Management Discussion

Harmish Desai - Analyst, Systematix Group
Thank you, Shourya. Good morning and welcome to the Q2 and H1 FY27 earnings call of Coromandel International Limited, hosted by Systematic Institutional Desk. From the management, we have Mr. Sankara Subramanyam, Managing Director and CEO, Mr. Deepak Natarajan, Chief Financial Officer, I would like to thank the management for giving us the opportunity to host this call. We will begin the call with opening remarks from Mr. Sankra Subramanyam, followed by Mr. Deepak Natarajan for update on financial performance, post which we'll have a Q&A session.

Thank you, and over to you, sir.

Sankarasubramanian S - Managing Director & Chirf Executive Officer, Coromandel International Limited
Thank you, thank you, Harmit, for organizing the call. Good morning, everyone. I hope you had a wonderful Diwali. My belated wishes to you and to your family. I'll begin with an overview of brief business environment experience during the quarter and also provide an update on operational performance. Then I will request Deepak to take us through the financial performance. As you all know, Q2 was an unprecedentedly challenging quarter for the industry. We had multiple headwinds coming together at the same time.

Deficit rainfall in key markets, rupee depreciation, elevated raw material prices, lower NPS rates, and weak consumption impacted the operating environment. In fact, rainfall deficit was around 20-30% in our key markets such as Andhra Pradesh, Telangana, Karnataka, Maharashtra, and this has impacted the agricultural activity as well as input consumption. Also, the widening price differential between DAP and complex fertilizers influenced the farmer buying behavior and impacted the offtake of NPKs.

All these factors resulted in sharp industry-wide decline in fertilizer volume. Production and consumption of NPKs has fallen considerably by 40% during this quarter. Happy to note that government yesterday announced the NPS rate for Rabi 26-27 season. This is a very timely and positive intervention, particularly given the fact that there has been significant volatility in international fertilizer and raw material markets. This improved subsidy support should help improving the viability of domestic manufacturing and restore better pricing balance between DAP and complex fertilizers.

Thereby supporting the adoption of balanced nutrition. We are still awaiting detailed notification. The revised rates appear to align with NBS mechanism, with its underlying principle of reflecting the movements in international raw material and fertilizer prices. The government has also announced a special support to address the exceptional increase in sulfur and sulfuric acid prices, which has significantly impacted the cost of phosphatic During the year, government launched the framework to fertilizer sales system on a pilot basis across select districts.

These initiatives are very positive from the perspective of improving transparency and promoting efficient fertilizer usage, and the initial implementation has also highlighted certain practical challenges including longer purchase process for farmers, access to digital infrastructure, and accommodating farmer choice and brand preferences. Industry has shared its feedback with the Department of Fertilizers, and we are hopeful that these operational aspects will be suitably addressed before the framework becomes a reality.

In ACTAM, we continue to see regulatory tightening, including restriction around certain molecules

like carbosulfon and paraquat. However, Coromandel is expected to impact is not much. With respect to non-subsidy businesses, restriction has been imposed by certain states on the sale of non-subsidy fertilizers by fertilizer marketers. Industry has been engaging with the authorities in the state of UP, Bihar, and Maharashtra, and we are hopeful that an appropriate framework can be evolved that protects farmer interests while continuing to encourage balanced nutrition and innovations.

During the quarter, Andhra Pradesh has announced a major program to develop Ryalseema as a global horticultural agriculture and food processing hub, and significant expansion is planned in horticultural acreage, giving us a strong presence in the region. Our expected new granulation plant coming on stream in the near future this augurs very well for Coromandel, and we see this as a positive long-term opportunity across our various segments nutrients, crop protection, specialty nutrients especially through our retail platform.

Coming specifically to Q2 performance, as I mentioned, it was a very challenging quarter. We sharpened our focus on differentiated offerings. We launched 10 new products across nutrients and crop protection segments. I reasonably managed the working capital well. Revenue grew by 6% to INR10,348 crores, but however, EBITDA declined 18%, mainly due to compression in NPK fertilizer margins during this quarter. And also due to deficit in key markets on rainfall and higher input prices not adequately compensated by tariff NBS rates, our performance across the value chain has got impacted.

In the fertilizer business, volume uptake was impacted due to monsoon price differentials. However, we tried to increase our market share from 17% to 19%, and our primary sale for the quarter was down significantly by 30% to 10 lakh tonnes, and consumption also declined 33%. It's a conscious call taken by the company to moderate the primary sale and production and manage the working capital well, and tracking the consumption, the production and supplies are moderated. With the government announcing the new NPS rates for the Rabi season, we do expect that part of the benefits will be passed on in correcting the MRP, which can revive consumption during the Rabi season.

The production got moderated by 15% in Q2 to 7.7 lakh tonnes due to softer demand. Our newly commissioned phosphoric acid and sulfuric acid plant at Kakinada has come at the right time to ensure availability of these key raw materials, even though we operated the plant at a lower capacity until we got the sulphur subsidy notification sometime in August. With sulphur subsidy coming in, this new project is back on track and started operating at full capacity, and this will support the value creation in a highly volatile operating environment, and thanks to the timely government intervention.

Our granulation plants project is progressing well in Cochinada, and we hope to commission this by February of this year, and this capacity should be available for the next year. Overall, we can see a moderation in the global raw material prices. While urea has come off some time back, we have seen softening approach in sulfur as well. Sulfur is now likely to go below $900 due to stiff resistance from metal segment as well as in the fertilizer segment. I do expect sulfur used to be a disposal problem, and this can become an opportunity to bring it down below $500 as well if we sustain our approach in terms of smart purchases.

DAP continued to remain more or less at the same level in the last 2 months. Also, prices have been rolled over at $1,700 as sulfur prices remained high during this period. SSP volumes again got moderated by 13% to 1.9, but our focus on differentiated grades in terms of Grow Plus and urea SSP has been quite helpful and helped us to improve the contribution and margins. Moving on to crop

protection segment, crop protection demand remains soft during the quarter. The impact of rainfall has had a cascading effect on the agrochemicals as well.

In exports, demand recovery has been gradual as farm economics was impacted due to high fertilizer costs and relatively dovetail agri prices. Encouragingly, we are seeing improvement in the price of certain agricultural commodities globally, and that should improve the offtake of agri ingredients as well. Crop protection business delivered 22% revenue growth during the quarter, supported by strong performance in export market. Our diversified global presence continued to provide opportunities to deepen our presence across key geographies.

Domestic market, we continue to invest in portfolio development and differentiated offerings, with new products contributing 36% during the year. During the quarter, we introduced 6 new products across agrochemicals and biologicals. There has been some impact on margin for few molecules, but it broadly remains at comfortable level given the variability in crude linked to intermediates experienced in H1. Customers have deferred the purchases and decided bearing had a bearing on the production of products of CAKE as well.

We are expanding the capacity of one of our key molecules that will come on stream by this month end. We are also planning to establish the fluoro launch plant at Ankleshwars, as we strongly believe chlorination chemistry is going to be the next major intervention in agrochemicals value chain. And after successful trial runs of the launch plant, hopefully it should pave the way for ultimately commercial project for the specialty chemicals which we envisaged 2 years before. On the subsidiary NACL, we would have seen the numbers.

Revenues are at INR374 crores, down 18%, and EBITDA at INR12 crores, significantly lower than corresponding quarter of the last year. This is a one-off aberration the company witnessed due to significant margin pressure of a carryover high-cost inventory, and the corresponding pass-on could not happen due to market compression, and prices of certain key molecules came down, and the company has to take a significant impact on the margins. A lot of initiatives are taken up to have a synergistic approach between crop protection business of Coromandel and NaCl in terms of portfolio, in terms of sourcing strategies.

Optimizing the production capacities, leveraging on the product portfolio capabilities. A lot of initiatives are underway and hope to see a robust comeback of NHCL performance in the coming quarters. Our retail business had a very strong quarter supported by continued focus on farmer engagement and cross-specific campaigns across markets. We are seeing good traction on our proprietary product portfolio. Some of our Retail white label brand scaling up well and expected to cross INR100 crores in annual sales this year.

We also continue to expand our physical reach, adding 80 stores during Q2 and taking the overall network to 1,300 stores across Andhra Pradesh, Telangana, Karnataka, Tamil Nadu, and Maharashtra. Retail is an untold story. It's been playing out very well for us. The team has done an extraordinary job in terms of stressful monsoon situation, uh, They provided alternate products, organic fertilizers, specialty nutrients, which helped them to achieve the bottom line. And some of the new stores have reached the breakeven much faster than what we initially expected.

The new stores have started contributing meaningfully, reinforcing our confidence in scalability of the models. And we are on our journey to enhance the network to 2,000 stores for the next 2 years. Our specialty nutrients, organic, and biological business also performed well. In this stressful situation, the adoption of water-solubles and specialties are gaining traction, and Coromandel is rightfully positioned in terms of making these product offerings differentiated solutions to the

farmers, and it is more relevant during these water stress conditions and the growing emphasis on sustainable agriculture.

So overall, I think with the better policy support through the revised NBS rates, improved farm economics, moderating in the input cost, and the seasonal pickup in Rabi activity, I do expect operating environment is going to be much better H2 with improved bounce back on the production, sales, consumption. Of course, I am cautiously optimistic at this point of time, and I am sure if L&O predictions are coming true, by year-end L&O should move to the neutral position, which provides very optimism for the forthcoming tariff season as well.

I would request Deepak to talk about the financial performance.

Deepak Natarajan - Chief Financial Officer, Coromandel International Limited
Thank you, Shankar. Good morning all, Diwali greetings and greetings to all. Uh, the company recorded a consolidated total income of INR10,348 crores during the quarter compared to INR9,771 crores in Q2 of last year, registering a growth of 6%. The revenue increase has been mainly on account of higher subsidy rates versus last year and growth across the various businesses. It is pertinent to note that last year Q2 results includes NACL numbers effective 8th August 2025 onwards. Overall, the subsidy share of the business stands at 81% during the quarter, which compares 83% in the last year.

As far as profitability is concerned, the company reported a consolidated EBITDA for the quarter of INR 944 crores as against INR1,147 crores last year, registering a degrowth of 18%. The decrease in EBITDA is mainly due to higher input prices on account of the ongoing Middle East crisis. And not commensurate with some of the revisions in NVS rates and the retail prices, MRP. The profitability share of subsidy business stands at 58% compared to 72% last year. Net profit after tax for the quarter was INR523 crores in comparison to INR793 crores last year.

Moving on to the financial performance of the first half of the year, The company recorded a consolidated total income of INR18,563 crores during H1 versus INR16,897 crores in H1 of last year, registering a growth of 10%. The subsidiary share of the business stands at 79% compared to 83% last year. With regard to profitability in H1, the consolidated EBITDA was reported at INR1,705 crores against INR1,929 crores last year, registering a degrowth of 12%. Profitability share of the subsidy business stands at 53% compared to 70% last year.

The net profit after tax for H1 was INR905 crores compared to INR1,295 crores in the previous year. As far as subsidy is concerned, during the quarter, company received INR3,086 crores towards subsidy claims. Government has been prompt in clearing all the subsidy dues. As of today, we have received subsidy claims till the September 4th week. In October, the company further received subsidy of about INR1,200 crores. During H1, the company has received INR4,478 crores towards subsidy claims. The subsidy outstanding as at September was INR3,535 crores compared to INR3,199 crores in the previous year.

With regard to forex, during Q2, rupee traded in a range of about 94.5 to 96.6. Coromandel continues to hedge its exposure on a conservative basis. Thank you. With that, I hand it over to Harmesh.

Questions & Answers

Operator
Thank you very much. We will now begin with the question and answer session. [Operator Instructions] The first question is from the line of Prashant Biyani from Alara Securities Private Limited. Please go ahead.

Prashant Biyani - Analyst, Elara Capital
Yeah, thank you for the opportunity and, uh, Diwali greetings to the management. So what kind of MRP reduction is expected, maybe gradually or at once, for after the subsidy increase?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
See, uh, very difficult to put the number. We need to get the notification and then we'll respond. But at least I feel NP grades like 2020, which has seen a very sharp increase from 1,350 per bag to 2,100, there we expect moderation to happen. It can be minimum 10 to 15% of moderation is possible in those fertilizers. But let's not forget the fact that companies were incurring huge negative margins. This subsidy will partially offset that, and if still there is a scope, we may be able to do this MRP correction because again ammonia started spiking.

So we need to wait and see. Definitely we will look for some moderation in prices as it's not sustainable to continue to have wider gap with the DAP.

Prashant Biyani - Analyst, Elara Capital
Sure, sir. How much of sulfur subsidy have we considered in our Q2 results?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
We you know, the notification clearly says subsidy is applicable at a floor price of $800.

Prashant Biyani - Analyst, Elara Capital
Yeah,

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
so when, uh, sulfur went up, we decided to curtail our purchases. So whatever shipments we have got beyond this price threshold level, they are only eligible for this subsidy. Uh, it's not very significant, but it has been quite helpful, especially for August and September. It'll be difficult for me to put the number, but it came handy especially for our Kakina Dam new plant. Our production was moderated, and after the sulfur subsidy announcement, we could get back on track.

Prashant Biyani - Analyst, Elara Capital
Sure. And just lastly, sir, along with the Rabi subsidy notification, has this also been approved by cabinet, or it is yet to be approved by them?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Yesterday is the cabinet approval. There is no more further approval required. It's all finally approved and cleared.

Prashant Biyani - Analyst, Elara Capital
Even for sulfur. Thanks. Okay, uh, thank you, sir.

Sankarasubramanian S - Managing Director & Chirf Executive Officer, Coromandel International Limited
Thank you.

Operator
Thank you. The next question is from the line of Riju from Antics Stock Broking Private Limited. Please go ahead.

Riju Dalui - Analyst, Antique Stock Broking Limited
Hi, uh, thanks for the opportunity. So my first question is regarding the non-subsidy business EBITDA. So if you look at the subsidy business EBITDA, that was very much lower compared to last year, but the non subsidy business EBITDA has seen a sharp jump in the H1 as well as in the Q2. So what explain that if you could, you know, give some sense on this?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
see non subsidy business the major share comes from property action business, and one of the Because of the carryover inventory, what I spoke about on NECL, sulfur-based derivatives, which influences the input cost. But globally there has been correction in the market price, whereas initially in the first quarter the prices all went up. But naturally the global agriculture prices have remained soft for major portion of Q2, hence the update for price increase was not there. So there is a high-cost input cost not adequately compensated, and the moderation prices have happened that has compressed the margin.

But a lot of corrective actions have happened in terms of input price correction. We have moderated the inventory and we are getting back on track. But the rest of the businesses, whether it is bioproducts or retail or specialty nutrients or SSP, They all done well. Another major reason which is an aberration for this quarter, the ban on fertilizer companies doing sale of subsidized, non-subsidized product, especially in these key states of Maharashtra, Bihar, and UP, has impacted the business. Hopefully if that resolution comes back, we should come on track, we should come back on track.

I think it's a temporary operation. This should get restored.

Riju Dalui - Analyst, Antique Stock Broking Limited
Understood, sir. And, uh, in the, in the crop protection business, if you could, you know, uh, provide the number for the standalone CP business EBITDA margin, uh, a broad indication.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
pivot CP standalone is 16 percent for the current quarter, and of here is 17 percent.

Riju Dalui - Analyst, Antique Stock Broking Limited
okay, okay, understood. and for in the in the particular business, if you look at in terms of H1 and 2Q performance for the industry, so the DFT volume was sales volume 36-38% on a YOY basis. So, uh, is this explained mainly because of the higher prices in NPKs, or was there any, any, any cause of

these crop, uh, crop-wise shifts that, that we have seen in this, in the kharif season? So first this, and second, uh, looking at the subsidy, so there is a high probability that industry-wise price cut might happen, uh, and with that also we might be able to maintain our margin profile.

So with that, can we expect the leftover inventories from Kharif will get cleared? And if it's and then how do you see the overall industrial channel inventory situation for this Q2H of this year? And how will be the impact overall for the DAP and NPKs? Inventory.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
The NPK switch DAP has happened mainly because of artificially DAP prices pegged at INR1,350, whereas NP fertilizers like 20-20, the price went up to INR2,100. And in a stressful situation, farmer never wanted to pay this sort of a price increase. Naturally, there has been a demand contraction and farmers were looking for cheaper alternative DAP, which is a high-P product. This has been one of the major setbacks for the domestic manufacturers, and that is when government intervened and announced this sulphur subsidy.

And then now they have corrected the levy rates to reflect the market reality. So up to INR1,500 or INR1,800 per bag of 2020, the demand contraction was not happening. Once it was going beyond that we could see demand contraction. With the announcement of NBS rates, I think, um, NP, NPK volumes will come back, and that will also reduce the import of DAP to a greater extent. So I think what it used to be 60-40 between NPK and DAP turned out to be 30-70 30 for NPKs and 70 for DAP. So that is getting set right with the new NBS announcement.

In terms of the channel stock, I would say it is not very high because industry has cut down the production, cut down the imports, anticipating demand contraction due to bad El Nio season. And thanks to that, the channel inventory buildup is not quite significant. There can be a marginal 5 to 7% higher levels compared to last year. But with the next 2-3 months, industry will continue to moderate these inventories. Consumption will pick up with correction in MRP. I think we should see reduced inventory levels as we close this year-end.

I don't see major challenge, and the system will can absorb this additional volumes which has been placed in tariff. That should get consumed now because outlook of Rabi is also depending on Northeast monsoon. We have seen cyclones, and that has revived the prospects of chilli crops in South, in Andhra market. And also in the North, it's an early stage of Rabi. Wheat cropping is likely to be normal. There can be impact on oilseeds and pulses, but overall Eastern region potato crop has come up well, and we also expect Central region to pick up on volumes and crop acreages.

So I think there won't be any major deviation on consumption in the Rabi season. And with a reasonable level of inventory and the new NPS rates and the moderation prices, I do expect consumption revival to happen, and we may end up with moderate inventory as we close this Rabi season by March.

Riju Dalui - Analyst, Antique Stock Broking Limited
Understood, sir. Thanks for the clarification. One last bookkeeping question. Uh, what is the closing what is the inventory that we are holding as on September? And out of which, how much was at the dealer level and how much was at the factory level?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited

Well, GetBack specifically, I don't put out these numbers. Uh, it isn't nothing extraordinary, I would say, at this point of time. It's more or less getting maintained to the last year level as far as channel inventory is concerned. As far as factory production is concerned, uh, we have curtailed our production considerably, as I mentioned note, so we don't carry much of inventory in out plants and warehouses.

Riju Dalui - Analyst, Antique Stock Broking Limited
Understood, yeah yeah okay, thanks for this question, thank you.

Operator
Thank you. The next question is from the line of Darshita Shah from DSP Asset Managers. Please go ahead.

Darshita Shah - Analyst, DSP Mutual Fund
Hi, thank you. Firstly, with the subsidy, with the sulphur subsidy coming through, Shankar sir, how are you seeing the backward integration spreads, are they better than last year? Are they the same, especially given that the proportion of backward integration versus last year has now moved up? So should we see backward integration spreads improving maybe for the second half of the year?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Absolutely. In fact, from August onwards, we are back on track. Till sulfur prices were ruling high and we were not operating PA plants at full capacity, never been the case for, for Coromandel. And now we are back on track, and from October onwards we should scale up our volumes, and the value gap also has improved considerably. I think this improved impact on the overall performance from the value gap should kick in in second half.

Darshita Shah - Analyst, DSP Mutual Fund
Uh, all right. Are the spreads similar to would it be anywhere in the range of $300, $350? Uh, is that a safe assumption to make, or could it be higher or lower than that?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
I think it's a safe assumption to make.

Darshita Shah - Analyst, DSP Mutual Fund
Okay, great. Uh, secondly, uh, so, um, when we look at our crop protection EBIT, that is down about 20-odd percent, but our non-subsidy piece has done significantly well. Uh, you mentioned that it is because of the specialty nutrient and the, uh, other businesses that we have. Um, so is this more of a proportion of the retail business being able to sell it better, or are we doing something differently to, you know, to grow these brands firstly? And secondly, is there any aberration because of lower NP sales or lower DAP availability that the demand for these organic fertilizers have gone up?

I mean, how should we be thinking about it, especially the non-subsidy, non-CP part of the business?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
No, you're absolutely right. It's a combination of factors what you rightly alluded to. Retail has got its

act right in terms of positioning the right product depending on the market situation, and that was quite helpful. And also we improved our network in Andhra Pradesh. That has also aided in in fact, most of the retail stores have improved the performance in a very short period of time. And also when the NPK prices went up, the farmer tendency is to look for an alternate cheaper fertilizers, and organic fertilizers volumes have also picked up.

And also in the stressful condition, the natural tendency is to use more of water-solubles and specialties. So combination of multiple things our retail connect, additional reach, and scaling up of organic fertilizers, bio globally we are able to get the volume back, ability to source neem at a competitive price all this has been helpful in achieving non-CP, non-subsidy products. It's increased network, improved product, and new product offerings also helpful. We launched 2 new products in organic fertilizers, which was received very well in the market. And some of the white label products which retail was doing, we are able to source it internally from our own bio business division that has scaled up well. Some of these products are reaching the size and scale of 100 crore brand. That was quite helpful.

Darshita Shah - Analyst, DSP Mutual Fund
Okay, uh, so thirdly, on the nano product, is it that we are seeing we are seeing increased demand because of higher NP, NPK prices? Uh, how should we thinking how should we be thinking about the overall contribution for the nano piece as well as on revenue as well as on EBITDA?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
See, nano has got a promising future. At least our experience has been extremely bullish on nano, not only in the domestic market but also in the global market. Unfortunately, the ban on this non-fertilizer by in certain states has dampened the volumes. Key markets like UP, Maharashtra, we had a setback and we didn't position these materials during this quarter. Ideally, this should have picked up and government has been promoting alternative chemical fertilizers. These products should definitely be on the top, but unfortunately the state ban has impacted the sale of nano.

But I think that's a temporary challenge. We should come back on track on this. Adoption has been very good. Whoever has bought last season, we are able to supply them nano this season as well. We have become a market leader on nano DAP. In fact, a lot of new customers are coming globally also. We have started exporting certain consignments. We are in the process of registering this product in Latin American markets and South Middle East and Southeast Asian countries. Hopefully we should see traction on nano volumes as well. And, but it is very critical for us to remove this ban in these key states where the adoption can be higher, which we are working on. Otherwise, I think it's a promising product with a significant margin coming in. In terms of revenue, it won't make a big impact on the top line because of the sizable commodity business what we have. In terms of, um, EBITDA margins, they are very healthy.

Darshita Shah - Analyst, DSP Mutual Fund
Got it. I have a few questions. I'll get back in the queue.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Thank you.

Operator
Thank you. [Operator Instructions] The next question is from the line of Somaya V from Avendus Park Private Limited. Please go ahead.

Somaiah Valliyappan - Analyst, Avendus Spark Private Limited
Hi sir, uh, thanks for the opportunity, sir. So my first question is on the industry sales for first half, or what would be the POS complex sales decline, both NPKs and DAP together?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
DAP NPK is around 104 lakh tons as against last year 121 lakh tons.

Somaiah Valliyappan - Analyst, Avendus Spark Private Limited
Understood, sir. And also, we have the split between the DAP and the NPK.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
NPK is 60 lakh tonnes as against last year 77, and DAP is flattish at 44 lakh tonnes, 44-44.

Somaiah Valliyappan - Analyst, Avendus Spark Private Limited
So, sir, that's helpful. Uh, so second question is on the, uh, our granulation facility. You had mentioned about February. So what is the expectation in the next quarter? What level of utilization we can get up to? And also in terms of marketing, we had been already going into some of the, uh, you know, northern markets and updating the product. So what is our expectation in terms of next year of this point?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
This year happened to be a very stressful season and the volumes have contracted. The current year. And always, even with this capacity, last year we had done 4 million by importing 8 lakh tons of DAP and PK fertilizers. I think the new capacity coming in, and hopefully the season won't be this bad like what we witnessed in the current year, and we do expect Delhino to turn neutral by year-end. I don't see any challenge in operating the plant close to the full capacity. Coromandel that has been one of our hallmark ensuring that all over capex it commissioned on time and delivered the value on time and we are expanding our retail network that will be our main channel to drive part of the volume and also we be we have already st into next year as well.

So I don't see any challenge in ensuring full utilization of the new facility next year. Having said that, we'll also be focusing on differentiated product offerings, not to repeat the same generic grades what we have been doing. The facility which is coming up has got capability to have multiple nutrients to be added to main NPK products like boron or zinc. During the current year, due to this sort of ad hoc policy changes, we could not come up with alternate products. With the way the NBS policy has restored the original design principle of announcing the rates based on the prevailing costs, that is giving us freedom to recently come up with innovation and new products.

And differentiated product offerings. So our aim would be to see how best we can leverage the new capacity to come up with new products which can add value to the farmers and improve the productivity. So that is what we'll be focusing. To answer you in short, our target would be to operate the plant at full capacity for the next year.

Somaiah Valliyappan - Analyst, Avendus Spark Private Limited
We are near about 70% backward integrated. Uh, so there is still this 20-30% headroom. So, uh, is this something that we are looking forward, or is there any operational challenge? This is the maximum limit that we can get to.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
First, we want to realize the value of the investment what we have made in Kakinada, operate the plant at full capacity, and get that has always been our approach, having invested INR2,000 crores in setting up the PSA plant last year. And it's important for us to ramp up the volume and generate the cash out of that investment. And obviously we will look forward to additional capacities as and when required. I don't see any challenge in the infrastructure or anything. And we have our mining operations also being scaled up at Senegal.

So I don't see any challenge if we choose to increase the volume. But as a matter of prudence, we'll always keep some exposure for bought-out asset. We'll not be going in for 100% capital.

Somaiah Valliyappan - Analyst, Avendus Spark Private Limited
Understood. So on HACM, um, so if you could just share the split between exports versus domestic, the mix, and also volume and price impact during the quarter.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
In terms of exports, I think we have got significant growth this year. Almost 40% of the growth has come from exports, and almost 45% of our revenue has come from exports. This is a very significant number we have got, and thanks to some of our molecules gaining volume in the export market, that is quite helpful.

Somaiah Valliyappan - Analyst, Avendus Spark Private Limited
Sir, this vigour and growth improves any?

Sankarasubramanian S - Managing Director & Chirf Executive Officer, Coromandel International Limited
Sorry,

Somaiah Valliyappan - Analyst, Avendus Spark Private Limited
so this includes NACL?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
No, this is Coromandel CDC segment, and NACL had a setback on exports. I have to come back to you on the segmental growth of NACL across exports because we are seeing it on a standalone basis. Coromandel crop protection business Exports growth has been 44% and the revenue share has been more than 40%.

Somaiah Valliyappan - Analyst, Avendus Spark Private Limited
You are referring to the opening remark in terms of a product-led challenge at MACI, high-cost inventory. So is that being, uh, the write-offs, or it's been kind of normalized now going forward? Can we expect that impact to kind of not be there?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited

Obviously the high-cost inventories have come down, but the input raw material prices we are renegotiating and also looking at some value chain. How do we make those intermediates also in-house? And we are trying to optimize the production capacities between the 2 companies operating plants. Sometimes when you operate the plant at low capacity, your efficiency and the conversion cost also goes up. So those issues are being set right and addressed. Cost. And we are also able to secure some of the raw materials at a competitive price in the current quarter.

So hopefully that should play out now. See, this sort of challenges in agrochemicals will always be there in terms of sudden compression in margin expansion in next quarter. These things are bound to happen, but the wider portfolio should get smoothened out. And we are also trying to see how do we cut down costs, how do we rationalize the field teams. So we are working on various initiatives to improve the operational EBITDA, and those things will play out in the coming quarters. See, we need to look at NACL in a little more broader sense rather than only studying the EBITDA.

NACL is bringing in huge opportunity in terms of spare capacities of active ingredients. In fact, there may not be any need for Coromandel to invest in active ingredient capacity. We can leverage NACL capacity to a great extent. That is the first advantage. Second is the R&D strength of NHCL and Coromandel on a combined basis provides necessary impetus for new-age chemistries like fluorination chemistry. We would not have got into fluorination, put up a launch plant in such a short period of time but for the talent available in NHCL in terms of R&D team and capability.

They have done the pilot plant and we are able to take it forward and get into this specialty zone which others phase would have taken another 2 years to do. So access to the spare capacities, access to the chemistry, and the CDMO play in terms of ability to manufacture various intermediates, connecting with the global players, uh, would be helpful as both the companies work towards, uh, you know, having long-term contracts in the CDMO space. I think these are all the things which play out at different point of time Because with the current portfolio of NaCl, there is a challenge in the margin and EBITDA, and the molecules are not the new age molecules, they are old generic molecules.

We are quite aware of the fact when we looked at this target as well. It will take some time because anything to happen in crop protection, it will take 2-3 years to get the new product registration going. And we have inducted the right set of talents and we are also working on various new product introduction. I think you all have to give some time for things to play out may not be measured in terms of the quarterly EBITDA performance in the near future.

Somaiah Valliyappan - Analyst, Avendus Spark Private Limited

Understood, sir. One last question from my side, uh, sir. This fluorination plant that you had mentioned in Akleshwar, uh, so, uh, what is the roadmap there? Uh, what are the steps, uh, in terms of opportunity set potential next few years? Uh, what are we expecting, uh, the ramp-up, uh, in the specialty side? If you could just touch upon that.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited

In this fluorination, what we are putting up is a launch plant. We have a pilot plant already in place. We are now putting up a launch plant for any of these fluorination-based chemistries. There are global customers who are keen to tie up with us, but they need samples to be given at all stages of

the production, whether it is the R&D stage or a pilot stage or a launch plant stage. So this is on a commercial scale. We need to give the samples and get tested. And most of these are highly capital-intensive projects, and we don't want to set up the facility unless we have a sign-up with the key customers.

So we are in the process of identifying those key intermediaries which we can sign up with the customers. And we once the launch plant is ready with those products and products are cleared this is a journey which we have embarked one year before, and with NHCL getting accelerated now, once we have a visibility on the product getting cleared with key players we should be able to set up a commercial plant which may involve CapEx of INR200-300 crores, probably 1-2 years down the line once we establish the feasibility and viability.

That is what the roadmap we are having, and that can give a good amount of EBITDA margin, completely different from current portfolio. And chlorination-based intermediates are also used in our own captive AAs, so we are looking at both the opportunities for in-house usage as well as for the CDM update. I think this will open up the opportunity for us to enter into a specialty chemical space, which we have been discussing in the past as well. But we wanted to do slowly. We don't want to commit the capex upfront unless we are sure about what we are doing.

Operator
Thank you. Next question is from the line of Himani from ICICI Prudential Asset Management Limited. Please go ahead.

Himani Taneja - Analyst, ICICI Prudential
Hi sir, thank you for giving me the opportunity. Uh, on the biological side, while you have already highlighted that the growth has come from, uh, the biofertilizers being available at the competitive prices versus high-priced NPK, just wanted to understand, uh, should we look at this growth only from this year's phenomena, or is this growth sustainable in future?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Absolutely, it is sustainable. Biologicals has got 2-3 verticals here. One is the neem-based biopesticides, another one is the plant extract, what we have been doing, microbials and plant extract, and third is the organic fertilizers which are based on industrial waste like press mud as well as municipal waste. And also we have come up with variants in organic fertilizers by adding other phosphates and nutrients. So it's a complete boutique of products, and as a company we strongly believe we in integrated nutrient management, which means 20% of organic and 80% of nutrient chemical fertilizers.

The challenge here is in terms of ensuring the quality products available at the doorstep of the farmers, and the logistics costs are quite high. And that is where when the retail centers coming up in all the remote centers, we are able to service the farming community closer to the place of consumption, and the adoption rates are quite high. And this is likely to sustain and it will grow. And there are a lot of smaller players with good researched products available. It need not be a global play, it can be a localized play with a lot of micronutrients, microbial addition, and we do our own in-house testing and clear these products.

This is one of the areas which Coromandel will drive through retail outlets to save for environment, save for soil and safe for the farmers, affordable for the farmers as well. So we are completely

bullish on this and we will continue to grow on this space. In the biological bioproduct segment, we have made a beginning. We have a lot to catch up on this. In fact, last 2 quarters we have been driving this bio vertical through the direct sales rather than piggyback on the current crop protection channel, and we have seen good traction.

Because most of these bioproducts are concept selling, it requires a lot of engagement at the farmer level, right from the crop development to until the fruiting stage. So I think this is the way to go, and we have got a few product pipelines. And currently the share of bioproducts is relatively less. Our aim is to see how best we can scale up in the non-sachary segment and be a significant player. And the EBITDA margins are completely different, and we have seen the traction here and we will continue to build on this.

It is not a one-off game, it will sustain and it will build and grow on this.

Himani Taneja - Analyst, ICICI Prudential
Thank you so much.

Operator
Thank you. The next question is from the line of Arjun Joshi from Havama Wealth Limited. Please go ahead.

Arjun Joshi - Analyst, Nuvama Wealth
Hi, good morning, sir, and Diwali greetings to the entire team. Uh, so just one question, uh, we had, uh, shared something on the battery-grade phosphoric acid last in the last 2 interactions. Any developments there in terms of technology or any long-term partnerships, any CapEx, any economics that you can help us with on that account? Thank you.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Thank you. Too much preoccupied with the nutrient, our mind space was not there on this. They're taking a back seat. We are working on it. Technology is available. Here again, we need to ensure that we have a customer stickiness. We need to work along with some of the few end consumers of this battery-grade acid. We will evaluate again back, and there has been slowdown on this the last 2-3 quarters because of the challenges and the headwinds we faced in the main business. Hopefully we should come back to it in the 4th quarter.

I have nothing much to share at this point of time.

Arjun Joshi - Analyst, Nuvama Wealth
Sure, sir, no problem. Thank you. Thanks a lot. That's it from me.

Operator
Thank you. The next question is from the line of Abhijit Akhila from Kotak Securities Private Limited. Please go ahead.

Abhijit Akella - Analyst, Kotak Securities
Yeah, uh, good morning, sir. Thank you so much for taking my questions. Good morning. Um, first one was just, uh, now that the Rabi subsidy rates are known, uh, for the second half, um, would we have sort of a fairer idea of where we could expect EBITDA per ton to settle at for FY27?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Too early to count the chickens. Let's wait for the quarter to close because things are so volatile. The last 2 quarters have completely destabilized in terms of margin success. I would prefer to wait, but things have improved significantly. Our valuation is restored now. So the challenge here is not the margin per se, per metric tons, more of a volume. How do we revive the consumption? To what extent we need to set the market price? These things will play out in coming weeks. Probably one more quarter we should be able to give you precise, but structurally, directionally, we are there.

Even in this stressful quarter, we have done a decent number in Q2 in terms of both manufactured margin and some opportunistic imports which has helped us to have a decent margin on. Imports as NPKs as well. So I think, um, we should be able to come closer to what we have been talking about in the past from Q3 onwards. Until the consumption revised, I don't want to do any second-guessing at this point of time, but things are looking positive.

Abhijit Akella - Analyst, Kotak Securities
Sure, understood. Um, the second one was just on the subsidy announcement itself. Um, in your reading, uh, does it seem somewhat more favorable towards the NPK segment rather than towards DAP? That was one question. And the other one is that footnote 5 of the financial results we have disclosed says that the necessary consequential impact of this NBS announcement will be taken in the subsequent quarter. So is there any adjustment required to the already declared Hari season results also, or this will only be prospective effect?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
There can be some positive impact on the channel inventory what industry is carrying because these subsidies are paid out on POS basis. Consumption. So that will be a positive impact on the high-cost carryover inventory, but it will neutralize the high cost. Otherwise, it would have been a loss for the industry. So rather than saying whether there is a positive impact, I think industry will not have negative impact going forward, I would say, because we have to be rightfully compensated for having purchased and produced and carrying the high-cost inventory.

That will be reasonably compensated as we sell these fertilizers to the end consumers, farmers. So to that extent, there will be a positive impact in the coming quarter. And second, in terms of shift favoring NPK, ideally it will always should be that way only. NPK is a balanced nutrition, and domestic sector is focused on NPK fertilizers, and we can make it available during these challenging times. DAP capping at 1,350 is an aberration. I think now we have come back to normalcy and this is a way to go.

I do feel that NPK consumption should come back and at some stage even this capping of DAP may get released because government also cannot afford that sort of a higher subsidy and let the farmer decide which fertilizer he has to use. And that's the right thing to do and that's what as industry also we have been advocating.

Abhijit Akella - Analyst, Kotak Securities
Okay, sir. And just, uh, Last 2 quick ones from my side. One is the framework for fertilizer sale. Does that apply only to urea and DAP or also to NPKs? And in such a if it's the latter, then is there some impact on possible volume growth, you know, in the NPK category also from here?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
It is applicable for all, but I do not know, there have been some areas where ideally some of the cash crop farmers need higher volumes of NPK, which they are not currently able to do because of this restriction. Industry has already started engaging with the government and given this feedback to ensure that the farmer who needs the right dosage of NPK should not be deprived on this. Package of Practices developed by agriculture universities need to be updated, and we have already written to the government.

We will be engaging with them. It is very important that the right dosages, latest new innovative products are factored in the Package of Practices before they put out this system. This is on a pilot scale. The feedbacks have been given. We will take it up further with the government to see that it doesn't adversely impact the availability of these fertilizers to farmers who are in need of them. It's a serious concern which we are trying to address.

Abhijit Akella - Analyst, Kotak Securities
Perfect, sir. And the last one was on the fluorine chemical plant side. Um, in the last 2-3 years, we have seen quite a lot of Chinese capacity coming up in the fluorine derivative space. And some of the larger Indian companies have also been, you know, undergoing some struggles in that space. So in that backdrop, how do we plan to differentiate whatever offerings, uh, you know, you plan to put up over here?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
One or two things. First, we are trying to establish the proof of concept and looking at fluorination chemistry-based agrochemical intermediates and certain pharma intermediates. And right now we are not creating complete downstream, but one unique advantage Coromandel has got is in terms of hydrofluoroacetic acid, which us to diversify into fluorination chemistry rather than using phosphor route. So while China is competing on the phosphor route, our ability to leverage on our byproduct which is coming from our phosphoric acid can be a good value addition.

So that can provide the complete value chain in the fluorination chemistry space. So our unique advantage of our own captive raw material can give us a complete advantage compared to those. But having said that, we need to establish the market and identify partners who will now take the volumes. And these capacities will come up based on the market needs rather than looking for the market after the capacity comes. So we'll have lock-in customers before we move ahead with the CapEx.

Abhijit Akella - Analyst, Kotak Securities
Got it. So thank you so much and wish you all the best.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Thank you.

Operator
Thank you. The next question is from the line of Bharat Sheth from Quest Investment Managers Private Limited. Please go ahead.

Bharat Sheth - Analyst, Quest Investment Managers
Hi sir, thanks for the opportunity. So my all question, but can you give little more color on this non-surgery and non-agrochemical business, the size of the business, and how do when we are talking of very bullish, so how difficult is to scalable, I mean, and what kind of entry barrier that it has so people cannot enter into?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Agrochemicals, at least you're familiar, there's a complete landscape known to everyone. In terms of bioproducts, it's all the products are unique, specific to Coromandel, whether it is neem-based biopesticides or microbials. This is all in-house research product. And even these biocutlasses, some of them are specifically registered and developed by us in-house. So I think to that extent, no, it will be there's a strong entry barrier. Scaling up of volumes would be a challenge because they are applied in low dosage and it conceptually takes time to develop the market.

So it's a combination of product uniqueness and product branding and reach is important. And in the global markets, registration presence there is important, where with our wider portfolio of crop protection, nano, bio, we are much better placed with agrochemical presence in 80 to 90 countries. It makes us easily accessible to these markets for cross-selling these products, whether it is nano or bio products. To that extent, we are rightfully positioned to scale up the volumes. On the specialties, of course, it's a larger play.

lot of competitors are there, lot of global players are there and we depend on imported raw materials. And here again we are trying to invest on our own captive mepi. lot of key raw materials are imported from China, we are trying to reduce the Chinese dependence bringing in differentiation from rest makes it important. And our significant market presence in key markets, horticultural markets, and our presence over the last 2-3 decades in specialty nutrients puts us in a very strong pedestal compared to rest of the players.

We are having a sustainable volume growth of 20-25%. Even during this stressful period, we are able to manage this. Other advantage we have is our large sourcing capability. In fertilizer can have a positive rub-off effect in these businesses where the similar type of raw materials are being sourced. So our sourcing efficiency, our infrastructure, our dispatch supply chain through our common rates of fertilizer, all these are something unique to Coromandel, may be difficult for the rest of the players to compete in the market space.

And we don't compete on generic play, we focus on specialties. To that extent, you know, we have less competition intensity.

Bharat Sheth - Analyst, Quest Investment Managers
What is the current annual size of the business and how do we look at any scaling up growth over next 2-3 years?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Which business?

Bharat Sheth - Analyst, Quest Investment Managers
Yeah, this business. I mean, all bio and non-agri, non-subsidy and non-agrochemicals.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Probably it is not differentiated as a separate segment. I'm not sure at this point of time whether I can put out those numbers, so probably I'd get back to you. But they are gathering momentum, they are very significant, and they have reached the size and scale comparable to the individual listed entities as well, especially on specialty nutrients and bioproducts. A significant play.

Bharat Sheth - Analyst, Quest Investment Managers
And last question, sir, any update on the Daksha?

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Waiting for good days. Next quarter, definitely I should be able to give you good news. In the defense order. But 2 good things have happened in the last quarter on Daksha. We have introduced 2 new variants on agri drones. We have scaled up our volumes of agri operations in Coromandel through Daksha drones, and we have done sizable volumes through retail operations. We have seen wherever we are using drone spraying, our volume of liquid fertilizers and liquid chemicals have gone up significantly.

So now we are attaching agri-drones to each of our retail centers, and there are pilots attached to each of the retail centers, and they will be executing this agri-drone services. I'm very reasonably confident that future agri-revolution in India will happen through drone spraying. Right now it is confined to spraying, but it can move into precision agriculture at a later stage. This is as far as agri-vertical is concerned. On the defense side and surveillance drones and other fixed-wing drones, we are already working on.

We have come up with 2-3 new variants and we are going in for registration with defense. And hopefully, once we get the order cleared for the earlier order, we should be able to make complete offerings. Some of the demonstrations we have given on these drones at the very high high altitude in Kargil sector was very well received by Army, and hopefully we should be able to get the orders. This sector is growing at the annual CAGR of 25%, and not many established players are there. And we have created a large ecosystem at our facility for 1,30,000 square feet, trying to develop indigenous vendors.

We are looking to partner with other institutions to get the access to latest technologies. We have worked much on the product offerings, range, everything. It will take some time. Once we are able to execute the order, we should be able to realize the value out of this sector. I know it's completely different from agri-inputs, but being part of this on agriculture side, drones have been helpful. On the defense side, it opens up the new opportunity.

Bharat Sheth - Analyst, Quest Investment Managers
Thank you and all the best, sir.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
Thank you.

Operator
Thank you. As there are no further questions from the participants, I now hand the conference over

to Mr. S. Sankara Subramanian for closing comments.

Sankarasubramanian S - Managing Director & Chief Executive Officer, Coromandel International Limited
I think looking ahead, we are cautiously optimistic about the Rabi season. Supported by improved fundamentals, fundamental prices have started showing signs of moderation. Recent revisions in NBS rates also should be more supportive for fertilizer sector. The demand side farm economics remain broadly supportive. Agri-commodity prices of key crops are holding above MSP level, and that should support farm cash flows and input affordability as we move into the Rabi season. We are also seeing some improvement in agriculture environment.

The recent rainfall has been quite helpful in replenishing the soil moisture the country, and sowing has begun to pick up now, although aggregate acreage remains behind last year at this stage. So thank you for your insightful inputs and questions, and hope to see you again next quarter. Thank you very much.

Operator
Thank you. On behalf of Systematics Shares and Stocks Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.