Transcript

Conference Call of Coromandel International 2QFY19

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Presentation Session

Moderator: Good evening, ladies and gentlemen. I am Shamyla, moderator for the conference call. Welcome to 2QFY19 earnings conference call of Coromandel International. At this moment all participants are in listen-only mode. Later we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Ranjit Cirumalla of B&K Securities. Over to you, sir.

Ranjit Cirumalla: Thank you Shamyla. Hi all. On behalf of B&K Securities I welcome all the participants on 2QFY19 earnings conference all of Coromandel International. We thank the management for giving us the opportunity to host this call today. We have with us Mr. Sameer Goel, Managing Director, and Mrs. Jayashree Satagopan, Chief Financial Officer of Coromandel International. I request the management to take us through the performance post which we can begin the Q&A session. Over to you, sir.

Sameer Goel: Good afternoon everyone and thanks, Ranjit, for organizing the conference call. I will first give an overview of the business environment experienced during the quarter, followed by the company's performance and Jayashree will take you through the financials and then we can have the Q&As.

So as you know, India received sub-normal southwest monsoons during the year, down by 9% over the average levels. Our key southern peninsula markets of Telangana, coastal AP and south interior Karnataka received normal rains, however, Rayalaseema and north interior Karnataka were deficient. Northeast monsoons which account for 30% of the annual rainfall in south markets is likely to commence during this week. As per IMD predictions, NE monsoons are expected to be normal.

All-India crop sowing was down by 2% to 105 million hectares with major drops coming under coarse cereals (-6), pulses (-4), paddy (-2) and cotton (-2%). Oil seeds and sugarcane planting has increased during this period. In our theme markets or AP, Telangana their (not sure) has moved up by 3% compared to last year mainly in paddy as timely rainfall supported higher sowing. Minimum support prices have been announced for rabi crop also and the increase is in line with the government announcement mechanism of fixing it at last 1.5 times the cost of production.

Government has approved the PM-AASHA scheme aimed at ensuring ruminative prices to the farmers for their produce as announced in the union budget for 2018. One of the sub-schemes will involve participation of private sector in procurement operations and will be piloted in a few districts. The scheme will improve the scalability of procurement at MSP thereby providing a better price realization to the farmers. We expect the impact to be visible in coming years as IT infrastructure and other modalities are yet to be firmed up.

In the market of Telangana, the Government has distributed investment support for Rs. 4000 per acre for the rabi season under the Rythu Bandhu scheme. There has been a positive feedback of the scheme from the stakeholders and as per our assessment, most part of the funds are being utilized for agri input purchases. Also the state government has launched Rythu Bhima scheme providing life insurance coverage for the farmers. The farmers in the age group of 18 to 59 will get an insurance cover of Rs. 5 lakh each and the premium per head has been pegged at Rs. 2271.

On the GST side, with the reduction of GST rates on phosphoric acid from 12% to 5% the key raw material for making phosphatic fertilizer, the inverted duty structure and subsequent GST credit accommodation has come down for the industry. Direct benefit transfer scheme in fertilizer has been stabilized; industry has started receiving the payments from the department on a fortnightly basis.

Now coming to industry performance, on the fertilizer industry performance for the quarter phosphatic fertilizer sales have seen a growth of 22%, moving from 50 lakh tones to 61 lakh tones majorly driven by the northern markets, 49% growth, east 37% growth and south markets, 17%. The complex fertilizer sales has grown by 26% while the DAP has grown by 19%. Raw material prices remained firm during the quarter as plant closures in China, tight supply and higher global demand impacted the availability. Phosphoric acid price for Q3 is fixed at $768 per ton, up from $758 during Q2. For H1 overall the industry has grown by 18% to 98 lakh tons, from 83 lakh tons last year. DAP has grown by 12% while complexes are up by 25%.

Industry has maximized the availability of phosphoric acid usage by shifting its production from DAP to complex base while DAP demand is being catered mainly through imports. For H1, DAP imports were up by 41% to 41 lakh tons, from 29 lakh tons last year. Since January the industry has resorted to multiple price increases to counter the raw material and exchange rate impacts. On an average the DAP price moved by 30% to 35%.

Coromandel had a strong performance in Q2 driven by its improved customer needs and marketing capability, differential product offering, smart sourcing and efficient manufacturing. This was despite below normal monsoons, rising raw material prices, sharp rupee depreciation, and high financing cost encountered during the quarter. Phosphatic fertilizer business of the company has improved its market share and registered 28% year-to-year growth in sales volume during Q2.
Crop protection business registered a year-to-year revenue growth of 14% during the quarter. Business has introduced four new products during H1 including two in-house patented combination molecules, they have also received very encouraging response in the market. Further the integration of bio pesticide business has supported expansion into complimentary product segments and geographies.
Our focus on R&D and technology has helped to introduce four differentiated product offering in water-soluble fertilizers and value-added single-support phosphate.

Coming to Coromandel's performance, on the sales side our phosphatic volumes were up by 28% to 12.4 lakh tons. Major share of this growth has come from unique grades, which have grown by 35%. Its share in overall sales stands at 43% compared to 40% during Q2 last year.
The sales number for 12.4 lakh tons comprises of 11.1 lakh tones of manufactured products and 1.3 lakh tons of DAP, which was mainly imported. On the traded products, MOP sales were lower as business utilized the available products to maximize its fertilizer production. Urea sales were up by 69% to 4 lakh tons versus 2.4 lakh tons last year.
During the quarter, our phosphatic fertilizer plants operated at 96% capacity utilization, recording a production of 8.3 lakh tones. Captive acid production from Vizag and Ennore went up by 3%. Phosphoric acid capacity enhancement project at Vizag is on track and will come up by second quarter of FY20.
For H1 our phosphatic volumes are up by 20% to 18.5 lakh tons with unique grades growing by 33%. Its share in overall sales stands at 39% compared to 35% during H1 last year.
Overall market share has gone up marginally from 18.7% to 18.9% with increase coming across almost all the operating states. The liquidation has improved with sales now almost getting aligned to DBT cycle. The sale number of 18.5 lakh tons comprises of 16.7 lakh tons of manufactured products and 1.7 lakh tons of DAP.
On traded products, MOP sales were down to 0.5 lakh tons, urea sales were up by 14% to 4.8 lakh tons. During H1 our phosphatic fertilizer plants operated at 88% capacity utilization marginally up from last year recording a production of 15.1 lakh tons. Captive acid production from Vizag and Ennore went up by 7%.

On the **Crop Protection** side, crop protection business has had a very good quarter as turnover improved by 14% to Rs. 571 crores, up from Rs. 501 crores last year, with growth coming across all the segments – exports, formulations, domestic B2B and bio. Business has seen a good improvement in the PBIT margins in the last three quarters-smart sourcing coupled by selective price increases have resulted in this improvement.

Export business has done well with major increases coming from South America and African region. Domestic formulation growth was supported by new product launches. Business introduced two new products during the quarter. With this, we have launched four products during H1 which includes two in-house patented combination molecules. We have received by promising feedback on these products. We have a good product pipeline and will continue to focus on new product introduction in the coming quarters as well. Bio business has progressed very well and with synergies with Coromandel, and has improved its market access in domestic and international markets.

On the manufacturing side the Mancozeb capacity expansion at Dahej is on track and is likely to be commissioned in Q4. We are also investing in capacity increases for new product development that are expected to come up by March 2019.

Retail SBU had a soft quarter due to severe drought conditions experienced in the key operating markets of Rayalaseema and north interior Karnataka. On top of that, the cotton plant in Telangana also did not do well. Turnover growth in Q2 is mainly on account of improved fertilizer sales. Overall sales share from non-fertilizer stands at 37%. Last year it was 42%. Business has been testing out agri technology to improve product delivery and services. With IMD predicting normal northeast monsoon during rabi, we expect the sales momentum to pick up in the second-half of the year.

Specialty nutrition business has performed well- focused product approach, crop-specific product launches, smart sourcing and integrated nutritional management team have contributed to the overall growth of the business. We have received good support from our JV partners, SQM, in terms of product introduction, proper expertise through SQM scientists and product availability.

Organic fertilizer volumes have improved over last year on account of good growth in the variant product category. In the city compost segment, we continue to be market leaders with a market share of 18%.

Single-super phosphate business had a very good performance wherein the sales volume has grown by 25% in Q2 and 26% in H1. Overall the market share in H1 has increased to 13%, up from 12%, making us the market leader. The business has improved its product mix toward differentiated products. Two new products were introduced during the year.

Overall, it has been a very good quarter for the company. With improved reservoirs levels in certain markets and prediction of normal northeast monsoon, we expect favorable agriculture environment during the second-half of the year. Further, with the stabilization of direct benefit transfer in fertilizer and reduction in GST rates on phosphoric acid, working capital situation is likely to improve going forward.

Coromandel will continue to invest towards infrastructure augmentation and capability development to offer differentiated solution to the farming community. We have been focusing on leveraging agriculture technology to improve our farm value proposition and increase customer connectivity. The company is well-positioned to support the farmers and enhance their prosperity by offering sustainable agriculture solution.

I will now hand over to Jayashree to give you the financial updates.

Jayashree Satagopan: Thank you, Sameer, and good afternoon everyone.

Financial updates for the second quarter. In terms of turnover, in Q2 fiscal year 2018-19, Coromandel recorded a consolidated turnover of Rs. 5008 crores, growing by 36%, with nutrients and allied businesses contributing to 89% share and the remaining 11% coming from crop protection business. Corresponding numbers for Q2 last year, nutrients was 88%; CPC 12%. In terms of subsidy/non-subsidy breakup, Q2 revenue share is around 82 to 18. Last year it was 79 to 21.

Profitability: Overall EBITDA for the quarter is Rs. 666 crores against Rs. 575 crores last year registering a 16% growth. The improved profitability in Q2 can be attributed to higher sales across the businesses and focus on unique and differentiated product offerings. Smart purchases and efficient manufacturing have supported the overall growth. Businesses have also taken selective price increases which has partially offset the impact of increased raw material cost and sharp rupee depreciation experienced during the quarter.

In terms of subsidy/non-subsidy breakup, Q2 EBITDA share was 76-24. Last year it was 72-28. Consolidated PBIT for the quarter ended 30th September 2018 is Rs. 640 crores as against Rs. 549 crores last year. PBIT shares before unallocable expenses from nutrients and allied business was 84% while the share of crop protection segment was 16%. Q2 last year nutrient was 82% and CPC 18%.

Consolidated net profit after tax for the quarter is Rs. 366 crores as against Rs. 349 crores in Q2 FY2018. For first half, 2018-19, company recorded a consolidated turnover of Rs. 7537 crores growing by 26% with nutrients and allied businesses contributing to 88% share and remaining 12% coming from crop production business. Last year H1 numbers, nutrients was 86% and CPC 14%. In terms of subsidy/non-subsidy breakup H1 revenue share is around 80-20, last year it was 78-22.

Overall profitability, EBITDA for H1 is Rs. 880 crores against Rs. 744 crores last year registering an 18% growth. In terms of subsidy/non-subsidy breakup H1 EBITDA share was 73-27, last year corresponding ratio was 70-30. Consolidated PBIT for H1 is Rs. 828 crores as against Rs. 694 crores last year. PBIT share before unallocable expenses from nutrients and allied businesses was 82% while share of crop protection segment was 18%. First-half last year nutrient was 80% and CPC 20%. Consolidated net profit after tax for H1 was Rs. 456 crores as against Rs. 421 crores in H1 of last year.

Subsidy outstanding end of September was Rs. 2626 crores. Last year this number was Rs. 2011 crores. Subsidy number seems higher partially due to higher volumes done in H1 and increase in the subsidy rates. During the quarter, company has received Rs. 1008 crores subsidy. Last year Q2 numbers were Rs. 652 crores. Further in October the company received another Rs. 640 crores mainly towards DBT. DBT process has been fairly stabilized now and government is settling the claims within two to three weeks. As on date we have submitted DBT claims up to mid October 2018.

During the quarter, the industry has made successful representation to the GST Council towards reduction in the rate of phos acid from 12% to 5%. Further, we have received clarifications from the department regarding MOP and urea used for captive consumption for manufacture of other fertilizer to attract IGST of 5% instead of 18%. Coromandel has received Rs. 362 crores GST refund from the department during the quarter. Our overall financing cost has moved up in H1 compared to year before mainly on account of higher working capital and interest rate. Increased RM prices, higher inventory levels to meet the seasonal demand and migration to the DBT regime had an impact on the working capital. With DBT stabilization and GST rate reduction we expect the working capital situation to ease in the coming quarters.

Thanks once again for joining the call. With this I would like to hand over the session for question and answers.

Question and Answer Session

Moderator: Thank you, ma'am. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

We have the first question coming from Mr. Trilok Agarwal from Birla Life Insurance. Please go ahead with your question.

Trilok Agarwal: Hi, this is Trilok Agarwal. Congratulations on a good set of numbers. There are a couple of questions; one is you said in the opening remarks that good purchases and obviously volume growth has led to these kind of margins. I wanted to check what about the sourcing of the phos acid for the current quarter; forthcoming quarters and second is with respect to your crop protection business, exports primarily in which markets have you done well for the quarter and what is the outlook on the same?

Sameer Goel: Thanks, Trilok. If I understood your question right the first question was what is the phos acid sourcing?

Trilok Agarwal: That's correct, yeah. And this comes in context of the sharp currency depreciation, so we have learned that the industry has already taken a series of price hikes, so how is the demand panning out in that scenario if you can also add on that?

Sameer Goel: Okay, so three questions. Firstly on phos acid sourcing, we have two ways of getting phos acid, one is from captive and we continue to see an increase in production which actually helps us. We do get additional margin by converting rock into acid. The second thing is we have a diverse source of acids, for which we have both long term and spot contact.
As far as exports on crop protection is concerned, our main growth on exports came from South America, Central America and Africa. We are second largest exporters in Africa and now with the Bio business we are also looking at having a footprint in America and in Europe, so that is something which we are looking for in terms of expanding our portfolio.

And I think your third question was more in terms of what we are doing – the industry as a whole has taken price increases based on raw material prices and also on exchange rate. We have been able to pass on most of the price increases to the trade. What is happening in the industry is that the farmers are going for more lower 'P' products than higher 'P' products like DAP. We are seeing an increased demand for some of our unique grades and also for single-support phosphate.

Trilok Agarwal: Okay. And one last, if I may squeeze in, you know, what is the percentage of unique grades in terms of volumes for you as of now?

Sameer Goel: We have mentioned that in our presentation, so in H1 it is 39%.

Trilok Agarwal: Alright. Thank you very much.

Moderator: Thank you, sir. The next question is coming from Mr. Sumant Kumar from MOSL. Please go ahead with your question.

Sumant Kumar: Yeah. Hi, sir. So, you mentioned that drought-like situation in Rayalaseema and North Karnataka and also from our channel check and Marathwada is also facing a drought-like situation; so, what will be the impact of sales in Rabi season. So, till date, we have seen a very good growth in Kharif season, but Rabi season likely to be impacted? Your view please.

Sameer Goel: One good thing which has happened is while there was a draught-like condition in this area, the reservoir levels are a lot better, thanks to the rainfall which has happened in the Western Ghats. So, the dams are much more filled, as compared to last year and also compared to the long term averages. Now, the prediction is that the northeast monsoons, which accounts for 30% of the southern market sales, will be normal. If that happens, there will be an uplift in the Rabi sales, at least in our markets.

Sumant Kumar: Okay. And in Gujarat, are we increasing market share also, and we are focusing in Gujarat?

Sameer Goel: So, in Gujarat we don't do our fertilizer business, but we are having Single Super Phosphate, which is increasing, and we have got crop protection business, which again is increasing in sales. Although Saurashtra had a bad season, but our sales are mainly in the southern areas.

Sumant Kumar: Okay. And what is the current DAP prices for us? And, also NPK price?

Jayashree Satagopan: Sir, DAP, the current MRP is Rs.29000.

Sumant Kumar: Okay. So, what was the Q1 price? Rs.26,600 right?

Jayashree Satagopan: Yeah, it was around Rs.26,600.

Sumant Kumar: Okay. And what is it for NPK?

Jayashree Satagopan: NPK, there are multiple grades.

Sumant Kumar: Okay. So, can you tell me the blended price for…?

Jayashree Satagopan: Normally we take DAP as a reference; depending on each grade you will have a different MRP.

Sumant Kumar: Okay, so we have taken a single price increase, whatever we have taken price increase from Rs.26,600 to Rs.29000. So, can we assume similar percentage increase in NPK?

Sameer Goel: It varies from grade to grade, but on average it is fine. Because, again, we have to look at each of the grades and what sort of cost increases are coming through.

Sumant Kumar: Okay, the percentage increase could be the similar or some lower…

Sameer Goel: I mean, some are higher, some are lower. It depends on the grade and what the market wants to take.

Sumant Kumar: And what is the price increase in SSP?

Sameer Goel: In SSP, while the industry has not taken a major price increase, we have been able to reduce discounts, and therefore we are getting a better yield as far as SSP is concerned. So we are getting both the volume growth and the value growth on SSP, and therefore the margins are better.

Sumant Kumar: Okay, thank you so much.

Moderator: Thank you sir. The next question coming from Mr. Chetan Thakkar from ASK Investments. Please go ahead with your question.

Chetan Thakkar: Good afternoon sir. Sir, just wanted to get the SSP volume for the current quarter.

Jayashree Satagopan: The SSP volume for Q2 for this year is 1.72 lakh tons.

Sameer Goel: It is an increase of 25% compared to last year.

Chetan Thakkar: Wanted to understand more medium term, given that we are now operating at 96% utilization, so just wanted to get a sense on the capex that will follow through and also what should be the medium term assumption, given you are seeing contribution from unique grades going up. So, what would be your fair ebitda per ton to operate at over the medium term?

Jayashree Satagopan: Sure, we continue to look at an EBITDA of 2500 per metric ton in terms of margins, and as far as the volumes are concerned, there is going to be a mix of manufactured products, as well as imported products. If you see this year, the industry's sales increase in DAP is mostly through the imports. So, we would be looking at an optimal mix of in-house production and imports as required.

Sameer Goel: Our capacity utilization was 88% in H1 and 96% in Q2. So, we are basically now looking at production in line with the demand in the market. We will look at taking a mix between own manufactured versus DAP; a lot depends on the price on DAP, whether it makes sense to import or not.

Chetan Thakkar: Sure. And sir, are the lines broadly fungible, so if you want to increase the production of NPK compared to DAP, that is possible without any incremental happening right?

Sameer Goel: Totally fungible. We concentrate in making more of NPKs and our technical teams support us in this. One of our business advantages is the flexibility which we have in our manufacturing operation in terms of producing different grades.

Chetan Thakkar: Sure. And sir, just wanted to know over the medium term, in the next year or two, how much would captive phos acid be for us then, in terms of consumption?

Sameer Goel: So, when we add the new capacity, which is coming up in Q2, we will be adding another 1 lakh tons of phosphoric acid production, which will basically make our Vizag plant totally integrated. We don't have to depend on imported acid. So, then we can take a call on using phos acid and rock as a mix, giving flexibility to the plant.

Chetan Thakkar: And sir, given that total consumption for the year, how much would this be, in terms of captive then, eventually?

Sameer Goel: Basically, imports of phos aid depends on what we produce, ; if we produce a higher P grade, then you need more acid, but roughly you need around 5.25 to 6 lakhs of acid to be imported. So, that also we are looking at whether we can also expand. We have provision to expand our capacity further, at Vizag, even to supply to the Kakinada plant.

Chetan Thakkar: Sure. Okay then, thank you so much, all the best.

Management: Thank you.

Moderator: Thank you sir. Participants are requested to take only two questions in the initial round and can join the queue for more questions. Thank you. We have the next question coming from Mr. Girish Raj from Quest Investment. Please go ahead with your question.

Girish Raj: Hi, thank you for the good quarter. Sir, just wanted to understand if this October price increase, does it cover the increase in phos acid prices and the INR depreciation, broadly?

Sameer Goel: Given the depreciation and the phos acid price increase, the industry will be taking a price increase effective from 1st November

Girish Raj: Okay, so any quantum that you…

Sameer Goel: That covers some of the impact.

Girish Raj: Okay. And another macro question, Praj in its call, indicated that renewable natural gas is a byproduct, which is a bio-fertilizer, has received approval from NPOP. And given the large scale investment expected in renewable natural gas segment, do you see this as a big competition for our overall fertilizer portfolio? Or at least bio compost portfolio?

Sameer Goel: Firstly, the bio compost market is currently small. Having said that, the way our soils have got degenerated, there is a huge room for everyone to actually look at soil regeneration. I am not very clear on your renewable gas thing, we will just have a look at it, but I don't see that to be a competition.

Girish Raj: Is there a threat from overall NPK fertilizer perspective, because that is more organic product, if at all, it is a large scale….

Sameer Goel: I am not totally clear; can we get back to you on this?

Girish Raj: Sure, okay. Can I ask a final question on this? There is lot of price increases and MSP, I don't know your view on MSP, because the traded price of many of the producers are lower than MSP. How is the overall farmers' sentiment given that there have been some price increases, and another price increase in November?

Sameer Goel: I think that overall, from a MSP support point, and this was always there in the cereals, the government over a period of time have been able to ensure that at least in the main markets, the farmers get the prices. It is early days for MSP especially on the pulses and other side, so we will have to wait and see how it happens. One thing, which was alluded to in our presentation was that the government expects, even the private sector to come and support this MSP efforts by going directly, and there is also export opportunity available. But, we will have to wait and see. I think, if number of players enter into the market, including private-public partnership, I think, that will help the farmers in the long run, and get that support.

Girish Raj: And subsidy claim in second quarter sir?

Jayashree Satagopan: We received almost 1008 crores of subsidy in the second quarter.

Girish Raj: No, no, what was the claim, as in, for the sale that we made during second quarter. For that, how much was the claim, and how much we have, because it is a consumption-based thing.

Sameer Goel: We got 1008 crores in Q2 and then in the month of October we got another 640 crores. So, a lot of the backlog is getting cleared. We have been able to submit our DBT claims, up till October 15th, and the government is clearing it in the next two to three weeks, and they have money with them. We are working with the government to give the old 10% subsidy claims and some of the freight and Urea claims. Government is currently giving priority to clear the DBT claims

Girish Raj: What was the 10% sir, value?

Jayashree Satagopan: The 10% value overall between what is claimed and to be claimed, is about 650 crores.

Sameer Goel: That has come down, it used to be around 900 crores, so government has given us some money on that account. We are pressing them to give the balance 10% claim and to prioritize giving that.

Girish Raj: Great. Thanks, I will come back in the queue.

Moderator: Thank you sir. The next question coming from Mr. Viraj Kacharia from Securities Investment Management. Please go ahead with your question.

Viraj Kacharia: Yeah. Hi, thanks for the opportunity. Hello?

Sameer Goel: Thank you.

Viraj Kacharia: Hi, thanks for the opportunity. Just had two questions, now, if you look at our crop protection business for last three years, we have seen a significant growth in the export market and we have kind of grown at or slightly within the industry in the domestic market. Now, if you look at the composition of bulk of the export was largely led by one or two molecules, which has given us that advantage in terms of better or superior growth. Now, if you look at next three to five years, for us crop protection, how are we looking at this particular business, I mean, what kind of number of launches in domestic or in exports we are looking at, which can probably give the similar kind of scale as we have managed to get from the current molecule. So, just wanted to understand the broader thought process on how are we looking at this business? It will still be a B2B on exports or we are looking at B2C eventually?

Sameer Goel: Firstly, the growth which you are witnessing in crop protection is coming from 15 technicals, so the growth is actually coming across to number of technicals, and we are looking to scale up on that. There is still an opportunity to continue to grow this across geographies and also address the white spaces. With the bio-acquisition, we already have a foothold now in the developed markets of America and Europe. They have a very strong presence, and at the same time, they would benefit from integrating with our crop protection business, which is already there in the emerging markets. We are now extending our registration in to a number of markets, we have already got our registration in Nigeria, so that we own the product, and that helps us to develop the market. We are looking at Mali and we have people in Brazil and other places, so we will continue to have the strategy of registering more and more offices under our own brand, which gives us much more mileage in terms of marketing the product. We are putting up our own people, instead of having a distributor in the market, to start developing our brands in those markets. What we have done very successfully now, is investing a lot in not just R&D, but looking at the tech transfer. We have set up a pilot facility in our plants, and looking at how we can fast track registration, which will help us to introduce at least two to three molecules every year. Apart from that, there is a phenomenal scope of introducing combination molecules, which our scientists are working on. And we are open to any opportunities, which we find, especially with the gaps in our products…whether it is in terms of a JV, in terms of acquisition, we are quite open to that.

Viraj Kacharia: Sir that was very helpful, thank you. Second question was on the fertilizer division. Now, if you look at this particular division, in the past also, we have seen in times of increase in raw material prices or effects of depreciation, the profitability of the division has always been impacted, at least in the very near term. And this has always been more aggravated and during times of overall monsoons, or the operating environment being non- (not clear). Now, if you look at the broader conditions, they are similar in the first half. Still, we have kind of managed to maintain the EBITDA per ton or we are able to successfully take more price (audio break) in the last cycle. So, what has changed, I mean, what is driving this resiliency in terms of passing on the increased cost to the end farmer?

Sameer Goel: So, there are a number of things. Firstly, you are right, I think, as a company we are much more resilient. So, there are a couple of things here. One is, of course, what we have done is, unlike the past we have diversified our sourcing, so that we don't run out of any material, and we have very strong linkages with our suppliers. Our manufacturing capabilities have got upgraded, and we are looking at manufacturing more and more of unique grades through technical expertise. Currently it is at 39% for H1 and 43% for Q2. We want to make that to over 50%, because that helps us to have more flexibility in terms of how we manufacture our products. We have also strengthened our marketing team. So, we have, increased our presence in operating markets… we do a full analysis in terms of our market share not just by state, but by districts, mandals. Our retail team also helps us to connect at farmer level. We have augmented the marketing team and we have now, a team of agronomists to help us to promote the new products, and the unique grades through the farmers, and that is helping in terms of the adoption. So, overall, there is a very strong marketing practice to ensure that Coromandel brands do stand out and farmers, the consumers ultimately love it.

Viraj Kacharia: Okay. Just, if I can add one more question. Typically, if we look in the market place for fertilizers, especially complex fertilizers, there are a lot of mixtures in the market place, where people can, the dealers or the distributors, or even the smaller players, they kind of sell in proportion of P and K and N and then offer more customized offering. So, when we say our unique grades based on these formulations, what is our value proposition or communication to the farmer, which kind of help us increase our volume share and prop it up?

Sameer Goel: Okay, so there are two things here you have said. One is on the mixture operations, it is not really a manufacturing operation. Lot of them do it in their back yard, and government has taken cognizance of that. In fact, for a long time, they have said they won't pay subsidy to the mixtures. In the past, Fertilizer companies do the practice of selling to mixtures especially where they have the issue of selling the product because of quality issues. We have represented to the government that it is better for the industry to take the product back to the factory if for any reason it is not getting sold, reprocess it, because there is no subsidy involved. And, for that then you actually do a proper reprocessing, and therefore the farmer gets quality. So that is something the government is looking forward to. So, I do expect the mixture manufacturers have already come down, especially given the GST regime and they have to fill in the taxes and other returns, this phenomenon will actually come down. One thing the industry has to do is to also understand where these people are selling, mainly it is in things like fruits and vegetables in the hills or the tribal area, and I think, the industry now is advancing its cognizance of that, and we are also taking steps to ensure that we could provide smaller packs and the thing to those farmers, and to target toward that, and also use few bodies to look at that.

Moderator: Thank you sir. Participants are requested to take only two questions in the initial round and can join the queue for more questions. Thank you. The next question coming from Mr. Nitin Gosar from Invesco. Please go ahead with your question.

Nitish Pandey: Hi, Nitish Pandey, to check the update on government subsidy receivable portion, which have been at 2600 for a while now. Have you heard anything from the government, when are they planning to repay off this money?

Jayashree Satagopan: The government has been clearing the DBT subsidies in about 15 days to 30 days' time after submission. We had briefed in the earlier call that the pilot district's reconciliation of stock had to be carried out. All of those were completed, and there were also certain issues in terms of stabilization of the IT infrastructure from the Government's standpoint. Most of these got sorted out by around end July, mid-August. Since then, Coromandel has been able to submit their DBT claims. Currently we are up-to-date till October 15th. So, the government has been paying the subsidy claims almost every 15 days or within a month. As of September, end, that quarter we received 1008 crores. Currently, in October we have received about 640 crores. So, as far as DBT is concerned, that is the priority for the DOF, and they are clearing all the claims that have been put through the POS system. There is still some work that needs to be done in terms of the older claims, which primarily relates to the 10% balance claims, urea and freight-related. We are working with the government to see how those can also be expedited. We also need to submit some of the claims, where they have requested for original bills which relates to the earlier years. So, as far as we are concerned, we are seeing a good amount of progress in terms of government intent and actions in terms of claiming and clearing the subsidy bills that have been given to them.

Sameer Goel: When you look at this 2600 crores of that, 712 crores is subsidy, which has to go through the dealers network, because now, unlike the past, where you used to get the claims immediately once you dispatch the goods, this is what is the stock lying at the dealers network. And as the consumption happens, that claim will also get through the DBT system.

Nitish Pandey: Okay. Fair point. Sir, this 2600, we may not have a complete picture or clarity till next March, keeping in mind the kind of…

Sameer Goel: No, we have full clarity, I am not sure what the issue is…

Jayashree Satagopan: We have full clarity in terms of where the DBT numbers would be. We have our own internal estimate in terms of submission.

Nitish Pandey: No ma'am I got on DBT. DBT you clearly mentioned things are getting….

Sameer Goel: Even the old claims we are working with the Government on that. Government currently have budgets. But if they run out of budgets also, they normally give us special banking arrangement where the interest is very low. So, our purpose would be to submit all the claims to the Government and the Government is doing pretty well on this part. So, unlike the past, we are not worried about that. Obviously, the flow of cash happened, like Jayashree said in the month of September and October now.

Nitish Pandey: And currently we have cleared the validation fees, I am sorry I am using the word validation out here. But, the older claims which the Government wanted to re-verify, those verification process is over or we are still in the mix of that verification process?

Sameer Goel: When you look at the claims, we have already submitted to the Government. They are just prioritizing the DBT claims, which are the larger chunks. So, that is one. There are a few cases where they have asked for additional documents, which we are submitting to them.

Nitish Pandey: Okay. Right sir. Thank you and all the best.

Moderator: Thank you sir. Participants are kindly requested to ask two questions in the initial round and can join the queue for more questions.

We have the next question coming from Mr. Kashyap Pujara from Axis Capital. Please go ahead with your question.

Kashyap Pujara: Hi, congrats for a decent set of numbers. I had couple of questions, just to extend the previous gentleman's question on the subsidy outstanding and given that you have mentioned that you do have some clarity how this is going to unfold. Could you share with us what is your expectation of March end subsidy? When you close the year what is your sense of subsidy outstanding that we will close with?

Jayashree Satagopan: So Kashyap, our intent is to see how we can get all the balance 10% freight as well as urea related claims submitted to the Government. Thereafter, it is to work with the DOF to see how those can get realized before end of March or possibly early next year. So, from our standpoint, what we are looking at is, we should ideally be having only the sales that have not been acknowledged by the POS machine and that should be the only item that should be remaining as subsidy outstanding, because we would not be in a position to claim it. Plus the last month's because there is always a lag when you submit the claim. That is the internal target that we are working on.

Kashyap Pujara: Okay. And would you like to put a number to it?

Jayashree Satagopan: It should be around 1000 crores-1500 crores.

Sameer Goel: It depends a lot on the consumption in rabi.

Kashyap Pujara: Sure, absolutely, I am not holding you to it. But, it does give some idea towards in terms of, it is a book keeping question, but also directionally it gives us a big sense of which way we are headed. Secondly the second question was mainly related to the operating environment. Normally, in an environment where raw material costs are going up and you see rupee depreciation also panning out at the same time, we generally have seen margins getting squeezed. And obviously you didn't mention all the initiatives that Coromandel has done in terms of linkages with suppliers to augmenting to marketing which actually enabled us to pass on costs. But importantly the market also grew. So, the demand was intact for us to basically pass the incremental costs at. Now, my only question is that in the rabi season, how do you see this demand panning out? Because do you see a risk of industry actually discounting the prices which have already been raised to push material in the channel? So, if the demand of rabi is weak, then we might have a situation where people might end up giving discounts. So, what is your view on the next season?

Sameer Goel: The dam levels in the South are actually placed well, they are releasing water for irrigation. We are hoping with the IMD forecast that the North East monsoon, which accounts for 30% of the rainfall for the Southern markets, will be normal. And if that happens, there will actually be a better demand in the markets as compared to what it was last year on that count. Now, coming to your issue on pricing, like we mentioned we have already seen that farmers are switching to lower 'P' grade than high 'P' grade. And we are pushing our unique grades and sales have improved in H1. So, we are not too worried about it. There could be certain amounts of discounting as far as DAP is concerned. We already are well positioned with our unique grade.

Kashyap Pujara: And I have a last question before I go to the queue and that is my debt has reduced by close to 700 crores from March till date. But, our financing costs have obviously been pretty sticky. So, what is your sense here in terms of, it is more like a book keeping question, but it would be helpful if you could throw some light on this one?

Jayashree Satagopan: Sure Kashyap. The numbers that you are seeing reflects the loan balance end of a period, whereas during the quarter end and during the half year, we have seen that the subsidy receipts have not been much higher. We received almost 1000 crores in September and we have now received another 640 crores. Similarly, there has also been a higher inventory holding during the quarter to meet the seasonal demand that has come in. So, the interest cost is a factor of the working capital on a daily basis as well as an increased rate at which we are able to source our financing. You would have seen that during the year the interest rates are up in both LIBOR as well as the rupee. So, that has also increased the overall interest cost. But, the primary factor has been higher working capital that we had during the quarter, plus the subsidy income coming in, the receipts coming in towards the end of the quarter.

Kashyap Pujara: Sure. Thank you so much.

Moderator: Thank you sir. The next question is coming from Mr. Abhijeet Akella from IndiaInfoline. Please go ahead with your question Abhijeet sir.

Abhijeet Akella: Good afternoon Sameer-ji. Good afternoon ma'am.

Sameer Goel: Hi Abhijeet.

Abhijeet Akella: Just one clarification first on the footnote says that there is some 19.7 crores of charge taken towards the settlement of some customer claim. Which business is this, the crop protection business and if it was, can you give us a little bit more detail on that?

Jayashree Satagopan: Sure. This relates to the crop protection business. We had a claim and this settlement relates to lower marketable yield on certain varieties of apples in the current crop. This is consequent to the presence of another fungicide Azoxystrobin in our Mancozeb WDG exported to one of our customers. The contamination had happened in formulating the product by our outsourced thirty party manufacturer. We have identified the root cause and fixed it subsequently. As you know, Coromandel is also investing in its own WDG facility at Dahej, which will get operational from April 2019. This will definitely help growing our WDG business in Brazil where we are expecting the registration to come in at the end of Q4. At this point in time, the company is adequately covered through insurance. And we have lodged the claim with the insurance company and we are forcing settlement with them.

Abhijeet Akella: Okay, got it. That is very helpful ma'am. Thank you for that. Second, just on the crop protection business, you have seen obviously a significant quarter on quarter improvement in margins. What is your sense of the input to cost ratio situation? Do you see it normalizing and what is the output for the segment margins going forward?

Jayashree Satagopan: We are seeing the input cost stabilizing. Added to it, the team has been doing a pretty good job leveraging our China desk and getting into strategic tie-ups for the procurement of the intermediate. So, that is definitely helping. The third factor is we have also been able to do selective price increases in the products. So, that has also helped in increasing the margins. We continue to look into opportunities for margin enhancements in CPC business. And our guidance for the whole year remains around 15% to 16% EBITDA for CPC this year.

Abhijeet Akella: Okay, got it. Thanks a lot. Just one last quick thing and I will get back in the queue. The volumes, the sales volumes this quarter for the manufactured fertilizer, you mentioned it is 11.1 lakh tons. So, this is DAP plus NPK, own manufactured, is that correct?

Jayashree Satagopan: Yeah, our manufactured product is 11.1 lakhs tons. That is right.

Abhijeet Akella: Okay. So, this is only DAP plus NPK and no SSP included here.

Jayashree Satagopan: SSP is not included here. This is NPK and DAP.

Abhijeet Akella: Got it ma'am. And the Rs.29000 price that you talked about for DAP, is that before the November 1st price increase or have you counted that also in this?

Jayashree Satagopan: That is the current price.

Abhijeet Akella: Okay. And November 1st effective it will go up by approximately?

Jayashree Satagopan: November 1st, we are primarily looking at all the other NPK grades.

Abhijeet Akella: Okay, got it. Thank you so much. Wish you all the best.

Jayashree Satagopan: Thank you Abhijeet.

Moderator: Thank you sir. Participants are requested to take only two questions in the initial round and can join the queue for more questions. Thank you.

We have the next question coming from Mr. Aamir Moria from M K Global. Please go ahead with your question.

Aamir Moria: Hi sir. This is Aamir here. Thanks a lot for the opportunity and congratulations for a good set of numbers. So, my first question is, what is your thought on the import competition and can you help us what is the landed price versus the manufacture price today for the DAP and NPK? And secondly sir, if you can help us what is the EBITDA per ton for the unique grade which we had sold this particular quarter and first half? And if you can also help us what would be the percentage of technical sales in the overall crop protection? Hello?

Sameer Goel: Yeah, thanks. Just on that, you are talking about the competition from imported products. The competition is mainly in DAP. And it is not there in NPK. In NPK, the volumes are very small on imports. So, in DAP actually when you look at it, it is not competition from importers. Actually a lot of the domestic manufacturers have increased the buying of the imported fertilizer and that is mainly to use the domestic phos acid for NPK products. So, that is the way it is. We look at the availability and the demand for phos acid, so that we can maximize the NPK fertilizer. So, that is how we look at it and not in terms of competition per se. Our strategy is to continue to sell more of NPK and within that more of the unique grade. DAP is used more as a filler for us. That is the way it is. We do not give any margin guidance on unique grade as such. But, obviously the margins are better than DAP, which is more of a commodity. And your last question was on the technical side?

Jayashree Satagopan: You had a question on what is the percentage sale on technical, so that is around close to about 60% of our overall sales. I would say about 550 crores for the first half. That includes both exports as well as domestic B2B operations.

Aamir Moria: Okay.

Moderator: Thank you sir. The last question for the day comes from Mr. Resham Jain from DSP Mutual Funds. Please go ahead with your questions.

Resham Jain: Congratulations on a good set of numbers. I had just one question on the retail business. So, what we have observed while doing certain retail store visit in Telangana and Andhra is that lot of farmers are not buying from our retails stores just because the credit is not available versus lot of dealers that are giving credit till the harvesting. So, do we have any strategy going forward where we can leverage our retail distribution and have this kind of customers where credit facility is not available maybe through some strategic tie up with some financing companies or so, just to have your thoughts on this thing?

Sameer Goel: Right. Firstly, thanks for this thing and thanks for your complemint. In Retail, we already have a strategic tie up with the Chola Finance. But, we are very selective in the way we give credit to in terms of stores and farmers. Our retail value proposition is based on Quality, trust and farm advice. When the farmers come in, they get better quality of product. They not only get all the range available which includes competitive products, but also the advisory services. That is the reason our retail business has been growing year by year. This year there have been some issues, particularly linked with Rayalaseema, areas where there was a seasonal failure. As far as credit is concerned, we are not involved directly, because it is through Chola's finance tie up, where they are involved in disbursing credit. I think overall you need to be very, very careful in terms of how and where we give credit. While it is a good growth story to have, the question would be in terms of getting back the money from the farmers. And that is something any company has to be careful about. Also, during election years Government do farmer loan waivers. So, that is something one has to be careful about.

Jayashree Satagopan: And primarily we should also appreciate that our retail model is cash and carry model. That is how the retail business model has been structured and has been operated over the last many years.

Sameer Goel: And the credit risk is taken by a different channel, which is our trade channel. So, and those two channels complement each other.

Resham Jain: But, other than Chola multiple bank tie ups like, for example, auto company is doing, auto dealership, they have multiple financing companies present in the dealer network. So, we can't have such model whereby multiple banks or NBFCs……?

Sameer Goel: We can definitely, we are looking at various places. But it is also to ensure that our partners, even if the risk is on their side, do not suffer. So, there are various mechanisms we are looking at how to ensure this. One of the things which we are pressing for the Government and they are looking at it is to increase the use of other payment instruments like Paytm and how to reduce the transactional charges to the farmer. Because when that happens it will benefit not just the companies, but also for the economy in general. And that is something which we are looking at and it will definitely help our retail business.

Resham Jain: Okay. Thank you sir and all the best.

Sameer Goel: Thank you.

Jayashree Satagopan: Thank you.

Moderator: Thank you sir. That will be the last question for the day. Now, I hand over the floor to Mr. Sameer Goel for closing comments. Over to you sir.

Sameer Goel: Thank you and thanks for all the questions. I really appreciate that. I think overall the company has done well in a very tight economic condition which are there. We hope to continue with this good work given that in the next season. With the prediction of normal monsoon in home markets and with the dams being full, we expect better output coming through. The company has been strengthening its product mix to the farmers and our crop protection business is now introducing new products, which is doing well in the markets. We will continue to leverage agri tech to give efficient solution to the farmers. So, thank you with that.

Moderator: Thank you sir. Ladies and gentlemen this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and you all have a great day.

Note: This document has been edited to improve readability.