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Coromandel International

Q2FY17 Conference Call Transcript

Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Q2 FY 2017 Results Call of Coromandel International Limited hosted by Emkay Global Financial Services Limited. As a remainder, 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 would now like to hand the conference over to Mr. Rohan Gupta -- Senior Research Analyst of Emkay Global. Thank you and over to you, Mr. Gupta.

Rohan Gupta:

Thanks, Stanford. Good afternoon, ladies and gentlemen on behalf of Emkay Global Financial Services I welcome all the participants logged in for the conference call of Coromandel International to discuss their Q2 FY 2017 results and industry trend.

From the Management we have Mr. Sameer Goel -- Managing Director, Mr. Sankarasubramanian -- EVP and CFO. Good afternoon, gentlemen.

Sameer Goel:

Good afternoon.

Rohan Gupta:

Good afternoon, sir. Sir, first of all, thanks a lot for giving us the opportunity for hosting this conference call for our client. Sir, first I will request you if you can just give a brief about the current quarterly results and also industry trend you want to highlight and then we can follow it up with the Q&A session, sir.

Sameer Goel:

Yes, good afternoon, everyone and thanks Rohan for organizing this call. Let me begin by giving you an overview of the business environment, experienced during second quarter and we will follow it with Shankar for the company performance and then we will have the Q&A session.

So, as we all know, all India Southwest monsoon has been normal and it is up by 13% over last year. It bodes very well with the Indian agriculture and rural economy, considering two consecutive drought years experienced over the past two years. Overall, the country received good but erratic rain. Though the monsoon has been below the IMD projections of excess at 106%, major operating markets received good rains during the season with an exception of South Karnataka and Tamil Nadu.

In our main markets of AP and Telangana, 22 of the 23 districts received normal to excess rains with a similar pattern being seen across parched Maharashtra and West Bengal. Northeast monsoon which brings rains to the important markets of Southern Peninsula basically Tamil Nadu, coastal Andhra Pradesh, Rayalaseema and South Karnataka is expected to be normal although there is a delay by a fortnight. So overall, the reservoirs levels are up across all zones over last year levels and has led to positive sentiments of improved Rabi prospects in our key markets, especially as the soil moisture and the ground water is also up.

This has resulted in a higher crop acreage by 3% over last year with significant increase coming under pulses which are up by 29%. Remunerative price support and government active interventions towards shifting to drought resistance crop has contributed to this trend.

Moderator:

Mr. Rohan Gupta
Senior Research Analyst,
Emkay Global Financial Services Limited

Management:

Mr. Sameer Goel
Managing Director,
Coromandel International Limited

Mr. S. Sankarasubramanian
Executive Vice President and CFO,
Coromandel International Limited

Area under BT Cotton has gone down by 21% to 85 lakh hectares while sowing under ingenious variety has doubled to 17 lakhs hectares. This has resulted in firming up of cotton prices. However, overall sowing has improved in Andhra by 10%, Telangana 4%, Maharashtra 8%, Karnataka 10% and West Bengal 5%. The lower monsoon rains in Punjab has resulted in reduced cotton sowing and overall acreage is down by 4%.

If you look at all the main crops, rice, pulses oil seeds, all are up and the total acreage is up by 3% and this been across all regions, specially in our markets the acreage has gone up by around 10% AP and Karnataka.

As per the first advance estimate of Kharif crops, food grain output is expected to go up to a record 135 million metric tonnes against 124 million metric tonnes last year with an increase coming across all segments barring sugarcane.

Cotton output despite the reduced sowing is expected to go up on account of improved productivity. There was some damage in September to the crops due to heavy rains in September especially in a few districts of Telangana.

Coming now to the policies and reform front – Government has initiated work under 99 irrigation projects to bring additional 7.6 million lands under irrigation. 55 of the 99 projects are in drought prone area especially in Telangana, Marathwada and Bundelkhand. And 23 of these projects are expected to be completed by 2016-2017 and the others in the following two years. The government is spending Rs 77,000 crores in the next four years on these projects.

The other significant development has been coverage under crop insurance scheme, which has improved during kharif. Sum insured has gone up by 70% to Rs. 1.18 lakh crores and the number of farmers covered are 3.15 crores current year versus 3.08 crores last year. The higher number is in spite of being a normal monsoon year and early deadline closure of the scheme.

On the subsidy front, government has rolled over the same NBS rates for the second-half of 2016-2017.

Another significant development is that the government is focusing on improving soil health which has a positive impact on the organic industry. With the extension of market development assistance for organic manure, the industry has witnessed improved acceptance from the channel and the farmers.

As a part of the government's modern retail center initiative announced during the budget address for offering soil testing, seed testing and quality farm inputs to farmers, Coromandel has upgraded its 200 Mana Gromor centers to Kisan Suvidha Kendra.

Now, coming to the industry fertilizer performance for H1:

Overall in phosphatic, the production went up by 6%, led by improved domestic production of DAP by 40%. Imports however showed a sharp decline of 26%. And while sales were down by 12%, major drop was in DAP while complexes were down by 7%.

After subdued Q1, industry sales are beginning to show signs of improvement and are close to last year level. Overall in H1, Indian phosphatic sales is down by 12% to 83 lakhs metric tonnes the higher channel inventory and delayed monsoon onset impacting the performance. However, as the season improved during the second-half of Kharif the plant sowing and consumption went up and has resulted in moderation of channel stocks.

On the supply front, like I was mentioning DAP imports are drastically down by 27% in H1 to 36 lakhs metric tonnes partially substituted by manufactured DAP which has grown by 40% to 21 lakh metric tonnes. The soft phos acid price at around U.S. $ 600 to U.S.$605 per metric tonne and adequate acid availability has contributed to the shift.

Urea sales are marginally up by 2% in Q2 to 87 lakh metric tonnes. The government initiative to neem coat the urea has resulted in reduced diversion towards non-agriculture usage.

With the softening witnessed across the commodity markets, the benign raw material price trends continues to favor the industry. Crop protection and specialized nutrition industry has also benefited from improved agriculture environment and is reflected through improved in sales and consumption.

Overall, it has been a satisfactory quarter for the industry. With the higher residual soil moistures and projections of normal Northeast monsoon, we expect a bright Rabi season, which will provide impetus to the industrial fortune.

I will now call upon Shankar to give the Company's performance.

S. Sankarasubramanian:

Thank you, Sameer. Good afternoon, everyone. It has been a good quarter after a long gap thanks to the good external environment and monsoon condition. All our segments have performed well. What is more gratifying for us is the improved performance of non-fertilizer segments, especially crop protection business. Specialty nutrients and retail segments have shown improved performance and this is in-line with our strategy of growing the share of non-subsidy business.

Coming specifically to the fertilizer performance for the second quarter:

Our operating rates have improved, thanks to the availability of phosphoric acid. We could achieve production growth of 17% over the corresponding period last year- we produced 7.7 lakhs which roughly translates to 90% capacity utilization. On half-yearly basis, our production volumes are up by 18% to 13.3 lakh tonnes.

Besides the granulated products, our captive phosphoric acid production at Vizag and Ennore units also improved significantly, that has helped in improving our value addition.

Coming to sales of Q2:

While the industry has de-grown by 3%, we registered increase in sale by 8% during the quarter. Our sales value has moved up from 8.7 lakh tonnes to 9.3 lakh tonnes. As we mentioned, due to low inventory in our addressable markets, we could improve our sales and also we are able to improve our consumption during this quarter as compared to last year corresponding period.

Our major growth has come from primary markets AP & Telangana, where the monsoon conditions have been good. Our sale volume and market share also increased in this market. In fact, we have been sustaining and improving our market share to 60%-61%. Besides Andhra and Telangana, we improved our market share in Maharashtra and West Bengal.

Since the industry has de-grown and we have improved our volumes, our overall market share on all India basis have moved up to 17%. And as we mentioned in our previous communication as well, our focus on unique grades helped in maintaining the share at one-third of the total sale volume and we are aiming for improve the share, going forward.

We introduced two new products in fertilizer segment- one with the technology sourced from Shell and other by fortifying DAP with zinc. Initial customer feedback has been really good and we are trying to improve and sustain these volumes going forward.

On trading operation side, we did well on the MOP front, thanks to normalization of pricing consequent to the reduction in import prices. The volumes of potash has picked up and we could make a significant improvement in the volumes over the corresponding period. Sale volume of potash during this quarter has improved from 39,000 of last year to Rs. 59,000 current year.

And also as you all aware we are handling the urea under government contract in two main ports Kakinada and Kandla. The sale volumes has improved in this quarter and we have handled 3.37 lakh tonnes urea during this quarter as against 0.81 thousand last year. We had a challenge in terms of handling urea at Kandla port due to accumulation of stocks and we had to incur some additional cost during this quarter due to build up in volume and slowdown in consumption of urea.

Coming to the non-subsidy business:

As I mentioned earlier, our crop protection performance has been really good. While top-line got impacted due to drop in the exports to Latin America, our export of Mancozeb continues to be robust and that has helped us in improving our profitability. Lower input cost, lower gas prices and better exchange rate on export realization have significantly improved the performance of Sarigam business.

In fact, it is quite satisfying for us that what we envisaged at the time of acquisition, we are now in a position to significantly improve over the targets and that share of crop protection business in the overall company's performance has started showing up from this quarter onwards. Also our timely debottlenecking of our facilities at Sarigam is helping us to meet the market demand for Mancozeb. And also a project of augmenting the capacity of Mancozeb at Dahej is under way and it is going as per the schedule.

On the domestic front, the market has revived - Last year industry witnessed serious challenges in terms of stock returns but this year with a favorable monsoon situation the demands have picked up. We have introduced new products - one insecticide and we have plans to introduce another fungicide in January and these are addressing specific crop segments of paddy, fruits and vegetable.

Overall, I would say crop protection business performed well in all fronts – operations, export as well as domestic and that is reflected in the financials as well.

On the specialty nutrients business, overall water soluble fertilizers have witnessed good volume growth- we have registered 20%-25% volume growth and we also leveraged our relationship with CSQM for maximizing our production and sales during this quarter.

With the focus on organic compost business from the government side, we improved the volumes by 20% during the quarter.

Our retail centers have done very well, in fact thanks to good monsoon situation both in Andhra and Telangana we could improve our performance both on fertilizer and non-fertilizer segments. Our fertilizer volumes have moved up and I would like to point out that we do business thru Retail on cash basis that helps in improving the liquidity for the company. And non-fertilizer segments have also shown improvement, though there was minor setback on some of these product categories due to lower cotton acreages. But overall, retail business has performed very well as compared to last year same period.

On the single super phosphate side, we have consciously taken a call to scale down the production and sale because the industry was carrying huge inventory from previous year. We did not want to build up the volume, so we scaled down our operation and that has really helped us to avoid any inventory write-down on the carry over material. So, we were able to build on the margins and maintain the price stability and we continue to focus on providing quality product to the farming community. We have been engaging with the government for improving awareness towards the quality of SSP.

Coming specifically to the financial results for this quarter:

Our consolidated turnover is Rs. 3,575 crores and with nutrients business constituting 88% and balance 12% coming from crop protection business. For the half-year, nutrient share stands at 86% against last year 88%.

On the profitability side for the quarter ended 30th September, we reported PBIT of Rs. 359 crores against last year Rs. 279 crores and the share of nutrient business is 76% and share of crop protection business is 24%. The share of subsidy and non-subsidy businesses – our Q2 share of EBITDA between subsidy and non-subsidy business is that 64:36. Compared to last year's 70:30, share of non-subsidy has grown during this quarter due to improved overall performance of non-fertilizer business.

Our net profit after-tax is around Rs. 213 crores against Rs. 170 crores of last year Q2. On an half-yearly basis, it is Rs. 220 crores against last year Rs. 184 crores. Our consolidated comprehensive income for Q2 stands at Rs. 206 crores as against Rs. 170 crores. And net profit is Rs. 217 crores as against last year's Rs. 192 crores.

Overall, I would say on the financials, operational profit side there has been an improvement. We have reported financials according to the New Accounting Standards – IndAS.

Our working capital levels are high and obviously, it will be higher during the season period. There has been improvement in the subsidy disbursement; we have received money up to June. But still subsequent periods are getting paid in this current month, our subsidy receivables as per our period-ended Q2 still remains at Rs. 1,894 crores as against corresponding period of last year of Rs. 1,600 crores. This is due to increased volume done during August – September. We hope with the improved collection in October - November this number should taper off. And the receivables are also high due to improved sales during this quarter and with the anticipated good Rabi monsoon conditions, we expect to realize this money faster.

Our working capital borrowings are at the same level as of March. Our long-term debt equity is very insignificant. Our net debt-to-equity is around 0.71,.

So, these are all updates for the Q2. Now, we can move on to Question-and-Answer Session.

Moderator:

Thank you very much. We will now begin with the question and answer session. We take the first question from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

Question and Answer Session

Bhavin Chedda:

Sir, how much was the SSP volume number because I think you gave the total volume number in that?

S. Sankarasubramanian:

That does not include SSP. SSP sale volumes for the quarter is 1.54 lakh tonnes.

Bhavin Chedda:

1.54 versus last year?

S. Sankarasubramanian:

2 lakh tonnes.

Bhavin Chedda:

So, the production and sales volume you gave 7.7 and the 9.3 does not include the SSP number, right?

S. Sankarasubramanian:

Correct.

Bhavin Chedda:

Okay. And sir, you said that the Latin America exports in the crop protection has declined but Mancozeb is doing well. So, is it the export of Mancozeb to other markets is doing well and will continue?

S. Sankarasubramanian:

We had significant export of insecticide Chlorpyrifos last year in the corresponding period and demand has come down due to the shift in the application there, and those volumes are down. But our other exports to Latin America continues.

Bhavin Chedda:

Okay. And sir, my last one on the industry inventory and outlook for second-half because the first-half you said that sales industry level it is down. So, how are you seeing the Rabi season and what are the inventory levels?

S. Sankarasubramanian:

See, very difficult to guess the number on the inventory. At this point of time, we expect inventory still around 4 million tonnes at all India level and with good reservoir levels and reduced DAP imports, I think this inventory position will ease up in the Rabi season. And also the major inventory is in the northern market where Rabi will be active. So, we hope to get this material off the shelf in the Rabi season.

Bhavin Chedda:

This 4 million is entire complex including DAP or?

S. Sankarasubramanian:

Yes, both DAP and complex roughly 60-40 or 50-50.

Moderator:

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

Viraj Kacharia:

Just had a couple of questions. First is, you gave the EBITDA share mix bit subsidy and non-subsidy. What will be the revenue share?

S. Sankarasubramanian:

For the subsidy non-subsidy it is 80:20 for the Q2.

Viraj Kacharia:

Okay. So, my second question was when I look at our profit and EBITDA margins, it has been the highest in last more than 12 quarters - 16 quarters, when I say, when I look at the profit and the EBITDA margins say in last 16 quarters to 20 quarters, we have been the highest in the last 12 quarters in Q2. And we have also seen significant improvement in fertilizer EBITDA margins despite you highlighting us bearing some cost of on the urea part. So, my question is you know what measures we are taking in the interim to further move margins to a more normalized level when it comes to fertilizer business.

S. Sankarasubramanian:

No, we have been maintaining margins at steady level, always we have been articulating our annual steady state of margin will be around Rs. 2,000 per metric tonne - that is what we aim for and we have been sustaining it. Generally in Q2, our margins will be better and some of the corrective actions what we have taken in terms of improving the share of unique grades, cutting down on our logistics supply chain cost, sourcing efficiency, hedging strategy in terms of managing the exchange rates- all this has contributed to improved performance. And as we mentioned in our previous call on improving operating leverage, the production levels have moved up to 90% that always plays into margin. Our aim will be to keep increasing our production level and improve our capacity utilization; naturally better absorption of cost will yield better revenue margins, etc.

Viraj Kacharia:

So, because if we look at other expenses in Q2 that has declined by 24% year-on-year so, were there any one-off last year which kind of, that is why it is giving a sharp 24% fall?

S. Sankarasubramanian:

There is nothing specific one-off we had last year - there has been an improvement in our hedging cost compared to last year because of rupee stability. But overall, input cost, timely procurement, inventory management all this has helped us. There is no one-off credit.

Viraj Kacharia:

Okay. And second question was on the crop protection. If you can spell out what is the global opportunity size for Mancozeb and Propineb? And what will be the current market share in each of these molecules? And added to that what initiatives on new molecules and other factors we are taking to maintain this kind of growth trajectory and margin profile in crop protection?

S. Sankarasubramanian:

See, we can discuss separately offline on total volume, industry size and share of Mancozeb, what we can say whatever capacity we have in our Sarigam plant, we can sell comfortably. We are looking for additional volumes and that will happen once our Dahej plant will come back into operation. So, overall we do not foresee any problem in selling what we produce and there is an adequate market for that. And also we are looking at combination products with Mancozeb that will also drive the volume growth. On the new product side in crop protection, as we mentioned in the previous call, we have an established R&D center and our game plan is to launch two new products. This year we introduced one product already in the market for rice segment and we are planning two more products in fungicide segment in fruits and vegetable segment. So, our game plan is to see how do we improve our sale of our new products and R&D is helping us to get this on track.

Viraj Kacharia:

Okay. And just last question. If we look at our financial statement there is something which is we have highlighted in the IndAS presentation, on the fair value of strategic investments. So, we have investments in TIFERT, Foskor and AP Gas Power Company. So, what is the approach we have taken when we are valuing these investments? Is it on book value or is it on replacement cost?

S. Sankarasubramanian:

No, we have done fair valuation based on the financial projections and the current operating capacity and the margin structure of those companies.

Viraj Kacharia:

Okay. And this is also adjusted for the debt which is there on these entities?

S. Sankarasubramanian:

Yes

Moderator:

Thank you. We take the next question from the line of Chetan Thakkar from ASK Investment Managers.

Chetan Thakkar:

Sir, I wanted the sales volume for own manufactured DAP and complex. 9.3 lakh tonnes is what you said, is that correct?

S. Sankarasubramanian:

Yes.

Chetan Thakkar:

9.3 including MOP, how much would that be?

Chetan Thakkar:

MOP.

S. Sankarasubramanian:

Potash is 0.59.

Chetan Thakkar:

And there is no DAP trading that we have done this quarter?

S. Sankarasubramanian:

9.32 includes DAP trading of 0.17

Chetan Thakkar:

Okay. And sir, on the ammonia, how has the prices moved in terms of Q2 this year compare to last year and for Q3 where is it?

S. Sankarasubramanian:

Right now, ammonia is around $200.

Chetan Thakkar:

And corresponding last year it was?

S. Sankarasubramanian:

It was $320 - $330.

Chetan Thakkar:

And sir, phos acid contract for Q3 is at what price?

S. Sankarasubramanian:

$580.

Chetan Thakkar:

$580.

Moderator:

Thank you. We take the next question from the line of Sujit Jain from Yes Securities. Please go ahead.

Sujit Jain:

Sir, Mancozeb what is the current capacity? And post addition of Dahej what would be the capacity? And if you could just quickly throw light on the entire landscape in the sense Chinese capacities are getting close down in chemicals and agrochemicals. So, in this agrochemicals business what is the opportunity? And this 14% jump in the agrochemicals crop protection business in first-half despite the higher base quarter in 2Q- could this be sustained for the full year?

S. Sankarasubramanian:

On the Mancozeb I have already answered, whatever capacity we have, we are in a position to sell at this point of time and going forward we expect the demand to be better for this product. As and when we complete the Dahej plant, we will be coming out with our capacity. As this point of time as we see, the demand of global markets is good enough for our range of molecules what we handle and we do expect that to sustain. On the domestic side with the Rabi season being good and reservoir levels are better, we do expect domestic formulation business to show improved performance. But we should wait and see for the year and at this point of time all our actions and strategies what we have deployed last year is paying off in terms of the capacity augmentation for Mancozeb as well as our new product launch. And going forward, our aim is to sustain and grow this segment.

Sujit Jain:

Okay. And what is the manufactured fertilizer sales for this quarter?

S. Sankarasubramanian:

For this quarter it is 9.15 lakh tonnes manufactured.

Sujit Jain:

one last question, out of the sales of nutrients allied business or segment, how much is retail contribution roughly in percentage and what will be our margins there?

S. Sankarasubramanian:

At this point of time, we restrict to these two segments. For anything further, if we subdivide at later stage, we will share these numbers.

Sujit Jain:

What is the capital employed in this business?

S. Sankarasubramanian:

Retail do cash and carry so, there are no receivables. Inventory what they do, is only in respect of crop protection business, seeds and other related products for which they have corresponding matching credit as well. So it is not very significant.

Sujit Jain:

But for setting up these retails what has been the capital employed in these business

S. Sankarasubramanian:

We have not invested in the retail outlets; they are all long-term leases. So, there are no major CAPEX involved in these retail centers.

Moderator:

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

Sudarshan Padmanabhan:

Sir, my question is if you are looking at the margins on the fertilizer side, I mean if you are looking at the phos acid prices average for the last quarter, end and the last quarter beginning, I think the prices have fallen from $680 to $620. So, I am just trying to understand whether there was any kind of one-off gains that was actually benefiting you and whether that will continue because your Q3 would again see from $620 to about $580 or so.

S. Sankarasubramanian:

Listen, as we mentioned earlier there is no one-time gain, there is one-time loss - we had to take a price correction in the month of July consequent to input price reduction and we had carry over stocks in the system, we have to take a write-down. And major of it we took it in Q1. If you see our Q1 financial, we have to take write-down on the carry over inventory of previous quarter and that impact continued partly into this quarter as well. On the acid reduction, to the extent the acid price has come down, our input prices has come down our output product price MRP pricing has also come down. So, there is a corresponding reduction in the farm gate price. And main reason for the improvement is the improved operating capacity with the availability of acid - we could increase our production and in our main plants our operating levels moved up to 90%. Also we improved our sale of unique rate during this quarter. And we brought back our focus on cost reduction including our premia hedging cost. So, it is an overall improved operational performance and generally Q2 and Q3 are a healthy quarter for our company and that's what is getting reflected.

Sudarshan Padmanabhan:

It is hard I mean. Sir, looking at the overall industry scenario, if you can broadly tell us in which parts of the country what is the kind of inventory that is there in probably NPK and DAP probably, how is it in the south and how is it in the other parts of the country?

Sameer Goel:

That is difficult to say. Shankar has said this before, but we do anticipate more inventory in the north than in our markets, got to do with how the season has spanned out.

Sudarshan Padmanabhan:

No, what I am trying here is that given that there is very healthy water level tables, how long would it take for us reflecting the numbers or how much would it be impacted because of some inventory that is being there in the channel?

S. Sankarasubramanian:

No, see, we continue to focus on the addressable markets - the channel inventory will always be there – it's a seasonal business where production happens for 12 months and selling during four months, so the channel inventory will be there. Only the challenge is how fast we can liquidate and come out of this. There has been a moderation in imports, even though price of DAP has fallen. We are hopeful from our point of view, whatever stocks our dealer channel is carrying should get liquidated. If that liquidation gets delayed, naturally there will be a moderation in production and supply. We wanted to ensure that we do not carry too much of pipeline stocks both in our company books as well as in the dealer channel. If there is a delay, accordingly the production will get moderated and the inventory level will be brought down. We have been following that principle for the last two - three quarters and that will continue. If we have to take reduced volume because of the delay, then we will do it. But as you see, with improved Rabi expectation it should get normalized soon.

Sameer Goel:

And one big factor is that the soil moisture has gone up and the northeast monsoon which currently is delayed by 15 days, is expected to be normal which will help the dam levels and the canals flowing.

Sudarshan Padmanabhan:

Sure. Sir, can you also throw some light on the subsidy receivables from the government I mean from March to probably this quarter I mean this month you have seen something like Rs. 500 crores - Rs. 600 crores kind of a reduction but I mean how do we see what is the visibility of this number coming down further?

S. Sankarasubramanian:

See, we are not really satisfied with the subsidy disbursement because we expected a much faster release on our 10% money which is held for long-time and we have been representing for quite some time. At this point of time, we have close to Rs. 900 crores of 10% subsidy receivables which is part of that Rs. 1,894 crores. Some amount have come - during the first-half we have received close to Rs. 160 crores of this 10% subsidy. But we have been consulting with the government for the faster release because that is choking the working capital as well as the liquidity for the company. As of now we have received on account subsidy up to June and probably July also is received in October. So, while our on account subsidy is coming through, slowly this 10% subsidy is building up to unsustainable level and we are taking it up seriously. Once that gets released that will ease up the subsidy situation. But good thing what is happening is with the reduced subsidy rates per metric tonne for phosphatic business, the quantum of subsidy allotted to us can see us through up to November - December.

Moderator:

Thank you. We take the next question from the line of Satish Mishra from HDFC Securities. Please go ahead.

Satish Mishra:

Sir, I could not get this 10% issue which you mentioned in the subsidy, what is this related to?

S. Sankarasubramanian:

See, government release 90% on account as and when we make a dispatch;10% comes in much later after we get the acknowledgement from the respective state government. They introduced a new system two years before by which the retailers who were buying the fertilizers need to acknowledge the receipt of material in the respective states and the system integration was taking time and due to that there was delay in disbursing this. So, the 10% subsidy portion has got accumulated from the year November 2012 up till now. So, government started processing it and the system has stabilized established only fag nd of last year fourth quarter and they have taken up the bills for payment from the current year first quarter onwards. So, this has resulted in an accumulation of past year's 10% amount that is now close to Rs. 900 crores for Coromandel. A portion of it has come in and we are now persuading with the government for releasing the balance.

Satish Mishra:

Sir, your total subsidy receivable as of date is 1894 you said?

S. Sankarasubramanian:

That is right.

Satish Mishra:

Fine. And sir, second question, is related to again volume and it is my request, if possible please from next time give volumes in the press release then many of the questions probably will reduce in the con-call. So, out of this 9.3 how much will be DAP and how much is NPK?

S. Sankarasubramanian:

DAP for the quarter is 1.2 say and complex is 7.89. So total is 9.15 which is manufactured sale and imported DAP is 0.17 that is how it stacks up to 9.32.

Satish Mishra:

Fine, sir. And sir, can you give some sense related to farmgate prices of DAP? What has been the cut what were earlier discounts given to distribution partners and now what are the discounts some sense broad numbers?

S. Sankarasubramanian:

See, the DAP price before the cut was around 24,500 that was brought down to 22,000. And that is the price now and proportionate reduction has happened in all the other complex grades as well. And currently, the individual company based on their market position offer some discounts here and there depending on the market situation and on their inventory position and their operations.

Sameer Goel:

Our strategies have been to promote our own manufactured DAP which is a very strong brand and that has helped us.

Moderator:

Thank you. We take the next question from the line of Manan Mehta from HDFC Bank. Please go ahead.

Manan Mehta:

Sir, just wanted an update on the six months DAP contract, is there any update as to what price could it end up at for Q2?

S. Sankarasubramanian:

There is no DAP contract.

Manan Mehta:

Sorry, phos acid.

S. Sankarasubramanian:

Phos acid, Q3 is 580 and Q2 was around 610 dollars and it was 620 in Q1, 580 for the third quarter.

Manan Mehta:

Okay. Sir, looking at the crashing commodity prices, ammonia has also crashed dramatically. Are we expecting trend to continue and what could be the likely impact, the domestic industry when it comes to manufacturing versus trading?

S. Sankarasubramanian:

You can see that our operating capacity has improved. First demand has come down and then there is a fall in prices - definitely it is helping us in our working capital, reduces the working capital situation. But it has a negative side - falling prices are difficult to manage because you carry inventory at all points of time; you also carry channel inventory, so there will be pricing pressure on the market side as well. That is part of the business. In fact, DAP prices are now at $310 - $320. I would say that this softness in price on both on the finished product side as well as on the inputs to continue for some time.

Sameer Goel:

We are hoping, what will happen is the consumption will actually go up the with the pricing of NPK.

Manan Mehta:

Okay. So, the NPK ratio might actually improve to the extent.

S. Sankarasubramanian:

In fact, you can see for the first time in the kharif season, urea is down in volume terms, thanks to neem coating which arrested the diversions. With revival of demand for phosphatics, NPK ratio for the soil will improve.

Sameer Goel:

And the farmers will look at more balanced nutrition which will help their productivity.

Manan Mehta:

Okay. Sir, one last question, on the subsidy receivables the thing is what we have seen is there has been a sharp almost 25%-30% cut in the subsidy for each of the key products. But the numbers, half-yearly numbers your subsidy receivables are more or less the same level as they were last year. So, any particular reason why that is happening any particular constrain from the government side or how much would be the long-term bending subsidy in that total subsidy which is visible on your books?

S. Sankarasubramanian:

I have mentioned in my previous response that 10% subsidy is what the major portion is. You are right, since rates have come down in absolute term, subsidy should have come down but we have got the 10% subsidy amount of Rs. 900 crores still which is yet to be received from the government.

Manan Mehta:

And sir, how much was this amount a year back around the same time.

S. Sankarasubramanian:

Rs. 500 crores.

Manan Mehta:

So, round 30th September, 2015 how much this amount would have been just to estimate what has been the annual increase?

S. Sankarasubramanian:

See every year our annual subsidy invoicing is around Rs. 2,500 crores. Per annum 10% is Rs. 250 crores- that is what has got built up now. So there has been an increase of Rs. 300 crores to Rs. 400 crores over the corresponding one year period.

Moderator:

Thank you. We take the next question from the line of Bharat Sheth from Quest Investments Advisors. Please go ahead.

Bharat Sheth:

Shankar, as you rightly mentioned that the fall in raw material price your farmgate price will be reducing. So, have we reduced further I mean farmgate price in this Q3 with fall in input price?

S. Sankarasubramanian:

It keeps happening depending on the market needs and the grade, it may not be for all grades but as and when the input prices comes down, we do take price correction and we respond to the market situation. It is like for any free market how the pricing happens the same thing happens here also.

Bharat Sheth:

Without waiting for I mean government enforcement or something, correct?

Sameer Goel:

Actually, it is wrong assumption - the MRP is not regulated and it is only the subsidy which is being disbursed by the government and as a company and industry we are free to decide on the farm gate prices. So, what is affordable for us and to sustain our profitability and the operations. Accordingly, we do make price corrections.

Bharat Sheth:

And second thing with this improvement I mean expecting a Rabi season, so what kind of full year operation we expect I mean at what level?

S. Sankarasubramanian:

I do not have any advance estimates.

Bharat Sheth:

No, but I mean I understand October is already gone I mean so, how do you expect I mean over the last year…

S. Sankarasubramanian:

We always hope for the best to happen but we never know until this happens. In the month of November and the December movement happens, but we cannot be counting before that. We need to wait for the season to play out fully before we can take a call on that.

Bharat Sheth:

And sir, can you give some sense on the CAPEX, I mean this year and next year and may be mainly on what account?

S. Sankarasubramanian:

It will be sustainable CAPEX - there is no significant CAPEX we are planning except for some capacity addition, augmentation what we are planning in crop protection. It will be in the range of Rs. 125 crores to Rs. 150 crores.

Bharat Sheth:

Earlier also we were looking for I mean augmenting the Phosphatic capacity also…

S. Sankarasubramanian:

Yes, you are right, that will kick in once we get a regulatory approval. That is expected in the next year so, the major portion of CAPEX spend will happen in 2017-2018 and 2018-2019.

Bharat Sheth:

Okay. And last question on gypsum side can you give some sense I mean say with the improvement in the demand from the cement company how these things are moving?

Sameer Goel:

Currently there is a lot of competition as far as gypsum is concerned because of dumping of mineral gypsum which is coming from markets and we have taken it up with the government on that count. Therefore, gypsum sales are subdued, we are managing to sell because of our captive market. But we are looking at certain other things where we can use gypsum so, you will have to wait and watch.

Bharat Sheth:

And sir, last question, this 10% you said is Rs. 900 crores that is after receiving Rs. 160 crores?

Sameer Goel:

Of course.

Moderator:

Thank you. We take the next question from the line of Karishma Kothari from Edelweiss. Please go ahead.

Karishma Kothari:

Sir, could you just give the volume break-up of trading between urea and non-urea?

S. Sankarasubramanian:

Urea and?

Karishma Kothari:

Non-urea as a portion of trading.

S. Sankarasubramanian:

Urea is 3.37 lakh tonnes. Potash is 0.59 lakh tonnes and imported DAP is 0.17.

Karishma Kothari:

Okay, thank you, sir. And sir, the CAPEX of Mancozeb at Dahej, sir how much would it be for the current year and is it likely to come begin by the year end or the next year?

S. Sankarasubramanian:

No, it is already underway it is not very significant amount.

Karishma Kothari:

Okay. And sir, is it likely to commission by the year end?

S. Sankarasubramanian:

We hope to do that.

Moderator:

Thank you. We take the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management Company. Please go ahead.

Dheeresh Pathak:

Just a clarification of the Rs. 1,900 crores of subsidy receivables, you said out of this Rs. 900 crores is the cumulative 10% build up over the years and balance Rs. 1,000 crores would be the normal…

S. Sankarasubramanian:

Correct.

Dheeresh Pathak:

Okay. But you also said that 90% of it subsidy given when dispatched so, why is the amount so high is that subsidy not being given as per the stipulated time period?

S. Sankarasubramanian:

No, this is a peak season. We also do invoicing in July and September. We do dispatches in peak season and it disbursement does not happen instantly, it takes 45 days. Always we will have a time lag. As of now, government has paid up to June. So this July, August, September outstanding dues are there.

Dheeresh Pathak:

Okay. So, when you dispatch to the distributor then you intimate the government from the time of dispatch 45 days you add and then you get it?

S. Sankarasubramanian:

It is like this every month, you make dispatches and it gets received at the district headquarters at various places where we sell fertilizers. Based on that, we generate the invoice and get certified by the statutory auditors and submit it to the government by 20th of next month. Then they may take 30 days period. So, actually from the end of the month you can say the cycle if it is very efficienct, it may take 45 days - 50 days or sometimes it can some time go up to 90 days.

Dheeresh Pathak:

Okay, understood. And on the crop protection business, I just wanted to understand that on an annual basis how much is Sabero out of that, how much is ex-Sabero and how much total annual gypsum sales?

S. Sankarasubramanian:

See, we are not giving the segmental product wise at this at this point of time so, I prefer to keep it at segment what we report.

Dheeresh Pathak:

But out of crop protection how much is technical and how much is formulations and how much….

S. Sankarasubramanian:

Yes, at this point of time, we do not report that. Once we start reporting that we will definitely share that with you.

Dheeresh Pathak:

Okay. What is the total retail sales last year?

S. Sankarasubramanian:

You are talking about 2015-16 sales?

Dheeresh Pathak:

Yes, just want a sense of the retail operations, what is the scale and how big are the sales and what margins you make, if you can share that?

S. Sankarasubramanian:

Through Retail, we sell fertilizers as well as our own non fertiliser products. We sell third-party products as well. Just to give sense on the turnover of retail for last year –it will be in the range of Rs. 1,100 crores including fertilizers.

Dheeresh Pathak:

Okay. And how many stores are there?

S. Sankarasubramanian:

800 stores, 600 stores are in Andhra and 200 in Karnataka.

Dheeresh Pathak:

On an annual basis, how many stores do you add?

S. Sankarasubramanian:

In last two years because of the bad monsoon situation, we have not added any store but now we are re-looking at this because we wanted to ensure that we do not increase our operating expenses when the market situation is not good. But with the turnaround in situation, we hope to increase stores in Andhra and may also enter into states like Maharashtra.

Dheeresh Pathak:

Okay. And what EBIT margins does this make on Rs. 1,200 crores of sale?

S. Sankarasubramanian:

See, EBIT margin ranges between 2% to 4% on a total turnover basis but it may not be appropriate to look at that EBIT number because it includes fertilizer business where the base margin is captured by the main SBU and the retail business captures only the distribution margin. So, the EBIT will be misleading data point. What we try to look is how much of non-fertilizer sale we do through our retail centers which give significant margin structure because we sell seeds, specialty nutrients, crop protection, organic manure, veterinary product - so there the margin structure is better. The way we look at retail is to see how we can absorb the overheads out of fertilizer margin and then rest of the margin should flow to the bottom-line.

Dheeresh Pathak:

Also if you can share apart from the DAP and the subsidy part of the products, the non-subsidy part which are branded and sold to consumers whether it is agchemicals, at seeds, vet products, what is the size of your owns brands, not other people brands but your own brands?

S. Sankarasubramanian:

I can say besides fertilizer, it will be around Rs. 300 crores of captive sales.

Dheeresh Pathak:

Rs. 400 crores, large part of this would be Agchem, right?

S. Sankarasubramanian:

Agchem and specialty nutrients. Agchem will be significant and organic fertilizer specialty nutrients.

Dheeresh Pathak:

All this put together will be Rs. 400 crores?

S. Sankarasubramanian:

Yes.

Dheeresh Pathak:

Okay. And what is the growth rate in this?

S. Sankarasubramanian:

20%.

Moderator:

Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand conference over to Mr. Rohan Gupta of Emkay Global for closing comments.

Rohan Gupta:

Thanks, Stanford. Sir, thank you very much for giving us you time. Before closing, just a couple of questions from my side. Sir, this you gave a break-up of crop protection 24% that was at the EBIT level you are talking about, right?

S. Sankarasubramanian:

What is that 24%?

Rohan Gupta:

24% share of EBIT was from crop protection and balance from fertilizer and other….

S. Sankarasubramanian:

Yes, nutrient business….

Rohan Gupta:

That is as per the reported number, which you have mentioned. You also mentioned a ratio of 36% that is from non-subsidy business, right?

S. Sankarasubramanian:

Correct.

Rohan Gupta:

And that is at EBITDA level.

S. Sankarasubramanian:

That is right.

Rohan Gupta:

Okay. So, if we just do some math there then we can get that what number will be from, between the other product like fertilizers and apart from crop protection.

S. Sankarasubramanian:

That is for you to make it up. As of now we are giving as per the reporting segments.

Rohan Gupta:

No, that is fine enough sir, yes. Okay. Sir, second just falling phos acid and ammonia prices, have we captured anything from that in current quarter number or the benefit is yet to flow in second-half?

S. Sankarasubramanian:

See, Rohan we keep buying material, we keep producing and selling, not that there is one-time because we carry over that high cost raw material into this quarter. Please note that as and when the prices fall, when that benefit is available we need to pass it on to the farming community as well, which we will be doing. So, as long as it is in a sustainable margin range, we will continue to do it. So, fall in price does not necessarily translate to the bottom-line impact.

Rohan Gupta:

So, you see that the price fall I mean will be passed on definitely to the customer.

S. Sankarasubramanian:

Yes, if the input price correction happens, definitely output price correction will also happen and we will definitely pass that.

Rohan Gupta:

Right. So, that is where we have been keep on maintaining that almost Rs. 2,000 is the EBITDA number which you will look at and there is a right margin?

S. Sankarasubramanian:

We have been doing, we continue to do it and with the improved operating leverage, that number can look better, that is what I have been telling in the past also, that is what is playing out now.

Rohan Gupta:

Okay. And sir, this agrochemicals Sabero what utilization level we are operating now?

S. Sankarasubramanian:

See, we are operating at the full capacity, only what we want to produce in that unit; we are not comparing with the nameplate capacity. The ideal capacity at which we want to operate the plant, looking into all other factors, like environment, safety etc, we are operating reasonably close to that capacity.

Rohan Gupta:

Right. So, now we have almost 100% utilizing the potential of that plant.

S. Sankarasubramanian:

Whatever I describe if you take it 100%, yes.

Rohan Gupta:

Okay. So from here when you say another 15% to 20% growth can happen on a non-fertilizer especially other businesses so, for that we need to do further CAPEX on that and without that, that would not be possible, right?

S. Sankarasubramanian:

As and when required we will do that. Like Dahej is happening, So Dahej has got spare capacity as well. So, if the business warrants, if the products are available, if we need to create physical capacity, it will not be a constraint for us. We will do that.

Sameer Goel:

And we keep doing de-bottlenecking exercise in Sarigam as and when to expand.

Rohan Gupta:

And sir, product which you had launched in agrochemical category that one insecticide has also already been launched and herbicide you are planning to launch.

S. Sankarasubramanian:

Fungicide.

Rohan Gupta:

Fungicide you are planning to launch, so this will be generic product only, right?

S. Sankarasubramanian:

This is off-patent generic, most of them which are coming into the country are generics only.

Rohan Gupta:

They are off-patent generics only but, this will be under me-too registrations?

S. Sankarasubramanian:

Yes.

Rohan Gupta:

Great, sir, that is all from my side and thank you once again. Thanks a lot for giving us your valuable time and we believe that with the Rabi prospects being better then we should be seeing healthy volume growth in the H2 for the company and industry as well.

S. Sankarasubramanian:

Thank you, Rohan.

Sameer Goel:

Thank you, Rohan. Really appreciate that.

Rohan Gupta:

Thanks a lot. On behalf of Emkay Global, I also thank all the participant who have logging in the conference call of Coromandel. Thank you very much.

Moderator:

Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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