"Coromandel International Limited Q1 FY17 Earnings Conference Call"

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MODERATOR: **MR. PRASHANT TARWADI – AXIS CAPITAL LIMITED**

Moderator Ladies and Gentlemen, Good Day and Welcome to the Coromandel International Limited Q1 FY17 Earnings Conference Call hosted by Axis Capital 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. Prashant Tarwadi from Axis Capital Limited. Thank you and over to you, sir.

Prashant Tarwadi: Hi. On behalf of Axis Capital, I welcome all on the conference call of Coromandel International Limited. The Management is represented by Mr. Sameer Goel - Managing Director, Mr. Sankarasubramanian – EVP and Chief Financial Officer. They will start with the Company overview, their performance and then later we can switch to question-and-answer session. Gentlemen, thanks a lot for your time. And over to you Goel sir.

Sameer Goel: Good afternoon, everyone. And thanks Prashant for organizing this concall.

Let me begin by giving you an overview of the business environment experienced during the first quarter and Sankar will follow with the Company performance and we will then take the Q&A session.

After experiencing two challenging years of deficit rains and lower reservoir levels, current Kharif season has seen a turnaround in fortunes. The rural sentiments have picked up during the year and that has been reflected through higher crop sowing across India. As of July 22nd, the sowing has been up by 3% with major increases coming up on the pulses and oil seed, partly replacing cotton crop. Due to consistent and timely rains received in the southern markets, sowing is up by 23% with major increases coming under pulses, oil seeds and maize. Presently, only 60% of the sowing has happened across India and we anticipate this to gain momentum over the next one month.

With the respect to South Indian markets, only 40% of the sowing has taken place over the seasonal average so far and this is likely to move up as the reservoirs get filled with goods rains in the catchment areas of Maharashtra and Chhattisgarh. Overall against 671 lakh hectares of sowing last year, as of 22nd of July the sowing has been up by 693 lakh hectares, which is an increase of 3%. The main increase is coming in Pulses which has increased by 39% and also for coarse cereals which has increased by 4% and Oil Seed by 4%, Rice is almost on par as last year. The decline like I mentioned had come in cotton which has come down by 13% so far.

As far as the rainfall is concerned, currently India as a whole has received 393 millimeters of rain which is 1% below the long-term average level. However, when we go subdivision wise, our southern markets have received good rainfalls with normal and excess rains experienced in Andhra Pradesh, Telengana, parts of Tamil Nadu and north interior Karnataka. Overall, Southern region has had similar rains as last year, however, the IMD has forecasted above normal rainfall to exist over Peninsular India and near normal activities in other parts of India in the next three weeks, which is a positive signal for Indian agriculture.

The reservoir levels are beginning to show signs of improvement from July onwards and by 15th July all India level stood at 29%, which is at 101% of the long period average, but currently below last year. The canal dependent West and Southern Indian reservoirs are still low, but are expected to improve as the season progresses with good rainfalls coming in the catchment areas.

On the reform front, the government has declared the minimum support price for Kharif 2016-2017 and has taken a moderate rise for pulses and oil seeds segment. With this, the government has set a special focus to arrest the supply side inflation by increasing pulse output and is also looking at imports from neighboring countries. The high support price has resulted in improving sowings under the two crops and we expect the trends to continue in the Rabi season as well.

In Andhra Pradesh Pattiseema lift irrigation project has been commissioned on July 6th. The project seeks to divert surplus Godavari water to Krishna river, thereby interlinking both the rivers. As of now, out of the 24 installed pumps, 13 are operational and is diverting roughly 4,500 cusec water to the Krishna delta every day. This will be a big boon to the farmers in the parched Rayalaseema area and south coastal Andhra Pradesh.

Direct Benefit Transfer for fertilizer is being pilot tested in 8 to 16 districts. Once implemented, this will help the farmers in choosing the best fertilizer combination suited for his soil and crop instead of being influenced by the price distortion between Urea and NPK grades.

The government has approved the interest reduction scheme for farmers for the year 2016-2017, this will help them in getting short-term crop loans payable within one year up to Rs.3 lakhs at only 4% per annum.

Cabinet has approved the revival of closed urea unit in Gorakhpur, Sindri and Barauni, this is likely to improve the urea availability in eastern UP, Bihar and Jharkhand on a medium term basis.

Now coming to the industry fertilizer sales for the year. When we look at phosphatic, the production has gone up for the first quarter from April to June by 13%. Imports have actually come down by 37% despite the reduced prices of imports and sales have actually been declining by 25%. The main reason for this is the high channel inventory due to prepositioning done by companies in March 2016, restricting the scope for further sales. Further delayed monsoon onset in West, East, Central and North markets during June postponed the sowing. However, with the monsoon picking up in July, we anticipate the sales to pick up in Q2 FY17.

If you look at the geographical distribution of sales during quarter1, it is in line with the rainfall pattern wherein major volume drops are happening in North, Central and Eastern Indian markets. As per the industry estimates, the channel inventory has come down to some extent due to the reduced stock placement during Q1. Going forward, fertilizer consumption is expected to pick up as monsoon has recovered from a slower start to the season.

Like I was mentioning, on the supply side industry DAP imports has come down by 39% in spite of the persistent low prices. Subsequently, manufactured phosphatic have moved up by 13% due to adequate availability of phos acid. Urea sales are down by 18% at 57 lakh metric tons while MOP remains at last year levels at 4.5 lakh metric tons.

Coming on to the raw material environment. The raw material and finished product prices remained benign during quarter 1. DAP has fallen down from 390 level to 340 level as improved availability from China, Morocco and Saudi Arabia and reduced consumption in China widened the demand and supply gap. Urea, ammonia and potash have also shown a soft trend due to ample availability and lack of demand internationally. Industry has closely engaged with the government and passed on the benefits of subdued commodity prices, bringing down farmgate prices of phosphatic and potash fertilizer, thereby benefitting the farming community. In case of DAP, industry has resorted to a downward price correction of Rs.2,500 per metric ton. For MOP, the drop is Rs.5,000 per metric ton. And for complexes, it has been moderated in a similar proportion.

As you are aware that the industry resorts to pre-placement during March and major consumption happens from June onwards. This correction in prices ahead of the season has resulted in significant impact on the inventory, as the channel is carrying on the inventory. This steep correction in prices has had a one time impact in the financials of nutrient business during the quarter. Downward correction in prices auger well for the industry, as this may lead to demand revival of phosphatic and potash grade.

I now hand over to Shankar to talk about the Company's fertilizer performance.

S Sankarasubramanian: Thank you, Sameer. Good afternoon, gentlemen. On the fertilizer side, all our plants operated during this quarter and we registered a 20% growth over the corresponding period last year. Our production volume moved up from 4.7 lakh tons to 5.6 lakh tons, however our sales is marginally down. As against the last year number, we registered a 2.5% reduction in overall sales to 4.71 lakh tons during this quarter. As Sameer mentioned, despite the channel inventory as well as the slight delay in the arrival of monsoon in Maharashtra, Karnataka and West Bengal, our sales volume has been reasonably better. From the industry point of view, our market share has moved up from 12.5% to 16.1%. Especially in our home market, AP and Telengana, our sale volume grew by 23% and we reached almost 2.6 lakh tons, roughly two-third of industry volume, we have gained market share in Andhra and Telengana, besides that we also improved our position in Orissa, Tamil Nadu and Madhya Pradesh during this quarter.

Our production of DAP has been better this quarter due to improved availability of phosphoric acid as we consciously improved our own manufactured production of DAP and thereby curtailing our imports. For this quarter we imported and sold only 0.3 lakh tons as against 1.3 lakh tons what we did last year. Our sale of manufactured product moved up significantly, in fact moved up from 3.5 lakh tons corresponding period last quarter to current 4.4 lakh tons.

As you know the first quarter being the early Kharif season, the major concentration is more towards urea and DAP. So our share of unique grades is roughly around 22% at this point of time, but as the season picks up in next two months, our share of unique grades, which is our focus, will move up in the next two to three quarters.

On the traded volumes, urea and MOP have gone up, our imported volumes of DAP is down as I mentioned earlier. MOP has moved up from 0.18 lakh tons to 0.29 lakh tons and urea has moved up from 0.97 lakh tons to 1.42 lakh tons.

In respect of other SBU, Crop Protection business, our top-line and bottom-line has shown a significant improvement. Key molecule Mancozeb, which is being manufactured and exported from Sarigam unit received increased demand and improved realization. And also the cost structure at Sarigam is considerably down that has helped us improve our operational EBITDA of Sarigam operation. Our production during this quarter was all time high and we could also get the benefit of debottlenecking we carried to Sarigam plant. With that improved availability of Mancozeb, we could take advantage of the demand situation.

Even Formulation business has started showing signs of revival after a tough last year. While we had inventory write-down in the corresponding period last quarter, we had a reasonably good start. We have been looking for introducing new products and during this quarter, we have introduced new insecticide called Piranha which was well received for cotton and paddy crops. With the improved acreages expected on paddy, we do expect the new molecule will get traction in the market.

On the Specialty Nutrient business, as it is just the beginning of the season, the volumes are more or less similar to last year level. In fact, organic manure business has done well, they improved volumes compared to last year, Our retail stores sold higher volumes of organic fertilizers during this quarter. Our overall tonnage is around 32,000 tons.

Our Retail center's performance continue to show improved numbers, especially on non-fertilizer segment, which is very critical for the operational EBITDA of the centers.

And in the SSP business we had a tough quarter- in fact we consciously decided to curtail our production and sale because of the inventory in the system. But with improved liquidation happening with the onset of monsoon, the production is back in all the units of SSP.

Before I comment on the financials, I just want to touch upon the applicability of new accounting standards. As you are aware, IndAS, the new accounting standards became effective from 1st April, 2016, and as per the SEBI regulation, we need to report current quarter and corresponding period previous quarter under IndAS. The option was given to present the full financials of the previous year as well as the preceding quarters to be reported under the old accounting standards . But as a Company we have been working on this IndAS for last few months, and hence we have opted to report the new accounting standard for all the periods. So what you are seeing, the financial results which we published yesterday is as per the new standard. There are quite a few changes which have happened on the new accounting standards and the Comprehensive documents covering all these changes have been put together and we have uploaded on the website for sharing with investors. You may refer to that for any information or requirements on the financial statement.

And specific to the financial results for the quarter, consolidated turnover was Rs.2,059 crores with major share coming from nutrient segment of 82% and the balance 18% coming from crop protection business. You must have seen from the results that under the new standards, we started reporting financials under two main segments, nutrient & allied business as well as crop protection business. On the consolidated basis, EBIT for the quarter is around Rs.64 crores as against last year Rs.67 crores.

Our profitability is down and especially in the nutrient business mainly due to the fact, as Sameer has alluded in his opening remarks, that there was a price correction which we have to take in the last few weeks and that has impacted the channel inventory. Industry as well as the company is having channel inventory and to that extent, we incorporated the impact of the price correction and major impact of which has been addressed in 1st quarter. And that has impacted the nutrient segment profitability for the quarter.

Our Nutrient & allied business share is 36% because of this sharp fall in profitability of fertilizer unit. And the Crop Protection segment share is 64%. Our Nutrient business includes other related businesses like specialty nutrients, organic fertilisers and retail, which predominantly distributes fertilizer.

Overall, our consolidated net profit after tax is Rs.7.5 crores against last year Rs.15 crores.

Also, we have reported other comprehensive income as part of the new accounting standards requirement. While the impact for the current quarter financials on account of migration is not significant on the P&L, if you see the other comprehensive income for the previous year there has been adjustment for the fair valuation of strategic investments what we are carrying, this has been explained in detail in our presentation.

Our subsidy outstanding as on 30th June is around Rs.1,882 crores against a corresponding period last year of Rs.1,643 crores. But it has come down from March level, which was at Rs.2,367 crores and we expect to receive further subsidy during this quarter in the month's beginning August. Overall, our debt equity is more or less in the same level what we had last year.

I would say it was a challenging quarter for the nutrient business, but with the price reduction taken by phosphatic fertilizer by the industry now, there is no price disturbance in the market. With favorable monsoon scenario and positive market sentiment, I think industry is expected to improve its performance going forward.

That is all I have to share at this point of time and we can move on to question-and-answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Sujit Jain from Yes Securities. Please go ahead.

Sujit Jain: Sir, what is the impact in terms of actual amount which is because of the inventory write-down and reduction in prices?

S Sankarasubramanian: This is part of our financials and we have factored in, Even though these price corrections happened in July, it had major impact on the inventory that we carry and also on the invoiced volumes during the quarter ended 30th June. The DAP price has been corrected from Rs.24,800 to Rs.22,000 and the complex fertilizer moderation has been around Rs.1,000 per ton and potash prices have come down by Rs.5,000. The background for these price reduction, as Mr. Sameer mentioned, DAP came down from $390 to $345 at this point of time, potash price has been renegotiated from $325 to $227. And also other input prices overall have come down including e urea and ammonia so consequently the industry was also planning to moderate the prices. There was a first price correction of Rs.1,000 which has happened in June end and then again followed by subsequent correction.

While we may not be able to quantify the exact amount of impact, whatever majority of impact that we foresee at this point of time, we have factored it in our first quarter financial.

Sujit Jain: So what was the amount of inventory write down in June?

Sameer Goel: It is not inventory write down. It was the discount that we have to offer to align the prices to the current fresh materials going to the market which will facilitate the distributors and wholesalers to liquidate the stocks that we are carrying in the market. Because as we know the season has just commenced and the liquidation will happen,

Sujit Jain: Which means that it might have impact on the second quarter top-line?

Sameer Goel: No, these are all the sold materials, what is lying with the dealer and for which we need to offer a discount that has been factored in this quarter.

Sujit Jain: And in terms of the price fall you spoke about $50 fall in DAP prices and for the industry Rs.24,800 to Rs.22,000, Rs.1,000 in June and some cuts in July. Is there a scope for further price reduction?

S Sankarasubramanian: No, this price reflects the current market siutation. As you all know the subsidy for the current year has been reduced significantly from Rs.12,500 and has come down to to Rs.8,900. And again now, with the current falling prices we have passed on the entire impact and in fact it is a very fine pricing of 22,000 which is just making the current cost structures for the manufacturers and also it will leave some margin for importers. So at this point of time, we do not see any possibility of further correction in the prices in market.

Moderator: Thank you. We have the next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir, just taking it from the previous participant, I mean if I am looking at your EBIT what you had reported for the fertilizer business, it has basically dropped significantly. I mean if you can give us qualitatively as to, if we were not to take this kind of price adjustment or discount into the system, what would be the kind of number that we should be looking at, should it be something like Rs.1,100 per metric ton or Rs.1,200 per metric ton or what was qualitatively the impact in terms of magnitude?

S Sankarasubramanian: Sudarshan, I can make a qualitative remark. Actually, we speak every time, we do an annual average EBITDA of Rs.2,000 per metric ton on phosphatic fertilizers, and that happens on an annualized basis, which means Q1 & Q4 are muted quarters, so perhaps EBITDA margin will be in the range of Rs.1,400 to Rs.1,600. And it peaks during Q2 and Q3 which is around Rs.2,400 to Rs.2,500 which results in an average of Rs.2,000. If you are asking whether we are in the same range, yes we are in the same range. So this is a onetime correction we need to take because of the channel inventory lying in the system**,** but if you look at the current prices remaining in the market and whatever input prices at which we are importing now, we should be able to get to the target what we have been maintaining in the past.

Sudarshan Padmanabhan: And second thing is with respect to channel inventory you mentioned that post the first quarter we are seeing some kind of inventory getting moved out of the system, I mean now given the fact that we are going to see a good progression in the monsoon in the next two to three weeks, do you expect the inventory system completely normalized and we should we able to capitalize on a good Rabi season?

S Sankarasubramanian: Absolutely, two things. As you rightly said, with the monsoon, improved reservoir levels we do expect this channel inventory to get eased out in the next two months. And we could see that happening with our improved sales through our retail counters. Also, if you see, the price corrections are also helping the farmers to come back because their price disparity between urea and phosphatic is getting narrowed down with the sharp correction in DAP price. So this will ease out considerably during the quarter and also industry has not resorted to heavy imports in this quarter in spite of moderation in DAP prices. So we do expect with improved reservoir levels, the Kharif will be a brisk season and these channel inventories would get eased out considerably.

Sameer Goel: Also, what is anticipated is that the monsoons will be good, monsoons getting extended this time, so it will well be that the Rabi will be even a bumper year.

Moderator: Thank you. We have the next question from the line of Abhijeet Dey from BNP Paribas Mutual Fund. Please go ahead.

Abhijeet Dey: Sir, two things, there is something called as intersegment revenue, Rs.43.3 crores in the consolidated numbers, what does that pertain to?

S Sankarasubramanian : The Crop Protection business sells formulated branded products to retail and the retail business is grouped under nutrient and other allied business, so it is an inter-segmental turnover which gets eliminated there.

Abhijeet Dey: So basically sale of agro chemicals where your retail network is?

S Sankarasubramanian: Correct, that is getting grouped under the retail business, so that is the elimination.

Abhijeet Dey: And what accounts for the sharp jump in EBITDA for the crop protection business, Rs.27 crores to Rs.59 crores?

S Sankarasubramanian: As I mentioned, we have done very well in the technical segment, improved production and better margin structure for some of our key molecules, in fact all technicals have done well, our exports have improved during this quarter. And Mancozeb debottlenecking what we started last quarter, we could complete it and the additional production we could sell. And also the cost structures have improved with improved operational efficiency. So major portion has come from technical business. Also in the formulation business, if you all know that last year first quarter we had write down of materials because of the price fluctuations and that one time hit we took last year is not there in the current quarter. With improved sentiments on the domestic agri season, we do expect the formulations business to do well. So it is the combination of positive sentiments on formulations business and improved cost structure, better realization, Mancozeb will improve the profitability.

Abhijeet Dey: One last question, in this results, what is the phosphoric acid price we have considered?

Sameer Goel: As a company we keep importing phosphoric acid- in fact we carried inventory from the previous quarter price and also the shipments which have contracted and a major portion of the material we got in at a previous contracted price except for few shipments which came in during the last few weeks of June. So more or less most of the suppliers have indicated a price range of $600 to $605 for phosphoric acid while the firm contracts have to be signed with some players but we do expect our price range to be $600 to $605 going forward. you can effectively say that the benefit of the price correction and phosphoric acid should flow through early in Q2 onwards.

Abhijeet Dey: But sir, this new contract price will be effective Q2 only, not in Q1?

Sameer Goel: It is from Q1 onwards. We did get some shipments at $600, so they have been taken at $600.

Moderator: Thank you. We have the next question from the line of Trilok Agarwal from Birla Sunlife Insurance. Please go ahead.

Trilok Agarwal: There are a couple of questions, one is on the inventory that you just highlighted that most of the correction of the prices that have been reflected in this quarterly results. So without getting into the numbers, I just wanted to understand that incrementally going ahead, assuming there is no changes in terms of policies or prices in the market our full year number of Rs.2,000 per ton EBITDA will be actually proportionally higher for the coming quarters, is that fair to assume?

S Sankarasubramanian: Yes, that is what I mentioned in my previous response as well, average annualized EBITDA of Rs.2,000 per ton should remain. In fact, with our increased focus on unique grades, we should try and improve on that. But as we see the cost structure and the price where it stands today we are in for that EBITDA per metric tonne.

Trilok Agarwal: And sir, the other point is, could you share what is your thoughts on the increased DAP traded recently, given the fact that margins for the traders have kind of shot up again. And how will it impact us in the manufactured volumes for the full year, because we are assuming at least much higher utilization level this year.

S Sankarasubramanian: With the sharp reduction in DAP prices, the traction for import comes down. In fact, they (traders) did have some play when the prices were high but as the market forces generally plays in and if the materials are more, price comes down. So whatever pluses and minuses which are there for manufacturers, they are also there for the importers. So people who imported higher price last year suddenly have to get their market pricing revised based on new material at $340 - $350. But obviously, in an open market in a competitive field, this sort of arbitrage opportunities will always be available, and as a company we are geared up to meet that. We position ourselves as a complex player and we have taken away our focus from DAP. But having said that, our brands are very strong, our manufactured DAP, especially the Godavari brand which we relaunched during this quarter, is well received in the market place. We are also offering a new DAP variant through our retail channels which will be launched exclusively through the retail channel.

Trilok Agarwal: And finally if you can, I do not know if you did, I logged in a little late. Sir what is the system level inventory for DAP as of now?

Sameer Goel: DAP and complex 50:50. We indicated in the quarter beginning that it was around 6 million. We are yet to ascertain this number. But June end, it may be around 5 million to 5.5 million because there was a slight delay in the season, especially in the northern part and major portion is lying in the northern part. So our estimate is 5 million tons to 5.5 million tons. Now some sort of liquidation must have happened in July.

Moderator: Thank you. We have the next question from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

Bhavin Chedda: Sir, what would be the capacity utilization during the quarter and with good monsoon what would be the target capacity utilization?

S Sankarasubramanian: We have improved on our production, compared to last year 4.6 it is around 5.6 Lakh MT. Our aim is to improve the capacity utilization with the improved availability of acid. We have to wait and see really to make an assumption on what is going to be for the year. But with stability in prices, with good monsoon and improved availability of phosphoric acid, I do expect our capacity utilization to improve.

Bhavin Chedda: And sir every time you give this non subsidy business, sales and EBITDA percentage, so have you bifurcated and what that number would be?

S Sankarasubramanian: While it is good to have that number but we started presenting our segmental results as nutrient and crop protection separately. But of course, some sort of non-subsidy businesses are also part of nutrient business. In terms of our top-line fertilizer continues to account for major share, in fact 75% of the sale has come from fertilizer and balance 25% has come from non-fertilizer in respect of top-line. In respect of bottom-line, as I mentioned this time it is more of non-subsidy business which has helped in achieving the results. In fact as you see, crop protection and other businesses must be crossing more than 50% share in the current quarter because of the provision we need to make for the fertilizer inventory. The share of fertilizer in the EBITDA has come down significantly in this quarter. So I expect that number to be in the range of 50% to 55%.

Bhavin Chedda: And sir just last one, DAP prices you said were reduced from Rs.24,800 to Rs.22,000, it is Rs.22,000 right now?

S Sankarasubramanian: Yes, Rs.22,000, right. Plus tax, Rs.22,000 is base price plus taxes.

Bhavin Chedda: And all channel related inventory adjustments has been happening based on Rs.22,000 and everything is accounted in the quarter?

Sameer Goel: Major portion of it is accounted- at this point of time as we see what is required we have provided for, I hope it is adequately taken care off. see you never know unless the season ends.

Moderator: Thank you. We have the next question from the line of Abhijeet Akela from IIFL. Please go ahead.

Abhijeet Akela: First, just on that subsidy to non-subsidy breakdown, it would be helpful if we could get that same breakdown for FY16 or for the previous year, because now the revenue numbers have been restated for IndAS, would be great just to have that, if possible.

S Sankarasubramanian: I do not have the number right now. I can share with you later. But the top-line correction is only to the extent of the cash discount, not much of a variation. So we share it from next time.

Abhijeet Akela: And second, just wanted to check on the import duty on the raw materials, I believe the industry has been lobbying for some changes, so anything that you see in the offing, near term?

S Sankarasubramanian: At this point of time nothing has happened, but we are pursuing with the government strongly and we have been raising this point to incentivize the domestic manufacturing in line with Make in India. We do expect government to favorably incentivize the domestic player to ensure sustained production of phosphatic fertilizers in the country.

Sameer Goel: We as a industry are quite hopeful on that. So like the government has done for urea, we are hopeful that they will take the same thing on phosphatic because there is a lot of advantages for the government on that, major saving of FOREX and a lot of employment opportunity being generated. Also, the industry is capable of meeting the needs of the farmers in terms of the type of fertilizer which we can give them. So that is a major advantage for the domestically manufactured fertiliser.

Abhijeet Akela: And one last question, just on the Direct Benefit Transfer that is proposed in fertilizer, if you could just give us your thoughts on how well is that scheme being rolled out, what are the challenges, what kind of timeline do you realistically think for this to be implemented pan-India?

Sameer Goel: The government is looking to start it out in pilot districts so that they can learn from that instead of doing it pan-India. Now, currently the first pilot is actually taking place in Haryana in Kurukshetra and there obviously it requires the cooperation of the entire trade and also getting all the farmers benefit number. So that is the first point. Based on that, they are looking at rolling it out in various districts, eight to 16 districts in India, so we are yet to get the notification from the government, we are prepared for that. But overall, the industry welcomes this step and I think it will also correct some of the imbalances which is happening by the excessive use of urea. So it will be a major benefit for NPK. But we need to just ensure that we learn from the pilot and implement it.

Abhijeet Akela: But with the land records not being very good in India and the fact that the targeted distribution in supply side be a bit of a practical challenge, so do you think those are difficulties that are possible to surmount over the medium term?

Sameer Goel: I think that is why the government is doing the pilot. When you look at the district like Kurukshetra that was one the first district where most of the land records where actually digitalized. So this is something which is moving in the right direction. Obviously, when you implement a pilot and that is why they are doing it, there will be a lot of learnings which will come from there. So, it's a step in the right direction. Similarly, they have picked up other states also where they want to roll in the pilot. The industry as a group want to support the government on this to see how this gets rolled out and how the benefits can be passed on.

Moderator: Thank you. We have the next question from the line of Balwinder Singh from B&K Securities. Please go ahead.

Balwinder Singh: Regarding the Phos Acid negotiation that you talked about at $600 to $605 so, that would imply our normalized margins at $600 to $605 or we will need further reduction to go to our normal margins of what we talk of Rs. 2,000 per tonne.

S Sankarasubramanian: The Phos Acid price what has been finalized has factored in the current price reduction as well as the fall in international price of DAP. I would say that this price is likely to stay for one or two quarters because of the expectation of lower prices of DAP prices,

Balwinder Singh: Okay. And sir, if I see your interest cost has increased to Rs. 65 crores this quarter despite the fact that I think subsidy was Rs. 2,000 crores in March and now it is roughly around Rs. 1,100 crores so, we have got Rs. 900 crores of…

S Sankarasubramanian: Not Rs. 1,100 Cr I think you got my number wrong, Rs. 1,882 we said.

Balwinder Singh: Okay. So only Rs. 100 crores of reduction roughly.

S Sankarasubramanian: No, From Rs 2,367 cr to Rs1,882 cr Rs. 500 crores of reduction because we have…

Balwinder Singh: 2,300?

S Sankarasubramanian: Yes. Rs 2,367 to 1,882, Rs. 500 crores roughly Balwinder.

Balwinder Singh: From March 2016?

S Sankarasubramanian: Correct. See, reason for the interest increase is two things. First quarter is not a busy season so major sale happen in June and they are on credit sale so effectively our collection started kicking in from June month onwards. Even we received a major portion of subsidy only in June. So effectively in April-May, we have carried a high level of inventory and receivables both from subsidy and from the trade. So the benefit of these collections both from trade and subsidy will be felt only in the future. So being an off season and late pick-up of the monsoon, the borrowing levels was on the higher side and hence the interest cost is high.

Balwinder Singh: Okay. And sir, if I see your segmental reporting, the crop protection business now includes the technicals that Sabero does and the formulation that we do as well as Sabero does somewhat of formulation, that is right?

S Sankarasubramanian: No, if you see we have reported the crop protection as a separate segment and there is an inter segmental revenue. Crop protection includes the captive sale which it makes to retail, and retail distributes. The retail is forming part of the nutrient business. And crop protection includes not only the sale to the trade channel but also through our own retail channel.

Balwinder Singh: Yeah, but that is small I think Rs. 40 crores?

S Sankarasubramanian: Yeah, in the first quarter as major sale comes from the trading channel. It is being an off season, so its small. But as we move to the next quarter - the peak season, sale through retail channel also will pick up.

Balwinder Singh: Okay. So the nutrition business now includes complex, SSP, organic manure and specialty in nutrients as well as the retail in our retail what fertilizers we sell, right?

S Sankarasubramanian: Correct.

Balwinder Singh: Okay. Can you quantify what is the total annual revenue say FY'16 revenue of organic manure and specialty nutrients would it be possible?

S Sankarasubramanian: I have to get the data separately for last year. Organic manure we have already indicated our volumes, last year we have sold 1,05,000 Mt. and in terms of our organic and specialty nutrients sale we should be around Rs. 260 crores.

Balwinder Singh: 260?

S Sankarasubramanian: Yes.

Balwinder Singh: In FY'16?

S Sankarasubramanian: Yeah, it is estimate only.

Balwinder Singh: Okay. And organic manure what will be the realization per tonne approximate?

S Sankarasubramanian: See, we do have various products variants and we sell in the range between 4,000 to 7,000.

Balwinder Singh: Okay. And sir, last question this is more of a structural question on the complex fertilizer spaceThis year government has given a disclaimer that they may come back in September, October, in the second-half and they may review the subsidy again given that your global RM prices are on a declining trend. So it kind of creates uncertainty, if government again cut the subsidy in say October so that would create uncertainty for complex fertilizer players again. So if you can throw some light on that how do you see this evolving going forward?

S Sankarasubramanian: This is not correct. As you can see the price of DAP has fallen $340 to $345 and it is holding stable and government has already cut the subsidy in March as I mentioned earlier also from 12,500 to 8,900. The major portion Rs. 3,500 has been mopped up in subsidy due to fall in international prices at that point of time. Again with further falls from $390 to $340, the government has now requested the industry and the industry also in alignment to the government thinking and the price of DAP has been reduced. So, we do not see further reduction, taking into account the current input cost and current exchange rate and as well as prevailing international prices. Both subsidy and MRP is aligning with the current price and any further cut beyond this may not be viable for the manufacturing as well as for import. Since the industry has reduced MRP I do not see a possibility of government correcting the prices further. If at all there is any currency depreciation probably we may have to see some compensation there. I do not see any subsidy correction to happen and rather I would say a lot more certainty on various factors has emerged in terms of the prices, with the monsoon, with the production (availability of acid) and stable raw material prices. I hope to see a stable period going forward.

Moderator: Thank you. We have the next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Had it not been the inventory correction which we have been asked to take, we would have seen flattish kind of EBITDA for fertilizer business or it would have been growth?

S Sankarasubramanian: It would have been a growth.

Moderator: Thank you. We have the next question from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Yeah, three questions from my side, first one on the strategic level, the production during the first quarter. I just wanted to understand given that the Phos Acid prices were reasonably high on the provisional basis itself and the DAP prices were coming down, we still choose to produce more DAP rather than importing any specific reason. Because it would have been beneficial for us to produce more complexes in those high Phos Acid prices which has a limited competition from import.

S Sankarasubramanian: As I mentioned to you, while we have to optimize from EBITDA point of view, also we should look at what farmer wants and in the beginning of the season the application is generally urea and DAP. in our home market like Andhra where DAP is manufactured, DAP is a sought after product we need to provide what the farmer wants. Hence we have consciously decided to use the available acid to supply DAP to the market. So it is more of a market requirement. Also the fact while we were planning to moderate the prices to the extent of cost reduction but the sudden subsequent correction which happened has taken the industry by surprise. Had we known that this is going to be the price point, I agree with you that we would not have gone for more of DAP. But we need to take it also from the what the farming community wants. From that point of view, I think it is a fair decision from our side but we never anticipated this kind of sharp price correction, that has taken us by surprise.

Rakesh Vyas: Got it, sir. And is it fair to assume based on the earlier commentary that during the first quarter most of the Phos Acid that got utilized was from the earlier contract’s computed fourth quarter of last year not much gain from the first quarter contracts per se?

S Sankarasubramanian: Correct. Most of them are pipeline inventories are contracted earlier which has come in the first quarter.

Rakesh Vyas: Got it. Sir, secondly can you just give some guidance on what would be the CAPEX for this year given that we were planning to expand in the technical area?

S Sankarasubramanian: Yeah, on the fertilizer it will be maintenance CAPEX because already we are at lower capacity utilization. So we want to grow our capacity utilization both in our SSP plants and fertilizer plants and we do not see any major CAPEX coming in. Of course we are looking at expanding our Phosphoric Acid capacity at Vizag which we will go through the regulatory approvals and that will take time and it may not happen in this financial year. But on the crop protection business, we are looking at some investment in our Dahej SEZ where we are planning to set-up

Brownfield Mancozeb facility to take advantage of the market demand for Mancozeb. That project is underway and that is one investment that we are looking at. So taking in account all of this and other infrastructure requirements in terms of augmenting of our storage facilities and our plants, I think our CAPEX should be in the range of Rs. 150 crores to Rs. 175 crores.

Rakesh Vyas: Sir, my last question is on SSP so, strategically have we moved away in the SSP market for time being given how inventories are and how the competition has been in general?

S Sankarasubramanian: The SSP continues to be under pressure on margin sidr. Basically two things have happened, the subsidy has come down significant in the current year, in proportion to DAP there has been cut in SSP subsidy. But there are no obvious cost input reduction happened except for Rock Phosphate. Sulphuric Acid price continue to remain high. So the industry has somewhat unorganized players which are operating at a low price point and there has been also differentiation on the product quality. So during this quarter we focused more on creating awareness in the market place on the quality and continued to engage with the government about the substandard material being supplied in the market and that creates inequilibrium in the competition as well as in the price point where we operate. So we consciously decided to curtail our production and sales during this quarter and we focused more on introducing value-added grades for the market. But we strongly believe in this segment because it definitely appeals to small and marginal farmers and it is a value added product. We are also trying to introduce micronutrient embedded SSP which has received good response example is Zincated SSP for paddy market which we will be launching during the current quarter. While at this point of time our margins are down and our capacity utilization is low but in a long-term we continue to remain focused on this business and we are sure that at some point of time industry will get refined and the organized players will have a better say in these markets.

Sameer Goel: We are also increasing our capacity for granulated SSP across our plants.

S Sankarasubramanian: Yes, especially from the southern market we are trying to improve our granulated SSP.

Moderator: Thank you. We have the next question from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel: My question is with regard to the breakup that we have given for the non-subsidy business sorry, if I missed some of the items. We would say the 45% of the EBITDA is from the fertilizer regulated and close to 55% of the EBITDA is from the non-regulated. So sir, if we compare with this the reported segmental results what we are finding is that crop protection has contributed close to Rs. 60 crores whereas if we deriving back this number so, just highlight if I am missing something?

S Sankarasubramanian: First of all whatever you are seeing is PBIT and that is also before considering some unallocable expenses. So going forward I would like to restrict myself to the segmental since one of the participants specifically wanted the share of EBITDA number, I have communicated this. When

I say EBITDA it considers all expenses apportioned on particular basis and that is how we arrived at 55% for non-fertilizer and 45% for fertilizer segment. But what you see here is crop protection without considering the unallocable expenses and that also it is PBIT, it is not EBITDA.

Prakash Goel: Okay, sir, please correct me where we are missing the point. Is the PBIT should be generally lower than EBITDA, in this case like it is actually higher than the non-subsidize.

S Sankarasubramanian: There are un-allocable expenses below that needs to be knocked off, that is the difference.

Prakash Goel: Actually sir, we have been maintaining the track so far based on the numbers being shared by the management. Now changing the basis would mean that we would need the data point across.

S Sankarasubramanian: I am not changing the base it is warranted by the IndAS requirement. It is up to you to look either at the segmental as it is presented or would like to know about the EBITDA share.

Prakash Goel: No, that is fine so, you continue to give the non-subsidy business EBITDA and we would reconcile with the unallocable expenses and fit it back because otherwise the entire base for comparison will go for…

S Sankarasubramanian: Absolutely, I agree with you. Because our focus continues to remain on how we improve the share of non-fertilizer business. Also that will give you some more visibility taking cue from the results what were published. If you can see, the crop protection is showing significant growth. We have a sizeable crop protection business which can grow significantly over a period of time so, that is now getting reflected in our numbers what we present.

Prakash Goel: Perfect. Sir, the other point which I wanted to discuss how would the DBT impact urea versus non-urea consumption like some feedback which has come from Panipat like Kisan Card will be created for the urea purchase in terms of the amount of credit and that can be used back for any other fertilizer product. So would it lead to aligning the balance between the various nutrient being consumed by the Indian farmer?

S Sankarasubramanian: I would like to reserve the comment at this point and wait for the outcome of the pilot test that we are going to do. In fact, we ourselves will be handling one or two districts in Andhra in the Rabi season. A lot of information is going around. In fact, we have one of the challenges how do we handle the tenant farmers - are we going to have a fixed direct subsidy per acre or it will be based on the land holding - there are quite a few challenges hopefully once we handle the pilot we will have better results. At this point of time, I would not react on this. But one thing what I would say is direct subsidy definitely is welcome for the farmers as well as for the industry. I would say that direct subsidy in the long run in terms of direction it is a great move for the farming community as well as for the company. That is what our overall view and perception.

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

Rohan Gupta: Sir, a couple of questions from my side. Sir, under the segment of nutrient and allied business, can you give the share of fertilizer and non-fertilizer in that or any rough estimates in PBIT level?

S Sankarasubramanian: As of now we have complied with what is required to be reported as a segment taking into account the new guidelines and the IndAS. So we will be reporting nutrient allied business only. As and when we choose to report separate segment, we will share this information.

Rohan Gupta: Okay. Sir, second question is on the Gypsum, with the improved demand for cement in the South market, have we been able to clear our Gypsum inventory which we have been carrying from last two years to three years, is there any improved demand for that we see?

S Sankarasubramanian: We could sell what we produced. we carry a lot of inventory from the past. There is definitely an improvement in the volumes, but we should also appreciate the fact there is imported Gypsum which is coming in, which are moderating the price for these products. So at this point of time, our sale volumes are more or less aligned to the production what we are doing. We are not depleting old inventory. As and when the opportunity comes in or we look at any alternative business, for that we will improve the liquidation. At this point of time we try to match our sales to the production.

Rohan Gupta: Okay. And sir, just third and last from my side. Sir this quarter you have been affected in fertilizer business because of two things one there is definitely high cost inventory of Phos Acid which you were carrying from previous quarter. Second some discount which you have to offer and you have to adjust in the current quarter number. Going forward in Q2 none of these elements are going to be there. You have already got a low cost Phos Acid at close to $600 which you have brought in June month. So is my reading fine that in the Q2 with the higher volume we should also be benefiting from these two elements in the results?

S Sankarasubramanian: Whatever has negatively impacted in the first quarter should go off. I

Rohan Gupta: But Phos Acid now we have starting getting $600 as the Q2 is concerned so, that benefit of $100 reduction in Phos Acid will be there?

S Sankarasubramanian: I never said $600, it is in the range of $600 to $605, so definitely that benefit should be there because we have corrected the prices as well. So naturally the input cost has to get corrected towards that.

Moderator: Thank you. Ladies and gentlemen due to paucity of time that was the last question, I would now like to hand the floor back to the management for closing comments. Thank you and over to you.

S Sankarasubramanian: We have nothing more to add. Thanks to the participants for the insightful questions and definitely with the good monsoon around the corner and hope of faster liquidation of inventory I think the industry is poised for the growth and being a major player in this industry we should make efforts to improve our performance in the coming quarters. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.