"Coromandel International Limited 2Q FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Coromandel International 2Q FY2018 earnings conference call, hosted by Batlivala & Karani Securities. As a reminder all participants' lines will be in the listen-only mode. 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 "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ranjit Cirumalla from Batlivala & Karani Securities. Thank you and over to you Sir!

Ranjit Cirumalla: Thank you Zaid. We at B&K Securities welcome all the participants on a conference call of Coromandel International to discuss the 2Q FY2018 financial performance. We have with us from the management of Coromandel International, Mr. Sameer Goel, Managing Director, Mr. Sankara Subramanian, EVP & CFO, Ms. Jayashree Satagopan, EVP Finance on the call. We congratulate from the B&K, Mr. Sankara Subramanian Sir on being given the responsibility of heading the fertilizer business of the company. May I request Mr. Sameer Goel Sir to give a brief overview of the performance during the quarter post, which we will begin, the question & answer session. Over to you Sir!

Sameer Goel: Thank you. Good morning everyone and thanks Ranjit for organizing this concall. We will give an overview of the business environment experience during the quarter followed by company's performance and we will take Q&A.

As you know, during Kharif 2017 India received below normal rainfall at 95% of the long-term average experiencing uneven distribution across the country especially in the central and northwestern parts of the country. Coromandel keys south peninsula markets recorded normal rainfall at 99% of the LPA level; however, here also monsoons were erratic. It started on very positive note in June, but then faded away in July and then recovered mid August and was then getting into normal in September.

The thing is that this has resulted in reservoir levels moving up in the Southern Indian states. As of October 20, 2017 live storage of these reservoir stood at 65% of the total capacity against 52% last year, inflows and downstream dams of Krishna Basin like Sirsailam, Nagarjuna Sagar has moved up considerably as the late withdrawal of southwest monsoons brought in rain in the catchment area and water from the upstream reservoirs in September and October.

Further IMD has forecasted normal Northeast monsoons, which provides 30% of the annual rainfall in southern peninsula particularly in the Rayalseema, Tamil Nadu and parts of Karnataka, which bodes well for upcoming Rabi season.

Kharif crop sowing has been marginally lower at 1% over the last year as central and North India acreage went down on the weak monsoons with drop recorded in pulses, oil seeds, rice and coarse cereals. However, cotton crop made come back during the year due to the higher realization in 2016 partially replacing the pulses and oil seeds in Telangana, Maharashtra and Andhra giving the major chunk.

Overall rice acreage was almost flat 1% decline at 379 lakh hectares, oil seeds actually was down by 9% at 173 lakh hectares, sugarcane made a recovery gaining 9% at 50 lakh hectares and cotton actually improved significantly to 123 lakh hectares up 19%.

Overall the first advance estimate food production is down by 3% to 135 million tonnes and oil seeds down by 8%. The other thing is soil health card scheme is progressing as per plan as of October 24, 2017 of the 2.5 Crores soil samples collected, almost 9.3 Crores cards have been dispatched.

On the industrial front, the government is planning to rollout the DBT scheme in a phased manner covering pan India by January 2018. As per the latest communication received from Department of Fertiliser, Maharastra is likely to go live from November 1, 2017, Tamil Nadu and Andhra Pradesh in December and Telangana, West Bengal and Karnataka in January.

Coromandel has streamlined its processes to meet the DBT requirement and has actually participated in creating awareness about DBT towards channel partners.

On the sales front, industry witnessed volume drop in phosphatic and urea sales in Q2 as weaker monsoons impacted product consumption.

During H1 phosphatic sales dropped marginally by 1% to 81 lakh tonnes and 6% in Q2 to 49 lakh tonnes. Imports were significantly down by 24% to 31 lakh tonnes as comfortable availability of acid and stable raw material situation improved the domestic DAP production.

During H1, DAP production was up by 19% to 25 lakhs tonnes against last year of 21 lakh tonnes. Urea sales were up by 2% in H1 to 147 lakh tonnes, but declined by 3% in Q2. MOP witnessed strong demand during the year and industry volumes were up by 31% in H1.

Hence overall if you look at as far as the industry is concerned phosphatic production was up by 2% compared to last year at 64.68 lakhs metric tonnes. Imports were down to 31.32 lakh metric tonnes by 24% and sales were marginally down to 81.47 lakhs tonnes at –1%.

Coming to the company's fertiliser's performance, phosphatic availability remained comfortable during the quarter. Further Coromandel improved its captive phos acid production and plant utilisation stood at 111% in Q2. Business has carried on multiple trials for new acid and rock sources, which will provide production flexibility going forward.

I am happy to announce that we have received the consent of establishment from APPCB for our phosphoric acid augmentation project. The project is on track and is likely to be completed in 2019. Once commissioned Vizag plant will become self-sufficient for its acid needs in addition to the value generation on upstream integration.

On the production front, overall capacity utilisation for Q2 stood at 100% at 8.5 lakhs tonnes up by 10% from 7.7 lakh tonnes last year. We recorded highest ever H1 production of 15.1 lakh tonnes improving our operational efficiencies and manufacturing capabilities.

Our phosphatic fertiliser sales is up by 4% in Q2 to 9.7 lakh tonnes against the industry drop of 6%. Our market share has moved up to 20% in Q2 against 18% last year. Cumulatively for H1, it stands at 19% versus 17% previously registering growths across all the operating markets.

Our share of unique grades has moved up to 40% in Q2 against 33% last year recording a volume growth of 27%. Cumulatively the unique grades stand at 35% from 29% previous year with a volume growth of 31%. Normal monsoons in our main markets have aided in product liquidation and channel inventory have moderated considerably.

On the traded fertiliser side MOP has marginally grown by 2% to 90000 tonnes while urea volumes have declined by 13% at 4.17 lakh tonnes in H1.

Coming to the performance on the nonsubsidy business. Crop Protection business had a good H1 on turnover basis registering growth both in domestic and export markets; however, raw material prices negatively impacted business profitability. Production of our new Mancozeb facility at Dahej has stabilised now and has provided additional leverage to Coromandel to expand its presence in international markets with improved product quality.

Mancozeb molecule continues to contribute significant share in the segment profitability and registered a volume growth of 47% during H1.

On the domestic front, business has strengthened its marketing and branding initiatives in the key markets, which has contributed to improved performance in Q2. In our retail centres, we continue to focus on the non-fertiliser business, which has done considerably well, improving its share to 39% up from 32% last year We are in the process of expanding our retail centres in our key markets and even looking at other states like

Maharasthra. We have also partnered with AP government in setting up farm mechanization service centres.

Speciality nutrition business had a very good quarter driven by growth in focused products. Overall the volumes are up by 17% in Q2 and 25% in H1. Business has introduced three new products during the year addressing the nutritional needs for solanaceae crops.

Organic business has done well driven by improved performance of organic variant segments. Currently we are the leaders in the city compost segment with a market share of 38% all India. This is as per the government initiative of Swachh Bharat. During the quarter the business continues to focus on strengthening its sourcing capability in expanding its presence in the institutional segment.

Single super phosphate business was impacted by adverse marketing conditions in North and Central markets, which reduced sowing of pulses and oil seeds affecting the product consumption. Overall the industry has declined by 30% in Q2 and 1% cumulatively while Coromandel volumes are up by 7% in H1 to 2.2 lakhs tonnes. We are currently the market leaders in SSP segment with a market share of 12%. It was 11% same period last year. During the quarter, Coromandel completed the debottlenecking of its SSP granulation capacity at two of its plants in Udaipur and Baroda and has improved the raw materials sourcing capability.

Overall it has been a very good quarter for Coromandel, which benefitted from stable business environment, moderate channel inventories and our focus on specialised products across the business. With improved reservoir levels in our key markets and forecast of normal northeast monsoon we may expect H2 to remain conducive for agri input consumption. I will now hand over to Sankar to discuss the financial performance.

Sankara Subramanian: Good morning. Thank you, Sameer. I am happy to share with you healthy results for Q2 for Coromandel. To talk about the topline in Q2, Coromandel recorded a consolidated turnover of Rs 3647 Crores with a share of 87% coming from nutrient business and 13% from Crop Protections. For the half-year our turnover has been Rs 5924 Crores as against last year's Rs 5635 Crores and again 87% coming from nutrient and 13% from CPC.

In terms of subsidy- nonsubsidy, which you are all looking for, the share is 79% from subsidy and 21% from non-subsidy.

The consolidated PBIT for the quarter is Rs 543 Crores as against Rs 359 Crores and the share of nutrient business is 84% and Crop Protection is at 16%. For the half-year, our PBIT is Rs 690 Crores versus last year Rs 424 Crores.

To touch upon the share of EBITDA from subsidy and non-subsidy business, 70% of the share has come from subsidy business. The improved performance in capacity utilisation across our major fertiliser plants, mostly it touched 100% capacity utilisation and that has given us a better operating leverage. Also the share of unique grade has moved up this quarter. Our capacity utilisation for phosphoric acid at Vizag has gone up during this quarter.

Overall stability in the commodity prices in the initial phase as well as the stable rupee has helped us to stabilise on the cost front. But the important aspect of the nutrient business has been significant growth from speciality nutrient business. In fact, this quarter has been extremely good for the speciality nutrients, which has registered an overall growth of 20% to 25%. Also some of the new products were introduced during this quarter and what were introduced in the last two quarters have seen a significant growth especially targeting the cotton crop segment. Also procurement efficiency in speciality nutrients has improved the margin structure for speciality nutrients as well.

On the retail side also, we have grown in the non-fertiliser segment, which has improved the profitability. So overall our operational performance has been one of the best in the recent past. Besides the operational efficiency, we are happy to say that on the working capital side also we have improved significantly. There has been moderation in the channel inventory and that has helped us to bring down the inventory level and collections have come back to normalcy and that has helped in bringing down the receivables especially in the fertiliser business.

Of course, the subsidy continues to be one of the significant amount in our balance sheet. And as we speak we have received subsidy only up to June still July, August, September subsidies are yet to be disbursed. But one of the important aspect in this quarter has been the disbursement of 10% subsidy - there has been some movement in this and we have received close to Rs 200 Crores of 10% subsidy in this quarter, but still our 10% subsidy amount stands at Rs.850 Crores plus and overall subsidy remains at 2000 Crores. Of course the overall working capital side there has been a significant reduction and that has translated to significant reduction in the borrowing as well. That is reflected in the interest cost and overall interest cost has come down.

The financials have been prepared post GST and accordingly our topline numbers are without excise duty whereas in the previous quarter we have reported excise duty. From this current quarter onwards as per the accounting standards, the turnover being reported is net of GST. As a company we have migrated towards GST and we are also gearing up for implementation of DBT. There has been a phased implementation plan announced in the next two to three months to cover DBT across India.

This completes our introduction. We can move on to Q&A.

Moderator: Thank you Sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan P: Thank you for taking my questions and congrats on a great set of numbers. My question is around this raw material cost while it has been fairly benign and supportive in the second quarter, one thing that we have noted is the ammonia prices and certain other raw material prices have kind of spiked post the second quarter. So if you can throw some light on the prices at this point of time, what is the kind of contracts we have, to gauge the kind of raw material impact going forward?

Sankara Subramanian: Sudarshan, as you know most of the contracts what we have are supply contracts and the prices are varying time-to-time and you said rightly there has been an increase in prices of ammonia as well as sulphuric acid in the recent past and the urea has also moved up, but the phos acid remains what it was in Q2 because the contract has been signed up to December, which is a major significant raw material. As a company, we have been always proactive in terms of hedging our raw material prices by procuring at the right time, so that continues. So this sort of price hike as and when it happens it will have an impact, but on overall margin structure what we have been saying in the past average EBITDA of 2250 to 2500, which actually we improved it in the last quarter due to better operating leverage, we do not see any challenge in that. With an improved capacity utilisation and with improved Rabi if we keep producing and selling, I do not see any major challenge on achieving those set of number on annualized basis, but as you know Q2 has always been a peak quarter for the company and accordingly margins are better.

Sudarshan P: Sir, coming to broadly the second half of this year, one is rollout of DBT I mean now I think a lot of emphasis would be towards the distributors using the POS machines and broadly if you can give some colour on how do we expect the government subsidies to come through? Would it be in the same pace? Would it be in a slower pace?

Sankara Subramanian: At this point of time, we can say what policy envisages. DBT provides for disbursement within seven days when the sale happened at the retail counter. Having said that, we are in the implementation phase and connectivity challenge, opening inventory reconciliation and other operational issues are being addressed. So it is too early to make an observation, but the intent of the government at this point of time is to ensure that once the sale happens at the retail counter, it gets collected at the central server and the subsidy will get disbursed in seven days' time. That is what we hope to do, but having said that, in the pilot trials the subsidy disbursements are yet to happen because of technical glitches, even though the government has set aside the amount for the releasing under the DBT scheme; they are resolving the data aspect of it and the industry is also working closely with government. So probably in implementation phase, there may be some challenge and there may be some delays in subsidy, but we hope once the DBT is implemented in full, there will be an realignment in the production and may be realignment in channel inventory because now the subsidy is going to align to the consumers and not dispatches to the district. So to that extent we need to wait and see. Overall that cycle should improve if everything falls in place.

Sameer Goel: What we are doing is we are strengthening our connect to the retail and the dealer and we are doing it across our major markets.

Sudarshan P: Sir, just one thing, has the channel inventory kind of got aligned to probably the rollout of DBT. What is the channel inventory for the industry looking like Sir?

Sankara Subramanian: It will be my guesstimate only. But what we could see, the way the imports have come down, I think the industry is gearing up for slowing down on the build up of inventory that is reflected clearly in the overall import. Also with the improved monsoon, the focus has been on liquidation across the country. So I would say there has been a significant reduction in the channel inventory, both due to DBT as well as the good monsoon.

Sudarshan P: Thanks a lot Sir. I am joining back the queue.

Moderator: Thank you. The next question is from Abhijit Akella from India Infoline. Please go ahead.

Abhijit Akella: Good morning. Thank you so much for taking my question Sir. First just on the volume breakdown, if you could please just help us with the DAP manufactured and NPK manufactured and also the traded volume?

Sankara Subramanian: On the DAP side, for the Q2 it is 3.35 lakhs, do you need Q2 or cumulative?

Abhijit Akella: Q2?

Sankara Subramanian: For Q2 it is 1.35 of DAP and 7.15 of complex. This is the production (against last year 0.93 and 6.78. Totally 7.71).

Abhijit Akella: Sales numbers Sir?

Sankara Subramanian: 1.54 of DAP and 7.82 of complex totaling to 9.36 as against last year 9.15. Imported DAP is around 0.36 and last year was 0.17. Urea is 2.4 lakh tonnes and potash is 0.56.

Abhijit Akella: 2.4 and 0.56.

Sankara Subramanian: SSP production is 1.25 and sale is 1.38.

Abhijit Akella: Just on the subsidy versus non-subsidy breakdown, you had referred to 70% that was for the nutrient and allied segment?

Sankara Subramanian: Subsidy and nonsubsidy 70:30.

Abhijit Akella: 70:30. Okay. Just on the Crop Protection Business the apple-to-apple growth if we adjust for the GST, how much would that have been in 1H and if you could give us some colour about how exports and domestic have moved within crops?

Sankara Subramanian: Actually the GST has not played a significant role because the GST rates are more or less same since the pre and post GST the total tax rate is the same. The growth is mainly driven through export performance and our growth on exports is close to 18% on an half-yearly basis and on a quarterly basis it has been significant and in volume terms. Domestic formulation has also grown by 14% to 15%. And domestic institution business has grown by 5% to 6%. So overall turnover what is getting reflected is mainly driven by export especially in our Mancozeb volumes, as Sameer mentioned in his message, is close to 50% volume growth. Growth in topline is more driven by the export performance.

Abhijit Akella: Sir, this 18% export growth was in 1H and 14% domestic growth you spoke about that is for 2Q or for 1H again?

Sankara Subramanian: I think that is Q2.

Abhijit Akella: That is 2Q. What would be 1H be Sir for domestic?

Sankara Subramanian: It would be still 10% to 12%. There was moderation in Q1 so this will be slightly lower. I do not have that exactly right now.

Abhijit Akella: No problem. And just to clarify export is up 18% in 1H despite Mancozeb being up 47%. So the other products are there some kind of deferral or something?

Sankara Subramanian: 50% is the volume growth in Mancozeb it is volume growth. I can get back to you on the specific turnover growth for Q2. 17% is overall growth because for some molecules there has been a challenge, some of the molecules like propenofos, we had a challenge in the export volumes as such. So major growth has come from Mancozeb.

Abhijit Akella: Understand. Got it Sir. Lastly any price changes that have been taken in the recent past or anything that you are considering just in view of how raw material costs are behaving?

Sankara Subramanian: In which business?

Abhijit Akella: Fertiliser business?

Sankara Subramanian: No, we have to see. We look at all the aspects of the cost taking into account our channel stock what we carry. Also the rupee where it stands we take a view and ensure that we have a reasonable price to the market. End of the day we want to ensure that the right pricing is offered to the farming community. Accordingly we will take a decision.

Sameer Goel: And the GST rates went down from 6% to 5%, and we passed it to the farmer.

Abhijit Akella: Got it Sir. Sorry one last thing. Congratulations to Mr. Sankara for the move and welcome to Ms. Jayashree. If you could just comment a little bit on what was the sort of reasoning behind these management changes? Is it something to do with the DBT or something else that you are planning? Thank you.

Sameer Goel: All part of the development plan which we have. So this is part of our development and succession planning. So that is the reason for change.

Abhijit Akella: Thank you. All the best.

Moderator: Thank you. The next question is from Apurva Bahadur from ICICI Securities. Please go ahead.

Apurva Bahadur: Thank you for taking my question. Sir, if you could please share the breakup between subsidy and nonsubsidy basis on the revenue part?

Sankara Subramanian: For Q2?

Apurva Bahadur: Yes Sir for Q2?

Sankara Subramanian: Subsidy and nonsubsidy 79% is from fertiliser and 21% from non-fertiliser.

Apurva Bahadur: Sir, if you could help us understand there has been a sharp jump in the specialty nutrients volume. So what exactly was the driver for this? Was it like clearing of channel inventory or better than expected monsoons?

Sameer Goel: We have done a number of things there. We have actually strengthened our marketing team and like we mentioned we also have agronomist now and that has helped to actually get the demand. Also what we did in specialty business like we mentioned was to focus on special products. So that was the reason for this. So all these factors are linked with good monsoons in our markets and have helped us.

Sankara Subramanian: To add to that, there has been a shift in our focus on high end specialty product categories and there we put in lot of promotional efforts. Also the new products we introduced in the previous quarters especially focusing on cotton crop, and as you know that acreage improved during the season and we could take advantage of that and the volumes have significantly grown from these new molecules. Now we have got a clear visibility in terms of introducing one or two products every year. Even this year in the second half, we may plan to introduce another two Speciality fertilisers. So both on new products as well as the better market situation has helped us to improve the overall turnover from speciality nutrients and also our retail segment has done well on speciality nutrients.

Apurva Bahadur: Great Sir. Sir on the retail side, could you share how many stores have now broken even?

Sameer Goel: 550 plus.

Apurva Bahadur: Out of 800?

Sameer Goel: That is right. Major of Andhra is almost on the positive side. It is only in Karnataka where due to back-to-back drought situation, significant amount of stores are below breakeven. So hopefully with improved monsoon situation, we will catch up on that.

Apurva Bahadur: Sir, lastly on this DBT implementation given all the challenges that were being cited and the delay in implementation, I mean the dates have constantly been pushed so do you feel that the industry and the channel is ready as of now given the constraints on the database side as well?

Sameer Goel: In terms of readiness, we can say that the DBT machines have been distributed to retailers- close to 2 Lakh and almost 90% to 95% of the machines are in place. Extensive training has been going on over last six months and channel is quite familiar on the formalities. But of course it is a big challenge for everybody to come on board. There are challenges in terms of connectivity and other stock reconciliation issues, which industry is continuously engaging with the government and the government has been responding to the corrections whatever we have been looking for and also being a phased implementation and that too in doing Rabi season it gives that extra space for the companies to adjust. With the experience from the pilot a lot of priority steps are being taken by the industry as well as the government in terms of ensuring that on the go live date, the stocks are getting reconciled. So we have to experience this. There maybe some challenges but being implemented in the lean season period in the fourth quarter where the major states from our point of view, we will be getting on to the DBT. Hopefully. we should be able to handle and also with our past experience we are gearing up much better now. The industry is in constant touch with the government to see whatever the hitches are and the government is responding to that. So that is something we will have to see once everything goes live, especially at the backend side.

Apurva Bahadur: Great Sir. Thanks a lot.

Moderator: Thank you. The next question is from Karishma Kothari from ICICI Prudential. Please go ahead.

Karishma Kothari: Good afternoon Sir. Congratulations on a good set of numbers. Just I have two questions that out of 10% the 1000 Crores subsidy which we have how much subsidy is still left.

Sankara Subramanian: 200 Crores is received in Q2 and this keeps adding in each quarter - so right now it is close to 850 Crores.

Karishma Kothari: Okay Sir, just one more question that EBITDA per tonne what we have seen in H1, do we expect the same strategy to continue in H2 or would it be higher ammonia cost?

Sankara Subramanian: We do not give any guidance. It is very difficult to predict quarterly EBITDA. On annualized basis, we have been talking about close to 2500.

Karishma Kothari: But would it be fair to assume that it will be higher than what it was last year in H2?

Sankara Subramanian: We do not count much ahead of time.

Karishma Kothari: Thank you.

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

Girish Raj: Thanks. On the other expenses, what explains the quarterly volatility? Is it the forex thing or what exactly?

Sankara Subramanian: Forex exchange difference MTM that gets reflected in the Other expenses is also one of the component and also operational expenditure which are depending on the level of production. The other expenditure relating to operations also come in that.

Girish Raj: Thank you.

Moderator: Thank you very much. The next question is from Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thank you for the opportunity. Congratulations on a good set of numbers. Sir just a couple of questions; first is on the margin side, if you look at the overall gross margin for the quarter, we have seen a significant jump both sequentially and year-on-year. Now as you have highlighted we have seen some improvement in terms of mix especially the share of unique grades and also the profitability on the speciality nutrient side, but if you were to exclude this, how much the current margin improvement would be because of the lower raw material costs we have?

Sankara Subramanian: We cannot segregate the overall effectiveness of combination of various positive things happened during this quarter. I cannot call this as one time effect because we hope to do this quarter-after-quarter. We would like to do this whether it is a smart purchase or in terms of improving the unique grade share or improving the captive phos acid production or increasing the share of speciality nutrients. Depending on the market situation, it plays out accordingly. Also we managed forex better. We improved the share of options. Some of the good things what we have done during this quarter we hope to repeat quarter-after-quarter. So how much will go off or how much is one time is very difficult to predict; how the raw materials are going to behave is a function of global commodity prices and what the demand supply situation is in the global markets, how China behaves. But it is better to look at annualized basis the performance rather than Q2. Q2 has always been a peak performing quarter for the company. Because of seasonal nature and monsoon in addressable market and our key strategic intervention in terms of reducing the channel inventory much ahead of time has helped us to ensure that we move the material to the market and liquidate and collect.

Viraj Kacharia: Sir, because the reason I ask is because sequentially we have seen an increase in input cost especially ammonia and sulphuric acid and we are also seeing the FX what FX which we have right now that also we are seeing some amount of depreciation and we have not taken any pricing action here. So I understand we are trying to push the sale of unique grades, we are trying to improve the profitability on other businesses, but just want to understand overall profitability in the fertiliser business?

Sankara Subramanian: No, our aim would be to keep increasing capacity utilisation and keep selling more and in the process also procure smarter. But if the commodity prices go up and if that can be passed on it will be passed on, if it has to be absorbed, it will be absorbed. So it is very difficult to predict and what we can say is we hope to sustain and achieve EBITDA of 2500 plus and we always ensure reasonableness in our approach and that we continue to follow.

Sameer Goel: See, one sustainable strategy, which we have done, is to Make in India so we have reduced the dependence on import and continue to manufacture.

Viraj Kacharia: How much would have been mix shift versus imports and capex in Q2?

Sameer Goel: In the last two years, we have not done much of capex.

Sankara Subramanian: That is for phosphoric acid or DAP?

Viraj Kacharia: Phosphoric acid and DAP both?

Sankara Subramanian: DAP we have handled only 35000 tonnes and rest of them are all manufactured product with a total volume of 9.4 lakh tonnes and on the phos acid our share what used to be 25% of our captive now it would have moved to 30% this quarter, but still we continue to depend on imports for our operations.

Viraj Kacharia: Second question is if you look at the overall industry inventory over the last two years the industry used to be having an inventory of close to 6 million metric tonnes or even slightly above that and now we are close to 4 million metric tonne even slightly below. Now if you look at the overall transition of inventory normalization and also considering the fact that the Rabi demand supply is expected to be tight, we have not seen normalization in market receivables or trade discounts to the channel for us or for the industry so just wanted to understand why this has not really played out for us so far.

Sankara Subramanian: At least in our other market, we have enforced a discipline and we could see improvement in cash cycle and that is reflected in the receivables what we have reported for this quarter. It is a function of stock levels, which have been built up over a period of time . Wherever the channel inventory is down we could enforce the market discipline and we improved on the collections. Trade discount is only a function of market dynamics and supply demand position.

Viraj Kacharia: Sir, what kind of normalization we have seen in trade discounts say over a period of time.

Sankara Subramanian: That is part of the pricing strategy. Nothing significant for us to comment on.

Viraj Kacharia: Second question is on the DBT side, you said that in some of our key markets we would be looking for a complete DBT implementation starting December 1 and January 1, so is there any clarity now on the current outstanding dues. Will they be cleared before once you see starting of DBT getting implemented? If you can provide any colour on that?

Sankara Subramanian: We have a theoretical clarity how it will function, but practically we have to experience. We know if we book the sales in PoS, subsidy will be disbursed in seven days time from the time the sale happen at the retail counter, but we have to experience this and I think it will take some time to settle down.

Viraj Kacharia: Sir I am talking about the current outstanding subsidy, which is given?

Sankara Subramanian: Yes that also we are persuading with government. In fact one of the key consideration what we have impressed upon the government is to ensure that the arrears of subsidy is to be cleared first before we move on a full fledged manner in the DBT. Government is trying to do that, but it is a function of budget availability versus what is the requirement and hopefully with considerable reduction in imports both on urea front and imported

DAP and also supplementary budgets which can be allotted to meet the arrears, we hope to get the arrears cleared faster.

Viraj Kacharia: But there is no firm commitment as yet from the government?

Sameer Goel: One commitment has happened like Sankar was alluding to is the 10% subsidy we have started receiving. So we received 200 Crores. So that is a good thing.

Viraj Kacharia: Just two more questions and that is it. One is you know if we see the overall industry NPK specifically we have seen certain players like Tata Chemicals scaling down their over NPK and that kind of provides an opportunity for players like us to capture share in those markets, but we have not seen any of the volume growth yet flowing into our numbers and also if you look at our overall balance sheet structure also you know it is kind of improved significantly say in the last two years, the balance sheet means much more stronger so is there any thought process of us also probably looking to acquire that facility to further strengthen our overall position in the fertiliser business, any colour if you could provide on that?

Sankara Subramanian: Anyhow we do not comment on the M&A aspect in the call, but to correct on the market side aspect in the recent past, our market share has gone up; We have focused on improving the unique grades and reducing the channel inventory. As Mr. Sameer mentioned the market share has moved up to 20% and we have significantly grown on the market share in the eastern region. And it is not necessary for us to setup a facility there to service the market.

Viraj Kacharia: Last question was on TIFERT. So in the annual report also, you have mentioned that there are certain costs pertaining to the guarantee for the debt of TIFERT, which we have given. We also had a talks with lenders to resolve that issue, so if you can provide any update on where we are with respect to the call which the lenders have called upon for the debt of TIFERT?

Sankara Subramanian: We have been actively engaging with lenders. More than engagement with the lenders, we are actually involved in turning around the operations. Our senior team from Coromandel is currently on the ground to improve the capacity utilisation. Lot of intervention is happening and we hope that we will be able to improve the capacity utilization, once that happens that joint venture at that level of 60% to 70% capacity utilisation can comfortably clear the loans. In case if they cannot do it, then shareholders will put in the relevant money to meet the commitments. At this point of time, this is our level of engagement with the lenders and we are still talking to them. In terms of our approach to the investment and the requirement under the accounting standards to do the fair valuation, we have written down the investments and same has been reflected in the Other comprehensive income. So we hope to improve on the performance and accordingly the cash flow from the joint venture should be able to meet the commitments. At this point of time, we feel we are at the same situation what we were three to six months before. Nothing adverse has happened and hopefully we should be able to resolve once the operation improves.

Viraj Kacharia: That is all from my side. Thank you.

Moderator: Thank you. The next question is from Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Good morning. Sir first of all congratulations to both of you and Jayashree Madam also on board. Sir first question I have on this agrochemical you mentioned that there is input cost pressure because of rising input prices. So far not getting reflected in your margins of agrochemical business. So do you see that going forward there will be pressure on agrochemical margins?

Sankara Subramanian: If you have seen the segmental results, there has been a drop in EBITDA margins. We mentioned last time in our last year Q2 results as well, that everything was looking positive in terms of exchange rate, costs, utilities, gas price, international prices for Mancozeb. Many things have played out very well and that was the peak margin we reported and we said there will be a moderation of 1% or 2% and that is what is getting witnessed now. For one of the raw material for Mancozeb, the price has gone up and we have not passed on the price increase in the market. Of course with improved supplies and increased production capacities of Mancozeb, there has been price pressure, but because of this input cost pressure the price has been overall maintained. So there has been a margin contraction of 1% or 2% as per the original expectation, but with the improved volumes overall profits have gone up, but profitability percentage has come down.

Rohan Gupta: So can we expect that this kind of margins even at 20% of the current quarter or close to 18% to 19% for first half is likely to sustain despite this input cost pressure?

Sankara Subramanian: Yes. Generally, the way we operate if you see the input cost gets passed on. But for some of the molecules, we may have to go in for price correction. We do not see a major challenge in the margins.

Rohan Gupta: Thank you.

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

Bharat Sheth: Congratulations on good set of number and congratulations again to Sankara for elevation. Sir, I just wanted to understand that we had setup over a period we want to be

50%:50% in EBITDA and subsidy business and nonsubsidy now with subsidy business margins are also improving with improvements in utilisation. So how and where do we see in the whole journey?

Sankara Subramanian: We continue to grow fertiliser as well as non-fertiliser. You are right actually. Sometimes some of the initiatives what we have taken in the non-fertiliser will take time to play out and of course topline significant share comes from fertiliser business. But even in the nutrient segment, you can see our growth has been driven by speciality nutrients and retail improved operations and the performance so many things have played out in the non-fertiliser category of the nutrient business. So that should be taken into account. Also overall liquidity and financing cost on working capital levels, new product introduction as well as the better market discipline played out on all segments. Very difficult to attribute what percentage relates to fertiliser and what relates to non-fertiliser. Coming back to your question on 50:50, definitely that is in our agenda and all our initiatives and efforts will be to increase the share of non-fertiliser, but it takes time for that to play out because the new product registrations is a time consuming process and we are at it and all our initiatives at R&D efforts are towards that. The other smaller businesses like speciality nutrients has started turning around very well and hope to see a good growth going forward in those segments.

Bharat Sheth: Two more questions if you can allow. One that at what level a plant utilisation that we expect for the full year? This quarter we have already done 100%?

Sankara Subramanian: It is a function of demand and supply and it is very difficult. We do not give any guidance.

Bharat Sheth: I understand.

Sankara Subramanian: Our intention is always to do 90% plus, if everything goes well, we have done this time 100%, let us see.

Bharat Sheth: We have capacity of reaching 4.4 million tonnes in Kakinada subject to some approval, so what is the status?

Sankara Subramanian: We said our capacity overall is around 3.4 million ton that can go up by another 2 to 3 lakhs to 3.6 to 3.7 mil. As and when supplies needs to be made to the market, we will approach the government authorities for necessary approvals and increase the capacity at Kakinada.

Bharat Sheth: One DBT side, just want to understand earlier the government was planning, I mean to rollout DBT linking with Aadhar card as well as soil health card, where we can push, so both the things are simultaneously rolling out or only just subsidy part?

Sankara Subramanian: For making purchases under DBT, the farmer has to come up with Aadhar card which captures the necessary details of the farmer, his landholding, his crop and also what type of nutrients he has to apply. But at this point of time, it is recommendatory in nature so we think the government would like to first put the system in place and allow the system to stabilise for one or two years before they try to bring in overall linkage with soil health card and then drive the nutrient consumption. So probably it is a journey, which they are taking up now. So at this point of time, the focus would be to deploy it on the ground.

Bharat Sheth: Sameer how do we see this now lot of irrigation projects are initiated by the government so it is going to really rollout, a benefit to the farmer in couple of years, what is the timeframe?

Sameer Goel: Definitely multiple projects are on cards, some are smaller projects and some are bigger projects. So already we are seeing the Polavaram project, which has come up in the state of Andhra Pradesh, which will help Rayalaseema area. Now the government is building up secondary canals for that, but there are also smaller projects lift irrigation projects which even the Telangana government is doing. All that will auger well for us. The main thing, which has to be seen, is that the dams get filled up, so this time the reservoir levels are lot better especially in the Krishna Delta side and we are hoping for a better Rabi.

Bharat Sheth: All these benefits on irrigation will be really on the stream?

Sameer Goel: In relative terms, AP and Telangana are high irrigated states. The government is also giving a lot of incentives, which helps in improving coverage of drip irrigation and using it properly. That is the reason why our focus on our Speciality nutrition is also very important. So we see that growing and we are the largest in that field. We see that continue to grow.

Bharat Sheth: Great. Wish you all the best. Thank you. That is it from my side.

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

Viraj Kacharia: Thanks for the opportunity. Just had the question on the Crop Protection side. You mentioned that we have seen a significant volume growth from Mancozeb in Q2 post the capacity expansion and Mancozeb used to be close to 50% to 60% of our overall volume. Sir, if you look at a sustainable perspective from a Crop Protection business say over the next two to three years, how are we looking at growing the overall business because currently the bulk of our volume and sales accrue from one molecule, so do we have any other molecules or other products in pipeline where we are expecting a scale up in the next two to three years the growth of overall business? I mean how are we looking at that business?

Sameer Goel: Crop Protection is definitely a focus area. We have a R&D centre which is there in Hyderabad and they will be giving us two to three molecules each year, which we will be launching both for our export market and for the domestic market. So that will pan out. We are fastening the registration process and we will continue to grow.

Viraj Kacharia: Sir, because even if you look at our registration spends over the last two to three years there has not been much of a jump in registration expenses for molecules in export markets. Sir just wanted to understand the thought process of when we go about the molecule in export markets what is the thought process. How we go about it typically with molecule selection and targeting those markets?

Sankara Subramanian: Viraj, just to comment on the future growth strategy, we have a clear cut action plan on the molecules which are going out of patent and where we have to play. Accordingly, this has started three years before and also parallelly we have started the registration activity. So the new products have already been identified and work is going on. Also we are increasing our focus on export markets by creating subsidiaries in major market. Africa and Latin America will be the key focus markets. Mancozeb constitutes significant volume in our sales, which helps us to expand our product portfolio and sell other molecules. Just to note that we are the manufacturers of 14 technicals at this point of time and we sell various other products, Mancozeb being a significant one and the opportunity is there, so we are taking the advantage of the current situation. But having said we are also building market channels and looking at channels to expand our presence. We are exploring B2C opportunity in Latin American market, strengthening our presence in Africa. We have been doing very well on the formulation business. A lot of corrective actions we have taken in the last year and it is playing out well and we have grown 15% even though industry growth has been lower this quarter. Also retail expansion will aid the crop protection business because wherever we have implemented retail, we have become a number one market share in the domestic formulations business. And also the B2B segment in the domestic market plays an important role. Our approach would be to grow on all the three segments, whether it is a domestic B2B or formulation business through our retail channel as well as our own trade channel and overseas presence through our own subsidiaries to hold registrations. Once we clear with the R&D in the pilot stage and are sure about the commercial registration, we then go and spend the major amount on registrations. So it will be over a period of time and it may not be a major amount at this point of time.

Viraj Kacharia: Just one last question, on Mancozeb again, you talked about us seeing a significant traction. So are there any markets, which we are currently not supplying to. So we supply say in Latam or in Africa. Are there other countries where we currently the process of registration or we have registration but we are not supplying at the moment and second is you even talked about us having that kind of a traction, but not taking a pricing action, despite the raw material cost pressure, so what are the thought process behind that?

Sameer Goel: Firstly, as far as Mancozeb is concerned there are a number of white spaces, which are there, and particularly in new markets we are also looking at combinations and other formulations, which will help us to break those markets. So there is enough of white spaces, which are available and we are leveraging that. As Sankar alluded to, we are looking at how to strengthen our marketing and presence in those markets and one of the things, which we are looking forward to is to do subsidiaries in the emerging markets. So that has been our focus. In fact we really are looking at even further expanding our Mancozeb capacity on that count.

Sankara Subramanian: In some of the markets because of increased supplies there are pricing pressure, so it is a function of demand supply. That may be one of the reasons why the material cost increase is not passed on. Rather we have not gone down on price reduction and we are sustaining the price. Naturally when there is too much of supply, there may be a pricing pressure, but with our widespread presence across various geographies, we are reasonably able to sustain this volume.

Viraj Kacharia: How is the market in terms of demand and supply for this molecule because we have seen a lot of new capacities coming in the last one-and-a-half to two years?

Sankara Subramanian: At this point of time, as we foresee the volumes on market size requirements are growing and there is a demand supply gap but also expansions are also being announced. It is a function of soya bean crop acreages and that keeps changing every now and then and also overall fungicide market segment across the globe keeps changing and their requirements. As we foresee at this point of time, the demand supply gap is potentially huge. So we do not see any impact.

Viraj Kacharia: Thank you.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to the management for closing comments. Over to you!

Sameer Goel: Thank you very much. It has been a good first half and we hope to sustain this momentum in the second half aided by the fact that the Rabi season is looking good and there is a prediction of normal northeast monsoon. Thank you very much.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Batlivala & Karani Securities Limited, that concludes this conference call. Thank you all for joining us. You may now disconnect your lines.