

17 January, 2011

Moderator:

Ladies and gentlemen, good day and welcome to the post earnings Conference Call of Coromandel International, hosted by Emkay Global Financial Services. As a reminder, for the duration of this conference, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing * and 0 on your touch tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Rohan Gupta of Emkay Global Financial Services. Thank you and over to you sir.

Rohan Gupta:

Thank you. On behalf of Emkay Global Financial Services, I welcome all the participants who have logged in for the conference call of Coromandel International. From the management side, we have with us today - Mr. Kapil Mehan, Managing Director of the company, Mr. Nagarajan, CFO of the company and Mr. Shankara Subramaniam, VP Finance – who have joined in for the call. Sir, if you could just give us just the brief about Q3FY11 results, which we can follow up with the question-and-answer session.

Kapil Mehan:

Yeah, Kapil here and good afternoon to all of you who have logged in for this call, and thank you very much for the same. Let me begin by giving an overview on the fertilizers demand which has been good. I think this year, overall the fertilizers demand has been growing and more so for phosphate and potassic fertilizers, the demand growth has been of the order of almost over 11% over the first nine month period. You are all aware that food prices have also gone up during this quarter and I think that augurs well for the input industry and especially for the fertilizer companies, that there will now be more focus on enhanced food production and there will be, I think, immediate steps taken by the government to correct the supply situation, and that is the only way to manage it - by either announcing higher minimum support prices, or by making major interventions in the farm sector. And that I think goes well for the fertilizer industry.

Let me also state that our performance during this quarter has been good. Most of our facilities ran at full capacity and of course, I will touch upon some constraints that we did face during this quarter. Rainfall in all of our addressable markets has been above normal, and that works both ways. I think, NBS policy also has been in play during this year, and as we have earlier shared with you people that NBS policy does give the industry enough elbow room and freedom, to offer new products in the market and also adjust prices in hours of requirement, and that's exactly what happened during this quarter. That, we were able to move our prices up and just done by Rs 320 to Rs 400 a tonne, for all our complex fertilizers, except DAP there was no change in price - but we have the flexibility to change our product mix, and that's what we also did during the quarter. I think, let me also state upfront that there were two or three one-time incidents which did impact our operations.

One of our supplier of phosphoric acid, FOSKAR had a disruption in their railway line system between the rock phosphate mines, and their processing facility in Richards Bay in South Africa, and that disrupted production of phosphoric acid and thereby supply to us during the months of October and November, but now they are back to normal and the December dispatches have been on target. There have also been unseasonal excess rains in Vizag area and that did impact our operations little bit there, and also the rains towards the end of November and early December, especially in coastal areas of Andhra Pradesh and Tamil Nadu, which have pushed the Rabi sowings by at least 2-3 weeks into the fourth-quarter. So these one-time incidents have happened during Q3FY11 and I think it is better to take note of things upfront.

I think coming to our numbers for this quarter, our turnover has been higher at Rs 2,047 crores compared to Rs 1,757 crores last year; which is a growth of 15.05%. The EBITDA for the quarter has been higher at Rs 253 crores as compared to Rs 244 crores last year, higher by 3%. PBT has been higher at Rs 216.29 crores verses Rs 211.12 crores in Q3 last year, and net profit has been higher by Rs 150.29 crores as compared to Rs 146.12 crores, a growth of almost 3%.

I would also like to mention here, at this stage that our being a completely agricultural-based company, all our businesses depend upon the agricultural season, and the nature of the business being such, QoQ results while they are important and they are desirable but I think we need to look at longer periods of time, and hence the cumulative results on 9 month period or 12 month period, is a better reflection of what the market conditions are, because they capture any seasonal movements which may happen in terms of sowing times or application windows which get pushed by a few weeks backward or forward. And I think, the results of not only Coromandel but any company, dependent on agriculture need to be looked in that context, and that is where I think, if we look at our nine month numbers, and if we remove the one-time subsidy, prior period subsidy

income that has been received during current year, we have been able to maintain our EBITDA margins at 12%. With our EBITDA, for the quarter being Rs 242.63 crores and for the nine-month periods being Rs 789.97 crores, and the percent EBITDA margin has been maintained at 12%. It is important to note that because on the apparent look at our results there may show a decline in the EBITDA margin, but that is not to be.

So I think with these opening remarks I would request that questions can be asked and as far as our capital plans are concerned, let me just touch a little bit on that. Our Kakinada expansion is on track, and as we had already announced earlier, that we have finalized our engineering contract for that, and we hope to be in production by middle of 2012-13, and our Tunisian joint venture for phosphoric acid is also progressing well, and we hope that we will commence supplies of phosphoric acid from there by second quarter of 2011-12. I have already touched upon the price increase, which we took in November 2010, and I also must mention that we have taken another price increase effective this week in our DAP and complex fertilizers, ranging between 8 to 9%. So, with these opening remarks, I would welcome any comments or queries that you may have. Mr. Nagarajan would you like to add anything?

Nagarajan:

No but any queries if there, we will be able to answer now. Rohan you can carry on with the questions.

Rohan Gupta:

Can we have a question and answer session?

Moderator:

Yes. We have the first question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda:

Sir, 2-3 questions mainly on the volume and subsidy front. What was the volume figure in Q3 and the comparable figure last year? And if you can give trading volumes separately?

Kapil Mehan:

Yeah, our total sales volume during the quarter has been 8.63 lakh tonnes, which includes 74,000 tonnes of urea, as compared to 8.43 lakh tonnes last year.

Bhavin Chheda:

Okay, this is manufacturing?

Kapil Mehan:

Yeah this is manufacturing. It includes trading of ammonia. As I told you, it includes trading of 74,000 tonnes.

Bhavin Chheda:

Okay, this includes trading of 74,000 tonnes?

Nagarajan:

Yeah, plus 41,000 tonnes of the MOP.

Bhavin Chheda:

41,000 tonnes of MOP. Okay, and what was last year MOP?

Nagarajan:

MOP was 64,000 tonnes. But there was no urea last year.

Bhavin Chheda:

Okay and sir, how much was the subsidy accounted in turnover for this quarter?

Nagarajan:

No. Total subsidy approved during this quarter, we will come back to you.

Bhavin Chheda:

Okay. And sir, other question is on the negotiations. Has any negotiation happened for the next year volumes and how has that trend been already? You must be negotiating with your suppliers for phosphoric acid and potash?

Kapil Mehan:

For the year 2011-12, there is no negotiation which has begun, but the prices for phosphoric acids for January-March quarter have been finalized.

Bhavin Chheda:

And how much has that been sir?

Kapil Mehan:

There is a US\$50 increase in phosphoric acid price from the last quarter to this quarter. So the material which will get dispatched in January, that will carry the new price of \$830 per tonne of phosphoric acid.

Bhavin Chheda:

Okay. So, the price hike which you have taken just now, I think last week you said, will compensate for the increase.

Kapil Mehan:

That is right. That will compensate for this increase.

Bhavin Chheda:

Okay, thanks a lot. I will come back, if I have any questions.

Moderator:

Thank you. The next question is from the line of Madhuchanda Dey from Kotak Infina. Please go ahead.

Madhuchanda Dey:

My question is on non-subsidy business. If you could throw some light on what proportion of EBITDA and the top line has been contributed by the non-subsidy business, and in light of this general trend of the subsidy support from the government coming down - what is your medium to long-term outlook on that business?

Kapil Mehan:

Can you repeat second part of your question?

Madhuchanda Dey:

My question is, there is a general thinking that the subsidy support from the government is going to come down over the next few years, "I don't know whether you will agree with that, in the first place". But should that happen, how are you planning to steer your overall business?

Kapil Mehan:

Okay, let me deal with the first question. Our total turnover from non-subsidy business is approximately 10% of our turnover and 26% is the share of EBIDTA in that.

Madhuchanda Dey:

26% and for the nine-month what would that figure be?

Kapil Mehan:

Nine months, it is 11% and 26%.

Madhuchanda Dey:

Okay, and what would be the other operating income. Is it the retailing portion of the business or what is the other operation income?

Nagarajan:

So, this is basically income from normal operations like scrap sales or we have this DEPB income for our export benefit. And also includes income from the retail operations like insurance business and membership income from retail.

Madhuchanda Dey:

Okay. But this retail stores that you have, that is part of your business income, not other operating income.

Kapil Mehan:

No, no, that is part of the business income.

Madhuchanda Dey:

Okay, and if you could just show a much broader light on where you see your company in light of this subsidy rationalization?

Kapil Mehan:

Yeah. Let me deal with that by saying that the very objective of the Nutrient Based Subsidy is that the government is able to manage its subsidy budgets in a more direct manner. And that is the reason, that industry has been given the freedom to introduce new products, to introduce fortified products, to introduce fertilizers which are very specific to crops and geographies, and also it has been given the freedom to fix its prices. I think all that augurs well for the industry as well as for the farmer, as the experience of last nine months would show, that availability has been very good. The consumption of this fertilizer which has been decontrolled has been very good and I think that scenario would continue. I think your specific reference would also be to the subsidy rates which have been announced, which are fortunately 20% lower than the current year. I think we are all watching the situation very carefully and we are evaluating the situation very carefully in terms of the international prices as well as the domestic requirements. I think the country's main peak requirement will be sometime towards June-July, and I think we have enough time still to watch the developments in the international markets. The Government is also watching these developments. We are in discussion with the government and I think, what I am very sure is that nothing will be done which will disrupt the production of agriculture, which will disrupt the food grain production and I am sure that, international suppliers will not like to rock the boat, because India accounts for 2/3rd of the DAP imports, 2/3rd of the global trade of DAP actually comes into India. And I think government also would not like the supplies to be disrupted. So I think, imports of DAP should happen, and even if - in the unlikely event of the imports not getting impacted, the domestic manufacturers who have strategic tie ups for raw materials like phosphoric acid, would be even at bigger advantage because whatever supplies will be available, in the market, will come from domestic producers like us and we are the largest private....

Madhuchanda Dey:

Yeah, that point is well taken. I just wanted to get an understanding on this. You just mentioned that phosphatic prices have been revised up by close to 6.5% for this quarter, and you have taken a commensurate price hike to shield yourself for the time being.

Kapil Mehan:

We have taken an 8-9% price increase in the selling prices of ----.

Madhuchanda Dey:

Okay. But from April will be a situation when your subsidy will also come down by 20%. Suppose, assuming that there is no change in the policy from the government side, how do you expect to breach this 20%, means what is your internal calculation? How much of a price rise is possible, how much of a negotiation? I mean, if you could just give us some rough color on that?

Kapil Mehan:

See, it is very difficult to speculate on that, because we do not know which way the international market will go over the next few weeks. But the fact is that, there is no major demand period, though no demand which is going to come up in any geography around the world. I think, Indian demand is the one which will show up sometimes in March-April, and I think, everybody would wait for that. So next few weeks are actually lull in the international market also, so we have to see that there is a correction in the international market, and based on that I think, industry is in touch with the government and availability is a major concern at the government level. Subsidy also is a concern, but I think availability would be a larger concern at the government level. And in case that situation emerges, I am sure government would be pragmatic enough to take a view and adjust to subsidy number, but I would not like to speculate on that. Even if that does not happen, I think the uncertainty will then remain largely around how much of finished fertilizer imports happen in to our country, and that uncertainty can then impact the overall availability of fertilizer business in the country. But as I said earlier, that uncertainty will have no impact on us because we will be able to run our plants full of higher raw materials.

Madhuchanda Dey:

Yeah, I understand that point, but what was also hinted in the last statement that you made, was that, if there is an uncertainty with regards to import, then naturally by demand supply dynamics, you should be in a position to kind of pass on the prices. But, given the current regulatory milieu, you think that you will be able to pass on this entire input price and subsidy reduction pressure that you will take on yourself?

Kapil Mehan:

See, there is no regulatory value around it, okay. As per the policy we are free to fix our prices. The only judgment call that we have to make is that how much price increase do we take, and that number we will decide once we have concluded our arrangements with the suppliers. I will not like to speculate on both of them because that would be giving out advance information to our suppliers as well as to the government. And I don't think that is advisable to do at this stage.

Madhuchanda Dey:

Okay. Sir, at least for the March quarter you are reasonably protected in terms of your margin, that is

Kapil Mehan:

Yes, we have tied up our supplies of raw materials and we have taken a price increase so I think, these are the two statements that I would make, the rest you can calculate and make your own conclusions.

Madhuchanda Dey:

Okay, thank you.

Moderator:

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

Jay Shah:

Sir, what I wanted to ask you was, you just mentioned that because of excess rain, sowing season in Tamil Nadu, Andhra Pradesh has been delayed. So, do you see a scenario where the acreages in these areas have reduced because it might not be the right season in January or February to grow a crop?

Kapil Mehan:

Well, we do not expect that the sowing areas will come down, but our experience is that, there is a delay in the sowing and the water levels have receded over the last two weeks and paddy industries have taken that up and are now transplanting in these areas is in full swing. So we do not expect that there would be any reduction in acreage.

Jay Shah:

Okay sir. Sir if I'm right have we taken three price increases this year. One was after the policy, the second was during Diwali and this is the third one, 8-9%?

Kapil Mehan:

Yes, we have taken one in April, one in November and one in January, but I think we should not make too much out of this.

Jay Shah:

Okay, sir. Regarding raw material prices this quarter, could you just give us raw material prices for ammonium, sulphur? What were the prices, because ammonium sulphur moved very sharply in Q3.

Kapil Mehan:

Ammonium sulphur has now been stable since the last quarter, at around dollar \$425-\$435 range. Sulphur has also actually softened a little bit from US\$ 195 to about US\$ 170-180 levels.

Jay Shah:

Okay, so going forward, in the next year do you see a scenario where you could go for 3 price increases, as has happened this year? So could you go for more price increases in the next year, if the raw material prices remain the same and subsidies decline?

Kapil Mehan:

It would not be proper to speculate on that, because price revisions will be a function of so many factors that will play out, and we will take a call as and when such situation arises.

Jay Shah:

Okay, and sir there was some international report stating that in USA and in many countries there has been an increase in production of corn and there have been stocks depleting, so the demand of fertilizers is increasing and some report states that the prices of phosphoric acid and raw materials will increase in future. What is your take on this issue, sir?

Kapil Mehan:

On the global front I think the demand for fertilizers has shown a rebound, there is no doubt about that, and India is definitely a major part of the global rebound in demand. For 2010-11, we are likely to see the demand rebounding to the levels of 2007-2008 or maybe slightly exceeding that level also. So there is an upside in the global demand for fertilizers, and I think whatever capacity additions have happened in the last 3 - 4 years, they are getting absorbed now, and I think that is what is also having an upward pressure on the prices.

Jay Shah:

Sir, could the international demand for raw material prices remain at this level, at the current levels.

Kapil Mehan:

Well, we do expect that the prices will remain strong in the short run.

Jay Shah:

Okay. Sir, you said you booked your raw material contracts for Jan to March quarter. Could you give prices for ammonia and sulphur, what would they be?

Kapil Mehan:

I just mentioned those.

Jay Shah:

Those are the Q4 prices.

Kapil Mehan:

That's what I said that the prices are stable now and there in that range as indicated.

Jay Shah:

Okay, thank you sir.

Moderator:

Thank you, the next question is from the line of Ajit Dange from SBI Mutual Fund. Please go ahead.

Ajit Dange:

Sir, I have a query on prices of DAP. You have taken three increases, so compared to the March prices, how high are the January prices in terms of percentage YoY?

Kapil Mehan:

We took a Rs 600 increase in April and Rs 800 now, so it's a Rs 1,400 increase on Rs 9,350. So that translates to 15%.

Ajit Dange:

Okay. And sir, even for Q4, is there some reduction in the subsidy element for P&K fertilizers.

Kapil Mehan:

That is just a reappropriation of subsidy from direct subsidy on the product or nutrient, to reimbursement of secondary-freight, so that would have no impact on the revenues.

Ajit Dange:

Okay. So that means it would have not have any bearing on our margins.

Kapil Mehan:

No.

Ajit Dange:

Okay. Another question, I had regarding the subsidy issue. I mean how much you expect to be compensated by price rise and how much you can pass on to the raw material suppliers, but I guess we have discussed enough on that.

Kapil Mehan:

Yeah, I think that issue has been discussed quite a lot, and our stand remains the same. I think what we have been able to demonstrate so far is that, whatever price increase has happened in the raw materials, we have adjusted our selling prices with that.

Ajit Dange:

Okay, thank you, sir.

Moderator:

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

Varun Guntupalli:

My question is with regard to the pricing of this complex fertilizers vis- a-vis urea. Now we have been taking price increment on the complex fertilizers front, while on urea front, the government has not been taking any decision with regard to price hike. So will it not result in the imbalance of usage?

Kapil Mehan:

Yes you are right. It has potential to reverse the positive trend that we are witnessed over the last 4-5 years, and in the balanced use of major nutrients and I think the government is also well aware of that issue and is aligned to that issue and I'm sure, some form of approximate action will be taken but having said that also, I think, Indian farmers have also moved forward.

They do understand and appreciate the need for basal application of phosphatic and potassic fertilizers. They do understand the role that each fertilizer plays. Apparently it may look like that it will have a major impact but it may not have any major impact, infact it may only have a minor impact and diversion of farmers resources to more nitrogen. But I think on ground, farmers do value and understand the value of applying phosphate and potash. So I think that factor is a desirable factor but not absolutely a necessary factor.

Varun Guntupalli:

Okay sir. And another question that I have is in terms of the volumes off take in the non-subsidy portion. How has it been in this quarter - the water soluble fertilizers, the compost and the other potions in the non-subsidy business?

Kapil Mehan:

The organic fertilizers have continued to grow and I think earlier on too on one of the queries I had already mentioned that our top line growth of this business also has been more or less consistent with our overall growth in numbers. The share of non-subsidy fertilizers business continues to be in about 10-11% range and the share of EBITDA coming out of these is around 26%.

Varun Guntupalli:

Okay sir. But in terms of volumes if you can give an indication. You have big plans in terms of this non-subsidy business taking into....

Kapil Mehan:

We do not get into individual product volumes but I can only share with you that there is an increase in all the products that we sell and in organic fertilizers also there is an increase.

Varun Guntupalli:

Thank you very much, that's all I had to ask.

Moderator

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

Ashwini Desai:

My first question pertains to your CAPEX plans. You said currently you have two capacity expansions, Kakinada and Tunisia. Can tell me how much are you spending on each of these?

Kapil Mehan:

See in Kakinada we will spending about Rs 350 crores on the main plant and the utilities that we have along with that and the Tunisian joint venture is at a total investment of US\$470 million in the project and our share of equity is Rs 118 Cores that has already been spent.

Ashwini Desai:

Okay. The capital work-in-progress of Rs 146 Crores I see in FY10 Annual Report - it is pertaining to?

Nagarajan:

That is our own capital work in progress. There are various jobs going on the various plants. The Tunisian one appears under the head – 'Investments'.

Ashwini Desai:

Okay. Sir after this expansion what would be your capacity in FY12 and FY13?

Kapil Mehan:

It will go up to 4 million tonnes from 3.2 million tonnes.

Ashwini Desai:

In FY13?

Kapil Mehan:

Yes FY13 that's right. By the middle of FY13.

Ashwini Desai:

Okay. My second question pertains to, if I heard it correctly, you said that you have taken a Rs 1,400 increase on DAP prices, right from Rs 9,350?

Kapil Mehan:

That's right. That was the price of March 2010.

Ashwini Desai:

Okay sure. And sir can you also tell me, you said in next quarter i.e. January to March quarter, your phos acid prices are at US\$830. Can you tell me what it was in April-June quarter. I mean beginning of this year?

Kapil Mehan:

US\$ 780. It has been US\$ 780 till December. For first three quarters it has remained at US\$ 780.

Ashwini Desai:

Okay. That's all from my side. Thank you sir.

Moderator:

Thank you. The next question is from the line of Gautam Chaocharia from UBS. Please go ahead.

Gautam Chaocharia:

When is the first contract for FY12 in terms of raw materials, expected to be signed up by industry participants as well as by you?

Kapil Mehan:

See normally we sign up these contracts by the end of the previous quarter. Sometimes it extends into the early part of next quarter, so I do not see any disruption in that time schedule.

Gautam Chaocharia:

Okay. And when you say about price increases, what have you done in November and what are you doing just now for DAP? Do you see similar trends by other industry participants?

Kapil Mehan:

Yeah, so far our market information is that most of the people have taken price increases in DAP and complex fertilizers.

Gautam Chaocharia:

Okay and then one last question, in terms of your retails stores, any update on that in terms of the strategy to expand?

Kapil Mehan:

Yeah those plans are being worked out and I think the entire implementation of taking our store number from 423 to 600 by end of next year will be part of our action plan for 2011-2012 and those plans are now being worked out and they will be rolled out by the beginning of next financial year.

Gautam Chaocharia:

Actually one more question. On the customized fertilizer part, last time we spoke you said you are still awaiting regulations especially on captive use of raw material. Any progress on that or any timelines we can look at?

Kapil Mehan:

Yeah we have engaged with the government on that and I think government is likely to issue some sort of a clarification in addition to whatever has already been said and that would help us to move forward in the business of customized fertilizers. It is very difficult to put timelines as far as government notifications are concerned but what we know is that things are moving in the positive direction.

Gautam Chaocharia:

Fantastic. Thank you. Congratulations again.

Moderator:

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

Tarun Surana:

Most of my questions are answered, just one question on the DAP side. The price hike that you have taken is Rs 800 which translates into roughly 3.5% of the total realization. On MRP it is 9%, that is fine, but on total realization it comes to 3.5% whereas phos acid prices have moved up by 6.5% to 7%. Moreover, ammonia and sulphur are also not going to come down. It looks as if they are also stable. So my question is whether the cost increase is really fully going to compensate the margins will be stable in DAP business?

Kapil Mehan:

See we have freedom to optimize our product mix and I think that settles this issue quite well.

Tarun Surana:

So we will see more of complex volumes rather than DAP volumes being pushed from Coromandel?

Kapil Mehan:

Well I think, going forward - in the next 3 to 6 months, looking at the cropping pattern and etc. I think complex fertilizers are much better suited as opposed to direct application of DAP. As it is, complex fertilizers give better crop response as compared to DAP in most of the crops but that is not to say that DAP does not give good response. So that freedom is with us and I think last year also you would have seen that the production of DAP has declined and complex fertilizers has increased in the country and most of the DAP requirements have been met more from imports than from domestic production. So I think that optimization of our production is in line with market requirements and we will continue to do that.

Tarun Surana:

Sir also one question on what is the reaction of farmer associations or farmers to price hikes because this is happening after a long period that companies are taking price hikes 2-3 times in a year, it has never happened in the last decade.

Kapil Mehan:

Well I think from whatever interactions that we have had with farmers and whatever feedback that we are getting, the first and foremost requirement for farmers is the timely availability. The produce prices have also been adjusted in the last 4-5 years. Most of the minimum support prices have been increased by over 50% and there is a ready demand for the farmers produce and the farmer is more concerned in ensuring that his productivity does not drop and rather it goes up, rather than worry about Rs 10, Rs 20, Rs 30 a bag that he pays more for his fertilizers. So we have not seen any farmer resistance so far.

Tarun Surana:

Okay, that's it from my side sir, thank you and all the best.

Moderator:

Thank you. The next question is from the line of Vineet Sambre from DSP Black Rock. Please go ahead.

Vineet Sambre:

Sir actually my question pertains to some of your new initiatives which you have undertaken. One is on the farm mechanization and the other is on the organic manure business - how is that going and where are we in terms of our own targets. What we had mentioned in terms of achieving for both, if you can mention about those two businesses?

Kapil Mehan:

Yeah see let me first deal with organic compost business. We are very, I would say, optimistic on that business. We are very bullish on that business. Not because of anything but the sheer latent demand for such products in the country because our soils are terribly deficient in carbon content and that needs to be corrected to improve the productivity levels and our experience of working with the farmers over the last two years has been that farmers are responding to those, cash crops are responding even better and we will continue to drive volumes. But sourcing is a challenge so we have put a very robust sourcing team in place which is working around different cities in the country to tie up wherever composting facilities are there or encourage local entrepreneurs to set up composting facilities. We have tied up with lots of sugar mills to use their mud waste and compost than recycle it back into the fields. So we are very positive on that, so that is going as per plans. On the area of farm mechanization service that we started just 8 or 9 months ago and we are now into the third season of paddy sowing in the country in Andhra Pradesh. We are still at the stage of understanding the business model there. We are still trying to fix the performance parameters of that business and once our pilot scale operations are through and we are very clear about the business model there and the performance parameters we will rapidly expand that business because our farmers are very excited about that. I think there is a labor shortage in agricultural markets and I think that makes us look at that business quite positively.

Vineet Sambre:

Sir in terms of this organic manure business wherein we had the target to achieve about 1 million tonnes over the next 2 or 3 years, do you feel the availability of compost will remain an issue or you are comfortable in achieving that?

Kapil Mehan:

Well availability is a challenge. So that is why we have put a very strong sourcing arrangement which has been adequately manned and a fairly senior team has been put in place to work at sourcing and I think with that sourcing we are now picking up much more compost every day than what we had done 12 months ago.

Vineet Sambre:

Sir what kind of tonnages are we set to achieve for this year and next year?

Kapil Mehan:

So far we have already touched about a lakh of tonne of sales during this year.

Vineet Sambre:

Okay, that's it, thank you.

Moderator:

Thank you. The next question is from the line of Amit Ganatra from Religare Asset Management. Please go ahead.

Amit Ganatra:

Yeah sir, I just wanted to clarify your DAP manufactured. Last year it was about 181,353 tonnes and it has dropped to 83,962 tonnes. Is it correct?

Kapil Mehan:

We will have to check the exact number. We can get back to you.

Amit Ganatra:

What I was observing was that the DAP manufactured volumes are down year-on-year and complex fertilizers manufactured is up by 11% year-on-year. This is the product mix optimization that you were talking about in terms of trying to protect the margin. Is this by design or is it by just the demand for that product?

Kapil Mehan:

See we have so far done about 4 lakh tonnes this year versus last year 6.43 lakh tonnes.

Amit Ganatra:

That was in DAP?

Kapil Mehan:

Yeah last year was 4.26 lak tonnes and this year is 4 lakh tonnes.

Amit Ganatra:

What I am trying to understand is that, is it that by design that DAP volumes are going down and complex fertilizers are going up?

Kapil Mehan:

Yeah we keep optimizing our product mix, production mix on a month-to-month basis and that has resulted in the DAP production coming down as compared to last year.

Amit Ganatra:

And in terms of total volumes, I think in the beginning of the con-call you were mentioning about some supply constraint. Can you please repeat them as to why should the year-on-year volumes be down by 4% odd?

Kapil Mehan:

No, they are not down by 4% odd because on a nine-month period we are more or less at the same level. Our sales volume last year was 7.79 lakh tonnes for the quarter and this year it is 7.40 lakh tonnes.

Amit Ganatra:

Yeah it is marginally down.

Kapil Mehan:

Its marginally down because, as I've mentioned, our production in Vizag was affected because of disruption in phosphoric acid supplies from FOSKAR which had disruption of one of the railway lines between their mines and the processing facility which is almost 1000 km apart.

Amit Ganatra:

Okay, so this was more due to supply disruption.

Kapil Mehan:

That's right.

Amit Ganatra:

Okay. Thanks.

Moderator:

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

Jay Shah:

Sir, you have tied up with Shell Research for sulphur based fertilizers. So next year have you earmarked any kind of capacity or production for these sulphur based fertilizers? Have you decided on that?

Kapil Mehan:

Yeah we are working out our plans and I think by the middle of next year we will launch DAP with 4% sulphur content and that will be a sulphur enhanced DAP which will be a special product for some special crops. Marketing plans are being worked out for that.

Jay Shah:

Have you thought of any quantity volume for next year for that?

Kapil Mehan:

That's what I said, that total marketing strategy is being worked out and when we have that product launched in the market, we will share with you the numbers that you are asking for. But we are very confident and again I would mention that, this is all possible because of Nutrient Based Subsidy that we are able to do that and we have an arrangement for exclusivity also with Shell for 10 years and I think that should play out well.

Jay Shah:

Can you charge price premium for this product because it is sulphur based DAP and it is a different product?

Kapil Mehan:

We are doing our market research and agronomy research to establish the value proposition on that. On a desk research basis it is highly beneficial to the farmer and it will definitely be add-on for the farmers in suitable crops and we hope to get a part of that.

Jay Shah:

Okay sir. And sir for FY11 what would be the total sales volume are you targeting, around 3.5 million tonnes which you described earlier, or around that much?

Kapil Mehan:

We do not share forward numbers, so I think you will have to make your own guess.

Jay Shah:

And sir, if I am not wrong, you mentioned 8.64 lakhs tonnes for Q3FY11 volumes earlier, right? What was the figure, if you could just give the total volumes of sales?

Kapil Mehan:

Yeah 8.62 lakh tonnes.

Jay Shah:

8.62 lakh tonnes for this quarter?

Kapil Mehan:

For the quarter, as compared to 8.43 lakh tonnes last year.

Jay Shah:

Okay, thank you sir.

Moderator:

Thank you. The next question is from the line of Vaibhav Goel from SBI Life Insurance. Please go ahead.

Vikas Goel:

Sir on your urea expansion front, you did around 73,000 tonnes this quarter and you have been doing this for quite some time. And you even have some plans for acquisitions, so what are your strategies on this?

Kapil Mehan:

We have recently started our handling of this fertilizer and we now have one port with us at Karaikal and so far whatever vessels have been nominated to us, we should be ending up with close to 200,000 tonnes of volume. As far as acquisitions and other plans are concerned, I think it will be highly speculative to comment on those at this stage.

Vikas Goel:

But whether we have earmarked some of our funds for those, if there is something?

Nagarajan:

Funds are not a constraint at this stage. As and when we get a proposal we will definitely work on it.

Vaibhav Goel:

Okay and on trading margins it would be entirely different from own manufacturing or if you acquire something. So are we really aggressive on this because we discussed around three months back also, I guess more than that. So have we got some proposals or something?

Kapil Mehan:

See we are constantly working on different growth proposals and definitely urea is one fertilizer which I think needs to be there in our portfolio of offerings to the farmer and as and when there is an appropriate opportunity which we believe creates value for the shareholders, we will definitely look at that very seriously and we are constantly evaluating such opportunities.

Vaibhav Goel:

Okay, thanks sir, that's all from my side.

Moderator:

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

Vikas Goel:

My question remains that we guided 26% of the EBITDA profitability comes from the non-subsidized division.

Kapil Mehan:

That's right.

Vikas Goel:

Does it include the profit from sale of gypsum?

Kapil Mehan:

Yes.

Vikas Goel:

How will that be sir?

Kapil Mehan:

We do not get that micro...

Vikas Goel:

Okay that's all from my side, thank you.

Moderator:

Thank you. The next question is from the line of Abhijit Akela from JM Financial. Please go ahead.

Abhijit Akela:

Could you break up - how much the prior period subsidy was there this quarter versus the year ago period?

Nagarajan:

Rs 10.9 crores was the subsidy.

Abhijit Akela:

And what was it in the December quarter last year sir?

Nagarajan:

Last year was nothing.

Abhijit Akela:

And for the full year it was Rs 155.9 crores, is that correct?

Nagarajan:

It's actually Rs 226 crores for the current nine months period.

Abhijit Akela:

And that is pre-tax is it, or is it net of tax?

Nagarajan:

This is pre-tax.

Abhijit Akela:

Okay and the Rs 155.9 crores last year was net of tax.

Nagarajan:

Net of tax, correct.

Abhijit Akela:

Okay understood. And sir, with regard to your debottlenecking plans, when does that come on stream and when do the volumes start flowing through from that?

Kapil Mehan:

See for our debottlenecking, there is a marginal increase in our Kakinada facility, which should start flowing in from the 1st Quarter of next year. And our 'C' train which is a separate plant which is being put up in Kakinada, for that I had mentioned earlier on in one of the queries, that engineering contract has been awarded and we hope to begin the production by middle of FY13.

Abhijit Akela:

Okay, so this debottlenecking will basically probably add around 100,000 -200,000 tonnes?

Kapil Mehan:

About 100,000 tonnes is what we expect.

Abhijit Akela:

That will be by June, and in the remainder of 600,000 -700,000 tonnes from the new plant, that will come through in the middle of FY13?

Kapil Mehan:

That's right.

Abhijit Akela:

Okay. Great, thank you so much sir.

Moderator:

Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth

Sir, my question is almost answered but only thing sir. As you said in the beginning of your remarks that because of the problem of monsoon there has been late sowing, so is it that Q4 will be much better on demand side?

Kapil Mehan:

Yeah in the geographies which were affected in the states of Andhra and Tamil Nadu because of excessive rains during last week of November and early December, those areas definitely the overall demand will remain the same but, yes that has shifted from Q3 to Q4.

Bharat Sheth

Okay. This year can we expect Q4 demand should be in same range of Q3?

Kapil Mehan:

Overall you know, Q4 demand is in very specific geographies, it is not a national demand and those geographies will definitely have more demand and we should see slightly better numbers on the year-on-year comparisons as far as overall demand is concerned.

Bharat Sheth

Okay, thank you very much sir.

Rohan Gupta:

Hello Melissa? Can we have the last question please?

Moderator:

Sure. The last question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda

Hello sir, my earlier question regarding the subsidy number in Q3?

Nagarajan:

Yeah I have got it here. Q3 subsidy is Rs 1,137 Crores.

Bhavin Chheda

Okay and the similar figure for Q3 last year?

Nagarajan:

That I did not recollect. I think I will send it across to you.

Bhavin Chheda

Okay, not a problem. And sir can I get the traded goods turnover also in Q3?

Nagarajan:

I do not think I have it separately. We have given you the volumes of 41,000 tonnes.

Bhavin Chheda

Yeah volumes I have but in value terms I just wanted.

Nagarajan:

Can you give your email ID, we will have this information sent.

Bhavin Chheda

Okay, I will contact Mr. Nagarajan, not a problem.

Kapil Mehan:

Yeah, okay.

Bhavin Chheda

Thanks a lot.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Rohan Gupta from Emkay Global Financial Services for final comments. Please go ahead.

Rohan Gupta:

Thank you Melissa. Sir before we could wind up, I have a couple of questions. Sir you mentioned a price increase of Rs 1,400 in DAP. Similarly can you suggest what was the price increase in ammonium phosphate; I think that is one of our largest selling products.

Kapil Mehan:

No, we have many formulations, if you can tell me which one you are referring to then we can.....

Rohan Gupta:

Okay, I am referring to ammonium phosphate – the one product which sells the maximum.

Nagrajan:

I think maximum selling is 20:20. We can revert to you Rohan.

Rohan Gupta:

Okay sir.

Kapil Mehan:

Rs 1,600.

Rohan Gupta:

What was the price in March 2010 sir?

Kapil Mehan:

In March 2010 it was Rs 6,295 and now the price is Rs 7,900.

Rohan Gupta:

So, on that product we have taken a 25% price increase?

Kapil Mehan:

Yeah that's right.

Rohan Gupta:

Okay. Sir another thing, you also mentioned that you did urea trading this quarter?

Kapil Mehan:

That's right.

Rohan Gupta:

Sir, can you throw some light on - how the urea trading was done by the company, because so far now I understand that it was only possible by the government agencies.

Kapil Mehan:

Yeah, the Karaikal port - a new port facility which has come up on east coast in Tamil Nadu that was opened up and we had bid for that port handling and we won that contract and that is what enabled us to get to urea trading and I think so far 4 or 5 vessels have been allotted to that port and that is how we are able to get some urea for our distribution.

Rohan Gupta:

Okay and sir in future you plan to continue this urea trading?

Kapil Mehan:

Yeah this particular port is with us for the next 2 years, till October 2012 - we will continue to have access and when the next round of ports are on offer, we will try and bid for those also and see whether we can increase that volume. But this is more like completing our product range but they do not add much to the bottom line.

Rohan Gupta:

Okay, it is just only probably you want to expand your product portfolio?

Kapil Mehan:

Yeah, especially for of retail centers it is very important that farmers get their nitrogenous requirements also from us and that is the primary reason that we have gone into that.

Rohan Gupta:

Okay sir second question on your retail store, so far we know that there 420 stores operating in Andhra Pradesh market.

Kapil Mehan:

Yeah 423.

Rohan Gupta:

Okay. Sir in a previous conference call you mentioned that you have plans to go into Tamil Nadu and Karnataka market also.

Kapil Mehan:

Yeah next year we will be expanding further in Andhra Pradesh and will open up in Karnataka also.

Rohan Gupta:

Sir, can you quantify how many stores you are targeting by the end of FY12?

Kapil Mehan:

We normally do not share this number but I have mentioned this earlier also that our current plan is to take our total number to about 600.

Rohan Gupta:

Total number to 600? Well sir, that was it from my side. Thank you very much for giving us your valuable time.

Rohan Gupta:

And sir before we could wind up would you like to make any closing remarks?

Kapil Mehan:

As I mentioned earlier - These are agricultural businesses and all analysts and all the financial experts need to factor in that when they look at this business because sometimes quarter-on-quarter assessments can be misleading. So I think when we look at two seasons together that reflects what has happened in the market place, that reflects what has happened to the agricultural situation, that reflects what has happened to the input usage and I think that is what really matters. In the end I think I would also like to say that it would be unfortunate if the fertilizer availability was to get disrupted because of some pricing decisions getting delayed or any of those things happening. So I think as an industry leader our association is actively engaging with the government and I think state governments are also in touch on all these issues and I am sure that between us and the government we will make sure that availability is there.

Rohan Gupta:

So sir you maintain your status that even with the reduced subsidy rates you will try to maintain your margins, right?

Kapil Mehan:

I am not making any statement of that nature but I have put forth before you people what the demand supply scenario is, what it can be, how it is globally, how it has an impact on India and I think conclusions you have to draw.

Rohan Gupta:

Okay, thank you sir.

Kapil Mehan:

Thank you. Thanks for hosting this conference.

Moderator:

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

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