“Coromandel International Limited Q1 FY18 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Coromandel International Limited Q1 FY18 Results Conference Call hosted by Edelweiss Securities 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. Rohan Gupta from Edelweiss Securities. Thank you, and over to you, sir.

Rohan Gupta: Thanks, Lizann. Good afternoon, ladies and gentlemen. On behalf of Edelweiss, I welcome all the participants logged in for the conference call of Coromandel. From the management, we have Mr. Sameer Goel – Managing Director; and Mr. Sankarasubramanian – 0EVP and CFO. Sir first of all, thank you very much for giving us the opportunity for hosting this conference call. I will first request if you can just give us a brief about the Q1 FY18 results, and also can you share a little bit more about the industry during the quarter and then we can follow it up with a question- and-answer session, sir.

Sameer Goel: Sure.

Rohan Gupta: Thanks sir. Please go ahead.

Sameer Goel: So, good afternoon everyone. We are actually taking this call from one of our biggest fertilizer plant, which is at Kakinada, which also happens to be one of the greenest plants in the world. Thanks Rohan, for organizing this con-call.

Let me begin by giving you an overview of the business environment experienced during the quarter, followed by the company results and we can take the Q&A.

With the early onset of monsoons in June, the sowing has improved during the ongoing Kharif season. Though the special distribution across India has been inconsistent, overall south west monsoon is normal and it's 5% above the long period average levels.

In Coromandel's major operating markets, also it has been **a mixed** season with normal to excess rains in Telangana, coastal Andhra, Bengal, Maharashtra, but there has been deficit in Rayalaseema, Karnataka, Tamil Nadu and parts of Vidarbha in Maharashtra. The all India reservoir levels are slightly up over last year to 38% though South India levels remain quite low and we are expecting things to improve.

On the crop side, sowing is up by 3% with the major increases coming from rice, cotton, pulses and sugarcane. Farmers have returned back to cotton this year due to higher price realization in last year. So overall, cotton is up by almost 20.8%, rice is now up by 2.4% and pulses are up by 6.9%. The only deficit which we see is in oil seeds currently, which is down by 9.2%.

The minimum support price of Kharif's 17-18 season has been announced, which shows a moderate increase over last year level. Government continues to incentivize pulse production, increasing the MSP by 7% to 8%, which has resulted in larger sowing areas on the ongoing Kharif season, especially in the states of Rajasthan and Madhya Pradesh. The government has also approved an Interest Subvention Scheme for farmers for the year '17-18. This will help the farmers getting a short-term crop loan up to Rs. 3 lakh payable in one year at only 4% per annum. Under this scheme, the government will provide Interest Subvention of 5% per annum to all prompt payee farmers for short-term crop loans up to one year of loans.

The government is on target towards issuing Soil Health Cards in the first two years of 2015 to 2017. So far, 9 million Soil Health Cards have been as against the target of 12 crore cards.

The National Agricultural Marketing Scheme, e-NAM has been currently extended to 455 markets of 13 states, though the farmer coverage and traded quantity has remained low, only 4.5 million farmers out of 135 million farmers. Once fully operational, this will lead to better price discovery, transparency and competition to enable farmers to get remuneration for their produce.

Coming now to the industry front. The Phosphatic fertilizer industry production is up by 1% to 29.25 lakh metric tonnes, imports are down by 28% to 12.94 lakh metric tonnes. But in terms of sales, the industry has done well, it is up by 10%. Also Urea sales are up by 10%, although the production is down by -2% and imports are up by 6%. In MOP, the imports have grown by 135% and the sales are up by 76% given the low price of MOPs, which are there. Implementation of the direct benefit transfer earlier planned to be rolled out by June 2017 has now been pushed to 2018 as distribution of POS machines to the retailers has not been completed due to low availability.

For fertilizers, the GST rates have been kept at 5%; that will ensure stable prices and bring relief to the farming community. However, GST rates on fertilizer imports like phos acid, ammonia and sulphur are kept at 18%, which will create an inverted duty structure and result in credit accumulation for domestic manufacturers.

Coming now to the company's business performance, overall phos acid availability has remained comfortable during the quarter. Business has carried out trials of looking at alternate sources of acid. The phos acid local production at Vizag has gone up by 38%. During the quarter, Coromandel has received environmental clearance for augmenting its phos acid capacity by 1 lakh metric tonnes at Vizag. The capacity is likely to come up by 2019 and will help us to achieve self-sufficiency in phos acid requirement at Vizag.

The ample phos acid availability has enabled higher production of DAP and complexes to meet the market demand. All our three fertilizer plants operated during the quarter with phosphatics production up by 18% to 6.6 lakh tonnes from 5.6 lakh tonnes a year ago. This translates to a capacity utilization of 77% against 65% a year earlier. Company has not resorted to any DAP imports during the quarter.

Our phosphatic fertilizer sales are up by 21% to 5.72 lakh tonnes with unique grades contributing 25% to the overall mix, up by 4% a year back. This has resulted in the market share to move up to 18% in Q1 from 16% during the last year. We have gained market share across all our key operating markets. The early monsoons have helped in improving the liquidation profile of the company and our channel inventory remains at comfortable level. On the traded fertilizer side, MOP sales are up by 14% and Urea sales are up by 25%.

Coming now to our performance on non-subsidy business. Our Crop Protection business had a subdued quarter with sales dropping by 8%. This was mainly on account of lower production at our Sarigam plant due to annual turnaround activities, and due to postponement of sales by B2B customers due to the GST uncertainties.

Production at our new Mancozeb facility created at Dahej last year has stabilized with consistent throughput from the plant. On the export side, we have opened a subsidiary in Nigeria and plan to expand our presence in other regions as well. Domestic business has been impacted by uncertainty related to GST implementation. However, we expect the volumes to revive in Q2 as normal monsoons weigh in favor of a healthy quarter ahead.

Retail business had a good quarter with faster fertilizer uplift owing to good early rains in Telangana. Non-fertilizer business has also done well and its share stands at 47% to the overall retail turnover. Going forward, we plan to expand our retail presence in new markets. Further, we are in the process of partnering with Andhra Pradesh government for providing cost-effective farm mechanization service to the farming community.

Last year, we had an integrated nutritional marketing structure developed with expanded field force ably supported by a team of agronomic structure, which has helped us to improve our customer connect and knowledge dissemination and that has helped us to have an overall improved performance across the quarter.

Our other businesses like Specialty Nutrition has registered volume growth of 38% during the quarter. The business had done structural team realignment to strengthen its customer connect and project management capability. Our organic business volume was up by 20% and currently Coromandel commands a 41% all India market share in our City Compost segment, which is part of the Prime Minister's Swachh Bharat campaign. During the quarter, the business also expanded its presence to cater to the plantation segment. Our Single Super Phosphate business has also done well and the sales went up by 60% during Q1. Business has improved its plant efficiencies and is planning to augment its granulation capacity. Business continues to develop quality awareness and expect significant gain to be accrued post GST implementation through transparency in operation across the industry.

I'll now hand you over to Sankar to talk about our financial performance.

S. Sankarasubramanian: Thank you, Sameer. Good afternoon. In Q1 2017-2018, Coromandel recorded consolidated turnover of 2,277 crores with 86% of the share coming from Nutrients business and 14% from Crop Protection business. This is comparable to last year 83% from Nutrients and 17% from Crop Protection. However, in terms of subsidy/non-subsidy breakup, 77% came from subsidy business and 23% from non-subsidy business.

Consolidated PBIT for the quarter is Rs. 148 crores against 64 crores of last year and PBIT share from Nutrients and allied businesses was 69% and balance 31% coming from Crop Protection business. In terms of subsidy/non-subsidy breakup of EBITDA for the Q1 is 59% from subsidy business and 41% from non-subsidy business. Our consolidated net profit after tax for the quarter is Rs 75 crores as against Rs 7 crores of last year.

Overall, our working capital levels have come down significantly, thanks to improved market collections and subsidy collections. Also, there has been a considerable improvement in the pipeline inventory and overall raw material/ finished goods inventory. ‘On account’ Subsidy has been collected up to March '17, but we continue to have significant portion of 10% subsidy, which is remaining outstanding and our current subsidy outstanding as on 30th June is around 1,750 crores.

Overall, thanks to reduction in borrowings, the interest cost has come down significantly and our net debt position has considerably improved as compared to corresponding period last year.

On the EBITDA front, we reported Rs 173 crores against Rs 89 crores of last year, registering significant growth over the corresponding period last year, and margin wise also we moved up from 4.3% to 7.7%.

On the GST side, segment wise if we look at our current rate prior to GST and the post GST, in the case of fertilizer, has moved down from 6% to 5% and in the case of Crop Protection business, it has more or less remained at 18% level pre-GST and post-GST. There has been moderate increase in micro nutrients and specialty nutrients fertilizer in some categories.

On the output side of fertilizer, GST rate reduction from 12% to 5% in the last minute has really helped in maintaining the price equilibrium. In fact, we corrected the price downwards by 1% to pass on the benefit of excise duty. But the challenge continues to be on the input side where the rate has been fixed at 18% for all key raw material imports and that results in inverted duty structure. It may lead to some money getting locked up in credit accumulation, which will get refunded over a period of time and our industry is representing to the government to relook at this anomaly. So going forward, we need to wait and see how it plays out for the fertilizer. But in rest of the business categories, actually it helps us in improving the transparency across the value chain and the pass-through is really helping in terms of availing the credits which were not given in the past.

This completes our financial update. Now we can move on to question-and-answer session.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: First, if you could just help us out with the volume breakdown, sir, in terms of sales for the quarter?

S. Sankarasubramanian: Sales of manufactured product for the quarter is 5.72 lakh tonnes. In fact, we didn't trade on any imported fertilizers, and most of the sales came from manufactured. This compares with 4.71 of last year which includes 0.29 of imported DAP. On the traded products, MOP was around 33,000 tonnes and urea was 1.78 lakh tonnes.

Abhijit Akella: Got it sir.

S. Sankarasubramanian: You need production data?

Abhijit Akella: No sales is good for me, sir. Thank you. And second, just with regard to the margin improvement we have seen in fertilizer, is this because of lower input costs or what would you say is the main reason for that?

S. Sankarasubramanian: No, on a sequential basis, there has been some compression in the margin basically due to increase in input cost of ammonia over Q4. But on a corresponding period last year, we had some price correction impact, a retrospective effect in the last year and this year all the input prices have been fairly under control. Also the stability of rupee has also helped in sustaining the margin.

Abhijit Akella: Right. And does the last year's 1Q number include any kind of inventory write-down or something like that, sir?

S. Sankarasubramanian: Retrospective price correction, which has happened had some impact in the last year.

Abhijit Akella: Okay, got it. And lastly on the DBT, how do you see the roll out happening actually post January, do you think we are on track for that at least from January onwards? And also, how do you see the working capital situation shaping up after that, do you see the government actually sticking to its commitment of settling on a weekly basis? And how much of a benefit could that be for yourself?

Sameer Goel: We are putting out the point of sale machine and all industry is supposed to put their share of point-of-sales machines by end of this month. So that adds up to roughly 1.94 lakhs retailers. But the government from their part has decided till the issues in terms of implementation is streamlined, they want to implement this only from 1st of April 2018. So there is a good period to go forward to and therefore it won't impact any of the business cycle. Industry is working closely with the government to iron out all the differences, which are there. On the working capital front, they are supposed to refund us within seven days, but initially, there could be some blockage of funds. But once the process gets streamlined, that should be okay.

Moderator: Thank you. The next question is from the line of Apoorva Bahadur from ICICI Securities. Please go ahead.

Apoorva Bahadur: Sir, wanted to know what are the phos acid prices that you are booking now?

S. Sankarasubramanian: For Q2?

Apoorva Bahadur: Yes, right, for Q1 and Q2 both.

S. Sankarasubramanian: Q1 was 590, Q2 was 567.

Apoorva Bahadur: And so basically this has already been taken care of with rupee strengthening, right, so we do not need any price correction in the MRP?

S. Sankarasubramanian: The marginal correction in input price may not warrant any correction in MRP. Right now, MRP remains where it is.

Apoorva Bahadur: Okay, sir. Sir, I missed the subsidy outstanding part, can you please repeat that?

S. Sankarasubramanian: Rs 1,750 crores.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: So, my question was in the DBT environment, and you said that they will pay you in seven days. So assuming that scenario, would your year average working capital needs would be better off and how much better off in that environment versus your current year average working capital needs that you encounter now? Can you just compare and contrast that scenario where you're paid in seven days from the time of retail billing versus the scenario now in the context of your year average working capital needs?

S. Sankarasubramanian: It's too early to make that prediction, we want to experience once they start making the payment. But the arithmetic, doing the empirical evaluation of the past data by applying the DBT scenario to it, it looks like we'll be better off on the average subsidies because of two, three reasons. One is the 100% payout happens within a week, which means there are no 10% blockage. Second, all the old arrears need to be cleared up, which should release the funds for the company. And third, it is aligned to the consumption and to that extent, there may be a negative impact, because currently we get paid based on the dispatch as we move stocks into the market, but it will get shifted to retail consumption. So that last one is the negative impact.

Factoring all this, net to net, we should move into the positive direction, but that calls for ensuring the data accuracy, the recording of information by the retailers correctly and reconciling the data point on inventory. And in the scenario of stabilized DBT implementation where all stakeholders properly engage seamlessly, we should be definitely better off than the current scenario, both in terms of demand as well as in terms of liquidity.

Dheeresh Pathak: Yes, so just to understand like the magnitude of how much better off you will be, so can you just put it, just contrast it with some numbers that will be helpful.

S. Sankarasubramanian: See, currently, if I look at 1,750 crores what we have outstanding, close to 950 crores to 1,000 crores is 10% subsidy alone, which is getting stuck for last four years. So, we hope in the DBT scenario where we get paid 100%, there is no need for these arrears to get accumulated. Right now, if we supply the material, the sale happens two months later, probably we may have to wait for 60 days longer. But at the end of 90th day when the retail consumption happens, we are likely to get the subsidy. Net-to-net, the clearance of old arrears and not creating future arrears should augur well for the industry.

Dheeresh Pathak: Alright. And when you gave the volume numbers, 5.7 lakhs that includes the SSP volumes right?

Sameer Goel: No, Phosphatic is excluding SSP.

Dheeresh Pathak: How much is that meaningful, the SSP number for the quarter?

S. Sankarasubramanian: SSP volume for the quarter 0.84 lakh tonnes as against last year 0.53.

Dheeresh Pathak: And there was one Liberty acquisition, right, so this is all Liberty or this is all combination of Coromandel parent and Liberty?

S. Sankarasubramanian: Coromandel had only one plant at Ranipet, this is a combination of both.

Dheeresh Pathak: Okay. But large part would be the Liberty volumes right?

S. Sankarasubramanian: Yes, large part is Liberty only.

Dheeresh Pathak: And lastly, like, I think if I remember earlier you had mentioned that you make like Rs. 500 per tonne or something like that on SSPs, is that still the case or do you?

Sameer Goel: No, that has significantly improved, with the improved cost structure and we have also rationalized some plants, to better fit the cost absorption. So our margins have moved much higher.

Dheeresh Pathak: In what range are they now, if you can just explain?

Sameer Goel: At the EBITDA level, we are close to Rs. 1,000 per tonne.

Moderator: Thank you. The next question is from the line of Hitesh Doshi, an Individual Investor. Please go ahead.

Hitesh Doshi: So, just one question on the inverted duty structure under GST, will we be able to claim 100% of the unutilized excess credit refund and what will be the frequency for claiming refund, would it be quarterly or monthly or yearly?

S. Sankarasubramanian: We'll be filing a monthly return and we'll be lodging the claim. As per the current GST act provision, 60 days is the time limit for the refund, beyond which interest would be given, if there is a delay in refund.

Hitesh Doshi: And so, second thing is on industry and our company level inventory in the marketplace, industry inventory and our.

S. Sankarasubramanian: There has been a significant improvement in liquidation across various parts of the country due to improved monsoon situation. I presume it would have come down at least by 30%-40% compared to what it was in Mar'17.

Hitesh Doshi: Okay. And one last thing, what was trade receivable at the end of last year, March-ending, as against the previous March-end, trade receivables, from the trade, not from the government?

S. Sankarasubramanian: That refers to Coromandel?

Hitesh Doshi: Yes, our receivable from the trade.

S. Sankarasubramanian: After considering the sales what we have made, our outstanding is more or less same as March '17. Outstanding, as on 30th June is same as 31st March outstanding.

Moderator: Thank you. We will take the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: I just had a couple of questions, first is just a clarification. You said, we did phosphatic sales of around 5.7 lakh tonnes, is it right? And what is its comparable figure last year?

S. Sankarasubramanian: 4.71.

Viraj Kacharia: 4.71, okay. So if we look at our overall fertilizer margin, you mentioned about overall industry inventory kind of correcting by 30%-40% and us not also carrying any channel inventory, still sequentially we have seen a sharp contraction in per tonne profitability in fertilizer. So in an environment where we expect the overall monsoons and overall operating environment to be good, what are the larger focus, would we be willing to increase prices and maintain the per tonne profitability or we will be comfortable with the current level of margin structure?

S. Sankarasubramanian: See, sequentially the margin contraction is mainly due to aberration in the ammonia price which spiked from $240-$250 to $350 and again that's come back to $250. We have taken it as a temporary aberration, which happened and during this period the first quarter performance has been affected. It has to be seen in the context of high ammonia price witnessed during the first quarter. And second thing is, Q1 being the beginning of the sowing season, we improved our share of DAP as compared to other unique grades as per the consumption requirements., In DAP, the margins are relatively different from what we make on unique grades. There is the combination of these two factors, otherwise margins are reasonably on expected lines and we try to address both the volumes as well as profits.

Viraj Kacharia: Right. So apart from the 1% price correction, has there been any other adjustments we have taken in Q1 or?

S. Sankarasubramanian: This Q1, there is no price correction in this current quarter.

Viraj Kacharia: No, you mentioned about thus passing on the excise benefit of 1% and starting 1st July.

S. Sankarasubramanian: Yes, that is the only thing. There are no other price adjustments.

Viraj Kacharia: So, there have been no other price adjustments in Q1, right?

S. Sankarasubramanian: Only thing we have done this quarter is we have collected maximum amount from the market. We try to maximize our collection in order to bring down the financing cost and to that extent, if we have to offer attractive cash terms, we offered that to bring down the receivables.

Viraj Kacharia: Right. Second question was on Crop Protection. If you look at the export opportunity, we have quite a couple of large players who are kind of expanding capacity in Mancozeb, Propineb, who are much more fully backward integrated and also sell products under their own brands. So as a B2B player in these molecules, how are we looking at overall growth and margin structure going forward?

S. Sankarasubramanian: You are talking with reference to Mancozeb molecule or overall?

Viraj Kacharia: Mancozeb, Propineb because they are the two sizable chunk of our exports right now.

S. Sankarasubramanian: We have expanded our capacity in Dahej and that is going on full stream and we have a clear visibility on what we are producing now and we will expand the capacity further.

Viraj Kacharia: Okay. But the current margin structure, which we have…

S. Sankarasubramanian: There is no challenge.

Sameer Goel: There is no challenge to that.

S. Sankarasubramanian: We continue to sustain that.

Viraj Kacharia: Right. And last, you talked about us getting a clearance from Phos acid expansion**,** so what are the kind of investment you are looking at and actually what is the IRR for these kind of investments?

S. Sankarasubramanian: Project cost is around 225 crores is Brownfield expansion and created a capacity close to 1.3 lakh tonnes of phosphoric acid and the value addition can be in the range of USD 100 to USD 125 per tonne, so you can evaluate the return on that.

Viraj Kacharia: Sir, I didn't get the last part.

S. **Sankarasubramanian**: The value addition on this phosphoric acid is close to $100-$125 per tonne on a volume of 1.3 lakh tonnes, so that's the overall return from this project. Besides that, there is the gypsum generation as well, which can be leveraged effectively. Overall, the payback is much shorter.

Moderator: Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: Yes, sir just can you give me the actual capacities for your Nutrients business that is DAP and SSP, what is the capacity?

S. Sankarasubramanian: We have 3.2 million tonnes of phosphatic capacity.

Shekhar Singh: 3.2 million tonne per annum. And just the expansion that you're doing of 100,000 tonnes by 2019 that will add to the DAP capacity or is it basically adding to the raw material capacity?

Sameer Goel: It is intermediate which we're adding.

Shekhar Singh: Okay. And the DAP what the capacity utilization you mentioned is right now 57%?

Sameer Goel: He said 77.

Shekhar Singh: 77%, okay. And SSP what is the capacity sir?

S. Sankarasubramanian: SSP, we are close to 800,000 tonnes, and currently we are operating at 55% to 60%.

Shekhar Singh: Sorry, 55% to 60%?

S. Sankarasubramanian: Correct.

Shekhar Singh: Okay. And sir, can you just tell us what is the EBITDA per tonne in case of DAP for the current quarter?

S. Sankarasubramanian: See, we don't track quarter wise. On a sustainable basis, what we see is an annualized EBITDA will be in the range of 2,000 to 2,400 per tonne, that is what we are saying.

Shekhar Singh: Sir, Rs. 2,000 to Rs. 2,400 per tonne?

S. Sankarasubramanian: Correct.

Shekhar Singh: And SSP, you mentioned it's around Rs. 1,000 per tonne currently?

S. Sankarasubramanian: That's right.

Moderator: Thank you. The next question is from the line of Vijayaraghavan from IDFC. Please go ahead.

Vijayaraghavan G: Sir, I just want a small data point, raw material cost for last quarter, what was the average cost of phosphoric acid and ammonia, which we consumed in Q1?

S. Sankarasubramanian: 590 is the acid price.

Vijayaraghavan G: Okay.

S. Sankarasubramanian: And ammonia would be 300 plus.

Vijayaraghavan G: Okay. And now the prevailing price of ammonia will be, what 240 for this quarter?

S. Sankarasubramanian: It ranges between 240 to 260.

Vijayaraghavan G: Okay. And the phos acid, the capacity, whatever you have the captive for the phos acid production capacity utilization, which has increased in the first quarter, do you think this will be maintained at this level for this year phosphoric acid production capacity?

S. Sankarasubramanian: Yes, definitely.

Vijayaraghavan G: So, in that way, our imported acid volumes will be lower?

S. Sankarasubramanian: No, our capacity is 1.8 to 1.9 lakh tonnes, and we import much more than that. It takes care of our Vizag plant requirement. For our Kakinada plant, we continue to import.

Vijayaraghavan G: Okay. And this expansion plan, what we have this for Vizag phos acid capacity, when do you think it will become operational?

S. Sankarasubramanian: 2019.

Vijayaraghavan G: Sir, but by beginning of 2019, we have this plant ready?

S. Sankarasubramanian: Middle of 2019.

Vijayaraghavan G: Middle of 2019, and the CAPEX will be spread over from this year to next year?

S. Sankarasubramanian: Yes.

Vijayaraghavan G: Okay. And in case of trade receivable, have you seen any improvement in the terms now because you have been commenting about the inventory coming down and the season also seems to be okay. So, in that way, is there any improvement in the receivable terms or still we continue to work with that 60 to 90 days' kind of a receivable terms?

S. Sankarasubramanian: See, liquidation is better and to that extent the cash flow is better. So we are improving, the collection is much better than what it used to be because of faster liquidation.

Moderator: Thank you. The next question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Yes, good afternoon, sir. Sir, what would be the phosphoric acid captive now and what would be the outside purchase now, the ratio would be?

S. Sankarasubramanian: Yes. 25% of our requirement is captive production and rest are imported.

Bhavin Chheda: Okay. And sir, what would be the run rate at TIFERT and you consider that as captive or third party?

S. Sankarasubramanian: That is third party. What we say captive is our own facilities at Vizag and Ennore.

Bhavin Chheda: And what would be the run rate there, capacity utilization or any number there?

S. Sankarasubramanian: 40%, moved up from 20%, 25% to 40%.

Bhavin Chheda: 40% right now. Okay. And sir what would be the outlook on the industry numbers for DAP and NPK for FY18?

S. Sankarasubramanian: See, if the current trend continues with the way the liquidation happens and spatial distribution of monsoon happens, then there should be an uptick of 10% on overall phosphatics volume.

Bhavin Chheda: You expect industry at 10% volume growth?

S. Sankarasubramanian: Yes, because last year the volume was down due to channel buildup. That liquidation we would expect, but it's an estimate, at this point of time, too early to make a call.

Bhavin Chheda: So roughly, I think the DAP was around 9 million in FY17, so close to 10 million of industry sales?

S. Sankarasubramanian: I don't know whether it was 9 million I will just confirm to you

Bhavin Chheda: Okay. Sir, just on the post GST, what is your outlook on the import numbers because I'm assuming the trader imports post-GST regime would be very difficult, and it would be more that the companies and the large agencies, which would be importing and traders would be out of the system post-GST because of the inverted duty structure on GST. So, are you seeing any signs of many traders out of the market in import market and how is that trade shaping up post GST?

S. Sankarasubramanian: There is no inverted duty for importer. Importer pays 5% and he charges 5%.

Bhavin Chheda: But his money would be stuck in the working capital, right?

Sameer Goel: Yes, same previously.

S. Sankarasubramanian: No, there is no difference. Even otherwise, currently the imports are being done by large manufacturers of urea and other serious players, not many traders are part of the business.

Bhavin Chheda: So post GST, imports are not impacted and it stays as it is it was before?

S. Sankarasubramanian: See, GST is not the only reason for imports to come down. I can see, there are other reasons of working capital or other subsidy related issues, but GST is not a factor to make a shift on it.

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

Bharat Sheth: Sankar, I missed one number, what is current phosphoric acid price vis-à-vis 580 was in Q1 correct?

Sameer Goel: 590 in Q1, 567 now.

Bharat Sheth: And this is tied up for how many quarters?

Sameer Goel: It's tied up for two quarters.

Bharat Sheth: Okay. And what was the total subsidy outstanding as of June?

Sameer Goel: 1,750.

Bharat Sheth: And that includes that 10% also?

Sameer Goel: That's right. About 980 is 10%.

Bharat Sheth: So does it mean that which was 2,500 crore outstanding as of end of the March has come down to 1,800?

Sameer Goel: Yes.

Bharat Sheth: Okay. And how do we see, that some of our key markets like Rayalaseema and Tamil Nadu, where as well as South Karnataka, there is a deficit. So what is your thought process and how do we see that, because this market even winter rain was also poor?

Sameer Goel: Currently consumption is down in those areas. We are trying to work on that, but the good thing is Telangana and Coastal Andhra has picked up, because of the rains, for Maharashtra and West Bengal. Also like we said the cotton has gone up, so that helps in terms of overall consumption, for both crop protection and fertilizer.

Bharat Sheth: Okay. Second, I mean, for Rayalaseema, there was large irrigation project was implemented. So what is the status, and when do we see the real benefit of that flowing down to Rayalaseema?

Sameer Goel: So two things are there. The big irrigation project actually was Pattiseema, which was basically linking Godavari to Krishna. And that actually has helped to get water into Coastal Andhra and then the water which is then left in Nagarjuna Sagar or Srisailam can be used more for Rayalaseema. But the current problem is that the dam storage is low because of this current deficit rainfall in South Karnataka, . We are hoping that in the next 15 to 20 days, water will flow and especially from the North Karnataka side into Telangana and that will help Rayalaseema area.

Bharat Sheth: Okay. So we are not very much worried about deficit monsoon in Rayalaseema?

Sameer Goel: Anyway the main monsoon season for Rayalaseema happens with northeast monsoon that is in October, November for the Rabi.

Bharat Sheth: Okay. And in this quarter, we said that our Unique grade was at 25%, and we plan to take 50% in a couple of years. So how do we are seeing that traction on that side?

Sameer Goel: So that is continuing to increase. Quarter one, anyway like Sankar has alluded is more of a DAP market because of early sowings and quarter two has picked up. So we are quite hopeful that this will pick up. We have set up a new marketing structure including agronomists to promote our Unique grade. So we are finding a lot of traction towards that.

Bharat Sheth: And how do we expect full-year Phosphatic plant utilization level, which is 77% in this quarter, and which was around 70% last year, correct?

S. Sankarasubramanian: See with a good monsoon, we do expect that the volumes will go up, the volumes capacity utilization will go up. Very difficult to predict the number, we aim to do 90%.

Bharat Sheth: And Sameer you said in your opening that now trade will approve- crop protection, again we see a coming back to in Q2, correct?

Sameer Goel: Yes, that's right. Because what happened in Q1, two things. One is, we had an annual shut down of Sarigam plant. And therefore some of the export orders, we couldn't fully commit to a, is happening now. And also the B2B customers because of GST uncertainty postponed their purchase, which is happening now. And like Sankar alluded to, we have added Dahej capacity and this has become fully operational from the month of June. And so therefore we will be able to supply more.

Bharat Sheth: And we have done lot of thing to improve the utilization of SSP, I mean, so how do we see or seeing the traction of going ahead for this SSP which is we are operating at very sub-optimal capacity?

Sameer Goel: With GST coming in and with more compliance, we do expect increase in plant utilization. And what we have done is, we have closed some of the plants, which were non-economical and increased our capacity in the more economical plant.

Bharat Sheth: Okay. And that's why which has come down from 1 million to 8 lakh tonnes, correct?

S. Sankarasubramanian: Absolutely.

Sameer Goel: Absolutely.

Moderator: Thank you. The next question is from the line of Giriraj Daga from K M Visaria Family Trust. Please go ahead.

Giriraj Daga: Yes, team, couple of questions. First in terms of subsidy outstanding, so government last week kept the budgets same, now what is your estimate that how much of previous subsidy backlog will be cleared this time? And when you say that government will start the DBT from 1st April, do you expect the higher allocation in the budget, which can take care of previous backlog subsidy?

S. Sankarasubramanian: We expect 10% bills to be processed in second and third quarter, which should release considerable amount of 10% because a lot of representations have been made to release the 10% subsidy amount. Government is focusing on it, so that should ease out the outstanding positions with regard to 10%. Going forward on DBT, we have to see because there is reduction in the subsidy rates for the current year, but still government having maintained the overall subsidy allocation for phosphatics at the same level. There is no short fall at this point of time and government can comfortably pay 10%, as well as continue with the 90% on account payment as well. So we have to see closer to the budget time what they are going to do, if DBT comes through next year.

Giriraj Daga: Okay. Sir, I was just mentioning about your DAP in complex side, you're including Urea also?

S. Sankarasubramanian: We only trade in Urea, we don't manufacture Urea.

Giriraj Daga: So what would be the volume growth outlook you're looking for FY18?

S. Sankarasubramanian: See, we don't give any specific guidance, as we mentioned to the other participant, we aim to target 90% capacity utilization if the market and monsoon situation supports us.

Giriraj Daga: Okay. And then my last question is like in terms of EBITDA margin, once we see the higher volume coming in, will you expect the operating leverage to kick in or like we guided about 2,000 to 2,400, so we should expect to reach closer to the higher end of the number?

S. Sankarasubramanian: Rs 2,400/ton factors the operating leverage due to improved capacity utilization, as well as the mix change. So that's why the 2,000, which is used to be our past indication, this time we are expecting 2,400.

Moderator: Thank you. The next question is from the line of H. R. Gala from Panav Advisors. Please go ahead.

H. R. Gala: Sir, on the volume front, I have got some missing links if you can help me. You said that the complex including DAP is 5.43, right?

S. Sankarasubramanian: For us, 5.72.

H. R. Gala: But that includes 0.29 of imported DAP?

S. Sankarasubramanian: No, the previous year number was 4.71 that includes 0.29 of import.

H. R. Gala: Okay. So this time there is nothing of imported DAP?

S. Sankarasubramanian: No.

H. R. Gala: Okay. And Urea, you said is 1.79?

S. Sankarasubramanian: Yes.

H. R. Gala: Okay. And how much is SSP and MOP in this quarter?

S. Sankarasubramanian: MOP is 0.34.

H. R. Gala: How much?

S. Sankarasubramanian: 0.34.

H. R. Gala: That is MOP?

S. Sankarasubramanian: Yes.

H. R. Gala: And SSP?

S. Sankarasubramanian: 0.84.

H. R. Gala: Okay. So that's roughly about 8.7 right, all put together?

S. Sankarasubramanian: Yes.

H. R. Gala: Okay. Sir, my second question is, as far as this inverted duty structure is concerned, do you think any part of this input tax credit that we have to take may get deferred over a period of time, and we may not be able to cover it with that 5% GST that we will be covering it up, collecting rather?

S. Sankarasubramanian: Yes. There is the transaction value on output, which is lower than the input, to the extent of subsidy as subsidy has been kept outside the purview of GST. There is some portion of the input credit, which cannot get utilized. If that happens, then to that extent that should be treated as a cost, and it should be recovered from the market, but we are trying to represent to government to set right this in a month. Hopefully something should emerge.

H. R. Gala: Okay. And sir, you guided that by the end of the year, we may be having approximately 90% type of capacity utilization, right?

S. Sankarasubramanian: We never gave guidance. We indicated, that it is.

H. R. Gala: Yes, indication. Yes, not guidance, indication.

S. Sankarasubramanian: We aim to do 90%, but it is difficult for us to make any prediction.

H. R. Gala: Okay. Sir, my last question is, you gave the numbers of a turnover breakup between subsidy and non-subsidy that was I think 62 to 38 in this quarter?

S. Sankarasubramanian: In the topline, or?

H. R. Gala: Yes, topline.

S. Sankarasubramanian: Topline revenues have 77-23.

H. R. Gala: How much? Subsidy is how much?

Sameer Goel: 77-23.

H. R. Gala: Oh, 77 and 23. And how much is EBITDA, subsidy and non-subsidy?

S. Sankarasubramanian: Subsidy, non-subsidy 59-41.

H. R. Gala: Okay, 59 and 41. Okay, so now we are coming very close to 50-50, so do you think we can achieve it by end of this year?

S. Sankarasubramanian: We don't look at one year, we are aiming for the direct term 50-50, because looking at this on a quarterly basis, we'll be misleading.

H. R. Gala: Not on a quarterly basis, what I mean to say that we have come quite close to our 50-50 target, which we had set for ourselves. So do you think for the year as a whole in FY'18, we can reach that 50-50 EBITDA?

S. Sankarasubramanian: Yes, rising first, but not at the cost of bringing down fertilizer. We want to grow in fertilizer, as well as keep improving on non-fertilizer. Actually, we are in the right track, looks like.

H. R. Gala: Okay. Sir my last question is what kind of capital expenditure plan we will have for FY'18?

S. Sankarasubramanian: We have a normal sustainable CAPEX of 150 crores, which we spend for refurbishments across all our plants.

H. R. Gala: That is normal.

S. Sankarasubramanian: Yes, that is the normal capital expenditure. Besides that, we have this phosphoric acid expansion at Vizag of 225 crores, which will get spent over a period of next two years.

H. R. Gala: That is how much?

S. Sankarasubramanian: Rs 225 crores.

Moderator: Thank you. The next question is from the line of the Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Yes, I just had one more question. You highlighted that, one of the key things which for DBT is the government having to clear all subsidy outstanding dues. So given we already have around close to 1,800 crores of subsidy outstanding and that's by and large our working capital gap also. So by FY'18-FY'19, we'll have a significant amount of cash generation. So into the capital allocation of future investment, what possible areas are we looking, is the larger focus still be on fertilizer business, or we looking at non-subsidy business as?

Sameer Goel: We keep looking at whatever is good opportunity for us. And definitely we have this thing in case for non-subsidy, if it comes up, but again it all depends on the opportunity which we have.

S. Sankarasubramanian: First of all, we need to bring down the level of borrowings. As I mentioned many times in the past, we focus on cash generation, trying to reduce our financing costs and that's what we have done it in the first quarter and we continue to do that, because we have a significant amount of working capital. So the cash generation on 10% subsidy will go on to reduce the borrowings and that in turn reduces the financing costs. And our aim of capital allocation will be to improve the overall EBITDA margin and the ROCE for the company and that is more in -- non-fertilizer.

Viraj Kacharia: Right. So what is the internal benchmark ROCE usually we work with, given the changes which are taking place and?

S. Sankarasubramanian: 20% plus is the targeted ROCE we look at.

Moderator: Thank you. The next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: Can you give some update on our JV with Yanmar of Japan. So are we generating any sales from that currently?

S. Sankarasubramanian: See, we are currently focusing on selling rice transplanters. Currently we are importing from Japan, and we are marketing in various states of India. And over a period of time, once we reach the economic size, we will go in for CKD plants in India. So right now, we are in the right direction in terms of expanding the product range. Besides rice transplanters, we are trying to bring in other products relating to agri input machinery and also Coromandel, through its Mana Gromor retail centers are providing custom hiring centers at which we rent out equipment to farmers on lease per acre basis. So Yanmar is the providing transplanters for these custom hiring centers. So that will also further their business opportunities.

Lalaram Singh: Okay. So currently, is there any figure which you want to disclose regarding this JV, revenues which we're doing?

S. Sankarasubramanian: No, right now it's in the beginning stage. At appropriate time, once it reaches some size and scale, we will share.

Lalaram Singh: Okay. But you do have strong plans for this JV in the next three, four years? A key focus area.

Sameer Goel: Farm Mechanization is a key focus area for us.

Lalaram Singh: So apart from transplanters that means that the products like even tillers will interest us.

S. Sankarasubramanian: Besides transplanters, we may look at rotovators, we may look at mini-tractors and other machinery equipment, which are relevant to our crop segment where we operate.

Lalaram Singh: Okay. Thanks. And secondly on the retail store front, the Gromor stores which we have, can you just share some light on the roll out strategy going forward?

S. Sankarasubramanian: We are in the drawing board stage for evaluating retail stores in states like Maharashtra and Orissa, but they are in the beginning stage, we'll be able to take a final call after evaluating the market and after pilots are tested on that.

Lalaram Singh: Okay. What is our current store count total?

Sameer Goel: We have 800 stores.

Moderator: Thank you. The next question is from the line of Girish Raj from Quest Investments. Please go ahead.

Girish Raj: You spoke about this inverted duty structure and you are in discussion with the respective ministries. So any expectations of the timeline for the resolution on the same?

S. Sankarasubramanian: We hope that it gets resolved as quickly as possible before we file our first monthly return.

Girish Raj: Okay. Sure. So any estimates of the quantum of net credit that Coromandel's operation in any particular given year?

Sameer Goel: Net credit.

Girish Raj: Any estimates that you have internally worked out?

S. Sankarasubramanian: See, it is 18% on the input value. It's very difficult to quantify the number at this point of time.

Moderator: Thank you. The next question is from the line of Srinath Sridhar from ICICI Securities. Please go ahead.

Srinath Sridhar: My question is as far as I know the total arrears or the subsidy arrears for the government is around 30,000 crores right? So through the implementation of DBT, you mean to say that this whole 30,000 crores will first be repaid?

S. Sankarasubramanian: Yes, logically because the government is saying as per the DBT scheme whatever the open inventories are there, that will not get paid under DBT because they are under the old scheme. Quite possible that under the old scheme the open stocks are gets paid, because until the stock gets cleared, no payment will be made under the new DBT scheme. Companies can go dry without money with the new scheme and as well as arrears of the older scheme, so logically the old amount should get paid first.

Srinath Sridhar: Okay. And then after that you're saying that once the inventory gets sold through the dealers, within seven days you will receive the payment, is it?

Sameer Goel: Correct. That's the thing if through the retailers.

Srinath Sridhar: Okay. So through the retailers. So your inventory days will remain the same, but basically your receivables will go down.

S. Sankarasubramanian: Yes. But it takes a little longer time what it used to be. Currently, 90% Subsidy is supposed to get paid 90% at the time of dispatch. Under DBT, when it reaches the market, it will get paid only after the liquidation happens in the retail counter. So there is the extended time lag for getting subsidy.

Srinath Sridhar: Okay. First, once it leaves your factory, -- you all used to apply for it, and it used to be paid?

S. Sankarasubramanian: Correct.

Srinath Sridhar: Now you'll have to wait till the retailer sell it.

S. Sankarasubramanian: Exactly.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Rohan Gupta for his closing comments.

Rohan Gupta: Thanks, Lizann. Sir, thanks for having this conference call. So just couple of questions from my side. On this Crop Protection business on the Sarigam facility, you mentioned that there has been some impact on export order also during the quarter, so do we expect to recoup those losses in the coming quarter?

Sameer Goel: Yes, those were only orders which are pending, which we had to supply, so that's all. So no issues on that front.

Rohan Gupta: Okay. So there can be some incremental revenues we can expect in Q2 and Q3?

Sameer Goel: Crop Protection, definitely we have more sales in terms of added value of Mancozeb, which is coming from Dahej plant.

Rohan Gupta: Right. And sir, this new facility you mentioned that has operated during the quarter, but at what rate this new Dahej facility is operating sir, for Mancozeb?

Sameer Goel: So currently it's almost stabilized at full capacity.

Rohan Gupta: At full capacity. So we had roughly 20% additional capacity from this Mancozeb?

Sameer Goel: That's right.

Rohan Gupta: Okay. Sir, during your opening remarks you also mentioned about the projects with the AP government on a farm mechanization. Can you slightly give a little more detail about that, what is that?

Sameer Goel: So, basically the AP government is encouraging farmers to adopt farm mechanization, and for that they are encouraging companies to have customer hiring centers, where farmers can come and hire equipment at a cost. So through the AP government, we have been allocated 34 centers and are at various stages of the implementations. Companies are provided subsidy in terms of buying these equipment, but then they have to hire it to farmers.

Rohan Gupta: Companies are providing subsidies on purchases.

Sameer Goel: The government provides subsidy to the company in terms of buying the equipment.

Rohan Gupta: Okay. Fine enough, sir. Sir just last thing on SSP. We have roughly 1 million tonne of capacity. Can we operate that at 1 million tonne, or there are some hurdle issues on that?

Sameer Goel: What we are doing in SSP is to optimize our sales, so that is important, and that is how we are looking at it. So we have shut down some of the plants, which are uneconomical and we are enhancing the capacity in plants which are more economical and selling the product in the command area. And the plants will be augmented with new products as soon as we get government permission.

Rohan Gupta: As of now what is the SSP running capacity?

S. Sankarasubramanian: 7 to 8 lakh tonnes, post rationalization of plants.

Rohan Gupta: Okay, 7 to 8 lakh tonnes.

Sameer Goel: Yes.

Rohan Gupta: Okay. So that's all from my side. Sir, thank you very much for giving us the opportunity for hosting this conference call. We had a very detailed discussion on that. So once again, thanks a lot.

Sameer Goel: Thank you, Rohan.

Rohan Gupta: Thank you so much. On behalf of Edelweiss, I also thank all the participants who were logged in for the conference call of Coromandel. Thanks everyone.

Sameer Goel: Thank you.

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