

# TATA CHEMICALS LIMITED

## CONFERENCE CALL MAY 12, 2003

**Jaideep Goswami:** Good evening ladies and gentlemen and welcome to the Tata Chemicals conference call hosted by Tata TD Waterhouse. With us are Mr. Prasad Menon, Managing Director, Tata Chemicals and Mr. P.K.Ghose, CFO, Tata Chemicals. I now hand over the mike to Mr.Ghose to begin the call.

**P.K.Ghose:** Good evening everyone and welcome to this conference call. Let me briefly share with you some perspectives of Tata Chemicals' FY 2003 Financial Results. Income from operations was higher in FY2003 by 14% at Rs.1,628 crore compared with Rs.1,434 crore in FY 2002. Profit before tax increased 35% to Rs.269 crore from Rs.200 crore, while PAT has improved 55% over FY 2002 to Rs.197 crore. I may add however, that the tax provision is lower on account of adjustment of deferred tax provision by Rs.19 crore in FY 03.

As you are aware, the Board of Directors of Tata Chemicals is meeting tomorrow to consider the declaration of an interim dividend on Ordinary Shares of the Company for the Financial Year 2002-2003. Hence, I request that you refrain from any queries around dividends.

Tata Chemicals have also taken multiple initiatives including debt retirement and derivative tools that have made significant contribution to earnings. The results of these are reflected in the numbers themselves

- The Company's weighted average cost of borrowing has reduced to 9.7% in FY 2003 from 11.2% in FY 2002
- Efficient capital utilisation and judicious capital deployment combined to deliver an interest savings of Rs.20 crore
- Debt has reduced to Rs.820 crore as on March 31, 2003 from Rs.1060 crore as on March 31, 2002 reducing our debt equity ratio from 0.68 to 0.47
- Debt restructuring initiatives have reduced net interest cost by 18% to Rs.90 crore from Rs.110 crore. Here too, I may add that the amount of Rs.90 crore is inclusive of prepayment premium of Rs.5 crore paid towards retirement of high cost debt

We have also been efficiently managing our inventory levels. Inventories have reduced from Rs.198 crore to Rs.184 crore. Our asset turnover ratio has increased from 0.48 to 0.62 while the return on assets is higher at 12.6% from 9.4%. We continue to identify innovative financial tools to further drive savings and reduce costs.

Additionally, the efficiency-led initiative in consultation with Mckinsey & Company, Project Manthan has delivered some very positive results. Apart from contributing appreciably to enhanced efficiencies, it has also reduced marketing and manufacturing costs by Rs.58 crore in FY 2003. We estimate an even higher quantum of savings in FY 2004.

Now I would request Mr.Menon to share with you some of the key initiatives that have driven Tata Chemicals' FY 2003 performance.

**Prasad Menon:** Good evening everyone. It's a pleasure to be with you on this call. Tata Chemicals, as you know has identified three core areas of operations for future growth, namely inorganic chemicals, salt and fertilisers. All these businesses demonstrated healthy growth in FY 2003.

Inorganic chemicals:

Our inorganic chemicals business has continued to demonstrate robust growth. Tata Chemicals is one of the largest single site soda ash producer in the world and enjoys leadership position in India with a market share of 34%. In a continuing effort to strengthen its position in this segment, Tata Chemicals has entered into long-term arrangements and appointed Key Account Managers for its large clients in the soda ash business in an endeavour to forge stronger alliances and explore greater operational synergies. Our strong export thrust has enabled us treble our exports of soda ash - we have exported over 100,000 tonnes to South East Asia and the Middle East amongst others and that too from the shallow water port Okha.

Domestically, the proposed merger with Hind Lever Chemicals offers Tata Chemicals an expanded customer base, comprising buyers of HLCL's STPP, a builder used in detergents. Soda ash as you know is also a key raw material for the detergent segment.

Strategic sourcing too has enabled us obtain coal fuel at far more competitive prices. We have a very good mix of fuels which have significantly reduced energy costs.

Salt:

Let me move on to our salt business, which has emerged as a key business growth driver. Our commitment towards our salt business is reflected in the setting up of a separate SBU to increase focus on the business. Reorganization of our distribution structure coupled with an aggressive marketing and communication thrust has helped us retain our leadership position with a 38% market share in the National Branded segment. The Tata Salt brand was ranked No.4 in the 2002 Brand Equity survey. Our efforts to strengthen presence in South India have already begun to bear fruit, with the Company attaining market leadership in Tamil Nadu in Q4 FY 2003.

Lastly, fertilisers .....

### Fertilisers:

As you are aware, Tata Chemicals possesses one of the most efficient state-of-the-art manufacturing facilities in Babrala, it uses a dual feedstock facility: natural gas or naphtha, or a combination of both. The proposed merger with Hind Lever Chemicals presents numerous natural synergies that considerably strengthen Tata Chemicals' position in the segment and enhances value for all our stakeholders. These synergies include establishing a presence in complementary fertilizer categories i.e. urea, DAP and SSP fertilisers. Our partnership approach with farmers through the Tata Kisan Kendras continues to be successful, offering holistic agricultural solutions from the stage of sowing of seeds to post harvest management to marketing of agricultural produce. The TKK network also facilitated a considerable increase in trading volumes. Traded sales amounted to Rs.51 crore in FY 2003. The integration of the Rallis marketing infrastructure into Tata Chemicals has been completed. This will contribute to better working capital management and improved realizations. I appreciate there would be a lot of queries around the Group Pricing Policy. While the policy has still to be finalized, we believe it will have hardly any effect in the near term. In the longer term, however, we see it as a step in the right direction in that it will encourage efficiencies and bring about greater discipline in the market. Both these factors make us positive in our future outlook.

### Outlook:

Going forward, strengthening of our market and customer centric thrust, a continued and aggressive focus on the export markets, a consistent efficiency improvement drive and the introduction of innovative products and services will continue to propel operating growth.

The Company aims to establish and retain its leadership position in all three segments across the parameters of size, profitability and market share.

Thank you for your attention. We would now be happy to answer questions

**Moderator:** Ladies and gentlemen. We will now begin the question-and-answer session. If you have a question, please press '\*1' on your push-button phone and await your turn to ask the question, when guided by your facilitator. If your question has been answered before your turn and you wish to withdraw your question, you may do so by pressing the '#' key. We have our first participant Mr. Sameer Mistry of TATA Mutual Fund. Please go ahead with your question.

**Sameer Mistry:** Good evening, this is Sameer Mistry from Tata Mutual Fund.

**Prasad Menon:** Good evening.

**Sameer Mistry:** Now, this is relating to the inorganic chemicals business, it is regarding soda ash. What has been the trend in the recent past or in the last one year, what is the average price realized by Tata Chemicals and what is the trend going forward?

**Prasad Menon:** Well, during the last one year, prices have tended to be quite firm and they have tended to be dictated by the import prices of soda ash, which has generally been around \$125-130. I do not see any major change in the coming year, I think, it will probably remain at this same kind of price level for another year.

**Sameer Mistry:** Okay, thank you. My second question is again relating to soda ash. Now, Tata Chemicals have exported around over about 1 lakh metric tonnes in the last year, what do you expect next year to be, I mean, what are the new markets you are looking at?

**Prasad Menon:** We have already got into some new markets this year, viz. Indonesia and Thailand and our own internal targets for this year is to take exports from 1,00,000 to 1,30,000. I do not think we will be going into any other new markets but we continue to grow in Indonesia, in Thailand, in Bangladesh and in West Asia.

**Sameer Mistry:** Thank you again. Third question is again regarding soda ash, now, what would be the main growth drivers as far as soda ash is concerned, what would be the glass industry, the detergents industry and the chemical industry going forward.

**Prasad Menon:** Okay, I think, the most significant driver is surely going to be the glass industry and in particular the float glass industry. In India, unlike the rest of the world, the consumption of soda ash in glass is actually lower than the consumption of soda ash in detergents. So, the effect of the fairly rapid growth in the glass industry will not be felt that heavily, in our own consumption rate. So, I would just put it down this way that the detergent industry will probably grow at between 2-3%. The glass industry is estimating a growth rate of between 8-10% and with the stress on infrastructure this is something likely to be sustained. So, the key driver is surely going to be the flat glass segment.

**Sameer Mistry:** Thank you. Any new capacities coming up as far as these segments are concerned?

**Prasad Menon:** Well, I hope not, we have already got an over-capacity.

**Sameer Mistry:** No, I just asked if any new capacity is coming up as far as these segments are concerned.

**Prasad Menon:** You are talking about the detergents and glass segments?

**Sameer Mistry:** Yes, detergents and the glass segments.

**Prasad Menon:** No, I do not see any major new segments, because these are industries, which have been having an overcapacity in the recent past. I think they will only now concentrate on getting their capacity utilization upto 100%. So, in the near future I do not see any additions in the capacity.

**Sameer Mistry:** Okay thank you again. Now, this is pertaining to the salt business, what percentage of the salt business is contributing to the inorganic chemical segment of Tata Chemicals.

**Prasad Menon:** If you are talking about the top line revenues, it is about 13%.

**Sameer Mistry:** Okay, and what would be the PBIT margin for the same.

**Prasad Menon:** As you know, we do not separately get the figures for salt, it is taken as a part of the inorganic chemicals division.

**Sameer Mistry:** Okay, thank you very much. This is the final question regarding urea segment. I just wanted to know why the PBIT margins have fallen this year compared to last year?

**Prasad Menon:** This is as a result, you know, the Government has been looking at the seventh and eighth pricing policies, as you are probably aware, and they have been looking at various issues concerning those two pricing periods which started from 1997. So, before they go into the group pricing they wanted to close all the issues relating to these two pricing periods and there was one more issue which they closed and the fall has been as a result of that particular adjustment.

**Sameer Mistry:** Okay, thank you, do you see these margins coming back to the same level as last year, going forward?

**Prasad Menon:** For fertilisers?

**Sameer Mistry:** Yes.

**Prasad Menon:** It will probably remain more or less the same.

**Sameer Mistry:** As this year.

**Prasad Menon:** As this year.

**Sameer Mistry:** Thank you very much.

**Prasad Menon:** Thank you.

**Moderator:** We have our next participant Mr. Anand Radhakrishnan of Sundaram Mutual Fund. Please go ahead with your question.

**Anand Radhakrishnan:** Given that there is no major capex in all your business and that you have been reducing debts in your current year, what is your future plan in terms of your cash flow, where do you expect the debt to be at the end of the next year?

**Prasad Menon:** Is the question, where do we expect the debt to be at the end of next year?

**Anand Radhakrishnan:** Yes Sir.

**P.K.Ghose:** The debt would be from Rs.820 crore. It would be in the region of around Rs.600 crore next year.

**Anand Radhakrishnan:** Okay

**P.K.Ghose:** Assuming that we do not go for more borrowings.

**Anand Radhakrishnan:** Why would you go for more borrowings?

**P.K.Ghose:** I mean, assuming that we would do.

**Anand Radhakrishnan:** In case, if you go for more borrowings, what would that be for?

**Prasad Menon:** That would be, you know, on one hand we have been talking about looking at the future growth, while we have not identified specifically any project. But, if during the course of this coming year we do identify some new proposals, obviously we will have to look at some kind of borrowing. But as things stand today...

**Anand Radhakrishnan:** Acquisitions or anything like that?

**Prasad Menon:** Yes, if something makes sense, at that time we will take a call.

**Anand Radhakrishnan:** Okay, thanks.

**Moderator:** Thank you, Mr. Anand. Ladies and gentlemen, for any further questions you are requested to press '\*1' on your push-button phone. We have our next participant Mr. Melvin Mehta of Bajaj Auto. Please go ahead with your question.

**Melvin Mehta:** Good evening Sir, and congratulations on your good results.

**Prasad Menon:** Thank you, good evening.

**Melvin Mehta:** One of the things you obviously mentioned your initiatives on the farmers front, what type of programs are being carried out and what is the investment decision put in at this moment?

**Prasad Menon:** Okay, you know, the Tata Kissan Kendra actually looks at three possible activities that we take on with the farmer. Firstly, we look at providing a complete set of inputs for the farmer which could be everything from fertilisers of various kinds, to seeds, to pesticides and even helping him with accessing agricultural implements and so on, that

is one type of activity. The second type of activity is that we provide him advice and technology on everything from sowing to right through to the post harvest face.

**Melvin Mehta:** Okay.

**Prasad Menon:** The third one is something that one of our sister companies does and probably we will also do some kind of alliance with them and that is, to have an arrangement with the processor or marketer of the agricultural produce and ensure the right quality and quantity at the right price and that Rallis is already doing that with Kargil and Hindustan Lever and various others. So, that is the third kind of activity.

**Melvin Mehta:** And what kind of investment has gone into this?

**Prasad Menon:** Well, earlier we had put in some investment in terms of infrastructure, which is in terms of a building or not only housing technical services but also warehousing etc, but the way forward is that we will look at hired premises and not put in any capital in this.

**Melvin Mehta:** And how many people would be involved in this project, Sir.

**Prasad Menon:** In this particular project we have actually divided our marketing wings into two parts. One is channel sales and the other is TKK sales. So, we would have approximately 25-30 people involved in the TKK activity.

**Melvin Mehta:** What would your total employees spend at the end of the year?

**Prasad Menon:** This is for the Company?

**Melvin Mehta:** Yes Sir.

**Prasad Menon:** For the Company we would have close to 3,000, and that is of course just Tata Chemicals. Post the merger with HLCL that will go up another 450 or so.

**Melvin Mehta:** Okay sir, and regarding the relationship with Rallis, can you comment on that?

**Prasad Menon:** What is the comment, that is another sister company of Tata group!

**Melvin Mehta:** I mean is there any merger on the cards?

**Prasad Menon:** No, there is no merger on the cards.

**Melvin Mehta:** Thank you very much.

**Moderator:** Thank you Mr. Mehta. We have our next participant Mr. Deepesh Pandey of Templeton. Please go ahead with the question.

**Chellappa:** This is Chellappa from Franklin Templeton.

**Prasad Menon:** Yes, Mr. Chellappa.

**Chellappa:** I have a question on the Group-Pricing scheme, which has been introduced by the government, in 2003. I understand, this is the second stage the group concession rates shall be modulated by the energy norms of the committee and further the group concession rates are modulated by the reduction in capital related charges. What I would like to know is this currently you are getting a post-tax return of 12% on capital, is it possible that the capital related charges would be reduced to below 12% in the second stage?

**Prasad Menon:** Unfortunately at this point of time we still do not know what exactly they are going to adopt. They have as you have rightly said talked about modulating of energy as well as certain capital related charges. Industry is in dialogue with the fertilizer ministry on this, but, that is not something that will affect our returns. But, frankly, we still do not know and I do not think they have finalized these.

**Chellappa:** Thanks a lot.

**Prasad Menon:** Thank you.

**Moderator:** Thank you Mr. Chellappa. We have our next participant Mr.Gopalkrishnan of ICICI. Please go ahead with your question.

**Gopalakrishnan:** Good evening, this is Gopal here.

**Prasad Menon:** Good evening.

**Gopalakrishnan:** We just want to know, as the dollar continue to keep on depreciating, what would be the impact on the kind of margin you would have on your soda ash.

**Prasad Menon:** Obviously with the reduction of the dollar vis-à-vis the rupee, we would be under continuous pressure and we have actually included this in all our cost reduction exercises. Then, we have assumed in our projections that the rupee will continue to strengthen for another year or two. It just means that our efforts of cost reductions will have to be that much more focused. But we are confident that we can match up to it.

**Gopalakrishnan:** Okay, thank you.

**Prasad Menon:** Thank you.

**Moderator:** Thank you Mr. Gopalakrishnan. We have our next participant Ms. Sohini Andani of LKP Shares and Securities. Please go ahead with your questions, Madam.

**Sohini Andani:** Good evening sir, I would like to know what is the progress which is happening on the disinvestments of PSU fertilizer units and what sort of policy does Tata Chemicals has towards participating in this. If you can refresh as to how the scenario is and what developments can we expect on this.

**Prasad Menon:** Well, currently at the moment there is only one unit which is sort of actively on the disinvestments list and where due diligence on its own is going on and that is National Fertilisers, NFL.

**Sohini Andani:** Okay.

**Prasad Menon:** There is, of course, talks that RCF and NFL and various other units also will come in. I am sorry, there is another one FACT. As far as NFL is concerned, we are still in the process of having a good look at it, I do not think there is any timetable that the government has yet announced. Perhaps it might carry on till July or August before they actually call for bid and our approach is very simple, we will analyse it, we will wait for the effect of the book pricing on NFL and based on that we will see whether it is good value addition to our portfolio.

**Sohini Andani:** Okay, and Sir what kind of investment is awaiting on this side?

**Prasad Menon:** We do not know, it really depends on what kind of valuations come up.

**Sohini Andani:** Okay , thank you.

**Prasad Menon:** Okay, thank you.

**Moderator:** Ladies and gentlemen, for any further questions you are requested to press '\*1' on your push-button phone. We have our next participant Mr. Shyam Bhatt of Tata Mutual Fund. Please go ahead with your question.

**Shyam Bhatt:** Good evening gentlemen. My colleague, Sameer had asked you several questions earlier. I just had a couple of more questions. One is, in this group-pricing policy, what is the group that you have been classified under.

**Prasad Menon:** The Post 92.

**Shyam Bhatt:** Post 92, even as a feedstock you have been classified separately.

**Prasad Menon:** That is right, Post 92 Gas

**Shyam Bhatt:** Okay, and within this group are you benefited or adversely benefited related to your capital costs in anyway.

**Prasad Menon:** No, within this group we seem to be the one that is somewhere in the middle.

**Shyam Bhatt:** Okay, which are the other leading companies which fall in this particular group.

**Prasad Menon:** Well there is IFFCO, there is NAGARJUNA II, in that NAGARJUNA I and NAGARJUNA II, then there is CHAMBAL I, CHAMBAL II is, of course, a full naphtha unit, then OSWAL, that is about it.

**Shyam Bhatt:** Okay, when was your plant commissioned?

**Prasad Menon:** 1994, December.

**Shyam Bhatt:** Okay, the second question is regarding the cash-flow impact of the Supreme Court decision, which went in your favour last month regarding the earlier tax claims. I believe there will be no P&L impact but there will be substantial cash-flow impact.

**Prasad Menon:** No, infact Mr.Ghose will answer that.

**P.K.Ghose:** Infact, it will be both profit and cash neutral because this is basically you know the interest capitalization which we had claimed as a deduction, so what happens really is the contingent liability which is there in the book that is deduced to that extent.

**Shyam Bhatt:** Okay, but I believe there was some element of tax which you had paid under protest, which also you would be getting back.

**P.K.Ghose:** No, those would be different cases. This particular one on which the newspaper item was there a few month ago, pertained only to the interest capitalization aspect.

**Shyam Bhatt:** Okay, one last question, regarding the impact of the monsoon were lower turnover that we saw in your fertilizer division in the last quarter, was it purely because of fall in demand because of the monsoon or was there any other factor responsible for it?

**Prasad Menon:** No, you see, what is happening now is that all the fertilizer units are operating up to 100% of their capacity. That also, they were going beyond 100% because there is no easy allocation for anything beyond that. So, you generally find that in last quarter if you look at all the fertilizer plants, you will find a slowing down. Because, they are coming to a stage where they are hitting that 100% figure and that is exactly why we also slowed down in the last month. Nothing to do with the monsoon, it is just that the easy allocation just gets hit the ceiling.

**Shyam Bhatt:** So, from April a new chapter begins altogether.

**P.K.Ghose:** That is right.

**Shyam Bhatt:** Okay, thank you.

**Moderator:** Thank you Mr. Bhatt. We have our next participant Mr. Ashish Kacholia of Lucky Securities. Please go ahead with your question.

**Ashish Kacholia:** Good evening gentlemen. My question relates basically to the capacities in your fertilizer and in your soda ash business. Could you just give me a sense of the current capacities and whether you are looking to expand in these capacities?

**Prasad Menon:** Are you just talking about just Tata Chemicals alone or the industry.

**Ashish Kacholia:** Tata Chemicals

**Prasad Menon:** Okay, Tata Chemicals in soda ash we have got a capacity of 875,000 tones, which is the largest plant in India and one of the largest in the world, and we have no immediate plans of increasing the capacity. What we are doing is, watching to see how the consumption growth takes off in the next couple of years. As mentioned earlier, we are really looking at the glass and the float glass industry particularly, to drive this growth. If we see indications of being able to increase capacity by some debottling, we will look at that about a couple of years down the line. As far as fertilizer is concerned we are at the figure of 8,63,000 tones. Here again, I think, any plans of ours will really be dictated by two issues. One is what kind of effect group pricing will have in terms of guidelines for expansion and the second one, of course, is a crucial one, availability and pricing of gas. So, if we do find that we are able to get gas at fairly reasonable costs and therefore we are able to do a big bottlenecking exercise and we will do so. But this is something we will have to wait for another year.

**Ashish Kacholia:** Okay, and could you give us a sense of what is the kind of market, are you utilizing your soda ash capacity to the fullest extent right now?

**Prasad Menon:** No, if we take both our domestic as well as our export drive, we are around 85-86%.

**Ashish Kacholia:** Okay, so, this is because of demand constraints or this is because of...

**Prasad Menon:** As you are aware, Nirma also came up with an additional capacity and because of that there is generally 15–20% over-capacity in the country. That is why most plants, the most competitors are also operating somewhere around 80-85%.

**Ashish Kacholia:** So, if the next couple of years the growth in the industry is reasonable, you could expect to increase the utilization of your plant.

**Prasad Menon:** If you look at it, yes.

**Ashish Kacholia:** Could you also give me a sense of what is the current level of import duties on soda ash and how do you expect this duty to move towards the next 2-3 years.

**Prasad Menon:** Well, it is currently at 20% and we clearly see that by 2005-06, this could come down to anything between 10-15%, in line with whatever commitments we have given with WTO. Therefore all are cost reduction exercise etc., are sort of aimed at meeting that kind of a deadline. We should be competitive even at that tariff.

**Ashish Kacholia:** What are the major elements in this cost cutting drive that you have? You already are running a reasonably efficient ship, how do you make it much more efficient in, what are the areas where you are looking to cut costs.

**Prasad Menon:** We are looking right across the line. Actually, we are looking at everything from sourcing of raw materials whether it is fuels like coal or coke or raw materials like limestone. We are looking at transportation costs, we are looking at the improvement in our efficiency in the plant itself, we are looking at the transportation costs from the supply chain out of our factory. We are looking at our fixed costs both, within the plant as well as corporate, including issues like lowering our interest cost. We are looking at improved market realization, looking at which of the sectors where we get better profitability. So, it is right across the chain. However efficient we are, I do not believe that we cannot look at improvements, we have just to probably look a little out of the box, that is it.

**Ashish Kacholia:** Could you also tell us how you have been able to export 1,00,000 tonnes of soda ash, that was exported to middle-east because middle-east countries are supposed to be very, have very low cost energy so they are supposed to be very comparative in terms of price.

**Prasad Menon:** No, actually there is no capacity in the Middle East for manufacture of soda ash. And Middle East is the only one of the areas, we are actually, during the last year we have also exported to Southeast Asia. So, we have got Middle East, we have got Bangladesh, we have got Thailand, and Indonesia and there are other possible markets in South Korea as well. We have over the last 3-4 years being targeting these particular areas and therefore whether it is with the help of Tata International who have agents in these various countries are our own efforts we have been looking at driving our exports. We have been able to get a tremendous jump last year. These are markets that are actually serviced by the Chinese and the Americans.

**Ashish Kacholia:** How do you compete among them given the low cost?

**Prasad Menon:** The general price levels in this entire area is between \$125-130. So, we have to match those prices. What we will be doing, of course, is progressively as our cost cutting drive starts eating further and further into our cost. We have become very competitive even in our exports and infact this is the area which I am sure that the Chinese and the Americans will get a little worried because India could be a major competitor for them in the Middle- east, particularly in the Middle-East because the freight costs will be so low. So, this is something on which we have to work on

consistently and I do not believe that we can sustain export levels between 1,30,000–1,50,000 tones over the next 3 years or so.

**Ashish Kacholia:** So, your energy cost compares favourably with those of the Chinese and the Americans, is it.

**Prasad Menon:** No, actually we have to look at it overall. We have to look at some of our input costs and compare it to their overall costs which includes their tremendous freight cost, freight cost of the Americans. The Americans have very low cost of manufacture because there, as you know, what is called as natural soda ash that just mine and purify it, where as ours is synthetic soda ash which we actually manufacture it through chemical reaction. So, inherently their sources is cheaper. But, they do have a fairly long haul in terms of dispatches because most of them are located in the centre of the United States. So, they have dispatch cost taking it to Portland to the port and then transferring across to Asia. So, it is this total cost that we have to really look at, in terms of competitiveness.

**Ashish Kacholia:** Just one of the questions on your debtors. Have you able to bring down your debtors on the fertilizer side as well?

**Prasad Menon:** We have never had a major problem with our fertilizer debtors. The area we have been able to get marked improvement is really on our soda ash, chemicals and salts.

**Ashish Kacholia:** So, there is a general perception that the government is always late in releasing the payments for the fertilizer industry, there is not truth in that

**Prasad Menon:** There is a lag. If they generally have a lag between 2-3 months and sometimes what happens is in the month of March you get delayed payments, but by and large they are quiet prompt.

**Ashish Kacholia:** Thank you very much, Sir.

**Moderator:** Thank you Mr.Kacholia. We have our next participant Mr.Apoorva Shah of DSP ML. Please go ahead with your question.

**Apoorva Shah:** Sir, my question is regarding this demand balance supply of fertilisers, if you can throw some light on it and also cover the import threat faced by the industry.

**Prasad Menon:** Well, right now, the picture seems to be one of the balanced supply and demand. We roughly have a little over 20 million tones capacity for urea in our country and the consumption is more or less matching with that. If we have a reasonably good monsoon which is spread across the country we could have a position by the end of the year around rabi, when we would need to do make some imports. I would guess that, with reasonable monsoons of the next 2-3 years we would have to import between 1-2 million tones. As far threat is concerned, right now, because it is under price control there is no

real threat, because what the government has to do is to make up, whatever the deficiency is exist, by imports. It is not as just we are getting a lot of imports threatening the local industry.

**Apoorva Shah:** The import is regulated?

**Prasad Menon:** That is right, import is regulated, regulated through certain companies who are allowed to import it and this is done through the government agencies.

**Apoorva Shah:** That means, if there is excess capacity here there will not be any imports.

**Prasad Menon:** Well, this is something that has been debated for a long time that the government allow local capacity to beyond 100% is a bit possible, or do they go in for imports. The problem is that, right now, the gas availability is limited. Therefore, the amount of lower cost urea can be manufactured with gas is also is little limited. But, what I feel as a good sign of the future, if the government is quite prepared to look at this possibility and once we have the additional gas availability from next year, once the pricing issue is sorted out, you should see the government first asking low cost local manufactures to produce beyond 100% and then opting for imports. This is something that could be a good sign for the low cost and more efficient fertilizer plant of the country.

**Apoorva Shah:** Since Reliance has got large gas found in the south used for power and fertilizer, will this lead to large capacity being set up at the initiative of the Reliance or the government of Andhra Pradesh fertilizer in the south and will that change the demand supply situation in the country.

**Prasad Menon:** Yes, theoretically, they could set up new plants in the south, but, I think this will depend very much on what is the price that the Reliance will come up with. Let us just understand the dynamics, we are looking at a..., if you look at a deregulated scenario, say, 4-5 years down the line, when you are actually competing with the Gulf plants. Gulf plants have gas available at \$0.75 per million BTA. No, I do not see the Reliance gas being cheaper than say about \$2.5-3. Therefore, I am not so sure, suddenly you will find a huge additional capacity just because the gas is available. It is possible that 1-2 plants may come up or it is possible that one or two plants may expand in that area. But, I do not see a rush towards building new capacity. What it does do is it put some pressure on the LNG suppliers from Gujarat viz. Petronet and Shell to be more competitive with Reliance gas.

**Apoorva Shah:** But if the gas differentials, Dubai and..., there are threats that fertiliser itself make a glut eventually.

**Prasad Menon:** Yes, it depends, what could happen is that..., are you looking at a deregulated scenario?

**Apoorva Shah:** Yes, isn't the government actually going towards that in the next 2-3 years.

**Prasad Menon:** We certainly hope so, but you will have to tell me whether politically they will go to that. But, look at that scenario, the government actually deregulates the industry, you find about 35-40% of industry will become absolutely uncompetitive. Then you are looking at imports of urea of between 3-6 million tones. Frankly, I do not see that happening because that is going to overstrain our infrastructure, whether it is our ports or railways. So, I feel the government moving in a graded fashion towards decontrol and I certainly do not see that happening for the next 3-4 years and yes, perhaps in 5-6 years.

**Apoorva Shah:** What is the rate of growth in demand that you see?

**Prasad Menon:** If you have a reasonably normal monsoon, I would say 1.5-2%.

**Apoorva Shah:** Right, thank you.

**Prasad Menon:** Thank you.

**Moderator:** Thank you Mr.Shah. We have our next participant Mr.Ritesh of ASK Raymond James. Please go ahead with your question.

**Ritesh:** Good evening, Mr. Menon and Mr.Ghose

**Prasad Menon:** Good evening.

**Ritesh:** This was the continuation with the cost saving question, what are the internal targets, actually the cost saving number, this year you did around Rs.58 crore, what would be the next year target?

**P.K.Ghose:** The target is about the same as what has been achieved this year; it will be around Rs.60 crore.

**Ritesh:** Sixty crore, that would be Mithapur or Babrala plant also coming.

**P.K.Ghose:** Both Mithapur and Babrala.

**Ritesh:** Okay.

**Prasad Menon:** You must understand that, when we talk about cost saving there will be a cost corresponding price increase and cost pressure somewhere else. We are always trying to stay ahead of that. So, what might be the net effect will be probably lower than 60 crore

**Ritesh:** Okay, thank you.

**Prasad Menon:** Thank you.

**Moderator:** Thank you Mr. Ritesh. We have our next participant Mr. Jigar Shah of KR.Choksey. Please go ahead with your question.

**Jigar Shah:** Good evening, Sir.

**Prasad Menon:** Good evening.

**Jigar Shah:** Can you throw more light on the integration benefit with Hindustan Lever Chemicals, as we have been able to quantify the benefits for Manthan projects, have you internally try to put up any such numbers on the synergy or integration benefits from Hindustan Lever Chemicals?

**Prasad Menon:** Yes, we have started looking at that Mr.Shah. I would not be able to come up with the number right now because we have got various schemes that we are looking at it. But these synergies will come on various fronts including the marketing synergy that will happen when we input some urea into the Bihar and Bengal markets and take their NPK and DAP and SSP into eastern UP. There will obviously be benefit from that front because the PARAS brand is a very strong brand and we should be able to get significant reduction and discounts across. There will be other benefits arising from the STPP in addition to our Soda Ash portfolio and apart from that there would be various other possibilities when we look at the manpower and the manpower skills across the company.

**Jigar Shah:** Approximately this would take what time, to process this exercise.

**Prasad Menon:** Probably till October or November.

**Jigar Shah:** And Sir, one last question, as at 31<sup>st</sup> March, apart from the business capital employed, for both inorganic chemical and fertilizer, what was the other capital employed which was basically an investment and may be free cash?

**Prasad Menon:** That is right. It will be in the region of Rs.3,000 crore, if you just take out inorganic chemicals which is around 2,000, it will be around Rs.1,000 crore.

**Jigar Shah:** Thank you very much and wish you all the best.

**Moderator:** Thank you Mr.Shah. As there are no more questions, I would now like to hand-over the conference to Mr. Gavin Desa from Citigate Dewe Rogerson. Please go ahead, Sir.

**Gavin Desa:** I would just like to thank the analysts, Mr.Menon and Mr.Ghose for participating in this call. Thank you Jaideep and thank you TATA TD Waterhouse as well.