"Coromandel International Limited Q3 FY'20 Earnings Conference Call"

February 3, 2020

MANAGEMENT: **MR. SAMEER GOEL – MANAGING DIRECTOR, COROMANDEL INTERNATIONAL LIMITED**
MRS. JAYASHREE SATAGOPAN – CFO, COROMANDEL INTERNATIONAL LIMITED

MODERATOR: **MR. MANISH MAHAWAR – ANTIQUE STOCK BROKING**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Coromandel International Limited Q3 FY '20 Earnings Conference Call hosted by Antique Stock Broking. 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 the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. I now hand the conference over to Mr. Manish Mahawar, from Antique Stock Broking. Thank you and over to you, Sir.

Manish Mahawar: Thanks, Faizan. On behalf of Antique Stock Broking, I would like to welcome all the participants in the earnings call of Coromandel International. From the management, we have Mr. Sameer Goel, Managing Director, and Mrs. Jayashree Satagopan, CFO on the call. Now, I would like to handover the call to Mr. Goel for opening remarks. Over to you, Sir.

Sameer Goel: Thanks, Manish. Good Afternoon everyone and thanks Manish for organizing the conference call. I will give an overview of the business environment experienced during the quarter followed by the company's performance and then the Q&A session will be there. Overall, as we had mentioned, North-East monsoon has been above normal during the quarter and ended up 29% above average. In the company's addressable market in the South, the rainfall was 16% higher than the five-year average, however, in the crucial Rayalaseema area, the North-East monsoon was just 1% above the average. Good monsoon resulted in higher reservoir levels compared to last year and long-term averages, major reservoir across the country are filled up to 72% of capacity which is 22% higher than long-term period averages. In our main markets of AP and Telangana, reservoirs are filled up to 57% capacity which is 17% above long period averages. Conducive weather in North and Central India led to very good crop sowing for the country especially on wheat. Sowing is up by 9% over last year driven by wheat crop, sowing which is higher by 12% over last year. In the addressable markets of the company, it is up by 13% led by Paddy which is up by 28%.

Coming on to the fertilizer industry performance for the quarter, good monsoons and more acreage under cultivation resulted in growth of fertilizer market. Phosphatic fertilizer industry primary sales volume is up by 23% at 61.7 lakh metric tons versus 50.3 lakh metric tons of previous year. Point of sales which is through the DBT machine, which is a indicator of real consumption at the farm level has grown by 20% over last year, 82 lakh metric tons versus 68 lakh metric tons previous year same quarter. Complex primary sale volume for the quarter are 26 lakhs metric tons versus 21 lakh metric tons of the previous year. POS sales for Q3 is at 34 lakh metric tons versus 29 lakhs metric tons previous year. Complex primary sales are basically NPK sales without DAP. The major raw material continues to show a softening trends, phos acid prices for Quarter-4 has been finalized at $ 590 per metric ton compared to Quarter-3 prices of US $ 625 per metric ton. For the year-to-date, there has been a good catch up especially after the Quarter-1 was soft. Phosphatic fertilizer volumes is at 157.3 lakh metric tons versus 146.2 lakh metric tons of previous year registering a growth of 7% year-on-year. The complex volumes for NPK for the year to date has been 74 lakh metric tons versus 69 lakh metric tons of the previous year. The DAP volumes is at 84 lakh metric tons versus 77 lakh metric tons over the previous years. In the last three quarters, industry has passed on the benefit of soft raw material prices to the consumer and overall MRP has been brought down by around 15%. DAP MRP has come down from 29,500 per metric ton in March to 25,000 currently, this is at our level and prices of some competition is even lower. Further, there has been discounts which has been given to the trade.

Coming on to Coromandel's performance, Coromandel registered a strong performance in Quarter-3 with its continuous emphasis on superior sales, mix, farm connecting initiatives, increased operational efficiencies, and better working capital management. The North-East monsoon has helped in improving the crop acreage in most of our addressable markets except West Bengal, which has led to an increase of agriculture input consumption. Coming now to segment wise performance on nutritional, for the quarter the nutritional and allied business segments registered a very good performance during the quarter. On the sales front, in Quarter-3 manufacturing phosphate volumes are up by 43% to 7.5 lakh tons and overall volumes for the phosphatic fertilizer is up by 28%. Total volume for the company is at the same level as last year primarily due to reduction in urea sales volume by 42%. As you are aware that last year, we used to handle Kandla port for imported urea in the West, which we had given up this year.

Company market share in Quarter-3 is 13% up by 1 percentage point over last year. Company has maintained its fierce market share at 10% for the quarter. Normally, Quarter-3 is not a very good quarter for us in terms of consumption because the main season actually has got extended this time because of the delayed kharif which will last up till middle of February. For the quarter, the share of unique grades stands at 39%, same as the previous years. During the quarter, our phosphoric fertilizer plants operated at 93% capacity recording a production of 8.2 lakh tons, last year was 7.4 lakh metric tons at 83% capacity utilization. The company has strengthened its marketing and farm outreach programs with the agronomist team and has relaunched its fertilizer under the brand name called 'Gromor Smart' which has been very well accepted by the farmers. Production for the newly commissioned phos acid plant at Vizag has stabilized. With this, Vizag plant has become fully self-sufficient for its phosphatic acid requirements. Other major infrastructure projects were improving capacity, storage, and efficiencies are progressing well. Year-to-date, YTD manufacturing phosphoric fertilizer volumes is up by 9% and overall volume for phosphatic fertilizer is at the same period as previous year. We did less of DAP import this year, but concentrated more on our manufactured fertilizer. Total volume for the company is down by 15% over last year primarily due to urea sales which I had already alluded to.

Market share of the company during the first half is at 16% versus 17% last year. Company maintains its market share for POS sales at 15%. This is expected to increase as the Quarter-3 mainly the sale is on DAP because of the wheat, which is grown in North and West, which is outside our marketing range. The share of unique grades stands at 36% versus 39% of last year. During the nine-month period, our phosphatic fertilizer plants operated at 83% capacity utilization recording a production of 22 lakh tons, which is the same level as previous years. Single Superphosphate sales was at 1.5 lakh metric tons, year-to-date the sales have gone up by 8% to 4.7 lakh metric tons. We continue to be the market leader in SSP sales and market share is now at 14.1 up from 13.8 last year. SSP production went up by 20% year-to-date to 5.2 lakh metric tons. Company has increased capacity of 'Grow plus', a superior SSP product. On the crop protection side, crop protection segment had recovered from its soft performance in the last two quarters, plant operation at Sarigam has been fully stabilized. This segment recorded a turnover of 460 crores for the quarter; it was 441 crores for the same quarter last year. The domestic business registered a healthy growth in both our formulation business, which is B2C and in the B2B segment during the quarter with a focus on newly launched and co-marketing products.

The Pyrazosulfuron plant was successfully commissioned at Sarigam and production commenced at the WDG facility for Mancozeb at Dahej. During the quarter, the company launched ASTRA Pymetrozine, a new generation insecticide, which will strengthen its portfolio in the crop protection segment. Coromandel is the only company in the country to have production of both technical and formulation for Pymetrozine. Company is working with co-marketing and license partners to launch new products in the coming quarters. We continue to invest in new product development building strategic alliance, technology transfer, increasing the market reach and customer connect. Bio business continued to strengthen its manufacturing capability and product development. Company has got EPA registration for Neemazal granule product. Company is working on tree injection, a new delivery mechanism for bioproducts. Our retail business, the company through its large retail network continues to promote balanced nutrition through its soil testing and organic solutions to improve farm productivity. It is working on several Ag Tech and farm mechanization initiatives. On the sales front, sales of non-fertilizer business improved to 53% versus 48% for Q3. For year-to-date, it has improved to 47% from 41% last year. This is part of a deliberate strategy of the company to promote more of non-fertilizer as there is a huge opportunity with our direct connect with the farmers on non-fertilizer business.

Specialty nutrition business has been doing exceedingly well. The business continues to adopt focus product approach in promoting superior products which is what our farmers need for their agri to improve their agri productivity. The company launched its manufacturing micronutrient enriched products during the quarter. Company is working on crop specific water-soluble products to strengthen the portfolio in this segment. As a part of the medium and long-term growth initiatives, Coromandel is focusing on strengthening its core business and investing in research and development, data analytics, and agri-tech interventions. Overall, it has been a great quarter for Coromandel. The enhanced sowing during the ongoing Rabi season is expected to continue in the South to generate good demand for agri input consumption. Our focus area will remain on farmer connect, branding, and marketing initiatives, operating and supply chain efficiencies and improving customer offering. Coromandel being a leader in agricultural solution provider will continue to drive from productivity and support farmer prosperity. Now, we will have Jayashree talking about the company financials, which will be followed by question and answers.

Jayashree Satagopan: Thank you, Sameer and I will now provide update on the company financials. For Quarter-3, in terms of turnover, the company recorded a consolidated total income of Rs. 3288 crores during the quarter, which is 7.4% higher with the same quarter prior year. Nutrients and allied business contributed to 86% share and the remaining 14% coming from the crop protection business. Q3 last year, nutrients was 85 and CPC 15. In terms of subsidy, non-subsidy share stands at 77% and 23% during the quarter, previous year it was at 78% and 22%. Profitability: EBITDA for the quarter is Rs. 432 crores against Rs. 304 crores of last year, which represents 42% growth on a year-on-year basis. EBITDA margin improved to 13.1% from 10% during the previous year, the margins were supported by good sales mix, soft raw material prices, and operational efficiencies. Subsidy business share of EBITDA was at 73%, which was at 69% prior year same quarter. Net profit after tax for the quarter is Rs. 255 crores in comparison to 154 crores for the corresponding quarter last year registering a year-on-year growth of 37%.

For the nine-month ended December 31st, the company's consolidated total income is Rs. 10,296 crores vis-a-vis 10,615 crores for the same period last year. Subsidy revenue is at 81% of the total revenue versus 80% during the previous year. EBITDA at 1340 crores versus 1184 crores of last year, which represents 13% year-on-year growth. Subsidy share of EBITDA is at 77% versus 74% of prior year. Profit before tax is Rs. 1064 crores against Rs. 929 crores of last year. Net profit after tax is at Rs. 831 crores, which was Rs. 610 crores during the same period last year. In terms of subsidy outstanding as of December 31, 2019, the amount is Rs. 1670 crores, this compares to 2020 crores outstanding during the prior year. Subsidy outstanding includes Rs. 630 crores relating to channel stock pending POS acknowledgement and Rs. 639 crores, which has been claimed and pending with the Government. During the quarter, subsidy released from the Government was Rs. 972 crores, last year this number was 1269 crores. During Q3, Rupee remained volatile and traded in a broad range between 70.50 to 72.13, while Rupee recovered slightly during December '19, driven primarily by improvement in the US-China trade talks and improved inflows into the country. Coromandel continued to follow the Board approved hedging strategy and is dynamically covering its exposure managing the portfolio.

During the quarter, working capital position improved and this resulted in reduction in the interest rate, which was further helped with the lower interest rate prevailing for the quarter. The net interest cost for the quarter was at Rs. 37 crores and 9 crores on account of regrouping due to accounting treatment of Ind-AS 116. For the quarter, effective tax rate is 25.5%, this is in line with the company's adoption of the new tax rate of 25.16%. In terms of financial performance, it has been a great quarter overall. Thank you very much for your interest in Coromandel and joining us in the call today. We shall open the session for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: My question is more on a broader side for FY '21, so FY '20 we saw that in the fertilizer segment you have changed the mix away from urea, any such macro-level strategy going into FY '21 or we will continue on the current mix which we are following, that is question number one?

Question number two, on the crop protection side, so this quarter I think from a margin perspective there is an improvement in the margin for the crop protection segment, so what is driving improvement and what is the outlook for FY '21, is it margin improvement driven by backward integration, new product mix or there is some other elements also and it would help if you could cover the new launches which you have planned next year, not into disclosures but what is the theme there next year?

Sameer Goel: Thanks for complementing. Firstly, I do not think there is any change of mix as far as fertilizer is concerned. Urea is normally, we only market urea primarily for our retail store business and also to help some of our dealers who are interested in urea, it is never our strategy to build the urea volumes. Until last year, for three years, we had a contract at Kandla in the West wherein we were losing money, and therefore, we were not interested in continuing that port for urea, it was not also helping our other businesses as such. That's why we now have the allocation of Krishnapatnam port and we will continue to do marketing of urea, so there is no change of strategy. Our strategy is always to promote balanced nutrition and if you see the latest outline where the Ministry or the Agriculture Ministry and even at the Prime Minister's level, there is a strong push towards promoting balance nutrition because urea is being over-utilized in the country, so there is no change in our strategy, in fact we have been on this for a long time.

As far as the crop protection are concerned, we are looking at products which are more in terms of effectiveness to the consumer and liked by the farmers, and therefore, they are what is called low-volume, but higher margin products and that is the strategy which we have been driving, and this includes some of our co-marketing products. We are obviously improving some of our operational efficiencies and that will also over the period help us to improve our margins including certain items which we are looking at backward integrating. We will continue to focus on new products. At this point of time R&D team is developing new products, we will see if couple of new products are launched next year also along with what we have already launched, but we will not be able to give you the exact molecules on that.

Varshit Shah: I understand that, are these new products planned to be launched before the kharif or that is not yet decided?

Jayashree Satagopan: There are couple of products that are planned for kharif and one or two products during the latter part of next year as well.

Sameer Goel: What we have to do is to we just launched Pymetrozine in the Rabi basically for the South because it is Paddy. Now, when kharif happens, this is across India so therefore we will be able to launch it across the country.

Varshit Shah: Just a comment on the subsidy amount which the Government has allocated in the budget signals a reduction in subsidy, so is this a precursor, it could be of course it is speculation, of reducing the per ton subsidy for NPK as well as urea or too early to comment?

Sameer Goel: I think it will be early to comment, I think the important thing as far as we are concerned as a company is we have done very well with the past dues on the subsidy, which were long pending. What we want to get is and we are hoping to get like it happened last time on special banking arrangement for the claims already submitted to the Government but not paid and after that it will be more about the pull in the market through the POS machines, so all the companies have to be just efficient so that they can back the pull in the market so that there is not much of channel inventory left. The Government has been paying the DBT almost at least on a monthly basis.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Sir, my first question on the fertilizer front, now if I go back in history in Q4, we had taken a strategy of building up inventory so that we are well prepared for the next kharif season coming up. Now, given that our utilization is fairly at decent levels, how much more upside do you believe in terms of one, whether we will continue with the same strategy going ahead as well, and second, how much upside in terms of absolute volume can one consider there at our existing capacity given that the competition is weakening and probably there is further scope for us to scale up our presence in the respective geographies?

Sameer Goel: Ankur, just on this I think nothing changes as far strategy is concerned. The only thing which I mentioned was that this time because of the delayed kharif, the Rabi sowing also has got delayed, therefore the Rabi application also has got delayed and we have seen good traction in the month of January in terms of how the sales have been performed. As you are aware, last year it was not a very good season because Rabi was not good in the South and this time all indications are that it is going to be good and we are driving our business towards consumption, and therefore, we measure what is called the offtake from the farmers then to look at what the channel inventory is going to be. As far as what we do in terms of the stock buildup, a lot depends on average turnaround plans for the plant, which we normally take at the end of the year, so that we gear up for the next year on that count, so that is already in place and that is how we will be looking at the same. First indication is that next year also the monsoon at least the Southwest monsoon is expected to be normal, so we are gearing up towards that.

Ankur Periwal: Your comment in terms of competition since the industry is pretty much getting in a consolidation mood wherein we as a market leader may have an upper edge here, but will we have adequate production available wherein we can continually grow for the next one to three years?

Sameer Goel: I think they are two separate questions here. Firstly, we would encourage competition because it helps us to jointly grow the market, it also helps us to service the needs of the farmers, so in short-term it is not anything beneficial so as a company and there may be some players who are down, but there are also other players who have picked up on that count. As far as we are concerned, we have plans in terms of to not only maintain our market share but to grow our market share, but like I said it is more consumption driven. It has got to do with our focus as a company to become a very strong marketer and that is why now we are distinguishing ourselves by launching brands and branding them and that is what is liked by the farmers as opposed to selling of grades.

Jayashree Satagopan: Ankur, further to your question we had indicated in the past that we will also be carrying out some of the debottlenecking activities at our plants that is to help us in improving our capacity in the shorter-to-medium term, so those activities are also going on as per our plans.

Ankur Periwal: Madam, just second question on the non-subsidy business here on the crop protection side, we had launched couple of products just before the Rabi season, you did mention few of them further lined up before kharif and maybe going ahead into the next financial year, so what sort of growth one should expect over there both from existing as well as the new product launches put together?

Jayashree Satagopan: This year, so for we have launched four new products, Mythri, Arithri, Fornax, and Astra. Astra is what Sameer was referring to as the Pymetrozine. Apart from this, we have one more product which is getting launched this quarter i.e Pyrazosulfuron, so this year alone we are talking about five products. Last year we had introduced three and next year we have plans to do three to four new products. Our focus on crop protection is to move from the old generic molecules which used to have a substantial portion of our portfolio and get the new generation molecules come in. With these new launches that we have had, we had seen a healthy pickup in the market which we think will continue to grow in our portfolio and that should help us both in terms of revenue growth in the domestic B2C business as well as in strengthening our margins. Some of these where we are doing technical production could also serve our B2B customers in India and also for selective market globally, so that is being the overall strategy for CPC in terms of looking at newer generation molecules and having new launches.

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

S Ramesh: Sir, if you look at your margins in the fertilizer business, I think the significant part of that is because it is driven by the decline in the input prices, so to what extent do you think you will be able to continue to retain this and maintain this kind of margin say over the next one to two years, and secondly in terms of the growth and headroom for increasing your production next year, can you give us some sense in terms of what your targets are for next year?

Sameer Goel: Firstly, I do not think, Jayashree will add to it, our margins are because of pricing only. As you know we have done the PAP-2 expansion, which is basically making our Vizag plant self-sufficient and not dependent on imported phos acid. We have stabilized the operation and that will continue to see the full impact of it next year, so that is one part of it, and secondly, we have been also selective in terms of what products we market and the pricing decision on that, so we want to be away from commodity like DAP, yes, we will market some of them but our whole focus is on balanced nutrition which is on the NPK side and to promote that. As far as next year plans are concerned, we are confident of meeting all our requirements with getting the plants more efficient, also then focusing, it is a quality of the material which we supply and not the volume of material which we do and that is the emphasis which we will be continuing to do and developing our capabilities and outreach program with the market. As Jayashree alluded to, we have already started debottling at several of our plants and those will pay dividend as we come along.

S Ramesh: Just one follow up question, in terms of the numbers you said the EBITDA from the subsidized business has gone up from 60% to 77%, am I correct?

Jayashree Satagopan: It is 77% during the quarter, that is right.

S Ramesh: Versus 60% last year?

Jayashree Satagopan: EBITDA share last year was 69%, this year it is 73%.

S Ramesh: Whereas in terms of your non-fertilizer/fertilizer share, I think it has improved from 48% to 53%, so I was just wondering if there is any divergence in this?

Sameer Goel: What we said for non-fertilizer was more in our retail business because in retail business again we are focusing on.

Jayashree Satagopan: The retail business also there is a focus on fert and non-fert because the fertilizer business actually helps the farmers to bring in the footfall to the store and since there is a certain level of margin that you make on fertilizer business and the non-fertilizer business being margin composition is different, so the focus is for the retail centres is to see how we can get more of non-fertilizer business.

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

HR Gala: Can you just help me with these numbers again because I think earlier you said some different numbers of EBITDA share which I took down, Q3 you said was 63 versus 50?

Jayashree Satagopan: The Q3 EBITDA breakup subsidy and non-subsidy, Q3 last year was 69% subsidy, now it has gone to 73%.

HR Gala: That is subsidy EBITDA, right, Q3?

Jayashree Satagopan: Correct.

HR Gala: How much was nine months?

Jayashree Satagopan: YTD this year is 75%, I will have to just get you the YTD number of last year.

HR Gala: Now on capital expenditure side, can you help me that in current year how much would have been spent?

Jayashree Satagopan: Capital expenditure for the year, we had estimated somewhere close to 400 to 450 crores. We had completed the phos acid plant at Vizag. We have also completed the Pymetrozine facility at Ankleshwar, Pyrazosulfuron at Sarigam, and WDC facility at Dahej. These put together is somewhere about 250 crores that has been added to the fixed assets till date.

HR Gala: Out of 400 and 450?

Jayashree Satagopan: Correct.

HR Gala: How much you will be spending next year approximately?

Jayashree Satagopan: Next year also we are looking in the range of 450 to 500 crores, we are currently in the process of finalizing a business plan.

HR Gala: Will that include capacity increase also for fertilizers and crop protection?

Jayashree Satagopan: Yes, there is some amount of debottlenecking of one of our plants, it is included already and as far as crop protection is concerned, we are also looking at increasing capacity for one of the newer molecules which has got a very good market response.

HR Gala: Now, another question is what are the pluses and minuses from these budget which was announced on Saturday?

Jayashree Satagopan: There are lots that you see that the Government is focusing on the agriculture sector per se. There are 16 paged that the Finance Ministers has laid out in terms of what all needs to be the focus from the Government, so I am not going to speak on each and every one of them.

HR Gala: Overall?

Jayashree Satagopan: Overall, I think that focus on farmers and agriculture sector, it will be good for all Agri input company as well as in the output company, that is the broader scheme that we are seeing. We are still continuing to talk about doubling the farmers' income, that is a good part of it. There was also reference to saying that we need to have balanced nutrition, at some point in time we do believe that there will be NBS coming on urea, there was a lot of expectation in this budget that urea NBS might be announced, but for whatever reason that has not been taken up. The Government wants to promote productivity, doubling farmers income, one of the key requirements is to see that there is balanced nutrition to the soil that will come promoting more of NPK and restricting the higher urea usage that we are having, so that is something that has come in over a period in time, that is the second thing that they are inferring overall.

HR Gala: Third thing, in the budget they also said that Government wants to focus on reducing the chemical fertilizer consumption and promote more of the non-chemical, so how will that pan out for our company and for NPK manufacturers?

Sameer Goel: As far as we are concerned, We think that the govt is talking more about N which is very high, which is basically derived from urea and in some market DAP which is also being utilized much more even to meet the prequirements especially North and West and some of the states have been very high in terms of the NPK ratio and obviously the Government is getting concerned because it leads to negative returns. As far as we are concerned, we have always been a balanced nutritional player and that is what we are telling the farmers because we believe in his productivity improvement. We are also one of the largest players in the organic sector and to me to put an organic fertilizer and what is called balanced nutrition NPK chemical fertilizers, they complement each other and organic fertilizer is used, carbon content in the soil has gone down, and therefore farmers are not getting productivity so one way of replenishing the carbon content of the soil is by using organic fertilizer. At the same time, we have some of the organic fertilizers which also give some nutrition to the plants in form of NPK and also some other micro-nutrients like calcium and other things and we have products which we have ourselves developed by R&D team which forces this so we do see this to be in complimentary to the chemical fertilizer coming in and very important to improve the farmers' productivity and yield.

Moderator: Thank you. The next question is from the line of Abhijit Akela from IIFL. Please go ahead.

Abhijit Akela: First of all just wanted to confirm, as per my calculation it seems like the EBITDA per ton on the manufactured part of the fertilizer business was about Rs. 4000, so is that the right number?

Jayashree Satagopan: It is around Rs. 3800.

Abhijit Akela: On the crop protection side, we have seen a little bit of a soft performance even though the rest of the non-subsidy business has done very well this quarter, which parts were slow over here, was it the export business and how do you see this crop protection business trending now?

Jayashree Satagopan: Crop protection we had a pretty good quarter in the country both domestic B2C as well as B2B. Exports we saw some pricing pressure in Mancozeb. We have indicated in the past as well that Mancozeb given the high channel inventory have been seeing some price pressures and that continued during the quarter primarily in the Southern American market as well as in some parts of Asia-Pacific.

Sameer Goel: The way we see it is one is on Mancozeb per se Indofil has shutdown certain capacity of the plant in Thane and actually the soya crop because of the trade war between US and China has been exceptional as far as Brazil is concerned which is the main market, so we have to wait and see how this trickles out, but we are hoping that the channel inventory has actually come down and there is less of pricing pressure given these two phenomena.

Abhijit Akela: Just on the budget side, based on the subsidy numbers that have been announced which are about 11% down year-on-year for the upcoming year, would you foresee any price cuts that are required, MRP cuts that are required heading into the kharif season and also in that same context how would you see the subsidy outstanding releases coming forward in next year and whether this EBITDA per ton that we have been targeting about 3500 per ton is that still a realistic number for next year?

Jayashree Satagopan: In terms of the announcement that the Government of 10%-11% cut in the subsidy, you would see over the last year the raw material prices have been continuously coming down. This has also been reflected in terms of the industry proactively going ahead and reducing the MRP from DAP 29,500 which was there a year before, currently it is around Rs. 24,000-Rs. 25,000 per ton, so that is the action taken by the industry. From a Government side, if we are going to come up with reduction in the subsidy rate per metric ton, obviously the industry will also be looking into what could be the opportunities on the MRP front that we will have to wait and watch. Having said that, from Coromandel standpoint, there are multiple areas that the company has been working on, one is in terms of sourcing from various strategic partners that we are working with and identified. The second thing is our first as a plant for next year we will be fully operational. The third one we are working on several debottlenecking to improve the capacity utilization, and therefore leverage on the fixed cost. Fourth, we are also looking into several operational efficiencies that will come on the supply chain front as well. With all of these, we do believe that Rs. 3500 per metric ton is an achievable and a good target for us next year as well.

Sameer Goel: Just on the pricing front, Abhijit, what happens is that the industry is already discounting the product further, so what will happen and therefore the farmer is getting the benefit. If the Government reduces the subsidy that discount will go out and then the MRP could reduce.

Moderator: Thank you. The next question is from the line of Nihal from Edelweiss Securities. Please go ahead.

Nihal: Jayashree Madam, my first question was on the CAPEX side, if I recollect at the end of Q2, I think the CAPEX number that we were looking for next year was more close to a 200 crore number, so just wanted to understand incrementally what is the fresh CAPEX that we have planned for the next year that has led to the number of 400 crores?

Jayashree Satagopan: What we indicated last time is 200 crores is every year we have a normal replacement CAPEX of about 150 to 200 crores because we do maintenance operations, so some of our earlier plants, our filters all of those go through the replacement, so that is the normal replacement CAPEX on a year-on-year basis that we have. Apart from that, we are looking at a new evaporator that will come in for our phos acid plant. We are looking at additional storage capacity for some of our raw materials like sulphuric acid, phos acid and in CPC we are looking into the multipurpose plant which will come fully next year we had contemplated that. Coming in this year, we have just started it so that will be taken up in the coming years. There are several R&D projects that are also coming up, so all of these put together plus the debottlenecking at the fertilizer plant will add up to this 400-450 crores. As I was also mentioning earlier, we are currently in the process of getting our annual plan for next year finalized that exercise is not through. These are the first set of numbers that have come in from the different SBUs, so as we go through this finalization, we will have more clarity and we can talk about it further in our next call.

Nihal: The second thing was that the phos acid facility did not get commissioned at the start of the quarter, just wanted to understand at approximately what utilization was it for the quarter?

Jayashree Satagopan: The utilization has been fairly good, we did about 29,000 metric tons of phos acid from this plant and this is more than 100% of our internal estimates in terms of production for the quarter, so if I were to look at it, it has been a pretty good story, the plant has stabilized very quickly and the output has come in well.

Nihal: In this background, the plant ramp up is also as per expectation, is there a possibility of the EBITDA per ton which was I think for this year also we are looking at 3500 being a little more in FY '21 if all the situation remains the same?

Jayashree Satagopan: We look at 3200 to 3500 as a ballpark number, so our endeavour obviously is going to be looking at improving it further. The 3500 would be a fairly good number because there are going to be several puts and takes, so our guidance remains around 3500, we will definitely endeavour to see how we can improve on this further.

Nihal: Madam, I think you mentioned about how there has been a significant increase for soya been especially last year, now the current situation obviously points to that there is a possibility of a sharp reduction happening in the soya especially in Brazil, in that background is there a disruption or bit of a overhang that would come into our export business related to Mancozeb in the next year?

Jayashree Satagopan: In terms of our overall spread of Mancozeb in the global market, we are fairly widespread, our dependency on Brazil is not that high, it is actually relatively small. We are spread across various markets including South and Central America, we have a very good presence in Africa, and then we have in the other APAC countries including China, so from that standpoint an acreage decrease in Brazil we do not see a big impact for Coromandel per se.

Nihal: Just for my help what would be share of Brazil export and our export business for the crop protection side?

Jayashree Satagopan: I will have to come back on specifics, we do not give by market.

Sameer Goel: For our other molecules and not on Mancozeb. For the Brazil market what we are getting ready and we are getting into registration is what the market requires is Mancozeb WDG and that is a plant which we have set up. Earlier, there was outsourcing, but now we have set it up within Dahej, the formulation unit in our Dahej plant itself.

Moderator: Thank you. The next question is from the line of Shreyansh Talesra from Vallum Capital. Please go ahead.

Shreyansh Talesra: Just one question on the Mancozeb side, what is the present capacity utilization for Mancozeb right now and what is your future outlook for next two years, can you give me any sort of volume guidance for the same?

Jayashree Satagopan: Our total capacity is about 50,000, currently we are around 65% to 70% of our capacity utilization.

Shreyansh Talesra: What is your outlook for market like Latin America and aftermarkets for Mancozeb, could you give me any idea about the same?

Jayashree Satagopan: We look into overall markets, we do see there are lot of whitespace opportunities where we have spread across APAC, Africa, Latin, and other ports, part of our planning process which is currently going on is to deeply look into some of these markets, the existing channel stocks that are there and the capacities of ours vis-a-vis competition and our overall strategy for next year. This year obviously we had some challenges in terms of additional channel stop being there resulting in pressures on the prices. We foresee that to sort of ease next year, however, including the cropping pattern that exercise is currently being done.

Sameer Goel: Also what we have in the pipeline is combination molecules of Mancozeb something which we will be registering and continue to grow that because that will make it special for us.

Moderator: Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Firstly in terms of the medium-term CAPEX plan, would it be possible to share over the next couple of years, what would be an indicative range of CAPEX would be doing and which segment primarily would be investing more?

Jayashree Satagopan: Vishnu, next year we were just talking about where we are working through our plan. We are getting close to about 400 to 450 crores of CAPEX for the coming year which is 2021 and as we had indicated in our earlier calls, the focus for Coromandel will be to see how we can increase our capacity especially with the new molecules and multipurpose plans on the crop protection segment, so that will call for additional CAPEX which is part of our long-term strategic plan. Apart from that for fertilizer business, given the opportunities in NPK and also the thrust on balance nutrition, there is some additional CAPEX that is required on debottlenecking the plants both at Kakinada as well as Vizag, so that is also going to be taken up. We are also further looking into opportunities now that PAP-2 plant is fully commissioned if there are opportunities to further take up the capacity with few modifications, so all of these in the next two to three years would mean on an average in my mind about 400 odd crores per year. Our normal maintenance CAPEX is about 150 to 200 crores. I think another 200 crores or so would be required for adding up capacity, putting up new product lines, multipurpose plants.

Sameer Goel: Same will apply also on the fertilizers side where we are looking at new delivery mechanisms and also next gen project, so the R&D team is already working on it. As and when they come up with the molecule, we will be putting CAPEX for that.

Vishnu Kumar: This is the fertilizers side is it, Sir?

Sameer Goel: Including fertilizer, so we are looking next generation molecules both from a crop protection and also from a fertilizer and specialty nutrition.

Vishnu Kumar: On an average is it fair to say that 200 to 250 crores would be still for fertilizer about 100 to 150 crores would go towards the CPC and others?

Jayashree Satagopan: Yes, I think so, there could be some shifts depending on how we want to accelerate the crop protection business, but I think this is a fair assessment.

Vishnu Kumar: In terms of debottlenecking in fertilizers, how much would our capacity or any additional data points if you could give us in that, we are probably at 3 to 3.3 metric tons of capacity, would it go up by let us say about 0.2-0.3?

Jayashree Satagopan: Each plant has a different plan that has been worked out, again this depends upon the product mix. For instance, in Kakinada we do multiple product mix, so we want to continue some of those products or is there other ways of optimizing, some of those that are being worked out at the BU level. Overall idea is to see how we can focus more on our unique grades and as Sameer was mentioning also looking into branding of certain products where we can de-commoditize and therefore, currently looking at our 13 odd products that we are manufacturing, do we need all the 13 or is there a smarter mix that we need to have is also being contemplated, depending on that the capacity release could be higher than what we had originally thought through, so that exercise is currently going on, Vishnu.

Sameer Goel: We always have the option of importing DAP and releasing those capacities for NPK.

Vishnu Kumar: On an average, could we at least say that 10% capacity increase is possible, just an indicator of ballpark number?

Jayashree Satagopan: Yes, 5% to 10% should be possible.

Vishnu Kumar: You mentioned the Phosphoric acid plant also there, currently including the recent expansion I think it is about 3.5 lakh tons is the number going to go up from here?

Jayashree Satagopan: No, at this point in time these are the approvals that we have. There is also need to go through some regulatory approvals and all. Currently, I think 3.5 to 4 lakh tons is what one could look at from the both the phos acid plants.

Vishnu Kumar: Any idea to put it, as well as the new other fertilizer location also, you said last quarter that you might look into it?

Jayashree Satagopan: There are a lot of regulatory requirements when we have to put up a new phos acid plant. We also need to have a sulphuric acid capacity in-house which has been the case in Vizag. We had looked at Kakinada earlier. The other factor that we also need to look into is disposal of gypsum, so there are a lot of environmental clearances that needs to be taken before we first put up a phos acid plant, because always backward integration is helpful in terms of value creation for the company, so phos acid plant, sulphuric acid plant, Government approval is quite cumbersome. Then the next one is also what we do with the additional gypsum, is there enough taker for it is something that we have to weigh on, we have to properly dispose the gypsum.

Vishnu Kumar: Just one more comment that you mentioned that probably before the budget we are expecting some announcement of NBS in urea, obviously that did not play out. Going ahead at least do you see that there could be a potential price hike marginally let us say Rs. 50 per bag or Rs. 100 per bag of urea and any sort of things that you heard from Ministry and if at all before the kharif season when is the timeline, if at all that could be possible you will consider that?

Vishnu Kumar: What is the realistic way forward in your view, Sir, is it possible that Government may…?

Sameer Goel: What the Government is doing, firstly when you look at DBT-2 they have already linked the soil health card and there is a recommendation to the farmers in terms of and making them aware of the balanced nutrition or what they need, so that is one and it is also the onus on the companies to make farmers educated on the balanced nutrition linked to the soil health card, so that is what we have been doing with the agronomist team and all on the importance of increasing their productivity, and therefore to use balanced nutrition and this is not just NPK, but also of the micronutrients. The second thing is which is more of a game is, the farmers still feel because urea is cheap and he should be utilizing, but once he realizes the negativity of it which is coming from various sources, he himself will have some apprehension and like I said, this is more prevalent in certain states much more acutely than other states as such and this is also crop specific, so the Government definitely wants to look at it and that is the reason probably they had brought down the subsidy level also basically to encourage balanced nutrition and also at the same time increase the use of organic fertilizers.

Vishnu Kumar: Because of the current Chinese situation is there any supply issues in terms of chemical prices or is it favorable to us or not favorable to us?

Jayashree Satagopan: Currently, in the last week or so, there have been some disturbances in terms of secondary transportation in China, so if somebody is looking at importing for shorter-term requirement, they are definitely going to be constrained. As far as Coromandel is concerned, we have sort of covered for the next two to three months, so we do not foresee any issue in terms of availability and in a longer term, we do think that the concerns relating to corona virus should come down and should not have a overall impact. Having said that, overall the issues that are there in China from a broader perspective given some of the environmental crack down that is going on augurs well for India and we have seen that happening across various crop protection companies here, I expect that trend to continue.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investment. Please go ahead.

Resham Jain: Just two questions, one is on debottlenecking of capacity which you mentioned, will this capacity be available for us in the kharif period or will this come only after the kharif will be over next year?

Jayashree Satagopan: It may not come immediately for the kharif period, as Sameer was mentioning to you if there is a need for more NPK, our strategy has been to see how we can import DAP and use that capacity for NPK production, the debottlenecking will take over a period of a year or so, so that initiative is going to be taken up in the coming years.

Sameer Goel: We are sufficiently covered in terms of all our requirements for next year, so that will not be an issue.

Resham Jain: Next year given that good reservoir levels are there, do you expect that the kharif sowing also should be slightly better and timely as compared to what we have seen this year?

Sameer Goel: Early to say, but definitely the first prediction and it is a very early prediction was normal monsoon, so if the monsoons are normal obviously we do expect the kharif sowing to start earlier as per normal then later like it happened last year.

Resham Jain: One final question is on last year if we look at your balance sheet, your inventory actually has gone up significantly almost 1000 crore increase and you mentioned last year that there has been some strategic purchase which has happened, do you expect that the same level of inventory will be there this year as well or how the situation will be?

Jayashree Satagopan: Last year, there were couple of things. One is in terms of our annual turnaround plan that we have, we typically look into March or April depending upon the season and given the fact that for kharif season, these have to be ready. We had actually produced more in March and we were holding inventory with us. This year as we speak now, the exact timing of the ATA is not yet clear, it may happen in March or there may be a spillover in April. Depending on that, our finished goods inventory could move. At best, it could be closer to prior year levels.

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

Rohan Gupta: Sir, first question is on this our strategy to get into urea, we have seen that there are some stressed assets may be available in the current scenario and Coromandel as a company has always shown a desire to get the urea business also, do you see that in the current scenario there is a possibility that company may acquire any of the stressed assets which are available?

Jayashree Satagopan: Rohan, I do not know whether you were there couple of years back when this question was asked to the Chairman and one of the things which he had mentioned clearly was in terms of what Coromandel did not do and for a particular reason and he said we did not get into urea and they are glad they did not get into that because of all the reasons which has been alluded to and what the industry has been seeing. Having said that, if tomorrow the Government policy of urea changes and things become better for urea, there is no reason for us as a fertilizer company not to at least look at the opportunity as such, but currently there are no plans.

Rohan Gupta: Sir, second question on this agrochemicals, Jayashree mentioned that there is one product in technical, you are increasing the capacity and putting a new plant for that, so can you just elaborate a little bit that this is technical plant for B2B in agrochemical or it is just some more light on that front?

Jayashree Satagopan: So Rohan this is primarily for the domestic market, which could be both B2B and B2C.

Rohan Gupta: This is the existing product we are manufacturing or the new technical?

Jayashree Satagopan: It is a new technical.

Rohan Gupta: We have already started manufacturing this?

Sameer Goel: Yes, and marketing.

Rohan Gupta: So I do not think there is any reason not to mention this technical, if you can just repeat the name of the technical?

Jayashree Satagopan: We will share with you next time, we are just going through the process.

Rohan Gupta: Is it going to replace the imports in the current market or our market size anytime from that, Madam?

Jayashree Satagopan: As we started production of technical and formulation, we see that there is a much higher demand then we originally anticipated, so from that standpoint we are going ahead increasing the capacity production for this product, it is not replacing anything, it is a new product that we have introduced?

Rohan Gupta: Last one, Madam, you mentioned that we still have a DAP manufacturing capacity and we are still utilizing our DAP manufacturing plant which can very easily can be converted to NPK, so do you see that over the next two to three years that even with the current capacities and with even 10% debottlenecking sort of, we can very easily go to 4 to 4.5 million ton of pure NPK production if we move to DAP complete trading?

Jayashree Satagopan: Let me clarify this to you Rohan, our plans in fertilizer are fungible, we can do both NPK and DAP in the same facility. As we stand also, our DAP production is normally very less. We can further minimize it and produce NPK depending on the market requirements, that will increase the capacity for NPK and we can resort to DAP imports that is what I was articulating, that will not give you so much of additional capacity. Even if you look into our DAP production, it is not very high at all. What will help us is to see how we can optimize the mix. Currently, we are having about 12 to 13 products. We are also looking into lot of value-added products if you look at it. We have a value added product based on the shell technology which is a GoSMART we have relaunched this year. We are also doing 10-26-26 Zincated which is very specific requirement for certain markets, so when we do these value-added products, there is also a change over time. It is about optimizing our plant through planning of our mix, so reducing the change over time can also help us in increasing the production capacity, that is what I was referring to. That will help us to say get about 2% to 3% or at best a 5% additional capacity utilization, that is what one can look into.

Rohan Gupta: At best without DAP, we can make NPK with the optimal utilization of 3.5 million ton even after 7%-8% debottlenecking which we are planning to do next year, is that the right number?

Jayashree Satagopan: Yes, directionally, you can look at it Rohan, I am not getting into what is the right number or wrong number because the mix has a very important role here and one should also bear in mind there is a huge goodwill and a brand recall for our own manufacturing DAP. Godavari DAP has a superb recall from the customers and people want to buy Godavari DAP rather than imported DAP, so we do not want to deny some of our customers an opportunity to buy our product like the Nagarjuna urea, Godavari DAP is one of the top brands in APTG, so we will have to look into it optimally, not just say we will not manufacture DAP and resort to complete imports, so there maybe some amount of manufacturing to meet with certain segment of our customers. At the same time, it will also be to see how we can better utilize our facility for other NPK grades as well, so it is a very dynamic decision making process based on the demand, but ultimately the company looks at seeing how you can give maximum production which meets with the farmer requirements.

Moderator: Thank you. Ladies and Gentleman, that was the last question. I would now like to hand the conference over to Mr. Goel for closing comments.

Sameer Goel: Thank you very much and appreciate everyone’s time and interest in Coromandel. If there are any further questions people have, they can get in touch with Saurabh or Jayashree or me directly and we will be more than happy to answer the question. Overall it has been a good strong Quarter-3 and like we predicted from early on with the fact that the Rabi season is turning out to be good, we expect this momentum to continue in Quarter-4. We are building up our plants for next year and with normal announcement of a normal monsoon, it will help us to continue to build

Coromandel further as a brand and I think overall all our strategic drivers which we were doing are panning out. We continue to be aggressive in terms of looking at what the changed market scenario is going to be and developing products and also improving our reach to the farmers in terms of and also improving our operational efficiencies so that will continue to happen in the coming years. Thank you very much.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us and you may now disconnect your lines.