“Coromandel International Limited Q1 FY2021 Earnings Conference Call”

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ANALYST: **MR. VARSHIT SHAH - EMKAY GLOBAL FINANCIAL SERVICES LIMITED**

MANAGEMENT: **MR. SAMEER GOEL – MANAGING DIRECTOR – COROMANDEL INTERNATIONAL LIMITED**
MS. JAYASHREE SATAGOPAN – CHIEF FINANCIAL OFFICER – COROMANDEL INTERNATIONAL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY2021 Results Call of Coromandel International Limited hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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 would now like to hand the conference over to Mr. Varshit Shah of Emkay Global. Thank you, and over to you Sir.

Varshit Shah: Thank you, Aisha. Good afternoon everyone. I would like to welcome the Coromandel management and thank them for giving us this opportunity to host their Q1 FY2021 earnings call. We have with us today Mr. Sameer Goel, Managing Director; and Ms. Jayashree Satagopan, Chief Financial Officer. I would now hand over the call to Sameer Sir for his opening remarks. Over to you, Sir.

Sameer Goel: Good afternoon everyone. Thanks Varshit for organizing the conference call. I will give an overview of the business environment during the quarter, including the COVID situation. Jayashree will follow with the company performance, and we can then answer Q&A.

So like you know, the country witnessed an on-time arrival of Southwest monsoon, followed by a quick spread across the region. Rainfall currently as predicted by IMD has been 5% above-average for India and 60% above average for the Southern Peninsula. The earlier onset of rainfall better the conditions and good reservoir levels which are better than the last 10 years average resulted in a good crop sowing season.

As of last week, crop sowing increased by 19% over last year for the country, an increase by 50 key markets of AP and Telangana. At all-India level, good growth was seen in oilseeds, cotton and pulses, and in APTG also, cotton has already exceeded the last year's average sowing and same is with oilseeds and pulses. This compares favorably to FY2019-2020. As you would all remember, we had a slow start of the Kharif season due to delayed monsoon. The other good news is despite all issues with COVID, the Kaleshwaram projects on Godavari is progressing well and is on track and would bring the northern districts of Telangana under assured irrigation.

Coming now to the government policies. The Indian Government recently announced bold market reforms to liberalize the long shackled agriculture market. In fact, if you look at these reforms for agriculture, if implemented properly, they are going to be as far-reaching as was reforms on the capital market done by Manmohan Singh government or the Vajpayee government doing the infrastructure reforms. So the announcement was quickly followed by 3 ordinance which are the essential commodities, the farm produce trade and commerce and the farm agreement on price assurance and which is basically contract farms. These reforms will lead to much improved price discovery, better storage infrastructure and improved ability to directly source from the farmers. It is expected that private companies will also come into this fore. These reforms have the power to bring in structural and transformation change in Indian agriculture over the medium- and long-term. Further, the government was quick to announce an increase in MSP prices for Kharif crop with its objective to provide minimum 50% returns on the cost of production to farmers.

AP government has launched Rythu Bharosa Kendra to help the farmers, get much more visibility in terms of practices. Telangana Government has also announced regulated farming to see balanced use of nutritional inputs. Financial assistance to the farmers, both the central government gave the first installment of PM-Kisan Yojana was disbursed during the quarter. AP and Telangana government also distributed Rythu Bharosa and Rythu Bandhu schemes, respectively. This enables the farmers to quickly buy agriculture inputs for the coming Kharif season.

TG government has also announced farm crop waiver schemes for smaller farmers for loans up till Rs.1 lakh. The other thing, on top of that, as you are aware, that the government was very quick to ensure that at least for cereals, the bumper Rabi harvest was all procured and the farmers were giving the money, which also helps in the liquidity with the farmers.

Coming now to COVID-19, center and state governments have taken a proactive approach in dealing with the pandemic situation. Overall testing and medical infrastructure has been strengthened, and we have reached 0.5 million tests daily. With this high testing, there is a rapid increase in number of positive cases being reported. The early indication is also helping in ensuring timely medical care for those infected and further containment of the pandemic. The recovery rate in the country has shown a positive trend and is currently at 64%. Further, as the government is gradually easing the lockdown in the phased manner, keeping safety in mind, that is helping the economic recovery. Some of the leading indicators like fuel and power consumption, GST, E-way bills, agriculture are showing the sign of revival. One good thing is that agriculture, in a way, is one of the sectors, which has not got impacted by the COVID. In fact, it is acting as a buffer for the economic downturn which we have seen in the other sectors and is also helping in the rural employment, and because of that, the government is further focusing its efforts on agriculture. One of the first things that the government did was to declare agriculture as an essential service and to ensure that the agri input companies were able to run their plants and also were able to get support on the logistics front.

DBT and subsidies. The DBT system has well stabilized. Subsidy distribution started off on a good note in April. However, got into a challenging situation for the remaining of the quarter as mill allocation was done for the NPK companies, mainly to prioritize disbursement to the urea companies which had a larger backlog.

Overall, when you look at the fertilizer industry performance, for the quarter, phosphatic saw increased uptake in volumes in Q1, driven by favorable monsoon condition and early demand for fertilizers. Given the early onset of monsoons, on the backdrop of bumper Rabi harvest, the growth percentage is impressive versus last year when the country witnessed a delayed monsoon. Phosphatic fertilizer industry sales and volume improved by 37% to 50.59 lakh tons. Complex fertilizer sales increased by 52% while DAP went up by 26%. Phosphatic acid price for Q2 2020 has been finalized at USD 625 per ton. In Q1 FY2021, the price was $607 per metric ton. So it has actually gone up.

On the crop protection side, the demand for crop protection chemicals has been good in the first quarter given the bounty in the agriculture sector. Part of the reason also was that the last quarter of last year actually faced a reduced inventory due to the supply issues from China. The North and Northwest regions of the country also witnessed widespread locust attack which has been quite harmful to the standing crops in parts. The government has resorted to several measures, including spraying of pesticide through drones to contain the spread of locust outbreak.

The industry, through its technical task force formed by CCFI, Crop Care Federation of India, has been representing with the government on the draft notification relating to the proposed ban of 27 molecules. The government has since allowed the export of these molecules and has further extended the time line to the industry to submit its response to the notification to 90 days. The industry is hopeful for an early and favorable resolution. I now hand over to Jayashree to give the Coromandel performance.

Jayashree Satagopan: Thank you, Sameer. Let me take you all through the Coromandel performance. Coromandel had a resilient performance in Q1 2020, registering a strong growth despite the unprecedented external environment forced by COVID-19 pandemic. Better-than-normal rainfall in our key markets, good soil nurture conditions and proactive steps taken by the government in procuring the bumper Rabi harvest led to positive sentiments in the farming community, resulting in early demand of agricultural inputs.

Fertilizers. For the first quarter, phosphatic volumes was at 8.3 lakh tons, an increase of 75% vis-à-vis last year. Manufactured product sales was at 7.6 lakh tons and imported DAP sale was 0.6 lakh tons. Market share has increased to 16.3% from 12.9% same quarter last year. Consumption market share represented by POS sales improved to 14.8% from 12%

same quarter last year. The share of unique grade stands at 27%. Last year, this was 23%. During the quarter, our phosphatic fertilizer plant operated at approximately 65% capacity utilization. April month production was slightly impacted due to the lockdown by the government. The company had pushed out its ATA to later part of the year to maintain and maximize production for the season.

SSP business registered a 5% sales volume growth with a sales volume of 1.3 lakh tons. The Specialty Nutrients and Organic Fertilizers continue to grow stronger with a focused product approach. The business is collaborating with farm produce organization, cooperatives, seed companies and agri universities to increase its reach and market development.

On the crop protection front, this segment has seen a very good quarter and registered a strong growth of 54% across both exports and the domestic market. The business is accelerating its efforts on new product development and strengthening its strategic tie-ups with global players. The bio business had taken its annual turnaround and commenced operations in June.

Coromandel is extending support in addressing the recent Locust attack in the country through its product offerings, namely malathion and NeemAzal. The company's retail stores operated all through the quarter, maintaining social distancing and ensuring adequate safety measures enabling the farmers to procure agri inputs and farm solutions.

Retail stores extended digital farm advice through audio and video calls, webinars and messages. The stores successfully implemented direct delivery mechanisms to reach the products to the farmer’s field. Overall, the new products introduced in fertilizer, Single Super Phosphate, Specialty Nutrients and crop protection gained momentum and continue to help farmers in providing superior nutrition and integrated pest management solutions.

On the COVID update from Coromandel, our plants, except the plant at Kakinada, were closed for some time during the nationwide lockdown. Being an essential commodity, we restarted the plants in a phased manner, and they are fully operational now. We have observed the rules and regulation relating to social distancing to the fullest and staggered attendance system is being followed. Our retail stores continue to operate all through the lockdown period and introduced direct delivery to farmers, enabling them to procure agri inputs and farm solutions.

Investments made in technologies over the past years has helped the company in enabling most of the supporting staff to work from home effectively and in a secure manner. The company adopted digital medium to bring awareness in the farming community about the pandemic.

With the early onset of the Southwest monsoon and a healthy reservoir position, we expect good traction in the upcoming Kharif season. Coromandel will strive to ensure availability of products and meet the market demand. Our focus areas will remain safety of employees, safe operations, farmer connect initiatives, brand building, operations and supply chain effectiveness.

With this, let me take you through the company's financials for the first quarter of 2021. Turnover. In the first quarter of 2021, the company recorded a consolidated total income of Rs.3224 Crores, growing by 51% with Nutrients and Allied businesses contributing to 87% and the remaining 13% coming from Crop Protection business. Last year, in the same quarter, Nutrients was 87% and Crop Protection 13%. In terms of subsidy and nonsubsidy breakup, Q1 revenue share is 80-20, corresponding period last year was 79-21.

Profitability. Overall EBITDA for the quarter is Rs.415 Crores against Rs.195 Crores last year, registering an increase of 112%. In terms of subsidy-nonsubsidy breakup, Q1 EBITDA share was 79-21 vis-à-vis last year 84-16. Consolidated net profit after tax for the quarter is Rs.251 Crores in comparison to Rs.62 Crores for the corresponding quarter last year.

Subsidy. Subsidy outstanding is Rs.2586 Crores as on June 30 vis-à-vis last year's Rs.1777 Crores. Outstanding includes approximately Rs.1500 Crores that has been claimed and pending with the government. Pending PoS acknowledgment is approximately Rs.700 Crores. During the quarter, the subsidy received from the government was low. Coromandel received Rs.519 Crores in the month of April.

Interest, the working capital situation improved through the quarter with very good collections from the market and maintaining optimal inventory levels. Net interest for the quarter was Rs.24 Crores, excluding the Ind AS 116 related interest, which is down from Rs.64 Crores corresponding period last year. This savings is primarily due to better collection, efficient working capital management and lower borrowing cost.

Forex. During the quarter, rupee traded in the range of Rs.74.95 to $ to Rs.76.91 to $ and Coromandel effectively managed it is exposure in line with its hedging strategy. Thanks once again to everyone for joining us in this call and your interest in Coromandel.

With this, we can open the session for question and answers.

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

S Padmanabhan: Congrats on extremely good set of numbers. My question is, number one, when you talked about early purchase, can you quantify, how much would basically be the kind of early purchase and because of this early purchase, should we continue to see growth in the second quarter because you did mention that even the Kharif going forward should be pretty strong?

Sameer Goel: Just on that, it will be very difficult for us to identify how much is the early purchase. So there are both the factors. One is early purchase. Secondly is the increase of the sowing season. The third factor is obviously the fact that farmers anticipating good pricing is using more of agriculture inputs. So all these 3 are in favor. The other things also in favor are the increased availability of water and the reservoir position. So all in all, it is a very positive sign, but we would not be able to quantum how much is the early purchase as such.

S Padmanabhan: And you continue to believe that there will be a growth in the second quarter despite of a very strong 1Q in terms of volumes or do we see...

Sameer Goel: So as far as the demand side is concerned, agriculture will continue to do well and there will be demand for products like Jayashree mentioned. Firstly, for the industry, the inventories have come down and also for the company, the inventories are down and which actually shows a good throughput. We have to wait and watch if there are any disruptions on the supply side, given the way COVID is spreading throughout the country and what sort of measures the government is going to take.

S Padmanabhan: And my second question is, if I go through the balance sheet, I was quite pleasantly surprised to see the launches that is happening on the Crop Protection side. For the last couple of years, we have been spending more on the R&D side. You did talk a bit on moving to B2C focused on low volume, high value products and also launching some products on the Crop Protection side. Can you give some color with respect to the next 2 to 3 years how do we see the profitability, the growth for the Crop Protection side, given that the last 1, 1.5 years has been fairly a bit more volatile than what one could have expected?

Sameer Goel: So basically, to answer your question in 2 counts. One is in terms of are we going to invest in R&D and are we going to invest in new molecules, including core marketing molecules? We have strengthened both product development & registration team and R&D & tech transfer team. We have also strengthened our teams on the marketing side, including having agronomists so that we can have a better connect with the farmers. So that definitely is there. What percentage it will come, Jayashree, you wanted to say something?

Jayashree Satagopan: Yes. So when you look into the overall long-term strategic aspirations for Coromandel, we have been maintaining that there will be a shift to Crop Protection, Specialty Nutrients and Retail. These being the growth engines of the company while our large and stable businesses, which is primarily fertilizers and SSP, will continue to have their own growth. So from that perspective, there would be a lot more investment, both quantitatively and qualitatively for Crop Protection business, and we expect this business to have a much more rapid growth compared to our other businesses, and also the quality of the earnings should see an improvement with the portfolio mix that will also undergo a change. Compared to the past, over the last couple of years, you would have seen that every year, there have been about 3, 4 new molecules that have been introduced in the market. So from our perspective, this trend will for continue for the next few years to come in, while the business is working very closely with the global majors in terms of strategic alliances for new product development, co-marketing of existing very good molecule, there is also a lot of strengthening that is happening on the infrastructure side in terms of looking into manufacturing our own technical to supply to the global market as well as to India. So from that perspective when you look at it Crop Protection business is one of the core focus areas for Coromandel. Sameer was mentioning there is lot of investment that is going on in terms capability building, be it a product registration team or product development team, R&D, technology transfer, manufacturing, sales side, agronomous. So this will continue to strengthen this business furthermore in the coming years. I hope this helps Mr. Sudarshan.

S Padmanabhan: Yes. Just one small query from my side. This will be my last question. Last year also, we had very strong free cash flow generation and you also mentioned that the working capital has improved in the first quarter. In terms of deployment of cash, on inorganic pursuits, do you think that we have gaps on the Crop Protection side to get filled? And are we also looking at another backward integration program for ensuring that we will be fully backward integrated on the phosphatic acid side, I mean, we had done something last year as well, which has seen some benefit in terms of costs?

Jayashree Satagopan: Sure. So cash flows, this first quarter has been good due to our working capital situation. There are a couple of things that we are looking in terms of deploying cash, obviously, is to see how we can generate better returns for our investors. Therefore, the focus is on, A, looking into newer manufacturing that can help us. For the Crop Protection business, as I have alluded in the past, we have identified few recently off-patented and to be off-patented molecules where the business will be focusing in terms of setting up multipurpose plants for manufacturing and sales. As far as the fertilizer business is concerned, there is going to be investment required for debottlenecking our plants both at Kakinada and Vizag in the immediate future and depending upon the situation, possibly adding further trains in one of our plants. So that is how the cash is planned to be used. At the same time, as a company, we do look into the market, and if there are attractive proposals that are coming in which will strategically fit into our growth objectives and complement our business, we would also be examining and evaluating them.

Sameer Goel: One of your question was in terms of backward integration. What we are doing is we have the capacity in Vizag, we are putting up certain more evaporators so that we can take the asset from Vizag into Kakinada. So that project is going on, it will take a couple of years to complete.

S Padmanabhan: Sure, thanks a lot. I will join back the queue.

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

Resham Jain: Congratulations on good set of numbers. Sir, just 2 questions. So first is, if you look at Crop Protection, it looks a very strong growth, but if you look at a year back because FY2020 we had a plant impact in the Mancozeb product. Actually, the revenue is almost flat, but when we look at the industry as a whole, the agrochemical companies, which have reported result till now, they have shown a very strong growth. So is there something missing in the link? Is there some part of the business, maybe on the export side or something, which has not grown to that extent?

Sameer Goel: So if you look at our growth it has happened across all the sectors, whether it is the formulation business, which is domestic, our B2B; and also our export front, main molecule, Mancozeb on export has grown. So that is something which has happened across, and even if we compare it to 2 years ago, the growths have been positive. We could have grown further but for the supply situation because of lockdown and pandemic, as Jayashree also mentioned, first, in April, because of the government insistence on lockdown, we were not able to operate our plants fully, especially in the markets of Gujarat, and then slowly we build up capacity on that count. So that was the reason why we could have probably grown even faster because the market conditions are the same, and therefore, we could have probably grown a little faster than what it was. The good thing is the traction continues to be in quarter 2. So that is a part of it, and agriculture overall is doing well, including globally, agriculture is doing well as such. So there is a certain amount of traction. We will have to wait and watch in terms of, we are representing to the government on the molecules which they have asked us to look at. Jayashree, you want to add anything?

Jayashree Satagopan: Yes. I think it is primarily a little bit of a constraint in the beginning of the quarter in production facilities. We have also seen the local formulation business has grown pretty well compared to our exports, and we also continue to see a strong demand for domestic B2B. This is pretty much in line with what we are seeing in the results of some of our other agrochemical companies here. So the second quarter should be better given the fact that the factories are all fully operational now.

Sameer Goel: And we are prioritizing plants here and customers who are our strategic partners and we are also focusing on the high-margin from those sales.

Resham Jain: Okay. Sir, just one question based out of your annual report. We could see there is a substantial saving in the freight and distribution cost, almost 130 Crores compared to the previous year. Is there anything specific which we have done during the year which has helped us achieve this? Or is there any one-off in that freight and distribution cost? Operational volume has increased...

Jayashree Satagopan: Very good question, Resham. There has been conscious work that has happened in terms of optimizing our supply chain. We have also resorted to what is called as direct delivery models so that you are able to get your material directly to the dealers rather than getting it to a rate point, storing it and then moving it. There are multiple things that have happened during the year in terms of optimizing our supply chain efficiencies and logistics. That has primarily resulted in savings during the year. Having said that, this traction will continue. We are working on what is called as center of excellences across all our BUs to see how we can further improve on our operational efficiencies. One of them relates to supply chain. So this is a very conscious effort, and we are glad that we were able to take some cost out based on these efforts.

Resham Jain: Okay. Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal Financial Services. Please go ahead.

Sumant Kumar: So my question is regarding gross margin. So apart from higher trading of fertilizer versus previous year, is there any other reason for gross margin decline in Q1?

Jayashree Satagopan: There are 2 things. One is the trade at which we have obviously picked up, other one is the inventory change. So if you start with a higher inventory and you liquidate whether you manufacture and you sell, those are couple of factors.

Sumant Kumar: So there is no inventory loss, right?

Jayashree Satagopan: No, there is no loss.

Sumant Kumar: Okay and what is the gross and net debt in Q1 FY2021?

Jayashree Satagopan: Sorry?

Sumant Kumar: Gross debt and net debt in Q1 FY2021?

Jayashree Satagopan: Our debt is about 1400 Crores, slightly lower than that end of June 30.

Sumant Kumar: And net debt?

Jayashree Satagopan: I think this is the gross one. The net borrowings we will get back.

Sumant Kumar: Okay, and the next question is what Resham was talking about the lower freight cost. So my question is because in FY2020, we have a lower urea sales. So is that also a reason for lower freight cost in FY2020?

Jayashree Satagopan: No, not necessarily because some of these freight costs are also coming in the form of subsidy back from the government. So that has nothing to do with the urea.

Sumant Kumar: So it is nothing related to the trading also?

Jayashree Satagopan: No, no. It is nothing to do with the trading. These are conscious efforts taken in terms of supply chain and logistics improvement projects.

Sumant Kumar: Okay. Thank you madam.

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

Abhijit R. Akella: Congratulations on a great quarter. So first, just to check regarding the other expenses for the quarter are a little bit on the lower side. Was there any benefit from sort of just lower Opex because of the lockdowns and therefore, should we expect any increase going forward from 2Q onward?

Jayashree Satagopan: Yes, there has been some amount of cost that has come down because of the lockdown. Travel has been lower. We have also resorted to a very high level of digital marketing. That has actually helped in containing some of the costs. Now that we have got into digital media and communication, we will definitely try to see how we can leverage it more, and depending upon when the COVID situation normalizes, that is when the actual travel might start happening. So we expect cost to be reasonably in control in the coming quarter.

Abhijit R. Akella: Okay. Great, and second, on the subsidy front, madam, you alluded to some pressure in 1Q. How do we see the outlook for the rest of the year in terms of subsidy releases?

Jayashree Satagopan: Yes. See, first quarter, we started off with a bang. We got almost 519 Crores in April. However, May and June, government had prioritized it for urea companies. Therefore, there was not much of money that was coming for any of the P&K fertilizer companies. Having said that, in July, as we speak today, we have received close to 367 Crores of subsidy. So we are working closely with the government to see how they can increase the allocation for P&K companies also because that was the whole essence of getting into DBT, saying that the companies will be reimbursed, say, within a couple of weeks after the claims are submitted. While we understand the pressure with the government with lower allocation towards subsidy overall, plus the tighter finance conditions given the COVID, nevertheless, given the higher demand for agri inputs, we have also been discussing with DOF stating that the fertilizer company's interest should also be kept in mind because that would impact our cash flow situation while we are working in the market, we are optimizing our inventory. We are doing multiple things. This is something that we are very closely working with government to get some favorable response there. So long and short, yes, it has been a bit of a tightrope walking, but good news is, this month, we have received some money, and we will continue to focus on this area.

Sameer Goel: Yes. Jayashree, you can also mention some of the old subsidies all has got cleared up. So which is a good thing.

Jayashree Satagopan: Yes. So last year, Abhijit, we had a very substantial amount of old claims that were pending with the government. We received close to 650 Crores and those were cleared. Now if you look into the total amount of close to 1500 Crores that we have already submitted to the government, I would say somewhere close to 400 Crores, 450 Crores is what will relate to older ones. The rest are all current DBT related. So the composition of the subsidy that the government has to pay to the companies has also changed over a period in time, and that is very important because the more it is relating to DBT the better it is for us, and at some point in time, when the government goes with a DBT 2.0 and start moving the subsidy directly to farmers it will further help us.

Abhijit R. Akella: Got it, and on the Capex plans, madam you spoke about the debottlenecking and possibly adding a train in the fertilizer units. Any rough figures in terms of how much Capex we are contemplating over the next, say, couple of years on all these projects together?

Jayashree Satagopan: Yes. As I was mentioning, our immediate and the near-term focus would be in debottlenecking. This is what we have been talking for some time. So the next couple of years of focus is going to be that. How can we create more capacity? What should we be doing or our mix so that we can produce more. This also includes, should we do a DAP manufacturing vis-à-vis DAP imports. So the multiple things have been looked into. Further down, if you are looking at 3, 4 years from now, we would also be exploring in terms of additional trains as required. So that is the way we are looking at it, and for debottlenecking these facilities over the next couple of years, I guess you would require about say 100 Crores, 125 Crores type of Capex. So the teams are putting together what I would call as your initial estimates, how to go about it. Again, given the COVID situation that we are in, our focus has been primarily to allocate Capex for what is critical and essential at the plants because we also want to restrict the number of people who would be there. We want to ensure enough social distancing, safety of the plant. So we have been going a little slow rightfully so on our Capex at the same time, keeping in mind what we have to do for meeting a long term aspiration. So there might be a slight shift a quarter or so depending upon how this COVID gets normalized, but our medium, long-term plans are very much intact. Even this year's Capex, we have told them hold it. If you can do it in Q3, Q4, you can still go ahead and do it. Our first and top most priority is people safety and running the operations safe. So there might be a bit of a push out on Capex in this quarter. Otherwise, we are pretty much in line with what we have been considering for the year and the coming years.

Sameer Goel: One of the things which we are adding on to it, given what COVID has done is in terms of spending a lot more of fast-tracking projects on automation and also fast-tracking projects which require sensor and other technology so that we can look at, I mean, it reduces the dependence on manpower. So that is something we are looking at and fast tracking.

Abhijit R. Akella: Right. Got it, and just a clarification before I just go back in the queue. The debottlenecking would add how much capacity to our total volumes?

Jayashree Satagopan: It is about 1.5 lakh tons to 2 lakh tons.

Sameer Goel: The other thing, as I mentioned we were able to put in place a water plant last quarter which is a smaller plant. As you know, Chennai does face water shortages. We were able to put up a sea water pipeline, and that the plant team implemented despite having COVID. That will help us to boost up the capacity at our plant and will not face any shortages as far as water is concerned. So that project has got implemented. It is now on the testing stage.

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

S. Ramesh: My first thought is, see in terms of your operating expenses, in terms of, say, a percentage movement, is it possible to quantify what is the kind of movement like assuming normal volume, say, over the next 9 months because you have seen energy prices fall, but the excise duty on diesel has gone up. So if you combine the impact of lower oil prices and the excise duty increase, is there any risk of operating expense, especially the freight cost going up over the next 9 months?

Jayashree Satagopan: No, we have not seen a risk in terms of freight cost going up. While there could be some increases in certain areas, there are other efficiency-related work that is being carried out, which we think, if at all there is an increase, would offset these increases.

S. Ramesh: So you are expecting operating expenses to be reasonably stable. There would not be any negative points?

Jayashree Satagopan: Yes.

S. Ramesh: Second thought is, if you look at your volumes for last year, for the July, September quarter and this January, March quarter, I mean, there were upward volumes. So in terms of the current visibility on volumes, would you be able to just maintain those volumes? Or is there any potential for growth in volumes in both your Nutrient and CPC business over the next 9 months?

Jayashree Satagopan: Yes. So obviously, we are looking into increased volumes. On the fertilizer front, we are also looking into imports which can complement with our manufactured volumes that we have at our plants. We are looking into on a quarter-by-quarter basis now. While a year is a early for us to comment, given the way the pandemic has turned out, now it has moved away from the cities and the metros to several other districts and also plant locations and to some extent to the rural India as well. We are taking it quarter-by-quarter. While we have our plans for the full year in place, we just want to ensure we maximize in Q2 for both CPC as well as fertilizer, and for the full year, we are also looking at a good growth opportunity. I will leave it there, Ramesh.

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

Ankur K: Congrats for the good set of numbers. Sir, you did mention initially in your remarks that we have been taking digital initiatives during this COVID period, which also has helped us in terms of connecting with the farmers and maintaining the same tempo. So my question here is that given historically, we have been launching new products across the crop protection side and of late, we have seen the phase increasing there. Does this change anything in terms of on ground demand? So while I agree with you on the 3-, 5-year story, wherein we are scaling up the production there, but can this be more back ended? Or do you think digital has probably improved the impact in terms of connectivity with the farmers, and it will actually accelerate there? So your thoughts there, please.

Sameer Goel: So definitely, it is a very good question, but like all of us, we are also learning we work from home and finding that working from home our productivity is better than when we do from offices including having meetings, but coming back to on I think the old model of actually going one-to-one with the farmers, meeting them in the villages may not apply. In certain cases, in certain communities or villages, they are also not allowing outsiders to come in. Basically preventing them from COVID to spreading into their villages. So we collaborating with JWT and a digital company, they are the world largest in digital marketing. Our marketing team went through a full training program, and I am very happy to say that after the initial resistance which happens, digital has been taken out in a very strong manner, and not only that, we have found that it is more effective and you can be more precise. So I am seeing meetings happening, say, for example, if we have to talk to only, say, 40 farmers, suddenly in the digital platform you can have almost 150 farmers who are only cotton farmers who come into the media and you can actually tell them, ask question answers, get your scientists also on the platform and answer their questions, and it is a very, very effective way of communicating. At the same time, we have seen adoption by the farmers in a very good way. Like you know, while we do not have full data of the farmer's usage, but now no of rural India internet connection is more than urban India internet connection, which actually shows the power of digital technology and how quickly it can be adopted. So we are very happy with that, but that does not mean to say we are not going to the farmers also. We have our extended teams of agronomists and MDT they do maintain their social distancing, and they are doing demonstration in the farmer's field. Moreover Rural India currently is not as impacted as urban India. The only problem is in terms of venue, how do you safely travel to the villages from a town and which is what the team has been instructed and what they are doing. So we are finding this to be a very effective channel. In fact, our retail outlets, like Jayashree mentioned, we are the first to open our retail outlets in AP and TG and do practice social distancing, in fact, educate the farmers on the need for the measures to be taken for COVID, while the awareness was not there, and they were very happy to see what sort of care we have taken, which acted as an example, including for the fertilizer dealers. For that reason, we are able to reach out to the farmers. So it is being very effective. We think this is something which will last. We need to keep building our capabilities on how to address and visit our farmers. So that is something which we will continue to do. Another good thing happened in terms of distribution, like Jayashree just mentioned was we are able to do direct deliveries to the villages. We have strengthened that. Even from our plants, we are supplying directly to the villages so that the farmers can have products at their doorsteps. Retail is actually presenting what we call a model where we can actually know village entrepreneurs who can then promote our products and get orders because some of the farmers may be reluctant to come to the Mandi headquarters, and therefore, we are actually now reaching out directly to them and also having a model which is almost like a mobile delivery model where you can reach the product to the farmer's doorstep. So both those things are being used. Technology is being used in a big way, and the good thing about this technology is it is a 2-way communication where the farmers can show what their problem is and our scientists and our agronomits can advise them what to do, and one good thing which you have done is that now we are giving them a total package of, say, if you take nutrition, you are not just talking about fertilizer, we are talking about organic fertilizer to start with. Take a example of Cotton farmer, so we first start with them to say, how does it help to enrich soil, then to talk about what is the fertilizer which is to be used, which is the basic fertilizer and then to talk about what is the foliar nutrition he has to use then the ploughing and other things of that. So we are offering a complete package which is working out very well. I hope that answers your question.

Moderator: Thank you. The next question is from the line of Deepak Chitroda from Phillip Capital India Private Limited. Please go ahead.

Deepak Chitroda: Congratulation on good set of numbers. Sir, I have 2 questions. First on, basically about the future plans, which you talk about. So basically, we are trying to focus on the nonsubsidy part of it. So as of now, as I understand, it is close to around 20% of the overall revenue which we have had. So can you just quantify in terms of probably, say, 2 years or 3 years down the line, probably we are trying to increase the share to, say, 30% or 40%.

Sameer Goel: See firstly, I would say, that we gave you on a turnover basis was more the division between what is called Crop Protection versus our other Nutrition business, but a lot of our Nutrition business which is growing very fast is actually nonsubsidized, whether it is Specialized Nutrition or Organic, including our retail centers what they sell. So the ratio is a bit different. Like Jayashree said, to grow this business exponentially because there are much more opportunities, not just in the domestic market but also in our export markets. So that is where we expect major investments to happen, but not at the expense of fertilizer because fertilizers what gets even in our retail outlet, farmers will shop, but on the subsidy business, which is fertilizer, we are actually hoping that the government is able to implement, like it has done for the output marketing, reforms where they give subsidies either directly to the farmers or give no subsidy at all, and get NPK out of the subsidy business so that we can then do what is called brand marketing and pricing and give superior products to the farmers. So that is what our intention is in the next couple of years, and then we are obviously talking to the government on that front.

Deepak Chitroda: Sure and Sir, my second question is about the raw material prices. So obviously, we have benefited at least for the past 6 months because of the correction in the raw material prices, especially for phos acid, ammonia, sulfuric acid all, but now if we see over the past 1 quarter or so, we have seen kind of a bounce back in the prices with the crude recovering. So do you think that kind we are trying to manage, especially in the H2 kind of our operating performance in H2 basically near term?

Jayashree Satagopan: Yes. So the raw material prices, if you look at across, one we saw phos acid prices slightly going up in this quarter compared to prior quarter and even quarter before. Q4 it was $590, then it went to $607, now it is $625. At the same time, we are also seeing the other raw materials. For instance, ammonia prices have come down and they are around $230, $240 range. Similarly, sulfuric acid prices have softened. Sulfur prices have softened. I am talking about if you take a 2-year trend. So there has been a general softness in raw material prices. On the other hand, if you look into rupee, rupee has depreciated sharply from what it was a couple of years back. Last year alone, there was almost a 9.5% depreciation in the rupee value. So the way the fertilizer industry operates, you are very well aware, if there is going to be raw material price increase or decrease or an FX impact because of depreciation or appreciation on the rupee, one, as the government sets up the subsidy for the year, there is some amount of adjustment that happens. If that does not happen, and during the year you see these movements, we also take price corrections. When the raw material prices went up a couple of years back, you have seen the DAP prices going up from 22000 to almost 29000. Similarly, as the prices soften, we have also seen the fertilizer MRP has been brought down. So, in a way, there is market forces and as fertilizer companies, we will try to see how we can efficiently source and also see how that can be passed on to the farming community. So that is the way the RM prices when it goes up, you take correction when it comes down, you sort of modulate your prices. That is the way we work it out.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Congratulations, Sameer and Jayashree madam, and the whole team on excellent performance. Sameer, you always alluded that there are a lot of area are now coming under irrigation. Some of the project which already commenced or which are likely to commence in a couple of years. So because of that, how much additional area or new area will come under irrigation and ultimately give the additional demand for the fertilizer and hence, we are talking of maybe, putting up the one new train? And second question is this government initiative on this agreement reform. So how do we want to leverage our retail whole chain, which are the missing piece in the end-to-end solution.

Sameer Goel: Okay. Bharat, again, good set of questions. Firstly, just to talk about irrigation areas, we have been fortunate to be operating in the market where the government has been pro agriculture. Now if you take Telangana, for instance, and since this new government has come, they did get priority to agriculture. They started off by investing in infrastructure which was basically desilting of the canals and of the tanks, which basically in a good rainfall season to have a larger irrigation area under it. I will come to the crops and the area specifically. They have launched Kaleshwaram project. While it is an expensive project, at least for the farmers in Telangana it is going to bring assured irrigation. We dont have the exact number. Earlier on the water from Godavari, especially during rainy season used to go into the sea which will stop with this. So if you look at how Telangana has proceeded, the agriculture output in Telangana has almost gone up by 2.5x actually since this new government came into formation, and it is not just about cereals, they have also diversified into fruits and vegetables and others. I will come to Andhra separately, but when you talk about this, what it does is it changes the mix of the crop which is growing or if a farmer is sure that he is going to not see any drought situation, then what he is going to do is he is going to invest more in agri inputs because, obviously, he wants a better crop. So I think that is the biggest change. I do not think the overall area in cropping is going up. It is more the quality of crop which is growing and how much inputs does the farmer need because he has a surety of the income. As far as the Andhra Pradesh is concerned, they have this project which was started with the previous government called Polavaram Canal. That canal is to connect the Godavari water with the Krishna water. Now the good thing is that the Polavaram Canal leaving out in a few parts is connected, so the Godavari and Krishna have been connected. The only thing is, secondary canals which has to bring water to Rayalseema has not still been fully in place, and hopefully, it will take a couple of years for it to come in place. Here, again, what will happen is instead of the farmers growing 1 crop, he may end up doing 2 crops or 3 crops or change his cropping pattern. So what happens in Punjab and Haryana, less dependent on the monsoon. So that is the change which is happening, and therefore, farmer will have much better agri inputs to grow by. I think the new reforms are more on the output marketing side which is important because it is one thing to increase the yield, the other thing is to have a proper price discovery for it, and the poor farmer, normally, if the infrastructure is not in place, like we saw in the perishable whether it is COVID or whether it is bumper harvest, the farmers did not get the yield even if the government has promised that. So that is the nexus which the government wants to break. One is they are encouraging more of FPOs to come in, which is Farmer Producer Organization. The government is also telling at least in a district or, let us say, a mandal to grow 1 type of crop so that you are more than buying power is the output power is better so that industry can also be set up in those things like the food processing industry and all because then there will be sufficient output for the players to set up. That is one. The second thing they want to do is, at least gives the farmer choice on where he can sell the products so that he does not have to go in the Mandi system. Currently, there is a lot of levy's which are done through the Mandi system, and those are something where the farmers can go directly to the end purchaser, which could be the rice mills or the cotton mills or could be the maize, corn starch units and all. So that is the other advantage so that he gets a better price. So that hoarding is not done, nor we have plenty of produce. So that this whole thing about the fact that you cannot hoard more stocks than what is required.

Bharat Sheth: I mean in providing end-to-end solution to the farmer. So is there any room for us in new activity for our company to initiate?

Sameer Goel: So one of the things we are definitely looking at, we are working with Yanmar, and we have seen a good expansion in the mechanization. So that is something which is there. So our sales in our Yanmar subsidy for combined harvesters have really picked up. Now with the fact that labor is also not coming, even rice transplanters and all our seeing traction. In fact, you can even basically not have the vagaries of weather on that. So that is something we are looking at. We are also looking at working with, so that the fertilizer can be put or even the Crop Protection can be passed to us what we call like it happens in the pharma industry that the applicator is very important. So we are looking at various ways of how we can do spraying machines which is much more accurate, basically on concession agriculture so that the farmer yields can go up. So that is the opportunity area which we see. Like we said, we have tied up with seed companies. We are tying up with drip irrigation companies to get those products so that the farmer can get a much better return. One thing which is there to complete the change is something called output marketing. Currently, we did not see that as the opportunity, but we will reevaluate it and use of how this new law is coming and how they are operating, which is basically buying the produce of the farmer and then selling it or converting it.

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

Tarang Agrawal: I have a couple of questions actually. So the first one is with respect to your manufactured volumes. So if I look at your manufactured volumes, they are up maybe 70% year-on-year. Similarly, your Crop Protection business, revenues were up 55%, which is again a manufacturing intensive business. Despite such strong growth in your manufacturing throughput, I see your conversion costs, which is the line from your gross profit to the EBITDA, have barely moved by 5 Crores from 514 Crores to 519 Crores. Sure, marketing expenses were lower due to adoption of digital marketing, but my sense is it would be a very small proportion of the overall conversion cost. So again, was there some one time cost savings or is it reasonable to presume that similar benefits could accrue of this operating leverage playing out?

Jayashree Satagopan: Good question, first of all. In the fertilizer business, we have seen, over the last couple of years, a lot of backward integration and focusing on cost efficiencies across. That is sort of helping to play out on the Fertilizers and the Nutrient businesses. As far as Crop Protection is concerned, there is a mix of our own products as well as some of the co-marketing products. Over the last year, we have started working with some of the other agrochemical companies to source some of the very good molecules and have it as part of a traded or a co-marketed portfolio. So it is a combination. Having said that, the center of excellences that we have launched across our manufacturing plants, our supply chain is actually helping us to look into cost far more critically and lowering the cost incidences. Similarly, our teams have also been working with external agencies also to look into newer ways of reducing the overall cost burden. If you look at it, one example is working with Gujarat gas in terms of Brent linked prices for our gas consumption. That could sort of improve our savings in the future days. So similarly, each area of cost has been looked into and worked out. So in my view, this level of conversion cost is something that we should look at for sustaining. At the same time, one needs to keep in mind also the product mix. Depending on the mix, there could be a little bit of movement here or there, but directionally, I think we are in the right side.

Tarang Agrawal: Got it. So madam, these co-marketing molecules, they generally work on licensing basis? You in-license these molecules?

Jayashree Satagopan: No, these co-marketing are not in-licensed molecules. These are like traded molecules. So you enter into an agreement with one of the other agrochemical companies for buying their formulations and selling it in the market, like how we are now doing for some of our products, we are not only selling on a B2B basis in the domestic market, we are also doing a pack to pack so that our counterparts can use our products in their brands or our brands and sell at formulated products. So this type of arrangement is prevalent in the Crop Protection industry, as you are aware, and we have started leveraging it from the last year.

Tarang Agrawal: Okay, and my second question is your share of manufactured phosphatics and your overall fertilizer volumes have inched up from 66% in Q1 FY2020 to 74%. So clearly, your manufacturing throughput has inched up this quarter in a much higher proportion as compared to the trading business yet we see a fall in your realizations. So one gets a sense that trading was not really a cause of fall in realizations, but I guess the change in the product mix maybe towards lower realization or something of the order. Just wanted to get your thoughts on this?

Jayashree Satagopan: Yes, there is a product mix component as you picked up. That is true, but at the same time, there is also a trading volume that has come, and you look into last year to this year, the absolute trading volume has gone up, right? So that is something that we need to just keep in mind. Obviously, with the mix of 13-odd products that we have in the fertilizer business, some of them will have a different margin profile compared to the others. So there is a mix. There is an inventory change. There is a trading component. All of these are multiple factors that helps the margin move up or down. So that is the combination of all the 3.

Moderator: Thank you Tarang. Due to time constraints, that was the last question. I now hand the conference over to Mr. Goel for closing comments.

Sameer Goel: Thank you very much, and thanks for the interest shown in the company. I think these are unprecedented times. Firstly, we wish you and your family to be safe and healthy, keep it that way. Good news is, like I said, agriculture has been a sweet spot. So far, we are not seeing as much spread of the COVID virus in the interiors. Therefore, the demand given the fact that the monsoon has been on track, in fact, better. The fact that reservoir level is better. We expect some of the canal systems to open up and the fact that the farmers are being focused upon both by the government and also by the company, we do expect the consumption to continue. So we do not expect an issue as far as the demand is concerned. There will be certain amount of supply challenges, but our teams, both in the manufacturing and the logistics are working very hard to ensure that we reach the farmers, but obviously, one of the things which is there with COVID is a new way of working, there is a new benchmark which has been set and that is something which, as far as the company is concerned, we are willing to adopt that change. It would mean using more of automation, the farmers will use more of farm machinery, which is for the better. It means getting in superior crops and giving them more assurance and a huge host of digital marketing is something which is there on the cards, and it is almost like a new ways of working in terms of communicating to the farmers. So that is what the company is gearing up for, and we hope to continue this traction. So thank you very much. Thanks for listening. Goodbye.

Moderator: Thank you. On behalf of Emkay Global Financial Services, that concludes today's conference call. Thank you for joining us, and you may now disconnect your lines.