# "Coromandel International Ltd. Q3FY21 Earnings Conference Call Hosted by Motilal Oswal Financial Services Ltd."

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

**MODERATOR:** **MR. SUMANT KUMAR – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Coromandel International Limited, Q3 FY'21 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumant Kumar, from Motilal Oswal Financial Services Limited. Thank you and over to you, sir.

**Sumant Kumar:** Thank you. Good afternoon, everyone, and very warm welcome to Coromandel International Limited Q3 FY'21 Post Results Earning Call hosted by Motilal Oswal Financial Services Limited. On the call today, we have Coromandel management team being represented by Mr. Sameer Goel - M.D. – Jayashree Satagopan -- CFO.

We will begin the call with the key thoughts from the management team, thereafter, we will open the floor for Q&A Session.

I would now like to request the management to share their "Perspective on the Performance of the Company." Thank you. And over to you sir.

**Sameer Goel:** Yeah, good afternoon, everyone, and thanks, Sumant, for organizing the conference call. Firstly, I hope everyone is safe and healthy from what is called the Black Swan event.

I'll first give an "Overview of the Business Environment" experienced during the quarter followed by the Company's Performance, and Jayashree will give the Financials update and we will follow up with a Q&A Session.

So as you saw during the second quarter of FY'2021, the Indian economy had declined by 7.5%. However, it was a sharp recovery from the decline in Q1 which was 22.8%.. The manufacturing sector had shown a growth of 0.6% over last year versus an expectation of contraction. I think agriculture was the shining star and it grew by impressive 3.4% for the second quarter, backed by a very good kharif season. The country after national lockdown gradually opened up in a phased manner over a period of last seven months. Latest economic indicators reflected a V-shaped recovery for the economy, and we are hoping that there won't be any second wave given now that the vaccination drive is on. You can see revival of GST collections, power and fuel demand, increase in rail freight, increase in manufacturing PMI; however, the bright star was the rural economy, also thanks to the spending, which has been done by the government both in the agriculture sector plus what is called the non-agricultural sector. The economy continues to remain buoyant with consecutive good kharif season, on top of what was a very good season last year. The Northeast monsoon have been normal during the quarter and have ended up 1% above average. In the company's addressable markets of the South, the rainfall has been above average by 15%, higher than the previous averages. The good monsoons have resulted in higher reservoir levels compared to long period average. Conducive weather has led to good crops sowing for the country on already high base over last year. In the addressable markets as we speak today, overall, the paddy is up by 3% and it's over 30% over last year. There are some structural changes which have happened in the market especially in Telangana with the advent of agriculture and increase irrigation facilities. However, excessive rains in some of our operating geographies led to a postponement of the rabi season and skipping off certain applications.

When we come to DBT and subsidy, the government has announced an additional allocation of Rs.65,000 crores for fertilizer subsidy during the quarter to care some of the past dues subsidy claims. The disbursement of additional allocation has commenced from January. Further in the budget of FY'2020, the government has allocated Rs.79,500 crores versus Rs.71,300 crores of last year. Given the disbursement, we also had a record collection of Rs.1,353 crores in the month of January.

Coming now to the "Performance." Firstly, when we look at the fertilizer industry for the quarter Phosphatic Fertilizer industry primary sales volumes were down by 4%, this quarter it was 57.2 lakh MT versus 59.8 lakh MT last year. Last year, as you remember, we had early kharif. The consumption POS sales which is a real indicator of consumption at the farm level was also down by 5% over last year, this is 75 lakh MT versus 79 lakh MT over the previous year same quarter. Complex primary sale volumes for the quarter is at 28 lakh MT versus 26 lakh MT of previous year, showing channel inventory is being built up. Major raw material prices continue to be firm. Phos Acid prices for Q4 has seen a sharp increase and has got finalized at $795 per MT compared to Q3 prices of US$689 per MT. For the year-to-date Phosphatic Fertilizer industry volume is at 181 lakh MT versus 157 lakh MT of the previous year, registering a growth of 15% year-on-year. Complex volume year-to-date is at 88 lakh MT versus 74 lakh MT of previous year, showing a 19% growth. DAP volume is at 93 lakh MT versus 83 lakh MT previous year showing a 12% growth.

Coming now to Coromandel's performance for the quarter and YTD, Coromandel registered a strong performance in Q3. With this continuous emphasis on superior sales mix, farmer connect initiatives, increased operational efficiencies and better working capital management.

"Nutritional Segment Performance." The Nutritional and Allied business segment registered a very good performance for the quarter. On the sales front, in Q3 Phosphatic volumes were up by 8% to 8.2 lakh tons. Manufactured Phosphatic volumes was down by (-5%) which was offset by imported fertilizer sales. We also had taken ATA in one of our main plants, Kakinada.

The company's market share in Q3 was 14.3%, up by 1.6 percentage points over last year. During the quarter, our Phosphatic Fertilizer plants operated at 86% capacity utilization. Like I said earlier, annual turnaround activities was taken in stages at our Kakinada plant during this quarter.

Single Super Phosphate Q3 sales was at 1.6 lakh MT, which is a growth of 6% over last year. For year-to-date, Phosphatic volumes were up by 13% to 27.6 lakh tons, Manufactured Phosphatic volumes was 24.3 lakh MT and imported Phosphatic volumes was at 3.35 lakh MT.

Company's market share has come down slightly, although we made up in Q3 to 15.3% from 15.6% same period last year. Company's previous market share was again down marginally at 14.6% YTD against 15.1% previous year.

During the nine months our Phosphatic Fertilizer plants operated at 80% capacity utilization, recording production of 21 lakh tons which is slightly lower than the previous year. Overall production was impacted due to the partial lockdown in the first quarter of the year, and also the ATAs which we haves taken. SSP YTD was at 4.9 lakh MT with a growth of 5% over last year.

As a part of Atmanirbhar Bharat, the company has been focusing on accelerating its capital projects. A large evaporator plant is coming up at Vizag to improve the availability of concentrated phosphoric acid. The sulfuric acid plant has been successfully recommissioned at Ranipet, in our existing unit. A pilot liquid fertilizer plant is being set up in Vizag.

Our Organic and Speciality Nutrition business have performed well with the focus product and specific crop based solutions.

Partnership with seeds, micro irrigation and farmer producer organization has further strengthened to connect with the farmers.

Coming now to the "Crop Protection Business." Crop Protection business witnessed a strong turnaround this year growing at 26% on YTD basis. The Domestic Formulations and domestic B2B business has seen a robust growth during the year. New product continues to do well and now have contributed 25% of the Domestic Formulations business. We will continue to strengthen our position in certain international geographies.

The business continues to focus on enriching the product portfolio and is working on a rich pipeline of new and combination molecules. We have received the registration of Quizalofop Ethyl, a selective, systematic herbicide for soyabean and other vegetative crops. Infrastructure strengthening and capacity expansion projects on track.

Overall, the profitability of the business has improved due to better product mix, coupled by efficiencies in sourcing and manufacturing.

The Bio-Pesticides business registered an impressive growth in the mature European and US markets. We plan to expand our Thiyagavalli plant to cater to the increased demand for bio products. The R&D team is working on several new products and application to expand this product offering in collaboration with leading agricultural universities.

The retail stores have been fully functional during the year despite the COVID situation by having strict safety protocols and continue to support the farming communities by offering agricultural solutions, including products from advisory and mechanization services. Business has improved its operational efficiency and leverage technology to reach out to the farming community.

The company has been at the forefront of spreading awareness of COVID pandemic in the communities around its plants and also reaching out to the large dealer and farming communities. We have worked closely with the government and local administration including setting up of a special COVID Ward at the Kakinada General Hospital.

We plan to take annual turnaround of our major plants during the upcoming quarter and fast track the capital projects.

With the forecast of normal monsoons and the rollout of COVID vaccination program in the coming months, we expect the economic activities to normalize in full year 2022. The company will continue to serve the farming community and will focus on improving its crop solutions and technology offering to drive farm productivity. Given the external environment which we have faced this year, I think it is a tremendous effort and performance done by the company.

Now I'll hand it over to Jayashree for taking you through company financials, after which we can follow it with questions-and-answers.

**Jayashree Satagopan:** Thank you, Sameer, and let me now provide updates on the company financial. During Q3, the company recorded a consolidated total income of Rs.3,542 crores, which is 8% higher versus the same quarter prior year. Nutrients and Allied business contributed to 86% share and the remaining 14% is from Crop Protection business, which is similar to what we had last year. In terms of subsidy, non-subsidy shares, it stands at 78%-22% during the quarter, previous year it was 77%-23%.

For the nine months, company's consolidated total income was Rs.11,385 crores versus Rs.10,296 crores same period last year, growth of 11% on a year-on-year basis. Subsidy revenue is at 79% of the total revenue versus 81% during the previous year.

On the profitability front, the EBITDA for the quarter was at Rs.501 crores against Rs.432 crores of last year, which is a 16% growth on a year-on-year basis. EBITDA margin improved to 14% from 13% during the previous year. The margins were supported by good sales mix, smart sourcing as well as operational efficiencies.

Share of non-subsidy business EBITDA improved to 30% from 27% of the prior year same quarter. Net profit after tax for the quarter was Rs.334 crores, this is in comparison to Rs.265 crores for the corresponding quarter last year, growth of 26% on a year-on-year basis. For the nine months EBITDA was at Rs.1,760 crores vis-à-vis Rs.1,341 crores last year, 31% growth on a year-on-year basis. Subsidy share of EBITDA at 74% for the nine months vis-à-vis 76% during the previous year. Profit before tax at Rs.1,573 crores against Rs.1,064 crores of the last year.

Net profit after tax was Rs.1,173 crores with a growth of 41% over last year where the number was Rs.831 crores.

As regards subsidy, the total subsidy outstanding as on 31st of December 2020 was Rs.2,853 crores. This compares against Rs.1,670 crores during the previous year. Subsidy outstanding includes Rs.552 crores relating to channel stock pending POS acknowledgement and Rs.2,114 crores is the amount that we have claimed and pending with the DoF.

During the quarter, the subsidy receipts from the government was Rs.786 crores. The comparative figure last year was Rs.972 crores. Overall, for the nine months, subsidy received from government has been Rs.2,091 crores versus Rs.3,325 crores last year. Collection for the first nine months has been lower primarily due to lower allocation for NPK fertilizers vis-à-vis urea subsidy.

The government has further allocated Rs.65,000 crores for fertilizer subsidy The company has received Rs.1,366 crores in the month of January from this new allocation.

"Interest Cost." Good business performance, working capital management and lower borrowing costs resulted in lower interest. Net interest for the quarter was at Rs.12 crores. This is down from Rs.37 crores last year. Interest cost for the nine months is at Rs.62 crores which is lower from Rs.164 crores during the same period last year.

Balance sheet continues to remain strong. Our debt-equity ratio is at 0.01 as of December 2020.

Company continue to maintain deposits which are earmarked for specific growth-related investments.

On the FOREX front during Q3, rupee remained in a broad range of 73.01 to 73.88 vis-à-vis dollar. Rupee appreciated by 0.95% during Q3 due to steady FPI inflows. Coromandel continues to follow a very active hedging strategy. And it is dynamically covering the exposures managing the portfolio well.

In terms of financial performance it has been a great quarter overall. We thank you for your interest in Coromandel and joining us in the call today. We can now open the session for question-and-answer.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Anshuman from Premji Invest. Please go ahead.

**Anshuman:** My question is regarding CAPEX plans. First thing is on the non-fertilizer side. So, what is the plan in terms of next three years to increase the share of the non-fertilizer, non-subsidy part, and what kind of CAPEX would be required, and what benefits do you expect from PLI Scheme coming forward? And on the fertilizer side, I'd like to know that government has reduced the subsidy allocation to MPC. So, how do you read into this particular allocation?

**Jayashree Satagopan:** Thanks, Anshuman, for your question. As far as the CAPEX plan is concerned, we had earlier mentioned that we are looking into an average of about Rs.350 crores to Rs.400 crores of CAPEX spend during the year, which is fiscal year 2021. Having said that, with COVID coming in, in the beginning of the year, we had consciously taken a call to slowdown on some of the capital expenditure because we wanted to restrict the number of contract workmen who could come into our facilities. Having said that, during this quarter, the CAPEX has gained momentum, and there are plans to accelerate it further. We are currently in the process of getting our business plan for the next year finalized. And on an average, we could look at for Coromandel as a whole somewhere close to Rs.400 crores to Rs.500 crores of capital expenditure in the coming year. Once the plans are finalized, we will be able to get you a little more visibility on this. On the non-fertilizer side of the business, the main business for us is going to be crop protection as you know. The CPC business has very good plans in terms of increasing the capacity at the three technical plants that we have, further adding on multipurpose plants. As we had alluded earlier, there are a number of molecules that have recently gone off-patented, which the business is identified for technical manufacturing. Apart from it, is also adding up of formulations capacity. So those plans are intact, and will be followed through in the next two to three years timeframe. This will also help in a way to work through the PLI Scheme that has been announced by the government so that we can manufacture technical and further improve on our exports. We have also added resources in some of our key markets, which will help us to connect much more closely with our customers in these markets, generating demand, thereby accelerating further investments in capital projects. As far as fertilizer business is concerned, it's indeed a good news that the government has announced and approved Rs.65,000 crores of additional subsidy to clear the old backlog. As you know, every year when the budget is announced there is always a opening backlog that gets carried forward. With this additional subsidy that's been allowed, it is going to enable all the past dues getting cleared. As I was mentioning, during January, we received about Rs.1,355 crores of subsidy from the government, partly towards clearing some of the outstanding on account of subsidy. Now, we expect further disbursements to happen in February and March. And there onwards, we expect that it should be only the DBT claims that would be processed and cleared by the government. The question is whether it's going to be in a month or a month and a half or two is something that we can discuss about, but it is going to get almost all the subsidy claims online. There could be a bit of a time lapse but not like what we've experienced in the past. So that's the good news… which is also going to help the fertilizer companies manage their working capital better. I hope this answers your question.

**Anshuman:** Just a clarification, so what would be a sustainable outstanding on this receivables?

**Jayashree Satagopan:** We expect somewhere around Rs.1,000 crores. Again, this depends upon two factors; one is the inventory in channel, which is pending for the acknowledgement, depending on the season and offseason this inventory could vary. The second thing is DBT claims that have been submitted to the government and they may take some time to process it. The third one is a freight claims .

So, in my view about Rs.1,000 crores, at best it could be about Rs.700 crores, you can look into a broad range of Rs.700 to Rs.1000 crores.

**Anshuman:** From current level of only Rs.300 crores?

**Jayashree Satagopan:** Yeah.

**Anshuman:** One clarification on the CAPEX. This Rs.400 crores you mentioned, was it only for fertilizer or it was for both fertilizer and the chemicals?

**Jayashree Satagopan:** So, we had for this year, for overall Coromandel, including fertilizer as well as crop protection chemicals.

**Anshuman:** Okay, but going forward when you do the PLI, then this could be significantly higher?

**Jayashree Satagopan:** Yes, we expect it to.

**Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

**Vishnu Kumar:** Circling back on the previous question on the CAPEX, we understand that we are doing some debottlenecking. In general, the climate seems to be that government wants to restrict urea and also to rein in the fertilizer urea subsidy part. It all bodes well for the demand. So when do we really expect to hear from you, or is there any pipeline that you're working on to increase the capacity in a big way, because on the current debottlenecking, we don't see that we have the ability to kind of materially expand the volumes, so is there any plan to materially expand the capacities?

**Jayashree Satagopan:** Thanks, Vishnu for the question. As we mentioned earlier, we are currently focused on getting both Vizag and Kakinada go through the debottlenecking exercise to free up capacity. The second action that is also being looked into work on the mix. So that could also help to increase the throughput because there are certain grades as you know could have a better output compared to the others. So these two are the immediate focus areas for us. It's good to see that the government is slowly getting the subsidy arrears out, and hopefully at some point in time, we'll also have the subsidy getting moved to farmers directly instead to the corporate, in which case, clearly NPK manufacturing will become far more attractive. As you know, we have two joint ventures; one is TIFERT and other one is Foskor, which helps in getting our Phos Acid supply apart from strategic tie-up for sourcing with several other Phos Acid manufacturers. We've also gone ahead with increasing our capacity of PAP at Vizag with two plants now, and there is a little more scope to increase the output in these plants. What is key to add further NPK capacity is also to see how well you have your backward sources integrated. So that's the exercise currently we are going through. And once that's through, possibly with the changes, the conducive environment, the company would be open to looking into further capacity expansion.

**Vishnu Kumar:** So once you backward integrate whatever is required, then probably we'll go ahead and look into additional capacity expansion, is that right?

**Jayashree Satagopan:** Yeah.

**Vishnu Kumar:** And my second question is on the Phos Acid which is increasing recently based on sir's opening remarks. So has the end prices on the ground started to reflect this increased Phos Acid or it will take some more time for DAP and other products to get adjusted?

**Jayashree Satagopan:** At this point in time, there has not been any pricing action that has been taken by the industry to increase the prices of DAP or other NPK materials. I'm sure with this type of increase in the raw material costs, it will start getting reflected in the prices.

**Vishnu Kumar:** So, technically, when do we get the first Phos Acid supply which will cost us at 790 as in, my question is more to understand the first production which goes into the market will be probably March or April only, which means you still have some more time, or indirectly trying to understand whether you have some margin impact in the next couple of months?

**Jayashree Satagopan:** Right, the Phos Acid price that has been settled at $795 per MT, is for the quarter. Typically, the prices get settled in the first week or even sometimes in the last week of the quarter, sometimes there's been a delay. This quarter, there has been a delay and price got settled just about a few days back. So, the supplies that have happened during January was all based on a provisional price. And it will get adjusted at $795. Therefore, this quarter prices for Phos Acid import would be at $795.

**Vishnu Kumar:** But mostly this production that we are doing will go out probably a month, month and a half away from now?

**Jayashree Satagopan:** Exactly. Yeah. Because there will always be opening stock plus for us, there is also the advantage of our own Phos Acid production, where you get the rock and then you convert it. So, with the opening inventory and conversion, the impact would be relatively lower.

**Vishnu Kumar:** So in the next one and a half months, we expect some price hikes to the end market?

**Jayashree Satagopan:** I don't have a readymade answer as of now, Vishnu. As I mentioned, with the raw material prices firming up, the industry will definitely be considering a price revision.

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

**Ankur Periwal:** Two questions. One on the crop protection side, given our earlier thought of expanding into the new molecules both combination as well as taken from the global players there, our thoughts on one, the revenue CAGR in this business over the next two to three years as well as the margin profile, do we expect the current margins to maintain or probably it will normalize going ahead?

**Jayashree Satagopan:** Thanks, Ankur for the question. I think as we mentioned earlier, the focus for Coromandel is on few growth engines, crop protection being a significant one there. Definitely with the plans to increase the product pipeline, getting into new technical manufacturing, we expect the growth should be in the higher end to double digit. As far as the margins are concerned, you will see that the margins have actually expanded over the last year, and the current year, we expect this to maintain the momentum. I would think EBITDA margin of anywhere between 17% to 18% on an annual basis something definitely we can look for.

**Ankur Periwal:** Second one on the fertilizer side. Now, given the hardening of raw materials there while I take your point in terms of the pass-through of this hike over the next maybe one to two months, but if I remember it right earlier, also we had mentioned the full benefits of the Phos Acid integration may further be applicable to other plants as well. So your thoughts on the fertilizer margin side and we have seen a sharp jump in the nine months margin YTD. Do we expect this number to sustain or improve further, your comments on that side?

**Jayashree Satagopan:** When I look into fertilizer margin, typically, we look into full year, because there are going to be seasons where the margins are going to be higher because of the operating leverage. On an annualized basis, I would still maintain that we should look into a Rs.4,000 to Rs.4,500 type of EBITDA per metric ton. I think that is a sustainable margin that we should look for.

**Ankur Periwal:** Ma'am, the reason I asked that number was while your guidance remains at let's say 4,000 to 4500, the YTD number is even higher than that. So, should we take the YTD numbers or your guidance there?

**Jayashree Satagopan:** I think it will be somewhere in between?

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

**Varshit Shah:** I want to circle back to that CAPEX question. Is it possible for you to guide qualitatively how much you are putting CAPEX for the backward integration in fertilizer segment, that will help us because we still have room to fully backward integrate the Kakinada facility, am I right?

**Jayashree Satagopan:** Varshit, thanks for the question. The backward integration major CAPEX was on the Phos Acid plant too, that got completed. We have one project, which would further help us in using the concentrated acid is the 10th evaporator, the project is currently being worked out. Apart from that, there has also been improvement or additional capacity in terms of the storage, which is also important. As the PAP plants function fully, we will need capacity to store the assets, use it idle in Vizag or transport it to Kakinada for our operations. So that's what is currently being planned and is part of our current capital expenditure. As far as Kakinada is concerned, it is not a fully integrated plant like Vizag, and it will continue to remain the way it is. It's about getting more operational efficiency by debottlenecking our train. That's the current capital expenditure program as far as Kakinada is concerned. Because putting up a new Phos Acid plant would also require putting up a sulfuric acid plant. And then the question of where do you source it, environmental clearance. So in our current plan, we do not envisage total backward integration for Kakinada.

**Varshit Shah:** My second question is on capital allocations. Given that extra cash infill you have and government subsidy clearance and assuming that the government adhers to paying out next year as well, how do you see capital allocation evolving in terms of free cash flow after you allocate further CAPEX and you still be left with surplus cash of more than Rs.1600 crores. So, can you throw some light what you plan to do with that cash -- is it you keep that reserve for any inorganic opportunity and wait for it, would that be the right way to assume?

**Jayashree Satagopan:** Right, we will be utilizing the cash flow to self-fund our capital expenditure programs. Currently, we are working through the budget for next year and we do have some aggressive plans in some of our businesses to see how we can expand it faster. We are also open to looking into other growth opportunities as long as it is synergistic with our business and complements with our business model. So, between these two, we believe that it will be good use of the cash surplus that the company would be generating.

**Moderator:** Thank you. The next question is from the line of Deepak Chitroda from PhillipCapital. Please go ahead.

**Deepak Chitroda:** I have a question on outlook for next year. So, as you know, we had a very fantastic year of FY'20 with a very good volume growth and obviously monsoon as well. So what is your sense towards FY'22 -- are we going to see similar kind of a volume growth, and, of course, in terms of the operating margin as well?

**Jayashree Satagopan:** I split your questions into two, right. One is, let me talk about the fertilizer business and the other one we'll talk about the non-fertilizer primary crop protection. On the fertilizer we've seen that the overall demand and offtake this year has been quite high so has been the trade increase with the back to back good season both kharif and rabi, the acreages have gone up, the consumption of fertilizer NPK has also gone up. You'd also seen this year that there's been a good amount of import of NPK both DAP as well as Complex Fertilizers. Currently, IMD is forecasting a normal monsoon. If the normal monsoon is there, the acreages are going to be good. So the water level in reservoirs is pretty good, moisture levels continue to be healthy. So from that standpoint, we should see the consumption and the growth in demand to continue. The only watch out that we should bear in mind is the raw material prices that has gone up. If that is going to be a continued trend, and the price increases to be passed on, we will have to wait and watch and see how the farmers buying behavior will get influenced. There also, in April, we will see how the government is going to announce the subsidies because the NBS rates get fixed. If it's going to factor in some of the additional raw material prices, well and good. Otherwise, if it's going to be just market prices, what's going to be the situation from a demand standpoint is something that we'll have to wait and watch. As far as crop protection is concerned, I think that business will continue to have a pretty healthy growth in my mind, given two, three factors; one, the new molecules and the product pipeline that currently we are working on to help us improve our product offering to our customers. This is both for exports as well as domestic B2B and formulations. Second, we're also strengthening our teams in select geographies, including recruitment of locals there so that we can better connect with the customers in these global geographies and offer our solutions to them. Third, we are looking into combination molecules also for registration in global B2B and B2C markets. So all of these should actually help in sustaining and further growing the revenues in the crop protection segment.

**Deepak Chitroda:** So now my second question is about the subsidy, ma'am. So although obviously, the additional allocation of Rs.65,000 crores we're definitely going to create the past dues, but looking at allocation for next year, if you see is about Rs.80,000 crores, which I think would be slightly lesser and towards this year FY'22, probably we will be starting with the same issue of carryover liabilities. So, do you think that government probably might address maybe direct cash transfer or something like DPT on a pilot basis, so what's your sense on that side?

**Jayashree Satagopan:** First of all, no, with this additional Rs.65,000 crores coming in, the old dues will get wiped out. I think we are all in sync there. The subsidy that's been announced for '21-22 should be sufficient for that year's consumption hopefully, because with the old dues are all clear, it is only meant for the coming year. So, we will not have this huge backlog that used to continue on a year-on-year basis. So that's number one. The second thing is “When would DBT-II happen, meaning government to directly transfer subsidy into farmers account vis-à-vis transferring into the corporate? We've been talking about it for some time now and the ministry has been open about it. As I understand some serious deliberation around getting the subsidies directly through transfers into farmers. I think it's a question of time. I believe it will be sooner than later. But one will have to wait and see when the government is going to take actions on it. Like we mentioned in the past, school of thought is, should this subsidy be based on the fertilizer that the farmer buys or should it be x-1000 rupees per acre of land or should it be x-1000 rupees per farmer. There are multiple iterations that are going on, and we are hopeful that at some point in time, the subsidies will directly move into farmers in the best interest of both the farmers as well as the government.

**Moderator:** Thank you. The next question is from the line of Trilok Agrawal from Birla Sun Life Insurance. Please go ahead.

**Trilok Agrawal:** Just to get this fertilizer allocation in the next year, so what would be our working capital in terms of cash conversion cycle, which will come down beginning from 1st April, could you just give us some sense or it will be similar to what is currently happening in terms of you raise the bill, and then you wait for the government to clear the subsidy?

**Jayashree Satagopan:** As far as subsidy is concerned, currently whenever the farmer buys from the retailers and acknowledges through the POS machine is when we can generate the claims. So this can happen on a weekly basis. And then towards the end of the month, it gets trued up and submitted to the government. The government then will process it. And typically, we have been receiving the

DBT claim, say, in about 30 to 45 days, this used to be the case for the first six months, afterwards when the government gets little dry with resources, then the backlog begins. Hopefully with all these past dues getting cleared, I believe that in about max. 45-days all through the year, government should be able to process the DBT, the subsidy that's being submitted to them. So to that extent, as I was mentioning, the dues from government should come down depending on the season, whether it is season or offseason, I expect the number to be between 700 to 1000 crores. From that standpoint, yes, it's going to be very helpful on the working capital front.

**Trilok Agrawal:** Do you think this DBT will continue in the form of existing wherein company will have to raise bills and get it and not directly to farmers, is it correct?

**Jayashree Satagopan:** Yeah, the current scheme is companies will have to claim the subsidy from the government until they introduce DBT 2.0, where the government will start transferring subsidy to farmers.

**Trilok Agrawal:** Any development on that front or it's still under process and there is no timeline to it?

**Jayashree Satagopan:** I just explained on this. I think the government would come up with a direct transfer to farmers in our belief sooner than later. Timelines, I honestly don't have an idea at this point in time, but there is active discussion going around in the government circles as we understand.

**Sameer Goel:** Probably they are still in the pilot for a certain stage, then take it up, done for DBT 1.0.

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

**Abhijit Akella:** I had just two questions. One is, there are some news reports that government might be kind of considering capping the amount of fertilizer that is purchased by an individual farmer going forward to about say 50 bags per month or something like that. So is this something we've actually come across at the state level, and do you sort of expect this to possibly have some impact on volumes in FY'22?

**Sameer Goel:** Already the direction has come. Firstly, this doesn't impact any of the marginal farmers, which are about 85% of the farmers in the country, who have 2.5 to 5 hectares in land. It will only impact some of the bigger farmers if they have to do this. These farmers will also pre-buy so that during the main season he doesn't have to buy more 50 bags per month. I think the government move is more to cap and mainly on urea, while it applies to NPK also, is to cap some of the diversions which are happening or continue to happen as far as urea is concerned. In January it got implemented. In fact, in January including consumption sales have been very good given the fact that we had a delayed rabi.

**Moderator:** Thank you. And second question was on the crop protection business. You mentioned that new products have now risen to about 25% of the domestic formulations business. For next year, the growth which we are envisaging mid to high teens growth rate, is it largely driven by the new products growth itself? Therefore, just trying to understand what line of sight or how much visibility we have into this mid to high teen growth rate for next year, is it largely driven by the new products, and if so, where should we expect this new product ratio to sort of trend towards going forward?

**Sameer Goel:** In Domestic market our market share is low, its partly to do with our product portfolio which is more towards insecticide side. We are now expanding our portfolio either through co marketing or own manufacturing and expanding our product portfolio. Like in Paddy we are planning to move from 30% of all incidents to 80% of all incidents and same strategy for other crops also. We are with the Centers of Excellence bringing more focused approach in terms of geographical reach. We are focusing on 5 states of which in 3 states we have large presence through Retails stores. We are now looking to increase our penetration in these states. Same Center of excellence approach being adopted for new product introduction to ensure first time right and sustenance of the new products. With this approach we expect new product ratio to continue to grow. So, the opportunities are a lot there, we are taking each one of them and systematically and working on them so that these are long term-sustainable growth.

At the same time, we have seen a traction in our B2B business, there also we are actually going for branding. But what we are doing is in terms of branding, is to do a P2P model. So we are actually doing the branding and formulation at our plants for those so that we can sustain that. That business itself has done very well. So that's the whole strategy as far as the domestic business is concerned. New Product Ratio will continue to improve. We also need to ensure sustainability because it's one thing to say, okay, 25%, but how sustainable is it, how many molecules. When we look at new products, we look at the launch in the last three years. So some of these products will then become normal products. We have a rich pipeline of new products coming in. So we'll continue to work and grow.

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

**Rohan Gupta:** Sir, a couple of questions, ma'am can answer, though you have already elaborated. I just want to understand a little bit more in detail like the current year subsidy provisioning by the government for the NPK is roughly down by 10% giving a very clear indication that when they announce the rate in April the per kg subsidies are going to be down by almost more than probably 10%. On the other hand, we have seen Phos Acid from almost $700 to $800 indicating almost Rs.3,500 per ton increase for DAP cost, and assuming that another Rs.1000 reduction in subsidy, we are almost Rs.4,500 going to see the cost increase for our DAP and also subsequently on NPK, that is almost Rs.22,000 that we had to take the price increase of at least Rs.4,000 to Rs.5,000 per ton, significant increase for the farmers. My question is, are we in a position or farmers in a position to absorb these costs increases, or we have to take some initial margin hit before we can completely pass on to the end customer, because the season is going to start in just a couple of months, so, I just want to have your views on that.

**Sameer Goel:** Firstly, what you're seeing is Q4 which is a non-season right, including on raw material prices and normally we have seen historically prices can go up. The main issue would be what will happen to the prices when the **season starts** and how the demand is for that. As far as we are concerned, we have a couple of strategies as far as Phos Acid is concerned. One is we will be increasing our throughput from our own captive asset because rock and Phos Acid prices don't follow tandem. We are looking at Phos Acid coming in even from a Vizag plant. We are putting up a 10th evaporator so that we can increase the throughput. The other thing is we are looking at alternate Acid sources and working on various types of sources including increasing our throughput from JV partners when the season begins. So that is the second part as far as Phos Acid is concerned. So, we will have to wait and watch how the prices of Phos Acid work out. We are entering into long term contracts for other Raw materials also. DAP will probably get imported. Most of the time when the prices go up, then the farmers will restore to what is called more balanced nutrition, then using products like DAP which is very high on 'P.' And therefore, and our unique grades are amply positioned to conquer that market as such. Not only that, in some of our other markets, straight alternate to DAP is a Single Super Phosphate which is locally manufactured and even the raw material sources are local. That is something which we are promoting even by having what is called products like "GroPlus", which are very useful for the farmers. So, we won't be that worried about DAP. The main reason is our marketing team and our agronomics team continuing to maintain the demand for these products.

**Jayashree Satagopan:** Rohan, to your point in terms of reduction in subsidy rates, I'm not sure from where you picked it, there is a reduction in the absolute quantum, right, but it doesn't mean it is going to result in a reduction in subsidy rate. A couple of years back when the raw material prices were ruling high, the subsidy per MT was higher by Rs.1,000 compared to what we are seeing now. So in all probability, the government typically invite and looks into the raw material prices for the previous months, quarters before they come up with a new NBS rate. That's why when I was initially responding to a question, I was mentioning that the NBS rates that gets announced in April, we're hopeful to see enough rates. About a year and a half back when the DAP prices were as high as Rs.28,000 per MT, you should see the NBS was also higher. So there have been in the recent past not too far along the way that the DAP prices were high. So that's one point. As Sameer said, you will see migration also happening to low P grade. Clearly, Coromandel has a very good market share, we've got an excellent production system that's geared to give low P grades, which is what the farmers will typically tend to migrate to. So on both fronts I wouldn't get too worried about it.

**Sameer Goel:** Just on the other thing, and we had this question from other people on the demand side. At least what I've seen since being a farmer myself, people are using more agri inputs than ever before, partly got to do with the government support price, and state like Telangana, the agri throughput has gone up by 2.5x, that's brilliant, and agriculture area has only gone up by 7%. But irrigation has been assured so that Telangana has become the rice bowl of the country. Same is happening to other states once the Polavaram project comes in, in Andhra, you will again have a whole dry area of Rayalaseema getting into irrigation, plus with the activities of the companies and the education of the farmers, the agri inputs is only going to increase, right, this is my thought here, which I tell my team also, I'm telling you people also, don't get too worried for farmers using agri inputs. India is a continent, there's always scope to increase the sales and this is what we have seen in the last five years. So I won't get too fast upon even demand generation.

**Moderator:** Thank you. The next question is from the line of Tejas Sheth from Reliance Nippon Life Asset Management. Please go ahead.

**Tejas Sheth:** I have two questions, both pertaining to crop protection. How is the product selection or the product pipeline really done, I mean, what all you really look at when you think that the product will be launched over next two, three years, and obviously, how you play your strengths on that?

**Sameer Goel:** So this is a normal, what is called a "Stage Gate Process." It's a very scientific process, which is defined. We look at what the market demand is, what's going to be the future ailments which are going to happen, what are the competitive products, and this is a whole dialogue which happens with the sales, marketing and the product development team along with our scientists to see which are the products and it goes through a stage gate process of looking at how's it going to help the farmers and then what sort of market share we are going to achieve, and then what is our right to win in those products and when we are going to come, to ensure that we get it right. Like I said, now we are setting up Center of Excellence, this we work with BCG to ensure that we are prepared end-to-end when we go for a launch of the product. The good thing is we have a very rich pipeline of products coming in. Then we look at option of whether we make it or buy it, or in some cases we go for co-marketing, and then we go back on looking at manufacturing it to get the full value chain out of it. In some cases, we also help with the fact that we are in direct touch with the farmers with our Mana Gromor centers. We get to them what are their needs, our Agronomist talks to them, what are the competitive products which are coming in, and then we see, what's our capacity to do this thing. We also have a China desk. Now we're looking at the Japanese desk. We are talking to innovators to get these products in the line. So I hope I answered part of your question.

**Tejas Sheth:** Yeah. One, obviously getting your pipeline, right. And second is getting your brand acceptance right. Outside the states, where you already have strong presence through fertilizers, so how do you ensure that because a lot of dealers, a lot of trade partners, they don't want to indulge in new brands unless you give them a very high credit period, even farmers they take time to try new products at the farm level. So how do you ensure that side of the business getting addressed?

**Sameer Goel:** So can I say that's a very traditional way of looking at sales and marketing, and most of the companies do that. Most of our products go through "University Trial." We also have our own farms, where we actually compare it with controls, and see what is the efficacy. Loaded with that scientific data we build up a brand story. Each of the brands should have what USP, that's how we normally try to avoid getting into me-too products. But even there, there has to be something superior in terms of our delivery, and then the whole packaging and the branding, and the marketing work out. Like I said, even if it is a crowded market, you have to actually look at right to win, you don't get into a major crowded market, you can then look at where this application is to be used, and currently competition is not there and launch accordingly and build up your base on time. It's not just about fertilizer, a lot of the things we are collaborating now with the seed companies, we are collaborating with other agriculture university to see how we can get things right. One other big advantage which we are leveraging is on what is called "Bio Pesticides Business." So when we give a package to a farmer, it is a comprehensive package, which includes a spray of bio in between, and make it more sustainable. So that's how we are looking at it.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

**Sameer Goel:** Right. So, firstly, I would just like to thank everyone. It's been a very difficult period for everyone. What COVID did was to bring the whole focus back into agriculture, not only for the government. It helps to feed the migrant labor, and the government could see the strength of a sector and the potential which exists. We are being one of the largest agri input player, not just the fertilizer and crop protection, but also into novel things like specialty nutrients, organic and our own retail network, have taken good advantage of this opportunity. What we didn't talk about is marketing, we've actually leveraged technology, gone for digital marketing, our agronomist teams are in touch with farmers and that way we have been very, very specific, we've been able to reach out to farmers and have a two-way dialogue with them. We are also using collaboration with agricultural universities, other companies. We continue to invest in this business to bring prosperity to the farmers which will in turn obviously help the company in terms of achieving the growth. Overall, I like to complement the team also for their work in very, very difficult situation. It's easy for us to be at home or be even in a safe office environment, but out there, whether it's at the plant or it's in the field, obviously, it's a challenge. But good news is that we'll continue to do well.

**Jayashree Satagopan:** Sameer, you have summarized it well. I think Coromandel is well poised in the agri sector to deliver on its commitment, I feel that is the long-term strategic plan laid out.

**Sameer Goel:** One thing that we are obviously looking at not just organic opportunities but inorganic opportunities, so you may have to wait for the same. The main thing was some of the acquisitions which we have done to make them profitable. So, we are very happy with the Bio acquisition which we did. So with all these we are actually strengthening and we hope to look at any inorganic opportunities which will come up.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

**Sameer Goel:** Thank you very much. Appreciate, Sumant.