

## **Coromandel International Q3 FY22 Earnings Conference Call**

**February 4, 2022**

- **Moderator:**
- Ladies and gentleman, good day, and welcome to the Coromandel International Q3 FY22 Earnings Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Himanshu Binani from Prabhudas Lilladher. Thank you and over to you.
- **Mr. Himanshu Binani - Prabhudas Lilladher:**
- Thank you. Thank you Sanford. Good day everyone and on behalf of Prabhudas Lilladher, I would like to welcome all the participants on the 3Q FY22 post results conference call of Coromandel International. From the management, we are Mr. Sameer Goel - Managing Director of the company, and Ms. Jayshree Satagopan – the CFO of the company. Without any further delay, I would like to hand over the call to Mr. Goyal for his opening remarks and post which we can take the Q&A session. Thank you and over to you sir.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Am I audible?
- **Moderator:**
- Yes Sir you are.
- **Mr. Himanshu Binani – Prabhudas Lilladher:**
- Yes, yes sir please.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Okay. Good afternoon everyone. I hope everyone is keeping safe and healthy. Thanks Himanshu for organizing this conference call. As it is -- I'll give an overview of the business environment experience during the quarter followed by the company performance and the Q&A. The world as we know has witnessed an emergence of the third wave of corona virus. Comprehensive vaccination drive and proactive action by the Government of India and preparedness of the various agencies resulted in minimum impact on economic activities and there was a little disturbance on normal life. So I would like to congratulate all the frontline workers specially the doctor's community and the scientists who discovered the vaccines.

- As per economics survey, India is expected to grow by 9.2% during the current fiscal year. The growth is expected based on the sharp economic revival after the negative growth last year due to the COVID. India is likely to remain the fastest growing large economy in the world. Under agricultural front, Agri GDP expected to grow by 3.9% in the full year 21-22 versus 3.6% last year. The northeast monsoons, which basically impacts the southern part of India, ended with 44% higher than normal for the full season. It is the highest rainfall in the last 100 year ever since IMD started recording this from 1901. This has resulted that the reservoir levels in the country remains at 119% of the long term acreage. In the southern and western India, reservoir levels are well above the long term acreage. The crop acreage was marginally higher than last year, but the big increase was in oilseeds. Paddy saw a decline over the last year due to crop diversification and quite frankly the country has excess stocks available and therefore there were government issues also.
- I think with the third consecutive years of good monsoons, agriculture continues to be the sweet spot in the Indian economy. Global supply shortages of key commodity continue in quarter three and has resulted in higher prices and there have been some delays in receiving shipments. There was shortage of containers, which continued throughout the quarter for both Imports and Exports. On the agri input side, there's been an increased demand of fertilizer and agri inputs due to record production and higher price realization.
- Coming now specifically to the fertilizer industry performance, for the quarter DAP and complex industry primary sales value was marginally higher 58.3 lakh metric tonnes versus 57.1 Lakh metric tonnes last year. The industry consumption sales recorded by point of sales machines was however down by 3% over last year. 73.3 Lakh metrics tonnes versus 75.4 lakh metric tonnes during the same quarter. Major raw material prices continue to remain high. The price of force asset for quarter four is yet to be finalized. Government had announced a special package for DAP and the three generic grades for the rabi season. Just to ensure that availability is made to the companies and they rely a lot more on the manufacturing industry as you know importers who were not able to get consignment at the desired prices.
- For year-to-date, DAP and complex fertilizers primary sales volume was down by 12%, at 158 lakh metric tonnes verses 181 lakh metric tonnes previous year. Industry point of sale was also down by 8% over last year. 174 lakh metric tons versus 190 lakh metric tonnes previous year same quarter.
- Coming now to Coromandel's performance, Coromandel registered a revenue growth of 34% during the quarter driven by both the nutrient and the crop protection business. Coromandel ensured that agri inputs are made available to the farmers and is operating markets and promoted the use of balanced nutrition including organic fertilizer to help to rejuvenate the soil and improve farm productivity. Am I still well and audible?
- **Moderator:**
- Yes sir.

- **Mr. Himanshu Binani – Prabhudas Lilladher:**
- Yes sir you are.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Okay. Thank you. So company's nutritional segment performance, the nutritional and allied businesses segment revenue increased by 48% over the same period last year. Company's thrust to provide specialized fertilizer and greener solutions to farmer has gained further momentum in the market. Company registered a very good growth in our specialized nutrition and organic products. In fact, in the first nine months, we have already exceeded what we had done in the full year last year and we have been able to push the price because there is no cap to the farming community given the novelty of our products.
- On the sales front, in quarter three DAP and complex volumes was at 8.3 Lakh tonnes slightly higher than last year. Manufactured DAP and complex value was higher by 6% over last year. Import volumes were lowered by 33%. Company market share in quarter three remained the same at 14%. Company increases consumption market share, which is the true measure to 13% from 10% during last year. The gain in consumption market demonstrates the company commitment to the farming community ensuring timely availability of balance nutrition and ability of our supply team to get the products at the right place at the right time. Single super phosphate quarter three sales was 1.9 lakh metric tonnes with the growth of 18% over last year. Our market share has improved to 14% up from 12% last year for the same quarter. Point of sale market consumption share of SSP increased by 60% to 3.1 lakh metric tonnes last year.
- There was a very good performance in terms of our new product launches, which is GroPlus and the fact that in single super phosphate, not just us and our agronomist team, but even the universities are talking about using locally made single super phosphate instead of imported DAP specially in the northern and western markets.
- On YTD, DAP and complex volume were at 27.3 lakh metric tonnes around the same figure of 27.6 lakh metric ton last year. The company market share because overall market decline improved to 17% from 15% last year. SSP YTD sales was 6 lakhs metric tonnes with the growth of 22% over last year. Our market shares improved to 15% versus 13% last year for the same period. Our sourcing team ensured timely availability of raw materials to enable continuous production at our manufacturing plants. During the quarter our DAP and complex fertilizer plants operated at more than 87% capacity to produce 7.4 lakh metric tonnes. We had also taken shut down for number of allies basically at our Kakinada plant to ensure safety and our overall annual maintenance. Phosphoric acid production continues to remain high during the quarter.
- To improve the sourcing security of key raw materials and commitment to "Atmanirbhar Bharat," the company has announced setting up of a sulfuric acid plant during the last quarter. This will cost the company roughly 400 crores. The work on

the project has started and is progressing well. We are also enhancing our SSP capacity. Company has taken a plant on lease in Chennai and we are also ensuring a plant which he had mothballed in Pali in Maharashtra, we're going to start operations and we hope to get products in this quarter from both these plants. I was very glad to say that the technology team has worked and we have set up a liquid fertilizer plant in Vizag and is working towards liquid and fortified fertilizer to enhance the availability of nutrients to farmers, which will be as per our strategy of more crop per gram of per drop of fertilizer. On the crop protection side, am I still audible?

– **Moderator:**

– Yes Sir.

– **Mr. Himanshu Binani – Prabhudas Lilladher:**

– Yes Sir.

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

- Thank you. On the crop protection side, crop protection business registered a growth of 23% in revenue for the quarter supported by good performance in our export markets and our B2C segment. The increase in raw material cost and a lag in cost and pricing resulted in a bit of margin stretch during the quarter. The new product launched by the company in the first quarter this year has found good traction in the market. The strategy of introducing new generation products is helping our farmer connect initiatives and improved farm productivity. Overall the business has built a rich product pipeline backed by strong R&D capabilities and is partying with global innovators to further strengthen its product offering.
- On the manufacturing site, our crop protection plants operated at an increase capacity utilization of 77% during the quarter versus 73% same period last year. Work on setting up new plants for manufacturer of pesticides at Sarigam Unit in Gujarat is progressing. Our retail stores continue to operate well during the quarter despite taking all the precautions due to COVID. The store focused in providing all round agricultural solution including product, farm advisory, and mechanization service. Business has improved its operational efficiency and leverage technology to reach out to the farmers. The company has progressed well on its digitalization transformation journey and has rolled out several digital initiatives across the organization including digital marketing, sales force engagement, data analytics, and customer connect.
- We are also looking at AgTech including use of **drone** for spraying and other activities. I think the healthy reservoir water and both soil moisture condition do well for the coming summer and Kharif season. Coromandel will continue to work to fulfill the needs of the farming community through its innovative products and farming solutions. I will now hand over to Jayshree who will talk about the company's financial and then we can go for Q&A. Over to you Jayashree.

- **Mrs. Jayshree Satagopan – CFO, Coromandel International:**
- Thank you Sameer and good afternoon all. I will now provide updates from the company financial. For Q3, as far as the turnover is concerned, the company recorded a consolidated total income of ₹5,100 crores during the quarter visibly the same quarter prior year where the revenue was ₹3,542 crores. On a quarter-to-quarter basis, this represents the growth of 44%. Nutrients and allied business contributed to 88% share of total income and the remaining 12% comes from the crop protection business. Covering non-subsidy share of business stands at 82% and 18% during the quarter. In the previous year, it was 78% and 22%. On the profitability front, the consolidated EBITDA for the quarter was ₹546 crores against ₹500 crores during the same quarter last year. In terms of subsidy and non-subsidy share, the subsidy share was 70% and a non-subsidy 30% during the quarter. Net profit after tax for the quarter was ₹382 crores in comparison to ₹334 crores during the corresponding quarter last year.
- For the nine months ended 31<sup>st</sup> December, company recorded a consolidated total income of 14,952 crores. This is against ₹11,385 crores during the last year. The net profit after tax was at ₹1,239 crores vis-à-vis 1,173 crores in the prior year. As far as the subsidy is concerned during the quarter, the company received ₹2,295 crore towards subsidiary receipts. The comparative figures of last year was ₹785 crores. Subsidy outstanding on 31<sup>st</sup> December, 2021 was at ₹1,336 crores vis-à-vis ₹2,854 crores during the previous year. On the interest front during the quarter, company earned a net interest income. This is excluding India's interest of ₹14 crores. Vis-à-vis interest costs of 4 crores in the same quarter last year. The balance sheet continues to remain strong. Company has maintained its surplus funds in board approved securities and these are year mark for specific growth related activities.
- The board has approved payment of an interim dividend for the financial year 21-22 at ₹6 per equity share representing 600% on the face value of the share. On the Forex front, during quarter two, rupee remained in a broad range of ₹73:85 to 76:32 and rupee also witnessed a high level of volatility. Coromandel continue to follow a conservative approach of hedging the Forex exposures and managing its portfolio well. Thank you all for your interest in Coromandel and joining us in the call today. We will now open the session for question and answer.
- **Moderator:**
- Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may please press “\*” then “1” on the touchtone telephone. If you wish to remove yourself from the question queue, you may press “\*” then “2”. Participants are requested to use handsets while asking a questing. Anyone who wishes to ask questions please press “\*” then “1”.
- The first question is from the line of Varshit Shah from Veto Capital. Please go ahead.
- **Mr. Varshit Shah - Veto Capital:**

- Thanks for the opportunity and congratulations on a great ton of numbers given the challenges. My first question is largely on the raw material pricing front because lot of efficiencies are already coming in and mitigating the RM pressure to cost efficiencies, but the day the RM starts moderating, I think the pickup in volumes might be much better than we are doing today. So my question is that ammonia prices seems to be at least taking a breather in fact they are fallen off the peak, with the Indian deal with Russia and Belarus in potash will that at least stabilize going into the next immediate quarters that is my first question.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Yeah. Firstly, Jayashree I'll take that.
- **Mrs. Jayshree Satagopan – CFO, Coromandel International:**
- Sure Sameer.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Okay. Thanks Varshit. Thanks for your commendation. I think it's all team effort. So as far as raw material prices are concerned obviously firstly you talked about two things -- one is ammonia.
- We need to wait and watch the situation particularly what's happening in Ukraine and in Europe. I think the good news seems to be that the winter so far has been less harsh and therefore the natural gas prices may cool off a bit, but we need to wait and watch. So we don't really have a clear listing on what is going to happen in Europe. Good thing is, we have a long term contract with our suppliers and with the reliable suppliers in Middle East. So the availability won't be a pressure, but we are looking at whether the prices can get moderated. One thing, which we are pushing the Indian government for is also to get Iran back on stream because they then tend to add volumes and also then tend to mitigate some of the Middle East prices. So that's where we are and we are diversifying our source. As far as potash is concerned, again obviously there are number of big suppliers – big market suppliers in the country, I mean globally and of course Canada is one of them and number of their minds are getting reviewed. It was unfortunate by Belarus and Russia had come in to forth. We have to wait and watch this space.
- We are covered for this quarter four, so we will wait and watch to see what happens on that pricing front and obviously the comment like you rightly said this is trying to strike deals directly with the Russia and just to mitigate some of this problem, but on a very different note, we have organic product called which is K-ash, which is basically dried from molasses and that product has done very well as a substitute to potassium. It is more organic form than the mineral form. It is better that the volume is low, but that some substitute that has been very good traction and we are expanding that to capacity. So I hope that answers your first question.
- Yeah, yeah definitely. Yes and my second question is on what are we -- I mean in terms of our chemical business -- I mean agrochemical business, your absolute EBIT

growth in the segment is just 3%. So is this – there is a margin pressure or because of the raw material pressure or the volumes are largely flattish while on the business as a whole?

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– Jayashree you'll take that?

– **Mrs. Jayshree Satagopan – CFO, Coromandel International:**

– Yeah. So Varshit good question. On the agrochemical front, we have seen a growth in terms of overall revenues such as seen both on a quarter-on-quarter basis as well as year-to-date basis. However; like in a nutrient business, we have seen that there has been an increase in the raw material prices and also availability. Added to it, there has also been a rise in the transportation cost especially due to container availability and the oil prices going up. The business has taken actions in terms of pricing; however, there has been a lag between the cost that has been incurred and the pricing that has been passed on to the market. Therefore you would see that the margins are to some extent depressed during the quarter, but we expect the situation to ease out very soon.

– **Mr. Varshit Shah - Veto Capital:**

– So we have effected the price rise, but will get reflected with the lag or we are yet to effect some of the price hikes to fully cover the inflation so far.

– **Mrs. Jayshree Satagopan – CFO, Coromandel International:**

– We have covered the inflation so far, but then one also needs to see how the raw material prices are going to be in the coming quarter.

– **Mr. Varshit Shah - Veto Capital:**

– Sure, that's really helpful. I'll get back into the queue and all the best.

– **Mrs. Jayshree Satagopan – CFO, Coromandel International:**

– Thank you.

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– Thank you.

– **Moderator:**

– Thank you. Ladies and gentlemen in order to ensure that the management is able to address questions from all participants in this conference call, please limit your questions to two per participant. For any further questions, you may come back for a follow up. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

- **Mr. Sumant Kumar - Motilal Oswal:**
- Yeah hi sir. So overall my question regarding the pricing scenario for fertilizer and government has restricted the price increase and despite of that can you – we have seen a decent margin in this quarter and can you talk about the overall price increase what we have taken because we are unable to understand overall the kind of margin we have shown and we were expecting a lower margin whatever expectations we have. So what prices you have taken over the -- when the significant increase in price started for phosphoric acid and ammonia and what are the gaps and what price increase we require to take from here if the government is going to allow?
- **Mrs. Jayshree Satagopan – CFO, Coromandel International:**
- Should I take this question?
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Sumant firstly I hope you are happy with the margin.
- **Mr. Sumant Kumar - Motilal Oswal:**
- (laughs) yes sir.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Okay. Yeah Jayshree you want to go or I will just stay in firstly and you can just add on to it.
- **Mrs. Jayshree Satagopan – CFO, Coromandel International:**
- Sure.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- So firstly Sumant, the first thing for us is to deal with the raw material availability and also we have driven efficiencies and We talked about our backward integration also. We already now announced even going further backwards for the raw materials like sulfuric acid, so and you'll see more of it coming out. Our whole idea is that as much as possible as part of like Jayshree said “Atmanirbhar Bharat,” we can capture the values here. So that's something, which we are looking at. So that's on one front. The other thing is of course we have sourcing efficiencies and also we have good reliable suppliers base. So that is something which our commercial team does well and at the same time we have been able to also ensure consumption happens with the help in the market with the help of our agronomists and sales team. Now the government had asked us to cap and like all companies, we have capped the prices, but in balanced nutrition products, we have been able to take that differential better. So that's something which is there and hence we have been able to drive this efficiency.



- You talked about going forward, we'll have to wait and watch what the NBS rates are and also this balance between NPK is sorted out, which we have represented to the government. We've seen one good what the government has done to clear all the subsidies. The main thing is that we must wait and watch what the government policy is going to be and how do the international pricing firm up for next year. Couple of things which have to be done at a country level is if China comes back, which is a big producer currently. We are also looking at newer markets like all the markets to come back like Iran. We are hoping that this imbalance which we had faced this year that's correct from next year onwards. So that's where we are currently. Jayshree you want to add anything?
- **Mrs. Jayshree Satagopan – CFO, Coromandel International:**
- There are couple of things that I also wanted to touch up on is apart from the efficiencies at the plant, I think in multiple sources of raw material that the plants are currently able to produce bringing in the flexibility is also very important. That has helped us a lot during this quarter because if we can source from different places and we are able to get the efficiencies of cost that can be harnessed. The next one which is also important is the logistical supply chain costs that has are being managed quite well. As much possible we've been doing the direct delivery, which is also reduced the cost on that one. The third one I would also want to sort of bring up is the containment or control on the cost front. Specially the nutrients part of the business, given the challenges, while actually looking to every aspect of cost to seeing how this can be managed well. So all of this has sort of worked out quite well, but as coming to selling, we are seeing some forms of severe lining, the urea prices for instance has cooled down from its peak of \$900 to around \$638 or so. With China opening up hopefully soon, we should see that the prices which we see also coming down and this should sort of help as we move into the kharip season.
- **Mr. Sumant Kumar - Motilal Oswal:**
- Okay. What is the contracted costing of phosphoric acid price for the coming quarter?
- **Mrs. Jayshree Satagopan – CFO, Coromandel International:**
- Sorry.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- That currently has not been announced on phosphorus acid. We are still under negotiation. I think they are giving provisional shipments based on last quarter prices, but we do expect them to increase because DAP – MAP prices are still high. So further negotiation is still on, but quarter four is a lower quantity quarter basically because at least for us, we'll be taking a shutdown annual turn around so that we gear up for our kharif season next year.
- **Mr. Sumant Kumar - Motilal Oswal:**

- Thank you so much Sir.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Thank you.
- **Moderator:**
- Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.
- **Mr. Bharat Sheth - Quest Investments:**
- Hi. Thanks for the opportunity and congratulation on trying time. Sameer, just want to understand on the strategy for SSP since we have grown nine months 22% and which we were evaluating as a part of some kind of replacement in some of the geography to the NPK and the prices of SSP is also relatively lower, so to increase and we are also taken a plant on the lease and reviving two facility, which we had a shutdown. So how do we really look at in medium term this to play out? and second thing how are we seeing the EBITDA per ton in the SSP.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Thanks Bharat. I'll take the first question and second Jayshree can answer that, right?
- **Mr. Bharat Sheth - Quest Investments:**
- Correct.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- So firstly thanks for the – I think see SSP like we always say, we have the oldest fertilizer plant in – not just in India, but probably in Asia and in Ranipet in Vellore district way back in '18. We have seen the first fertilizer which was manufactured was SSP. We had the liberty acquisition, we got number of plants, but we obviously saw that they were cost inefficiencies there.
- **Mr. Bharat Sheth - Quest Investments:**
- Right.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Now one good thing, which happened this year, but this is not an overnight thing. We definitely didn't want to be just an SSP player, so our technology team has developed what we call SSP plus. Already, we have a product called go GroPlus in the market, which actually is farmers are not talking about SSP, they call it GroPlus and basically it gives wonderful results and I'm a practicing farmer myself. In fact my own people when I grew the potato crop, said why aren't we using DAP, I said

nothing doing, please use SSP. For them it was a first -- even for my farm and we got excellent results to a neighboring field, which had used DAP.

– **Mr. Bharat Sheth - Quest Investments:**

– Yeah.

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– So, I'm just telling you the impact as a farmer. So SSP is definitely something, which will continue to grow and we had a strategy, we had mothballed couple of our plants, but now we are expanding and so as we speak we have a plant at Pali in Maharashtra which we are renovating. The Government also encouraging SSP. Most of the raw materials for SSP are locally sourced so there is value addition within the country only. And it is also, fertilizer which is actually in a way I would call it a magic fertilizer because it just doesn't supply PE whether it's rich in calcium, magnesium and other things which actually benefits the field and the farmer.

– The only thing is because of the quality which was being provided by local manufacturers, and farmer had bad experiences using SSP. We are giving great emphasis on value addition. There's a huge market to it and we have combined our fertilizer and single super phosphate dealers to leverage the strength in the market and also not only that also in the manufacturing side. So, we are expanding capacity as we see. We are also increasing from powder to granulation because again when farmers have granulation which is not just basil application. We end up also applying it to the crop number of times. So, that's our own strategy and it's paying dividend. And that's the reason why next to our plant which is NPK plant in Ennore in Chennai/ We do expect with the help of our quality and on innovations that we'll continue to gain market share.

– **Mr. Bharat Sheth - Quest Investments:**

– So, what will be our capacity post this, before the...

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– So, currently we have a capacity of, we can do one million but we need certain upgradations to happen. Currently we are at 7.16 lakhs but we'll get to 1 million in the short future. 1 million tons Jayashree you want to answer the margin side. And we can take it separately on the discussion on SSP because I think there are other people also on the call.

– **Mr. Bharat Sheth - Quest Investments:**

– Okay. So, Jayashree if you just give some I mean directionally margin front?

– **Mrs. Jayashree Satagopan – CFO, Coromandel International:**

– Yeah, see on SSP with the way we're looking to the margins at a plant level. We don't it unlike MPK at a company level because SSP is to be distributed very close to the

plant approximate we are and the type of products that we are doing, normally brings us to say for instance the profitability. The growthless products will have a higher profitability compared to the powder SSP. So, I think we will have to take this on a separate call... It's mainly dynamics in the SSP market and how we look at the profitability mix.

– **Moderator:**

– The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

– **Mr. Ankur Periwal, Axis Capital:**

– Yeah, hi sir, thanks for the opportunity and congratulations for a superb performance in the challenging times. On the fertilizer margin side given, we had the backward intuition that benefits as well as the RM supply a surety which you mentioned. And the pricing led restrictions by the government on the end product pricing. Do, we expect these margins 4500 plus on the manufactured EBITDA side or fertilizer side, this number sustainable presuming the macro stays what it is, the phos acid prices remain where they are, there's any improving trajectory.

– **Mrs. Jayshree Satagopan – CFO, Coromandel International:**

– So, Ankur the way one needs to look at this is, currently the RM prices are at its record high because of commodities I think so. And over a period these prices will come down. If you ask at the current price is 4500 would be difficult but at the same time these prices going to remain at this elevated level? Possibly no. Yes, saying that additional capacity is coming in for a million for instance, same is the pace for sulphuric acid. So, in a period in time these costs will come down. And with the inputs from China that opening up it will also ensure that the urea and DAP prices come down. So, in our view possibly the next couple of quarters may see higher RM prices slowly coming down. And as it normalizes you will see the margins also in the range of 4000-4500. For us what is important is to see how we can continue to get the benefits of a backward integration. Therefore, running our processive plant at full capacity were extremely even. As the raw material prices are higher the more we do we are better with the value capture at that plant. And that is what's actually helped us to sort of work through the last quarter and this quarter. To the Vizag and Ennore plants which are totally dependent on our own processes has actually held in our profitability. We are also exporting our PA from Vizag to Kakinada for it's operations. So some of these are helping. We believe that surely in the next two three quarters, the prices of raw materials will cool down. Which one goes first, how much is obviously something that we have to wait and watch. Having said that if you look into the last 10 year's trend probably this is where we had seen this type of an increase. And the government is also being supportive in terms of giving a higher subsidy to sort of compensate for the raw material prices. Last year we advanced mostly on PE. And as the new NBAs rates are likely to get announced, the rates would get across NPNK which is what is what we also do presenting with the government. So, in a medium longer term definitely these margins there. In a short

term if you were to look into it, if the prices continue, there could be a bit of strength.

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– Just to add one more thing Ankur firstly thanks for the compliments and a good question. CAP is only on certain what is called products. We have been able to pass on higher prices for some of, what is called our unique grades. The second thing is our diversified portfolio does help. And we have seen a strong growth even in what is called a speciality nutrient and organic business. The other thing is the government will, currently there's certain compulsion that the government will leave some of the price restrictions which are there as we go forward. So, definitely next year there will be some amount of this because the whole idea of NPK was based on the India's policy which is the market base has to be more. So, and government only steps in to provide few subsidy so that change will happen.

– **Mr. Ankur Periwal, Axis Capital:**

– Sure, sir that's helpful. And second question on the crop protection side while we have seen somebody talking of RM inflation impacting our margins here but you know, your thoughts in terms of when are you seeing more or less full paths of this RM inflation. And the contribution of the near product launches how has that been coming out...

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– I think Ankur Jayashree answered that question before. One is there was a lag in the price increase which we have already done so that's one thing provided of course the raw material prices don't go up more. We are expecting some of the raw material prices to come down after the Beijing Olympics for China is one of the major sources. And we are seeing the softening also on the container part of it. So, we do expect things to really get stabilized at the same time like in any other operation we are looking at efficiencies at our plant and Certain amount of backward integration.

– **Mr. Ankur Periwal, Axis Capital:**

– That's helpful and thank you and all the best yeah.

– **Moderator:**

– Thank you. The next question is from the line of S. Ramesh from Nirmal Bang. Please go ahead.

– **Mr. S. Ramesh, Nirmal Bang:**

– Thank you and good evening and congratulations on a good performance. So, what I would like to understand is, in terms of the EBIT performance in the nutrient business can you give us a volume of the share of the non-subsidized fertilizers or

non-subsidized products which represents a 30% of the of the non-subsidized EBITDA?

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– Jayashree, you want to answer that?

– **Mrs. Jayshree Satagopan – CFO, Coromandel International:**

– Thank you, Ramesh. The nutrient business we have fertilizer SSP, SNB and organic right? So, the major portion I would say substantial portion of the revenue and the margin comes from fertilizer and SSP which are the subsidy business. And I would say almost 80-85 percentage constitutes or comes from the fertilizer and SSP the balance is coming from our speciality nutrients organic and the others.

– **Mr. S. Ramesh, Nirmal Bang:**

– So, this is you are talking about the volume because I understand the product mix, I am saying here your margin seem to have gone up and 30% of your EBITDA is from non-subsidized products including PPC and non-subsidized fertilizer I'm just trying to get a sense in terms of the volumes you're talking about. And how we can expect the trend in the non-subsidized products going forward in terms of volume growth?

– **Mrs. Jayshree Satagopan – CFO, Coromandel International:**

– Okay. So, the question is this right we have given a segmental report. Segmental report is nutrients and crop protection. The crop protection performance their growth has already been covered there, within the nutrient business also there is a small portion of business which is not under the subsidy because especially the speciality of nutrient business as well as the organic which is what I articulated now. As far as the future is concerned as we've always maintained our growth engines are going to be the non-federal business. So, there is lot of focus and trust on seeing how we have to grow the speciality nutrient business, the liquid fertilizer and so on and so forth because there is ample scope for growth there. Similarly, there is a trust on increasing the organic growth and you would have also seen the government even if the budget is playing emphasis on this. Apart from that crop protection as well as the bio products that we are having is another area of focus for the company while we focus on all these non-subsidy businesses clearly, we do not want to ignore the larger part of the business which is stable though it is under subsidy there is opportunities for us to grow there will be some amount of growth and impetus given to them as well. So, if I were to summarize there is emphasis and identification of growth engines which are primarily the non-subsidy business. We did our strategic plan three years back and that has been clearly laid out as we speak we are going to be revisiting our strategic plan for the next three years. And that exercise will get complete in the next three to six months' time. Here again the focus is to see how we can accelerate the growth on some of the non-subsidy business. So, the focus and the trust of the company is definitely there to see that these businesses get far more attention, capital allocation so that we can accelerate the growth.

- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- So just to add Ramesh to your question one of the things is you are talking about the part of the non-subsidy business. We are seeing the CAGR in the range of 20% upwards. Even this year it's going to be like that so while it's a small but it's a very fast-growing business. And when you look at the non-subsidy part of it given our strength in fertilizers this business especially on the nutritional side. And given the innovations which we have as Jayashree talked about. We expect that to continue to grow and get bigger and bigger in fact, one of the things we are also looking at is whether we can even look at you know, looking at inorganic growth in those business because that's going to be the future. We have set up a liquid fertilizer plant in Vizag to look at a lot of new products which are going to come out. And this is going to expand our product portfolio. In US as you know 20% to 25% of the sale of fertilizer was actually in liquid fertilizer. We've just launched a product which is basically a liquid fertilizer. And the main reason for that is the nutritional uptake for zinc there is around 70% to 80% when you get products of zinc particularly zinc sulfates the uptake by the plant is only 5% to 10% so we also talk about nutrition efficiency here. So, you'll see more and more of this coming up as we go forward and this will come bigger and bigger. I hope that answers your question. We can take it off if you have no questions yeah.
- **Mr. S. Ramesh, Nirmal Bang:**
- I understood that's very helpful so just to understand the trend in the subsidized fertilizer, the one thing that has been eluding understanding is there's a certain amount of under recovery or not adequate compensation being given to all the nutrients but in this quarter based on the envious rates for the third quarter. Was there any under recovery in the subsidized fertilizers and has that been covered by the non-subsidized better than that of the EBIT reporting? And when you see the entire under recovery being completely passed on?
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Jayashree, you want to answer that?
- **Mrs. Jayashree Satagopan – CFO, Coromandel International:**
- There has not been any under recovery as such... I have a certain disturbance here outside so I was not able to get your question completely.
- **Mr. S. Ramesh, Nirmal Bang:**
- We can take it offline do you think under recovery as far as the nutrients are concerned?
- **Mrs. Jayashree Satagopan – CFO, Coromandel International:**
- There's not been any under recovery as such.

- **Mr. S. Ramesh, Nirmal Bang:**
- Okay, so basically the NPS is based on the NBS and your price increases, you are able to you know, cover all your costs?
- **Mrs. Jayshree Satagopan – CFO, Coromandel International:**
- Yeah, to the extreme possible we have been able to cover the cost as well as mentioning earlier the records would the subsidy increase must be given by the government. Having said that those are subtly increased that we can do, raw material prices have gone up. For which we are also in dialogue with the government to see how they can support with a further increase in the subsidy rates. So, emergence, compared to last year has come down as you could see. So, there has been a bit of a compression primarily because of some of the restrictions in mrp especially on the APA and one of the general things. And the company being restricted to P rather than to NCNK. So, as I mentioned earlier we expect this to get corrected as the government is going to announce in the NBH rates for the coming year.
- **Moderator:**
- Thank you. The next question is from the line of Deepak Chitroda from Phillip Capital. Please go ahead.
- **Mr. Deepak Chitroda, Phillip Capital:**
- Yeah, thanks for the opportunity and congratulation on trade set of numbers despite the RM pressure which we have seen not only for CORO but I think for the entire industry. So, my first question is about the subsidy allocation which we have during the budget you know the revised amount which we have now is around 64,000 crores or so. So, do you think that particular allocation which we have is you know, probably cover the whatever the RM spike which we have seen since October. And also there is some [INAUDIBLE] 00:55:12 probably government can compensate for the further you know, subsidy probably in the coming months.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- So, one thing here firstly, thanks your compliment, just from the subsidy front to be fair to this comment you know, last year declared for the industry the entire backlog leaving out claims which they had to process or not settle. So, that really helped the entire industry number one. This year also they've ended up now having additional allocation of around 60,000 I'm talking about both urea and NPK together. And so, it's coming to 1.4 L crs. And they have been very prompt in paying at least especially on the DBT and the freight bills. So, we have to complement that we are very I mean as we submit, they are quite good at it. We have some few old claims which will obviously get again corrected as they get the time but overall, they have been doing well. To your question whether we see any gaps, so far we've not seen the gaps but if there's something depending on how the sales and the consumption happens for



the industry. We'll have to take it as it comes but even in January, we've got some very good collection. So, we have nothing to complain about.

– **Mr. Deepak Chitroda, Phillip Capital:**

– Okay, so basically the 64,000 allocation which we have now basically covers the, if we take the current cost of RM so basically that covers the entire location.

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– So, again I can't talk on behalf of the industry but overall they would have taken that into account a lot also depends what gets made and imported in February-March yeah.

– **Mr. Deepak Chitroda, Phillip Capital:**

– Sure, thanks and my second question is about margin, just to I think extent from the P's participant in fact if you look at our volumes, the complex volume have been on a YOY basis kind of a similar but in fact our trade share has you know, declined from 43% to 24%. And in fact, the growth which we have witnessed was on the SSP side of around 190 lakh tons for SSP. So, if you can basically explain how we have you know sustained or improved to some extent margin. And if you can quantify in terms of price increase which we have taken for some of the grades for the quarter?

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– So, personally I don't think we've lost market share. And just a correction and Saurabh can give you the exact figures including non-consumption given NPK per say. So, in fact because the market...

– **Mr. Deepak Chitroda, Phillip Capital:**

– Unique grade share I am talking about sir.

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– So, again when you talk about unique grades, you know again it depends on you know, what the NPK elements are. And purposely also what the government wants. The reason for not manufacturing some of the unique grades was because the government wanted us, the manufacturers, I started at the beginning of my thing because there were import issues and availability.

– They had requested all manufacturers including us to supply DAP for some of the markets especially in the northern west. And which we and other companies applied. So, it was more of a marketing trust and to meet the demand of north and west. So, that's a reason for the change as such. So, I don't think we have lost anything, it's more of a temporary thing to satisfy a need which the government had requested for so that's where it is.

– **Mr. Deepak Chitroda, Phillip Capital:**

- Sure, yeah thank you thank you for that, thanks.
- **Moderator:**
- Ladies and gentlemen, we request you all to please limit your questions to one per participant. We take the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.
- **Mr. Vishnu Kumar, Spark Capital:**
- Good evening and thanks for the time. So wanted to understand the entire import of DAP and phosphatic fertilizers. I mean for urea side I think government has substantially reduced it to import dependence to less than 10% percent post the new plant. And given that what's the problem that we have faced this year that do you think that any proposal from the government in terms of any incentives or any PLI schemes or something that will come up even given that we should not continuously face the DAP shortages globally. And connected question is that what do we see as a growth in our fertilizer segment over the next two three years either of capacity additions or anything that you could give us some colour as to where this segment as investors should look for over the next two three years from a volume perspective.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- So, I think again Vishnu it's a good question you have asked. So, just to break it up into two you talked about DAP and you talked about NPK. The NPK CAGR for the industry is close to 10% over the years and obviously it's led by companies like us who want to follow our balance nutrition strategy, right? DAP has been actually marginal this year it will show a decline. Again, it's been 1% to 2%. And I do call DAP a very generic fertilizer, right? And these are high concentrated fertilizer, I think what the Indian soil now requires like urea also is required fertilizer which are more balanced. Now your next question yes there's a gap between currently even the domestic manufacturers when you look at overall capacity I think the number is around 70% to 80% and it's a poorer in SSP where it's close to 40%, right? Now part of the reason is that, and this the government saw this year the importers can import products during the season. And then sell off and go out of it but like and this is not just the first time it has happened in the past also where we had quality issues on imports. The government is definitely looking at this. One, is they are looking at backward integration to insecure and somebody, we mentioned of the call about talking about government to common deals like with Russia and other places is to secure the raw materials and have long-term contracts with that. Number two, we have pleaded to the government also is to support as part of "Atmanirbhar Bharat" to support domestic manufacture firstly is to ensure that we operate at full capacity but that's our marketing ability and our efficiency but to ensure that companies which are able to import at full either to get the raw materials or to convert efficiently. And there we have talked about whether we can have advantages both in terms of customs, duties in favour to this thing and also early on the subsidy was given first to the domestic manufacturers only then given to importers. So, that's

something which you've asked for but definitely what I see for and it's been talked in that circle also like in urea, the fertilizer being processed essential commodity government is definitely going to look at how we expand our capacity at least in the medium to long term. So, you're absolutely right and to reduce the dependence on imports. I hope that answers your question, but a good question.

– **Moderator:**

– Thank you, ladies and gentlemen. We'll take the last question from the line of Prashant Biyani from Elara capital. Please go ahead.

– **Mr. Prashant Biyani, Elara capital:**

– Yeah, thanks for the opportunity. Sir congrats on good set of numbers from what factors our decision to expand capacity and complex fertilizer space hinged upon?

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– So, again I mean like this year thing we are looking at strategically. Our first thing is to ensure that we get one, is we are doing de-bottling of the plants which anyway is adding to the capacity. We are also looking for efficiencies during the as we speak because of AT and various other disruptions are you know, we are at 86% of our capacity, 87%. We can easily reach taking one year's AT to 93%-94% one month AT. So, that is something which we are looking at apart from de-bottling. I think our first thing is to look at backward integration and secure the raw materials. And once that happens and to grow the market, the market is growing like I said in the clear thing and to go and go for more and more specialized grades. So, we have a full plan not just for our base fertilizers but we are looking at liquid fertilizer, we talked about nano. We are talking about slow-release fertilizers all that is in the pipeline. We've already launched liquid fertilizer but you will see slow-release coated fertilizers and also nano and some other fertilizers which are going to come which will add on to it. So, that was something which will happen.

– **Mr. Prashant Biyani, Elara capital:**

– So, on the primary fertilizer front is the creation of market a primary deterrent as of now or is it the securing of raw materials?

– **Mr. Sameer Goel - Managing Director, Coromandel International:**

– Not really, we obviously service our own markets but like I said NPK is growing in volume. And our balanced nutrition approach is going and this time when government told us to sell even to markets like UP and MP where we had the thing, we were able to sell because we are selling SSP in that market. So, I don't think market is an issue and we have very strong brands we are getting into the branding strategy. So, that is one so we are not into selling commodities or great, great let's say, so that's not the thing main thing is for us is to ensure that we have always the secured source of raw material coming in. And tobacco integrates and get the value capture yourself when someone is capturing it.

- **Mr. Prashant Biyani, Elara capital:**
- Sir, but actually on the wrong front our sense was that rock is primarily available in abundant quantity globally even right now when there is some sort of a shortfall in supplies. So, is it that we are, there is some shortfall in phosphoric acid availability that is here acting as a deterrent to finalize the CAPEX or if you can...
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- So, there are, now there are two things here firstly, phos asset is also available but the main thing is for the manufacturers them to convert it into their own finished products. And they are meeting the global demand. So, if you've got higher demand in Brazil for NAP or Africa as the continent is growing so you will then tend to even focus there. Obviously, they can't ignore India because they know India is a big market so that's one, but obviously the prices when there's a huge demand the prices obviously go up so that's one part of it. As far as the rock is concerned yes, the rock is available but again the raw quality has to be different. And each rock has got its own challenges, the good thing is when we are setting up our new plants particularly on phos acid. We have designed our plants to take a new type of rocks. And even our old plants we are actually working towards seeing that we can use any and therefore the alternate rock and acid strategy is also helping us. So, that we can source from various countries...
- **Moderator:**
- Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Thanks, I don't know whether Jayashree is still there but yeah, thanks. So, pretty thanks for all the content, quarter three obviously is a good quarter for Rabi. We are happy to see how the agriculture is continuing to do well. How the rains have played out although, albeit there were some crop damages and some procurement issues which happened during Rabi but overall, India is in a good state as far as agriculture is concerned. And definitely this crop diversification whether it is to oil seeds or fruits and vegetables also helps as the input company because you can keep focusing and not depending just on cereals on that count but we do expect quarter four anyway is not a consumption quarter for us. And we'll be taking it so that we gear up we are expecting again a very good curry to come given the current moisture levels, given the current dam levels. And even now we watch for the forecast but I think we are now getting more and more out of this month independent because we have a large market to service. And given our strength of our brands we are quite confident of making that work and the ability we as the company has, the money and the ability to invest whether both in organic or inorganic growth. So, do watch this space. Jayashree if there's anything else you want to add.
- **Mrs. Jayshree Satagopan – CFO, Coromandel International:**

- We have summarized this, for me I think with good monsoon conditions we expect the upcoming Rabi qualification also to be encouraging. We have to wait and see how we are on when Covid crisis come down as Coromandel will continue to focus on every action that will help us to stay competitive. And serve the needs of the farming community. Thank you all for your interest in the company and look forward to future interaction.
- **Mr. Sameer Goel - Managing Director, Coromandel International:**
- Thank you and you can always reach out to us if there is any question to Saurabh and we are more than happy to answer that thank you, thank you very much.
- **Mr. Himanshu Binani – Prabhudas Lilladher:**
- Thank you very much sir. Ladies and gentlemen on behalf of Prabhudas Lilladher Private Limited. That concludes this conference. We thank you all for joining us and you may now disconnect your lines.
- **End of Transcript.**