"Coromandel International Limited Q4 FY'16-17 Results Conference Call"

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MANAGEMENT: **MR. SAMEER GOEL – MANAGING DIRECTOR, COROMANDEL INTERNATIONAL LIMITED**
MR. S. SANKARASUBRAMANIAN – EXECUTIVE VICE PRESIDENT & CHIEF FINANCIAL OFFICER, COROMANDEL INTERNATIONAL LIMITED

MODERATOR: **MR. PRASHANT TARWADI – AXIS CAPITAL LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Coromandel International Q4 FY'16-17 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*', then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Tarwadi from Axis Capital Limited. Thank you and over to you, sir.

Prashant Tarwadi: Good Afternoon, Everyone. On behalf of Axis Capital, I welcome all participants on the Con Call of Coromandel International Limited. Today, we have with us Mr. Sameer Goel -- Managing Director and Mr. Sankarasubramanian -- EVP and Chief Financial Officer. They will start with the Overview of the Performance for this Quarter and then we can go to Q&A Session. Thanks a lot, Gentlemen for your time and over to you, Goel Sir.

Sameer Goel: Good Afternoon, Everyone and thanks Prashant for organizing this Conference Call. Let me begin by giving you an Overview of the Business Environment experienced during the year followed by the Company Performance and Q&A.

It has been an eventful year for Indian agriculture which benefitted from the normal Southwest monsoon after experiencing two consecutive drought years in the previous seasons. Improved residual moisture and higher reservoir level aided in higher sowing and crop acreage, which went up by 4-6% in both Rabi and Kharif seasons respectively. Though the Northeast monsoon, which significantly impacts our peninsula Indian states, went down by 45%, overall agriculture scenario remained positive. CSO has projected agriculture and allied sector to grow by 4.4% on GVA basis for '16-17 as compared to just 0.8% last year, driven by a record food grain output and improved life stock performance. Further with IMD forecast of normal monsoon in 2017 (96% long period average) we expect the rural sentiments to remain positive and consumption to grow. As per the latest advanced estimate by Ministry of Agriculture, Food grain output is expected to go up by 8% to a record 272 million tonnes; it was 252 million tonnes in '15-16. Also, key price support in form of minimum support price has been increased for Pulses and Oil Seeds which have seen a record output.

Overall, , Rice has grown by 4%, Wheat has grown by 5%, Coarse Cereals has grown by 15% and Pulses has increased by 35%, Oil Seeds have grown by 33% and Cotton despite lower acreage has increased by 8%due to productivity gains, only Sugarcane has seen a decline of (11%).

Reservoirs at All India level are 25% up on the same period over last year, although southern region has suffered and currently the levels are at 10% as compared to 14% last year.

Coming now to the Subsidy, overall budget allocation for fertilizer subsidy for '17-18 is maintained at Rs. 70,000 crores with a slight redistribution between P & K imports and urea. With the revised NBS rates and expected fertilizer demand during '17-18, we expect the allocation to meet the yearly subsidy needs. The Nutrients-based subsidy rate has been announced for '17-18. Rates for

P & K have been brought down by 9% and 20% respectively while N has moved up by 20%, Sulphur has also increased by 10%. With this, DAP subsidies are more or less at the same level as last year while all K-based fertilizers will be eligible for lower subsidy. The direct benefit transfer for fertilizer is likely to be rolled out in 2017, though final timelines and manner of implementation are yet to be announced by the Department of Fertilizers. Pilot trials taken up in 16 districts in ‘16-17 have shown mixed experience with technology and operational challenges persisting in execution. The fertilizer industry has geared up for the changing scenario and currently is in the process of distributing two lakh POS machines to the retailers.

The government continues to focus on agriculture reforms and even in the current budget, like all of you must be aware, they continue to invest heavily in agriculture, which is positive news for the sector. Therefore, you could see that the agriculture credit has increased. Coverage on Crop Insurance has also increased, so long-term irrigation funds have increased by nearly Rs. 40,000 crores in ‘17-18. Overall, the rural agriculture and allied sector got allocation of Rs.1,87,000 crores, a 5% increase over last year.

On the Industry front, on the production side, overall Urea production was more or less flat at 242 lakh MT while Phosphatic Fertilizer also remained flat at 122.5 lakh MT. The imports were actually down, for Urea they were down to 54.8 lakh MT, a decline of 35%, while for Phosphatic, they were down to 49.1 lakh MT, decline of 26%. Only MOP imports, thanks to the decline in prices, were up by 15% to 37.4 lakh MT.

The sales of urea has actually declined by 7% despite having a favorable Southwest monsoon owing to two factors -- the level of inventories and also the reduced consumption due to neem-coated urea. Phosphatic Fertilizers sales also declined by 7% mainly as a result of high inventories at the start of the year in the system, MOP sales actually increased by 16%. Industry Q4 performance has more or less followed the full year trend. Overall, Phosphatic sales were down by 9% and production was moderated by 11%.

Coming now to company’s Fertilizer Performance: Overall Phosphatic Acid availability has improved during the year. Business introduced new acid sources to improve plant flexibility and increased captive acid production at Vizag and Ennore units. Foskor operations have stabilized with uniform supplies coming from our partner. Further, in line with the company’s strategy to achieve self-sufficiency and phosphoric acid production, Vishakhapatnam plant underwent public hearing for capacity augmentation project and has received statutory clearance. All three fertilizer units operated during the year with production maintained at last year level of 24.1 lakh tonnes which translate to capacity utilization of 70%. Company has not resorted to any imports during the year. During March, the plants undertook annual turnaround activities which impacted production volumes during the quarter.

So overall, production for the year ‘16-17 was the same as ‘15-16 at 24.1 lakh MT and the production of Phosphoric Acid was 1.6 lakh MT, a slight decrease over last year mainly due to the annual shutdown which took place in March.

During the year, Coromandel's Fertilizer business benefited from a normal Southwest monsoon conditions in the key markets of Telangana, Maharashtra and West Bengal. Though the sales were down by 7% to 24.86 lakh tonnes, the overall liquidation has gone up. Company consciously moderated its sales in line with channel inventory levels and available liquidation opportunities. Overall, the market share is maintained at last year level of 14.4% in spite of weak Northeast monsoons in Coromandel key operating areas of Tamil Nadu, Karnataka, Coastal Andhra and Rayalaseema.

The cumulative share of unique grades for FY 2016-17 has gone up to 34% in Q4 as compared to the 33% for the corresponding quarter for FY 2015-16. New products like Gromor Max and DAP Ultra introduced during the year have received positive feedback from the market and Coromandel plans to strengthen its market initiatives in this segment.

On the traded products side, business has seen good growth. MOP sales given the low prices has grown by 87% to 1.8 lakh tonnes and Urea was up by 40% to 9.2 lakh tonnes. With new reforms like GST, DBT and freight policy, that are expected to commence from '17-18, Coromandel has restructured its marketing efforts by creating integrated nutritional marketing team in its key markets. We have also hired agronomists to generate demand and to educate the farmers on good practices.

Now to touch upon the Performance of Non-Subsidy Business: During the year, Crop Protection industry was characterized globally by low pest incidents, high inventory and depreciated currency in major markets across the globe, resulting in lower consumption of pesticides. Overall industry is expected to contract by 2.4% to US$50 billion. However, Coromandel's Crop Protection business had a strong year, growing turnover by 10% and PBIT by 59%, aided by higher demand of its key molecule Mancozeb and effective utilization of additional capacity created through plant debottlenecking at its plant in Sarigam, Gujarat. During the quarter, Mancozeb project was commissioned at Dahej in Gujarat which is likely to improve product availability from '17-18 onwards.

On the Formulation front, new product launches and scaling up of captive generic sales kept the domestic growth afloat though weak Northeast monsoon adversely impacted its performance in the latter half of the year.

Our Retail SBU had a good year, driven by performance of its non-fertilizer segments, New fertilizer grades, Gromor Max and DAP Ultra were exclusively marketed through retail centers to closely monitor their performance and to educate the farmers of the benefits and capture consumer feedback. With DBT implementation likely to happen from 2017 onwards, our retail centers will have the distinct advantage in terms of close contact with 2.8 million farmers. Business is looking at opportunity to expand its presence in new markets in addition to its existing operations in Andhra, Telangana and Karnataka.

Speciality Nutrients business performance was driven by gains in Water Soluble Fertilizers whose volumes are up by 25% as business leveraged JV strength in introducing crop-specific products for Potato and Pulses.

Organic business volume has grown by 25%. The market based assistance for city compost manure introduced during the year by Department of Fertilizer has supported farmer's awareness and resulted in product pickup. Single Super Phosphate business has improved its cash generation process driven by operational efficiencies and sourcing efficiencies. The volume was down by 17% during Q4, overall performance has improved considerably. For the full year, we did 4.8 lakh MT of Single Super Phosphate which was a decline of (24%) but like I mentioned, due to operational efficiency and sourcing efficiency, the overall business did very well.

I will now call upon Shankar to give the "Financial Results."

S Sankarasubramanian: Thank you, Sameer. Good Afternoon. On the Financials, I would like to inform that financial reporting has been done as per the IndAS format, new accounting standards implemented in India w.e.f. current financial year. Accordingly, we have given disclosures including reconciliation on net profits as well as equity for the prior periods.

On the Financials for the Q4, coming to the top line, we reported consolidated turnover of Rs. 2,290 crores. 87% of that coming from Nutrients business and 13% from Crop Protection business. There has been a marginal increase in share of Crop Protection from 9% to 13% in Q4. On the full year basis, Nutrients business constitutes 86% of the top line and 14% comes from Crop Protection business.

In Q4, 80% revenue share is coming from subsidy and remaining 20% from non-subsidy. On the full year basis, it is 78% and 22%. There has been a marginal uptick in the non-subsidy business. In line with our strategy, as against last year's share of 83%-17%, it has moved up to 78%-22% now.

On the profitability side, the segmental PBIT in Q4 was Rs.267 crores against last year Rs.195 crores. The share from Nutrients business is close to 82% and Crop Protection business accounts for 18%. The same growth is reflected overall for the year performance as well. Nutrients segment is around Rs.730 crores as against last year's Rs.595 crores and Crop Protection business has significantly grown compared to last year, recording growth of 59% from Rs.164 crores to Rs.261 crores. EBITDA for the year is Rs.983 crores against Rs.767 crores of last year, growing by 28%. EBITDA percentage also has moved up overall for the company from 6.6% to 9.6%. This increased EBITDA margin is due to better product mix coming from Nutrients especially on unique fertilizers plus additional high margin on Speciality Nutrients and focus on Specialty products through our Retail centers. Also in the Crop Protection business, improved operational efficiencies and better realization from our key molecules like Mancozeb, resulted in improved operational EBITDA. Plus, the foreign exchange management and the sourcing efficiency has also helped especially in Q4 in improving the overall operational performance of the company.

On the overall profitability, consolidated net profit after tax is Rs.144 crores for the quarter as against Rs.92 crores in the last year corresponding period. On a full Year basis, our net profit after tax is Rs.477 crores as against last year Rs.357 crores. Besides improvement on margin, we are happy to share with you the working capital levels are also under control and things have improved compared to corresponding period last year, especially on the inventory side. We have brought down the levels of raw materials as well as finished goods of Fertilizers. In fact, in Q4, we moderated our production to align with the liquidation. In fact, our sale volume has also been lower compared to last year basically to ensure that our receivables and subsidy outstanding levels are under control. The subsidy figure what is appearing in the balance sheet looks high at Rs. 2,557 crores as it also includes Rs.507 crores which has been disbursed by government as a bank loan. If we adjust for the Rs.507 crores, actually the subsidy levels for the year ended is Rs. 2,057 crores, down from the last year corresponding period. We have received subsidy including the banking arrangement up to October and now we are working with the government to get the balance period subsidy as well. Our focus will be to reduce working capital, both on receivable side and inventory side and also to bring down the borrowing level.

We are happy to share with you that our long-term borrowings have been paid off in full and we have a zero long-term debt in the balance sheet as on date. The balance borrowings are mainly reflective of working capital mainly to meet the higher subsidy levels and higher receivable levels. Net-debt equity for the year-ended March '17 is quite comfortable at 0.54 as against last year 0.77. We will continue to improve on our cash generation and try to bring down the borrowings level.

This completes my "Finance Update" and we can now move on to "Q&A."

Moderator: Ladies and Gentlemen, we will now begin with the Q&A Session. We take the first question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: I just had a couple of questions; first is when we source our raw materials typically, what has traditionally been the mix in terms of spot versus contracted purchases and when we say contracted purchase historically it has been on a quarterly basis, so the price usually is fixed for the quarter, has that model changed say in last six months? Second is, post new subsidy rates and if we account for the recent FX appreciation, incrementally, where our focus is in terms of product spread, are we looking to share these gains with the farmers in the end market, has there been any pricing action?

S Sankarasubramanian: In terms of the procurement strategy, it continues to be the same, where there is an opportunity for us to take spot, we do go for a spot purchase. This happens in the products like Urea, Ammonia where we have a long-term supply contract but we prefer to do spot purchase depending on the market situation. On the Phosphoric Acid, it is a quarterly contracted price that remains the same. Besides that, other inputs like Rock Phosphate, Sulphur and Sulphuric Acid, we keep negotiating and with the overall softness in the global commodity prices, we took advantage to improve on the pricing structure from what we had in the past. We also started using alternate sources to improve on our cost structure and that has also benefited us in bringing down the overall raw material cost especially on fertilizer.

Viraj Kacharia: So when you say, alternative sources, it means captive versus directly sourcing?

S Sankarasubramanian: Instead of depending on one single source, we started using multiple sources in order to ensure that we have a better purchasing power. On the pricing front, we have taken corrections in Jan'17. In fact, if you see first quarter of FY 2017-18, our phosphoric acid price moved up from $550 in Q4 of FY 2016-17 to $590. I would say currency appreciation is offset by the Phosphoric Acid price increase, and whatever price correction has to happen, has already happened in January, and current MRP which is prevailing in the market is in relevance to the raw material prices which are prevailing in the global market. We continue to follow this approach of pricing our product in line with the input cost. Wherever the benefits need to be passed on to the farmers, we definitely do that.

Viraj Kacharia: We source the Phosphoric Acid at $550 for Q4. Is that right?

S Sankarasubramanian: Yes, now that is becoming $590 for Q1.

Viraj Kacharia: If we look at operating expenses, we have seen a sharp drop in other expenses both YoY and sequentially. So what has this been led by? if you can just provide some clarity on that? Second question is if we look at last 1-1.5-years for us and for the industry as well, despite a weak product pricing and if we look at the Fertiliser volume which has largely been very subdued, we have not seen any major gains in terms of low funds, incrementally needed for the working capital. So post DBT implementation, how will our sales process and working capital cycle be like, so if you can just provide an insight into where we are heading in that respect?

S Sankarasubramanian: On the other expenditure, the sharp correction is due to two factors in Q4 -- we moderated our production in Q4. We took annual turnaround in major plants of Kakinada and Vizag in Q4. So naturally, the related production costs are lower compared to last period corresponding quarter. Plus the exchange difference which gets grouped under other expenditure had a positive benefit during this quarter due to currency appreciation and that benefit is in line with our foreign exchange strategy. Our premia cost is also down because we started resorting to more of options structures, which has helped the business for the quarter as well as for the year. So I would say the benefit of foreign exchange management as well as the operating cost because we focused on operating production at a right level, matching the market demand and the liquidation and also improved on efficiencies across all plants. So I would put these as a main reason for the drop in other expenditure. On the other side on DBT, we have to wait and see how this policy will play out and we are trying to see how do we align our dispatch and market supplies in tune with the new approach. We have already started doing this in the current year, in fact, we cut down our production as well as sales in fourth quarter to ensure that we do not carry any unconsumed stocks in the field. We have already geared ourselves to come to reality in terms of the DBT, and going forward, we feel that production and supply chain will get aligned to the actual consumption which will be very good for the company as well as for the industry and there will not be any huge pipeline stocks which are pushed to the market Also the company with a front-end facing the Retail will be in a better position to understand the consumption pattern of the farmers and accordingly we will optimize our production plan and try to bring down the field inventory level. There may be a spike in subsidy outstanding because of subsidy now getting aligned to the sale rather than the movement to the district headquarters, but there may not be any arrears like what we have now, because the current DBT policy provides for a weekly settlement, and to that extent, we feel 100% payout within a week will be much better in the long-term rather than waiting for 2-3 months for 90%, For 10% we need to even sometimes wait for 2-3 years. Overall, we look at DBT as a positive sign.

Sameer Goel: Just to add to what Sankar is saying, DBT for us will be very positive, we are looking at it and we are strengthening our systems especially on the marketing and the distribution side to support that to get to the last leg. Now, one advantage which we will have is that, DBT does call upon looking at the soil health card of the farmers which are linked through Aadhar and then the recommendation will be given for balanced nutrition and being the major players in NPK we will benefit from this.

Viraj Kacharia: There are talks that government will have to compulsorily clear all the past subsidy dues before rollout of DBT? Second question is post DBT, where would bulk of our focus be in terms of more on the supply chain part or is it more on the marketing and branding side and would that require incrementally higher level of investment than what you are already expensing in the P&L currently?

Sameer Goel: Two things -- Firstly, DBT will require end-to-end supply chain management and this is something which we as a company have already started doing. The second thing, it will definitely require reaching to the last mile which is at the retail outlet and then companies like Coromandel will benefit because of the strong brand pull which we have. So, we are already aligning our structures towards that and building up that capability, including having people there to educate the farmers especially on balanced nutrition on that account. To your first question of government clearing subsidy dues, that is what they are hoping to do and that is what the industry is hoping, but we will have to wait and see.

Moderator: Thank you. Next question is from the line of Apurba Bahadur from ICICI Securities. Please go ahead.

Apurba Bahadur: Can you please provide the breakup between your subsidy and non-subsidy businesses for revenue and EBITDA for Q4?

Sankara Subramanian: It is 80/20 on top line, on the EBITDA side it is 74/26.

Apurba Bahadur: You mentioned that the Phosphoric Acid prices are going up again in Q1. As per the NBS, the DAP subsidy has remained largely unchanged. So will it be negative for the coming quarters, still it is revised further?

S Sankarasubramanian: $550 dollars was the Q4 price and there has been a correction in line with overall correction in DAP price which moved up from $300 level to $370. Phos Acid generally tracks the DAP price.

Apurba Bahadur: Can you share the capacity for Mancozeb Dahej plant now that it has been commissioned?

S Sankarasubramanian: Dahej can do up to 10,000 tonnes to 12,000 tonnes.

Apurba Bahadur: We will be largely exporting this?

S Sankarasubramanian: That is right, it is SEZ.

Apurba Bahadur: Sir in Q1 of this year, I remember like there was a renegotiation for Phosphoric Acid prices, so we had like accounted at higher prices and then post that the prices were renegotiated at a lower level. So could you share the total amount that was retained back? I actually missed that number.

Sameer Goel: You are talking about Q1, we are not able to recollect immediately, I will get back to you.

Moderator: Thank you. We take the next question from the line of Chetan Thacker from Ask Investment. Please go ahead.

Chetan Thacker: Wanted to know the sales volume data for NPK, DAP, Urea traded and SSP for Q4?

SankaraSubramanian: DAP 1.22 Lakh tons and 4.53 lakh tons Complex, total 5.75lakh tons and imported DAP is 0.02 lakh tons, total is 5.77 lakh tons, Urea 1.65, Potash 0.51 lakh tons and SSP 1.32 lakh tons.

Moderator: Thank you. We take the next question from the line of Mohit Khanna from Value Research. Please go ahead.

Mohit Khanna: I had a question regarding the soil cards that you mentioned that would become with direct to benefit transfer subsidy method. So what is the progress that you may share with you on the ground level distribution of soil cards?

Sameer Goel: The government as per the Soil Health Scheme plans to map soil health for all the 14 crores farm holding and then link it to Aadhar card for better subsidy targeting. So far they have collected 2.8 crore samples since 2015-16.

Mohit Khanna: So this seems they is still a long way to go for them to have a basic payment done for rolling out DBT, how do you see this? I would like to mention that the soil nutrient part over here will definitely be a positive for Coromandel.

Sameer Goel: Yes, definitely, the soil nutrient part will be positive for Coromandel. Through our retail outlets, we already do soil testing and we do advice the farmers accordingly. But on the DBT side, the fertilizer companies are deploying over 2 lakhs POS machines. The retailers will end up using the POS machines on a test basis till the time they stabilize the system. So that will run parallel.

Mohit Khanna: So you do not see any operational issues at the start…?

Sameer Goel: There will definitely be operational issues that is what the government is looking at, which came out from the 16 pilot districts and therefore our understanding is to run this parallelly.

Mohit Khanna: You mentioned that there would be past due settlement before the DBT rollout. What is your view and when this money would come in and I think there was a bank thing that you mentioned happened in December last year?

S Sankarasubramanian: Basically in the DBT to the extent of opening stock, the subsidy would not be paid, because these materials are getting paid under the old scheme. So as and when the farmer buys it, to the extent of opening stock, company will not be getting subsidy. So, it is quite logical for the companies to be paid under the old scheme. So, what we feel is that 10% and other balance subsidies under the old scheme need to be paid off if the DBT needs to be rolled out. Otherwise it will be a challenge for the working capital levels of the industry not getting subsidy under old scheme as well as not getting on fresh sales made. It is quite logical to assume that the old subsidies need to be paid off before the DBT gets rolled out across the country.

Mohit Khanna: So this is our expectation and we have not heard anything from the government yet?

S Sankarasubramanian: No, we presume government is also thinking on the similar lines. We hope it materializes.

Moderator: Thank you. We take the next question from the line of Satish Mishra from HDFC Securities. Please go ahead.

Satish Mishra: Sir, first question is related to subsidy payment. Are we seeing any early subsidy payment because of early budget?

S Sankarasubramanian: We have not seen anything as of now because we expected something to happen in April but did not come through so far. So hopefully in May, it should get settled down.

Satish Mishra: So, in this financial year, we have not received anything?

S Sankarasubramanian: We have received under special banking arrangement, but we have not got that accelerated subsidy flow that we expected because of one-month finance bill preponement. That benefit has not come in.

Satish Mishra: Sir, in this banking arrangement, what are the charges?

Sankara Subramanian: That is completed now, government has paid off to the bank. In fact, we carried only 1.25% interest from our side, Rs.500 crores what we have received in March has been settled now by the government.

Satish Mishra: Can you help with industry channel inventory?

Sankara Subramanian: We started the year in the beginning around 6 million tonnes Going by the trend of fall in sales and increase in the liquidation, we expect the inventory levels have moderated to 4 million tonnes. I can speak from Coromandel point of view. We have substantially brought down and almost we have sold to the extent of requirement only and we do not have any huge pipeline stock. From our company point of view liquidation has been very significant and from industry side also it is moderated but our guess is around 4 million tons, but there is no validation.

Satish Mishra: Can you help with FY'17 sales volume segregated between manufactured and traded for DAP, NPK?

S Sankarasubramanian: DAP for the full year is 4.5 lakh MT and Complex is 19.8 lakh MT, total is 24.3 lakh MT for manufactured product, traded was 0.56 lakh MT, total is 24.86 lakh MT.

Satish Mishra: MOP, SSP?

S Sankarasubramanian: MOP is 1.81 lakh tonnes; Urea is 9.2 lakh tonnes, SSP is 4.78 lakh tonnes.

Moderator: Thank you. We take the next question from the line of Janaki Raman from Franklin Templeton. Please go ahead.

Janaki Raman: I wanted to get your strategy on the Crop Protection. So you have done well in the last one year and this is a mix of both the export and the domestic business and this is an area where overall industry is also seeing some acceleration in demand. So what are your initiatives going to be in the segment?

Sameer Goel: Crop protection continues to be our focused segment in non-subsidy business and we continue to invest behind it. We have expanded our capacity on our main molecule Mancozeb and capacity has come into stream now. So we will get the full benefit of this in the next year on that account. We are already exporting to over 70 countries, we continue to expand our presence in those countries and also we have started looking at owning registration in some of the countries. In the other lines of business, we do have substantial B2B business within India also, and at the same time, we are expanding our Formulations business. So it is a three-pronged approach to capture the market.

SankaraSubramanian: We have supplemented the new products.

Sameer Goel: We have invested on R&D and now we are seeing traction from that. We are getting at least two to three molecules every year in terms of that and also with combination molecules, we plan to capture the market apart from process improvement through R&D.

Janaki Raman: Is the India part of the Crop Protection business still quite heavily reliant on the Mancozeb molecule?

Sameer Goel: Not so much, we are into all the four segments and we are strengthening our business there. One of the advantages which we also have is because we have a retail segment, we are able to capture market share especially in states like A.P., Telangana and Karnataka on Crop Protection business.

Janaki Raman: In your opening remarks, you did mention that in your key markets of A.P., Telangana and Karnataka, this time the southwest monsoon was not perhaps very good. So going into the next season, what is your thought process in terms of the increase in acreage, the farmer outlook for the coming kharif season?

Sameer Goel: So overall as projected by IMD , kharif rains are going to be normal. So that is very hopeful. The other thing is of course the three state governments are doing quite a lot for improving agriculture and improving irrigation which is helping our overall business, In addition to Cereal, we are going into Fruits and Vegetables and oilseeds. So that is helping us. The good thing is because we are a Agri Input company, we can balance this out.

Janaki Raman: The Aadhar-based subsidy disbursal mechanism, has it been introduced in your markets as well?

Sameer Goel: So there were 16 districts where the DBT was piloted and when you look at A.P. and Telangana, there were three districts in which this was piloted on that count. We did not have any problems as far as our retail is concerned. The trade had to be educated much more in terms of that which we have done. Overall, what we have seen is we have actually improved our market share in all these three districts.

Janaki Raman: Do you visualize this Aadhar-based disbursal or DBT as an enabler which will help your own Gromor outlets, capture a higher proportion of the farmer spend?

Sameer Goel: We definitely expect that Gromor outlets in retail business will attract a lot more footfalls, primarily because of the fact that we are in direct touch with 2.8 million farmers and we are also expanding this network. So definitely we will be able to educate the farmers like we were able to do it in the demonetization.

Janaki Raman: For example, in the three districts that you mentioned where the DBT implementation has indeed taken place, there did you notice any perceptible impact on the performance on your stores?

Sameer Goel: Both Retail & trade have improved, because we are strong in trade also, we did equally well in both the channels.

Moderator: Thank you. The next question is from the line of Kunal Mehra from MSD Partners. Please go ahead.

Kunal Mehra: One clarification; regarding the three regions in A.P., Telangana where you ran the DBT pilot, what in your opinion led to the increase in market share as a result of this pilot?

Sameer Goel: We are into all three channels. We are very strong in the trade, we also have own retail network and we also do institutional sales. Also, the fact that in A.P., and Telangana, we are very strong with our unique grades, we were able to help to increase our market share. We were able to identify the pockets where we had a weaker share and we were able to increase the share there. So basically what we worked upon was the last minute connectivity.

Kunal Mehra: How do you reconcile that there was a last-minute connectivity that give you the uptick in market share, how do you reconcile that with the friction that we have heard that the trade channel had when implementing DBT on the ground because that friction was across a lot of your peers as well, but obviously there was something you did differently from them which gave you this market share?

Sameer Goel: I cannot comment on others. But the DBT gives us advantage in terms of significant presence in retail channels and throughout retail outlets across the geography. We were able to strengthen our teams to get the last-mile connectivity on that count.

Kunal Mehra: When you talk about the market share gain, was it a certain subset of the product group that did better than others in gaining that share, for instance, was it some of those combination molecules that increased materially or what is the another product for instance?

Sameer Goel: Definitely, we saw more gains coming from our unique grades which the farmers use, but we will get back to you if you want exact information.

Moderator: Thank you. The next question is from the line of Vijay Raghavan from IDFC Securities. Please go ahead.

Vijay Raghavan: Just have one question for Mr. Sankar. You were mentioning about the FOREX gain in the other expenses. Will you be able to quantify the number with the comparable number for the previous year same quarter as well, whether it was a gain or loss?

S Sankarasubramanian: Let us not get into specifics, especially the quarterly part. On overall basis, also I do not have the number right now. You can just wait for a few days once we upload the financial data, you will have the complete breakup.

Vijay Raghavan: On the retail business part, how many stores we have now and out of the stores that we have how many stores have achieved cash breakeven level?

S Sankarasubramanian: We continue to have same 800 stores what we started the year with. More than 550 plus are in profitable, breakeven and above.

Vijay Raghavan: What is the comparable count for last year…how many stores were achieving cash breakeven, I am just trying to understand if there is any improvement this year compared to last year?

S Sankarasubramanian: Bottom stores have moved up by 100-odd count which were negative and moved into positive zone. But the real impact is from top quartile 200-stores. They have performed significantly more because of our focus had been on the top-200 stores.

Vijay Raghavan: So you see this trend continuing for next year?

S Sankarasubramanian: Yes, we have been working on how to enhance the top-200 to top-300, the middle how it will move to top zone and lower end how it will move to middle. Also we do constant churning in terms of stores which are not performing beyond three years. We try to either relocate them or close them. So that sort of constant churning out of stores also does happen.

Vijay Raghavan: So will we now start expanding the stores in newer geographies or within the geographies already where we are operating the retail stores now that we are able to achieve stabilization in the model?

Sameer Goel: Our business plan has both, we are looking at new geographies also and we will be also expanding into gaps which are there in the existing geography.

Vijay Raghavan: So which will start this year or still…?

Sameer Goel: Yes, this is part of this year.

Vijay Raghavan: So we will be expanding into Maharashtra or any other states you already identified?

S Sankarasubramanian: Maharashtra will be the key markets, in South we will concentrate and thereafter we will move to select geographies wherever we feel immediate presence is required.

Vijay Raghavan: Sir, any update on Yanmar JV?

S Sankarasubramanian: We have been doing well. They have become a market leader on rice transplanters. Currently, the plant is yet to come up and they are now trading on rice transplanters. Also, we are enhancing our presence in farm machinery, we are going in for custom hiring centers in the State of Andhra Pradesh, where we have been allotted 30-odd centres. Coromandel through its Mana Gromor centers will be providing farm machinery services which will have range of equipments. Besides rice transplanters, we will have tractors, harvesters. So this Yanmar JV provides a perfect backend support in terms of providing Yanmar rice transplanters as well as service support. So in fact, we have been allotted West Godavari, East Godavari & Nellore districts which have higher presence in farm mechanization, thanks to the service centers set up by Yanmar. Strategically, we are moving in a right direction and as and when they reach the critical mass in terms of transplanter sale, they will go in for plant in India. They have been working on expanding their footprint in Odisha, Karnataka and in the northern states. They are also expanding their range of products besides rice transplanters to include rotavators and tractors and it is going as per the strategic approach what we envisaged at the time of setting up the JV.

Vijay Raghavan: On the DBT front, you said around 2 lakh POS machines are expected to be distributed to all the retailers throughout India. Out of that how many equipments do you think the industry has already procured and distributed so far?

Sameer Goel: What has happened is that by end of May, the industry is poised to distribute the 2 lakh machines and we have also placed orders as per our share. We hope by end of May all these will get to the allocations. So the Department of Fertiliser is monitoring that.

Vijay Raghavan: So do you think by May end this entire 2 lakh target will…?

Sameer Goel: That is what the target is if the suppliers can supply it on time.

Vijay Raghavan: So, initially the talks were that from June 1st it was supposed to be implemented, do you think we are still on those to start to the rollout from June 1st or do you think there can be a postponement?

Sameer Goel: Parallel run will start happening as and when these machines get deployed. So from 16 districts, they will go to pan India but test run has to be done.

S Sankarasubramanian: But there are quite a few operational challenges which need to be addressed. So we do not expect this to come up before October or so. Based on the pilot trials output, the issues will be fixed and then government may take a while before they go for a big bang approach across all the states.

Vijay Raghavan: Sir, just a data point of the EBITDA mix between subsidy and non-subsidy for a full year basis?

S Sankarasubramanian: Q4 is 74/26, full year is 62/38.

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

Rohan: Sir, in Agrochemicals business, can you give the breakup of exports?

S Sankarasubramanian: It is close to $80 million.

Rohan: Out of that if we get further breakup especially in Europe of that?

S Sankarasubramanian: We do not have that segmental right now; we can share it later.

Rohan: Coming to the subsidy portion, this year we have a total pending subsidy of Rs.2557 crores I believe that, out of that Rs.850 crores is the old pending subsidy, right?

S Sankarasubramanian: Of Rs.2557 crores, you remove the Special Banking Arrangement of Rs.507 crores which has been actually grouped under borrowings as on 31st March, so if you net it off the real outstanding is Rs.2050 crores.

Rohan: This includes the old subsidy also the Rs.850 crores, right?

S Sankarasubramanian: Correct.

Rohan: So last year also total subsidy was Rs.2367 crores, there was no SBI banking arrangement, that also included Rs.850 crores. So net from Rs.1500 crores of last year, so this year the subsidy has gone up to Rs.2050 crores?

S Sankarasubramanian: No, last year it was Rs.2300 crores, every year 10% gets added.

Rohan: What it was against that… last year it was some Rs.1700 crores if I am not wrong?

S Sankarasubramanian: Rs.1480 crores is the last time number on a like-to-like comparison, excluding 10% subsidy.

Rohan: So this Rs.1480 crores includes the 10% if I add it, so then also we are seeing the subsidy portion has increased only while this year the government subsidy per ton was also lower?

S Sankarasubramanian: Rs.2330 crores last year minus Rs.850 crores of 10% subsidy is Rs.1480 crores. Current year outstanding is Rs.2050 crores minus 10% subsidy of Rs.850 crores is Rs.1200 crores. Rs.1200 crores includes current year Rs.200 crores also. If you knock that off, there is a drop, from Rs.1480 crores to Rs.1000 crores. It could have been much better had we got the subsequent payment because we have got payment now up to October. We are expecting that disbursement for November to March to happen anytime soon. So it should come down significantly in the first quarter.

Rohan: Second on our trade receivables. So last year we have put a huge inventory in the system in Q4, this time it is not likely. But then also the trade receivables remain there; Rs.1620 crores as against Rs.1640 crores last year

S Sankarasubramanian: It is an off-season period. Sales whatever happens in February-March remains outstanding. So that gets collected as and when the liquidation happens. But the aging of the receivables what you have last year versus what you have now has improved. It is predominantly the dues of last quarter and current quarter.

Rohan: On Phosphoric Acid prices and Ammonia prices, Phosphoric Acid you mentioned it was $550 for Q4. What was the average for full year …it was $570 or something?

S Sankarasubramanian: Yes, it should be around because for the first two-three quarters it was $605, should be around $570, we have not done the exact math. Ammonia has moved up to $380, Q4 was around $240-$260. The increase which has happened now is likely to get moderated once the global supplies improves.

Rohan: So sir, almost $100 increase in Ammonia, and almost $40 increase in Phosphoric Acid prices in the Q1. So even if we factor in the currency appreciation, do you not see that there will be some margin pressure in Q1 and Q2 going forward if we do not increase the prices?

S Sankarasubramanian: It is a combination of various factors. We cannot comment on overall industry how it will impact. But as a company, we will try to focus on how do we increase the value addition through our own captive Phosphoric Acid, how do we increase the share of unique grades and how do we absorb the sort of temporary shocks because we have opening inventories of finished goods as well as raw materials. It will get moderated. So we do not expect any major impact. Compared to the past periods, we do not have any high cost inventory, we do not have any high cost inputs. So to that extent, I think this sort of temporary mismatch in prices can get aligned over a period of time. So we cannot be looking from quarterly point of view, should look at longer schedule where we do not have any major issue because of the spike in Ammonia, Phosphoric Acid price.

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

Dheeresh Pathak: I want to understand the Crop Protection revenues for full year; Rs.1400 crores, you said Rs.500 crores was exports, right, and the balance roughly Rs.900 crores was domestic. In that domestic how much is B2B and how much is brand sales percentage be roughly?

S Sankarasubramanian: Formulations roughly close to Rs.500 crores, balance constitutes B2B.

Dheeresh Pathak: Would it be fair to say that exports of $80 million you said, large part of that is Mancozeb?

S Sankarasubramanian: Yes, major portion is Mancozeb, but we do export all other technical also. We have Profenofos, Phenthoate, Acephate, so we have quite a few other range of technicals as well.

Dheeresh Pathak: When you said, the SEZ facility that is 10,000 incremental Mancozeb or 10,000 after expansion?

S Sankarasubramanian: That is Brownfield, we just set up the facility only in the fourth quarter for additional capacity.

Dheeresh Pathak: So that will take up total capacity to how much of Mancozeb?

S Sankarasubramanian: Capacity is fungible.

Dheeresh Pathak: Just coming to the non-subsidy revenues, total was Rs.2300 crores for the year, Rs.1400 crores is Crop Protection, so about Rs.900 is ex of Crop Protection. So what is this Rs.900 crores if you can give a rough breakup?

S Sankarasubramanian: It comprises of Specialty Nutrients, Organic Manure and non-Fertiliser products in Retail. So all these constitute balance portion.

Dheeresh Pathak: Do you have like a breakup of the three segments?

S Sankarasubramanian: Right now, our segmental reporting is for Nutrients as a whole and Crop Protection. We do not give further details.

Moderator: Thank you. That was the last question. I now hand the floor over to the management for their closing comments.

Sameer Goel: Thanks, Prashant, thanks everyone. I think overall it has been a very satisfying performance for us in '16-17 and as our long-term strategy gets unfolded, we are very confident of government's vision of doubling the farmers' income, Coromandel will be working closely with the government across our businesses to get this into fructification. With the normal monsoons which have been predicted, we expect to continue to perform during the next year also.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference. Thank you for joining. You may now disconnect your lines.