



**“Coromandel International Limited
Q1 FY2020 Earnings Conference Call”**

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Moderator: Ladies and gentlemen, good day, and welcome to the Coromandel International Limited Q1 FY2020 Earnings Conference Call, hosted by Elara Securities 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. Pratik Tholiya from Elara Securities. Thank you, and over to you!

Pratik Tholiya: Thanks, Steven. Good afternoon, everyone. On behalf of Elara Securities, I would like to welcome all the participants who logged into this Q1 results concall of Coromandel International. From the management team, we have Mr. Sameer Geol, the Managing Director; and Ms. Jayashree Satagopan, CFO of the company.

Thank you, management, for giving us the opportunity to host this call. I would like to request Sameer sir to first begin with his opening comments, and followed by which, Jayashree Madam can walk us through the quarterly numbers, post which we will have the Q&A. Thank you, and over to you.

Sameer Goel: Good afternoon everyone. Thanks, Pratik, for this. I will first give the overview of the business environment experienced during the year followed by the company's performance and then we will wait for the Q&A.

Overall, as you know, the Kharif season started on tough note because of delayed monsoons, deficit rainfalls and consequently lower crop sowing which actually has got postponed, impacting the agriculture and input consumption in our key markets. However, as we speak, we are witnessing a recovery from July onwards and sowing gap has been reduced from 15% in Jun end to 7% as of July 19, 2019.

As of July 21, 2019, the all India rainfall is down by 18% on the long period average levels. This number has improved from a deficit of 32% which was witnessed by June end. In our key southern market, fresh monsoon spell is expected over the next 2 weeks, which will augur well with the agriculture input consumption.

In fact, the forecast from the agencies has been that South will actually receive excess rainfall in the months of August and September. We have to wait and see how that stands out.

On the reform front, the direct income support scheme, PM-Kisan has been extended to all the farmers. In our key markets like Telangana the benefits under Rythu Bandhu scheme

has also been increased to Rs.10,000 per acre per year from earlier Rs.8,000 per acre per year. Government has announced the minimum support price for Kharif 2019-2020 season. This has been a moderate increase in MSP, ranging from 2% to 9%.

On the subsidy side, government has increased the allocation from Rs.70,087 Crores to Rs.79,996 Crores in the year FY 2019-2020, an increase of 14%. The nutrient rates under NBS are provisionally maintained at the same level as that of 2018-2019, formal notification is awaited. Government has launched DBT 2.0 which is the Phase II of direct benefit transfers of fertilizer subsidy. Under DBT 2.0 government aims to utilize the soil health data for balanced nutrition application.

Basically, 5.4 Crores soil health cards have been loaded by the government, and there is a recommendation now on the type of balanced nutrition which the farmer can get when he visits a retail outlet. And for that government has linked the farmers' soil health cards with the farmer's Aadhaar to provide customized nutrient application recommended for the growers. This will augur well for the company which is basically into NPK fertilizer. There is also a chance that the government will explore the feasibility of direct cash transfers to the farmer's account.

On the fertilizer industry performance, phosphatic fertilizers industry grew by 2% during the quarter. This is mainly in primary sales, the sales which is through the POS has been different. The major part of this increase has come from north, which is 27%, and east, which is 25%, while south had a deficit of 7%, west a deficit of 4% and central, a deficit of 2%. DAP segment has grown by 9% while the NPK has contracted by 3%.

Raw material prices have shown a softening trend. Phos acid prices for Q2 have been finalized at \$655 per metric ton compared to Q1 prices of USD \$728 per metric ton. In the last three-four months, industry has passed on the benefit of stable currency and softer raw material prices to the consumer and overall MRP has been brought down by 8% to 10%. So, if you can see for DAP, the fertilizer MRP was Rs.29,500 and per metric ton, in May it was Rs.28,600 and in July it is Rs.27,000.

Coming to Coromandel's nutrient segment performance, fertilizer business has shown a reasonable performance during Q1. Sales were impacted during the quarter due to delayed monsoons and lower sowings in the addressable market. The company has integrated its NPK fertilizer and the Single Super Phosphate business to generate operational efficiencies and strengthen its position in the complementary markets of Northern and Western India.

Business has introduced fortified fertilizer product during the quarter, which has been well received by the farming community.

On the sales side, our phosphatic volumes were down by 21% to 4.7 lakh tons as there was an overall slowdown in the fertilizer offtake owing to a weak seasonal condition in South India.

The sale number of 4.7 lakh tons comprise of 4.4 lakh tons of manufactured products and 0.3 lakh tons of imported DAP. The share of unique grade stands at 23%, last year it was 30%.

During the quarter, our phosphatic fertilizer plants operated at 70% capacity utilization, recording a production of 6.1 lakh tons. Last year it was 6.8 lakh tons with a 79% capacity utilization, production was moderated as per the demands of the market.

The plant safely completed the annual turnaround activities during the quarter. The phosphatic acid project at Vizag has been progressing as per plan and is expected to be commissioned as per the target of October 2019.

Our Single Super Phosphate business has done well improving its sales volume by 14% to 1.2 lakh tons, mainly driven by North and Central Indian markets. We continue to be the market leaders in Single Super Phosphate and our market share has improved to 12% in Q1 versus 10% last year. SSP production went up by 13% to 1.3 lakh tons.

On the Crop Protection side, Crop Protection segment had a tough quarter mainly impacted by low production at Sarigam plant. As communicated during our last call, an unfortunate fire incident occurred at Coromandel Sarigam plant in the warehouse section due to an electric short circuit. The operation at Sarigam resumed in June 2019 post the revocation from the State Pollution Control Board and production has since been normalized. As a result of curtailed operations, sales in Q1 dropped by 34% to Rs.273 Crores.

The business is actively working towards new product development and is on plan to introduce technical and formulation products during the year. New plant for Pymetrozine is being commissioned, and Pyrazosulfuron and Mancozeb WDG will be functioning in the next couple of months. During the quarter, the business entered into collaboration with global suppliers for sourcing, manufacturing and technology partnerships.

Focusing on future growth opportunity, the business has strengthened the organization in the area of technology transfer and business development.

In the international markets, the business has reorganized itself to improve its customer-connect initiatives. The Bio business, which we acquired last year, had a decent quarter improving its extraction efficiencies and sourcing capability.

Our retail business had a soft quarter impacted by the weak south west monsoons in its operating markets. The non-fertilizer segment has done well, especially in the traded products like seed, veterinary and insurance.

The business is carrying out few technology interventions in crop diagnostics and applications services space.

The specialty nutrition business continued to adopt differentiate focus product approach and has a very good performance in Q1. The crop-specific water-soluble products launched in the last years are doing well. We plan to introduce two or three new products during the year, including few captive products. The business has collaborated well with multiple agriculture players across the value chain to improve the customer-connect initiatives.

Organic business performed well in the compost category, making it the market leaders in that segment.

Overall, it has been a cautious start for Coromandel in Q1, with the positive monsoon forecast in Southern Peninsula region in the coming months, the crop sowing and agricultural consumptions are likely to improve. Further reforms like DBT 2 focusing on soil health and balanced nutrition, income support schemes, improved crop prices, irrigation projects in Coromandel's key markets will help the agricultural prospects.

Coromandel will continue to focus on R&D and innovation, Agri technology intervention, improving cost efficiency and furthering its farm-level initiatives to improve its customer value proposition. As a leading agriculture solution provider, Coromandel will continue to drive farm productivity and support farmers' prosperity.

I will now request Jayashree to talk about the financials.

Jayashree Satagopan: Good afternoon all, and thanks for joining us in the call.

Turnover for the first quarter financial year 2019-2020, we recorded a consolidated turnover of Rs.2,141 Crores, which is a 15% reduction compared to last year.

Nutrients and allied business contributed to 87% share and the remaining 13% came from Crop Protection business. Q1 last year, nutrients were 84% and CPC 16 percentage.

In terms of subsidy, non-subsidy breakup, Q1 revenue share is around 80%-20%, prior year it was 77%-23%. In terms of profitability, overall EBITDA for the quarter was Rs. 195 Crores against Rs.212 Crores last year. EBITDA margin improved to 9.2% from 8.4%

previous year. The margin was supported by favorable exchange rates and operational efficiencies. Due to closure of plant at Sarigam, profit share of non-subsidy business was lower. Subsidy share of profit was at 85%.

On the subsidy front, total subsidy outstanding as on June 30 is Rs.1,777 Crores, vis-à-vis last year's outstanding of Rs.2,388 Crores. The subsidy value of Rs.1,777 Crores includes Rs. 700 Crores of claims that have been made and pending with the Department of Fertilizers.

During the quarter subsidy payouts from the government was Rs.920 Crores. Last year Q1, we received Rs.220 Crores. Subsidy payments were received delayed during the quarter due to elections. We have filed DBT claims up to June end and pursuing on submitting the old claims.

As far as the foreign exchange management is concerned, you would see that the rupee remained stable and range bound between 68.39 and 70.54 during the quarter.

Coromandel continued to follow the Board-approved hedging strategy and is dynamically covering its exposures and managing the portfolio.

Interest cost, the net finance cost of the quarter was at Rs.70 Crores up from Rs.56 Crores last year. This increase is attributed to increased borrowings due to high inventory and reclassification of lease obligations under Indian accounting standards 116.

Thanks, once again, for joining us on the call, and we shall open the session for question and answers.

Moderator:

Thank you. The first question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia:

Thank you for taking my question. I had a slightly broader question not specific to this quarter. You know when I look at your company's performance from 2011 to 2019, our revenue has more or less doubled, and we had a significantly higher margin at about 14% in 2011, and the quality of earnings that we report today are substantially better than what we reported, let us say, five, six years ago. Were those margins a complete one-off or do you think that with the raw material pricing scenario easing, the EBITDA margins can structurally improve over the next two, three years? I am not talking about two, three quarters?

Jayashree Satagopan: Thanks, Vakharia for your participation and the question. Yes, you are right. Our revenue has increased over a period in time. And the quality of our earnings, both in terms of nutrient business as well as Crop Protection has also improved over the years. For the nutrient business, some of the key factors that have helped us improve the quality of earnings include focusing on our unique grades. Secondly, improving our backward integration at the facilities, increasing the capacity utilization, investing on marketing, brand promotion, more importantly, the agronomists were able to work closely with the farmers and increase the awareness and the use of nutrients for the soil. And also, a smart sourcing strategy tie up with our strategic partners globally to source raw material at the right prices, at the right time. So, these are fundamental changes that happened over a period in time and we continue to focus on these areas.

Nisarg Vakharia: Madam, it does not answer my question. My question was that when reported 14% EBITDA margins in 2011, were they one-off? Or do you think that as our business and because of the amazing initiatives that our organization has put, do you think that our margins can structurally ever go to those levels again? Or do you think they are not possible?

Jayashree Satagopan: That was the NBS period.

Sameer Goel: We had one-offs in 2011 due to new NBS policy which was introduced in 2010. Because of that there was a one-time gain. It was on the fertilizer side. But having said that, our objective is always to keep improving our fertilizer margins, and that is what Jayashree outlined. And non-subsidy nutrient segment such as water-soluble fertilizers, organic and retail also is doing well. We are also increasing the share of crop protection segment, where the margins are a lot higher including Bio. So structurally, we are aiming to increase this business.

Nisarg Vakharia: So, whether we can achieve or not achieve is, of course, dependent on many various external factors.

Sameer Goel: More than external factors, it is more the internal factors which we are working towards. That is part of our long-term strategy.

Nisarg Vakharia: Okay. So, over the long-term, our EBITDA margin structurally can improve from where they are, depending on a few things going in our favor. Sir, also raw material prices were exorbitantly high over the last two, three years because of this entire bull run in chemicals and all that. Has that substantially reduced? Do see you a trend reversing in those raw material prices?

Sameer Goel: The prices had gone up in last year. Before that, they were soft. And now we find that the raw material prices are again going soft.

Nisarg Vakharia: Thank you for answering my question. I will reach out to you, Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of BV Bajaj from Bajaj Shares. Please go ahead.

BV Bajaj: Good afternoon. Thank you for giving the opportunity for a query. I have two questions. One is regarding Crop Protection revenue. As compared to Q-on-Q, the revenue loss is almost 25% because of fire incident at Sarigam plant. But if we go to the margin, margins have fallen by almost 90%. So, what is the reason? Though our revenue segment on Crop Protection is just 25% down, margins have gone by 90%? That is one question. Second one is, in that note item five, that exceptional item, I just recollect, so the damages to the customer is around Rs.20 Crores and we are claiming the insurance of that. But my question is, is it the supply problem to the customer or the application of our product to the customer? And if it is so, then what are the steps we are taking for the deficiency of our product?

Jayashree Satagopan: Thanks for your question. Well, as you would have heard from us, the main impact for the CPC business has been on two counts, Firstly, in terms of the Sarigam operations, which was shut down for most part of the quarter and only in the last couple of weeks of June, we commenced operations. Certain products like Mancozeb, Propineb, acephate, Mono, that are being produced out of this plant, we were not able to sell the same because the production did not happen. Secondly, overall for Mancozeb, globally also, we have seen some pressures in terms of pricing. As plant was not fully operational, the fixed cost relating to running the plant was being incurred plus we had also invested additionally in terms of certain infrastructure improvements during this period. The plants at Ankleshwar and Dahej had also gone for their annual turnaround activities. So the fixed cost for CPC during Q1 had been relatively higher compared to last year. That explains some of the reduction in terms of the margin percentage.

In terms of the exceptional item that we have reported, which is relating to Rs.20 Crores, this is relating to a product liability claim, which we had incurred last year. We have taken this matter up with the insurance company, and they have admitted the claim. Given that it is relating to our product liability, it might take a couple of quarters to get it settled. At the same time, we have also taken enough caution both internally at our facility and also at our job workers to ensure the quality of the product that comes out is properly tested before it is shipped out to our customers. So those measures have been put in place as soon as we got this claim, which was around November of 2017.

- BV Bajaj:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.
- Sudarshan P:** Thank you for taking my question. My question first one is on the outlook specifically on the global market, especially on the heels of BASF and the other companies, which have kinds of guided for a muted year going forward. I mean, what I am trying to understand is leaving this quarter behind going forward number one is, on the demand side, do we see any risk? And number two is, do we see a further risk in terms of prices on Mancozeb and other products?
- Jayashree Satagopan:** Thanks, Sudarshan, for the question. For Mancozeb, as far as we understand, we do not foresee a big risk in terms of the demand. In fact, our WDG facility would be up and running at Dahej in the next couple of months. For some of the markets, where we cater to the requirement is more in terms of WDG formulations so that will actually help us to address some of the latent demand, which till date Coromandel was not able to cater to. The pricing side, of course, we are seeing price pressures continuously in the market, which was also witnessed in Q1. So that, again, depends upon how the raw material prices are, and how well we are able to procure and convert those for our final production. This is as far as Mancozeb is concerned. On the other hand, we are also seeing demand for some of our other products, which has gone up and we are also looking into selective B2C in some of the countries, which will help us to augment the margin in the coming quarters.
- Sameer Goel:** Bio business continues to do well, and there is a huge demand for bio products and like Jayashree said demand for some of our products continue to grow in emerging markets.
- Sudarshan P:** And to address these raw material issues, do you think that we would evaluate at some point of time doing more backward integration program like we did it on the fertilizers side on the phos acid side? Do you think that there should be a fairly big overhaul on the backward integration on the CPC as well?
- Sameer Goel:** We are having strategic tie-ups now with the some of the raw material suppliers and you will see more of it coming.
- Jayashree Satagopan:** Just to add to what Sameer mentioned, we got into collaboration agreements with some of the Chinese manufacturers, who are also supporting us not only in terms of sourcing, but also to a certain extent, technology transfers and we are looking at limited backward integration. Today, China has the scale and capacity, and they also have some of the manufacturing finesse for the active intermediates. So, from a strategic standpoint,

Coromandel has taken a call that we will work closely with some of the Chinese manufacturers who will support us not only on the sourcing front but also on the technology front. And this has been explored with couple of Chinese players successfully.

Sudarshan P: One final question from my side is on the phos acid, I mean, is the progress in terms of starting of the facility on track? And second is also some color on what is your outlook on phos acid prices, which is basically been coming down in the last one or two quarters or so?

Sameer Goel: Yes. So, there are two things here. First, like I mentioned we are on target to start commissioning the project in October. So, we are on track on that, which will help our Vizag unit becomes self-sufficient. As far as the phos acid prices are concerned, currently there is excess of supply than demand. A lot depends on how the international market shapes up, particularly with Brazil and China shaping up. We will have to wait and watch this. The good news is also that some of our joint ventures like TIFERT, started giving us good output after placement of Coromandel and GSFC team with the JV team.

Sudarshan P: Thanks a lot. I will join back the queue.

Moderator: Thank you. The next question is from the line of H. R. Gala from Finvest Advisers. Please go ahead.

H. R. Gala: Just on the quantitative side, can we just revisit those numbers? We said that 0.3 lakh is DAP imported, last year it was 0.4 lakh, if I am not mistaken and complex is 4.4 lakh versus 5.61 lakh, just getting these numbers proper?

Jayashree Satagopan: Dap complex last year was 6.0 lakh and this year; it is 4.7 lakh.

H. R. Gala: No. Just now I think you said 0.3 lakh and 4.4 lakh manufactured.

Jayashree Satagopan: That is the imported DAP.

H. R. Gala: Yes. DAP imported is 0.3 lakh and manufactured is 4.4 lakh, so total is 4.7 lakh.

Jayashree Satagopan: That is right.

H. R. Gala: Correct? Yes. And Q1 FY2019, it was 0.4 lakh plus 5.6 lakh, am I right? This is what was stated in the Q1 concall.

Jayashree Satagopan: Correct. This information is also uploaded in our website. Your numbers are right.

- H. R. Gala:** Okay. As compared to the last year numbers also?
- Jayashree Satagopan:** Correct.
- H. R. Gala:** Okay. Now my second question is what are the main near terms concerns that we have, like now this phos acid prices coming down and we see say that we are passing on these benefits to the farmers. So, are we taking any inventory loss also, because we must be having the high-price phos acid?
- Jayashree Satagopan:** So, as you see every time when a quarter change, when the prices either go up or down, there will be some amount of inventory impact. Having said that, it is not only the phos acid prices, you would have seen in the last quarter the prices for ammonia, sulfuric acid, most of the raw materials have come down. We were able to take benefit of some of the falling raw material prices in other RM apart from phos acid also. So, as a combination, our raw material cost continues to be at a level that we can optimize and pass on the benefits to the farmers.
- H. R. Gala:** Okay. Now just last question, the Sarigam plant which was closed for most part of the quarter, how much sales have we lost?
- Jayashree Satagopan:** Our initial estimate is around Rs.70 to Rs. 80 Crores of loss
- H. R. Gala:** Okay. And do we have any loss of profit claim on that kind of thing when these accidents happen?
- Jayashree Satagopan:** Yes, we do have a policy for loss of claim. We have lodged claims for the fire accident. We can confirm it only after the production start resuming. So, we are working with the insurance company for the loss of profits as well.
- H. R. Gala:** Okay, so how much claim have we made for fire accident?
- Jayashree Satagopan:** We made close to about Rs.20 Crores.
- H. R. Gala:** Rs.20 Crores. And you said there will be a loss of profit also?
- Jayashree Satagopan:** Yes.
- H. R. Gala:** Thank you very much. Wish you all the best.

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

Ankur Periwal: Thanks for the opportunity. One question, the first one on the medium to longer term. You did mention the DBT 2 wherein the soil health card will be linked with Aadhar card of the farmers. By when, and secondly on the irrigation project, which is ongoing in Andhra as well as in Telangana. By when do you see the benefit of these both initiatives flowing down in terms of actual demand supply?

Sameer Goel: So, in the DBT 2.0, the Aadhaar card and the soil health card already started getting linked. And there is a recommendation for nutrient for the soil, in term of what combination to be used. Now what we are encouraging farmers to do at least in our retail outlets to upload their soil health cards, so that they can get a recommendation. Definitely we do see a shift happening in terms of what is called concept selling and telling them and educating the farmers more. So, we will see this shift happening over a period of time. But this is something, which we had already indicated and told that NPK and balanced nutrition will be useful. And that is something which the farmers will themselves see. We have demo plots in our retail outlets where we show the farmers the use of balanced nutrition. Coming now to the irrigation projects, firstly the one in Telangana has already got inaugurated. The plant is ready at least in the first phase. With monsoons and Godavari getting filled, the benefit will start to flow. And the same thing will apply with the Polavaram Project in AP. The main canal is ready, the project to start the secondary irrigation system into Rayalaseema. On both projects, we are hopeful that the government will go full stream on both the projects with the monsoons coming in to ensure availability of water, which basically would make things much more predictable as far as the farming community is concerned. And it will also entail a change of cropping pattern primarily away from what is called core cereals or even pulses towards more agricultural input products like paddy and maize and all. So again, we expect that to happen in the near future.

Jayashree Satagopan: If I may just add on to you, Sameer, on the DBT 2.0, apart from linking to the soil health cards, the government is also contemplating to see how they can transfer the subsidy directly into the farmers' account. It will take a while though. Positive thing is that we are seeing those discussions happening, it is also getting reported in the press. While a certain amount of input is available with the government, possibly in the next two, three years, if not earlier, we should see the shift happening in terms of subsidy getting credited to farmers' account, like the way it is happening for LPG or other similar schemes. It will be good for the fertilizer industry overall.

- Ankur Periwal:** Sure. That is helpful. Just one bit, now because of this delay in the monsoon, do you expect impact on the fertilizer volume sales, especially as now inventory would have built up across the competition as well and plus the raw material prices are going down? So, your comments on either the fertilizer volume sales overall or the possible impact on our margins?
- Sameer Goel:** See, the first thing to see is what is the cropping pattern going to be. And already we have seen that the sowing has improved. So, basically, we are hoping that with the rains coming up, the sowing pattern will not show dramatic changes. The only thing it means is that the consumption will be very rapid, and because of that we need to just ensure that the supply chain is properly filled. And the decrease in prices will also help primarily what we have seen is moving away from high-cost orders like DAP into what is called a more balanced nutrition. **Ankur Periwal:** But you do not expect any significant impact on the margins overall because of maybe oversupply across the competition?
- Sameer Goel:** One good thing which is there is because of the softening of prices, we are in fact maintaining our margin despite the volume changes.
- Ankur Periwal:** That is helpful. Thanks a lot. All the best Sir.
- Moderator:** Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal Securities Limited.
- Sumant Kumar:** My question is regarding the fertilizer segment margin. So, with the decline in unit grade sales volume and percentage, how the company has shown a margin expansion in the fertilizer segment? Any other reason for that?
- Jayashree Satagopan:** See there are certain products, Sumant, which may not be in the unique product category, but they are still pretty good in terms of their contribution margins. So it is the mix of products that actually helps in augmenting. Apart from that, we also had some benefits coming in, in terms of the forex gains with the rupee being fairly stable during the quarter.
- Sumant Kumar:** Okay. So can you disclose the number of forex gains because we have seen a significant improvement in EBITDA per ton? When we calculate, say 85% of EBITDA from subsidy business, the significant improvement in EBITDA per ton in the fertilizer business?
- Jayashree Satagopan:** There are three factors that have actually helped us during this quarter in terms of contribution. One as I mentioned is forex, which could be about Rs.30 Crores. We also had a benefit of lower raw material prices. The third one as you know, our phos acid plant where we have the capability to use different mix of rocks and these rock prices vary. So, a

combination of low-grade versus high-grade rock had also given us a higher value gap in terms of the phos acid that has been produced at Vizag. So, combination of all of these during the quarter has actually helped us with a better margin.

Sumant Kumar: So, when you are talking about lower raw material prices, apart from rock phosphate what other raw material prices have you benefited because of ammonia we can say?

Jayashree Satagopan: Yes, ammonia has been lower, sulfuric acid has been lower, sulfur prices have come down. So, I think overall when you look at it, the raw material prices have come down so that has helped us.

Sumant Kumar: So, can you disclose about how the inventory placement like in this quarter of the older inventory and new inventory, the mix?

Jayashree Satagopan: I am not able to get your question.

Sumant Kumar: You have sold around 6,80,000 what you are showing in the number. So can you disclose out of that how much or maybe NPK and DAP, how much is old inventory? How much is new inventory? Where you are getting benefit of ammonia and phos acid?

Jayashree Satagopan: Okay. In order to get through the numbers you can call off-line, we can talk about it, we don't have the number readily available.

Sumant Kumar: Apart from the fixed cost in the crop protection, what other key reason for lower margins?

Jayashree Satagopan: One, as I mentioned, is the sales itself has been lower because of Sarigam shutdown.

Sumant Kumar: That is the fixed cost that you are talking about.

Jayashree Satagopan: The contribution is not there. The fixed cost is there, the contribution still will not be there if you are not able to sell.

Sumant Kumar: Any other opex is there you have that would capitalize in the expenses?

Jayashree Satagopan: So we do not have any other opex. Our repairs and maintenance, as I also mentioned, we have done the annual turnaround activities with both Ankleshwar and Dahej. We normally do it at the beginning of the year. Since it is planned out earlier, we did not want to stop it. So that's part of our normal operating expenditure. And there are some pricing pressures on Mancozeb to a limited extent. So, if you look at it broadly, it is mainly Sarigam. And then

that is lot of contribution. Then you have fixed cost in terms of repairs and maintenance that are going on at Sarigam.

Sumant Kumar: Mancozeb, so what would be the repair and maintenance? Is it significant or very minimal?

Jayashree Satagopan: I do not have the number. It is not too big a number here.

Sumant Kumar: Thank you so much.

Moderator: Thank you. The next question is from the line of Girish Raj from Quest Investment. Please go ahead.

Girish Raj: Thank you for the opportunity. Good show on the subsidy and EBITDA. So my question was on the CPC business, our FY2020 growth expectation on CPC business was double-digit. Given the weak performance in 1Q, are we revising the growth expectation and EBITDA margin outlook?

Jayashree Satagopan: See in terms of growth expectation, we might see a bit of a moderation happening. While we do have strong orders with us, Sarigam has just started operations so it might be lower than what we had earlier estimated. Margins could be around 14% to 15% overall. That is what we are looking at.

Sameer Goel: The main thing we are looking at CPC is introduction of new products, which we hope to introduce. Even our products which we introduced last year are doing pretty well. So, we are changing the outlook on how we do our business on crop protection.

Girish Raj: So, Sameer Sir, you also alluded to some business reorganization in the international market. How will this help to achieve our medium to long term? You have presented good potential from CPC point of view. So how will the reorganization, can you relate these two just for our sake?

Sameer Goel: There are a couple of things, which are there. One is like we acquired bio business last year and that is doing very well. And it gives us access to develop markets, which because we already have our distribution and agents in U.S., Canada and Europe. So that is a good thing on that and anyway bio synergies will happen with the other emerging markets business. The second thing we want to have international markets to grow continuously. We are looking at forming at subsidiaries and looking at JVs in terms of some of the big potential markets. Currently our business is mainly geared up for B2B. There we will establish a B2C teams and look for potential partners in that space. Therefore, we have split up the business into two verticals to continue to look at a B2B and then to explore the all B2C. And we will

be putting our people in the market, which is our own manpower, own the registration and therefore, we will have a much stronger reach for the brand and the customers.

Girish Raj: Alright. So we have already started this?

Sameer Goel: We have announced the whole structure. We have started the process of looking at the potential customers.

Girish Raj: Great. And on the exchange difference, Madam, this Rs.30 Crores, this actually income in terms of MTM or it is not there and the corresponding quarter last year there was an expense of Rs.30 Crores, how to understand this?

Jayashree Satagopan: It is a combination of both, Girish. Last year, beginning of the year we started seeing rupee depreciating, right? Now rupee is appreciating. So the forward premium cost in absolute terms has also come down. And then there is a little bit of impact due to mark-to-market. So, it is both.

Girish Raj: And inventory levels of manufactured fertilizer?

Jayashree Satagopan: You want the quantitative, quarter-over-quarter?

Sameer Goel: Overall in Q1, we moderated our production to be in line with the sales. One of the things which we are now monitoring very closely is the offtake from the POS machine. And that is something which we are looking at much more because that's a much better measure of consumption.

Girish Raj: And what is the impact?

Sameer Goel: And there we are in line with the industry.

Girish Raj: In line with the industry would mean...

Sameer Goel: There was a decline in our addressable market in the industry and we are at the same level, so we moderated the production.

Girish Raj: Thank you very much.

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

Abhijit Akella: Good afternoon. Thank you so much for taking my questions. Sorry if I missed this point if you have already clarified this on the call, but I just wanted to check have we sort of officially announced the reduction in fertilizer prices on the back of IFFCO's announcement a couple of days ago?

Jayashree Satagopan: Yes, so new fertilizer prices have been announced. So, DAP is Rs.27,000.

Abhijit Akella: Right, okay. So typically in the range of 8% to 10% cuts across all the products?

Jayashree Satagopan: Yes. From the earlier prices, it would be about 8% to 10% lower.

Abhijit Akella: Right. Would this be applicable on the existing inventory in the channel as well, Madam?

Jayashree Satagopan: To some extent, we have already provided for discounts because we knew that the material prices have been coming down. And there is going to be MRP revision that will happen in this quarter. So that has been factored in already, Abhijit.

Abhijit Akella: In terms of the overall inventory situation in the channel for the industry overall, and if you could just comment on how it stands right now? What the number is right now compared to what it was last year at this time?

Jayashree Satagopan: The channel inventory continues to be higher this year, primarily because of the delayed monsoon. And there are certain markets, where we see that the channel inventory is on slightly higher end. If you look at Maharashtra, we have seen higher channel inventory across the industry, I am not talking Coromandel in particular. Similarly, if you look at West Bengal, Rabi monsoon was a failure and we are seeing that there is high level of channel inventory. Wherever there has been rain, the channel inventory has gone down especially in the northern and the eastern markets. But some markets, this continues to be challenge still.

Abhijit Akella: Any numbers you could put to it, Madam? Might be all India industry level?

Jayashree Satagopan: I will come back to you on that. I think it is roughly about Rs.5 million to Rs.6 million. Exact numbers I am not having it with me right away. But we can get you the details.

Abhijit Akella: But year-on-year it could be up by a significant...

Jayashree Satagopan: Year-on-year it will definitely be higher.

Sameer Goel: There has been a good consumption in the northern markets now.

- Abhijit Akella:** And just to clarify, the price increase we announced is effective what date, Madam?
- Sameer Goel:** Price increase, decrease?
- Jayashree Satagopan:** Decrease.
- Abhijit Akella:** So sorry my mistake, decrease.
- Jayashree Satagopan:** Yes. That is effective today.
- Abhijit Akella:** One last thing was the just the subsidy backlog at the end of FY2019 for the industry overall, would it have been in the same range of Rs.30000-Crores odd? And how do you expect that to end this year, given the increase in allocation?
- Jayashree Satagopan:** The subsidy backlog we estimated it at about Rs.39,000-odd Crores end of fiscal year 2018-2019. The government has to take a onetime allocation of this additional requirement for it to completely clear the backlog. They have taken about Rs.10,000 Crores more. Most of it is also going in for urea, not necessarily for NPK. Having said that during the last two months towards the end of May and June, we have seen higher subsidy payments from the government. This month also we are expecting close to Rs.500 Crores to be disbursed to us. So, it will be a challenge, Abhijit until Government gets a onetime budget allocation to clear the backlog
- Sameer Goel:** But what will happen is they will give us a special banking arrangement. So, the main thing for us is to ensure that we submit all the claims and then it will be linked to what consumption has happened on the point of sales machine. And that is what we are looking at doing. If companies have products, which are lying in the trade channel at the dealer's end or the retailer's ends, will actually not receive the subsidy. Moreover, after the backlog of 10% balance claim and freight subsidy comes down, then it is only a question of what gets consumed at the retail end by the farmers.
- Abhijit Akella:** Thank you so much and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark capital. Please go ahead.
- Vishnu Kumar:** The first question is on the crop protection sale. We have reported Rs.270-odd Crores. Madam mentioned that Rs.70 Crores or Rs.80 Crores will impact from Sarigam not operating during this quarter. We still see at about adjusting for this even, there is 20%

decline in crop protection. Is Mancozeb price reduction explained by this 20% or is there something else also because we were at Rs.420 Crores now Rs.270 Crores?

Jayashree Satagopan: Yes, Vishnu. Rs.70 Crores to Rs.80 Crores is on account of Sarigam operations. We also had some of our local formulation sales getting impacted plus there has been some impact on account of Mancozeb prices.

Vishnu Kumar: Secondly, you mentioned that the production of some of these products are getting started right now. Is there a possibility of because the production is starting delayed for second half placement, will it become a challenge or we will still be running full-time and get the second half sale should be okay?

Jayashree Satagopan: We do not see an issue in terms of the sales, because for Mancozeb we have production capacity both at Sarigam as well as at Dahej. Dahej we have invested to increase the capacity per day from 40 to 70 TPD. That will get operational very soon so that will sort of help in terms of balancing the Mancozeb capacity. Secondly, the Sarigam plant has already started production of acephate. Mono is primarily the first quarter sales. So, to some extent mono cannot be caught up during the rest of the quarters. But rest of the products are in line. Similarly, if we look at the new products that we spoke about last time, be it Pymetrozine, pyrazosulfurom. All the plants are getting ready. Pymetrozine plant is already ready. We're waiting for CIB approval so that we can get started with the production and the formulation. The new plants are also up. So that is on the positive front.

Vishnu Kumar: Okay, got the point. And you mentioned you are also looking at partnership with some Chinese for processing and when do we see any investments or any first seeds being laid for this year, next year? And what kind of capex are we looking towards this?

Jayashree Satagopan: Already one is functional. The pymetrozine project is in collaboration with one of our Chinese strategic partners. So that plant is up and running now. Similarly, for the other new products that we are planning, we spoke about a couple of them but there is a good pipeline that our business has identified. So we are in discussions for some of those new products as well. And it will come up probably in the next six months to a year.

Vishnu Kumar: How much capex are we looking from this business side in the next say FY2020 and FY2021?

Jayashree Satagopan: This year we are talking close to about Rs.80 Crores to Rs.100 Crores. Next year it could be a similar Rs.50 Crores to Rs.80 Crores.

Vishnu Kumar: This is for overall or only for this business?

- Jayashree Satagopan:** This is only for Crop Protection.
- Vishnu Kumar:** Crop Protection and if you could just give the overall capex also, Madam?
- Jayashree Satagopan:** The overall capex this year that is close to about Rs.450 Crores to Rs.500 Crores. The main one is the phos acid plant, which will get commissioned in October. And then we had about close Rs.100-odd Crores for another Crop Protection. Then the balance is about the normal capex that we incur year-on-year.
- Vishnu Kumar:** And for FY2021?
- Jayashree Satagopan:** FY2021 could be about Rs.300 Crores to Rs.400 Crores. Maybe have to just look at it. The business has given their inputs, but normally we do the allocation by the last quarter of the year when the budgets are getting trued up.
- Vishnu Kumar:** And just coming back to the earlier participant's question on the inventory and on the price reduction. Firstly, the price reduction that you have taken now, is it across all the NPK grades including our specialty grades also by anywhere about 8% to 10%? Or what would be the blended reduction?
- Jayashree Satagopan:** We have taken price reduction across all grades because the raw material prices have come down and that would significantly impact the cost of production favorably. So to that extent it is only appropriate to pass this on to the customers. So that has been brought down.
- Vishnu Kumar:** No, I want the percentage. How much would have done it? Or across-the-board it would be 8% to 10% range?
- Jayashree Satagopan:** It would be that range, 8% to 10%. The current premium we may be having in terms of our finished products will continue as we even reduce the prices. So, we maintain that premium between the products, but overall, we should look into an 8% to 10% in terms of price reduction.
- Vishnu Kumar:** Okay, got it Madam. If we look at the fertilizer, the MFS data looks like about 0.5 million tons of NPK grades are there. So the 8% impact seems to be a triple digit number if we were to look at it, the price reduction from the closing June end stock to now. So how should we see the impact of on our financials in the ensuing quarter?
- Jayashree Satagopan:** Prior to the price reduction, there was a high level of discounting that was anyway going on. While the MRP had not come down, there were discounts that were being passed on to the

dealers to liquidate the inventory. As the prices come down, the discounts will get moderated so one has to look into it from this context.

Vishnu Kumar: Should we also expect a lot of credit notes being passed in Q2 for some of the sales that has already done in 1Q, the stock which are with the distributors now that we have taken the price reduction, we will have to pass on some of those as well?

Jayashree Satagopan: Some of these has been provided in the first quarter itself. Normally in Coromandel, we have this principle of assessing what could be the impact in the coming quarters, and we apply a conservative principle.

Vishnu Kumar: And how much would that impact be?

Jayashree Satagopan: It will be close to about Rs.40 Crores to Rs.45 Crores here.

Vishnu Kumar: Got it. And finally, the other income number that you mentioned is it adjusted against other expenses or is it part of other income, Madam? The FX gain, which I mentioned of Rs.30 Crores, it is adjusted against other expenses or is it part of other income?

Jayashree Satagopan: It is always part of other expenses.

Vishnu Kumar: Thank you. Thanks a lot Madam. That is about it.

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

Resham Jain: Thanks for the opportunity. Just I had two questions. So one is on the Crop Protection business if you can quantify the onetime kind of impact which must have happened this quarter because of the plant shutdown? And just quantify that number if possible?

Jayashree Satagopan: Yes, about Rs.40 Crores, Rs.45 Crores will be the impact.

Resham Jain: On the EBITDA, right?

Jayashree Satagopan: Yes.

Resham Jain: Secondly, the MRP correction which you have mentioned. If you can just guide on the overall, has there been any change in your full-year number, which you could be typically explain on the manufactured NPK, EBITDA per ton?

- Jayashree Satagopan:** We think that it will about Rs.3,000 to Rs.3,500 per metric ton for manufactured NPK.
- Resham Jain:** Given the current environment, do you feel that this is doable?
- Jayashree Satagopan:** We think this is doable.
- Resham Jain:** Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** You mentioned that the Crop Protection margins would be around for 14%, 15%. That was the EBIT margins or the EBITDA margins you're getting for the rest of the year?
- Jayashree Satagopan:** This is EBITDA margin.
- Bhavin Chheda:** EBITDA margin. So, this is for the rest of the period or you're guiding it for the entire FY2020?
- Jayashree Satagopan:** This is for FY2020.
- Bhavin Chheda:** Entire FY2020. Second question if I missed on a number, what is the subsidy outstanding receivable as on June 30?
- Jayashree Satagopan:** Rs.1777 Crores.
- Bhavin Chheda:** And what was the gross borrowing in cash as on June 30?
- Jayashree Satagopan:** Borrowing was about Rs.3000 Crores.
- Bhavin Chheda:** The gross borrowing?
- Jayashree Satagopan:** Yes.
- Bhavin Chheda:** Okay, no problem. And since the Sarigam plant is now already operational, what kind of growth we expect in the Crop Protection business for the balance part of the year? Because you said Q1 also there was some hit in domestic formulation sales. So is this back to normal, or do you think that because the Crop Protection otherwise has been growing around 14%, 15%, so knocking off Q1 impact, is that growth back on track, or it will take time?

- Jayashree Satagopan:** See the rest of the quarters will grow as per our plan. To the extent that we had a hit in the first quarter might impact it for the full year, I think 8% to 12% on a year-on-year basis.
- Sameer Goel:** Double-digit.
- Bhavin Chheda:** On the complex fertilizer production, do you anticipate this kind of capacity utilization or you think that things have picked up in sowing has picked up in July so this capacity utilization will improve going forward?
- Jayashree Satagopan:** This is going to be a dynamic situation. Just now monsoons have started in AP-TG. The forecast is that it should pick up and Southern Peninsula should receive adequate rainfall during August and September. As sowing picks up, we will modulate our production. And if it picks up, obviously, the production capacity will get increased.
- Sameer Goel:** Normally what we are doing is because we have assets, we are not looking at imports of DAP. We are looking at our own production which obviously, has a better value for the customer.
- Bhavin Chheda:** Thank you.
- Moderator:** Ladies and gentlemen, due to time constraint, that was the last question. I would now like to hand the conference over to Mr. Pratik Tholiya from Elara Securities for closing comments.
- Pratik Tholiya:** I would like to thank all the participants who joined this call. I request the management to make the closing comments.
- Sameer Goel:** I think like we said, Q1 was a bit of a aberration for us, primarily led by the fact that sowing has not been as per the estimates, but there are very good indications on how the entire monsoons are coming up and with the company's pipelines on new products and the focus which we are getting including the fact that the claims which we are getting out of subsidy and all our marketing efforts, we are quite confident that we will continue to have a good very good performance as we have done in the last three years.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Elara Securities that concludes this conference it. Thank you for joining us. You may now disconnect your lines.