost side and they have come up with several ideas, which will help us to remain cost competitive including purchasing of raw materials at better rates. I think all of this should start playing out very soon and we should be able to handle the pressures on the margin front. I would request Raghu to sort of chip in and add his comments here.
- Raghuram D:** Yes. Thanks, and good afternoon, everyone. So, the only other point that I would like to add to what our CFO has already shared is that other than the product portfolio, even the business portfolio, we are trying to change in terms of the proportion of revenue that comes from our various streams. So primarily, the B2C side of things, we are investing heavily in that area to improve the product portfolio and also in terms of putting more feet on the street, so that our market penetration also improves. With that, the margin pressures that we are seeing in the commodities like technical, we should be able to tide over somewhat.
- Ankur Periwai:** That is helpful. That is it from my side, I will get back into the queue. Thank you.
- Moderator:** Thank you. Our next question is from the line of Sumant Kumar with Motilal Oswal. Please go ahead.
- Sumant Kumar:** Sir in Q2 FY2023, we raised our EBITDA per ton estimate for manufactured fertilizer from Rs.4500 to Rs.5500. So can you talk about the margin profile for fertilizer business for FY2024 and what is the revised guidance for FY2023.
- Jayashree Satagopan:** As you know, we do not give guidance for a quarter or a year. The indication obviously is it would be in the range of Rs.5500 to Rs.6000 per metric ton. That is our endeavor to sustain the Rs.5500 to Rs.6000 type of range per metric ton and every effort will be done by the business to see how we can maximize it. I have already spoken about multiple initiatives that have been taken starting from procurement, manufacturing, selling and logistics. So all of those will continue. So I think I would leave it there and let us take it every quarter and then look at it on an annualized basis.

Sumant Kumar: So what are the key reasons? Can you talk about the price, had all of your prices corrected, as we have not cut the price of our key products or backward integration. So there are many factors. So can you talk about from here that if we are going to reduce price, this margin is sustainable or not for FY2024.

Jayashree Satagopan: Yes. As you know that during the beginning of the year the raw material prices were very high, Government had increased the subsidy and when the raw material prices come down, it is very natural for the Government also to relook at the subsidy that is being offered.

Today the Government's outflow in terms of subsidies is actually very, very high and as I was mentioning they are contemplating a downward revision in the subsidy rate and the MRP also will get moderated. If the raw material prices are coming down, obviously, like in the past, there will be a correction to subsidy, there could be corrections to MRP because end of the day, we have to make fertilizers affordable for the farmers.

Sumant Kumar: So, can we conclude saying that the EBITDA per ton whatever we have generated in FY2023 is not going to be in FY2024.

Jayashree Satagopan: No, I would not say that. As I said, we have been in the range of Rs.5500 to Rs.6000. We should continue to maintain those levels.

Sumant Kumar: Thank you so much.

Moderator: Thank you. Our next question is from the line of Gagan Thareja with ASK Investment Managers. Please go ahead.

Gagan Thareja: Good afternoon. Just one question. I think around the second quarter, there was an initiative by the Government to promote unbranded fertilizers basically the Government logo on the fertilizer packaging would be 2/3rd and the company logo probably 1/3rd. What could be the implications of this move as far as brand building and brand patronage are concerned for you.

S. Sankarasubramanian: See this is the initiative by the Government. We welcome the move by the Government, especially considering the fact that in the products like urea, Government is extending significant amount of subsidy. They have come up with this universal brand of Bharat brand and also being extended to other grades of fertilizers.

Branding and packaging is only one aspect of communication but companies like Coromandel, are engaged with the farming community more by way of communicating the farmers about these products and our extensive farm activities which have been carried out

besides other activities like soil testing, organic carbon testing, and the value proposition of new products what are introduced those brand value proposition continues to remain and also in the 1/3rd portion we communicate our brand and our logo. So, we do not see any major change, but we welcome this suggestion which has come from the Government to have a universal branding of Bharat Urea or Bharat NPKs.

Gagan Thareja:

Sir, as I understand it from the Government side, the initiative probably is being done to rationalize the subsidy cost on the transit of fertilizers the idea being that subsidies being bulky. It is appropriate for certain radius to be maintained within which the sale is done, probably that was their incentive. Would that therefore not have some sort of follow on repercussions or limit in some way what companies can do in terms of brand building and selling a little far away from where the plants are based.

S. Sankarasubramanian: Maybe true in the case of products like urea where you cannot make in any differentiation at the product level. But whereas the NPKs with the multiple nutrients and also the value creation, what we give in terms of for example we have grades which are unique to us like 24-24, which are fortified with sulfur. Similarly, we have grades like 20-20, which is unique to Coromandel. These unique grades are value proposition, it is different and that needs to be communicated and the farmers prefer those grades. So we do not see much of a challenge and we have been building these volumes on those grades over a period of time. I agree maybe for generic products like urea or generic grades for that matter DAP farmers maybe agnostic about the brand but any grades what we have there will be traction and the demand will be there for these markets and that purely depends on the extension activities what companies carry out.

Gagan Thareja:

Just one final question, if you could enumerate what is the degree of backward integration you have now and with the mine that you have taken a stake in over a three year time frame to what degree further can you increase your backward integration for the fertilizer business.

S. Sankarasubramanian: Backward integration varies from product to product. In the case of Phos acid, we are almost close to 50% we can say on the backward integration and in terms of rock, we diversify our source. Definitely we will not be able to go into mining to meet up the entire rock requirement. As I mentioned in my earlier response, we have visibility up to 20% to 30% of requirement being met through our mines at Senegal. Any further opportunities we need to evaluate.

In terms of sulfuric acid, we have currently 50% to 60% and are augmenting capacities further.

Gagan Thareja:

And on rock, are you currently at 20% to 30%. Or are you lower than that.

S. Sankarasubramanian: This is the first overseas investment on mining. So far, we have been only buying. It just started with our Senegal investment. So, this will be 20% to 30%.

Gagan Thareja: Thanks, I will get back in the queue. Thank you.

Moderator: Thank you very much. Our next question is from the line of Chintan Chhedawith Quest Investment Advisors Private Limited. Please go ahead.

Chintan Chheda: Good afternoon and thanks for the opportunity. My first question is related to the growth in the crop protection segment. So given the headwinds that we are facing in Mancozeb and the new MPP plant, which is coming up. What is the growth that we are envisaging in this segment over the next couple of years.

Jayashree Satagopan: Once we see some sort of stability in the market and the new products kicking in, we should see a growth of about 10%-12%, or so. That is what we are looking at. Having said that the businesses are working through our annual budgeting process, and we will get more clarity in the next couple of months. As Raghu was mentioning, the intent is to see how we grow our B2C business furthermore, because there is an opportunity to not only grow the revenue but also the margin since our base is also relatively smaller compared to our B2B and our export business. So, I think, we should be in a position to see the growth in double digit.

Chintan Chheda: And secondly in this new growth areas of nano DAP and drone technologies. So is there any capital commitment that you have made. Or over the next two, three years, what is the kind of investment that will be required over here.

Jayashree Satagopan: On the drone, we made an investment in the AgTech. So that is as much at this point in time. Over a period of time, we will see how we can help the startup in terms of scaling up their own operations given the expertise that Coromandel has in terms of best manufacturing practices. In terms of approach to the market also and piloting through our own business mainly crop protection, SND and retail. So that will take care of the drone part of the business. On the nano DAP, as Sankar was mentioning, we have applied for a patent. We will be working closely with the Government to see that we are getting the approval and putting up a nano DAP plant. Compared to any other granulation plant, there is going to be much shorter in terms of the time frame, as I understand even IFFCO for capacities that they have created, which is roughly about 5 Crores to 6 Crores bottles, is about Rs.150 odd Crores, which is not a huge investment, if I look at it from a benchmark standpoint. So from Coromandel as we go along, we will be taking a call. We already have our pilot plant for liquid fertilizers in Vizag, which currently the business is using for production of nano DAP

to sort of test in the universities and in the fields. But the proposal for putting up a dedicated nano DAP facility and the investments will come through during the business planning cycle.

Chintan Chheda: Got it. Thanks a lot.

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

Prashant Biyani: Thanks for the opportunity. Jayashree madam, what could be the capacity utilization of the granulation plant and how much utilization are we targeting next year.

Jayashree Satagopan: The capacity utilization of our plants currently for all the three quarters put together is about 102% which is what I was mentioning earlier during the call. Prashant, you would also recall that there are several measures that have been taken by the company to hit this type of capacity utilization.

One, we spoke about some debottlenecking operations. Second, we looked into multiple sources of raw materials. Third is the grades that we are producing and fourth is obviously looking at what grades we can import, so that we can produce more of certain other grades. So, combination of this actually helped to hit about 100 plus percentage till now.

In Q4, we will be doing the annual turnaround in both Vizag and Kakinada, therefore it would moderate for the full year. This is also in line with our past performance. Q4 typically we do ATA.

For the coming year, we expect similar trends to continue. In fact, Kakinada debottlenecking and using different source of raw materials has helped in scaling up our capacities there and we should be able to hit even slightly higher volumes with all our three plants fully in operation next year.

Prashant Biyani: How much incremental capacity would be available through debottlenecking next year.

S. Sankarasubramanian: See there are multiple opportunities in which we can increase the volume. It depends on the mix. We cannot go by the current volume, with the current trains we can produce multiple products. We have taken two, three steps. One is in terms of producing different grades in the same plant. If X grade can produce 100 tons, Y grade can produce 120 tons. It depends on the mix optimization. So, there is a scope of increasing volume through the mix optimization. Second can be through the debottlenecking of the capacities which we are seriously contemplating which should come through in the second quarter of next year and third we

use different sources of raw materials which can increase the throughput and fourth we are also looking at additional trains, those possibilities being explored. So always the business will look for opportunities of volume growth as well as the mix, which can bring in top line growth for us and as Jayashree mentioned in the earlier response, there is also option for us to produce certain grades in our plant and the generic grades can always be imported. So, our focus will be to increase production of NPKs and import DAP. So that strategy also will play out more in the next year.

Prashant Biyani:

Sir, with regard to future growth for the industry and as well as for Coro, I mean, we are right now at a very critical stage where on one hand, nano fertilizers are promoted, and on the other hand, we are also short of granulation capacity. So going forward, I mean, how do you see this. How much has been the acceptability of nano fertilizers while you are doing trails and whether it would be prudent to set up capacity. How much granulation new capacities prudent to be set up in the country. Is there any risk of some of the granulation capacity being available because of some market shift of nano fertilizers over the next three to five years. Because of all these things, how do you see, which path would be correct for Coro to take.

S. Sankarasubramanian:

The phosphatics industry segment in India ranges between 20 million to 22 million tons and India produces roughly 13 million tons. So basically 6 million tons to 7 million tons is imported. So even if you were to assume that nano DAP is going to come in first it will only replace the imported DAP. So, our aim is also to see that how this can replace the imported DAP, that is what Government is also looking at it. We do not see any challenge to the domestic capacities and there will be coexistence. There are multiple products, whether it is water soluble fertilizers or specialty nutrients or nano DAP, they will coexist along with the main soil applicant and we do not see any challenge to the existing capacities when we are almost importing 40% of the total annual requirement of phosphatics and Coromandel will definitely look at expanding volumes and there are opportunities available in this space, and we will look at growing the granulation capacity as well. In tune with Government focus on Atma Nirbhar Bharat, it makes immense sense for the companies to augment domestic capacities, not only for granulation but also to create backward integration opportunity and we will continue to focus on that.

Prashant Biyani:

Sir, lastly while we have applied for patent for nano DAP, what would be our plans for other nano fertilizers, and specifically do we plan to venture into nano urea and have you been able to find another route to manufacture nano urea.

S. Sankarasubramanian:

So we have nano urea technology as well, which we have applied for patent and we are going through the various studies, which are required for making our application to the Government. We are going through that phase. We are also carrying out the field trials. Once we get the

studies completed, we will update to the Government and take the approval and then we will launch nano urea. So, we have got an alternate route of manufacturing nano urea as well, but again, I repeat my response in the earlier case these are all meant for foliar applications, which are much later part of the crop stage at the time of flowering and it cannot replace the traditional soil applications which are happening. So, to that extent, there are no immediate challenge in terms of the volumes prospects for the phosphatics. But our effort on nanotechnology applications will continue to be there and we will look at opportunities including nano micronutrients also going forward.

Jayashree Satagopan: I just want to add one more comment here. These are still very early days of nano technology. It was launched this year, I mean, in this current financial year, nano urea, and talking about nano DAP we just need to see even on the full year application to what extent there is going to be a substitution. It is such an interesting area to watch out. We will have to wait and see rather than getting into some sort of a conclusion whether there is going to be a substitution or whether it is going to be an add on application. But it is an interesting phase to look out for.

Prashant Biyani: In your trial have you seen the farmers' acceptability for nano fertilizer.

Jayashree Satagopan: As I said, it is very early stage. They are doing some university trials. Once we get to some level of certainty, we will definitely be happy to share all of these.

Prashant Biyani: Thank you. That is it from my side.

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

Rohan Gupta: Hi! Sir, hi madam, good evening. Glad to see Sankar sir joining call after such a long time. Sir, a couple of questions from my side. First is on fertilizer margin itself. Jayashree madam, you have guided roughly Rs.6000 that is the margin per ton you are looking in fertilizer. We have seen that we have been continuously improving our stable margin guidance from almost Rs.4000 to Rs.4500 to Rs.5000 and now are roughly Rs.6000. We have been living in an environment where the phos acid prices were continually going up and now they have started correcting. So I think that during this time, we definitely enjoyed some margin because of backward integration, high backward integration. When we are talking about Rs.6000 stable margin per ton, assuming that DAP prices come back to the normal of Rs.40000 per ton what they used to trade earlier. That is a pretty handsome margin on an average realization basis of Rs.6000 and given that our profitability will be primarily coming from the Government subsidies, do you think that the Government will be okay with this kind of margin enjoyed by the industry. Though I understand Coromandel will have efficiency also driving this

margin, but still do you see that this margin for the industry can sustain at this level once that phos acid prices and DAP normalizes.

Jayashree Satagopan: As you know, the margins have been improving on a year-on-year basis, primarily based on the cost efficiencies, backward integration, building on the brands, creating demand for unique grade based on agronomist activities in the field, so on and so forth. So, I would look at a steady state, as I was mentioning, the Rs.5000 to Rs.6000 as the EBITDA per ton margin for us. These levels, based on the efficiencies that have come in, should sort of be doable.

While we see that PA prices are coming down, in the immediate future, I do not see a drastic reduction per se, because demand next year also is expected to be higher. We still do not know how China is going to play the cards or there is going to be still a lot of imports that happens into the country. For DAP, primarily, we are seeing more imports and we will also continue to import that and start manufacturing more of NPKs in unique grades in our facilities. So with that, we should start to be able to maneuver around these margin levels. The Government, obviously, will be looking into reduction in the subsidies, which I was also mentioning a little earlier. So it is going to be a combination of multiple factors, and as the capacity of the plants go up primarily due to debottlenecking and using multiple grades or sources of materials or types of materials, there is also going to be efficiency in the fixed cost front. So one just look into to it overall, so I think we should be comfortable in this way, I will not be worried in terms of whether these numbers are reasonable or not.

Rohan Gupta: Second is a clarification. In Q2, we mentioned that definitely, we do have some high cost inventory of phos acid and the prices of phos acid last quarter come down \$1175 while they have further come down to \$1050 now. We have seen that despite that cautious outlook, which you shared in Q2 which could have led to some inventory led losses, we are seeing the Q3 numbers are pretty robust and the margin has been very well maintained. So when the prices of raw materials has further fallen to \$1050, Government is still holding onto subsidy rates which they have revised in the month of October. I am sure that we are almost half of the Feb now. So it means that for the current quarter, the subsidy rates will be same as what we have seen in Q3. So it means that we are looking at very, very attractive Q4 with the fall in raw material prices and also even the prices coming down in previous quarter also. Market prices of DAP and NPK whatever channel checks suggest are still holding on. So it indicates in all probability a good Q4, unless the Government further reduces the price on the subsidies. Is that understanding correct, madam?

Jayashree Satagopan: Well, as I was mentioning, Government is already contemplating reduction in the subsidy rate and it is in discussions within DOF, will go for approval to the cabinet, because they are seeing a trend which is coming down as far as raw material prices are concerned. What we

do not know now is from when this reduction in subsidy rate would be applicable. Like, for instance, 1st April onwards, the rate went up, but the announcement did not happen in March, it happened subsequently. While the Government was willing to give an increase in the subsidy rate as of 1st April, maybe they did not want to reduce the subsidy rate from 1st January because we have been talking about it. But at this point in time, we do not know the exact date. So I would not jump to say Government may not change the rate for the quarter. They are definitely considering a reduction of the rate. We do not know how much and we do not know the date, and if that does not happen, there may be some corrections in the market price also, because the expectation is to see how the farmers benefit out of it, and we all know that the subsidy outlet of the Government has been quite high, and the incentive for them also is to reduce the subsidy rate, you are also seeing that tonality coming in the budget speech of the Finance Minister. Therefore, I would rather wait a week or so, then we will get a little more clarity on this subject relating to the change in the subsidy rates by the Government. I hope that clarifies.

Rohan Gupta: Yes, right madam. So, I think that the future reduction in subsidy or any point of time, the Government announcement which maybe retrospective effective from 1st of January itself will be the biggest risk which we are going to face right now and we do not know how the company handles that risk, I mean, because that is not in our hand. So you must be having some inventory the current quarter phos acid subsidy prices are already fixed. So I think that we are just doing the business, but there is a risk which we are having right now in terms of the impact to the profitability, correct.

Jayashree Satagopan: Yes. This happens every time, rates will go up or down. It is part of the business.

Rohan Gupta: Got it madam. Thank you so much. Thanks.

Moderator: Thank you very much. Now I would like to hand the conference over to Mr. Ramesh for closing comments. Please go ahead, sir.

S Ramesh: Let me ask a question before I close the call. So I would like to have your thoughts on how you see the Crop Protection business, it's potential in terms of the improved product mix and what are the kind of share you expect from the formulations and when you see some kind of steady trajectory in terms of volume growth and margin expansion, would it be by FY2025 or FY2026. If you can give your thoughts on that in terms of the internal assessment that would be useful, and secondly on the structural soil nutrient content how do you see that imbalance being addressed because you have a problem in terms of the steep discount for the urea price for the farmer. So any thoughts on that or Government thinking on that if you can

share in terms of the potential for long-term growth in the Complex fertilizers. I know these are slightly difficult questions, but if you can give your thoughts, it would be really great.

Jayashree Satagopan:

On CPC the opportunities for Coromandel to grow the business is large. Therefore, from mid-term to a long-term when you look at it, it is extremely critical to work on three factors which we further have shared in the past. One is revamping and having a good product portfolio, reducing our dependency on Mancozeb, improving our B2C sales compared to our B2B both domestically and also in select export markets and also looking into backward integration, when it comes to the new technical that are being picked up by the business and improving the channel strength both in terms of the dealer network as well as our feet on street. So multiple of these initiatives are being taken by the business, including a lot of changes within the organization, getting the right people, whether it is for R&D, product development, manufacturing, across multiple areas. So I honestly believe in the next two, three years we will see a very different play on this business, where we will have a much more enriched portfolio, deeper penetration into the B2C segment and also select markets globally where we will be going on a B2C. Apart from all this, multiple registrations have been taken. We are also looking into activating them either on our own or through our B2B customers globally which should also sell. As far as the soil nutrients question that you have, this is about promoting balanced nutrition. This is what Coromandel has been doing. If you look at us as a company, we have been talking about balanced nutrition, selling more of NPKs, not even DAPs, leave urea, urea is primarily for footfall which we also import, sell it relatively to our dealers or market it through our retail network, but Coromandel focus has been on NPKs. We have about 150 odd agronomists, we have nutri-clinics through which we sort of advocate right farmer practices and behaviors, which has actually helped them in growing the NPK market in our key operating areas. Whereas there is a higher dependency on urea as well as DAP in many of the northern markets where Coromandel is not present as much. As part of our initiative working with the Government, Government advocacy we have been constantly talking about and discussing the development on our own through FAI, the need for promoting balanced nutrition and Government is also conscious about it and we do work at some point in time with DBT 2.0 that we are talking, they maybe linking subsidies to usage of fertilizers and thereby sort of moderating the type of fertilizers the farmers will use, which will help in improving the farm productivity. All of these have its own rationale, and when the Government will do, whether they will do now or they will do a couple of years later, we do not know, but there are different ways how the Government can actually work through it. You see the Government is also continuously in dialogue through this PM Cares that they have sort of introduced working with different dealer outlets, talking to the farmers. So, they are looking into this seriously and it is only a question of time. However from Coromandel standpoint, we will continue our focus on balanced nutrition, we will continue our focus on



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integrated pest management, because we believe this is the right instrument for sustainable agriculture. Thank you very much for your question.

S Ramesh: Thanks a lot Jayashree that was very helpful. So, with that we bring this conference call to close. Let me first thank Jayashree, Sankar and Raghuram from the Coromandel management team for taking time off and giving us this call and answering all the questions. I also thank all the participants for making this an interactive session. Thank you very much and have a good day, ladies and gentlemen. Thank you.

Moderator: Thank you. On behalf of Nirmal Bang Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.