"Coromandel International Limited
Q4 and Full Year 2013 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Coromandel International Limited's Q4 and full year FY'13 conference call, hosted by JM Financial Institutional Securities Private Limited. As a reminder, for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Jaisinh Suchak of JM Financials. Thank you and over to you Sir.

Jaisinh Suchak: A very good morning to all our participants. It is a great pleasure that I welcome you all to the Q4 and full year FY'13 earnings call for Coromandel International Limited. We have with us today, Mr. Kapil Mehan, Managing Director and Mr. Sankara Subramanian, Chief Financial Officer for Coromandel International. The call will begin with a brief management discussion on the performance for the quarter and year-ended March 31, 2013. This will be followed by an interactive question and answer session. I would like to now hand over the floor to Mr. Mehan for the opening remarks. Over to you Sir.

Kapil Mehan: Good morning ladies and gentlemen and welcome you all to our quarterly and this particular call being for annual results also. Let me start by saying that the quarter and the year has been a very eventful one with very contrasting scenarios playing out. On one side, we have made some strategic decisions to make some strategic acquisitions like Liberty group and a stake in Andhra Pradesh Gas Power Corporation Limited, APGPCL, which is a captive power generation company.

On the other side, we had challenging demand conditions and an oversupply situation, which led to all agricultural input businesses getting affected However, the farm produce prices remained pretty robust and the farmers' incomes are likely to go up primarily because of high prices and productivity levels being maintained or improved upon in some cases. We think farmer economics are very, very healthy for almost all the crops.

There were some concerns on cotton prices when the picking started in November–December, but later on the prices picked up. Prices of Paddy, Chilly, Sugarcane are very good so I think overall the agricultural economy seems to be in very good shape and that is where we draw our confidence from.

Before I come to where we see the next few quarters and next year let me share with you highlights of our results. We had lower levels of production on account of rising inventory levels in the marketplace. Further, the fourth quarter is generally a very low demand quarter because most of the crops are in the harvesting or in late maturity stage and fertiliser demand is generally weak. Our financial performance was also impacted by some very high cost that we had to absorb for ammonia. Ammonia's high cost factor was a challenge even during the last quarter and that challenge continued, only towards the end of the quarter the prices of ammonia have softened a little bit.

In terms of our non fertiliser businesses, we have continued to do well and all our businesses have performed according to the plans whether it is pesticides, specialty nutrients, especially the water soluable fertilizers and our retail business. In retail, our non-fertiliser business segment has continued to perform well. We also had to absorb high fixed cost on much lower fertilizer sales volume and which is why you would see that our margins look depressed in the quarterly results but the primary reasons for that has been a) the ammonia cost increase which we could not pass on in the price; b) the low level of production where we have to absorb higher overheads and c) higher levels of spending on marketing activities like warehousing, transportation, and additional discounts. All these are reflected in this quarter's numbers. One more factor which I think we must recognize is that our key core marketing territory consisting of Andhra Pradesh, Maharashtra, Karnataka and Tamil Nadu was very badly affected due to a seasonal factors and the demand contraction in these four states have been very high as compared to the other markets in the country. Just to give you a perspective the DAP market in our primary markets of AP, Karnataka, Tamil Nadu and Maharashtra contracted by 44% during the year whereas we actually improved our market share from 9. 7% to 14. 8%. Complexes market contracted by almost 33% and we improved our market share from 44. 7% to 47. 5% whereas the situation is very different in the other markets like UP, Bihar, Orissa, West Bengal where the demand of DAP actually increased by 10. 7%. in the reported sales and the demands for complex actually came down by about 26% and there we maintained our market share. Overall we improved our market share in our core markets and we managed to maintain our market share in non core markets. So with the result our overall market share has remained intact or has actually improved a little bit, DAP going up from 4. 5% to 5% and complexes market share going up from 20. 7% to 21. 9%. So that gives out the confidence that inherently we have a very good market outreach and we have very good brand where we enjoy the franchise of the farmers and that continues to be helpful.

Other key highlight of the quarter and the year has been, the acquisition of Liberty Phosphate, which is now a subsidiary company. We took over the management control on March 7, this year. We have also started our C Train project and we have also fixed all the environmental issues as far as the Sabero is concerned. Sabero is improving its performance on a month-on-month basis. We have also acquired stake in APGPCL and that makes us not only self sufficient in our own power requirements, but also gives us a cost advantage.

Our TIFERT plant also has been under commissioning for the last 30-35 days and we are happy to now report that phosphoric acid has started coming out. It is still not at full capacity but phosphoric acid has been produced and we are expecting that by second half of May, we will have some dispatch taking place. A shipment is expected to sail from there in second half of May. So all our expansion and acquisition initiatives are off the ground and that is what gives us confidence that going forward we will be able to improve our market share and sales.

In terms of future outlook, we believe that monsoon is likely to be good. All our plants are now geared up. We have done whatever was needed to be done to meet the challenge of supplies and we are targeting that we should run our all facilities including C Train, at a capacity utilization rate of about 70% to 80%. Today we have almost 50 lakh tonnes of capacity under our belt including the Liberty Phosphate's capacity. Our crop protection business also is well poised because of the good monsoon expectations and when there is a good monsoon the farmer's propensity to invest on improving their productivity is also generally high.

Current estimates indicate better than normal monsoon in our core markets of AP, Maharashtra, Karnataka and Tamil Nadu. Apart from that we have also done lot of internal restructuring. We have strengthened our marketing teams across businesses. We have added close to 200 people to our frontline field force, which I am sure will add to our customer service as well as to improve our connect with the customers.

We have also continued to invest in our umbrella branding strategy that we launched last year and we will continue to build our Gromor brand and build its franchise further with farmers, not only in Andhra Pradesh but in also states of Maharashtra, Karnataka, Orissa, West Bengal, Tamil Nadu, UP, MP, Chhattisgarh. So, these are the markets where we will be present in very significant way. We are also targeting institutional business of Co-operatives etc., because almost one-third of the demand for fertiliser is met through the distribution networks of co-operative institutions as well as state government institutions.

We have also noticed that no import contracts have been finalized so far for import of DAP. Complex imports last year also had declined by almost 90%. DAP import has also declined and we expect that that trend will continue. In the last three - four months we have witnessed that import volumes have now come down to trickles and no new contracts are being signed, and we are not hearing of any large buyers talking about big contracts at fixed price for long-term. So if we put together all these factors, we believe that the market will turn around and we expect that demand will grow by at least 10% this year from 16.4 million tonnes to about 18 million tonnes.

Subsidy rates have not yet been announced by the government because the international prices have softened. Raw material costs have come down and the government will most likely reduce the subsidy. Just to put it in prospective, in the year 2011-12 subsidy constituted 48% of our revenue and in the current year it has come down to 35% and that will continue to go down as we move forward.

So overall we are cautiously optimistic about how the future will pan out because while on the demand side the factors look quite positive but the challenges of field inventory and oversupply hangover continue to exist. This uncertainty over subsidy levels for FY13-14 will get over soon and then accordingly we will be able to moderate or modulate our selling prices to the farmers. So with these few opening remarks, we will be happy to take any questions but before that I request Mr. Sankar to share a few details on the financials

Sankara Subramanian: Good morning all of you. Just to add to what Mr. Mehan said Q4 financials reflect current market situation. Our focus was more on working capital and we used this opportunity to carry out annual maintenance in all our plants. We ran down on inventories, our stock levels of both raw material as well as finished goods have considerably come down compared to last year and we exhausted all the high cost raw materials whatever we purchased in Q3, so possible impacts on any of these un liquidated stocks have also been addressed in the financials.

In that process, we also extended attractive cash schemes to collect the money from the market and that has actually had an impact on our EBITDA in the fertiliser business. But the gratifying point is in terms of the other businesses; retail has considerably grown even in the fourth quarter in spite of it being an off-season. All the other business segments in retail whether it is pesticides or veterinary feeds or Speciality Nutrients have shown a growth. Overall, in the retail SBU, non-fertilisers have grown by almost 26% over the last year which is very, vital for the profitability of this SBU. Agrochemicals have also grown by 8% to 10% in the formulation business segment. Overall liquidity position has considerably improved compared to what it was in the Q3 and going forward with subsidy disbursement in the Q1 we expect the liquidity to improve further and help us in bringing down the finance cost.

Overall it has been a challenging year, but with outlook on monsoon being good we expect our financial position to considerably improve in the forthcoming season.

Moderator: Thank you very much Sir. Our first question is from Siraj Mehta of Franklin Templeton. Please go ahead.

Siraj Mehta: Sir, can you please give us the breakup of the subsidy and the non-subsidy business in terms of revenue and profitability?

Kapil Mehan: Our topline is around 87% is in fertilisers and about 13% is non-fertiliser turnover and in terms of EBITDA performance it is around 38-39% for non-fertiliser and 60-63% on fertiliser part.

Siraj Mehta: Would this number be for this quarter or for the full year?

Kapil Mehan: Full year.

Siraj Mehta: How would have this panned out for the quarter would it be any different or would be in the same ballpark region?

Kapil Mehan: For the quarter actually the number for non-fertiliser business is higher because as we have explained the EBITDA margins were depressed in the fertiliser business.

Siraj Mehta: Sir I mean even if we take like rough estimate of around 50% EBITDA from non-fertiliser from this quarter and calculate backwards on the volume of closer to 700,000 tonnes whatever the number that we get so on that the profitability on manufactured volumes turns out to be even lesser than Rs. 1000 per tonne would that be correct?

Kapil Mehan: It depends on how you look at the margin. Actually our volumes are not 7 lakhs tonnes. Our volume for complex and SSP is only 4.61 lakhs tonne as compared to 6.44 lakhs tonnes that we have done last year; we have sold more urea, which is just a distribution item but that does not add much to the bottomline.

Siraj Mehta: I agree Sir but even if you look at manufactured volumes so I take out traded volumes but if you look at manufacture of 0. 464 mio MT of complex manufacturing including DAP

Kapil Mehan: That is again including the imported fertilisers.

Siraj Mehta: Okay sir, if you look at it I mean just wanted to understand currently at this price what will be the conversion that Coromandel would be making as of now on the current MRPs?

Kapil Mehan: As we explained that the EBITDA margin was under pressure in the last two quarters primarily because of higher cost of ammonia and higher marketing and distribution costs where we had to incur more warehousing charges, we have to pay cash discounts in the marketplace. So there is a reduction in our margin during the quarter, which is a direct function of what the market conditions are. We have also taken care of any potential price reduction / subsidy reduction for our inventory. We have taken precautions to make sure that going forward there will be no impact of those reductions on our Q1performance.

Siraj Mehta: Sir, if we look at the current inventory in the system, which will be close to 6 million tonnes, do you see this trend of higher discounts getting normalized going forward at any point because even if we substitute imports of DAP as well as complexes how would it affect the domestic manufacturing industry in terms of the margins as well as the dealer discounts?

Kapil Mehan: I think you have raised a very important issue. The inventory levels what we are seeing today is the gross inventory level. They will never go down to zero. The net inventory will be in the range of 4 to 4. 5 million tonnes not 6 million tonne, 6 million tonne is the total inventory. So two million tonne is a normal pipeline inventory, which will remain at any given point of time I mean if it comes on below that there will be tightness and shortages getting reported from different parts of the market. The imports have come down. Last year also they came down. This year they will further come down. Today we are already in April end and no contract has been signed.

Why, because the visibility on the earnings for domestic importers has become very, very unclear. Number two, the cash that we used to get through subsidy payments etc., even last year subsidy has not yet been paid. They got some money in March for subsidy that was due from July. Number three, the money is also not coming as fast as it used to come from the market. The inventories have been run down in the distribution chain all through. All inventories have travelled up to wholesalers, and companies, and that is something which we need to take cognizance of because the moment good season starts all this inventory will begin to flow very fast into the channel, which is a very typical response when there is an expectation of comfortable supply and on top of that the market softens, the tendency of the end user and distribution chain is to run down inventories. That is exactly what has happened in this business too.

Siraj Mehta: Last question Sir if we assume as you mentioned around 70% to 80% utilization for the full year and in FY'14 for a four million tonne into our capacity excluding Liberty Phosphate?

Kapil Mehan: Our capacity is 36.25 lakh tonnes including SSP in Ranipet.

Siraj Mehta: So 36 and on that if we assume around 70% we would be closer to 2. 3-2. 4 million tonnes for FY'14 manufactured volumes. Would that be correct even if I assume the lower end of the guidance that you have given?

Kapil Mehan: That is a lower end of our estimate but we believe that the market conditions will improve but we will be somewhere between 70% and 80% capacity of utilization.

Siraj Mehta: In the longer run Sir let us say a two to three year timeframe or two year timeframe when your utilization would be let say around 80%. What kind of steady state conversion margins do we assume that the company can make?

Kapil Mehan: See it is very difficult to predict two three years down the line, but given the nature of this business and the capital involvement and the investments etc. , that we have made I think a steady state margin of around Rs. 2500 per tonne is what we strive to achieve.

Siraj Mehta: Thanks a lot Sir.

Moderator: Thank you very much. Our next question is from Laxmi Narayan of Catamaran. Please go ahead.

Laxmi Narayan: Good afternoon Sir. I have three questions. First is regarding your debt position. I think there is an increase in debt and you can just elaborate us to what explains that? Second is among our distribution what actually goes through our debt channel and how it has actually improved over the last year? The last question is the total receivables from the government how much it is and what kind of outstanding we are running right now? These are the three questions?

Kapil Mehan: See as far as debt is concerned, our long-term debt to equity ratio has moved up from 0.12 to 0.37 and the primary reason for that are the nonconvertible debentures that we had issued to the shareholders on occasion of our golden jubilee celebration. So that Rs. 424- crores of debenture are also treated in the balance sheet as a long-term debt. Other than that there is a marginal increase in ECB, which we have taken for our C-Train project. So that really explains this increase in debt from 0.12 to 0.37. That is number one. What was your second question?

Laxmi Narayan: How much of our total revenues or stock actually sold through the direct channel from our Gromor stores?

Kapil Mehan: We have distributed roughly about 20% of our total fertiliser volume through the direct channel.

Laxmi Narayan: What was the number last year?

Kapil Mehan: Last year number was also similar

Laxmi Narayan: Because I remember we had actually mentioned some of your calls that you wanted to increase it to a particular level and I think last year you were planning it to increase it some 20% to some other higher number, anything that explains why we were unable to increase our direct channel distribution?

Kapil Mehan: I think the primary reason has been a) the pricing has been volatile and our ability to match day-to-day prices in the marketplace as the dealers do, because dealers have the flexibility to fix price based on their understanding of what margins they will get or what they will manage to get from the companies and the local demand. That flexibility is not available with our sales manager for a retail store but we are now sort of trying to address that issue and putting mechanisms in place, which will enable our centers also to respond to price changes in a more direct and immediate manner rather than wait too long ,but despite that our centers have an attraction for the farmers and we did manage to put through more or less the same amount of volume through the channel as compared to the previous years including the urea, SSP, MOP, complex fertilisers, DAP etc.

Laxmi Narayan: The last question is regarding the collections or receivables from the government because we have actually briefly touched upon that the receivable cycle is getting longer so if you can just elaborate as to where are we and how much you is pending from the government and what has been the delay?

Sankara Subramanian: Current outstanding of subsidies is around 1264 Crores and in respect of manufactured products the subsidy has been disbursed fairly up to October, part of October receivables have also been paid. So the outstanding mainly pertains to fourth quarter and November-December billing.

Laxmi Narayan: Does the government pay some kind of an interest for this account receivables, is that something, which is agreed to or it is in our hands, the loss?

Sankara Subramanian: Generally they do not pay any interest for delayed subsidy payments. However in March 2013 they have arranged for a loan scheme from SBI consortium wherein a loan has been tied up for imported fertiliser at 10. 25% and the government was bearing upto 8% of this interest. It is a one time concession they have given in March mainly to ease out the liquidity position for imported fertilisers.

Laxmi Narayan: Did we avail that?

Sankara Subramanian: We have availed Rs.37 Crores of loan to the extent of imported fertilisers subsidy outstanding with the government.

Laxmi Narayan: Thanks so much.

Moderator: Thank you very much. We will take a next question from Nitin Gosar of Religare Asset Management. Please go ahead.

Nitin Gosar: Just wanted to understand is there any cut in farm gate prices that has been initiated or we are still expecting it to happen in the first quarter or second quarter?

Kapil Mehan: So far there is no reduction in farm gate price as far as the fertilisers are concerned. That is a function of where the subsidy rates for the year 2013-14 will be and we are waiting for the subsidy rates to be announced. There is a total reduction in the overall cost of manufacturing and import of these fertilisers so there will be a reduction in subsidy because government is also keen to use this opportunity to improve their fiscal position by restricting the subsidy on fertilisers. Now the extent to which that cost reduction will be appropriated in subsidy is not yet clear. Various estimates exist in the marketplace ranging from full cost reduction getting reflected in subsidy reduction to part reduction in subsidy. .

Nitin Gosar: The breakup of fertiliser and non-fertiliser business that you gave it was more to do with the standalone or consol?

Kapil Mehan: It is actually on standalone basis.

Nitin Gosar: Just wanted to understand the concept right over here, incrementally we are seeing lot of global players who are backward integrated with mines moving on to manufacturing. So as a converter where do we see ourselves five years down the line or ten years down the line vis-à-vis competition, because DAP prices have started coming off but phos prices have not moved in that direction?

Kapil Mehan: Looking at this whole scenario, driver of phosphate prices is agricultural demand. Over 90% of the phosphates are used by agriculture and that demand will decide the prices of these fertilisers. So depending on what the price of DAP, MAP and TSP is will decide the prices of the raw materials. So everything is guided by that. Number two, we have strategic tie-ups, we have joint ventures, so there is no risk in terms of availability of those raw materials. Thirdly, the share of nonintegrated players versus integrated players has remained more or less constant for the last 25-30 years. That has not changed. If there are integrated players who setup granulation facilities there are equal number of nonintegrated players who setup joint ventures or increase the capacity of phosphoric acid and mining. Lot of nonintegrated players have actually increased the capacity utilization of their mines. New mines have been opened and new mines are under development. So, we do not foresee these nonintegrated players going out of business. When rock margins improves, why would people not open more mines, why would people not sell more rock phosphate without having to invest in downstream units when there is already enough capacity. More supply will depress the prices, and that again will get reflected in their upstream margins. So, I think the equilibrium will continue to be maintained and there is very little that will change. Economically, if you look at in terms of economic costs of manufacturing these products, if you have framework-based pricing mechanisms in place, which we have in some of our sourcing arrangements, it does not make any difference whether you convert your phosphoric acid or rock into finished fertilisers at the mine head or you convert it closer to the market. Yes, you cannot do it somewhere where is neither a mine nor a market. That is not a sustainable model. Perhaps that explains the position.

Nitin Gosar: One last question, what is the expectation of sector demand for the year, if one were to build in a scenario that the sentiments remain where they are right now?

Kapil Mehan: We expect the demand to grow to about 18 million tonnes in the coming year from 16.4 million this year.

Nitin Gosar: Even if the sentiments remain where they are right now?

Kapil Mehan: Yes, even if the sentiment remains where they are.

Nitin Gosar: That is it. Thank you. All the best.

Moderator: Thank you very much. Our next question is Manoj Bahety of Edelweiss. Please go ahead.

Manoj Bahety: Thanks for taking the questions. My first question is on the kind of reduction, which we have seen in the inventory in Q4 vs. Q 2 from almost Rs.2700 Crores to Rs.1477 Crores, and most of this reduction, if I see the P&L has happened in this quarter. Like if I see the decrease in stock is almost Rs/778 Crores whereas raw material consumed is Rs. 842 Crores. So, I am trying to connect the dots. Does it mean that we have offered some very high cash discount to the dealers or distributors and indeed collected cash from them for moving the inventory from our place to wholesalers?

Kapil Mehan: Two things have happened. One is that we have reduced our raw material inventory to a bare minimum level. We have never had that kind of inventory levels and that was done very consciously because we could see that early in October and November where the prices of phosphates had begun to soften. So, we have been reducing our buying to just in time rather than keeping the stocks. So, that is what has led to this reduction in inventory. Second part is that whatever stock we had and we did cut down our production in view of the high inventory levels in the market and our inventories with us have reduced considerably despite the fact that we also had less of sales. So, all these were conscious efforts to contain our capital employed in stocks and debtors.

Manoj Bahety: But have you offered some very high cash discounts also, which maybe one-off?

Kapil Mehan: We have been offering market matching discounts. We have not offered any aggressive discounts or anything with the idea of just booking some sales or collecting some money. Our network is very strong with 20% of our sales is on cash and carry. Our subsidy collections have been reasonably good, but having said that, receivables still remain an area of concern because in the past, we never had this kind of trade receivables as we have now and that is something which the management would be looking to correct as we go into the next few quarters.

Manoj Bahety: On trade receivables, in fact the thing is the amount of trade receivables, which we are carrying on balance sheet, are you seeing a structural shift in the industry and going forward you will have extend higher credit to the dealer and distributors?

Kapil Mehan: Well it is a function of demand and supply, and of course distribution networks, the margin structure for distributors have to adjust to a new reality of high prices, which I think they are falling in place and I do not think such high levels of trade receivables are sustainable phenomenon. We expect that as we go into next few quarters, the inventory levels will moderate. The demand will be far healthier than what we have seen in the recent past, and that would bring down the overall trade receivables to manageable levels.

Manoj Bahety: Sir, my last question is like you mentioned next year you are expecting that the overall demand of the industry will go up from 16. 4 million tonnes to 18 million tonnes and also you mentioned that you are expecting around 70% capacity utilization including our fee trend?

Kapil Mehan: I said 70% to 80%.

Manoj Bahety: 70% to 80% capacity utilization, so in fact, if I connect these two things, does it mean that we are expecting a significant increase in our market share and if that is the case, are you expecting that the imported fertilizer will be significantly lesser because the industry is going up from 16.4 tonnes to 18 tonnes whereas if we see our company’s volume from this year to next year it will go to close to 2.3 to 2.4 million tonnes at 70% to 80% capacity utilization, so how do we connect these two things?

Kapil Mehan: I think what you have assessed is absolutely correct. We expect that the imports will come down and the domestic production share in overall sales will increase and we have put up a new plant, which we have commissioned and that will find place in the market.

Manoj Bahety: Wish you all the best. Thanks for taking the question.

Moderator: Thank you very much. Our next question is from Pratik Poddar of ICICI Prudential Asset Management. Please go ahead.

Pratik Poddar: Going ahead can we expect an improvement in the gross margin?

Kapil Mehan: Definitely we will be focusing more on manufactured products because of extra capacity available in Kakinada so that will improve the gross margin levels and also this additional volume on the non-fertilizer business should improve the gross margin.

Pratik Poddar: Sir on consolidated basis if you can just split your trade receivables between fertilisers and ex-fertilisers?

Kapil Mehan: Roughly 85% will relate to fertilizer balance will be non-fertilisers.

Pratik Poddar: In terms of Subsidy you mentioned this year it was around 1200 Crores outstanding?

Sankara Subramanian: 1264 Crores.

Pratik Poddar: So, receivables from dealers are higher than subsidy receivables?

Kapil Mehan: That is right because the share of subsidy in the total revenue has also come down from 45% last year to 35% in the current year, so the subsidy income also has come down considerably.

Pratik Poddar: Sir, one last question. You were mentioning something about targeting institutional sales and Co- operatives. If you can just elaborate on that?

Kapil Mehan: Lot of fertilisers are distributed through the Co-operatives and state government institutions where a lot of agricultural financing happens and hence we are adding institution as an active channel for distributing our products.

Pratik Poddar: Sir, your capacity increase would act as an import substitution.

Kapil Mehan: Yes. Until and unless the demand begins to grow where the demand for imports will also be there till then the domestic production has to meet that demand.

Pratik Poddar: Sir that would be it from my side. Thank you for taking my question.

Moderator: Thank you. Our next question is from Mr. Prakash Goel of ICICI Securities. Please go ahead.

Prakash Goel: Good morning Sir. Thanks a lot for taking my question.

Prakash Goel: My first question relates to trade receivable and the inventory level. Have you taken any kind of provision for possible decrease in the subsidy support from the government in terms of inventory write down or provisions for receivables?

Kapil Mehan: As I mentioned in my opening remarks, we believe that we have done enough so that we are not impacted by receivables or the stock that we have. So, adequate care has been taken to that extent.

Prakash Goel: Would it be possible for you to disclose the quantum of provisions that we have made in this quarter or the sales for full year?

Kapil Mehan: That would not be appropriate because we do not know yet, which way the next year numbers are going to pan out in terms of cost reductions, subsidy reduction and the possible reduction or more reduction in selling prices.

Prakash Goel: I understand that part. I am trying to understand from accounting point of view how much provisions have been made if at all? As you said that there would not be any impact in future, but my question was more to understand the impact on the profitability of FY'13?

Kapil Mehan: We do appreciate your question but unfortunately, we are not in a position to comment on your question because it is an estimate and we believe we have done it in a manner, which will enable us not to have to take any further hits in the subsequent periods.

Prakash Goel: If I can conclude this it means that you have made adequate provisions for the future under recovery or write down which may be required in case government chooses to cut subsidy?

Sankara Subramanian: Prakash, one thing I want to clarify, most of our finished goods are in the field, so there is no question of any impact of subsidy on those field inventory. We carry hardly any stocks at the factory. So, in respect of subsidy there is no need for any downward revision. There will not be any impact on the stock. In respect of trade receivables we have provided for whatever possible impact based on our estimates.

Prakash Goel: Fair enough.

Kapil Mehan: Number three, as you would have heard in the earlier calls to some queries we have been very consciously reducing our inventory level.

Prakash Goel: Which is visible, which is definitely appreciable and visible.

Kapil Mehan: It is a very conscious effort that we cut down our inventories both of the raw material as well as finished goods and that is why we produced also less during the last quarter when the demand was low. This was all a very conscious effort to contain our overall capital employed and ensure that our balance sheet and financial parameters remain within certain defined boundaries.

Prakash Goel: Sir, I have two more questions. One with regard to the dynamics that we are seeing in the market is that whenever there is a fall in prices, traders catch that opportunity and dump that material in the market, which has actually created the inventory glut, and higher margins to the distributor. How do you see these things changing in the next two years because this has become a regular phenomenon and we feel that they are making a lot of money in very short span of time? So what will change this habit or is it going to be the norm of the future?

Kapil Mehan: We think we are in a period of transition where we are moving from low price controlled environment to high prices. Delivery now has to be done at the retail outlet. No questions about that because the selling prices have moved up and there is now a freedom to fix those selling prices. This year because of sudden price increases, bad monsoon, demand getting contracted, sentiment being poor, a situation has developed where the inventory has dried up in the retail outlets and with the farmers and it all traveled up to manufacturers, importers or wholesalers and that situation now will reflect in somewhat slower production, and substantial reduction in imports. Last year, for example if you look at the imports of complexes, they came down by 90%, and in case of DAP imports came down by 15% to 16% and that again this year nobody has contracted so far. Even though the Chinese window has opened, no contracts are being finalized. People are very careful both from the supplier's side as well as from the buyer's side because on the fertilisers imported in the last year there has been huge delays in receipt of subsidies and payments from both dealers as well as from the government. So, I think market is adjusting to a new reality of low demand and that adjustment, I think process will continue over the next couple of quarters.

Prakash Goel: Sir, my worry was not with the immediate future. My worry was on a longer term basis. What we are seeing is that whenever there is an opportunity, whenever there is a price falling the traders are encashing that opportunity and the span of response, the time which it needs to respond to the situation is very quick and which is why the manufacturers are taking a hit and probably manufacturers are also incrementally involved in the trading activity, because they can also at the time of trade itself fix their margin except for the interest cost,. Do you think Coromandel will also increase its trading turnover going ahead?

Kapil Mehan: Are you suggesting that imports will increase to make quick margins?

Prakash Goel: My fear is that because whenever there is a volatile price environment, whenever there is an opportunity, traders aggressively started doing trading because the returns are very much predictable excluding the interest cost component, whereas the manufacturer is facing a dilemma wherein the response time is much higher compared to a trader. I preferably think that margins for manufacturing companies will converge with those of the traders excluding for the value addition part?

Kapil Mehan: I think the value addition will remain intact and what had happened is that all these traders who imported, made money when the prices were going up and not when the prices were going down.

Prakash Goel: I agree. Only thing where the worry is wherever there is an opportunity, a window of opportunity is available and which is where the sustainable high margin which our company or GSFC used to enjoy, probably may not be repeatable..

Kapil Mehan: I do not think that is a correct conclusion. If so there should be a flood of imports now because prices moved down from USD 550 to USD 520, but nobody is importing.

Prakash Goel: Last question. The non-current investment in the balance sheet, basically reflects the acquisitions. We have done a fair amount of acquisition in the last two years. Almost the jump in the number is from 212 Crores to 880 Crores, which probably involves Sabero and Liberty Phosphate, and the recent acquisition that we have done. Sir, what is the strategy going forward? Are we going to do these kinds of acquisition on a regular basis because we as analysts would want to see the turnaround of the investments already made before the management goes for further acquisitions? This is probably a humble submission from my side.

Kapil Mehan: Your submission is very important for us, and let me assure you that all acquisitions we have made are part of our strategy and our growth agenda and we will now use this time that we have on our hands to make sure that all these investments give us reasonable returns. We have invested Rs.1200 to Rs.1300 Crores over the last three years in terms of our organic capacity expansions as well as some strategic acquisitions, and strategic acquisitions are very critical because their timing generally is not entirely in your hands. If you want to control the timing of the acquisition then either you may not have workable acquisitions happening. So there is always a trade off between these two and we are very much aware of these requirements of our shareholders and we respect that and that is what we are working towards.

Prakash Goel: Thanks a lot and all the best Sir.

Moderator: Thank you very much. We will take our question from Bhavin Chedda from Enam Holdings. Please go ahead.

Bhavin Chedda: Good afternoon. One thing what was our captive phos acid production during FY'13 and how much it met as a percentage of total requirement?

Kapil Mehan: We did around 1.54 lakhs tonnes.

Bhavin Chedda: Our production was 1.54 lakhs tonnes.

Kapil Mehan: Yes.

Bhavin Chedda: Another thing is regarding the dividend income for this year you have not accounted for the same so any expectations. If you can share Fosker numbers if possible. What was the Fosker number and if at all dividend distributed and still not accounted?

Kapil Mehan: They declare a dividend but it was just sufficient to meet the loan commitment of the overseas subsidiary, hence no dividend was declared by our subsidiary to Coromandal during this year. Previous year CFL Mauritius declared a dividend of Rs.44.8 Crores, out of the Fosker dividend received by the company.

Bhavin Chedda: So, you are saying CFL Mauritius received dividend from Fosker, but it is…

Kapil Mehan: It used that money to discharge the liability what it has.

Bhavin Chedda: Any possibility of sharing Fosker number or that is not available?

Kapil Mehan: We are yet to get the financial reports of Foskor

Bhavin Chedda: Sir, any SSP volume targets you have set for FY'14? How much would be the SSP production in Coromandel and at Liberty Phosphate including all subsidiaries?

Kapil Mehan: As I said earlier, we have a capacity of over a million tonnes and our efforts to run these plants to have at least 70% to 80% capacity utilization.

Bhavin Chedda: Out of this million tonnes only 1, 30,000 is in Coromandel?

Kapil Mehan: 1, 32,000 is in Coromandel.

Bhavin Chedda: On the 6 million tonnes inventory, what would be the breakup between DAP and complex as of now in the system?

Kapil Mehan: 4 would be DAP, and about 2. 5 would be complex.

Bhavin Chedda: Thank you Sir.

Moderator: Thank you very much. We will take our last question from Puneet Gulati of HSBC. Please go ahead.

Puneet Gulati: Thanks for the opportunity. Just want to understand a few things. What has been the progress on Sabero?

Kapil Mehan: Sabero's EBITDA has moved from Rs.-37 Crores last year to Rs.50 Crores this year and while that is a big movement, it is still not sufficient. We need to move further up on that and that is what I alluded to in my opening remarks that we are increasing our sales on a month and month basis; we are increasing our production, we have installed all the environment management related facility there which can handle larger volumes. So that we are able to comply with all the required guidelines and that process will continue during this year and we are expecting that Sabero must come out with the desired numbers.

Puneet Gulati: What are the bottlenecks to margin expansion as of now?

Kapil Mehan: Actually there are no bottlenecks to margin expansion. The bottlenecks are only in terms of how much affluent that we can treat and we have the capacity to produce all the molecules to full capacity. Running these environment treatment facilities is always a challenge and that is what we have invested in the last 15 months or so close to Rs.35 Crores in fixing those facilities and I think they are yielding results and the production is going up where we are expecting a jump in the production from there. Our marketing outfits in South America South East Asia and Africa are fully geared to handle larger volumes. We are expecting more registrations to come through and that will also open up more market opportunities for Sabero.

Puneet Gulati: What is the utilization as of now?

Kapil Mehan: As of now it is around 50% to 55%.

Puneet Gulati: What is the target to take to it say 90%?

Kapil Mehan: We will be targeting to take it to around 70% to 75% during this year.

Puneet Gulati: Lastly, can you explain the expense involved in acquiring Andhra Pradesh Gas Power Corporation and the thoughts behind it?

Kapil Mehan: Well the strategy was very clear because as you know the power situation in Andhra is very, bad and we were dependent on grid power to run part of our facilities, partly we had our own generating capacities by use of steam from our sulfuric acid plant, so we needed to augment our power production capability. Last year actually we had major cost increases happening because we had to run our DG sets, etc. to meet the power demand because cutting down production at times is not an option and to meet that then this opportunity came, so we bid for it. It was an open bidding process and we have been able to acquire this stake, which now makes us self sufficient as well as reduces our power cost.

Puneet Gulati: What is the quantum in terms of megawatts that you get?

Kapil Mehan: We have purchased 22 MWout of which that we are retaining 15 MW and the balance 7 MW we have passed on to another buyer.

Puneet Gulati: Do you get the full benefit of whatever you sell of that 7?

Kapil Mehan: Yes.

Puneet Gulati: How much have you paid for this?

Kapil Mehan: We paid 74 or 75 Crores for 15 megawatts.

Puneet Gulati: 74 Crores for 15 megawatt and does the operational responsibility rest with you or is it with corporation?

Kapil Mehan: It is with the corporation.

Puneet Gulati: Great. Thank you so much.

Melissa: Thank you very much. Ladies and gentlemen due to time constraints that was the last question. I now hand the floor back to Mr. Jaisinh Suchak of JM Financials for closing comments.

Jaisinh Suchak: Thank you Inba. On behalf of JM Financials I would like to thanks the management team of Coromandel International and all the participants for joining us on the call today. I will now hand over the floor to the management for closing remarks. Over to you Sir.

Kapil Mehan: Thanks. I would like to thank JM Financial for organizing the concall and I think we had very insightful queries from investors. Some of these queries also point that we need to strengthen our internal processes to address some of those issues around working capital, and our debt levels etc., but I think we believe that most of the head winds are now behind us. They will continue to be present at reduced level for some more time to come but overall we are very much convinced that agriculture in India is going to progress, prosper. The farm economics is only going to improve and if that continues to happen, we will take advantage of that situation and we are fully geared to leverage that demand which is likely to emerge over the few years. With this I thank all the people who have joined and taken the trouble of asking some very insightful questions. Thank you very much.

Rohan Gupta: Thank you, very much. Ladies and gentlemen on behalf of JM Financial Institutional Securities Private Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.