



TATA CHEMICALS LIMITED

Investors/Analysts conference call

5.45 p.m. IST, Tuesday, October 25, 2005

Moderator: Good evening ladies and gentlemen. I am Parimala, the moderator for this conference. Welcome to the Tata Chemicals conference call hosted by Motilal Oswal Securities. Mr Atul Rastogi of Motilal Oswal Securities is your call leader today. For the duration of the presentation all participants' lines will be in listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr Atul Rastogi of Motilal Oswal.

Atul Rastogi: Thanks Parimala, and warm welcome to all of you to the Tata Chemicals second quarter conference call. We have with us from Tata Chemical Mr Prasad Menon, MD and Mr PK Ghose, CFO. At this point, I would like to hand over to Mr Menon for his opening remarks. Over to you Mr Menon.

Prasad Menon: Thank you Atul. Good afternoon ladies and gentlemen. Mr Ghose and I are here to speak to you. I am delighted to report strong financial and operating performance during the quarter and half-year ended September 30, 2005.

To briefly recap the numbers in case you have not had a chance to see them, the net sales for the quarter ended September 30, 2005 has improved 37% to Rs 997 crore. Profit from operations has expanded 32% from Rs 140 crore to Rs 186 crore while PAT has increased 44% to Rs 126 crore translating to a non-annualised basic EPS of Rs 5.85 and a diluted EPS of Rs 5.23 for the quarter.

Our strong performance during the quarter is the reflection of the enhanced volume, improved realisation, and a focused effort to drive down input and distribution cost across both the business segments.

Let me start with chemicals, healthy demand environment has ensured continuing firm prices of soda ash. The price increases that we took in November '04 and in the beginning of the current fiscal have been well accepted by our customers and have contributed to improved realisation. In September we enhanced the dense soda ash manufacturing capacity at our Mithapur plant and this 600-tonne per day unit constructed at a cost of Rs 132 crore enables us to cater to the stringent quality requirements of leading float glass manufacturers both in India as well as in the Asian region where we export our material. The float glass segment as you are aware has been showing double-digit growth rates from the last year and these are expected to continue. Coal and coke prices remain firm but stable, having increased steeply over the last 18 months or so. Our continuing thrust on reducing input cost and enhancing logistics and process efficiency have held us in good state during these challenging times, and I believe that today the worst is behind us.

Moving on to the food additives business, Tata salt continues to be the leader in the market. We have extended our presence to the international market with the launch of our free flowing salt in Oman, under the brand name Topp. It is sold at all leading hyper and super markets and other retail outlets there, and we propose to gradually extend the offering to other countries in West and South East Asia.

As far as the fertiliser business is concerned this has been good although delayed monsoon which has enabled strong fertiliser sales during the kharif season. During the quarter most of our production is completed using gas both re-gassified LNG as well as natural gas, but due to the fire at Bombay High we were compelled to use small amounts of naphtha. We further reduced our energy consumption levels to 5.13 giga calories per metric tonne of urea.

As you know the Alagh committee recommendations with regard to the stage 3 of the Group Pricing Policy which begins on April 1, 2006 are expected during the next two months and we are hoping for a growth and efficiency oriented policy.

The performance of our phosphatic fertiliser business has been stable. We continue to focus on increasing the proportion of higher margin NPKs and complex fertilisers as part of our overall product basket. Adequate supply of phosphoric acid ensures that production continued at optimal levels, however, delay in the settlement of phosphoric acid prices and the expected tight supply of rock phosphate and phosphoric acid in the foreseeable future remain a challenge. Here too the industry is looking forward to some clarity from the Abhijit Sen Committee report on the pricing issue.

Our business outlook remains positive. We continue to witness healthy growth across all our businesses. Our Mithapur manufacturing unit is undergoing a modernisation programme, which besides enhancing its manufacturing capacity is also expected to improve its operating efficiency and capacity utilisation. In the fertiliser segment we are constantly paring our energy consumption levels and we continue to await Government approval with regards to the de-bottlenecking of our Babrala facility.

In the phosphatic fertiliser business our thrust will be on increasing the proportion of complex and value added fertilisers. Strategic sourcing of inputs and well-entrenched customer relationship will further accelerate business growth. In parallel, we continue to explore viable and earnings accretive inorganic opportunities that will strengthen our competitive position.

Thank you for your time. Mr Ghose and I will now be happy to take the discussion further.

Moderator: Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish to ask questions please press *1 on your telephone keypad. First in line we have Mr Sharad Ramnarayanan from Birla Mutual Fund, over to you.

Sharad Ramnarayanan: First of all congratulations for the great set of numbers. Sir, I would like to know on how we are planning to deploy the funds which you raised through the FCCB?

Prasad Menon: We are constantly looking at growth opportunities. We are not in a position to say what we are looking at right now, but we certainly will continue to look for opportunities to utilise our cash.

PK Ghose: Let me just say that out of the FCCB proceeds which we took, out of that about Rs 40 million has already been utilised for our IMACID joint venture in Morocco and the balance Rs 110 million is awaiting utilisation.

Sharad Ramnarayanan: I still have not got your segmental numbers, would you mind sharing with me the different segment along with their operating margins, chemical and fertilisers?

Prasad Menon: We have got inorganic chemicals with Rs 333 crore on segment revenue. Fertilisers at Rs 662 crore making up the total of Rs 996 crore, and as far as the segment results on PBIT, we have got inorganic chemicals with Rs 92.13 crore and fertilisers with Rs 81.84 crore.

Sharad Ramnarayanan: What is the outlook on the soda ash prices currently sir, especially with some reports on the Chinese capacity coming up; do you expect it to remain firm?

Prasad Menon: We expect it to remain firm.

Moderator: Thank you very much Sir. Next in line we have Mr Manish Bhandari from ING Vysya, over to you Sir.

Manish Bhandari: Good evening Sir. I just wanted to know one detail. What are the capex plans for the next two years, and what is the amount you expect to incur in debottlenecking the capacity at the fertiliser plant?

Prasad Menon: Our capex plans are roughly about Rs 600 crore over the next three years for modernisation of soda ash as well as the debottlenecking at Babrala, subject to Government approval. The latter will cost about Rs 150 crore and there is about 300 crore of expenditure for Mithapur modernisation. Balance would be in different places like Haldia and others. Overall Rs 600 crore in the next three years.

Manish Bhandari: When will the Morocco joint venture start giving you revenue?

Prasad Menon: No, it is not revenue, it is actually an arrangement, and is a backward integration where we are getting our phosphoric acid supply that has already begun from May this year.

Moderator: Thank you Mr Bhandari. Next we have Mr Ghanshyamdas Agarwal from B&K Securities, over to you Sir.

Ghanshyamdas Agarwal: Congratulations Sir for very good set of numbers. Sir, we see a 73% good increase in profitability in the inorganic chemicals business, what drove this profitability?

Prasad Menon: Well, it is a combination of two things, one is better realisation. As I mentioned, we did take two sets of price increases last year in November as well as this year in early April. We have also continued to drive down our usage efficiencies and cost in the plant, not only for soda ash, but across the line including cement and salt. So it has been a combination of better price realisations and better efficiency.

Ghanshyamdas Agarwal: This quarter we have exported 30,000 metric tonnes, what was the number for the corresponding last quarter?

Prasad Menon: In the corresponding quarter last year we exported around 39,000 tonnes.

Ghanshyamdas Agarwal: In the fertiliser segment also, we have very good growth in terms of urea, DAP and NPK. Let us know, how the three segments have grown?

Prasad Menon: They have all grown reasonably well. Actually as you know for urea fertiliser we have a cap on how much we can produce unless the Government asks for more sales, and phosphatics has done better than last year because we have got an assured supply of acid this year from our joint venture in Morocco, so both have done well, definitely better than last year. The outlook for the rabi is also good because of the good rains that the whole country has received over the last two months.

Ghanshyamdas Agarwal: Can you expect the growth in DAP and NPK to be about 10% over last year?

Prasad Menon: About roughly that.

Ghanshyamdas Agarwal: Sir, last year we had produced about 1 lakh tonnes of extra urea, so this year also are we going to get the permission to do so?

Prasad Menon: It really depends on the early part of rabi.

Ghanshyamdas Agarwal: Okay. Sir, on salt we see that we had increased our prices to 9.25. Have we taken a hit in the market share because of that?

Prasad Menon: Partly because of that and partly the fact that the competition is driving fairly big discounts.

Ghanshyamdas Agarwal: Okay, so in terms of absolute numbers has the sale increased or remained stable or decreased?

Prasad Menon: Our market share has gone down by about 2% or so, but we think that we will be able to recover that over the next two months.

Ghanshyamdas Agarwal: Okay. Thank you, Sir.

Moderator: Thank you Mr Agarwal. Next we have Mr Sampath Reddy from Voyager. Over to you, Sir.

Sampath Reddy: Do we have any captive consumption of soda ash?

Prasad Menon: There is some captive consumption of soda ash.

Sampath Reddy: One more question on the soda ash volume. I think last year second half we had done a sales volume of around 360,000 tonnes, are we likely to have a growth on the 360,000 tonnes in the current year second half?

Prasad Menon: Well, that really depends on the production capacity. As you know we are trying to ramp up our production capacity, but the real improvements will start taking place only next year.

Sampath Reddy: Thank you.

Moderator: Thank you very much Sir. Next we have Mr Sukant Gupta from BRICS Securities. Over to you, Sir.

Sukant Gupta: I just wanted to know, you mentioned about the capex plans of something like Rs 600 crore coming over for the next few years, could you just brief me a little bit about how do you plan to go about the funding of these projects and what would be the impact on your capital structure?

PK Ghose: We fund this through our internal resources because we have sufficient cash resources, so we will be funding the whole of it through internal resources.

Sukant Gupta: Okay. Thank you, Sir.

Moderator: Thank you Sukant. Next we have Mr Vinit Sambre from IL&FS Investsmart.

Vinit Sambre: Can you tell me what is the differential in the realisation between your dense soda ash and light soda ash?

Prasad Menon: It really depends on the market; it can vary between 2 to 5%.

Vinit Sambre: Sir, I also would like to know about your export realisation as far as soda ash is concerned, is it, better than the domestic realisation or otherwise?

Prasad Menon: Domestic realisation is higher than export realisation.

Vinit Sambre: Could I get the differential in terms of percentages?

Prasad Menon: It really will be dependent on what the freight is, because we will be netting back based on what the realisation is in South East Asia where we sell.

Vinit Sambre: Okay. How has salt launched in the international market performed?

Prasad Menon: We have just launched it in two parts, one is in Dubai and other is in Muscat, the initial response has been good and that is why we have been encouraged to take it to the other towns in the Middle East, but we have also found some interest in Singapore and that is the next place we will take it to.

Vinit Sambre: Thank you very much Sir.

Moderator: Thank you Mr Vinit. Next is a follow-up question from Mr Sharad Ramnarayanan of Birla Mutual Fund. Over to you Sir.

Sharad Ramnarayanan: I just want to know do you any plans in the near future to unlock the huge value of investment in your books Sir?

Prasad Menon: No, we don't need to do that right now.

Moderator: Thank you Mr Sharad. Next is a follow-up question from Mr Ghanshyamdas Agarwal of B&K Securities. Over to you Sir.

Ghanshyamdas Agarwal: Sir, we were going through the circulars received from the Department of Fertiliser regarding the concession rates. In the last quarter, the

concession rate for DAP was about 5,400 and in this quarter it is 4,500, is that okay, or is there some anomaly in the concession rates?

Prasad Menon: As the phosphoric acid rates have not been finalised. We are waiting actually for the Government to finalise the price and then these will be adjusted.

Ghanshyamdas Agarwal: As it has been mentioned that these are the final rates for the fourth and first quarter, so will they be revised...?

Prasad Menon: If you are talking about the fourth quarter of last year and first quarter of this year then they will not be revised.

Ghanshyamdas Agarwal: Okay, but there is no anomaly in those rates?

Prasad Menon: Well, there is no anomaly, we would like to have a clearer position on the phosphoric acid pricing, and then we are hoping that we will get that in another month or so.

Ghanshyamdas Agarwal: It is because as the prices were in up trend the concession rates to be higher and since they are lower this quarter we were just little worried on the DAP side.

Prasad Menon: Well we are also concerned on the DAP side and we have been constantly going to Government to ask them to quickly revise the price.

Ghanshyamdas Agarwal: Sir, as we were going through the balance sheet last year and dividing your export realisation by the export volume, domestic realisation by the domestic volumes for soda ash, we were getting a difference of about 2,500.

Prasad Menon: Yes, the figure is quite close. There is some difference been export and the domestic and as I have already mentioned that we have to take into account the freight figures from Mithapur to our customers in Indonesia and Thailand.

Moderator: Thank you Mr Agarwal. Next in line we have Mr Ramkrishna Kashelkar from Capital market. Over to you Sir.

Ramkrishna Kashelkar: Sir, I would like to know the performance of other branded products, basically cooking soda and the other branded products that you have?

Prasad Menon: The other branded product that we have is cooking soda other than salt, which is showing some improvement because that is the only branded cooking soda available. We are also deliberately not putting in too much of effort on the publicity and advertisement expenditure, but it is showing a good increase. It is showing some improvements in the western region, but right now these are small volumes

Ramkrishna Kashelkar: Sir, are there any plans to export them?

Prasad Menon: No, not right now.

Ramkrishna Kashelkar: Is there any particular reasons for that?

Prasad Menon: We have just started the branding process in India and we would like to establish it here before going outside.

Ramkrishna Kashelkar: Okay, thank you very much Sir.

Moderator: Thank you Mr Ramkrishna Kashelkar. Next, we have Mr Atul Rastogi from Motilal Oswal Securities.

Atul Rastogi: Sir, firstly, could you give me the growth in soda ash's volume in this quarter? And secondly you mentioned that the domestic demand for soda ash is growing at 4.3% y-o-y, now isn't that a bit low considering that, float glass is growing in double digits and even detergent segment is picking up?

Prasad Menon: No, it is not low because if you consider that in India, the consumption of soda ash by the glass sector is actually about 25-26% and it is in detergents where the consumption is almost 50%.

Atul Rastogi: Can I have growth in domestic sales volume for the quarter?

P. K. Ghose: The domestic sale for soda ash is 172,000 tonnes for this quarter.

Prasad Menon: So about a 10%, increase.

Atul Rastogi: Okay, thank you Sir.

Moderator: Thank you Sir. Next, we have a follow-up question from Mr Ramkrishna Kashelkar of Capital market.

Ramkrishna Kashelkar: I believe your company was in a process to convert the light soda ash to dense soda? Is it complete or still in process?

Prasad Menon: Yes, we have a plant that we just set up with a capacity of 600 tonnes per day and it is completed.

Ramkrishna Kashelkar: So now what is the proportion of dense and light?

Prasad Menon: Well, it is about 50:50 now.

Ramkrishna Kashelkar: So from this is 8.75-lakh capacity, we can divide in 50:50% for dense and light.

Prasad Menon: You can take it about 55:45.

Ramkrishna Kashelkar: Where is realisation better — in dense or light?

Prasad Menon: In dense it's slightly more but very marginal, that really depends on the capacity.

Ramkrishna Kashelkar: Thank you.

Moderator: Thank you. Next we have Mr Prakhar Sharma from CLSA over to you Sir.

Prakhar Sharma: Sir, I would like to get an understanding of the kind of operational efficiency gains that you are expecting from the fertiliser policy in the next two months. What I understand is that the current prices of your feed stock, basically the natural gas are a bit higher than, the cost at which you are being supplied which is bit

lower than what it costs in getting it from the resource and then supplying it at your plant, and then the plants are profitable, so what will drive the Government's decision to grant operational efficiency incentives to fertiliser plant when it is making profits and in getting some kind of subsidy on the natural gas front?

Prasad Menon: I really do not know what they are going to come up with because I have got a clue on where they are going to go but I am only basing my hopes on the fact that Prof. Alagh himself has a very good understanding of the industry and would certainly like to bring this subsidy scheme into a much more — a rational playing field. When I talk about efficient improvements I am saying that if we are able to improve our efficiency from 5.3 million kilocalories to 5.1, then that improvement of 0.2 should really be something the company keeps and it should not be mopped up by the Government, So these kind of issues where a move towards this system is made will hopefully encourage companies to reduce cost and keep the improvement for themselves. This is what I am hoping that Prof. Alagh will come up with.

Prakhar Sharma: What is the cost at which natural gas has been supplied at the plants?

Prasad Menon: The LNG comes to almost 5 dollars per million BTU and the natural gas supply varies between 3 dollars per million BTU and 3.5 dollars per million BTU.

Prakhar Sharma: Okay, thank you very much Sir.

Moderator: Thank you Mr Prakhar Sharma. Next Ms Supriya Khedkar from Karvy Stock Broking.

Supriya Khedkar: Sir, congratulations on excellent numbers. I just wanted to understand some industry numbers from soda ash, what is the current domestic capacity of the soda ash?

Prasad Menon: It's about 2.4 million tonnes.

Supriya Khedkar: With many companies going for expansions, where do we see the capacity going?

Prasad Menon: As I mentioned we are going through a modernisation process and a de-bottlenecking programme, so we will hope to take it up by another 10% or so.

Supriya Khedkar: But that is on the company's side. I just wanted to understand how the industry's capacity would be ramping up?

Prasad Menon: We have seen a lot of reports in the paper about various companies wanting to ramp up. We will have to wait and see how they go and all those numbers seem to be fairly large.

Supriya Khedkar: Have you maintained your market share of about 30%?

Prasad Menon: Yes, we have maintained that. We have actually improved a little over last year.

Supriya Khedkar: Do you expect to maintain those numbers going forward?

Prasad Menon: We hope so.

Supriya Khedkar: Thanks a lot.

Moderator: Thank you Madam. Next we have Ms Priya Chaturvedi from India Infoline. Over to you Madam.

Priya Chaturvedi: Sir, what kind of growth are you expecting in SSP?

Prasad Menon: Well it really depends on the Government policy. They have just given a slightly increased subsidy rate and this is not something that the industry is happy with. But they have said that this is an interim price increase, so we will have to wait and see while they come up with the final price increase.

Priya Chaturvedi: Are there any plans of hiving off cement?

Prasad Menon: No.

Priya Chaturvedi: And Sir will you share with us the tranches of your FCCB loan?

P. K. Ghose: There are no tranches. This entire 150 million dollars is taken upfront.

Priya Chaturvedi: Thank you Sir.

Moderator: Thank you madam. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr Atul Rastogi for final remarks. Over to you Sir.

Atul Rastogi: Thanks Parimala. On behalf of Motilal Oswal Securities I would like to thank all of you for joining the conference call and to the management of Tata Chemicals, Mr Menon, Mr Ghose for being on the call.