"Coromandel International Limited's Q3 FY'19 Earnings Conference Call"

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MODERATORS: **MR. KASHYAP PUJARA -- AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Coromandel International Q3 FY'19 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Kashyap Pujara from Axis Capital. Thank you and over to you, sir.

Kashyap Pujara: Good afternoon everyone and thank you so much for standing by. It is a great pleasure to have with us the management of Coromandel International. From the management side, we are represented by Mr. Sameer Goel who is the M.D. and Ms. Jayashree who is the CFO. Without taking much time, I hand over the phone to Mr. Sameer. Over to you, sir.

Sameer Goel: Good afternoon, everyone and thank you, Kashyap for organizing the conference call. I will first give an overview of the business environment experienced during the quarter followed by the company performance and Jayashree will talk about the financials and we can take the Q&A.

As you are all aware, it has been a challenging quarter for the industry; northeast monsoons ended with the deficit of 44% which impacted the Rabi crop sowing. As of January 2019, the all India crop acreage were down by 5% across all major crop segments. Crop sowing in our key markets of AP and TG were also down mainly in paddy and oilseeds.

On the reform front:

The success of Telangana government's Rythu Bandhu which means farmer's friend and Rythu Bhima which is farmers insurance scheme, is gaining interest from Centre and other states, which may also follow suit. West Bengal government has already announced implementation of a similar scheme. Further, multiple state governments have announced the farm loan waiver. Being an election year, we anticipate Centre and state governments to announce more agricultural reform shortly. Government has been planning to introduce national- wide agri market intelligent system to help farmers get better prices. This will become operational from next kharif and will include major food grains and price-sensitive crops such as onion, potato and tomato.

On the policy side:

Direct benefit transfers in fertilizer has stabilized. Industry is receiving subsidy periodically. Further, industry is making representation to the government for providing special banking arrangement to meet the subsidy requirement of Q4 and clearing the pending arrears.

On the fertilizer industry performance:

For the quarter, phosphatic fertilizer sales has declined by 10% coming down from 55 lakhs tons to 49 lakhs tons. Complex Fertilizer sales were down by 3% while DAP dropped by 15%. Raw material prices are beginning to soften due to moderation in global demand. Phos-Acid price for Q4 is yet to be finalized. For the year-to-date period, overall industry has grown by 6% to 150 lakh tons from 138 lakh tons last year. Entire growth has been driven by the NPK segment which has grown by 14%. DAP demand has been mostly met through imports. Imports has grown by 47% to 56 lakh tons, mainly on account of manufacturers actually conserving the acid for NPKs.

Coming now to Coromandel performance:

Coromandel has a resilient performance during the quarter registering 11% top line growth. This was despite deficient northeast monsoons which impacted sowing and agri input consumption in our key markets. Business continued to strengthen its marketing and branding initiatives, gaining significant market share and improving its customers reach. Cumulatively for April to December there has been an all-round progress in the performance of the company and its total income has grown by 21% to Rs.10,615 crores.

Coming to Coromandel Fertilizer performance:

For Q3 on the sales side, Phosphatic volumes were down by 5% to 5.9 lakh tons. We have been selling as per market consumption, and is in line with the new DBT regime. Market share for the quarter has improved to 12% versus 11% last year. The sale numbers of 5.9 lakh tons comprises of 5.2 lakh tons of manufactured products and 0.7 lakh tons of imported DAP. The share of unique grades stands at 39%. During the quarter, our Phosphatic fertilizer plants operated at 86% capacity utilization, recording production of 7.4 lakh tons. Captive Phos-Acid production for Vizag and Ennore went up by 6%. We are closely monitoring our Phosphatic Acid capacity enhancement project at Vizag which is expected to come up by second quarter of FY'19-20. Business has introduced a new product during the quarter, aimed at providing balance nutrition to the plants.

On the DBT side: There has been sustained improvement in transaction recording by the channel. This has improved our subsidy claim generation and subsidy received during the quarter.

For the period April to December, phosphatic volumes are up by 12% to 24.4 lakh tons with unique grades growing by 19%. Its share in overall sales stands at 39% compared to 36% last year. Overall market share has gone up from 16% to 17%, with the increase coming across almost all the major operating states.

The sales number of 24.4 lakh tons comprises of 22 lakh tons of manufactured products and 2.4 lakh tons of imported DAP. During the first nine months, phosphatic fertilizer plants operated at 87% capacity utilization, almost at the same level as last year, recording production of 22.4 lakh tons. Captive acid production for Vizag and Ennore went up by 7%.

On the Crop Protection side:

During the quarter, Crop Protection business turnover improved by 3% to Rs.446 crores from Rs.433 crores last year. The growth came from exports, domestic B2B and our newly acquired Bio business. Growth in exports were driven by South and Central America and the African region. Domestic formulation had a challenging quarter as low pest incidence and weaker seasonal condition impacted consumption. New formulation launches during the first half of the year are progressing well. Newly acquired Bio business has continued to perform well and has helped us to diversify our products and geographical presence.

On the manufacturing side:

Mancozeb facility at Dahej has been commissioned. With this, we have added further 10,000 tons of Mancozeb bringing our overall capacity to 45,000 MT. We are further adding capacities in our plant for new products which are likely to come up in Q4. We have strengthened our R&D product development and registration capability. We have a good product pipeline now and will continue to focus on new product introductions in the coming period.

Retail business had a soft quarter impacted by Northeast monsoons failure. Business witnessed a flattish top line mainly driven by fertilizer sales. Sales share of non-fertilizer business stood at 48%. We have been working in agri tech and farm mechanization space to provide precision solutions to the farmers through our retail stores.

Specialty Nutrition business continues to do well as it focuses on its crop-specific unique products. Business is collaborating with multiple agriculture players across the value chain to improve its customer connect. Our JV partner, SQM has been supporting us well in terms of new product launches and providing information on the global best practices for the crops.

It has been a good year for our Single Super Phosphate business. During the quarter, sales volume grew by 4% to 1.5 lakh tons against the industry volume decline of 5%. Cumulatively, our market share has grown to 14% from 13% a year back. New products introduced during the year are doing extremely well.

Overall, the company has done well considering the challenging external environment encountered during the quarter. We will continue to strengthen our offering to the farming community and invest towards developing infrastructure capability. Being an election year, we expect positive policy reforms for the agricultural segment, that bodes well for us in the coming months.

I will now hand over to Jayashree to talk about the "Financials."

Jayashree Satagopan: Thank you Sameer and good afternoon everyone in the call. In Q3, the company recorded a consolidated turnover of Rs.3,049 crores, growing by 11% with Nutrients and Allied businesses contributing to 86% share and the remaining 14% coming from Crop Protection business. Q3 last year Nutrients was at 86% and CPC 14%.

In terms of subsidy/non-subsidy breakup, Q3 revenue share is about 78/22, corresponding period last year was 74/26.

Profitability: Overall EBITDA for the quarter is Rs.305 crores against Rs.327 crores last year. The profitability was impacted by higher raw material prices and lower share of manufactured products compared to the prior year.

In terms of subsidy/non-subsidy breakup, Q3 EBITDA share was 60/40, the share was similar in the last year. Consolidated PBIT for the quarter ended 31st December 2018 is Rs.278 crores as against Rs.302 crores last year. Consolidated net profit after tax for the quarter is Rs.154 crores as against Rs.180 crores in Q3 FY'18.

For April-December period, company recorded consolidated turnover of Rs.10,586 crores, growing by 22%, With Nutrients and Allied business contributing to 87% and remaining 13% coming from the Crop Protection business. Year-to-date last year, Nutrients was 87 and CPC was 13.

In terms of subsidy/non-subsidy breakup, year-to-date revenue share is about 80/20, corresponding period last year was 78/22.

Profitability: Despite the external headwinds faced by the business during the year, company has recorded year-to-date EBITDA of Rs.1,184 crores as against Rs.1,071 crores last year. This is a 11% year-on-year growth.

In terms of subsidy/non-subsidy breakup, year-to-date EBITDA share was 69/31, corresponding period last year it was 70:30. Consolidated year-to-date PBIT is Rs.1,105 crores as against Rs.996 crores last year. Consolidated net profit after tax for year-to-date is Rs.610 crores against Rs.602 crores in the last year.

On the subsidy side, total subsidy outstanding as of 31st December is Rs.2,020 crores. This has improved from Rs.2,626 crores during the start of the quarter. Last year December 31st the number was Rs.2,271 crores. Subsidy outstanding includes Rs.1,100 crores, amount pending with DoF. During the quarter, we have also made good progress in terms of raising subsidy claims. Subsidy claims under DBT is submitted upto end of December'18. There has also been fair amount of progress in terms of old and freight related subsidy claims. During the quarter, company received Rs.1,269 crores of subsidy, last year this was Rs.334 crores.

On the GST side, we have filed GST refunds claim until November 2018. This amounts to close to Rs.312 crores. We are expecting the GST refunds to come in the next one or two months. This is currently being processed by the department.

During Q3, rupee depreciated to 74.49 level which is a 16% drop since the start of the year. Subsequently, rupee retraced and appreciated in November and December to close the quarter at 69.78. Coromandel has followed the board approved hedging strategy and is dynamically covering its exposure for optimizing the premium cost as well as minimizing any adverse impact that could result out of currency movements.

Financing cost for the quarter was at Rs.51 crores showing a reduction of Rs.19 crores from the previous quarter. Overall, our financing cost has moved up during the year mainly on account of higher working capital requirement and increased interest cost.

Increase in RM prices, higher inventory to meet the seasonal demand and migration to the DBT regime during the year had an impact on the working capital.

This completes our update for the quarter. We will be happy to take further questions. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Mohit Khanna from Nirmal Bang. Please go ahead.

Mohit Khanna: I had a question regarding the captive acid production. Correct me if I am wrong, currently, we have phosphoric acid capacity of around 0.25 mt and it should go up to 0.35 mt with ongoing Vizag expansion. If you could just reiterate the other sourcing that we have from Foskor, TIFERT and how much are you buying from the spot currently or how much did you do in FY'18?

Sameer Goel: We have different sources from where we get our acid. Apart from captive acid production, we get acid from our strategic investments Foskor and TIFERT and also from other places like Morocco and Jordan.

Mohit Khanna: The number that I have is in FY'13 you had somewhere around 0.6 mt of commitment from Foskor and other companies, TIFERT JV was somewhere around 0.2 and then from spot you bought 0.2 mt. So, could you just update the for FY'18 what actually was the numbers over here?

Jayashree Satagopan: As Sameer was mentioning, we procure our Phos-Acid from multiple sources. Foskor and TIFERT are our joint ventures where strategically we have invested in them so that we would be in a better position to a) secure our Phos-Acid supply; b) also negotiate with other suppliers. So that has been the overall strategy in terms of procurement of Phos-Acid. Having said that, both our joint ventures have been feeding into our requirements. Apart from that, we also source from multiple sources including OCP and few sources from Jordan. So the overall requirement currently for meeting up with the balance requirement in Vizag as well as for production at Kakinada is anywhere between 5.5 to 6 lakhs tons of Phos-Acid, which is what we import.

Mohit Khanna: This is not the market spot buying? This is separate?

Jayashree Satagopan: No, we do some amount of spot buying but typically we do have contracts with all our suppliers.

Sameer Goel: We do very small amount of spot buying.

Mohit Khanna: If I understand that over a period of years, spot buying has gone down and supply has gone up and so as the captive production?

Jayashree Satagopan: Absolutely.

Mohit Khanna: Right now we are at 24%, around coverage of full degree of utilization 100% capacity is considered and then we would go to 35% approximately in next couple of quarters?

Jayashree Satagopan: 3.5 lakhs tons of captive acid by2nd quarter of FY20.

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

Bhavin Chheda: A couple of questions. In the subsidy figure of Rs.2,020 crores, how much have you actually now filed with the government, one? And how much of the subsidy relate to the old subsidy which have been now filed or actually calculated and to be filed because what we understand is that you are expecting almost like Rs.1400-1500 crores to get cleared by next March. So, what is the status there?

Jayashree Satagopan: The total subsidy outstanding as of December is Rs.2,020 crores, out of which Rs.1,100 crores worth of subsidy bills have been submitted to the government and it is pending for receipts from the DoF. Currently, the government is running short of funds for disbursing the subsidy amount. However, they have indicated, like in the past, they will be coming up with the special banking arrangement wherein it is a subsidized form of loans that they give to the company. So all the subsidy claims that have been made to the government will be processed through the special banking arrangement which is most likely to come in February or March this year.

Bhavin Chheda: The balance Rs.900 crores the claims which you have not filed should be the November and December months sales which you would be filing in…?

Jayashree Satagopan: We have filed all the way up to December 2018. The balance represent Rs.600 crores which is pending for acknowledgement at the retailer level and some of the older claims which relates to balance claims, freight and some amount of urea.

Bhavin Chheda: So that you do not need to file with them and claim it or as and when you think where the POS machine at the retail level you get the data or the claim, then you will be able to file it?

Jayashree Satagopan: Under DBT, only when the POS acknowledgement happens, we can claim. At any point in time, all the companies would be having some amount of channel inventory pending farmers purchase from the retailers. For Coromandel, this is about Rs.600 crores.

Bhavin Chheda: If I missed out, did you give the Complex Fertilizer production numbers and the SSP production numbers?

Jayashree Satagopan: Complex production for the quarter is 6.4 lakh tons last year and current year is 7.3; DAP last year was 1.1, current year is 0.2 lakh tons.

Bhavin Chheda: This is your own production?

Jayashree Satagopan: Own Production, I am just giving you production only. On SSP last year it was 1.6 lakh tons, current year is 1.7.

Sameer Goel: This is for Q3.

Bhavin Chheda: So Q3 versus Q3 last year?

Jayashree Satagopan: Correct.

Bhavin Chheda: And did you share the sales volume number in the opening commentary?

Jayashree Satagopan: Yes, we have given, it is also on the website.

Sameer Goel: Overall sales has gone up by 12% YTD.

Bhavin Chheda: For the quarter?

Sameer Goel: Quarter we were down by (-5%). Complex is flat, DAP was down.

Bhavin Chheda: What was the December 31st gross debt numbers and cash in the books?

Jayashree Satagopan: Shall I come back to you on this?

Bhavin Chheda: Okay, no problem. Thank you.

Moderator: Thank you. The next question is from HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Can you just repeat the EBITDA and revenue between subsidy and non-subsidy and for nine months if you do not mind? Revenue I think you said is 78/22 versus 74/26.

Jayashree Satagopan: Correct. EBITDA for Q3 is 60/40, last year also were 60/40.

HR Gala: And now nine months turnover was how much -- 80/20 and…?

Jayashree Satagopan: Nine months turnover was 80/20, previous year was 78/22. EBITDA share is 69:31, v/s last year's 70:30.

HR Gala: Now, looking to our P&L numbers, in fact we did say that our material cost increase impacting our profitability, but really if you see as a percentage to sales, material cost has increased by 0.3%, whereas I think the real increase has come in the other expenditure, which has increased from 163 to 246 crores YoY nearly 50%. So, is there any one-off item in the other expenditure?

Jayashree Satagopan: I will give you breakdown on the 'Other Expenses'. You are right, we had an increase in the material cost as well, but since you are seeing the other expenses going up it is not reflecting as much in the cost of material. During the year, we have seen that the prices of almost all the raw materials be it Phos-Acid, ammonia, MOP, have all gone up on a comparative basis compared to prior year. To counter these raw material increases, we have taken pricing action. Now, let me come to the other expenses. There are three main areas where we have seen an increase in other expense compared to prior year. One is relating to the marketing and branding initiatives that the company has taken. You would have also heard that we have introduced several new products during the year. So that has seen an additional cost that we have incurred. The second one is the company is going through a long-term planning exercise for which we have engaged professional consulting firms to support us. The third is on account of foreign exchange. Last year corresponding period, we had a gain in terms of foreign exchange, whereas this year we have a premia cost. Last year as you would appreciate, rupee was more or less stable around 63, 64 levels all through and in line with our hedging policy, where we had taken covers as well as options. This year with the highly volatile rupee, options would not prove beneficial, therefore we have taken forward contracts which means there is a premia cost associated with the forward contracts. All these components are the reason for an increase in the overall expenditure. Having said that, if you look at a prior quarter ending September 30 2018, it was Rs.285 crore.

HR Gala: How much was the forward cover cost versus the gain in Q3?

Jayashree Satagopan: This year we had forex impact of close to Rs.20 crores, last year we had a gain close to Rs.30 crores.

HR Gala: That is a big swing?

Jayashree Satagopan: Yes

HR Gala: Just the last question from my side. Now we are looking at a scenario where the material prices are going up, etc., Now, looking to the election coming, how do you see by 31st March government will decide the new subsidy rates because that is going to be very vital?

Jayashree Satagopan: Typically, the government invites inputs from the industry. They take the inputs from us as well as various other players and then the subsidy rates get decided and communicated somewhere in the month of March. Currently the government is in the process of taking our inputs. The subsidy rate gets fixed based on few parameters: One is the DAP prices. The second one is also the rate at which we are importing. While the DAP prices compared to last quarter, current quarter the prices have come down. Compared to last year if you see, there has also been an increase in the forex rate; against 64 currently rupee is trading around 71.50. The government takes into consideration all these inputs as they come up with the subsidy numbers. Being an election year, there are also other factors that government normally looks into because if the subsidy gets reduced, the MRP need to go up. There are multiple factors that the government considers before coming up with the subsidy. Currently, they are going through the process.

HR Gala: Do you think the government plan to give Rs.4,000 per acre direct cash benefit to the farmers would be a precursor to do away with the fertilizer subsidy over medium to long term?

Sameer Goel: The newspaper reports carry that intent. We have to wait and see what they are going to do. Obviously, the scheme has done some good to the farmers in Telangana because it has gone directly to the farmers and our own estimate is around 75% gets used in agri inputs purchases. So, we need to see. There is also a question of tenant farmers and how do they get reimbursed. And also, to implement the scheme, it is very important that the land records are totally computerized and digitalized. So, we will have to wait and watch in terms of how this is going to happen.

HR Gala: Each state will have its own policy or it will be imposed by the central government?

Sameer Goel: It depends. States can announce their own policies, West Bengal has already done that but if the Centre plans to implement, then the state has to adhere to it.

HR Gala: This Phos-Acid prices, etc., have come down a bit?

Sameer Goel: Because it is a non-season, in number of markets there is certain amount of softening in terms of the demand. But this depends on the negotiation which the companies have with the suppliers.

Jayashree Satagopan: The rate for the quarter are yet to be finalized. Negotiation is currently in progress. However, depending on the demand/supply situation, we do expect that the prices have to be softer compared to last quarter.

Moderator: Thank you. The next question is from Darshan Mehta from UBS Securities. Please go ahead.

Darshan Mehta: My question was basically on the crop protection side. So, can you tell us how is the competition shaping up now and Bayer? Basically, if you can give the overall size of Mancozeb and Brazil in terms of volume, so what would be the overall market size in terms of volume?

Jayashree Satagopan: Overall, if we look at crop protection, we look into two markets – One is export and the other one is domestic. We have seen a growth in the export business during the quarter. As Sameer was alluding, the domestic market given the drought like situation in many of the key markets and the lower pest infestation, we have not seen much of a growth during the quarter. We have to just wait and watch how the balance three months in this fiscal year turns in. As a policy, Coromandel would be cautious in terms of doing much of preplacement. We will be working with the market based on the demand requirement.

Darshan Mehta: So, can you just tell me in terms of specifically Mancozeb how is the competition shaping from Dow and Bayer coming in, I mean, are we seeing any pricing pressure or any change in our demand for our products or something?

Sameer Goel: Dow is always there. The major players here are UPL, Indofil and us in terms of manufacturing presence. In our export markets, we operate at very different levels. Our biggest growth markets for Mancozeb are Southeast Asia, Africa and Central America. We do not currently play much in Brazil, which is a big market for UPL. What we are looking at is not just Mancozeb but various type of Mancozeb variants. And given the new capacity which we have added, we are also looking at putting up formulation facilities there which will help us to penetrate these markets. We have also launched combination molecules of Mancozeb which is giving us a lot of attraction. So that is how we are in terms of developing the market.

Darshan Mehta: So, in terms of Bayer, like just correct me if I am wrong, it has also launched combination molecules of Mancozeb so are we seeing any competition from that product?

Jayashree Satagopan: We have not seen that. As I said, our markets are different

Darshan Mehta: So we are not seeing any…?

Jayashree Satagopan: No, we do not see it.

Darshan Mehta: And sir would it be possible for you to give any color on average realization that we have for Mancozeb?

Jayashree Satagopan: Normally we do not share that input, sorry.

Darshan Mehta: So can you just tell me what would be the utilization level in terms of, I suppose we have 35,000 tons capacity, so at what utilization level is this capacity working on?

Jayashree Satagopan: Typically, we operate between 80% to 85% of capacity utilization for Mancozeb.

Sameer Goel: And the capacity expansion is more towards product upgrades, so we can continue to grow the market.

Darshan Mehta: But this 80%, 85% is for 35,000 tons, right?

Sameer Goel: Right.

Moderator: Thank you. Our next question is from the line of Sumant Kumar from Motilal Oswal Securities. Please go ahead.

Sumant Kumar: So, as we are talking about there is an unfavorable Rabi sowing going on, so how is the channel inventory currently in AP, Telangana and Maharashtra where we have a higher presence?

Jayashree Satagopan: We are selling as per the demand. Especially with the new DBT regime, it is always good to sell as per the consumption, so that is a major change. We are strengthening our branding activities. So our channel inventory and sales have been moderated. So we have not done any pre-placement per se.

Sumant Kumar: Second question is regarding the pre-DBT subsidy amount. So how much is pre-DBT subsidy amount as on December?

Sameer Goel: That has come down quite dramatically.

Jayashree Satagopan: The pre-DBT subsidy amount what we need to submit to the government is close to about Rs. 500 crores.

Sumant Kumar: So currently it is Rs. 500 crores?

Jayashree Satagopan: Currently what we need to submit to the government is close to Rs. 500 crores. What we have already submitted to the government is close to about Rs. 630-odd crores. If you look at the government disbursal of subsidy claims, they have been giving priority to disbursing DBT related subsidy in the order of urea, then NPK, the last being SSP. Some of the claims that we have already submitted with the government is yet to be processed and money is to be given to the company.

Sumant Kumar: The Rs. 630 crores what we have submitted earlier, we got that?

Jayashree Satagopan: No, we are awaiting funds from the government.

Sameer Goel: But even the 10% was as high as Rs. 900 crores, now currently it is standing at roughly Rs. 550 crores.

Sumant Kumar: So that Rs. 550 crores is included in Rs. 2,020 crores?

Sameer Goel: That is right.

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

Girish Raj: So, production of 7.3 and sale of 5.2, would this mean more than 2.1 of inventory in the market?

Sameer Goel: No, it is our inventory.

Girish Raj: Is this a higher level of inventory compared to any previous year, because DBT would not incentivize us to keep.

Jayashree Satagopan: Correct, the level of inventory compared to earlier years is higher. If you see in the prior years' most of the companies used to produce and invoice it to the dealers. Currently, under the DBT regime, companies receive subsidy only when the sales transaction gets recorded through a POS machine, when a farmer makes a purchase through Retail outlet. Therefore, we also have the finished goods that is being kept with us rather than being invoicedto the dealers. So that is why the finished goods inventory has gone up compared to prior year.

Girish Raj: Okay. Which means the production for fourth quarter will be relatively lower?

Jayashree Satagopan: Yes, fourth quarter we are also taking an annual turnaround, but we will continue to produce as per our plan. Because you see that the production has to happen evenly through the year. The sales are going to happen during the two seasons. During the season there is only a certain peak capacity up to which you can go. Therefore, under DBT the entire business model goes through a change where production happens on a linear basis through the year, sales will happen in couple of seasons over a period of six, seven months. During the balance period you will see that there is an inventory buildup in the companies.

Sameer Goel: So, as per our planning what we have done is, last year we had certain amount of issues, especially in the first quarter of the year where we had issues with the rake movements. We do not want to get into that position, so we are building up the stocks, but we will keep it with us.

Girish Raj: Is the same reason why freight and distribution expenses has gone up, because the volume was down but freight and distribution expense was high by 7.5%?

Sameer Goel: No, that is not to do with volume, it also depends upon the rake availability and the type of transportation that is being used. We have also moved some of the stock to the warehouses.

Girish Raj: So that is the reason, is it?

Sameer Goel: Also, the price increases which happen.

Jayashree Satagopan: Yes, with fuel cost going up there is also increase in the rates.

Girish Raj: One more thing, this CPC EBITDA margin we had indicated 15% to 16% and we are close to that, but is that guidance maintained for the full year?

Jayashree Satagopan: Yes, I think we should hold it around those levels, yes.

Sameer Goel: Especially with the launch of new products we are expecting this.

Girish Raj: However, the volume for fourth quarter would be lower because we are cautious, is the understanding, right?

Jayashree Satagopan: No, we would try to maximize the volumes during the quarter. Having said that, this will be as per the demand.

Girish Raj: True. And finally, 20% decline in the unique grade volume, any specific reason?

Jayashree Satagopan: There is no decline in the unique grade, I do not know where you got this from.

Girish Raj: So, manufactured phosphatic 6.2 at 41% and this quarter it was 39% of 5.2.

Sameer Goel: During the year, we have looked at importing DAP instead of manufacturing DAP and using the Phos-Acid to make our NPKs. Now, as far as the unique grade is concerned, we have actually grown by 19% from April to December.

Moderator: Thank you. Our next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: I had a couple of questions. Firstly, if I was to look at the subsidy outstanding figure in the last couple of years we were basically around that Rs. 2,600 crores mark. And just wanted to check, given that you are expecting the GST refund and through the special banking arrangement we are expecting funds to come in Q4, end of March what do you think would the outstanding from the government subsidy looks like in terms of rupees crores?

Jayashree Satagopan: Kashyap, as we were mentioning last time, once the special banking arrangements are through, I am expecting somewhere close to Rs. 1,500 crores.

Kashyap Pujara: So basically a subsidy outstanding in the balance sheet that we publish post March, we would basically look like more in the range of Rs. 1,000 crores plus whatever gets added, so maybe in the Rs. 1,500 crores range, would that be a right assessment of where the outstanding would look like?

Jayashree Satagopan: Yes, outstanding subsidy should be in the range of Rs. 1,500 crores.

Kashyap Pujara: Basically, there should be a moderation from there if one were to basically look at a two, three-year horizon, given that DBT and everything starts would be smoother. So, would that be fair to assume that basically we have a Rs. 100 crores of leverage on interest cost which can straight away be captured on bottom-line because you are still running high on interest cost and would that be a fair assessment?

Jayashree Satagopan: I think it is too early to comment, Kashyap. Even though we are telling that the subsidy would be in the range of Rs. 1,500 crores, this is going to most likely come through a special banking arrangement which would be in form of a subsidized loan from the government. The timing of it mostly comes during the third or the fourth week of March. So, during the quarter if government is running short of funds, we are going to be borrowing funds..

Kashyap Pujara: No, that is fine, I am not talking about the next quarter in particular, I am saying that if I basically were to take a two, three-year horizon my interest costs are only going to head south from where we are, given that we will be receiving the money?

Jayashree Satagopan: Yes, I think the interest cost directionally has to come down, and I fully agree with you. Having said that, let us also note that the sales are going to only happen during the seasons, and therefore the inventory holding in the company would also have an implication on the interest cost. This year has been high because, one, the inventory holding has been higher, the subsidy receipts were delayed and started coming now. Next year we do expect that overall the interest cost should come lower.

Kashyap Pujara: Sure. Now, another point is that FY18 was a fantastic year for Coromandel, like arguably over the last five, seven years we reported one of the best years for us on an overall basis. Still during the fourth quarter of last year we were hit on two-fold, obviously one was rising raw material prices which thankfully in FY19 have been passed on, but there was a Rs. 35 crores to Rs. 40 crores of hit because of port rental which came in Q4. Now, given that such kind of one off is not there in Q4 current year, would it be fair to assume that a fourth quarter current year would look far better because of this one off not being there?

Jayashree Satagopan: No, the fourth quarter we would not have any of the one offs as we witnessed in the last year. Having said that, it all depends upon the volumes, as well as the prices that are to be held in the market. Currently, with the softening of the raw material prices, there is already expectation in the market that the MRPs might come down or there would be a higher level of discounting. So one needs to factor that in. We do expect fourth quarter to be a normal quarter and without any one offs coming in.

Kashyap Pujara: And for the full year what is the kind of, YTD if I were to look at it, what is the total price increase that we have taken as far as our fertilizer is concerned? I mean just to get a broad sense because last year we did not see such a situation, this year we have seen RM cost coming up.

Sameer Goel: Roughly in the range of 25% to 30% price increases in line with the raw material price increases. That is for the industry as a whole. The NPK sales have gone up, especially for the lower grades while DAP sales have got hit, anyway, our focus is on NPK.

Kashyap Pujara: I have just one directional question before I give the questions back to the queue, and apologies to everyone for this. If you look at last five, six years, as I said, FY18 was a remarkable year and one of the best years, and the concern was that on such a high base whether we will be able to replicate a performance of that magnitude. But despite the challenges of the current year we have managed to basically cross, optically at least, on a run rate basis we are crossing both on top-line and bottom-line the FY18 number. Now from here on if one were to take a two to three-year view, on one side we clearly understand that the government outstanding will shrink, but directionally as far as business is concerned, what are your thought, how should one look at the next two to three years from a business stand point?

Sameer Goel: We look to continue our strategy - firstly it is to promote unique grades and to get new products so that we give a better offering to the farmers. We expect the Phos-Acid project to come up during the next year, which will reduce our dependence on traded Phos-Acid and make Vizag fully integrated. We are strengthening both our branding and our farmer reach activities in all the channels and that is paying dividends, especially for our new products and unique trades. SSP has actually turned around very well and we are the market leaders. The GST regime and the subsidy getting claimed through the RO module is helping the business. We have launched new products in SSP, that will also help us to consolidate our position as far as the single super-phosphate is concerned.

Coming now to the non-subsidy business, we continue to invest both in terms of capacity and capability in terms of our crop protection side. Our specialized nutrition business is doing very well. Retail has had a bit of a soft quarter this year because of our dependency on Rayalaseema, which suffered a drought like situation. But we are now expanding it both by crops and by category. It has been a flattish year for retail, but it will continue to expand. We have profitable operations and will continue to adopt agri tech. Our new acquisition Bio has done exceedingly well, it takes us to markets like America and also to Europe. We look at expanding even further by enhancing the capacity and increasing our distribution reach. So, all in all, some of the enablers is strengthening our brands and increasing the feet on the ground with agronomists. We are expanding our base in international markets where we are now setting up subsidiaries so that we can own the registration and also start marketing activities there.

Moderator: Thank you. Our next question is from the line of Naveen Shetty, who is an individual investor. Please go ahead. There seems to be no response from the line of Naveen Shetty, we will move to the next question. The next question is form Abhijit Akela from IIFL. Please go ahead.

Abhijit Akela: Sir, just on the volume numbers, I couldn't find 3Q numbers on the website, I did find the 2Q numbers but not 3Q. So if it is possible to just give us the breakdown, that would be helpful.

Jayashree Satagopan: Okay. What exactly do you need, Abhijeet?

Abhijit Akela: The sales volume breakdown for the quarter.

Jayashree Satagopan: Sales volume for complex is 5 lakhs, DAP is Rs. 0.9, so total phosphatic is 5.9 for the quarter.

Abhijit Akela: Then the EBITDA per ton from the fertilizer business seems extremely strong this quarter, almost Rs. 3,500 or so, by my calculation. So, first of all, is that correct? And any element of one off in that?

Jayashree Satagopan: There is no element of one off, it comes closer to about Rs. 2,800 to Rs. 3,000.

Abhijit Akela: And lastly, in terms of the future growth plans, beyond the phosphoric acid capacity expansion, are there any further plans in fertilizer itself or will we sort of focus on the non-subsidy business for growth? And any numbers you can give in terms of the CAPEX budget going forward for the next few years?

Jayashree Satagopan: In terms of fertilizer we are definitely looking at debottlenecking some of our plants to increase our capacity, that is part of our ongoing process. The focus definitely is going to be on the non-subsidy business and that is in line with our strategic plan. Having said that, we are currently in the process of firming up our budget for the next year and hopefully in the next call we would be able to share with the CAPEX numbers and other guidelines.

Sameer Goel: And just on the fertilizer business, we will continue to increase our share of unique grades. We have just launched a new product in the market, we also have strengthened the agronomist team. We are also now looking at new technology, particularly we are working with IIT in terms of developing some very new products on our plant nutrition side. So that will take a couple of years. The government itself is very much focused on customized fertilizer. With the market share growing, we intend to strengthen our market position not only in our primary market but also the secondary markets. We are also looking at the synergy between our fertilizer business and the SSP business, which will help us to increase our market reach. The government allows us now to go to markets beyond 1,400 kilometers where we are already present, so we are going to strengthen that.

Abhijit Akela: And lastly, the crop protection business margins, how are you seeing the pricing pressures now behaving? Is there any sign that raw material costs are beginning to come up?

Jayashree Satagopan: I think raw material cost is more or less stable. As we indicated earlier, we have a China desk and the team has started leveraging the China office really well. So we are looking at pockets when we have to place our orders and lock-in our raw materials, so that is happening effectively. That is one of the reasons how we have been able to manage our raw material prices reasonably well in the crop protection side. We have also taken price increases to counter the RM increase that happened last year and that has been received reasonably well in the market. Mancozeb, depending on the supply situation, there are some pricing pressures in few markets, and the team is working that out with their competitive strategy.

Sameer Goel: A big thing for us is the new products which we are launching. We do anticipate this year to have around Rs. 85 crores to Rs. 100 crores coming out from these new products.

Abhijit Akela: That is in FY20, right, in the Kharif season?

Jayashree Satagopan: No, the new product sales which Sameer is referring is for the current year, we have already launched four new products in CPC, two of them are patented combination molecules which have been received extremely well and two of them are co-marketed molecules. Totally four of them have been introduced thus far and we are looking at commercializing two more molecules in the coming quarter. All of these put together for the year we are expecting a sale of about Rs. 80 crores to Rs. 85 crores, which is a pretty healthy business for us.

Moderator: Thank you. Our next question is from the line of Mahantesh Marilinga from Finquest Securities. Please go ahead.

Mahantesh Marilinga: Just a few questions here, you mentioned that you can go up to certain number on peak capacity, like what is the reason for that, we cannot exceed that?

Sameer Goel: Sorry, I couldn’t understand that.

Mahantesh Marilinga: Madam mentioned that we can go up to certain peak capacity, not more than that. What is the reason for that, is there any constraint there of maximum limit?

Jayashree Satagopan: Yes, each of the plant has a certain installed capacity and we will be able to meet that level of capacity. However, during the crop season, the requirement from the market may be much higher. So to meet with the market requirement, one has to produce through the year and hold inventory, so that we are able to supply when the market demand is there. That is what I was referring to.

Sameer Goel: Currently our capacity utilization is 87%, so we also have plans to debottleneck, we can also play around with the grades which we produce because the throughput of certain grades are different. So that is the flexibility which we have with us.

Mahantesh Marilinga: And coming to the fertilizer sales last season and all, you have increased the prices, was there any demand decline due to the higher prices that you passed on?

Sameer Goel: No, the main thing which we did see in fertilizer was that the farmers moved from higher 'P' grades like DAP, to the lower 'P' grades and unique grades. So there was a greater consumption of that.

Mahantesh Marilinga: Like SSP and all?

Sameer Goel: No, not SSP, I am talking about the NPKs.

Mahantesh Marilinga: That's why even you shifted some of the production to NPK?

Sameer Goel: Our objective always is to maximize the production on NPK because DAP is more of a commodity.

Mahantesh Marilinga: And off late even the crude oil prices have come down, so some of the derivatives of the crude oil like benzene might be used in your crop protection, so are you having some saving in the raw material from this quarter and next quarter?

Sameer Goel: Yes, we are looking at softening of raw material prices across, but it also depends on what the exchange rate is going to be.

Mahantesh Marilinga: But actually if you look at the last quarter's realization it was around 70, right?

Jayashree Satagopan: Sorry?

Mahantesh Marilinga: Q3 the average rate that you have taken into account?

Jayashree Satagopan: So Q3, as I was mentioning during call, rupee went almost close to Rs. 74.50-odd, and then it strengthened to Rs. 69.80. So during the quarter on an average it has been around Rs. 72.

Mahantesh Marilinga: Okay, so now it is around same levels this quarter, or how is that, what will be your take?

Jayashree Satagopan: This quarter there are varied response that comes from our bankers and FOREX consultants. They expect it to be stable, mostly they expect it to be between Rs. 70 to Rs. 72. Having said that, any shock in the crude oil prices or the upcoming elections, plus any US-China trade situation could have an adverse impact on the rupee. These are three factors one have to continuously keep watch on. Otherwise generally the indications are, we do not expect a very high volatility during the quarter, but there could be instances where either political news or global trade wars between US-China, or crude prices that can intermittently impact the volatility as well as the currency depreciation.

Mahantesh Marilinga: We also use gas to produce ammonia, right?

Jayashree Satagopan: No, we do not produce ammonia, we import.

Mahantesh Marilinga: Okay, because actually in the last quarter there was some spike in the gas price, now it has slightly cooled down. Just wanted to try to answer if there is any impact on your raw material price?

Jayashree Satagopan: Ammonia prices are also expected to soften globally. We always import ammonia for our requirements.

Moderator: Thank you. We will be able to take one last question, we take the last question from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Circling back to the question on the inventory in the market, I do understand that you mention that gap of 7 and 5 where we have stocked at our end, wanted to understand the inventory at the market? And if Rabi season continues to be bad, do we see a challenge in terms of adequate margins if the competitor starts cutting prices to clear the stocks off?

Sameer Goel: We have very strong brands and specially with unique rates, so we do not have to really discount out to competition. Even in Q3 last quarter we do see a lot of discounting which had happened by the competition, but we were able to hold out. So we do not see that to be a problem, given the fact that our brands are very strong. This is mainly on DAP which basically industry has imported out and there we see softening, and consumption coming down. And like I said, we are not into DAP play, we are more in the NPK side.

Vishnu Kumar: So, most of the inventories that we have stocked is also on the NPK grade and not on the…

Sameer Goel: We had one consignment of imported DAP which came later, which we are also supplying to institutions.

Vishnu Kumar: And if you could just give some color on the total CAPEX that we have spent till now and the target for next year as well, FY19 and FY20 and amount spent?

Jayashree Satagopan: This year we had estimated close to about Rs. 90 crores of spend on CPC, we expect to close it around Rs. 65 crores – Rs. 70 crores. On the fertilizer business we were looking close to about Rs. 200 crores to Rs. 250 crores of spent, primarily on account of Phos-Acid expansion as well as other normal capital expenditure. That is going on track as of now. The business plan for next year is being worked out, so probably in the next call, Vishnu, we would be able to give you numbers in terms of the CAPEX plan for fiscal year 2019, 2020. Typically, normal maintenance CAPEX for fertilizer would be about Rs. 150-odd crores and about Rs. 40 crores, Rs. 50 crores for CPC. However, considering some of the new product introduction that is being planned out, there could be additional capital requirement coming here, that is currently being summed up internally.

Moderator: Thank you. We will take that as the last question. I would now like to hand the conference back to the management for any closing comments.

Sameer Goel: Thank you. I think overall, despite all the environmental challenges, Q3 has been in a way turned out to be a good quarter for us. We have been very resilient in our performance and I would like to compliment the team. We have increased our market share in most of our operating markets. And we continue to introduce new products and strengthen our branding and marketing activities. We worked closely with the farmers to get new products and will continue doing that as we go along. So thank you very much for this.

Moderator: Thank you very much. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us, ladies & gentlemen. You may now disconnect your lines.