Q1 FY2007 Analyst / Investor Conference Call
July 27, 2006

Moderator: Good afternoon ladies and gentlemen, I am Monali, the moderator for this conference. Welcome to Tata Chemicals conference call hosted by HDFC Securities. Mr. Jaideep Goswami of HDFC Securities is your call leader today. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Mr. Jaideep Goswami of HDFC Securities. Thank you and over to you Sir.

Jaideep Goswami: Thank you Monali. Good afternoon everyone on behalf of HDFC Securities I welcome you all to the Q1 FY07 quarterly conference call of Tata Chemicals. We have with us Mr. Prasad Menon, Managing Director of Tata Chemicals and now I would like to request Mr. Menon to give a brief on the results and we can follow it up with question and answer session. Over to you Sir.

Prasad Menon: Thanks Jaideep and good afternoon ladies and gentlemen. I will briefly touch upon the highlights of Tata Chemicals performance over the first quarter ending June 30th 2006. After which, we will be happy to respond to all your queries.

The Company's financial and operating performance during the quarter under review has been strong. Production and sales volumes of all our products have increased. This combined with our efficiencies and lower input costs has enabled the healthy increase and realizations.

Let me share with you some of the perspectives of the performance of our business segments.

Starting with Chemicals. Sales realizations of both our key products - soda ash and edible salt had been strong. Our soda ash as domestic marketshare has improved to 33.6%. The percentage of dense soda ash sales, which caters to the faster growing glass segment, was also high at 32%. On the back of continuing healthy demand and firm prices within the country we have enhanced domestic sales volumes. Further, consequent to the increase in freight costs; we were compelled to increase prices by enables of around Rs. 350 per ton late in June 2006.

Our food additives business too has performed encouragingly. The share of the national branded segment for Tata Salt stood at an impressive 51.6% for the quarter under review. We just introduced a new design pack in May, which has well accepted by trade and consumers.

In the Fertilizers area, there has been a significant increase in sales realizations which is being driven by enhanced trading activity as well as higher DAP and complex fertilizer sales. As you are aware, one of our key objectives is to become a complete agri solution provider to the farmer. Marketing of various inputs through our Tata Kisan Sansars will be a major enabler for us to achieve this goal. Production of DAP, as you know, was constrained in the corresponding quarter last year due to limited availability of phosphoric acid. We have since acquired a 1/3rd stake in the phosphoric acid manufacturer IMACID in Morocco and the benefits are clearly visible. There is a considerable improvement in sales of both these fertilizers. From a Regulatory perspective, while the Government has continued with its earlier policy, a key positive is the commencement of the benchmarking of phosphoric acid and ammonia prices to global market rates as a result of which there will be increased clarity. Our urea sales continued to be healthy. Here too comments from all concerned departments have been received and we expect a new policy to be announced shortly - may be the next month or two.

Our business outlook remains strong. Soda ash demand continues to be healthy with threats of excess Chinese supply receding. We believe we are well positioned to capture this growth opportunity especially with the commitment of operations at our expanded manufacturing facility at Magadi and Kenya in late August. The continuing and modernization cum expansion programme at our Mithapur facility will considerably enhance the scale and size our Chemicals business. In the Fertilizer business, we will continue to endeavor to strengthen our relationship with the farmer through the sales of various agri inputs. We will also continue to explore locations where cheaper gas is available. From an overall operational perspective, the initiation of our new efficiency programme Udaan at all our facilities will significantly strengthens Tata Chemicals' competitive position.

Thank you for your time and we would now be happy to take this discussion further and take all questions.

Moderator: Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking questions. To ask a question please press *1 now. First in line we have Mr. Neeraj from Rare Enterprises.

Neeraj: Congratulations on a decent set of results. Quick question, your EBIDTA margins seem to have been depressed a bit and both your raw material cost as well your expenses have gone up. If you can please throw some light on that?

Prasad Menon: The raw material cost compared to last year has gone up because of the greater DAP and NPK manufacture. If you remember last year we were constrained in DAP because we did not have the main raw material which is phosphoric acid. This year as a result of our tie up with IMACID, our DAP production and sales have gone up considerably. In the case of DAP the cost of raw materials of ammonia and phosphoric acid are a major part of the cost and that is why our consumption of raw material has increased.

As far as the margins are concerned, our profit from operations margin wise has only suffered a little bit because of STPP margins going down in the first quarter this year and that is largely driven by Chinese prices. Chinese prices are now firming up again and we expect them to improve in the coming quarters.

Neeraj: Okay. Thank you.

Prasad Menon: Thanks.

Moderator: Thank you very much Sir. Next in line is Mr. Anoop Bhaskar from BNP Paribas.

Anoop Bhaskar: I have few questions. One is in terms of the FCCB which you had issued last year as well as in terms of accounting for that in the first quarter. You have a foreign exchange loss which I can see in the result

Prasad Menon: Yes, FCCB of course been has been completely utilized for our acquisition, we used it partly for the IMACID acquisition last year and the remainder we had used for the Brunner Mond acquisition. Under the accounting standard, of course, we have accounted for the foreign exchange fluctuation and charged it to our P&L. We have hedged the risk in a phased manner up to Rs. 48.2 and beyond and we believe that in the coming quarters we should not see too much of a hit on our P&L.

Anoop Bhaskar: Could you tell us how much of this loss actually pertained to the current quarter. And in terms of your total realization from exports do you have any forward cover?

Prasad Menon: Yes, around 70% of our receiveables are covered.

Anoop Bhaskar: I was also under the impression that for the FCCB you had firmed up a dollar rate, so you did not have to take a hit in the dollar when it moved up against the rupee. So, this loss, could you explain it, if it is possible?

Prasad Menon: Yes, the variation on the FOREX for the asset is not accounted as that is a long term asset. It is only the liability that is revalued.

Anoop Bhaskar: From my understanding, if the rupee goes beyond 48.2 then you will not have any further liability because you already hedged in that.

Prasad Menon: We are fully covered.

Anoop Bhaskar: Okay. Also, could you give us some flavour of the results based on the consolidated basis for the first quarter?

Prasad Menon: Yes, one of the things is that we are only consolidating on an annual basis because we also need to harmonize the financial years of the two companies. As you know, the BMGL financial year is a calendar year from January to December. So this first year we are not going to consolidate on a quarterly basis, but I can tell you that the performance of both the companies.IMACID in Morocco as well as Brunner Mond is going according to our expectations and according to budget.

Anoop Bhaskar: In case of BMGL, for the fourth quarter when the numbers came you reported a profit of around Rs. 35 crore.

Prasad Menon: Yes.

Anoop Bhaskar: Would the profits for the current quarter be in line with those numbers?

Prasad Menon: No, it will be lower because that Rs. 35 crore also took into account the appreciation in values of the pension fund. The pension fund invests in certain equities in the UK and any variation in those equity values would have to be factored in and shown as per Indian GAAP under P&L. So the number we showed in the first quarter will not be indicative quarter-to-quarter.

Anoop Bhaskar: Okay, this is clarified. You would have had some gain from this pension liability for the fourth quarter which you might not have in the first quarter now. Any details on the financial performance of the consolidated entity?

Prasad Menon: We do it only once a year.

Anoop Bhaskar: But because it a very large investment from the company as per the rules of SEBI you have to do consolidation twice a year and we have to 2 half year results.

Prasad Menon: No, we only have to do it once a year.

Anoop Bhaskar: Do you plan to do it at least next year?

Prasad Menon: For the next year we will start either looking at it twice a year or may be even do consolidation every quarter.

Anoop Bhaskar: Okay and in terms of the fertilizer business we saw there was a very sharp jump in terms of PBIT. Could you give us some flavor of what were the factors which are key for the growth in PBIT - was it fertilizers?

Prasad Menon: In the fertilizer business if you remember last year, we had 2 problems. One was the fact that the phosphates unit suffered badly because of the non availability of phosphoric acid and therefore our production and sales volumes were low. This year because of continuity in operations, we have got better realizations and also shown better efficiencies in urea as well as in DAP, so it is a combination of better realizations through better management of the channel as well as much higher production.

Anoop Bhaskar: Also, the price for the phosphoric acid has not been decided with the Government for the current year. How are you doing the accounting for that?

Prasad Menon: Yes, what the Government has done is that they worked out a particular formula, which has a linkage to DAP FOB prices from the US and also an average ammonia price and factored in freight and that actually gives a quarterly price. What we have worked out is an annual price with the suppliers because the suppliers naturally do not want to do a quarterly price fixation. But for the first quarter we have taken the same price as existed in the previous quarter.

Anoop Bhaskar: In terms of the soda ash business, could you give us some flavor of actually what is the kind of realizations you are having currently in the domestic market as well as for exports?

Prasad Menon: Well, our June prices would be about Rs. 9,000, I would not like to go into exact contributions. Except to say that our cost of production have been varying between about Rs. 4,000 to 4,500.

Anoop Bhaskar: And this will include the hike of Rs. 350 which you took on June 29th?

Prasad Menon: Yes, partially.

Anoop Bhaskar: Thank you.

Moderator: Thank you very much Sir. Next in line is Mr. Sharad Ramnarayanan from Birla Mutual Fund.

Sharad Ramnarayanan: My question is on the fertilizer business again. If I remember correctly in the same quarter last year you had mentioned that there was an impact of a delayed monsoon which resulted in lot of sales happening in Q2 rather than Q1.

Prasad Menon: Yes.

Sharad Ramnarayanan: How is it going forward in Q2? Do you expect a drop in the fertilizer sales compared to last year?

Prasad Menon: No, our Q2 sales should be fairly good although we have seen some delays in the monsoon coming in particularly in the North and the East. Now it has spread out fairly evenly and I don't see that being a problem at all

Sharad Ramnarayanan: Okay, so we can expect similar set of turnover and profitability on a y-o-y basis in the next quarter?

Prasad Menon: Yes.

Sharad Ramnarayanan: Okay. Second question is again on on the consolidation angle. Could you give at least some ballpark number on what kind of profitability the inorganic chemicals or the soda ash part would have generated for Brunner Mond, and will it be equivalent to Tata Chemicals or slightly lower or much less; What is it like?

Prasad Menon: No. I will just give you some overall ballpark figures. I would say that post the stabilization of our expanded operations in Magadi the EBDTA margins would be somewhere around 17 to 18%. In the interim they would probably be in the range of 14 to 17%.

Sharad Ramnarayanan: Okay, 17 to 18%?

Prasad Menon: Yes. It is because there is a variation between the margins and Europe and then in Kenya.

Sharad Ramnarayanan: Okay and realization for ash in India will be….

Prasad Menon: In India you would get a little more than 18, it will be about 19 to 19.5.

Sharad Ramnarayanan: Okay and the FOREX losses you had mentioned has actually created some stream of about Rs, 24 odd crore in this particular quarter. Because you had gained in the corresponding quarter last year so going forward you don't expect any...

Prasad Menon: I don't except it to be as dramatic.

Sharad Ramnarayanan: Okay. Finally, you have around 9% holding in one of the Tata Group companies, Tata Industries which in turn has now sold its stake in Idea and they are sitting on some Rs. 4,000 crore of cash. So as a major shareholder in this Company what exactly is the plan for Tata Industries for this, or will they be paying it out as dividend or something?

Prasad Menon: No thought on that right now. Tata Industries board itself has not decided anything.

Sharad Ramnarayanan: Will Tata Industries be divesting?

Prasad Menon: No, they have not been any fixed plans yet on that.

Sharad Ramnarayanan: Okay and what is your view with regard to the FCCB conversion?

Prasad Menon: It is a little difficult to predict because when the market peaked few months ago you noticed that our price also went up to around Rs. 280, well above the conversion price of Rs. 231. But there was no conversion at all. Our own internal belief is that conversion alone will take place beyond Rs. 300.

Sharad Ramnarayanan: Okay one more question - you had mentioned your basic and diluted EPS as being equal, so a direct impact of dilution is about 10 odd percent right?

Prasad Menon: Yes, I will ask Ranjeev Lodha from my finance team to answer you on that.

Ranjeev Lodha: Basic and diluted EPS is the same because the FOREX impact has been added back. Therefore it becomes anti-dilutive. As per the accounting standard in India if the adjustment results in the diluted EPS becoming anti diluted it is to be restricted to the basic EPS.

Sharad Ramnarayanan: Okay. Thank you.

Moderator: Thank you very much Sir. Next in line is Mr. Abhijeet Dey from Kotak Asset Management.

Abhijeet Dey: A question on the domestic soda ash industry. You mentioned a growth rate of about 4.7%. Last quarter but for the next lets say 9 to 12 months what is the kind of growth you are expecting?

Prasad Menon: Overall, over the years you can clearly expect a 4 to 5% growth, which will largely be driven by glass and the detergent sales is generally about 2 to 3%. Glass at the moment is actually growing at between 8-10%.

Abhijeet Dey: Okay and what about the demand supply scenario - any new capacities coming up?

Prasad Menon: No, it is just the debottlenecking which will add some capacity. I don't see any major additions.

Abhijeet Dey: Okay. Coming to your Magadi facility in Kenya - you were talking about an expansion earlier. What is the progress on that?

Prasad Menon: The pre-commissioning trials are going on right now and we believe that the actual commissioning will start sometime in the first week of August and we are hoping to get the first ash sometime in the third or fourth week of August.

Abhijeet Dey: Okay, and what about the total capacity after the expansion?

Prasad Menon: After the expansion it will be about 720,000 tons.

Abhijeet Dey: Okay, thank you.

Moderator: Thank you very much Sir. Next in line is Mr. Sumeet Patodia from Darashaw Broking.

Sumeet Patodia: I want to ask you if you have any contract of providing soda ash to HLL and if yes, what is the price and what is the tenure for that?

Prasad Menon: We already have HLL as a customer. Our contracts range between 6 months and a year and the prices that we have for them are not very different from the prices that pertain in to our other customers in India.

Sumeet Patodia: Okay. Thank you very much.

Moderator: Thank you very much Sir. Next in line is Mr. Chirag from Capital Market.

Chirag: I have few questions. One is that met coke can be used for the production. You are used to this because Gujarat is full of lignite as well. So are you not trying to convert the met coke usage to lignite usage?

Prasad Menon: No, we use lignite in our boilers. We cannot use lignite in the main soda ash plant itself. What we do in the main soda ash plant is that we use a combination of coke as well as anthracite that has similar properties. But in the boilers, we have used a combination of normal steam, coal, pet coke and lignite.

Chirag: Okay, because this met coke is becoming expensive day by day because it is…

Prasad Menon: It did drop in the first half of this year. It is showing some signs of increasing again. But it has been generally under control.

Chirag: Okay. Second thing is that because you are producing 32% of dense soda ash, which is basically for the glass industry, so when your conversion cost which is there from light to dense, are you gaining a little bit of profit and then selling it off or just basically passing on the conversion cost for the industry?

Prasad Menon: We don't add it. Generally trend has been that dense soda ash all over the world as a premium of between $2 and 5 dollars per ton.

Chirag: But then there is no incentive in producing dense soda ash if you are adding them?

Prasad Menon: The incentive is that it caters to the faster growing market at large.

Chirag: Okay, so you are basically trying to become the volume churners.

Prasad Menon: That is right.

Chirag: Okay. Thirdly, the cement capacity - is there any chance of getting expanded or something?

Prasad Menon: We are looking at it. We are looking at expanding because as you know our cement plant is based on the waste coming out of soda ash production. We have now put in filters to recover all the solids that come out from the effluents and these solids will then be charged in to a cement plan, so we will take the cement plant capacity up but not in any great amount it might go up about 750 to 800 tons per day

Chirag: Okay, after the overloading order by Supreme Court previously like a 20 tons of salt used to go in one truck whereas now only 9 ton goes so do you feel your freight cost has almost doubled.

Prasad Menon: Actually, the freight cost has doubled. Not just because of this but also because there is a shortage of trucks.

Chirag: Okay, so are you thinking of shifting to the railways or something?

Prasad Menon: Our strategy has been a mix of rail, road, and even sea. We do use coastal movement as well.

Chirag: No, because the port advantages to your…

Prasad Menon: We have Okha port, but we are using it for moving goods to Cochin.

Chirag: One more thing, I was just going through your raw material inputs, this regasified natural gas has almost doubled in 1 year, whereas the cost has remained almost the same so is it that you have long term contracts and if so how long will these contracts remain?

Prasad Menon: On regasified LNG, actually there are two types of contracts. Where the prices go shooting through the roof is really spot prices. In the case of spot prices what has happened is that some sales from the fertilizer ministry these are in th reigon of $10 dollars and $11 dollars per million BTU.

Prasad Menon: But as far as our contract prices are concerned we have got long term contracts in place.

Chirag: Like?

Prasad Menon: But there is always a possibility of a shortage.

Chirag: Shortage because your RLNG cost is showing as 7.32 and previously it was 7.35, so in fact the cost per unit has reduced

Prasad Menon: No, we have a mix of natural gas and regasified LNG.

Chirag: Okay.

Prasad Menon: So we have an average price

Chirag: And this contract if you have it a long term I hope the contract is sustained for a longer period because that will only benefit the Company.

Prasad Menon: Yes, Yes, we have long term contracts. I mentioned that the total quantity does not always measure up because the amount of natural gas available from Bombay High is actually slowly declining and that is why the Government is encouraging the purchase of this spot RLNG as well.

Chirag: Because you basically will have a lot of logistic advantage if you are doing it with LNG Petronet because that is also situated in Gujarat or Shell which is in Gujarat?

Prasad Menon: Well, that does not help us because we use it in Babrala.

Chirag: Okay, Babrala.

Prasad Menon: Yes.

Chirag: Right, and one more thing this phosphoric acid, the Government has fixed the price at US $455 per MT?

Prasad Menon: No, they have given a particular formula where it will vary from quarter-to-quarter.

Chirag: Okay, because it is just the notification of the Government dated 13/06/2006. They say that the phosphoric acid prices have been restricted to a maximum of $445 dollar CNF per metric tons

Prasad Menon: That is for the last year.

Chirag: And for this year it has not been yet done?

Prasad Menon: This year they have got a formula in place and they will declare it from quarter-to-quarter.

Chirag: Because if you are below 445, it will be very advantageous

Prasad Menon: Well, that depends on the price the supplier charges.

Chirag: Basically you are getting it from IMACID.

Prasad Menon: We are getting it from IMACID, but the prices that we get from IMACID are a negotiated price.

Chirag: And are on the contract basis?

Prasad Menon: Yes, on a contract basis for a year.

Chirag: Okay, thank you.

Moderator: Thank you very much Sir. Next in line is Mr. Prakash from UTI Mutual Fund.

Prakash: I just wanted to ask is there any update on the urea policy from the Government and your proposal for expansion in urea?

Prasad Menon: Well, both are linked together and we are still waiting for it.

Prakash: Okay, thanks.

Prasad Menon: Say in next month, hopefully by August it will come.

Prakash: Okay, thanks.

Moderator: Thank you very much Sir. Next in line is Ms. Pallavi Kapale from Amit Nalin Securities.

Pallavi Kapale: Congratulations for a good set of numbers. Could you please brief us about the soda ash prices?

Prasad Menon: As I mentioned prices really vary from market-to-market to the extent of $10 or $15. North America and South America really are somewhere between $190 to $210 dollars. More or less the same in Europe but in China it is about $170 to $180. But what is happening also is that the Chinese market does fluctuate quite a bit based on their inventories and right now what is happening is that 2 Chinese plants have closed, because they have to relocate due to environmental reasons and plans for 2 new major plants have been postponed, so we are seeing the possibility of Chinese prices also moving up over the next 6 months or so.

Pallavi Kapale: Okay, and how about the Indian prices?

Prasad Menon: Indian prices just follow whatever imports are. It can vary between anything between $180-200.

Pallavi Kapale: Okay. One more question from which quarter do we get the consolidated results?

Prasad Menon: You will get it next March.

Pallavi Kapale: By next March, okay Thank you.

Moderator: Thank you very much mam, next in line is Ms. Sandhya from CRISIL Research.

Sandhya: Few of my questions have been already answered. I wanted to know the increased trading volumes in terms of a percentage, how much of an increase is registered there?

Prasad Menon: Well, actually on trading we have done less than last year's first quarter. Because, the trading also takes into account the fertilizer policy and sometimes when the Government policy on imported DAP prices gets delayed, as has happened even for MOP this year. So therefore, trading volumes can change because of that.

Sandhya: Okay. One more thing because the profits have registered a good percentage increase, I was wondering that if the raw material prices have gone up, and even if the production volumes go up, the margins would not have not registered so much of a percentage increase.

Prasad Menon: No, what you are seeing is the overall number. The margins have also increased because of improved realizations in the chemicals area.

Sandhya: Okay.

Prasad Menon: Yes.

Sandhya: Also, just wanted to know for this quarter you would have used the same formula for the calculation of the subsidy for the DAP?

Prasad Menon: No, what we have done is we have taken the same prices of previous quarter.

Sandhya: Okay fine. Thank you.

Moderator: Thank you very much Madam. Next is Mr. Ghanshyam Agarwal from B&K Securities.

Ghanshyam Agarwal: Congratulations on a good set of numbers. What is the volume growth you are expecting on the soda ash front?

Prasad Menon: Volume growth will probably be somewhere between 5 to 7%.

Ghanshyam Agarwal: For 2007?

Prasad Menon: Yes, for 2007.

Ghanshyam Agarwal: Okay. What is the sort of growth that you are expecting on DAP and NPK?

Prasad Menon: In terms of last year?

Ghanshyam Agarwal: Yes, FY06.

Prasad Menon: For 2006-2007?

Ghanshyam Agarwal: Yes.

Prasad Menon: Well, in DAP and NPK volume growth now that we have improved our acid and ammonia purchasing it should be up by about 15 to 20%.

Ghanshyam Agarwal: 15 to 20%.

Prasad Menon: Yes.

Ghanshyam Agarwal: And urea I don't think anything until the debottlenecking takes place you will see any growth in urea?

Prasad Menon: Urea, I don't think you can really see any growth.

Ghanshyam Agarwal: Okay, so what will be the interest expense for the whole year on a net basis? It should be same as last year or less?

Prasad Menon: It should be more or less the same.

Ghanshyam Agarwal: Okay. On the freight cost only on the soda ash front what will be the increase in freight cost over FY06?

Prasad Menon: The freight actually went up in the last quarter of the FY05-2006. Compared to the preceding sequential quarter I think our freight cost are more or less the same. It has more or less flattened out

Ghanshyam Agarwal: So we should not see substantial increase in freight cost?

Prasad Menon: I hope not unless we see some major increase in diesel prices.

Ghanshyam Agarwal: Okay. We were going through your annual report. Brunner Mond profit stated is Rs. 37.83 crore that we have consolidated.

Prasad Menon: Yes.

Ghanshyam Agarwal: And this I think is for the quarter?

Prasad Menon: Quarter-to-quarter.

Ghanshyam Agarwal: So does this Rs. 37.83 crore include this Rs 31 cr on an annualized basis or it includes per quarter?

Prasad Menon: That if for that particular period.

Ghanshyam Agarwal: So that means if we adjust for the Brunner Mond profit probably after tax would be something like Rs. 10 to 12 crore.

Prasad Menon: Yes, roughly in that particular quarter.

Ghanshyam Agarwal: Okay, and we see incomes in your other subsidiaries also?

Prasad Menon: Yes.

Ghanshyam Agarwal: Homefield International Private Limited and Homefield UK Private Limited. What is the source of income from this investment? I mean the money, the interest on the loan?

Prasad Menon: Exactly, interest on the loan.

Ghanshyam Agarwal: Okay. Thank you.

Moderator: Thank you very much Sir. Next in line is Mr. D Chopra from Hercules Capital.

D Chopra: My question relates to Brunner Mond. This is partly related to the previous question. Last quarter the full quarter sales you mentioned that Brunner Mond sales were about Rs. 350 crore and on a normalized basis they need Rs. 25 to 30 crore excluding the pension part. So how does this quarter compare to that?

Prasad Menon: Well, the Brunner Mond figures for this quarter should be more or less the same. We see an improvement coming up as soon as the Magadi expansion takes shape and therefore from September onwards you should start seeing further improvements.

D Chopra: Okay, and the previous gentleman has mentioned in the annual report you said Rs. 10 to 12 crore off?

Prasad Menon: Yes, because we have put in the particular quarter a figure of Rs. 37 crore and that included this adjustment on the pension partner.

D Chopra: Okay.

Prasad Menon: So if you take away that adjustment it is really about Rs. 10 plus crore.

D Chopra: Okay, so this quarter would be similar to that?

Prasad Menon: Well, it is slightly better than that, yes.

D Chopra: Just one more question on Brunner Mond. Now that you own 100%, right?

Prasad Menon: Yes.

D Chopra: So how much has been the total cost in terms of what you paid for the equity and what is in the debt that you have taken on?

Prasad Menon: The equity we paid is Rs. 801 crore.

D Chopra: Okay.

Prasad Menon: And in addition to the equity we had taken the shareholders loan which has since been refinanced.

D Chopra: Okay.

Prasad Menon: Which is about 26 million pounds that has been refinanced now. And now all the loans that are on the Brunner Mond books are standalone loans for Brunner Mond.

D Chopra: Okay so Rs. 801 crore. So there is no debt on the books of Brunner Mond?

Prasad Menon: No, there is debt on the books of Brunner Mond but it is not from Tata Chemicals.

D Chopra: Okay.

Prasad Menon: We have taken total of about 66 million pounds of debt on Brunner Mond.

D Chopra: Okay, and what is your best estimate now of the pension liability that you have?

Prasad Menon: It is more or less where it was earlier.

D Chopra: Sorry, which was…?

Prasad Menon: Which was about 43 million pounds or so.

D Chopra: Okay 43 million.

Prasad Menon: Yes.

D Chopra: Okay, thank you.

Moderator: Thank you very much Sir. Next in line is Mr. Atul Thakal from Valuequest.

Atul Thakal: Currently, the Chemicals business contributes around 60% and Fertilizers is around 40%. How do you see this ratio changing in the near future?

Prasad Menon: No, the ratio will be about 60-40 on a consolidated basis. But if you look at standalone you are really talking about 55 or 50 Fertilizers and Chemicals 40.

Atul Thakal: Yes, but in the future it will remain the same?

Prasad Menon: It will be more or less that range.

Atul Thakal: And about this Brunner Mond acquisition. What I understood would the annual profits be in the range of around Rs. 50 crore?

Prasad Menon: It will be higher.

Atul Thakal: Okay, whereas I was just trying to understand the pay back period we have roughly paid around Rs. 800 crore.

Prasad Menon: Yes.

Atul Thakal: For the acquisition?

Prasad Menon: Yes.

Atul Thakal: I was just trying to understand how much would you be looking at around a 10 year pay back period.

Prasad Menon: No, faster.

Atul Thakal: Sorry, faster?

Prasad Menon: Yes.

Atul Thakal: And in this cement plant, would we be eligible for any carbon credits?

Prasad Menon: We are working on a number of projects on carbon credits including in the cement plant.

Atul Thakal: Okay.

Prasad Menon: But this is still in the process of going through the project phase and from next year onwards you should start seeing some benefit. It is not huge.

Atul Thakal: Thank you.

Prasad Menon: Thank you.

Moderator: Thank you very much Sir. Next in line is Mr. Dhaval Doshi from Strat Cap.

Dhaval Doshi: You said in the fertilizer division we have seen some incremental realizations during the quarter. If you can give me a sense of what has been the increase in the realizations for urea as well as the DAP in complex fertilizers.

Prasad Menon: DAP for current year are about Rs 16,500 compared to the previous year Rs 14,200 and urea for the current year Rs 7,500 compared to the previous year of Rs 7,200, but I must caution you that the input prices have also gone up.

Dhaval Doshi: My second question would pertain to the fertiliser division. We said our performance had slipped because of a break down and the over shortage of trucks. How has it affected the total performance? Maybe you can see if I look at the segmental margins for the inorganic chemicals.

Prasad Menon: It has effected to us by about Rs. 2 to 3 crore.

Moderator: Thank you very much Sir. Next in line is Mr. Chirag from Capital Market.

Chirag: Are you thinking of having a captive power plant?

Prasad Menon: No, we have captive power plants in all 3 sites.

Chirag: You have captive power plants?

Prasad Menon: Yes.

Chirag: Okay, I just wanted to confirm. And any expansion in that field?

Prasad Menon: Yes, we are marginally expanding our power capacity at Mithapur.

Chirag: Any figures you can give me what is the capacity on each of the power plant in Mithapur and Babrala?

Prasad Menon: Babrala, we have about 25 megawatts. In Mithapur, we have about 57. And in Haldia we have about 8.

Chirag: Thank you.

Prasad Menon: Thanks.

Moderator: Thank you very much Sir. Next is a follow up from Mr. Prakash of UTI Mutual Fund.

Prakash: There are press reports which say that you are looking at acquiring agro chemicals companies also. Are you looking at entering that business also?

Prasad Menon: I don’t know which press report you are referring to.

Prakash: One was CNBC, mentioned some statement from company officials and Economic Times also mentioned some report?

Prasad Menon: No, I don’t think those are based on any facts.

Prakash: You are not looking at entering that business or acquiring any entity?

Prasad Menon: Yes, we are in that business in a sense through our Tata Kisan Sansars. It might have been referring to an extension of that.

Prakash: Okay, but no further expansions or acquisitions in that business?

Prasad Menon: At the moment no.

Prakash: Okay.

Prasad Menon: We always look at various possibilities but not now.

Prakash: Okay, thank you.

Moderator: Next in line is Mr. S Bharath from Sundaram AMC.

S Bharath: On balance sheet just wanted to get a sense of understanding is that in terms of the power purchase which has shown on page 14 of the accounts.

Prasad Menon: Yes, are you referring to the kilo watt or megawatt?

S Bharath: Yes.

Prasad Menon: That is a mistake. It was a printing error.

S Bharath: Okay. Another thing is what wil the capacity of the Magadi facility be post expansion?

Prasad Menon: Yes, as I mentioned earlier the Kenyan plant will go up from about 370,000 to 720,000 tons.

S Bharath: And the cost of this expansion?

Prasad Menon: The cost of this roughly is about $95 million.

S Bharath: And funded through that debt which you have taken which is $66 million?

Prasad Menon: Through internal accruals as well as debt that Magadi has taken.

S Bharath: Okay. And in terms of pension liabilities the amount you mentioned is 43 million pounds…

Prasad Menon: Yes.

S Bharath: Would the recourse in terms of that to be reduced?

Prasad Menon: There are certain guidelines that the pension authority in the UK has laid down that over a period of 10 years this needs to be brought to zero, so what companies do is to factor in a payment over these 10 years to bring down this pension amount.

S Bharath: Is it now a fixed liability of 43 million pounds or is it based on the evaluation of the equity which they have.

Prasad Menon: Yes, it will be around 3 million - it can vary it can go down, it can go up.

S Bharath: So does the Company plan to go for the case of defined contribution?

Prasad Menon: Changes have already been made and in fact the all new ones are being taken on a completely different basis.

S Bharath: And what has happened to the older liabilities? Will they continue on the older system?

Prasad Menon: They will continue, yes.

S Bharath: So those you have not been able to negotiate and that we bring it to a different contribution?

Prasad Menon: There was a negotiation done by the previous owners about 3 to 4 years ago and that we feel it to be appropriate, we will have a look at it at that again I don't think it is a right time to just go and do it now.

S Bharath: So payback period which you then say would be less than 10 years includes the pension liabilities as well?

Prasad Menon: Yes, including that.

S Bharath: Thank you.

Moderator: Thank you very much Sir. Next is a follow up from Mr. D Chopra of Hercules Capital.

D Chopra: I would like to understand this Brunner Mond profitability a little bit better because our understanding from the last call was that the normalized profit for quarter was in the range of Rs. 25 to 30 crore and now it appears as if the normalized profit is around Rs. 10 crore per quarter. Could you just clarify?

Prasad Menon: Let me just clarify. We are going by whatever results the Company has been showing over the last 2 to 3 years. This Company is actually improving its performance and actually increasing the sale prices of the soda ash and bicarbonate. Secondly, you are getting 350,000 tons coming in, in the expansion in Magadi which will add considerably both to the top line and the bottom line so when we talk about a Rs. 10 or 12 crore for the first quarter that is only something that is pertaining to that particular quarter. We are pretty sure that as time moves on over this year as well as next year that the normalized profit will be much higher.

D Chopra: So when you made the acquisition you said that the EBIDTA was less than 7?

Prasad Menon: Yes, that is about 6.5 or 7 or so.

D Chopra: Okay, if you just to take 7, so may be Rs. 1,400 crore that means EBIDTA of Rs. 200 crore

Prasad Menon: Yes.

D Chopra: Is that the prospective number or was that a number which was been achieved in the past?

Prasad Menon: No, that is a number that we have taken for a couple of years down the road.

Chopra: Okay, so that will be achieved in the future.

Prasad Menon: Yes, yes.

D Chopra: Okay, that clarifies. Thanks.

Moderator: Thank you very much Sir. Next is a follow up from Mr. Dhaval Doshi of Strat Cap.

Dhaval Doshi: Could you please tell me something about the sodium bicarbonate expansion in BMGL?

Prasad Menon: Yes, they are putting up another 50,000 tons. But as we said that when we acquired this Company we became Number 3 in the world as far as soda ash is concerned we are also right now No. 3 in sodium bicarbonate. We believe that there is a very good strong market coming up in bicarbonate in Europe and therefore we will be expanding our capacity both in the Netherlands as well as the facility in UK.

Dhaval Doshi: Okay. What would be the total expanded capacity?

Prasad Menon: In Europe it will come up to between 125,000 to 150,000 tons.

Dhaval Doshi: That is post expansion right?

Prasad Menon: That is post expansion.

Dhaval Doshi: And what is the cost of expansion?

Prasad Menon: Well, it is going to be all brown field sites.

Dhaval Doshi: Yes.

Prasad Menon: So the 50,000 ton expansion will be somewhere in the region of about 25 to 30 million euros.

Dhaval Doshi: Okay and thank you.

Moderator: Thank you very much Sir. Next is a follow up from Mr. S Bharath of Sundaram AMC.

S Bharath: One question on the Kenyan plant. Since it is based on natural soda ash what difference would be in the cost increase compared to the Rs. 4,500 per ton in India? What would be the average difference?

Prasad Menon: It will be half of that.

Bharat: Thank you.

Moderator: Thank you very much Sir. At this moment there are no further questions from participants. I would like to hand over the floor to Ms. Gauri Vaideeswaran of HDFC Securities for final remarks.

Gauri Vaideeswaran: Thank you Monali. Before we conclude this call I had one question for Mr. Menon. Do we propose to expand the capacity at IMACID, any proposals?

Prasad Menon: Yes, there is a debottlenecking going on there as well.

Gauri Vaideeswaran: We currently produce about 370,000?

Prasad Menon: That is right; it is going up to about 420,000 tons.

Gauri Vaideeswaran: Okay and how much of it do we get it in India?

Prasad Menon: That comes completely into India.

Gauri Vaideeswaran: Okay, so the entire production is committed to India is it?

Prasad Menon: Yes.

Gauri Vaideeswaran: Okay, and enter into a negotiated price for a 1 year term.

Prasad Menon: That is right.

Gauri Vaideeswaran: Which is the same as we agree with the Government or is it slightly lower?

Prasad Menon: It is supposed to match up with whatever the Government comes up with.

Gauri Vaideeswaran: Okay, this was a very good conference call. I extend my thanks to Mr. Menon for his valuable time. I thank all the participants. Thank you everyone.

Prasad Menon: Thank you very much.

Moderator: Ladies and gentlemen, thank you for using WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.