"Coromandel International Limited Q4 FY16 Earnings Conference Call"

April 28, 2016

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MODERATOR: **MR. VIJAYARAGHAVAN– IDFC SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Coromandel Q4 FY16 earnings conference call hosted by IDFC Securities Limited. Please note that the duration for the call will be 60 minutes. 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. Vijayaraghavan from IDFC Securities, thank you and over to you sir.

Vijayaraghavan: Thank you Aman, a very good afternoon to everyone and thank you for joining us today. I would like to welcome the management team of Coromandel International and thank them for giving us this opportunity to host this call. Representing Coromandel management team we have with us today Mr. Sameer Goel – Managing Director and Mr. Sankarasubramanian – Executive Vice President and CFO with us. So I would like to hand over the call to Mr. Sameer who will make the initial remarks which will be followed up with Mr. Sankarasubramanian's comment on the financial performance and then we will have a Q&A session, so over to you Mr. Sameer.

Sameer Goel: Good afternoon everyone and thanks Vijay for organizing this conference call.

Let me begin by giving you an overview of the business environment experienced during the year. Sankar will follow with the Company performance and we will have the Q&A session.

It was a challenging year for the Indian agriculture as second consecutive occurrence of El Nino brought 17% deficit rainfall over the long period average level in the full year 2016 with the Kharif shortfall of 14% and a Rabi season drop of 23%. Southern Peninsula which comprises of our major operating markets received a 15% deficit rains during Kharif. Situation improved slightly in Tamil Nadu, South Karnataka and South Andhra during Rabi but improper spatial distribution of north-east monsoon resulted in lower crop acreages and reduced irrigation opportunities for the farmers.

The reservoir storage level across the country remained low and up to last week it was at a meagre level of 23%, south and western region being impacted the most with west having 18% and south only 15%. On a positive note, the monsoon forecast for Kharif 2016 given by both IMD and Skymet provides a brighter outlook. As per IMD, monsoons are expected to be above normal with a forecast probability of 64%. Similarly, Skymet expects an above normal monsoon with a higher rainfall expected along the West and Central India. During 2015-2016, the seasonal conditions have resulted in a flattish food grain output. As per the second advance estimate available in February 2016, food grain production is likely to be 253 million metric tons with an increase in wheat and pulse output.

Overall we had rice decreasing by 2%, coarse cereal decreasing by 10%, Oil Seeds by 4%, Cotton by 12% and Sugarcane by 4%. On the NBS policy front, the government has reduced the per unit subsidy on N & P nutrients by 24% and 29% respectively for the first half of 2016-2017 owing to the softening of raw material prices in the international market. The subsidy numbers will be reviewed on a half yearly basis based on global raw material prices. As the NBS rates have been reduced, the budgetary allocation under the P & K fertilizer have also come down while Urea has remained at the same level as last year. So on P & K, the overall allocation by the government for 2016-2017 is 19,000 crores, last year it was 22,469 crores.

Now coming to the industry fertilizer sales performance for the year, Urea production increased by 8%, Imports have actually fallen by 3% however sales are up by 4%. Overall, the phosphatic fertilizer industry sales have gone up by 18% during the year. DAP segment growing by 29% while complex segment is up by 8%. During the first half of the year industry resorted to a high DAP import on anticipation of a better monsoon which resulted in a 45% higher DAP imports up from 38 lakh tons a year ago to 56 lakh tons in 2015-2016. The growth moderated in the second half of the season as monsoon deficit across India slowed down the nutrient consumption. As a result, industry is likely to carry an inventory in excess of 6 million tons. However, with El Nino projected to fade away by Kharif 2016 the stocks are likely to get liquidated during the coming season. On a regional basis industry sold more in north, east and central markets. Our primary markets of AP, Telangana and Karnataka grew at a much slow pace of 6% during the year due to seasonal failure and lower reservoir levels. However, these markets are better off in terms of product liquidation and the industry is carrying relatively lower pipeline stocks here.

MOP sales have dropped by 12% from 27.8 to 24.4 lakhs metric tons during the year. Urea sales are up by 3% to 320 lakh metric tons as a result of gas pooling and cheaper availability LNG. The domestic fertilizer production is up by 8% substituting imports which has fallen by 3%.

Coming now to the rural and agriculture reform, the Prime Minister has formally launched the National Agriculture Market e-trading platform that plans to connect 585 mandis electronically by March 2018. Presently 21 mandis from 8 states have been linked to Nationally Agriculture Market and it is planned to be scaled up this initiative by connecting 200 mandis within the next five months.

Government has improved its budgetary allocation under the agri and rural scheme for the year 2016-2017. Focus has been given on expediting irrigation projects, improving farmers' credit and crop insurance coverage in addition to better rural infrastructure. In AP, Pattiseema lift irrigation Scheme has been completed within the scheduled time of one year. The project intends to lift water from Godavari and flow into Krishna at Prakasam barrage through the Polavaram canal. This will have a positive impact in drought-prone Rayalaseema as Krishna water will be available for that region. Government has planned to roll out direct benefit transfer of fertilizer subsidy to the farmer on a pilot basis. This is a welcome step for the industry as this will help in freeing up the working capital pressure due to delayed subsidy payments.

I now call upon Sankar to give the Q4 and full year performance.

Sankarasubramanian: Thank you Sameer. Good afternoon. Commenting on the fertilizer performance, on the production side we have improved our production from 6.5 lakh tons of last year Q4 to 6.8 lakh tons in the current quarter. This translates to 79% capacity utilization for Q4. However, on an overall basis our production remains same as last year at 24.2 lakh tons which means 70% of capacity utilization. .

On the sales side our manufactured volume moved up during this quarter from 6.8 lakh tons to 7.5 lakh tons. Overall sales for the year, our manufactured sales has remained at the same level of last year but imported DAP moved up from 1.7 to 3.5 lakh tons.

On the Urea sales which we handle on the government contract, our volumes were down from last year 10.2 lakh tons to 6.6 lakh tons. This is more to do with the availability of Urea under the government contract. MOP due to seasonal situations our volumes are down from 1.5 lakh tons in the last year to 1 lakh ton.

On the Phosphatic side, overall we can say our sale has moved up by 5% on an annual basis from 25.6 lakh tons to 26.8 lakh tons.

Commenting on the market share, in spite of adverse market situation in AP and Telangana, we could sustain our market share and marginally improved it to 60%. We have also improved market share in Tamil Nadu, West Bengal, MP and Chhattisgarh. However, on overall basis due to our lack of presence in some of the northern states where the pre position sales volumes were higher in Q4 our all India market share marginally declined from 16.2% on an all India basis in 2014-2015, so 14.4% in the year 2015-2016.

On the products which are critical to us, our share continues to show an improvement. In fact, one-third of our total sales in the current year has come from unique grades what Coromandel manufactures, which has better market brand perception as well as the margin structure. During the year, we have also sustained and improved on our quality and production performance of 17:17:17 and also we started introducing new products with Sulphur enhanced technology for the low-end grades like 20-20. Overall we are satisfied with our fertilizer performance in spite of tough market conditions.

Now to coming to non-fertilizer business, mainly to crop protection business, we had a challenging year on the formulation business in the domestic market, however, that has been more than offset by improved performance from technical business segment of crop protection especially on the export front. We improved our sale of Mancozeb, which gives us the better realization and better margins. And also we have significantly improved on our operational performance of erstwhile Sabero plant on all aspects whether it's import raw material cost or utilities cost, thanks to decline in gas prices. Overall EBITDA structure of Erstwhile Sabero performance has significantly improved and consequently overall EBITDA performance of crop protection business has moved up during the quarter as well as for the whole year and we continue to look for new product introduction and our aspiration would be to keep adding one or two products year after year going forward from 2017-2018.

On the SSP business, our volumes have improved during this quarter and we continue to maintain our market share. There has been pressure on margin front due to depressed market prices but we continue to introduce new grades and variants in single superphosphate. In fact, we started introducing Zincated superphosphate in order to improve our margin structure in SSP business. Also, we are trying to change the quality perception in SSP by taking active role in creating awareness in the quality amongst the farmers. We have come out with quality testing kits and this will improve the perceived quality on the product and we continue to sustain our performance going forward.

In respect of specialty nutrient business, there has been a challenge due to adverse market conditions in some of the key markets like Maharashtra. So our volumes and turnover are more or less at the same level for the quarter as well as on a full year basis.

Our organic manure volumes have shown some marginal improvement on the fourth quarter compared to corresponding period last year. We started introducing new variants in organic manure and government started focusing more on organic manure sales and this will help Coromandel in increasing its share of business. We are one of the pioneers in this product, and have been in the business for last 4-5 years. On an overall year basis, our organic fertilizer volume is close to 1 lakh ton, it is more or less same as last year.

On the retail front, we had a challenging year due to adverse market conditions in Telangana as well as in some of the operating markets of Karnataka and Andhra. Our fertilizer volumes are down through retail front in the current year but we have more than made up in the non-fertilizer segment. There has been a significant increase in non-fertilizer share of sale through the retail outlets. This helped in improving the operational and profitability of retail business for the quarter as well as for the full year.

Coming to the financial results for the quarter our consolidated turnover is 3021 crores, a marginal growth over the last year 2998 crores for the Q4 and share of subsidy business is 86% on the top line and 14% coming from the non-subsidy business.

On a full year basis our turnover has gone up by 2% from 11306 crores to 11522 crores. Our consolidated EBITDA for the quarter is 200 crores against 160 crores last year. EBITDA share of subsidy business for Q4 is 64% and share from non-subsidy business is 36%. In fact on an overall basis also this ratio remains at 64:36. Cumulatively EBITDA for the year is 772 crores against 853 crores. Fertilizer EBITDA improved during Q4, sale of manufactured phosphatic increased by 9% during this quarter and also there was an improved operational performance from our plants that helped us to absorb fixed cost better. Also our share of traded volume came down during this quarter. We didn't sell much of Urea and Potash during this quarter.

On the non-fertilizer side as I mentioned earlier while we had a more flattish performance on the formulation segment in the domestic market, we improved our performance significantly on the export market and that’s improved the profitability from crop protection business. So overall consolidated net profit after tax is around 93 crores as against 69 crores in the fourth quarter and cumulative net profit is 361 crores against 402 crores last year. Our long-term debt equity continued to remain low and it is around 0.03 as against 0.12. Our net debt equity is 0.64 as compared to 0.75 last year. Subsidy outstanding has been higher as on 31st March at 2017 crores. Government is yet to disburse right from October and we do expect major portion of the subsidy to come through in May. And it's higher than 1582 crores which we ended up in Q3 of current year.

So this finally completes my comments on the operations and financials. We can now move on to questions and answers session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sudarsan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarsan Padmanabhan: What I would like to understand is how do you see the inventory position getting liquidated in the market? You had given some figures earlier on. And specifically if you can talk about where Coromandel is how we have planned our inventory as compared to that of what the inventory is there in the channel? And whether the inventory is there with the manufacturers or whether there is a lot of inventory which is there with the distributors, if you can throw some light on this?

Sankarasubramanian: As I mentioned earlier, as Sameer also alluded in his initial comments, close to 6 million tons industry is carrying, major portion of this stock is lying in the northern markets. In fact, if I had to give the split between north and south its 4 million tons in the northern markets and 2 million tons in the southern markets. With respect of Coromandel we don't have much of stocks lying in the northern markets because we don't sell much there and also most of the stocks are imported DAP. We didn't import any significant volume during the quarter or in the second half of the financial year. In the Andhra market, of course, we have pipeline stocks lying with the dealers and we have pre-positioned these stocks in tune with the market demand as and when the season begins. It's a normal phenomenon, every year the fertilizer industry need to position the material so that when the season starts, the application commences. So to that extent I would say our channel inventory is relatively less on an overall basis, maybe a significant portion in the Southern markets because of not so good Rabi season. We are confident with the anticipation of good monsoon, the consumption should start from June onwards and we should see the ease of liquidity in the system when the stock liquidation happens.

Sudarsan Padmanabhan: The other thing is basically supply agreements and how do we see Tunisia and the other markets kind of shaping up given the fact that if everything goes as per probably what the Meteorological Department is kind of forecasting, we would definitely across the country see a good rainfall but do you think we have supplies in place to move up the volumes when we see a spike in demand.

Sameer Goel: Firstly on TIFERT, their performance has been improving, they had a very good Quarter 1 and what we have seen is the main issue last year was rock availability and which they have substantially improved and they are keeping the stocks. We are also working with them and helping them in terms of improving their plant capacity and that is looking very positive. So overall we do expect, we have already received good requirements from them and we expect that to continue.

Sankarasubramanian: Supplementing Sameer on the availability of acid- it is not a concern now in terms of availability. We have other supplies from Morocco, Israel and other sources coming through. So at this point of time we do not anticipate any shortfall in supplies even if we have to meet the increased demand from the market. And we are confident that TIFERT supplies will be continuous and has been happening the last two, three months. And also we have augmented the supplies during the off seasons and we have adequate stocks coming through in the first quarter. So we do not anticipate any major supply side constraints if demand has to go up.

Sudarsan Padmanabhan: Sir on the market share, I mean if I probably look at the trajectory of Coromandel over the last few years I think we have had a very strong position in Andhra Pradesh and also we have been kind of ahead of the curve in terms of getting into these complex molecules. What is really changing there, do you think that if there is a good monsoon you can get back on track and get back to the market share or do you think the market is becoming far more competitive than what it was probably a couple of years ago?

Sankarasubramanian: No, in fact in the market where we operate we continue to show improved performance, in fact we sustain a very high market share in spite of very adverse market situation, in Andhra we have improved our market share. And our share of complex grade has also gone up. So I would say there is a growth in the grade of what we sell and that continues to be there in the future as well. The drop in market share on all India basis is due to lesser participation on DAP imports which as a strategy we do it only to fill the market demand whenever it is required. So as a strategy, we stay focused on our manufacture grades. Since there has been a spike in imports during the current year especially in the first half and a lot of material has been preplaced in the market which are still lying as inventory, in some of the northern states our share has come down because of our conscious decision to opt out of these markets due to low margin and long credit period. We are not eventually worried on these corrections in the overall market share as our share of unique grades and our core operating markets we continue to sustain and grow.

Moderator: Thank you. Our next question is from the line of Hitesh Doshi as an individual investor. Please go ahead.

Hitesh Doshi: Sir, I mean in the beginning of the call there was a talk of subsidy revision or price revision every six months depending on the raw material prices, so generally it was one yearly phenomena or…?

Sankarasubramanian: Mr. Hitesh you are right actually, but the government had an option under the NBS policy to review if it is required and the same thing is also mentioned in the current year notification.

Hitesh Doshi: So they will look at subsidy revision or the retail price revision?

Sankarasubramanian: Subsidy.

Hitesh Doshi: Okay, fine. Retail generally they are open and generally sir Q3 is better than Q4 in our company because of the seasonality of the rains, but this time it is reverse, I mean can you explain this?

Sankarasubramanian: You are absolutely right, actually in Q3 our operating market Karnataka and Andhra, Telangana, the Rabi season has been very bad due to low reservoir levels. Generally in irrigated areas when it rains more in Kharif, the reservoir level should be up and this helps farmer to grow more during the Rabi season. But due to low monsoon in the Kharif, reservoir levels are below 20% in our market and the rains are also not adequate. Hence, our Rabi sale was muted and we took a conscious call not to fill the pipeline during Q3. Also the margin based on the input cost of phosphoric acid which was at a higher level during Q3 has also contributed to a lower performance. Coming to Q4, our phosphoric acid price also got revised to $715 and as well other input raw material came down and this helped us to improve our performance in Q4. Also coupled with that, our export performance of crop protection business has shown significant improvement.

Hitesh Doshi: Export performance in?

Sankarasubramanian: Crop protection business, our technical exports from crop protection business, Sabero products had better performance in Q4.

Hitesh Doshi: And sir, can you give more detail of our market share in our command region in year 2016 vis-à-vis in the year 2015? So you said in south we are increasing market share but can we have numbers for three or four main markets for FY15 and FY16 market share?

Sankarasubramanian: AP and Telangana are combined market share is 60%, it was 59% last year but in Karnataka and Maharashtra the market share has come down compared to the previous period basically because of co-marketing we did last year. We opted out of co-marketing during the current year and that has resulted in drop in market share in Maharashtra. In Karnataka, basically because of adverse market situation. But if you look at other markets like Bengal we increased our market share, moved up to 12% now, we also improved our market share in Tamil Nadu and we are 10% now. Similarly, in Chhattisgarh we improved our market share to 15% and in MP we have moved up our market share. So fairly in a key operating state we are able to sustain and improve our market share except in these two states of Maharashtra and Karnataka mainly due to institutional segment volumes coming down.

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

Bhavin Chheda: Couple of questions. Sir, one if the phos acid contract prices if you can give us the update on the same after the government announcing the lower subsidy, what the contracts are? And just continuation of that question, just have a confusion on this, you said that the subsidy announcement by government it is not for one year and six months or is the choice they have mentioned in the document that they may review it six months? Because my understanding is when NBS was introduced from FY11 every year they announced the annual subsidy rates, so has it changed this year or they just want to review it every six months?

Sankarasubramanian: Just to answer your subsidy query, you are right, actually when the NBS policy was introduced government had an option to review subsidy at the end of every six months and the same has been spelt out in the current year notification as well, so there is no change.

Bhavin Chheda: Sir, they have never changed in last two years?

Sankarasubramanian: Yes, they have not done but they have an option to change if it is required, that is what they have mentioned. So if the environment does not warrant a change, the rupee remains the same and price remain the same then they may choose to retain this and roll over the subsidy. They have just retained their option to relook at the subsidy at the end of six months. What is your first question?

Bhavin Chheda: Regarding the phos acid price.

Sankarasubramanian: Yes, phosphoric acid price for Q1 April to June is yet to be finalized. We are in negotiation with the suppliers and we hope to make an agreement by May.

Bhavin Chheda: So the supplies have started but the price is not yet fixed, right?

Sankarasubramanian: Yes, there are some provisional supplies to keep the plant running and the supplies are coming from our partners as well as from our major suppliers. And negotiation is going on and we do expect correction in phosphoric acid price in line with falling international price of DAP.

Bhavin Chheda: And sir, the subsidy outstanding figure which you announced is 2,071, right?

Sankarasubramanian: 2,017.

Bhavin Chheda: And that includes some old subsidy amount of 600, 650 or that is cleared?

Sankarasubramanian: No, that is included there, still not fully cleared. It includes the old subsidy (including current year's 10%) which is close to 950 crores. We have started receiving amounts during fourth quarter, but it is not very significant. Every year 10% of the total annual subsidy income gets included and dues have piled up from November'12. The total amount is around 950 crores.

Bhavin Chheda: Because your outstanding borrowings I see March 2016 is like 2000 to 2100 crores odd, so which means this is entire almost like subsidy outstanding number, so technically operationally you are debt free, right?

Sankarasubramanian: Yes, you are right, most of our borrowings are may be due to higher amount of market receivables and subsidy receivables. And as season starts and the collection come in and the government dispenses subsidy, which we hope to get in the month of May, there will be a significant reduction in our short-term borrowings.

Bhavin Chheda: Just my last question, I missed out on the non-subsidy business share of revenue and share of EBITDA for quarter four and full year, if you can repeat that number.

Sankarasubramanian: Non-subsidy business share on EBITDA is 36% and top-line is 14%.

Bhavin Chheda: 36% as EBITDA.

Sankarasubramanian: 14% as turnover.

Bhavin Chheda: And for full year?

Sankarasubramanian: It remains the same in the full year, 64:36 for full year and top-line also remains the same. The top-line for the full year is 84 and 16 on an annualized basis, for the quarter it is 86:14.

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

Abhijeet Akela: Just one question, first on the quarter's results, given the correction in ammonia and phosphoric acid prices I would have thought that you might have seen a bigger expansion in gross margin in this quarter, but that has actually not been as significant as we might have thought. So what are the reasons for that, has there been any discounting or what are the reason for that?

Sankarasubramanian: See, on fertiliser as we keep talking about an EBITDA margin of Rs. 2,000 plus on an annualized basis which we continue to sustain and maintain. And commenting specifically on Q4, we had some challenges on urea operations where we had to absorb significant amount of warehousing cost. Huge stocks have been imported on the government contract and that has to remain in stocks, being an off season. And also trading operations, margin on potash are not significant due to fall in the prices on the retail side. And also to some extent we keep ensuring that cash flow from the market place improves - there has been some off season cash discount we need to offer. But definitely we would say that margins for Q4 is reasonable in line with what we expected. And there are some negative impacts on account of urea operations and other import operations. But on the manufacturing side we are very comfortable with our numbers.

Abhijeet Akela: So is it possible to quantify the urea part sir, how much that would have been?

Sankarasubramanian: It is a significant amount because we have to carry significant amount of urea stock at the port for a longer period of time.

Abhijeet Akela: So this would come into the other expenses line, right?

Sankarasubramanian: That is right. There are two components, in Other Expenditure you can see an increase, one is due to of additional warehousing cost. When we carry channel inventory we incur warehousing cost. You can also see our freight cost has moved up that is basically because of higher volumes of material handled during this quarter. Besides that, we offer a cash discount to the market to collect the cash and that also gets reflected in other expenditures.

Abhijeet Akela: And just one last thing, you have given the non-subsidy breakdown, if it is possible to split it down a bit more into crop protection and SND and retail, if that is possible.

Sankarasubramanian: At this point in time, we do not report on segmental performance Abhijeet, as and when we do that we will be happy to share it.

Moderator: Thank you. Our next question is from the line of Viraj Kachariya from Securities Investment Management. Please go ahead.

Viraj Kachariya: Just had couple of questions, one was you mentioned about the overall raw material environment, we have seen a moderation in phos acid and other nutrient prices, so post cut on nutrient subsidy rates are we still able to retain some gains from lower raw material? Basically, how has our and industry pricing trends for complex DAP impose new subsidy rates?

Sankarasubramanian: Frankly I would say the subsidy reduction is in line with the fall in international prices, so most of the input price reduction has been taken care into subsidy price which means our market price is likely to remain the same. If there are any further reduction in input raw material prices that may get passed on to customers. But as we see at this point of time more of an equilibrium on the farm gate prices as it was in the fourth quarter. And also we had to wait for the season to play out and also the contract on phos acid as and when it gets finalized, we will have a clear visibility on the price.

Viraj Kachariya: Sir, you mentioned about this on the government policy part, they have been option of revising the subsidy rates on a half yearly basis, sir what kind of environment requires them to actually change the subsidy rates mid-year? I mean we had seen one such instance in FY11 and the input prices have spiked up significantly, so what are the broader parameters which require the government to change the rates in between?

Sankarasubramanian: We cannot foresee what the government would do but what logically I could think of is the sharp correction in the currency exchange rate movement from whatever levels we are in, if it has to go up and if the farm gate prices are to be maintained then government can look at correcting the subsidy if required. On the other side, if international prices continue to remain subdued and if they have to relook at the prices which have been factored in for the NBS calculation they may look at these prices. So it is a function of both exchange rate and international prices of DAP as well as key raw materials. So it is very difficult to fathom at this point of time what they would do after six months and whether they will do or not.

Viraj Kachariya: Second question was on the, you mentioned about warehousing cost for urea significantly impacting the distribution other expenses, so is it possible for you to quantify because if you just look at our distribution expenses for the quarter and for the year we have seen a significant jump which has taken away a lot of gain from raw materials which we have and the mix shift which we have able to capitalize in Q4. So can you please quantify what is the extent of impact we had?

Sankarasubramanian: See, distribution expenses should not be seen in isolation because it is a function of volumes what we have moved to the market. So during the current year we have moved more volumes to the market and we are carrying more inventory in the field to meet the demand during the season. While absolute freight expenses, distribution cost is higher on the face of the P&L but whatever stocks which are lying in the field, the valuation takes care of the additional distribution cost. So the increase is not due to urea distribution warehousing, it is due to additional volumes what we handled during the current year as well as during the quarter.

Viraj Kachariya: Sir because even if I just look at absolute volume which you talked about, for the full year it has been only 2% ex urea and if we just talk about the quarter ex-urea our volumes have grown by 8% but the distribution cost has increased by 30%.

Sankarasubramanian: No, distribution cost is not for urea alone; we have our own manufactured products where we have produced more and we have distributed more during this quarter. As I mentioned in the beginning, we have produced 6.5 lakh tons last year to 6.8 lakh tons. Also we have moved a lot material in the field. And also there is increased distribution of urea volumes as well. So at absolute level, I repeat again, don't look at distribution cost only from urea point of view, you have to look at overall phosphatic volume plus the traded volumes what we have handled. For example, this year we have handled more DAP; we have handled 3.5 lakh tons as against last year 1.7 lakh tons. And also our manufactured volumes are marginally higher as well as urea volumes are higher. So all this contributed to the overall distribution cost. But to the extent we carry these stocks in the field which are not sold, we include that as part of our valuation. So it should not affect the profitability.

Sankarasubramanian: What I tried to communicate as part of urea is there are certain handling cost and warehousing cost which we do not get recovery from the government and that has impacted the quarterly performance.

Moderator: Thank you. Our next question is from the line of Surjith Jain from Yes Securities. Please go ahead.

Surjith Jain: I have a question on the subsidy in sales for the year and for the quarter, what was that number?

Sankarasubramanian: Subsidy for the quarter is 880 crores and subsidy for full year is 3307 crores.

Surjith Jain: And could you throw some light on the movement in the MRP in the retail prices, what has been the trend in last three months and what is your expectation of both DAP and NPK?

Sankarasubramanian: See, there has been no movement in MRP, it continues to remain so and since there is no secondary level consumption happening at this point of time there is no price visibility. As I mentioned in previous question since government has reduced the subsidy to the extent of raw material front, at this point of time MRP continues to remain at the same level. So as and when the season starts and consumption happens we need to see at that point of time how the impact is there for each of the industry player. It is too early to comment on what will be the net realization, but the logical sense is that at the prevailing prices and the subsidy levels, the MRP should remain where it is.

Surjith Jain: And one last question is on Sabero, the Sabero business is doing well but the Liberty business and the retail business, what is the total capital employed, I am sure Liberty is 350 crores and you could throw light on the retail investment. What is the return on capital employed that we expected, how is the roadmap for next three to five years and how we are going to improve? And what were the margin in the SSP business?

Sankarasubramanian: Coming to SSP business, our margins are under pressure but in terms of our capacity utilization and volume we have been growing season after season; we are the market leader in the SSP business. It is strategically very important for us to have this product in our portfolio to address the marginal and small farmers. We strongly believe in this product and it can help the farmers growing crops like oil seeds and pulses and helps in substituting the DAP. For small and marginal farmers, who cannot afford a high price DAP, we are trying to promote the SSP in that place which also contains various other nutrients like zinc, sulphur besides 16% phosphate. We strongly believe in this product and we are also trying to work on improving the quality perception of the product. So in terms of our strategic approach and positioning of this product, we are confident we will improve this margin structure going forward. At this point of time, due to stiff competition from unorganized players in the sector, we continue to face price pressure. Also coupled with the bad monsoon in our operating markets, it has resulted in poor liquidation of stocks in the field. During this quarter, we introduced Zincated SSP and going forward we will try to see how do we enhance the SSP with other micro nutrients, in line with the government thinking and we will try to expand our product variants in SSP. And we are sure in the years to come, we will be able to sustain and improve our performance; of course we are not up to the mark compared to what we envisaged at the time of acquisition and partly we should see it in the context of the market environment with significant drought in some of the operating markets like Maharashtra and certain other states where we are having our Liberty plants. Commenting on the retail performance, we have significantly improved on our operational performance and also this has to be seen in the background of the drought like situation prevails in Telangana. Coming to capital employed in Retail, we do not own any stores; we take the stores on rent and to the extent, our fixed capital is very insignificant on the retail business. On the operational side, our working capital levels are very much under control compared to last year. The retail business has to be seen in connection with our market performance on trading business as well what we do in Andhra. So we are very much satisfied with the business model of Retail and we are significantly growing on the non-fertilizer segment which will add significantly to our bottom-line. Retail business is helping us to capture the complete value chain because 60% - 65% of the sale which happens through retail is for our main SBUs - fertilizers and pesticides and specialty nutrient. Our captive sale through these retail outlets are significant and to that extent it also helps us to expand the product portfolio and introduce private labels in the retail business. So we are very much satisfied, we continue to improve our performance and continue to grow on this segment.

Sameer Goel: That is in line with the strategy, we are complete agri business solutions company and we are reaching directly to the farmers in our markets which is really helping us to react quickly to any changes in the market. So it is totally in line with our strategy and we will continue to perform.

Surjith Jain: What is the capital employed number in retail?

Sankarasubramanian: As of now we do not put in any segment wise capital employed. 90% is working capital is mainly towards our traded business of pesticides and seeds, Veterinary feed stocks. For the other captive products, major working capital is with the main SBU and Retail Business indents the material as and when it is required. So our working capital investment is mainly towards third party products and not very much on the captive side which even otherwise we need to maintain inventory to service our main dealers.

Moderator: Thank you. Our next question is from the line of Balwinder Singh from B&K Securities. Please go ahead.

Balwinder Singh: Sir, I missed your initial comments on the inventory, you highlighted that 6 million tons of complex inventory is there in the market, right?

Sankarasubramanian: Phosphatic, not complex. 6 million ton of phosphatic, our understanding is 50-50 between DAP and complex. I think 3.5 upwards is DAP and balance will be complex. It is only our guesstimate; we are not sure about it.

Balwinder Singh: 3.5 will be DAP and 2.5 will be NPK?

Balwinder Singh: And out of the total 6 million tons 4 million ton is in northern market?

Sankarasubramanian: It includes Maharashtra as well, when we say northern market it is not only UP, Punjab and all, it includes Maharashtra as well Southern markets are AP, Tamil Nadu, Karnataka, this constitutes 2 million tons.

Balwinder Singh: 2 million ton will include AP, Karnataka, and Tamil Nadu?

Sankarasubramanian: Yes.

Balwinder Singh: And sir will you have any flavor on the 6 million tons of inventory, how much of that will be with companies and how much with channel?

Sankarasubramanian: Companies carry some stocks in the ports as well as in our case we carry our own inventory in the field which are manufactured by us and moved to the market to meet the seasonal requirements as and when the season starts. The major portion of 6 million would be what is lying with the dealers in the various states and for which the credit period is upto June.

Balwinder Singh: So given that India's current requirement will be around 2-2.5 million tons as per inventory, so there is excess inventory to the tune of around 3.5, if I am not wrong?

Sankarasubramanian: Yes, you are right.

Balwinder Singh: And how do you see volume growth for Coromandel if you can give any idea for FY17.

Sankarasubramanian: The major portion of the inventory is in the north and our significant presence is in the South. Whatever inventory we carry, we carry to the extent we can liquidate during the season, so we do not anticipate any liquidation issue as far as the markets where we operate and where we have a significant market presence. And when the season is going to be good, we do not expect any problem in the liquidation of excess inventory in the system during the Kharif season. From our point of view, it may take some time in terms of realizing the cash as the dealer community would pay only after they sight the monsoon. To that extent, there may be a pressure on working capital but once the season starts we do not expect any significant impact in the volume per se especially in the markets where we are operating. And also we do expect some sort of regulation in the imports to happen because in the year 2015-16 there has been significant increase in the import volumes. But with a lot of inventory in the pipeline, the industry itself is getting regulated in terms of quantum of imports. So we do expect moderation of imports to be there in the Kharif season because effectively industry is carrying significant amount of imported DAP which is adequate for Kharif season. Due to working capital pressure, there will be slowdown in imports, automatically that should absorb the additional stocks what the industry is carrying.

Balwinder Singh: So any flavor it will be possible to give on any kind of volume growth that we can see in FY17?

Sankarasubramanian: We do not give any guidance on it, we do expect to improve our capacity utilization of plants and we try to optimize with the available acid what we can produce. This year, we have maintained our capacity utilization at 70% in a very adverse market situation- we could achieve these numbers in back to back drought situation with significant impact in our addressable markets. With good monsoon in our operating states like AP, Karnataka, Maharashtra, Tamil Nadu we should improve our capacity utilization. And as far as our strategy, we always look for improving our capacity utilization beyond 85%, that is what our target would always be.

Balwinder Singh: And of our total volumes how much will be Southern markets and how much will be Northern markets?

Sankarasubramanian: Our significant sale happens in our major operating states - 50% of the volume happens in AP, Telangana through our own retail outlets as well as our trade channel. Balance 50% gets distributed to other neighboring states which we have categorized into three - primary, secondary and tertiary markets. So our primary markets are Andhra, Karnataka, Tamil Nadu and Maharashtra. Then again we go into secondary markets like Chhattisgarh, MP, Orissa and West Bengal and thereafter if there is any need for us to increase the volume then we may move into UP, Bihar. But our strategy would be to increase volumes in our key operating markets where we have a brand strength and presence.

Balwinder Singh: So of our total volumes you highlighted that 50% of our volumes happen in Andhra and Telangana?

Sankarasubramanian: Right.

Balwinder Singh: And other 15% - 20% would happen in Karnataka, Maharashtra combined?

Sankarasubramanian: Yes, it varies, it depends on the market situation, depends on the needs but our next big market presence will be in these states. And also we have been operating at a low market share in Tamil Nadu where we will try to improve our market share, going forward. So in terms what we are selling and what capacity we have, it would not be a constrain for us. But back to back monsoon do impact the offtake and in turn impacts the capacity utilization.

Moderator: Thank you. Our next question is from the line of Sandeep Baid from Quest investments. Please go ahead.

Sandeep Baid: If you can give some color on your outlook for the crop protection export market, do you have the visibility of this business to invest as it has been doing in the last couple of quarters for the next 12-18 months as well?

Sankarasubramanian: Overall we find good traction for the molecules what we are operating, demand for Mancozeb has gone up in the recent past and we do expect the demand to go up in future as well because of expanded use of this molecule in bigger markets like Latin America. And we also have some unique technicals like Phenthoate, some of the products in what we have a better manufacturing capability. So we continue to sustain and grow the volume. As our strategy, we try to improve our captive utilization for retail segment through which we sell our formulated products from our own technical**.** And also, we try to introduce new products as and when we are ready from our R&D center at Hyderabad. So overall, I would say that the margins that are on our manufactured products like Acephate, Mono and Mancozeb has been improving. And especially with the currency depreciation, the exports give better margin. With the improved cost structure for the products that we manufacture at Sabero, the EBITDA expansion has been significant and we hope to do well in the future as well unless something major happens. There has been stability in the input price end as well.

Sandeep Baid: Do you expect prices and margins to sustain in the next 12-18 months as well?

Sankarasubramanian: Yes. Also, in formulation business we had bit of a challenge in the year 2015-16 due to carry over inventory and high price material with industry as well as company. With reduction in this high cost inventories and the unwinding of inventory position of the channel, we do expect to improve our focus and sale on formulation business in the next year. A good monsoon will also improve our focus on formulations business for domestic market. For the export business, it is too early to comment because Brazil is harvesting at this point in time and the volume pickup will happen from June - July onwards when the season starts and the application starts in November. But with the initial enquires what is happening we do expect that the inventory levels in the Latin Markets have eased up considerably and the agri situation is likely to be better there. There are pressures on credit and liquidity side, but the agri environment and channel inventory looks better there, so we hope to have a better season on the export front in the next year as well.

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

Rohan Gupta: I am sorry if I have missed on the volume number, can you please give the quarterly sales volume for DAP and complex?

Sankarasubramanian: I will get back to you on DAP and Complex. But I can give you the overall sales volume of our production for Q4 - 7.05 lakh tons, our manufactured products. Imported DAP is around 0.44. Total is 7.49.

Rohan Gupta: So sir on 7.49 and our EBITDA you mentioned is 64% from fertilizers. That gives roughly Rs. 128 crores of EBITDA and on that Rs 128 crores, I just work it out then we are talking about roughly EBITDA margin per tons of Rs. 1730 per ton. You just mentioned sir in the opening remark that the quarterly margin in the fertilizer business was quite comfortable I believe that earlier we have always been guiding or looking for or aspiring for a Rs. 2000 per ton EBITDA margin. So is that the new norm of Rs. 1700-1800 EBITDA margins you are looking for and you are comfortable with going forward or something changing going ahead?

Sankarasubramanian: I think Rohan you missed my point what I mentioned. On the manufactured products, we are comfortable with the margin. We took additional impact on account of urea operations that we handle as an imported product, where the margins are not significant. And also you are adding total volume and then arriving at the margins whereas what we maintain (Rs 2000/MT) is on the manufactured volume. We can take the actual arithmetic offline but I would say our manufacturing margins are comfortable but the impact on the EBITDA is due to additional hit we have to take during this quarter on account of warehousing cost and handling cost of urea.

Rohan Gupta: It means in a nut shell we are not deviating of our earlier target margins of Rs. 2000 per ton.

Sankarasubramanian: No we are not. We are sustaining and improving on that. As I have mentioned in my opening remarks manufactured volumes had gone up and overall capacity utilization has gone up.

Rohan Gupta: Our margins are going to be even better than what we have talked about.

Sankarasubramanian: I am not saying better I am saying overall guidance and analysis basis we continue to report that Rs. 2000.

Rohan Gupta: Sir second question is on this Sabero, can you quantify the exports revenue from Sabero?

Sankarasubramanian: Overall exports are close to $80 million Rohan. Last year we did around $100 million but $100 million includes our significant export of traded molecule Chlorpyrifos. There has been a setback in that molecule because there has been a change in the soya crop, they moved to GM and then consequently the Chlorpyrifos application came down significantly. This offtake came down this year; except for that one time, there has been growth in exports to Latin America of our manufactured products. In fact, they have grown almost 40% on molecules like Mancozeb, Acephate and all. So overall our exports is $80 million in the year 2015-16.

Moderator: Thank you. ladies and gentlemen we will take our last question from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: On this export part itself what would be the manufactured? This whole $80 million is manufactured sales?

Sankarasubramanian: I can say 90% +. I don't have the exact number. We did sell some volume of Chlorpyrifos but it is very insignificant. But I can say (+90%) is manufactured products.

Rakesh Vyas: What would be the proportion of Mancozeb in this?

Sankarasubramanian: Significant portion would be Mancozeb and Acephate. Again on this $80 million I can say 70% may be these two products because these are the two major products we export.

Rakesh Vyas: On Sabero what is the utilization level right now?

Sankarasubramanian: Utilization is a function of what capacity we have because that we keep changing depending on what level of comfort we want to operate the plant with. On a sustainable capacity of 45,000 tons we can say we are close to 70%.

Rakesh Vyas: Over the last three years this non-fertilizer business has either been steady or declining so large component of that is what you are highlighting is was traded sales which has gone out of the system?

Sankarasubramanian: EBITDA margin structure has improved. We are not comfortable with the performance from both specialty nutrients and organic fertilizer because of the bad season. On the crop protection business also, the domestic market was significantly impacted both in terms of top line and bottom line which has been made up in export performance. The share would have been much better but for domestic situation that we have encountered in our addressable markets.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint that was the last question, I would not like to hand the conference over to the management for their closing comments. Thank you and over to you.

Sameer Goel: Thank you very much. I think overall we are quite happy with our performance in Q4. With the news of good monsoon, we expect a lot better performance for the coming season.

Management: Thank you Vijay for organizing this call.

Vijayaraghavan: Thanks sir for giving us the opportunity to host this call.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.