"Coromandel International Limited Q4 & FY'20 Earnings Conference Call hosted by PhillipCapital (India) Private Limited"

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Moderator: Ladies and gentlemen, good day and welcome to the Coromandel International Limited Q4 & FY'20 Earnings Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Chitroda from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

Deepak Chitroda: Thank you, Lizan. Good afternoon everyone. So on behalf of PhillipCapital, I welcome all participants who have logged into the Q4 FY'20 Quarterly Result Conference Call of Coromandel International Limited.

From the management team, we have Mr. Sameer Goel -- Managing Director and Ms. Jayashree Satagopan – CFO of the company.

I would like to thank management for giving us the opportunity to host this call. Now I request Ms. Satagopan ma'am to first begin with the "Opening Remarks" and followed by "Some Details on the Numbers." After which we can start with the "Q&A Session." Thank you and over to you, ma'am.

Jayashree Satagopan: Good afternoon, everyone and thanks, Deepak, for organizing the conference call. I will first give an "Overview of the Business Environment Experienced During the Year including the COVID Situation followed by the Company's Performance and the Q&A Session."

As you know, the country witnessed an above normal southwest and northeast monsoon during the year, resulting in improved crop sowing. Foodgrain production for the year is expected to be at 296 mt, higher by 4% compared to the previous year. Company's key markets of Telangana, Andhra, Karnataka and Maharashtra, received above-normal rainfall which increases the reservoir levels and canal irrigation. During the year, the Kaleswaram Project on Godavari river was inaugurated, which has resulted in assured irrigation in the northern districts of Telangana. Agriculture in Telangana and Andhra Pradesh continue to perform well, thanks to the active engagement of the state governments, increased irrigation, desilting of canal and tanks and the income support schemes that have been extended to the farmers. Agri input in Telangana has grown by more than 150% since 2015.

On the subsidy front, the nutrients rates under NBS for 2021 has been marginally reduced from the '19-20 levels. The overall allocation of subsidy in the union budget has also been reduced by 11% to Rs.71,309 crores with the same level of reduction across NPK and Urea. The industry has received Rs.10,000 crores under the Special Banking Arrangement in March 2020 although there is still a significant subsidy backlog of Rs.36,000 crores for the industry.

Further, on the Direct Benefit Transfer relating to fertilizers, the government is expanding its scope. During the year, pilot testing was conducted, linking the PoS machines with Soil Health Card to promote benefits of balance nutrition.

On the Crop Protection side, the Pesticide Management Bill 2020 was introduced in the parliament during the year. The bill seeks to regulate the highly fragmented agrochemical markets in India and ensure availability of pesticides with minimum risks. This bill when passed will replace the Insecticide Act 1968. Very recently, the government has come up with a notification recommending ban of 27 molecules providing 45-days' time for the industry to respond. Technical task force has been formed by (CCFI) Crop Care Federation of India to prepare product wise technical response to the draft notification. Crop Protection companies and the industry forums are making necessary representation to the government before the deadline.

Let me give you an "Overview of the Fertilizer Industry Performance." For the quarter, phosphatic fertiliser industry sales has improved by 7% to 42 lakh tons. The complex fertilizer sales increased by 10% while DAP increased by 4%. Phos acid price for Q1 2021 has been finalized at US$607/MT. In Q4 FY'20, the price for phos acid was $590/MT.

As far as the full year '19-20 is concerned, overall the industry has grown by 8% to 200 lakh tons from 186 lakh tons last year, with 8% and 7% growth coming from DAP and NPK respectively. DAP imports has come down by 55 lakh MT for the year vis-à-vis 66 lakh MT last year.

"Coromandel's Full Year Performance." Coromandel had a strong performance in FY'19-20 driven by the Nutrient and Allied businesses and a good recovery in our Crop Protection business. The company continued its focus on offering superior farm solution introducing new generation products, improving its cost and operational efficiencies through backward integration, smart sourcing and managing its working capital.

Coming to "Coromandel's Fertiliser Performance for Q4." Phosphatic volumes increased by 17% to 6.9 lakh tons. This was well supported by the good demand in the rabi season. Manufactured product sale was at 6.8 lakh tons and imported DAP sales was 0.14 lakh tons. The unique share grade has moved up to 38%. During the quarter, phosphatic fertilizer plant operated at 87% capacity utilization, recording a production of 7.8 lakh tons.

As far as the full year '19-20 is concerned, our phosphatic sales volume increased by 4% to 31.4 lakh tons. Consumption as reflected through the point of sales from Retailers to the farmers increased by 12% to 31.6 lakh tons. Sale of our own manufactured products has gone up by 11% during this period to 30.7 lakh tons whereas imported DAP sales for the year was at 0.7 lakh tons. Market share for the primary sales has marginally come down to 15.7% from 16.3%. The company has maintained its market share for the point of sale at 15.8%.

The Fertiliser business relaunched "GroSmart" which has been very well received by the customers and has created a niche in the market. During the year, our phosphatic fertilizer plants operated at 86% capacity recording a production of 29.8 lakh tons. Captive Acid production from Vizag and Ennore was at 2.8 lakh tons for the year, which is up by 18% compared to prior year. Phos Acid plant which was commissioned during the third quarter is running pretty smoothly. Our SSP business registered a 1% sales volume growth with the sales volume of 5.7 lakh tons during the year. It continued its leadership position with a market share of 14%. Production volume for the year increased by 7% to 6 lakh tons for the SSP business.

On the "Crop Protection" side, during the quarter our Crop Protection business turnover has gone up by 20% to Rs.429 crores from Rs.358 crores last year. The business registered a good growth in H2 after a soft H1 which was constrained due to the production at our Sarigam facility. On a full year basis, Coromandel Crop Protection business registered a decline of 6% during this year. Crop Protection business continue to introduce several new products in the market during this year. The business has launched six new products, including two in-house manufacture technical which is Pyrazosulfuron. Four new formulated products were also introduced during the year. All these product launches have received an encouraging response from the market.

Further, during the year, the company has commissioned three new plants for manufacture of Pymetrozine, Pyrazosulfuron and Mancozeb WDG. Major infrastructural upgrade including new warehouses at Sarigam and Dahej and a pilot plant upgrade at Ankleshwar has been completed. The business has strengthened its R&D, its technology transfer and product development functions. During the year 62 new registrations have been taken. This is both for the Indian and global markets. Speciality Nutrients business continue to perform well through its focus product approach.

Fits All Pomegranate, a crop-specific product and two in-house manufactured products – Novozine and Bosmax which are based on in-house R&D technology development were introduced during the year. Business is collaborating with the farmer produce organization cooperatives, seed companies, agri universities to increase its reach and market development. The business has also been very successful deploying digital initiatives connecting with the end customers.

Our Retail business had a good quarter and the year with improved product offerings and continuous engagement with farmers complemented by good monsoon. Retail business witness a good growth in non-fertilizer business. It strengthens its technology interventions in the area of crop diagnostics, farm advisory and mechanization.

On the "Bio-Pesticide" front, acquiring the biopesticides and integrating with the Crop Protection business of the company, has enabled us to provide integrated pest management solutions. The Bio business has improved its product offerings, sourcing capabilities and extraction efficiencies during the year.

On the "Organic" front, our company has highly diversified product range, including City Compost, Press Mud, Kash, which is potash derived from molasses and other products. The Organic business continue to perform well during the year. With increased focus on organic products, Biopesticide, Biostimulants, Biosurfactants along with our traditional fertilizer Nutrients and Crop Protection, Coromandel continues to promote greener solutions in improving overall soil health in farm productivity.

To sum up, Coromandel has significantly progressed during the year improving its customer connect, market development and branding initiatives its product offerings and enhancing its people capabilities.

Let me now provide an "Update on COVID-19 Situation." As we all know, at the end of the year, the economic activities were severely impacted by COVID-19. Several nations including India have adopted a complete lockdown of their economy in line with the recommendation of the World Health Organization to contain the spread of this pandemic. In India the agriculture sector has remained relatively insular to COVID-19. The government has classified agriculture and related industries under essential commodities to ensure food security and provide livelihood opportunities to the rural workforce.

The government both at the centre and at the state level have been proactive in ensuring their support to the farming community and minimizing disruptions in the supply chain to ensure agri inputs availability. The government has announced several Stimulus Package including frontloading of PM-KISAN Fund Concessional Credit worth Rs. 2 lakh crores Agri Infrastructure Fund and a Moratorium on Agri Loan, to name a few.

Furthermore, the government has announced three major reforms in the area of agri output marketing which is expected to result in improved price discovery for the farm produce. These reforms include increased participation of private players, deregulating fruits and vegetables reforming the Agriculture Produce Market Committee which is APMC and promoting contract farming. These reforms shall help the Indian farmers with faster adoption of superior products, smarter delivery mechanisms, digital and agri technology penetration. Indian agriculture is geared up for a second green revolution in the years to come with all these reforms.

Let me now talk about the company's response to COVID-19. Coromandel has prioritized the safety of its employees and the sustainability of its operations. All the plants are operating as per government guidelines with utmost care for the safety and social distancing. Retail centres have been operational and are following social distancing norms while dealing with our end customers, our farmers and also utilizing digital tools to fulfill customer requirements. To ensure business continuity and swift response to any situation, rapid response team has been formed across the business units and the functions.

Coromandel stands and support with the centre and the state governments as well as the local authorities and remain committed to the farming communities in these challenging times.

Company's relief and rehabilitation initiative includes the distribution of masks, hand sanitizers, hand wash soaps and other daily essentials in and around its area of operations. Further, the company has been educating farmers on the aspects of safety and hygiene through its Retail and dealer network. With the-government reforms in the agri sector, higher reservoir levels and the prediction of normal southwest monsoon, Indian agriculture is expected to witness a good kharif season during the coming year.

Let me now move on to "Update on the Financials of the Company." For Q4, the company registered a consolidated total income of Rs.2,881 crores, growing by 9% with Nutrients and Allied businesses contributing to 85% and the remaining 15% coming from the Crop Protection business. Corresponding numbers of the last year's fourth quarter, Nutrients was at 87%, CPC 13%. In terms of a "Subsidy/Non-Subsidy Breakup", Q4 revenue share is 78:22 which compares to 80:20 last year. As regards "Profitability" the EBITDA for the quarter is Rs.391 crores as against Rs.259 crores last year, registering an increase of 51%.

In terms of Subsidy/Non-Subsidy Breakup, Q4 EBITDA share was at 72:28 vis-à-vis 73:27 in the previous year. The consolidated net profit after tax for the quarter is Rs.234 crores in comparison to Rs.110 crores for the corresponding quarter last year, with an increase of about 112%.

For the full year, the company recorded a consolidated turnover of Rs.13,177 crores, very close to last year's numbers. Nutrients and Allied business contributing to 87% share and the remaining 13% coming from Crop Protection business. Corresponding numbers of last year, Nutrients 86% and CPC 14%. In terms of Subsidy/Non-Subsidy Breakup, the year's revenue share is about 80:20 which is same as last year. As far as profitability is concerned, the company recorded an EBITDA of Rs.1,732 crores for the full year as against Rs.1,444 crores last year which is a growth of 20%. In terms of Subsidy/Non-Subsidy breakup, EBITDA share is 75:25, last year it was 68:32. Consolidated net profit after tax for the year is Rs.1,065 crores as against Rs.720 crores in FY'19, a growth of 48%. ROCE was at 27% vis-à-vis 21% in the prior year.

Let me now give a "Brief on the Subsidy Side." Subsidy outstanding end of March 31st was Rs.2,316 crores. Last year the number was Rs.2,392 crores. The outstanding subsidy includes approximately Rs.1,100 crores that has been claimed and pending with the government for disbursal. This number is before the special banking arrangement of Rs.52 crores. Last year, company received Rs.204 crores on account of special banking arrangement. During the quarter the subsidy payout from the government was relatively low. Coromandel received Rs.94 crores in Q4 vis-à-vis Rs.432 crores in last year.

During the year, Coromandel generated Rs.2,230 crores as cash from its operation after adjusting for its working capital changes. The internal cash generation has been used to fund its capital expenditure programs, payout of tax of dividend, and also introduction of its working capital loans. The company intends to use its cash generation in reducing its debt and more so for investing in its long-term strategic growth aspirations.

The balance sheet of Coromandel continues to be strong with the debt-equity ratio of 0.037. The net debt of the company end of the year stands at Rs.1,207 crores. Its long-term credit rating has been affirmed as “AA+” by CRISIL.

On the FOREX front, as you would have seen during the year, rupee has been quite volatile, registering a depreciation of 9.4%, steepest fall in the last six years. Rupee traded in a broad range of 68.20 to 76.38. Owing to COVID, we saw a steep depreciation in the rupee in the last quarter especially in the month of March when rupee depreciated to 76.38.

Coromandel has been following its hedging strategy and dynamically covering its exposure, thereby minimizing the impact of currency depreciation.

“Interest.” The finance cost for the quarter was at Rs.34 crores, excluding the IND AS 116 related adjustments. It is lower compared to Rs.65 crores of interest cost the company incurred in the similar period last year. The savings has been primarily on account of efficient working capital management and lower rate of borrowings. For the full year, the interest cost was at Rs.200 crores excluding IND AS adjustment last year similar period, the cost was Rs.251 crores.

The company has passed on the benefits of DDT with the board approving a dividend of Rs.12 per equity share for the year. The dividend payout ratio is 33.2%.

Thanks once again for joining us and your interest in Coromandel. With this, we can open the session for questions-and-answers.

I would also like to inform that our Managing Director, Mr. Sameer Goel has joined and would be pleased to respond to your questions.

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

S Padmanabhan: My question is on this recent proposed ban which was announced last week. With 27 molecules I assume that even Coromandel is manufacturing Mancozeb and Chlorpyrifos, so one is while it talks about manufacturing, whether it includes domestic and export, #2, if you can also give us some clarity with respect to what is the sales that we derive from these products that are in the bandwidth?

Jayashree Satagopan: Thanks for the question. I think this is a hot topic now. As I was mentioning, there are 27 molecules that have been included in the list with the recommendation for ban. Now as far as Coromandel is concerned, there are primarily four of them. Mancozeb, Malathion, Acephate and Monocrotophos. The company is evaluating and is going to be responding along with the industry in terms of the data that is being sort for. As you know, out of these four molecules, only Monocrotophos is a red triangle molecule. Now, as far as Mancozeb is concerned, Coromandel has a substantial revenue from Mancozeb, close to about 50%. This is a broad spectrum fungicide which has got a very good efficacy across various markets. It has not been banned except for one country, which is Saudi Arabia. And India is a major manufacturer of Mancozeb along with Coromandel, Indofill and UPL. So this molecule is key not only for the best in India, but also for the global markets. As I said, the company is working along with CCFI. There are some data that has been asked for. So those inputs are being provided and it will be taken up. If we take a look into 27 molecules and the overall volume, it is close to a couple of billion dollars. That is a huge number for us to look into. The government is on one hand actively promoting "Make in India" and also looking into increasing farm productivity. Most of the molecules listed here serve both the purposes of providing low cost Crop Protection solutions to our farmers in the country and are also being exported to global markets. Therefore, we do believe with the right representation with the government, we will be able to come up with probably a few products which are in the red triangle, with the time for phase out like how it happened with the Anupam Verma Committee recommendations in the past.

S Padmanabhan: My second question is if I look at this recent locust attack which is actually happening, one is I understand that some of these products which we manufacture also can be used as a pesticide into this. But from a farm economics or the yield perspective, I understand that it happened probably post the rabi season. But just wanted to hear your thoughts whether it will have any impact on the produce, whether it can actually benefit us in terms of better usage of agri inputs in those areas?

Sameer Goel: So firstly, locust attack which originated in Africa and then came in Iran and then came across the borders, if you have not seen an attack, it is a very deadly attack. I have seen it in my childhood at our farm, so it is not good to see from the farmers' point of view. The good news is that we have two of our products both on the chemical side and on the bio side which are very effective against locust. And one of them is, of course, the product which you are talking about and we have spoken to the government also. The product is Malathion and the other one is Nimosol which is a bioproduct. So these are very effective and we are talking with the government. It is also used by the public system. So these can be spread on locust and at least ensure that the spread does not happen. This normally happens when there is excessive rains in especially the desert climate and that is when the locust ends up hiving and they come in hordes.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: From here on the cash flow generation looks pretty healthy with no impending or big CAPEX around. How should we look at Coromandel from hereon say from the next three years to five years perspective, which are the areas which are on top of the mind for capital deployment tend to grow from here on?

Sameer Goel: Just on that, basically like we have said in our long-term strategy, we are looking at increasing our investments in Crop Protection and specialized nutrition and also in our Retail business, apart from looking at investments in R&D and the new molecules and including any project investment which is required in fertilizer. So we hope this business to continue to grow exponentially like we have done in the past. So that is where we are looking at it.

Jayashree Satagopan: The cash flow situation if you look into it last couple of years have been quite comfortable with our long-term strategic plans. We do see there is enough opportunities for us to deploy the fund especially looking into our higher EBITDA businesses, while we will continue to focus on a large and stable business which is the Nutrients and Allied, there is an increased interest in Crop Protection, Speciality Nutrients and also expanding our footprint on the Retail front. So that is how we intend to utilize our cash both in terms of investments in fixed assets as well as any other opportunities that might come up.

Nitin Gosar: Just a follow up on that; a) on CPCI business, how should we see Coromandel from here on more domestic, more export, like how should we look from three year, five year perspective? And on fertilizer business a bit, if at all the CAPEX were to happen, it will happen on the front end which will lead to more volumes or will it be more on the back end?

Jayashree Satagopan: So Crop Protection has opportunities to grow both in the domestic markets and the global markets, we are seeing very exciting opportunities in both the spaces. So that is not going to be a constraint. We have leaders who are working on each of these specific domestic markets as well as global markets and there is a very healthy collaboration and competition to grow the business. So I would leave it there. As far as fertilizer is concerned, we have indicated in the past that we would be looking into debottlenecking our facilities both at Vizag and Kakinada. So that is going to be involving some CAPEX. Apart from that, if there are opportunities for us to do any further backward integration, that would also be considered. The major ones are done. As you know we have now two phos acid plants at Vizag and we have one in Ennore, that has given us self-sufficiency in terms of acid for both Vizag as well as our Ennore operations. So, we would evaluate any further scope for backward integration because that will actually help the company both in terms of supply security for our key raw materials as well as conserving the foreign exchange because this fertilizer industry is highly import-intensive.

Sameer Goel: We are also looking at major investments…when I say investments, not in terms of this thing but resources in R&D and the superior products and also looking at different formats of fertilizers which are coming in which are more crop-specific from a marketing point of view.

Nitin Gosar: What should be the CAPEX outlook for next one year?

Jayashree Satagopan: For the current year, we had put together a CAPEX plan of close to about Rs.400 crores; however, given the COVID situation, there could be a little bit of a push out of our CAPEX because we also want to be conscious of health of the laborers and the workmen who come to the facility. So the first focus is going to be to ensure that our operations are fully functioning, all the critical essential CAPEX will be carried out, some of them might be spilled over by a quarter or so. These are very dynamic situation. So we will have to wait and watch and see how we can optimize on this. I also believe in the next couple of years our CAPEX should be in the region of about Rs.300, 400 crores. I am not talking about any large investments, I am just talking about our normal operational CAPEX that would be about Rs.150 to 200 crores, apart from that we are also looking into putting up specific multi-purpose plans for our Crop Protection, looking into certain customized fertiliser plants which would be smaller scale. So there are plans that we have and that would average about Rs.300, 400 crores per year.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Just to take this further from the earlier participant's question, how do you envisage your revenue split to be say five years from now between Crop Protection, crop nutrition?

Jayashree Satagopan: You know earlier, we used to give a guidance of wanting to get our profits or our EBITDA close to 50:50. The revenue for fertiliser business given the scale is going to be large. However, we were looking at how we can improve our overall profitability. So both these businesses have tremendous scope to improve. But one is not going to be at the cost of another. So, I would look at improvement in our overall profitability share rather than a revenue share. And we are moving in the right direction. We, of course, had a bit of a setback last year with our Sarigam facility's operation which was suspended for about three, four months time. We are hoping to get back to normal soon in terms of our focus for new molecules introduction, both on the technical and formulation side

Sameer Goel: I think one of the things we have to talk about subsidy and subsidy then the nutrition business. We continue to grow our nutrition business exponentially which is on specialized nutrition on organic and also on Crop Protection on the bio side. So these are the things. And at the same time, our Retail also is focused on what is done on the non-subsidy side. So that is something which you have to take. So, when you look at a figure, it should be looked at subsidy versus non-subsidy instead of nutrition into Crop Protection and also Retail.

Tarang Agrawal: So would 1:1 split between subsidy/non-subsidy five years from now on a profitability basis, is the right way to look at it?

Sameer Goel: It is a good direction to go for. But the good news is we are doing very well with the fertilizer business also.

Tarang Agrawal: Ma'am, sometime in your opening remarks you mentioned that your net debt was around Rs.1,200 crores as on 31st March. But when I look at your balance sheet, the short-term borrowings are at Rs.1,625 crores and cash and the current assets is at around Rs.50 crores. So what other cash equivalent am I missing and where is it exactly in the balance sheet?

Jayashree Satagopan: So you are right that is why I called it out as net borrowing. Our gross borrowing is at Rs.1,600 crores level. We also have investments of about Rs.400-odd crores.

Tarang Agrawal: And that would be under what head?

Jayashree Satagopan: It would be under current assets.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: First question is the non-subsidy revenue that you mentioned for the full year and the difference between the non-subsidy revenue and the Crop Protection revenue which works out to be roughly about Rs.942 crores. So that is mainly Speciality nutrients and Retail businesses, is it?

Jayashree Satagopan: We have Speciality, Nutrition, Retail as well as Organic. Anything other than Crop Protection gets into the Nutrients and Allied businesses.

Dheeresh Pathak: For the full year, can you give a broad breakup of how much is Speciality, Retail?

Jayashree Satagopan: We could possibly take this question offline please.

Dheeresh Pathak: Ma'am, I realize that this number Rs.950 crores for the last three years, it has been in that range, but in the calls you keep highlighting that you are growing the Speciality nutrient business. So is some other business declining, that is why this overall number does not increase much over the last three years?

Jayashree Satagopan: Our Speciality Nutrients business has been registering a very good growth in the last year. We also had what I would call as a bit of a challenge last year, which we discussed on our Retail especially because of the drought in our key markets, Rayalaseema and North Karnataka, so that has also come back.

Sameer Goel: Retail has done very well this year. There was a bit of a slowdown earlier years.

Jayashree Satagopan: And this year compared to last year you would also see that our fertilizer MRP has come down which is also driven by the lower raw material prices.

Dheeresh Pathak: My second question is our total capacity is about 3.3 mt. I just want to understand how much scope do we have for debottlenecking and Brownfield expansion at our existing sites? We might not do it now, but I just want to understand how much overall potential is there on a Brownfield and debottlenecking basis.

Jayashree Satagopan: So our nameplate capacity comes to 3.5, it is not 3.3 and because of this demand/supply situation especially during the peak seasons, our plants sometimes even operate slightly above 100%, right. And there is a month which we are normally utilizing for annual turnaround. I think this is a normal phenomenon for most of the fertilizer plants. So there is enough scope for unlocking the capacity in the plant by debottlenecking both in Kakinada and in Vizag because these are our two large plants. It also depends upon the mix that we are using. Today, Coromandel has about 13 types of fertilisers that has been manufactured in our plants. So, some of them may have a slightly lower throughput compared to other products. So it depends upon the mix, which itself can help in increasing the overall capacity utilization. Second is debottlenecking some of the operations. Obviously, if we want to look into some of the specialized or customized fertiliser as I was mentioning there could be specific investment which may not be very high, but look into smaller units that can cater to those niche segments. So long and short, we could theoretically go up by another 2-3 lmt in terms of capacity utilization.

Sameer Goel: We are currently operating at 86%. We can easily operate over 100% capacity. That is what Jayashree said. And we have a gap in terms of name plates and also depends on throughput. One of the things which we also look at strategically is we want to produce what is called own unique grades and our own fertilizer, so we always look at the ratio between what we want to do for DAP, we can also look at importing DAP and produce more of NPK as and when we require depending on the market demand. So I do not think our capacity is any constraint as far as our numbers are concerned because we want the quality of sales to happen than the volumes to happen.

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

HR Gala: My question is what will be the long-term plan we have for Crop Protection because I think government keeps on coming with something or the other that changes the equations of the industry and within the company what kind of strategies we should have, so how do you want to plan out because you have got big plans for Crop Protection coming out with the new molecules, etc., anything on that sir?

Sameer Goel: Like you see for us, we are quite clear, we set up an R&D center in 2015, we have invested in a “Tech Transfer Team” got very good people. We have a pilot plant and also have product development and registration team. And apart from manufacturing, we have set up what is called the “New Generation Molecules.” Last year, we were able to launch three molecules, which are unique to us in India -- this is Pymetrozine, Pyrazosulfuron with the collaboration, and also we launched Mancozeb WDG. We have plans to bring in such molecules which after working with the farmers and also with collaboration with other co-marketing companies to get a new molecule. The good news is we had a 67% growth in these new molecules. We are strengthening our marketing team along with the agronomist team. So the business will continue to depend on some of the molecules like we said on Mancozeb which is a big resistance wake up and one of the most trusted molecules over the years. But we are fastly growing some of these what is called “High Value, Low Volume Products” which are very beneficial for the farmers. And this is for our domestic market and the same thing will apply for the export market where we are looking at converting our B2B businesses into certain countries into B2C model when we can also capture the front end value.

HR Gala: How much was the export of Crop Protection in this FY'20?

Sameer Goel: Around 50%.

HR Gala: How much is the FOREX gain or loss in FY'20?

Jayashree Satagopan: FOREX more than a gain or loss, what we do is, there is a premium cost and then there is a mark-to-market, right. On an average, we incur about Rs.100-odd crores between the premium and mark-to-market. On the exports front this year, our total number is about Rs.627 crores.

HR Gala: And that will be mainly Crop Protection, right?

Jayashree Satagopan: This is on the Crop Protection front. On the bio, we will have about Rs.90-odd crores.

HR Gala: Do you see this increasing price trend in phos acid price like from $590 you said it has increased to $607 in Q1 FY'21?

Jayashree Satagopan: Actually, it is a very marginal increase if you see. The whole of last year we have seen the phos acid price has been falling. So there has been a slight increase this quarter. We will have to wait and watch. This is all a quarterly trend that happens. On the other hand, you also see that the sulphuric acid prices have come down, the ammonia prices are trending lower. So overall RM continues to be soft.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Hi, Jayashree. You mentioned something…maybe I could not really hear properly. What has been the operational cash flow in FY'20 after working capital but before CAPEX? The second issue is out of the total Crop Protection business, how much is the turnover of the four probable likely list of banned molecules out of our portfolio?

Jayashree Satagopan: First, let me respond to your cash flow question. I was mentioning the cash generated from operations after the changes in working capital is about Rs.2,230 crores during the year.

Sameer Goel: Just to say on the banned molecules, we are very confident with the products which are like Mancozeb, there would not be any issue, just the government requires certain data from the industry which the industry is getting together including players like UPL and Indofill and providing them. In fact on a separate note, we had even scientist write to the government very clearly and even the farmers are talking about how safe Mancozeb has been and how it is so important for the rural economy and the farm income and how it has a lot of combination products and therefore is vital as a resistance breaker. So that is how we are looking at it. So we do not have an issue there.

Bharat Shah: Just for knowledge sake, what is the total turnover of these four items?

Jayashree Satagopan: This will be about Rs.800 to 850 crores.

Bharat Shah: Operating cash flow after working capital of Rs.2230 crores, what is the figure that you said for the last year?

Jayashree Satagopan: I did not give a last year number. I shared 4th March 2020. The last year number was about Rs.900 crores.

Bharat Shah: Subsidy which was due as on 31st March 2019, all the amounts are received, right?

Sameer Goel: What has happened on subsidy is while we have had a slightly higher collection last year as compared to the previous year. But the good news is almost Rs.650 crores of the old accounts which is not the DBT account, we have submitted, and the governments have paid it. So most of the old accounts are now getting cleared. Anyway, the government has to do more of the subsidy which is in the DBT system which is there. Here also what happens is because the government used to give 90% on production and consumption, certain amount of this is what is called "Channel Inventory." We are working very closely with the government firstly to follow up on our claims. In fact, April was a good month and they did give us around Rs.532 crores worth of due. We are also telling the government and the finance ministry to increase the allocation because agriculture is a special sector to release these funds for the industry as a whole so that the industries can continue to invest, but we are very confident because most of our old claims have got cleared. As a strategy, Coromandel has moved into instead of working on what is called "Push from the Factories" which a lot of the industry does, we are more on to the consumption side. So like Jayashree mentioned on the consumption side, our sales have grown by 12% and therefore we are working more and more towards what the farmer wants to have. And that also helps us to unlock the working capital.

Bharat Shah: Just to fill in the picture, how much subsidy payment which was due as on 31st March 2019 and subsequently received, that figure and how much has been accounted due as on 31st March '20?

Jayashree Satagopan: The government last year has cleared close to about Rs.650 crores which relates to 2019 and prior, the rest are all been DBT payments. We still have close to about I would say Rs.400-odd crores which relates to 2019 and prior which have been submitted to the government. The focus has been first to pay DBT because it is much easier for them to process. Some of the older claims are all more manual and paper-intensive. And they are able to measure internally in terms of how they have been paying off subsidy. So the focus has been on DBT; however, we have been working with the government to see even the older claims getting settled fast. We do not have much there.

Moderator: Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: My question is more around the inventory. I think we have seen inventory days coming down in this 4Q. So do you think that this is like on the lower side and you would ramp up your inventory slightly higher by the end of next year because it looks like on the lower side compared to your historical average, so any comments on that? And my second question is on capital allocation and continuing from the earlier participant. I think you have increased your dividend payout ratio to 33% from 26% and given the cash flow use of planned for the next two years it seems you would be able to maintain a higher dividend payout ratio, so is there any formal policy out there? So these are my two questions.

Jayashree Satagopan: Thanks for your kind words and compliments. The company has done pretty well last year and continue to perform over the last few years as you would have seen. On the dividend payout, let me take that question first. Our payout ratio if you look into the past few years have always been about 32%, it has not been in the 25% range. While the dividend per share would have been 5.5 and 6.5%, absolute numbers have gone up this year on two accounts -- One is the per se profitability of the company. The second one is also to pass on the DDT benefit to the shareholders. So, we are in line with our dividend policy giving almost 30% plus in terms of payout ratio. As regards the inventory days, the inventory value has come down on two counts – one, the softer raw material prices that we have seen all through last year, the prices were coming down and that has helped. The second one is also on account of consciously looking into and planning for a raw material. So both of these have actually helped in our overall inventory reduction. We think we are in a comfortable position. It has also helped in our total working capital management. There are going to be certain periods in the year when our inventory levels will go up and there are going to be periods where it will be minimized. So that management will happen. The finished goods will move out rapidly during the season, but off season we will be having inventory as we will continue to manufacture. So, this is how this whole game pans out.

Sameer Goel: And what we look at is in anticipation of what will happen to the raw material prices. So, depending on what the commercial team anticipatorily look at holding a higher inventory or a lower inventory.

Varshit Shah: Sure. Just to sum it up, so this year we released around Rs.540-odd crores in terms of cash flow by way of lower inventory. So I think most of the gains are actually in this year and next year probably they will not be any major movement assuming that there is no major volatility in the raw material prices. Is that the right way to assess?

Sameer Goel: Not really because we are also looking at how we can do efficiency, how we can move closer to the farmers and there are various factors playing in. So those are some efficiencies which we are getting to include in our supply chain. But at the same time I do not want to give a prediction because tomorrow if we want to hold more inventory for strategic reason, we will hold it.

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

Ankur Periwal: While you did mention on the debottlenecking initiatives that we can sort of do and drive the growth over the next coming couple of years as well. My question is more on the near-term front, whether due to COVID, or the labor-led issues, how is the utilization right now and how do you see this kharif season in terms of the volume growth overall?

Sameer Goel: So basically in the month of April what is called annual turnaround. So because of the lean season and that is how the plan was done. We anticipated this lockdown even before that and we did not go for the annual turnaround, we went for some minor repairs, otherwise we would have had a problem where we opened up our plants and then found that labor may not be available because of COVID and the restriction. So that was well anticipated. Our all plants have started operation. In Our main plants all the three lines are running in. And we are gearing up really for the kharif buoyancy which we expect to happen in kharif. Any other demands? We are also looking at. which we have already done, strategic imports of DAP, like I said we concentrate on NPK much more. So that is how we are looking at the picture. So currently despite COVID, our plants have done very well in terms of being able to manufacture. We are taking all the safety precautions and therefore we are anticipating meeting the need. And again the whole issue is to get everything efficient so that we do not hold inventory in the system and we ensure that the farmers are able to get the fertiliser which they want. The good news is because the government has done well particularly on the paddy front especially in our markets and the farmers have been paid upfront, a lot of farmers are actually buying upfront for the paddy season. So I was out in the market last week and I did see farmers while they have got the money for the bumper harvest, they are coming to Retail stores which are open to buy for the kharif season and we do anticipate with the normal monsoon which are happening, a good kharif season.

Ankur Periwal: Second question on the fertiliser margin front. Now, we have seen the benefits playing out and from operating leverage perspective the growth coming in, in this year. Do we believe that all the growth levers there on the margins have played out and this is probably the peak or do you expect the baseline number which we have been guiding earlier at Rs.3,500 plus per ton, for that number to increase upwards and maybe to Rs.3,800 or something, your thoughts on that front?

Sameer Goel: Like Jayashree said, let us keep surprising you.

Ankur Periwal: But the full impact of the initiatives that we had taken on the backward integration, the lower raw material prices benefit…

Sameer Goel: We had half the impact last year, the full impact is to come.

Ankur Periwal: Plus as you mentioned earlier there are more sort of backward integration arrangement which we can do continuing going ahead as well?

Sameer Goel: This is the first time we are working on backward integration but at the same time what we are working on is making our brand stronger. So it is a major shift from moving from commodity to branded products and this is something which the farmer likes, we are moving more and more as a FMCG company than to look at a fertilizer company.

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

Abhijit Akella: So just regarding the EBITDA per ton for the fourth quarter, my calculation suggests that it was about 4,200. If you can please just confirm whether that is accurate? And whether there was any FX or any one-off kind of benefit included therein? And then just a follow up on the previous question is what is a sustainable number we can sort of look forward to in FY'21?

Jayashree Satagopan: So as we have indicated in the past, we look into the EBITDA per ton on a full year basis. On a full year basis directionally we will be above Rs.3,500, you know we were at Rs.2,000, 2,500, 3,000, 3,500, it is going around Rs.3,500-3,800. We will continue to see how to improve that operating within the economic environment outside. As Sameer mentioned, operational efficiencies to help us from a cost side, sourcing efficiencies to ensure we get continuous supply of our material to run a plant and the branding and marketing side to also create a pull for our products vis-à-vis competition. So doing all of these we do believe that we should look for a gradual improvement in our margins. So overall for the year I would take a look at around 3,500, 3,800 type. The full impact will come in the coming year.

Abhijit Akella: And my second question was just regarding the non-subsidy business, the growth outlook for that business in the context of all these operational disruptions, etc., that are happening or maybe any softening of demand in certain markets that we are seeing plus all these issues that are being highlighted by the government in terms of bans, etc., So what kind of growth trajectory could we aim for CP and in SND this year?

Sameer Goel: Like I mentioned, firstly, SND business has been growing exponentially. We will continue to see that growth. Here again it is the quality of what we sell and not the quantity. So, just to give an example, we invented the product called Bentonite Sulphur which has now become generic. We went into what is called Sulpha Max. Three years ago the ratio was 80:20 in favor of Bentonite Sulphur now, the ratio is almost 20:80 and the farmers love the Sulpha Max and that is what we are selling more. in fact, certain markets we do not even sell Bentonite Sulphur. So the whole idea is to continue to focus on products which the farmers require and which benefits the products. So SND will continue to do that. As far as CPC is concerned, there was a lull in Q4, like we mentioned because of COVID. Actually in April, because China did not resume operations and also the export markets were lull, so we were able to supply to those markets and customers. Firstly, I am talking from a demand point of view as far as domestic B2B and export, there is a demand in the market. It is a question of us starting our operations which we have done in all the plants safely because of all the constraints which the government has put, but all our plants are operating now as we speak and it is more a question of fulfilling the demand which is arising from the market. This issue on what is called the review of the molecules is something that the entire industry is taking. Quite frankly, it is against the policy of the prime minister who says "Make in India" or what he said was "Think Local" "Atamnirbhar", all those things. And the industry has made a huge cry because even the commercial industry has taken up because this is a huge export potential. After IT and what is called generic pharma, it is actually what is called Crop Protection Generics which can be the next biggest thing as far as India is concerned in the international market especially given the two issues around China -- One is, of course, the disruption of supplies which hit most of the MNCs and also the fact that India is a good position to have a second base for supplying these products. And we also have the R&D and have the capability like Indian pharma has. So we expect the government to see the reasons and have that and especially on Mancozeb which is a product which is a generic breaker, there is a lot of combination molecules, that is almost if I can say it is a likes of paracetamol of the pharma, because it is a tried and tested product, a lot of the new molecules normally they run into a problem in terms of disease resistance early on. So this is something that is tried and tested. A lot of the farmers, everyone is talking to the government about this. So we do not anticipate an issue. The industry as a whole particularly the lead players had to submit certain data that they are in the process of submitting. So that is how we look at it. I mean, we talk about one product which is Malathion. It is required heavily for the locust attack which is there. In fact, you have seen one of the articles of HIL exporting to Iran and that is something which is there. So as India we can stop this menace which is moreover of if I can say an African, South Asia thing on that count. And our bioproducts we are also scaling that up to ensure both in the domestic market and international market we can grow. It is again a question of seed procurement and we are also improving the efficiencies of our bio plants. So that is how we look at it. Sorry, I forget. We are looking at new molecules. They have grown by 67%. We are very pleased with that, but the scope is a lot more. So we did introduce six molecules now and more in the pipeline on Crop Protection.

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

Sameer Goel: Thanks here. Firstly, for everyone on the call, I do wish you and your families to be safe and also to ensure that especially in this COVID environment, so please do remain safe and keep social distancing on that count, it is important. I think especially when we look at COVID and what is the year ahead, firstly the company has done well in the last four years which is reflected in all figures which we have been sharing with you. It has also given us the ammunition and the cash flows to withstand any of the COVID disruption which are there and we are very fortunate on that count. For example, we talked about labor, we are paying everyone full salaries, we are recruiting, we are getting very good talent, we are continuing our products and the new products. Nothing has changed as far as our LTS plan is concerned. The only thing like Jayashree mentioned is some of our projects we may just delayed for some time as you know the labor situation gets better, all that thing but strategically we are in the right direction. The good thing is agriculture as a whole last year has done well and kharif is expected to do as well and therefore we are on a sweet spot as far as this is concerned along with health and pharma and other industry. And I think the recent announcement by the government is quite significant. Basically what Shri Manmohan Singh did to when he was the finance minister to the financial sector or the Vajpayee government did to the infrastructure. This will unshackle agriculture, it will help the farmers to get more income and reduce the waste, APLs will play an important role and we are in a position as being one of the largest agriculture input or a solution provider to take advantage of this. So that is something which we are looking at. It may get us to tweak some of our long-term strategy, but we are on course on what we want to do. So thank you very much and please be safe and happy.

Jayashree Satagopan: I just wanted to add one more point before we close. As we have also seen excellent performance in the last few years, we are very glad to announce that managing director has been reappointed and his term has been extended. You would have possibly seen an announcement in the stock exchange. So congratulations in order to Sameer.

Sameer Goel: I think it is all teamwork and I have learnt a lot from Coromandel, I have learned a lot from the investors also. So thank you very much. I appreciate your help and support. Thank you.

Jayashree Satagopan: Thank you.

Moderator: Thank you Ladies and gentlemen,, on behalf of PhillipCapital, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.