Coromandel International

Q1FY12 Conference Call Transcript

22 July, 2011

Moderator:

Ladies and gentlemen, good day and welcome to the Q1FY'12 results conference call of Coromandel International Limited hosted by Emkay Global Financial Services. We have with us today Mr. Kapil Mehan, Managing Director and Mr. S. Sankara Subramanian, Vice-President, Finance. 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. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Rohan Gupta, Senior Research Analyst of Emkay Global. Thank you and over to you Sir.

Rohan Gupta:

Thanks. Good afternoon ladies and gentlemen. On behalf of Emkay Global Financial Services I welcome all the participants logged in for the conference call. From the management of Coromandel International we have Mr. Kapil Mehan, Managing Director and Mr. S Sankara Subramanian, Vice-President, Finance from the company. Good afternoon Sir. I will first request you if you can brief us about the Q1 FY'12 results and if any development has happened in the industry and then we can follow it up with the Q & A session.

Kapil Mehan:

Good afternoon to everyone. Let me start by giving an overview of the business and the business environment and then we can move on to the specific queries that any of the participants to this conference call may have.

Let me start by saying that by and large the demand fundamentals have been strong. The agricultural commodity prices have been strong and the announcement of minimum support prices also has been timely and this time the government has provided some incentives for the paddy prices going forward. The cotton prices even though they are not at their peak but they have very, very good as compared to the historical levels. Only concern which was there till end of June was really the spread of monsoon and the extent of monsoon and this sowing data that is coming out now is more or less predicting a normal sowing period for the Kharif so I think the demand will continue to be strong.

On the supply side we do feel that there will be a tightness in terms of supply of phosphatic and potassic fertilizers partly because of very robust global demand, which is there, which also is driving the prices up for most of the fertilizer materials as well as raw materials. The price of phosphate has moved up. It actually has been moving up, similarly the prices of nitrogen, ammonia as well as the potassic fertilizers have continued to grow. Consol prices we are beginning to see some stability now and a little of bit of decline but no major correction in prices. Similarly for ammonia also we are seeing some stability but no major correction in price of these.

Our manufacturing activities have remained more fairly on one track and we got turnarounds that we had taken in the month of March. All our plants continue to do well barring fractional supplies due to shipment scheduling and delays the plants produced reasonably well. Our raw material plants particularly for phosphoric acid during the quarter were doing very well and produced to their full capacity. I think as far as domestic industry is concerned I think the subsidy got notified finally the third circular we have been talking about it in the last few conferences, got finally released on May 5, which set the pace for finalization of raw material contracts as well as import of DAP etc., and with that I think the supplies start resume.

Of course we had carried on with our production etc., based on provisional acceptance that we have settled with our suppliers. One of the negatives in the policy circular of May 5th was really on the cap on selling prices that was the put in as some sort of an advisory to restrict the price increases to about Rs.600 per tonne equivalent of DAP and that has now been removed by cabinet decision because that was fundamentally in contravention to the nutrient-based subsidy policy, which provides our fixed per kg subsidy output for the government and the selling price is now flexible, which the companies can fix according to their cost structure as well as according to the market requirements.

As that was taken away I think the government did realize that it is not in the larger interest of long-term availability of fertilizers. Also it was sort of taken off and that I think was a very major positive. There was an other matter, which I think I must deal with at the top front because that must be uppermost in your minds was the circular, which was issued on the July 11 with respect to mopping up our subsidy differential between last year and this year are now that circular again is something, which we believe is very contrary to the spirit and the fundamentals of nutrient-based policy and we have been advised that there are some serious legal acumen and opus memorandum and the industry circulation is deliberating that matter to explore both administrative and legal redressal; however, we have taken a prudent approach and we have created provisions without prejudice to our right for any adjustments that the government may do later on in the circular but just being a prudent financial measure we have provided, we have created adequate provision for stocks for finished fertilizers that we have as on March 31, towards the difference between the subsidy levels of last year to subsidy levels of this year.

Even though there is a mention of raw material stocks there in that parcel in that circular but we are not able to figure out how to determine the impact of raw materials on the subsidy because subsidy policy is really per kg of nutrient and per kg of product or per tonne of product and how will that get translated into raw materials etc, I think there is a lot of confusion and given that the raw materials of different sophistication and different quality that used by different manufacturers and different processes and different manufacturing plants from different stages of manufacturing. So we do not know how this will be possible to determine what is the impact of that so we have not taken probably some sort of raw material in our books. That is really what we have done with respect to that circular.

Coming to our future projects we are all on track and we have shared all these details in the past with you. Only update is that we are on track and we are hopeful of completing them on schedule. Sabero open offer process is still going on. We are awaiting for approval of the open offer document and as soon as that is approved we will come out with our open offer and then hopefully that process should get over end of this quarter or early next quarter. Our project in Tunisia, which is Tunisia-India Fertilizer Project continues to face that delay that has been there and I think we should see the production coming in by end of this year or early next year in terms of CY I am talking and 95% of the project is complete and almost 60% to 70% of the workforce are back at site and hopefully the balance workforce also would be in place sooner and we have following that very, very closely and as and when there are any new developments on any of these things we will get back to you.

So with these opening remarks I will come to the results for the quarter, which is already with you. We have had a good quarter with a reasonably good growth in the topline and better than topline growth has been the growth in our operating performance both in terms of EBITDA as well as profit before tax and net profit. The sales volumes of fertilizers have been flat but our non-subsidy and non-fertilizer business has grown at a rate, which is not higher than the average growth rate that you are seeing in the results.

So with these opening remarks I think we can now take the questions or Shankar would you like to add?

Sankara Subramanian:

I have nothing more to add. We can straight away go.

Moderator:

Thank you. The first question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

Question and Answer Session

Bhavin Cheddha:

Two, three questions if you can quantify the production and sales volume figure and manufacturing and trading separately?

Sankara Subramanian:

The production for the quarter is 5.96 lakh tonnes and sales of our own product is around 5.83 lakh tonnes and traded product volumes is 0.28 lakh tonnes.

Kapil Mehan:

Total mix is 6.11 and last years sale also is 6.10.

Bhavin Cheddha:

Last year what was the trading volume comparable?

Sankara Subramanian:

5000 tonnes.

Bhavin Cheddha:

Again back to this subsidy notification, which we have come you said that you have made a adequate provision for the finished goods, which were there in the inventory so your note is saying that you have provided subsidy of close to 934 Crores so that figure includes subsidy at new rates on the closing stock of the finished good as well as raw material and the provision has been taken in the balance sheet or it has been adjusted in the Q1 results itself?

Kapil Mehan:

It is in the 934 subsidy itself is based on the circulars, which have been issued on May 5. This sets out the rates for this year as well as taking cognizance to the circular of July 11 should begin with the opening stock of finished goods and raw materials and in the second case we have given cognizance only to finished goods because that is ascertainable whereas for raw materials we do not know how to work it out and that is unascertainable so that has dropped in taking cognizance for us.

Sankara Subramanian:

The subsidy net of provision for finished goods is reduced in the income and is not a provision in the balance sheet.

Bhavin Cheddha:

Thanks a lot.

Moderator:

Thank you. The next question is from the line of Jay Shah from Reliance Mutual Fund. Please go ahead.

Jay Shah:

There was this subsidy of 29 Crores, which is now for prior period. It is of same subsidy or what is it?

Kapil Mehan:

It consists of two elements. One is we had won a court case in which is related to prior period some issue of 97-98 and that amount is around 13 to 14 Crores and the balance is on account of some old freight claims, which were still pending pertaining to past so that really made for the 29 to 30 Crores.

Jay Shah:

Going forward will this differential freight because of the subsidy continue?

Kapil Mehan:

The freight reinvestment policy is there only there is some amendment, which is expected to come because there are some things in the current freight subsidy scheme and the subsidy scheme, which is applicable for urea, which is uniform trade policy scheme, will also be extended to this. We are waiting for a notification of that and we believe that internal approval processes are over and that can be expected soon.

Jay Shah:

Regarding the market prices what kind of market price increases that you have taken in first quarter?

Kapil Mehan:

We have had price increases taken from April onwards. DAP price has increased from 10750 to about Rs.12000. 12000 plus taxes similarly other complexes etc., have also been increased and there were been some more adjustments made in the month of June and there will be some more adjustments, which will be required to be made as a result of phosphoric acid price increase, which has been taken from July 1 that partly we have already done and partly we will do it from August 1.

Jay Shah:

What kind of price increases would you be taking over FY'11?

Kapil Mehan:

It is very difficult to say because the global price situation is pretty volatile and we are doing more or less on a quarterly basis whatever adjustments are needed and we do not know at this stage what will be the situation in Q3 and Q4 so hence it is very difficult to say that so much percentage increase will happen during FY'12 but so far we have been able to adjust our prices to reflect and take care of cost increases.

Jay Shah:

Last question on the volume growth your target for FY'12. Do you see a flat kind of volume growth this year or do you expect something positive?

Kapil Mehan:

I think our plants are now running flat out and subject to full raw material availability we should have some growth in our volumes of fertilizer sales but we will not be able to give you any definite numbers because a) as a policy we do not do that. b) The raw material uncertainty has driven some of these situations, which developed in North African country we cannot really give a forecast beyond three months. For three months we have well covered and we will have a reasonably good production levels.

Jay Shah:

Thank you so much Sir.

Moderator:

Thank you. The next question is from the line of Prasad Deshmukh from DSP Merrill Lynch. Please go ahead.

Prasad Deshmukh:

Sir, couple of questions. Is there any limit on how much of price you can increase in a year?

Kapil Mehan:

There is no such limit subscribed in the policy.

Prasad Deshmukh:

Basically irrespective of where the international prices move you will end up getting the import price parity?

Kapil Mehan:

There is no import price parity now. There is the nutrient-based subsidy and the government has been our realizations will be hopefully inline with the import parity price.

Prasad Deshmukh:

Second thing on this provision that you are talking of the numbers that have been reported. If the provision was not there would the numbers be higher or would the numbers be lower?

Kapil Mehan:

Numbers would be higher.

Prasad Deshmukh:

Third, any update on this organic manure business and the farm mechanization?

Kapil Mehan:

I think on compost business we have grown reasonably well over 30% growth in this quarter and our farm mechanization pilot is moving to its next phase. We are scaling it out from 8000 acres last year to about 18,000 to 20,000 acres last year and so far whatever changes have happened we are on track to do 18000 to 20000 acres this year.

Prasad Deshmukh:

Any such indication for the organic manure business in terms of the quantity?

Kapil Mehan:

So far we have done about 55,000 tonnes in this quarter and as we have shared earlier we have targeting 2.5 to 3 lakh tonnes this year. That is the very, very ambitious target but we are not scaling back our targets. So we are actually making lot of efforts in the market place in terms of promoting and creating awareness about use of organic manure for soil health correction, which actually has a long-term beneficial impact on crop productivity and fertilizer dues efficiency and we will continue to invest heavily in this because we believe that our country needs to now if it has to move to the next level of productivity the soil health correction is a prerequisite for that.

Prasad Deshmukh:

That is it from my side Sir. Congratulations on the good set of numbers.

Moderator:

Thank you. The next question is from the line of Amit Adesera from Bharti AXA Insurance. Please go ahead.

Amit Adesera:

It is possible to quantify the amount of provision that you would have done for the inventory that you are planning?

Kapil Mehan:

It would not be prudent for us to do that because the matter is under active discussion and we do not wish to put any number on that. So that is where we will leave it.

Amit Adesera:

Secondly Sir, you mentioned that you have taken price increases from April onwards. I understand number how much of increase have you taken in April, June and July?

Kapil Mehan:

The DAP price, which is really preceding product as, has been increased from Rs.10750 per tonne to 12,000 per tonne plus taxes.

Amit Adesera:

So Rs.12000 per tonne is the price as on July is it?

Kapil Mehan:

As on from April 1 till now.

Amit Adesera:

Thanks a lot Sir.

Moderator:

Thank you. The next question is from the line of Manoj Baheti from Edelweiss. Please go ahead.

Manoj Baheti:

I have couple of questions. First question is on fertilizer bonds like while going through your annual report you mentioned that the industry is currently pursuing a 100% MTM losses reimbursement as well as that the remaining 50% of the bonds are also yet to be bought by RBI, so any update on that Sir?

Kapil Mehan:

Since the government has already advised Reserve Bank of India for buyback of these bonds and that should happen in the next couple of weeks but as far as compensation is concerned the discussions are still going on and while there are some indications from the government that they may not be able to give full 100% compensation but the matter is still being pursued and it is still not fully resolved.

Manoj Baheti:

My second question is your organic manure and farm mechanization business. On organic manure I just want to understand like you were talking about one million tonne over the next few years. So would you like to give some timeframe for this as well as just wanted to understand what is the key differentiator between am organized market and unorganized market compost?

Kapil Mehan:

As far as the timeline for this million tonnes are concerned we believe that in the next three to four years once the farmers begin to appreciate that efficiency of carbon implant is impacting their productivity and wherever we are going we are explaining to farmers. Farmers are using when they are coming back to buy these products. I think we will be able to achieve this in the next three to four years. As far as organized and non-organized players are concerned I think organized players are able to do much better composting, must faster composting with much better quality, which is according to the standard, which are now being prescribed under fertilizer control order. Unorganized composting is really at the farm level or at the village level, where people dig up pits and put the nonorganic waste there. There is a natural composting which happens, which may take nine months, one year or whatever it takes and there you are not certain of what the quality is and what those parameters are and moreover there is a surplus somewhere that again does not move to non-surplus areas so what we are not trying to do is put lot of systems and processes into this whole city waste management as well as industrial organic waste to management and that is really difference between the two and of course as organized players we are able to pack it nicely move it across to different markets branded and of course have a reasonable price for the same.

Manoj Baheti:

What are the challenges which you see like in achieving I understand that the availability?

Kapil Mehan:

There are two to three challenges. Number one, I think the farmers while they do appreciate the need for it but you need very large dosage to get the best effect in one year and that the farmers may not be able to afford so it will take two to three years' time. So there is a slow adoption that we expect in this segments but cash crops the adoption rates are also better than the food crops or the field crops and second challenge is really on city waste management practices that our country has. I think the segregation of waste must happen at origin and as more and more urbanization happens and civic sense improves we believe that segregation of organic waste will improve only from here and city waste management also should improve, as the citizens demand better than cleaner environment.

Manoj Baheti:

What kind of CapEx will be required to reach one million tonne? I understand that it is not a very CapEx intensive…?

Kapil Mehan:

It is more I think marketing effort, more promotional effort, more distribution effort and not so much manufacturing cost effort, which is required from this but you will appreciate that creating marketing assets and brand takes also lot of effort and investment.

Manoj Baheti:

My second question is on farm mechanization. Just wanted to understand would you like to give any CapEx or growth guidance for this business. Just wanted to understand what type of CapEx is required for per acre of farm mechanization?

Kapil Mehan:

Let me deal like this that we are as we have shared in the past we are currently doing a pilot scale operation for this particular business line because the revenue model needs to be fully understood. The business processes need to be well understood and applied. So last year as a start up we have done about 8000 acres and that we are scaling up this year to about 18000 to 20000 acres. For that we will need to make additional investment of may be 7 or 8 Crores, which we are scheduled to make during this year and we are also improving our backend processes as well as post service processes also and that is what will define the revenue model and right now if you ask me we are only learning we are in learning phase and we are of course charging Rs.5000 per acre as service charges for this. We have also added lever guided learning service into our portfolio services that we are offering and all of that I think it is creating lot of excitement in the farming community.

Manoj Baheti:

Thanks for answering my questions.

Moderator:

Thank you. The next question is from the line of Tarun Surana from Sunidhi Securities. Please go ahead.

Tarun Surana:

Sir I wanted to get the update on potash negotiations?

Kapil Mehan:

Potash negotiations as of now are going on very actively and as the demand in the international market is very robust. I think the delay that we have had is causing a bit of concern on tying up adequate volumes but we hope that this should get resolved in the next couple of days or a few weeks' time and then the supply should resume. So far we have not faced any problems because we had some carryover raw material of MOP, which we are currently using for our production of complexes.

Tarun Surana:

But for production of complexes where K is required. Do we have enough MOP to sustain for Q2? In fact it is not so high.

Kapil Mehan:

As of now our current indication we will able to contribute this month, next month and may be well into September.

Tarun Surana:

Can you also share what is the EBITDA margin in compost business that you have?

Kapil Mehan:

I think we have a reasonably good margin. We are currently I think having a margin of about 25% to 30%.

Tarun Surana:

Any guidance on what kind of margin picture you will have for Sabero?

Kapil Mehan:

As a policy we do not give any margin guidance on an overall basis.

Tarun Surana:

Will the profitability improvement come from higher capacity utilization or you have some efficiency?

Kapil Mehan:

I think we will see improvements coming in from rapid growth of branded formulation sales. We should see improvements coming out of capacity utilization. I think these would be the two sort of broad areas, where we should expect major improvements.

Tarun Surana:

Can you share the MRP of other key complex grades also 20:20:0:13 and 14:35:14?

Kapil Mehan:

I think 20:20:0:13 is now Rs.10500.

Tarun Surana:

Other grades 14:35:14?

Kapil Mehan:

We can send it separately.

Tarun Surana:

Sure, thanks a lot Sir.

Moderator:

Thank you. The next question is from the line of Rakesh Ravindran from CRISIL Research. Please go ahead.

Rakesh Ravindran:

Just one question. I wanted to know in your total fertilizer sales what would be the proportion of DAP and other complex fertilizers?

Kapil Mehan:

About 15%.

Rakesh Ravindran:

15% is for?

Kapil Mehan:

15% is DAP and 85% is non DAP.

Rakesh Ravindran:

Just one more thing based on the hike in prices of DAP that you just mentioned, the DAP prices have gone up by around 11% on average. What could be the range for hike in the other complex fertilizers?

Kapil Mehan:

In proportion to that except that wherever there is urea usage or it is very difficult to put a number but we are around that are more than that.

Rakesh Ravindran:

Thank you Sir.

Moderator:

Thank you. The next question is from the line of Sangam Iyer from ALF Accurate Advisors. Please go ahead.

Sangam Iyer:

Could you please share the amount of provision done for the finished goods?

Kapil Mehan:

I have mentioned to one of the earlier queries that we are not in a position to put that number out here because the matter is being discussed within the industry as well as with the government.

Sangam Iyer:

But that was for the whole inventory as such, right?

Kapil Mehan:

Overall, for everything because we believe that we have been advised this circular is not consistent with the nutrient-based subsidy policy.

Sangam Iyer:

Just to recap you said that the price increase that we had from April 1 was to the tune off around 11% both DAP and non DAP put together?

Kapil Mehan:

Non DAP is slightly higher than 11%.

Sangam Iyer:

How do you see this going forward Sir?

Kapil Mehan:

Going forward I think our prices will more and more getting aligned to international prices and international prices are moving up and there is no latest prices except that sulphur and ammonia are now stable for the last couple of weeks and we have to see how that pans out and the trend is formed.

Sangam Iyer:

Congratulations and all the best.

Moderator:

Thank you. The next question is from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

Dhiresh Pathak:

Can you provide more color on the raw material prices the price at which you are buying phosphoric acid and ammonia?

Kapil Mehan:

Our ammonia prices are in the range of about $530 to $540 currently. They have peaked at about $560 and phosphoric acid for this quarter has been settled at $1050 per tonne as compared to $980 during the last quarter.

Dhiresh Pathak:

Great, that is it from my side.

Moderator:

Thank you. The next question is from the line of Amol Kotak from ASK Investments. Please go ahead.

Amol Kotak:

I had a couple of questions; one is on your expansion plan of fertilizer. Is it is running as per schedule?

Kapil Mehan:

Yes, it is on schedule.

Amol Kotak:

So what amount have you already spent and what you are expected to spend in the current year?

Kapil Mehan:

We have spent about 50 Crores so far on the projects but now the major expenditure will be there because we now come above the ground as far as construction is concerned. All the major equipment's are under fabrication so heavy payouts will now begin which will continue till January and February of 2012.

Amol Kotak:

How much would that be?

Kapil Mehan:

Our total project cost for our expansion was around 350 Crores out of that so far we have spent closed to 50 Crores.

Amol Kotak:

Bulk of it would be in the current year?

Kapil Mehan:

Lot of cash outflow will be during the current year but project will get closed in the next year so capitalization will happen next year.

Amol Kotak:

This project is expected by September 2012 right?

Kapil Mehan:

That is right.

Amol Kotak:

One question on your volumes. Why you are not guiding a specific number but the capacity will increase to more about 3.8 to 4 million tonne. So subject to raw material availability you will see growth in the next couple of years?

Kapil Mehan:

That is right, I think we should see volume growth in 12-13 as well as 13-14.

Amol Kotak:

While you touch the topic on Sabero could you just highlight your strategy once again on Sabero how things would move once you acquire the company on a product basis?

Kapil Mehan:

I think once the transaction is completed and we are in full control of Sabero. The way I think it will pan out is that we have to sit with their team and work out what is best for both, they have their strengths, and Coromandel team has its own strength. We are very strong in the domestic markets. Sabero team is very strong in exports market. Sabero team is also very strong in the registration part of the business. We also have a registration team, we also have a process development, R&D facility in Ankleshwar so we will build on each others strengths and I think all of that will help us to expand our footprint in the agrochemicals market both in India and abroad.

Amol Kotak:

Any kind of contribution, you want to show how agrochemicals as the percentage of total?

Kapil Mehan:

It is difficult to put any numbers at this stage because our fertilizer business also is growing, our non-fertilizer, non-agrochemicals business is also growing, so it is very difficult to put any number but as a broad level we will continue to drive a non-fertilizer non-subsidy portion of the business and take it to at least 50% in terms of bottomline. This is currently likely to move from 26% to 27% to little over 30% with Sabero becoming part of Coromandel system.

Amol Kotak:

It will be about 30% of the total business?

Kapil Mehan:

Post Sabero.

Amol Kotak:

Could you probably highlight little bit more on the chemical of Sabero , your current chemicals and how that indication happened?

Kapil Mehan:

We have no known overlap of active molecules that we make and active molecules that they make they have Glyphosate and they have Mancozeb, they have Monocrotophos, they have Acephate, D. D. V. P., and Chlorpyriphos all these products are very, very high demand in the international markets as well as domestic market also is growing especially for Glyphosate and Acephate.

Amol Kotak:

Sir but I believe that glycerate globally the supply is higher than demand and we have seen other company suffering from rice boil sharp volatility. Could you throw some light on this?

Kapil Mehan:

I think glycerate market is one of the very large molecules and margins are under pressure because there is a demand supply mismatch and I think Indian companies have a very good opportunity out there to hang in there and I think with our cost structures we should be able to weather this period of adjustment but the demand is not going to go overnight.

Amol Kotak:

Thank you very much Sir.

Moderator:

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

Abhijit Akella:

First of if you could please help us with the sales revenue of manufactured as well as traded. I know you gave the volumes earlier if you could please also help us with the sales revenues?

Kapil Mehan:

Traded fertilizers is around 50 Crores, the balance our own manufacturing of fertilizer.

Abhijit Akella:

Any breakup you could give in terms of fertilizers versus non-fertilizers?

Kapil Mehan:

Fertilizer is around 14 to 15 Crores.

Abhijit Akella:

Kindly give the year ago numbers as well?

Kapil Mehan:

Corresponding period previous year it is around 1300 Crores and traded is around 12 Crores.

Abhijit Akella:

Great. Second just on the CapEx what kind of maintenance CapEx should we expect going forward besides the growth CapEx that you talked about 500 Crores?

Kapil Mehan:

We should look at about 100 Crores as sustenance capital going forward.

Abhijit Akella:

So may be in FY'12 total CapEx will be slightly north of 200 Crores and may be it normalizes going forward from FY'13 onwards?

Kapil Mehan:

That is right.

Abhijit Akella:

Finally just on the inventory. How much of the inventory at March 31is still left to be booked or did the Q1 sales pretty much take care of whatever is left over from March 31?

Kapil Mehan:

Most of it is over.

Abhijit Akella:

Thank you so much.

Moderator:

Thank you. The next question is from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel:

As of March 31 the raw material in the WIP balance sheet was about 920 Crores and the difference between the subsidy between FY'11 and FY'12 was about 10.3% even on an average basis it is 10% so will it be fair to assume that had you have been doing closing on the raw material as well then that would have been around 92 Crores as a PBT level?

Kapil Mehan:

As I said earlier because of the matter we are discussing in detail internally as well as with the industry and with our legal counsels and government I would not like to get into any speculation of these numbers so let the matter be resolved and we will share all the numbers as we have always done.

Prakash Goel:

Fair enough. That is all from side.

Moderator:

Thank you. The next question is from the line of Sourabh Arya from Bajaj Allianz. Please go ahead.

Sourabh Arya:

Just one thing; in your annual report it was mentioned that government has allowed this urea trading for the company?

Kapil Mehan:

Government has this system of allotting different ports for handling and we have bid last year for Karaikal Port, which we won and then the companies are allowed to brand the product in their own brands and distributors to their own network based on moment plants which are given by the governments so that is how we have got into urea distribution business and that will continue well into this year because this contracts and ports are awarded for a period of two years at a time. So we have this contract in March of this financial year.

Sourabh Arya:

Then it will be renewed again.

Kapil Mehan:

It will go through a competitive bidding process so we hope to continue to win that.

Sourabh Arya:

Any numbers you can give me. We have done something on these urea sales of this particular quarter or any target? In Q1 what is the volume we have done any target for this particular thing as urea prices are very high?

Kapil Mehan:

This quarter we do not any price advantage or anything and this quarter many case we did not get any DAP in that port. We have not handled any part of during Q1 of this financial year.

Sourabh Arya:

Thank you Sir.

Moderator:

Thank you. The next question is from the line of Varun Guntupalli from Edelweiss. Please go ahead.

Varun Guntupalli:

My question is with regard to the government subsidy now on account of the prices going higher do you see the government revisiting the subsidy number for this year or else you anticipate that this price for the subsidy that government has announced would be there for the whole of the year?

Kapil Mehan:

I think the current implications are that this should remain for a whole of the year and so far whatever cost increases have happened we have been able to make adjustments in our selling prices of different fertilizer product and we expect that to continue and there is some extreme volatility in the price and the price goes up a few $100, which will disrupt the usage I think other than that there should be an issue and I think the government will stay with the subsidy number and we do not expect that to be revised upwards.

Varun Guntupalli:

But in the case of MOP if we would be closing any deal in the next one or two months then it would be at a substantially higher price than what the government was earlier which it has indicated at $420. So do you see the government revising that a subsidy linking of MOP?

Kapil Mehan:

Well, we do not know once the price gets settled I think that time we will have to engage with the government depending on what kind of price increase is there and that is something that eventually it is now farmers have to really decide that what price is acceptable and one of the objectives of this policy is also more efficient and selective use of products based on farmers judgment on the value that he derives something for a usage and if potash becomes very expensive the farmers will use that for the potash for the time being and then come back when he finds the price is appropriate. But so far with the price increases that has happened farmers has continued to apply because he still feels lot of value in applying fertilizers growth of that.

Varun Guntupalli:

Thank you very much.

Moderator:

Thank you. The next question is from the line of Arti Khasnis from Wealth Managers. Please go ahead.

Arti Khasnis:

Just wanted to have a conceptional understanding I know it is a very early stage for the farm mechanization business but definitely looks to be a very interesting one so just a conceptional understanding I wanted to have. You just indicated we charge around Rs.5000 per acre for that remuneration in what do we offer in terms to the farmer means even the let us say the irrigation facilities, the other equipment's are they are come to what cost for they have to deploy and we just do the revenue expenses?

Kapil Mehan:

Whether in this Rs.5000 our service package includes evaporation of the field, raising up with nursery for crops planting or leveling of the field and then doing fertilizing in the field and then doing a crops plantation. These are the factors, which are essentially sowing pulses, which are provided by us. Irrigation water farmer has to arrange.

Arti Khasnis:

Is this practice possible only in areas and in places where the organized irrigation facilities are available or it is possible even in our traditional manner of irrigation?

Kapil Mehan:

The transplantation service is primarily for paddy and paddy can only be grown where there is enough irrigation facility available it does not matter whether this is canal or list throughout or irrigation or whatever farm application except I think look at plant for mechanization stock planting if you are waiting for the rain to come because the machines currently waiting on side of the field also the rains to come. So I think wherever assured irrigation facilities are available this service makes a lot of sense.

Arti Khasnis:

Does it also benefit or do we also have a place to go into micro-irrigation kind of opportunities?

Kapil Mehan:

That is one opportunity which definitely is part of the activities that we would like to do because micro-irrigation also is very helpful from a farming perspective because it improves the productivity and also improves the water use efficiency and that is the business that we could as part of our product portfolio expansion of agri and food offering into the market we keep evaluating and so far we have not had an opportunity to get into the business.

Arti Khasnis:

Sir in terms of what kind of acreage coverage do you feel we would have to reach before we get into the breakeven or reasonability in the margin levels for these kinds of business?

Kapil Mehan:

Well I think we will have reasonably good amount of data by end of this year, having 8000 acres last year and we grew about 20,000 acres this year. Then we had to sit down with that data and then draw our own conclusions that how do we take it forward and I think to scale it up which happens, will happen from this point onwards.

Arti Khasnis:

Thank you. The second question, which I had on the organic manure side the compost side, you said that we want to reach a million tonne target over the next three to four years, can you just give one broad ballpark figure is that if how much waste do I need to have a one tonne of compost?

Kapil Mehan:

Roughly about 30% of waste is generally organic, so if you have 100 tonnes of city waste you will recover about 30 tonnes of organic waste.

Arti Khasnis:

Do you feel that from the forting perspective it will be possible for us to engage into such large-scale kind of organized compost?

Kapil Mehan:

So far we have been able to develop sources. We are developing our compost facility near the sugar mills, which are so far, we have gone only to our group to the sugar mill, and we are setting up our own compost facilities to process. We have not got into any city waste management project except in Pondicherry where we are doing small compost facility, but we have now demonstrated capability of sourcing up to 40000 tonnes in a month.

Arti Khasnis:

Sir, do we have any kind of understanding where any comparable figure where we have drawn the same waste if it is used as a biomass for production of power the same waste we convert it as a compost and then sell it, from the perspective- what I am trying to understand is that the usage plus changes and from that perspective where does the profitability stand for our business and is there a competing case for biomass and the same which gets diverted for those kind of uses rather than coming in for compost?

Kapil Mehan:

Well I think so far our view is that power production from this city waste kind of a bio would be very, very minimal and that organic waste as compost goes back to the soil I think we have not done any economic studies on this, but our own intuition is that long-term economic benefit of having good healthy productive soil would be much better as compared to producing small amounts of power from this and also then the relatives from those power I understand also then can be recycled back into the field, so you will have to wait and see how those technologies evolve and we are keeping a watch on those developments also that wherever there is a power generation facility based on city organic waste other than that residual organic waste we recycle back into the field.

Arti Khasnis:

Thank you very much.

Moderator:

Thank you. The next question is from the line of Snighter Albuquerque from KJMC Capital. Please go ahead.

Snighter Albuquerque:

Sir, my questions were pertaining to the open offer basically. Firstly if you could throw some light on any possible reason why for the delay of the offer. I mean, it is ideally supposed to open on July 25 and we have been given an intimation of the Security Exchange that is going to be delayed. Any particular reason for this?

Kapil Mehan:

I think there are some queries that we have raised and we are in the process of responding to those queries and I think once those queries are responded to we will get the SEBI to go ahead with further open offer.

Snighter Albuquerque:

So it is in progress?

Kapil Mehan:

It is in progress.

Snighter Albuquerque:

Secondly, I would also like to understand whether there is any interest rate involved in this particular?

Kapil Mehan:

Interest rate means?

Snighter Albuquerque:

Interest rate means given that there has been a delay would there be an interest rate involved as far as the shareholders are concerned?

Kapil Mehan:

We already have the money in the Escrow for the open offer. I do not think there is any interest tangled after that, but we will come in and then come back to you, but the portion of shareholders I think we will like to examine it and then come back to you.

Snighter Albuquerque:

Most likely when is this…?

Kapil Mehan:

It is a regulatory approval so regulatory approvals come when they have to come, so we cannot put any date to it. The first date, which was as per the norms, is already over and next date now, will depend on when the queries are responded to and the SEBI can take the views on those.

Snighter Albuquerque:

Lastly, I missed the part where the price increase for April the question was raised?

Kapil Mehan:

The DAP price was raised from Rs.10750 to Rs.12000 per tonne.

Snighter Albuquerque:

Great Sir. That is all. Thank you so much.

Moderator:

Thank you. The last question is from the line of Prasad Deshmukh from DSP Merrill Lynch. Please go ahead.

Prasad Deshmukh:

Just a very small question. In this organic compost is our focus on contract based procurement or is our focus on entering into actual composite manufacturing?

Kapil Mehan:

Well we are doing both. We have contract, we have own compost arrangement, we also have long-term arrangement, and there are all types of arrangements, which are in place.

Prasad Deshmukh:

How much would be contracted right now as a percentage of sales?

Kapil Mehan:

I would not have that number with me offhand, but most of our sugar mill composite is all our own units where we are putting up compost unit, except Puducherry all other city waste compost is on a contract basis.

Prasad Deshmukh:

Thanks a lot, Sir.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Rohan Gupta for closing comments. Please go ahead Sir.

Rohan Gupta:

Thanks Moderator. Just a couple of questions from my side Sir. Sir, you mentioned that the inventory of MOP you have till September, now you have already completed July, so you have only two months, so is there a worry that after September because I think that one-and-a-half months to two months it takes in work in transit and further negotiation so I am considering that October and November is also a main season for the company in terms of fertilizer is concerned. So are we geared up with some kind of volume dip or you will have some plan B if it is does not materialize in the next two to three weeks?

Kapil Mehan:

Well first and foremost it does not take two months for the materials to come. We have supplies from Israel. We have supplies from Jordan which can come in, whereas supplies from Russia and Canada can take time 30-40 days, so as soon as the price gets finalized, I think within four to six weeks we can expect the flights to arrive. That said there is no theoretical hypothetical scenario that we will switch over to non-potash based complex fertilizers.

Rohan Gupta:

So that will lead to higher consumption of phosphatic fertilizers ?

Kapil Mehan:

Not structurally because that will be the case only in case we go back to making full DAP only. We can make other grades of fertilizers, which require less of phosphoric acid.

Rohan Gupta:

Second thing, you started you commentary with that statement that non-fertilizer business for the quarter has done well. Can you just give some sense like generally this non-fertilizer based business contributes in terms of revenue to almost 15% and last year it contributed to the bottomline almost 27%? So how is the figure compared to last year?

Kapil Mehan:

Probably we do not have segmental reporting but we have grown that business at a rate, which is almost 10% more than our average growth.

Rohan Gupta:

The reason being that any particular segments doing well or the farm mechanization of the board agrochemicals and all that?

Kapil Mehan:

Our retail is doing very well. Our agrochemicals business has done well. Actually all the non-fertilizer businesses have grown.

Rohan Gupta:

That is fairly distributed among all the segment of non-fertilizer.

Kapil Mehan:

All of that has done well.

Rohan Gupta:

Great Sir. Thanks a lot for giving us your valuable time. Would you like to make any final remarks?

Kapil Mehan:

I think that is fine. I think all the questions had been asked, which needed to be asked. Thanks a lot for organizing this conference.

Rohan Gupta:

Thank you, very much. On behalf of Emkay Global Financial Services I thank all the participants who have logged in for the call. Thanks to the management for being with us and answering all the questions provided by the participants. Thanks again. Thank you very much.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

Note: 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.