

Moderator:

Good evening ladies and gentlemen. I am Edwin, moderator for this conference. Welcome to the conference call Coromandel International Limited hosted by Emkay Global Financial Services to discuss the impact of revised NBS scheme. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Rohan Gupta of Emkay Global Financial Services. Over to you sir.

Rohan Gupta:

Thank you Edwin. Good evening all the participants who have logged in for the conference call of Coromandel International. From the management, we have Mr. Kapil Mehan, Managing Director of the company, Mr. P. Nagarajan, CFO, and Mr. Shankar Subramaniam, VP Finance. Good evening sir.

Kapil Mehan:

Good evening.

Rohan Gupta:

In the conference call we will discuss recently introduced NBS scheme and what will be the likely impact of that. I request the management if they can throw some light on the policy and how it is going to impact the industry and the company. We can later follow it up with a question and answer session. Over to you sir.

Kapil Mehan:

Good evening everybody. Thanks for joining in this call. This call was specifically organized basically to communicate with all of you, our understanding of the policy announcement, which has been made day before yesterday and the way that we see it, and the way it is designed. If you would recall, let me start by saying that nutrient-based subsidy policy was introduced with effect from 1st April 2010, and the fundamental objective of this policy was to begin the process of unshackling the fertilizer industry, whereby the subsidy gets fixed and the farm gate prices become free. To ensure that there is adequate availability and also there is no spike in the prices, which happened in 1992, the government and industry have worked very closely at beginning of this year to ensure that the subsidy levels and the price levels and the international prices, etc., they were all in some sort of a balance and that's exactly what has been achieved. This year, the availability of phosphate and potash fertilizers has been very good, the consumption has grown, and I think all fertilizer companies including Coromandel have done much better business than in the past it has been done. So if we look at overall satisfaction levels, of all the three key stakeholders of this industry, whether it is farmers, farmers are very happy because they got what they wanted and they didn't have to pay too high a price for that. Government is happy, because subsidy also, is much under control, barring for the increase in volumes, I think by and large it has remained under control and industry has been able to run its plants fully. Imports have been healthy, demand has been very healthy. One of the objectives of this policy was also that we must move to more predictable kind of a policy environment and what this announcement of day before yesterday has done, is that the subsidy levels - what are going to be available from 1st April 2011, that's a very important date to note, that these changes are not to be effective from tomorrow, and if we look at it in terms of policy formulation, I think we have moved a long way, where we used to wait for two quarters or four quarters, and then there will be retrospective changes in subsidy. Now we have prospective changes being announced. So, this particular level of subsidy will be applicable for 2011 and 12. One could ask, why so early? I think as you are all aware that phosphate and potash have to be imported whether it is in the form of raw material or in the form of finished fertilizer, and this has now given the industry enough and adequate time to plan its purchases, to negotiate with their long-term suppliers or international suppliers, and then continue with the operations. Having said that, I think there are also a couple of positive announcements in this policy. Apart from that it is now, today in the month of November itself we know exactly what the government part of the revenue is going to be, so we can plan our purchases and negotiations accordingly. The road movement, which had a bit of a restriction during last year, because of government's apprehension that subsidy numbers may go out of control, so that has been relaxed a bit. The secondary movement was another cause of concern, that also I think has been given some support in terms of secondary freight being reimbursed on equated basis, so that is a positive development. Single super phosphate, which was outside the freight subsidy scheme, that has also been brought in. So with these few words, overall we consider this policy announcement to be a positive one. We consider this to be a very timely and a responsible kind of announcement, which has been made very well in time. You know, I think that is the bottom line. So with this we would be happy to take any questions, but before we do that, Mr. Nagarajan, would you like to add anything?

P. Nagarajan:

As Mr. Kapil Mehan mentioned, it is a very well thought out policy and announced well in time to enable the players to negotiate and then finalize the prices. Well, last year if you recall, the announcement came much later in the month of February and we had to rush through with the contracts, whereas this time it gives enough time to the parties to discuss. In fact we have the Fertilizer Association annual conference starting next week. So it gives an opportunity for both the buyers and sellers to meet and start discussing the prices, and come to an agreement well before March. And to that extent the government has really worked its schedule pretty well. That's all I have to add to what Mr. Kapil Mehan has said.

Kapil Mehan:

Yes, Rohan, we can now take questions if there are any.

Rohan Gupta:

Thank you sir. Edwin, can we open the floor now for Q&A session?

Question and Answer Session

Moderator:

Yes sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

First question comes from Mr. Jay Shah from Reliance Mutual Fund.

Jay Shah:

Hello, good afternoon sir.

Kapil Mehan:

Good afternoon.

Jay Shah:

Sir, now the subsidy rates are decreased and we are major importers of major raw materials, do you see raw material prices for phosphoric acid and other major raw material prices going down for FY12?

Kapil Mehan:

See, it is too early to say which way they will go, but now that we know that subsidy level is going to be what has been announced in this announcement, we will be much better positioned to negotiate and define our levels of purchases, so it is helpful in that direction. Which way the international market will grow, it is too early to say that, but right now the market is stable. Having said that, India is a very major player in the global market and I think that Indian demand and Indian purchases are very critical to the global supply.

Jay Shah:

Yeah and sir, regarding the farm gate prices next year, what kind of increase could you pass on to the farmers?

Kapil Mehan:

See, as I said earlier, it is too early to say that. We have to first figure out what are the raw material prices, that we negotiate, and that's the function of international prices, and India is a very important part of that international fertilizer trade, and India plays a very significant role in the demand - supply equation of the global trade. Once we know what level that settles, then we will come to the level of farm gate prices.

Jay Shah:

Okay. So sir, could we say any deduction in lower subsidies would be compensated by lower raw material prices and higher farm gate prices in next year?

Kapil Mehan:

Well, I think, the very purpose of announcing these prices is that we go out and negotiate hard with our suppliers and then whatever is the residual impact if at all left, will have to be passed on to the farmers - and that freedom is there as per this policy. If you have the copy of that circular, and if you see the para #12, it says very clearly that market price for subsidized NPK fertilizers will be open and will be announced by the fertilizer companies. So, I think, these are important developments.

Jay Shah:

Okay sir, thank you, I will come back for more questions.

Kapil Mehan:

Thank you.

Moderator:

Thank you sir. Next question comes from Mr. Eric Ritter from Nezu.

Eric Ritter:

Hello, I guess I was wondering that was this a surprise to you and how often will the government choose to adjust the subsidy? I kind of thought that it was set and...

Kapil Mehan:

Can you repeat your question?

Eric Ritter:

Was this a surprise to you and do you expect them to change the subsidy every year or every quarter or how often would you...

Kapil Mehan:

Well, as per the policy announcement of last year, it was supposed to be a once in a year affair and until and unless there are some extreme circumstances, which necessitate that the government has to take a view. But by and large, I think it is well established and for this year already I think the para 4 of the policy states very clearly that this is for 2011-12, effective 1st April 2011, and we are sure that the government will stick to these numbers through the year until and unless there are some extreme circumstances, which we don't foresee at this stage.

Eric Ritter:

So if you kind of raised prices twice in 2010-11, you still get the benefit of the higher subsidies for this year, but the next year it goes down.

Kapil Mehan:

Yeah, next year, the subsidy level goes down.

Eric Ritter:

Okay, alright, thank you.

Kapil Mehan:

Thank you.

Moderator:

Thank you sir. Next question comes from Mr. Sagar Tanna from Kotak Securities.

Sagar Tanna:

Sir, my question is more of something and I understand you may not have complete clarity on, but if you were to keep the current profitability same, on a per tonne basis, and assuming phosphoric prices are also similar as they are prevailing today, for the next year, how much would you have to increase the prices of say DAP?

Kapil Mehan:

See, I think, at this stage it would be a highly unlikely and a very hypothetical type of speculation to do that while the subsidy reduction is known, and if we assume that raw material prices remain stable, that's a highly unlikely situation. Already there are indications that from the current levels itself, people are talking of some adjustments in prices, etc., and the policy announcement is not even 48 hours old, and it is too early to say that because there are developments, which happen in the international market, there are other international markets also, there are other global demand-supply considerations, which come into play, and once they play out we will have sufficient time to decide. So I don't think there is any need to get too worried or too carried away by the fact that the subsidy has been reduced. On the contrary, I would say that this is one of the objectives that subsidy levels become sustainable, and government's overall fiscal management and overall considerations on fiscal deficits, etc., also need to be addressed. So it is a balance, I think, which is sought to be achieved in a very professional and timely manner.

Sagar Tanna:

I understand that sir, and that is where I did mention that it was a hypothetical one. But sir hypothetically if you were to maintain the profitability on a per kg or per tonne basis, do you think you would be able to increase prices by say 4,000 odd rupees or whatever is the...

P. Nagarajan:

Mr. Tanna, please understand, see it doesn't depend on one factor - there are several factors in all, price of ammonia, the price of phosphoric acid, price of DAP or DAP, or the exchange rate, a number of factors are involved in the whole calculation. It is early to say whether the price will go up or to what extent it will go up. You know, we need to negotiate, that is why the government has given us enough time to go and bargain for each of these raw materials.

Sagar Tanna:

No, sir, my question was, if you were to increase the prices, can the farmer take the price increase? That was what I was coming to.

Kapil Mehan:

It would depend on circumstances at that point of time. The fact is also that the farmers have not been exposed to any major price increases in the past. Prices have more or less remained stable. Even last year, when urea price went up by 10%, phosphate price went up only by 6 - 7%. And I think with the increases in output prices, which have been announced, over the last 5 - 6 years, even though this year's MSP, minimum support price increase is not very significant, but the previous year's prices have been pretty good, agricultural production is good. And I think farmers are in a much better position to pay little bit more, but how much I think we will have to wait and watch and then decide after we have exhausted the opportunity with the suppliers.

Sagar Tanna:

Fine, thank you sir.

Moderator:

Thank you sir. Next question comes from Mr. Tarun Surana from Sunidhi Securities.

Tarun Surana:

Sir, it is likely that there will be at least a price hike that farmer needs to take, because raw material suppliers cannot take the entire reduced subsidy burden in my view. So assuming that prices rise from April 2011, do you think the balance nutrition and the skewedness towards nitrogen will again rise in case urea prices are still quite under control and very sensitive to farmers?

Kapil Mehan:

I think the issue you are flagging is a very important issue and government has already gone on record to say that they will introduce NBS, nutrient-based subsidy for urea too, and we are pretty sure that this kind of a pricing imbalance will not be allowed to happen because already India needs to improve its balance use, and relatively I think, urea price increase has to be slightly higher than what the NPK increases would be and that shouldn't worry us too much at this stage.

Tarun Surana:

So should we say that if urea prices go up by lets say 10%, NPK prices cannot go by more than 10% in terms of farm gate prices in India? Otherwise it will lead to some kind of distortion in balance again?

Kapil Mehan:

Well, see, you know these distortions and imbalance, etc., show up in the long term. They will not have a very immediate impact. Farmers also are much more and better informed and from whatever surveys we do and we work with farmers very closely, I think, they are also quite aware that they have to apply NPK fertilizers, they have to apply them in a particular proportion, so that trend also I think is to be reckoned. So that part does not worry us too much, that there will be a skewed use in favor of nitrogen. There is a certain amount of maturity in the Indian farming system whereby farmers are aware that they need to use phosphate and potash fertilizers and the response to use of potash and phosphate is much better than nitrogen. While nitrogen use is important and critical, the farmer gets much better response when he uses them in balance.

Tarun Surana:

And sir, do you also foresee India's bargaining power - is it so high that India can actually lead and force the correction of almost 20% in DAP and phosphoric acid prices, if we were to maintain our profitability plus a slight increase of 5-10% to firm it.

Kapil Mehan:

See, I wouldn't use such strong words as India's power. So if we look at international DAP prices, when we started in 2009-10, just the last year, the prices ranged between \$330 to \$430 - \$440, and this spiked again. Even this year's average so far has been between \$400 - \$500. Only recently, in the last 2 - 3 months, the prices have begun to go up and now again, since the last 4 - 5 weeks, the price movement has remained more or less at the same level. We know the cost structures of most of the global players and depending on what price of ammonia and sulphur is, the realizations on phosphate are extremely good at this point of time in the global market. And having said that, India is a very significant buyer of phosphate in the market and I think commensurate with its size, commensurate with its picture in the international market, I am sure India will get a good bargain.

Tarun Surana:

Right sir, that's all from my side. Thank you.

Moderator:

Thank you sir. Next question comes from Mr. Bharat Subramaniam from Sundaram Mutual Fund.

Bharat Subramaniam:

Good evening sir. Just two questions from my end. In terms of the government's policy making, do they normally have a consultation with the industry representatives before the subsidy is frozen?

Kapil Mehan:

Yes they do.

Bharat Subramaniam:

Okay. And is it a kind of an annual sitting that we have or is it normally a...

Kapil Mehan:

We have constant interactions with the government on various policy issues and that is an ongoing process, and even this was also discussed with the industry and all policy announcements are. What finally comes out is government's prerogative, but industry's inputs are sought and taken.

Bharat Subramaniam:

Okay. And in terms of negotiations on the sourcing side again, would it be bilateral or would the industry players do it together. I mean, what was the approach that was taken last year and again for the year ahead and again how would that be?

Kapil Mehan:

Well, by and large, it has always been bilateral, there is no consortium. We used to have consortium many years ago, and when it was under subsidy and there was no import parity pricing, but that went away I think five years or six years ago. We used to have a fertilizer (not sure) that has gone. So these are now bilateral understandings, which individual buyers and sellers settle between themselves.

Bharat Subramaniam:

Okay. And lastly in terms of our inventory perspective, for the current year as on date, how does it look and are we comfortable in terms of overall fertilizer inventory at this point of time?

Kapil Mehan:

Yes, I think as a country we are quite comfortable and rabi, which is the main sowing season, is now just getting over, and I think most of the rabi sowings are over. Now there will be minor seasons in Andhra Pradesh and West Bengal and Tamil Nadu. For that, their local domestic production is sufficient to take care of the demand.

Bharat Subramaniam:

And typically what would be the time in which we start getting active in terms of imports for both DAP and potash? From a seasonal perspective, when do we...

Kapil Mehan:

Well, see the net peak requirement of phosphate and potash will be for the June - July sowing and for that the arrivals need to begin some time in April end or early May, and that's the first peak demand that we have to prepare for. The next peak is really October - November, so for that there is sufficient time. But for this peak, I think we have time till February - March, to finalize and conclude our purchases.

Bharat Subramaniam:

Okay sir. Thanks, that's it from my side.

Kapil Mehan:

Thank you.

Moderator:

Thank you sir. Next question comes from Mr. Amol Kotak from ASK Investments.

Amol Kotak:

Sir, is this a kind of a precursor to the effect that the subsidy by government will be kept and probably over a period of time dismantled and correspondingly move towards a freer pricing regime. Would you regard this as a kind of a precursor movement to that?

Kapil Mehan:

Well, I think the whole nutrient-based subsidy as announced last year and carried forward this year, is primarily aimed at managing the subsidy to a level, which is sustainable from overall fiscal considerations for the country on one side and the ability of the farmer to pay on the other side, and also allow enough time for Indian companies and importers and producers to adjust to this new regime. So, yes, directionally we are moving towards a freer market space, and that's the direction, but whether subsidies will completely go away, I don't think that's happening soon. Agriculture is supported around the world by governments and that is a much larger issue, I think, at WTO level or Doha level that gets settled, that's a very different perspective, but in one form or the other, government will continue to support agriculture and I think fertilizer and fertilizer use has served the country well.

Amol Kotak:

No, my question is, is this a precursor to a freer pricing regime?

Kapil Mehan:

It is not precursor, it is a freer pricing regime, the nutrient-based subsidy is designed like that – that the subsidy is...

Amol Kotak:

I didn't say fair pricing, I said freer.

Kapil Mehan:

Yeah, freer only, that's what I said, that the price, if you read even this circular, it says very clearly that the price is free. Market price for subsidized NPK fertilizers will be open and will be announced by the fertilizer companies.

Amol Kotak:

Okay. And based on what you are saying that this has come in advance and it is a good thing that will allow you to renegotiate with the raw material chaps...

Kapil Mehan:

Not renegotiate, negotiate.

Amol Kotak:

Alright, and you said that maybe you will make farm gate adjustments, so it kind of seems to indicate a presupposition that you can indeed negotiate with the raw material suppliers and you can indeed kind of adjust your prices at the farm gate. So these assumptions, are they based on current reality or assumed reality?

Kapil Mehan:

It is based on current reality. The fact that India is the largest importer of these fertilizers in the world today, I think gives enough leverage to the Indian buyers to negotiate in a manner, which is good for them and good for us.

Amol Kotak:

But then that could have been used even otherwise, whether you reduced subsidy or otherwise, that leverage...

Kapil Mehan:

That has always been used that way, last year also when the price was finalized; the international price was at least 12 to 15% higher than what we negotiated.

Amol Kotak:

Right. And based on one of the previous questions where you mentioned that there is an interaction between the government and the industry body, and there is a free flow of thoughts and ideas, so I suppose this has not come as a surprise.

Kapil Mehan:

No, this is not a surprise.

Amol Kotak:

But, while it has not come as a surprise, is it something that you would regard as positive, neutral, or negative?

Kapil Mehan:

Well, we, at this point of time consider it very positive because it's the first time that we are seeing that the policy is being announced five months in advance, not 12 months later. We have been used to prospective adjustments into our books and quarterly numbers, etc. Now we have a regime where five months before we know what our revenue assumptions for 2011-12 are going to be.

Amol Kotak:

Yeah, but that's more of forecasting becoming more accurate - that does not necessarily mean better bottom line.

Kapil Mehan:

Well, when you know at least a few elements of future better, I suppose, by definition, it should turn out to be better.

P. Nagarajan:

That gives you an opportunity to negotiate accordingly. See, if I had not known, then it will be in an uncertain scenario. Here there is no uncertainty. I know this is the price and it is fixed, so I can accordingly go and negotiate with my suppliers.

Kapil Mehan:

And having said that - it also gives an opportunity to the global supplier to look at the prices in India. India being the largest market for most of the exporters of phosphate and potash, that if demand in India has to be sustained then what kind of pricing will work. So I think it gives adequate time and opportunity for both Indian companies as well as global suppliers to reflect on the same.

Amol Kotak:

Let me ask you a little more pertinently on this. Supposing you had rolled out your business plans for 2011-12 before this policy announcement came and now that this policy announcement of the reduction of subsidy has come by, would you say that your business plans stand altered in an adverse manner compared to what they were before these announcement?

Kapil Mehan:

Well, we don't roll out our annual business plans six months in advance. We are just about to begin our planning cycle and we do this every year, so one very important input where we used to speculate, we don't have to do that now.

Amol Kotak:

No, I mean, while I am thrilled that your numbers of variable sales have come down and to that extent the forecasting exercise probably gets more accurate, but I think apart from that arithmetical comfort of forecasting, I am saying whether from a business perspective, has it diminished your outlook for 2011-12 - maintained or increased?

Kapil Mehan:

Well we don't give by design any forward looking statements, but we are very confident and we are very clear that this will work out alright and business will continue uninterrupted and we have sufficient time to make decisions.

Amol Kotak:

Right, but by business you mean only turnover or profits as well?

Kapil Mehan:

Well, business is not only turnover, but you would know that and we also know that.

Amol Kotak:

But I want to hear from you.

Kapil Mehan:

Yes.

Amol Kotak:

Okay, so you mean both?

Kapil Mehan:

Yes.

Amol Kotak:

Alright, thank you.

Moderator:

Thank you sir. Next question comes from Mr. Swanand Kelker from Morgan Stanley.

Swanand Kelker:

Hi, I had two questions really. First was, in light of this new information that we have regarding these subsidies - Does it alter your capacity expansion plans in any way or they remain on track as...

Kapil Mehan:

They remain on absolutely on track. Actually we are trying to hasten them.

Swanand Kelker:

So if I read this right, from a raw material standpoint, next year you are in the market not only for lower prices, but also for higher volumes?

Kapil Mehan:

And we also have our joint ventures which will come into production next year.

Swanand Kelker:

Sorry, this joint venture is with?

Kapil Mehan:

With Tunisia and also during the next year we expect the Saudi Arabian capacity also to come on stream. So there will be two major capacity expansions which will come on stream in the international market.

Swanand Kelker:

So, this does not worry you, being in the market for a lower price and a higher volume.

Kapil Mehan:

Not given that what we know what is likely to emerge in the next 12-18 months.

Swanand Kelker:

So, these two initiatives you mentioned, how much of your raw material dependence would they total up to?

Kapil Mehan:

It will take care of our expansion plans.

Swanand Kelker:

My second question really was on the mechanism by which this subsidy is decided. Is this fully transparent by which, I mean, if suppose next year you were to compute this number would you be able to do it well in advance by yourself?

Kapil Mehan:

I think the consultation process between the government and the industry is a continuous process. Closer to the year end, looking at how the international prices are moving, how the domestic demand and process are moving, a call is taken and industry gives its inputs and then the government takes a call. So it would not be right to predict at this stage what will happen in 2012-2013.

Swanand Kelker:

Sure, I was asking just in terms of the methodology or the framework of computation?

Kapil Mehan:

The framework is very easy and straight forward and that everybody knows, but what number to plug in there, that is a function of so many other variables like foreign exchange, the ammonia cycle, there are also prices, the rock prices, the new capacities coming on stream - so all those factors are taken into consideration.

Swanand Kelker:

So between the consultative process and what the actual subsidy numbers came out to be, were you surprised or this was kind of what you expected would happen?

Kapil Mehan:

We expected this.

Swanand Kelker:

So, this was well within your expectation...

Kapil Mehan:

Yeah.

Swanand Kelker:

Thank you, that's it from my side.

Moderator:

Thank you sir. Next question comes from Mr. Kunal Mehra from New Vernon.

Kunal Mehra:

Good afternoon Mr. Mehan, my apprehension is twofold. One, we understand the intent of the government, it is to help back your negotiations with an adequate lead time, but how does this stack up versus China - because a large number of the global suppliers have contract pricing with China and India - and China's volumes are lot larger and if they were to yield to your demands or negotiate prices, they would need to replicate those for China and there is always that trade off of what you give into. So I recognize that India is a substantial buyer, but I am not entirely confident it is as large as China for them to yield to the demands for price negotiations.

Kapil Mehan:

Yeah, see we are talking of two major nutrients, phosphate and potash. For phosphate, India is the largest importer. China actually is a net exporter of phosphate now. They are no more into the international market, they actually supply into the international market and they have export tax adjustments, which allow them windows of export opportunities when the local demand is not there and this year I think close to 2 million tonnes of phosphatic fertilizers have come from China into India. So that is number one. I think what you mentioned was true may be about 10 years ago, not any more. On the potash side, yes you are right that China is also a significant player and in the past we have seen that China and India more or less move in tandem and each keeps looking at each other at how they negotiate. Now that Indian subsidy number is known and China has not yet concluded their 2011 purchases, I am sure this factor they will also consider and for potash also now India and China are more or less equal buyers in terms of quantum of fertilizers that we import. Actually in 2009 and 2010, India would be slightly bigger than China in terms of millions of tonnes of potash fertilizers, which are being imported.

P. Nagarajan:

See, we were able to bring down the price of potash from \$620 per tonne, if you recollect two years back, the same logic holds good even today and India is one of the largest buyers and mind you last year figure was \$350, this year it is more or less close to that figure only.

Kunal Mehra:

Fair point, and one additional question. I think the great thing that you made a good point of underscoring is that the government has actually given you enough lead time to modify negotiations and undertake the necessary changes. Would you be able to give us some visibility into what are the milestones like in the next three months - will you conclude pricing negotiations or is it a longer duration. Is there any visibility you have on those milestones?

Kapil Mehan:

Well, we believe that by February and early March we should be in a position to finalize the prices, because the volumes are more or less known and we have our own associates and joint ventures also, so those volumes are known. It is a matter of how do we modulate the price, so that - operations continue uninterrupted and supplies continue. We hope that by February end - early March we should be in a position to conclude our prices too.

Kunal Mehra:

Perfect, thank you very much for your time.

Kapil Mehan:

Thank you.

Moderator:

Thank you sir. Next is a followup question from Mr. Jay Shah from Reliance Mutual Fund.

Jay Shah:

Thank you sir for my question. Sir, I had a question regarding the monsoons; there has been prolonged monsoon in India, so has that in anyways affected the coming rabi season or will it affect the next year?

Kapil Mehan:

It actually benefits rabi season tremendously because the moisture level in the soil is good and we expect the sowings in rabi will also be very good. So if no other calamity strikes during the crops production cycle, India should see record production of agricultural production this year.

Jay Shah:

And in your key markets, kharif crop has not been affected because of prolonged monsoons?

Kapil Mehan:

No.

Jay Shah:

Okay, so there is no crop damage or anything like that?

Kapil Mehan:

Yeah, there has been no major crop damages except in minor areas here and there, but that has to be taken in one's stride, however production is growing quite rapidly.

Jay Shah:

Okay, thank you sir.

Moderator:

Thank you sir. Next question comes from Mr. Bhavin Chheda from Enam Holdings.

Bhavin Chheda:

Yeah, good evening sir.

Kapil Mehan:

Good evening.

Bhavin Chheda:

Sir, couple of questions. Historically there has been volume contracts and the pricing, the terms may be monthly, quarterly and few may be annual. Now since this NBS is already announced five months ahead and we are already one year into this regime and more or less the subsidy per tonne of the nutrient is fixed, will we force for annual contracts with raw material suppliers or we will still look for a blend of quarterly, monthly or combination of all the contracts?

Kapil Mehan:

Okay, let me deal with it one by one. I think as far as potash is concerned, we have always been on annual contracts and I think we already have a volume contract signed up for the next five years, so only price has to be negotiated and fixed. As far as phosphate is concerned, we move from annual to quarterly to monthly and back to quarterly - that's how developments have happened over the last 3-4 years and I believe that last year's price if we see has not changed through the year. For three quarters it hasn't changed and I think our effort would be to move to a longer period, but that is something, which we have to discuss with our suppliers and then finalize. It could be six monthly contracts or annual contracts, but our effort would be to move in that direction.

Bhavin Chheda:

So, your effort will be to move towards fixed price annually?

Kapil Mehan:

Towards longer duration contracts.

Bhavin Chheda:

Okay, both on volume and price front?

Kapil Mehan:

Well, for volumes as I told you, for potash - we have already got annual volumes tied up and because both our suppliers and we know that we are in business and we need those volumes and they also know that they need to sell those volumes. Only we have to fix the price and one of the parameters for pricing is always the subsidy number. Earlier it used to be not known now it is known.

Bhavin Chheda:

Right. So, basically along with the volumes now you will look for fixing price also on annual basis for potash and may be if possible phosphate.

Kapil Mehan:

Yeah, see it will have to be done based on the review and developments in the global market. Sometimes annual contracts will be better, sometimes quarterly contracts will be better, so I don't think one can have a very fixed perspective on this.

Bhavin Chheda:

Okay. Sir, my second question was particularly on this road movement and the secondary freight reimbursement. How much impact that would have according to you, it should be roughly Rs 300 – 400 a tonne, because route restrictions have now been removed and secondary freight reimbursed.

Kapil Mehan:

About Rs 150 to 200 a tonne.

Bhavin Chheda:

Both combined?

Kapil Mehan:

Yeah, both combined.

Bhavin Chheda:

Okay, thanks a lot and best of luck for your contracts, sir.

Kapil Mehan:

Thank you.

Moderator:

Thank you sir. Next question comes from Mr. Viral Doshi from Value Quest.

Viral Doshi:

Yeah, good evening sir.

Kapil Mehan:

Good evening.

Viral Doshi:

Sir, my question is, if there is reduction in subsidy rate, what impact this policy will have in operating margins for the players in general - it will come down or the player will be able to maintain the current level of margins, sir?

Kapil Mehan:

Well, as I already told you, it is too early to speculate on that. We have enough time to work with our suppliers and our effort would always be that we improve on our margins as well as improve our service level to our customers.

Viral Doshi:

But, how confident the company is, to be able to maintain this margin?

Kapil Mehan:

What do you expect us to say?

Viral Doshi:

Sir, pretty confident?

Kapil Mehan:

We are confident.

Viral Doshi:

Okay, sir. Thanks a lot sir.

Moderator:

Thank you sir. Next question comes from Mr. Miten Lathia from HDFC Mutual Fund.

Miten Lathia:

Sir, could you give us some perspective of how the phosphoric acid markets are poised for the next two or three years, especially since I suppose, the large capacity is supposed to come on stream in Saudi Arabia. Is that on track and do you think phosphoric acid in general would be well supplied or could become tighter?

Kapil Mehan:

We believe that 3 million tonnes of DAP capacities at Saudi is going to start commissioning from next year. We believe that they are most likely to begin by starting phosphoric acid and then go on to granulation to DAP, etc, so towards second half of 2011 through to 2012, we would see that capacity getting ramped up. That entirely is an export capacity. There is no local demand for that is by and large directed towards India, so we will have one major source coming up there and we also have our own joint venture project, which is coming up in Tunisia, which will also begin production by June-July of 2011. There is a Jordan and IFFCO joint venture also which is taking shape in Jordan. So, these are I think all the capacities which are directed primarily to meet Indian demand. So, we don't see any worsening situation of supply, on the contrary it would actually be more comfortable than what it has been so far.

Miten Lathia:

Sir, when Saudi Arabia actually forward integrates into manufacturing of DAP?

Kapil Mehan:

It will be a short window when phos acid will be available, because of mismatch in completion of their projects. Their effort would be to begin as early as they can, but we understand now that there could be a mismatch and they may begin their acid before they begin their granulation facility.

Miten Lathia:

Would it mean that with that granulation capacity primarily targeted at India - phos acid to DAP conversion margins that the Indian producers are enjoying today, will no longer hold and we could see lower margins at that end of the spectrum?

Kapil Mehan:

See, that would be a function of what happens to the global phosphate price. The DAP price really decides at what price the phos acid will come in and if let us say theoretically Saudi Arabia were to put 2-3 million tonnes in the Indian market, somebody will have to vacate that much and that would overall perhaps exert some pressure on the global DAP prices, which in turn will have an impact on the phosphoric acid prices. So, phosphoric acid prices and DAP prices move more or less in tandem and so do the rock phosphate prices. So, it is actually the DAP prices, which set the trend.

Miten Lathia:

So, if I understand it correctly you are saying that, that capacity will essentially put pressure on the integrated producers more than the non-integrated ones?

Kapil Mehan:

That's right.

Miten Lathia:

Yeah, thanks a lot for that sir, thank you very much.

Kapil Mehan:

Thank you.

Moderator:

Thank you sir. Next is a followup question from Mr. Amol Kotak from ASK Investments.

Amol Kotak:

My question has been answered, thank you.

Moderator:

Thank you sir. Next question comes from Mr. Sushil Choksey from Rosy Blue Securities.

Sushil Choksey:

Sir, thanks for taking my question. Can you highlight with our current expansion in the capacity, what kind of raw material sourcing we will do between our joint ventures and strategic partners, which we have put in place?

Kapil Mehan:

I think all our requirement of phosphoric acid will be met from that joint venture production, the additional requirement.

Sushil Choksey:

Is it possible to quantify?

Shankar Subramanyam:

We have existing contracts of 2.5 lakh tonnes each from FOSKAR, South Africa and GCT, Tunisia and this new project will give us additional 2 lakh tonnes. So we have 7 lakh tonnes. Balance we have spot buying as well as contracts with the Indian suppliers like Sterlite. So, our annual requirement will be in the range of 1.2 million tonnes post expansion. Currently it is in the range of 8 lakh tonnes to 1 million tonnes.

Sushil Choksey:

Thank you.

Moderator:

Thank you sir. Next question comes from Mr. Umesh Gupta from Reliance Wealth.

Umesh Gupta:

Yeah, hi. I just wanted to know, you said that this reduction in subsidy is an outcome of consultation between the industry body and the government. So just wanted to know, on the industry side is this - since it is a 20% kind of reduction, so the industry body assumed that it is easier to pass on the increase in price to the farmers, because I believe that since it hasn't come as a surprise to you, does it mean that it is not very harmful to you and the second is since the NBS has come, have you increased prices of the fertilizers?

Kapil Mehan:

Let me deal with your second question first. Last year there was a minor increase in prices which was in April. Rs 600 per ton and from 1st of November another Rs 320 per ton for complex fertilizers, not for DAP has been taken. So these two price increases have already happened. Second, when I said that this was not a surprise and there is a consultation process, we had given our inputs to the government and based on that the government decides what is in good interest of the government as well as the farmers as well as the industry. So, that consultation process does not mean that whatever industry wants happens, okay, so now that government has set the rules of the game, we have to go out and play the game.

Umesh Gupta:

Okay and for the next season when does the selling begin for the fertilizers?

Kapil Mehan:

See, the peak demand is starting from end of May till about July, so June - July are the peak consumption periods.

Umesh Gupta:

Okay. Yeah, I think that's it, thank you.

Kapil Mehan:

Thank you.

Moderator:

Thank you sir.

Rohan Gupta:

Hello, Edwin?

Moderator:

Yes sir.

Rohan Gupta:

Sorry to interrupt, can we have the last question, please?

Moderator:

Yes sir. The last question comes from Mr. Dhimant Shah from HSBC Asset Management.

Dhimant Shah:

Hello, yeah my question has been answered, but just to reiterate, I mean, you have enough negotiation power on the raw material side and plus you don't see any major demand disruption even if you have to go ahead and increase the prices. Would that be a proper conclusion from whatever you have said so far?

Kapil Mehan:

Well, I think we have enough time to negotiate, we have significant market share in the global trade of phosphate and potash to leverage our position and get the best bargain for the country and I think that we are confident of doing that. We have to be very careful and watchful over the next couple of weeks and couple of months and see how the international market behaves and how they respond to this development because it is as much important to us for our planning, it is also an equally important input to the global players who play in the international markets.

Dhimant Shah:

Fair point sir, but my question to you is more specific in the sense that a combination of price rise and you negotiating the raw material price downwards, both the combinations will at least ensure that profitability remains same or does not suffer significantly, would that be a fair conclusion?

Kapil Mehan:

Yeah, I think 20% difference is not very big between the two.

Dhimant Shah:

Perfect and if at all you might suffer, as somebody pointed out earlier that there might be substitution owing to the, if you take a price hike some amount can be subsidized by increased usage of may be urea or something for a very short term because farmers possibly now would be slow in the curve that okay, the prices are expected to go down.

Kapil Mehan:

That is one and second is that we are a domestic producer. We have our manufacturing facilities here and we do value add here. We have plans to come out with more value added fertilizers and if at all there is any impact on demand, whatever, howsoever marginal it might be, it would impact more finished goods imports rather than domestic manufacturing. I think that is a very important fact that we must keep at the back of our mind. And we have a very strong brand, we have a very strong distribution network, we have our own retail network also within the state of Andhra Pradesh. So we believe that we are well set for a free market regime.

Dhimant Shah:

Great and sir, just one last add on question, I mean, you mentioned a lot of calculation and a lot of factors go into the pricing, but if you can enumerate how important is the overall exchange rate in your scheme of calculation?

Kapil Mehan:

Very important. See, the importance is what benchmark we take and how the exchange rate moves. So that management of that through the year on a very, very proactive and continuous basis becomes very important and we have in turn the processes to take care of that.

Dhimant Shah:

Okay sir. Thank you very much for answering my questions. Thank you so much.

Kapil Mehan:

Thank you.

Moderator:

Thank you sir. There are no further questions. Now I hand over the floor to Mr. Rohan Gupta for closing comments.

Rohan Gupta:

Thank you Edwin. Sir, before we finish the call, I just had a couple of questions.

Kapil Mehan:

We thought we have answered all your questions.

Rohan Gupta:

Sir can you give us some sense what kind of margins these global integrated phos acid or DAP companies will be enjoying at present?

Kapil Mehan:

It is very difficult to say anything, Rohan. I think quarterly results for Mosaic, Potash Corp are available on the net, so please ask some of your associate to dig out those numbers and you see the movement over the last years. It will be very interesting for you to see the movement between 2007 and now, going up, going down, again going up.

Rohan Gupta:

But sir, that is the case for all the commodities businesses. The costs have also gone up, like ammonia cost and sulphur cost which is crude-linked, so all those costs...

Kapil Mehan:

All through this we have been fairly consistent.

Rohan Gupta:

Okay and sir, the second question, if suppose you are not able to bring down the cost anymore then will it be possible for the companies to pass on all the impact to the farmers. I mean, can you increase the prices by Rs 2,000-3,000?

Kapil Mehan:

See, it would be unfair to assume it at this stage that the entire increase will have to go to the farmer. I think a pragmatic assessment would be that a bit will happen on both sides. So, it will be between the supplier and the farmer.

Rohan Gupta:

Okay, but sir, what will stop the company to take those kind of price increases, because now the government has already mentioned that you can go ahead with increasing the prices. Whether it is a fear of lower demand or resistance from the government side or from the farmer side, what basically will stop the companies to take the price increases up to the extent of Rs 2,000-3,000 in one go?

Kapil Mehan:

I think it may not happen in one go, but gradually I think the prices will get adjusted to a level where the demand destruction does not happen.

Shankar Subramanyam:

Rohan, if you recollect the prices were reduced in 2008 and today even after the price increases that has happened in this current year, prices are still lower than those levels. Say, you remember June 2008 there was the reduction in the prices of almost all the complex fertilizers.

Rohan Gupta:

Yes, right.

Shankar Subramanyam:

Today we are below that level.

Rohan Gupta:

Okay, great sir. Thank you very much for giving all your valuable time. On behalf of Emkay Global Financial Services I thank all the participants who have logged in to the conference call. Thank you again.

Kapil Mehan:

Thank you.

Moderator:

Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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