



TATA CHEMICALS LIMITED

Analyst / Investor Conference Call

October 31, 2006

Moderator: Good afternoon ladies and gentlemen, I am Ahmed, the moderator for this conference. Welcome to the Tata Chemicals' conference call hosted by HDFC Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for the participants connected to SingTel. After that the question and answer session will be conducted for participants in India. I would like to hand over to Ms. Gauri Vaideeswaran. Thank you and over to you ma'am.

Gauri Vaideeswaran: Thanks Ahmed. Hello everyone and welcome to Tata Chemicals' second quarter and first half FY07 earnings conference call. We have with us Mr. Homi Khusrokhhan, Managing Director of Tata Chemicals and Mr. PK Ghose, CFO of Tata Chemicals with us. Mr. Khusrokhhan has recently assumed responsibility as the Managing Director of the company. He has been with Tata Chemicals since April 2004, as an Executive Director. Mr. Khusrokhhan takes over the role from Mr. Prasad Menon, who has been heading the company for the last six years. Mr. Menon has now moved to Tata Power as its Managing Director. I wish Mr. Khusrokhhan success in his new assignment. I would now like to invite Mr. Khusrokhhan to take this call forward. Over to you sir.

Homi Khusrokhhan: Thank you Gauri. If you do not mind I will start off by giving a brief overview on certain perspectives of our operating performance during the quarter and then request Mr. Ghose to share the financial details. After this is over we would be happy to respond to any queries from the participants.

The company's operating performance over the quarter and half year under review has been robust. Sales volumes across all products have been healthy resulting in improved realization. Excessive rain in certain months of this quarter did however cause production volumes to be lower at our Mithapur factory in August and September, but sales of dense soda ash which caters to the fast growing glass segment performed well and the sales were higher amounting to 30% of total soda ash sales. Our domestic market share has also strengthened 32.6% of soda ash for the half year under review. The demand environment in soda ash continues to be strong, especially on the back of certain delayed startup of Chinese plants. In fact there have been some relocation forced on three major Chinese producers of soda ash and while these three locations are in progress, certainly there will be strong demand for soda ash. International prices continue to remain firm.

The food additives business has also performed well. Our market share has improved now to 47% for the quarter. We introduced the new ad campaign to strengthen the Tata Salt brand and that has shown good results. A new product called iShakti, I for iodized, solar refined free-flow iodized salt have been launched in the southern part of the country and the initial response has been encouraging. We are also in the process of launching and testing other variants of edible salt.

Performance of fertilisers has been encouraging. Production volumes of our phosphatic fertilisers have been healthy on the back of stable raw material supplies now strong in acid that is phosphoric acid. A good delayed monsoon enabled improved sales volume of both on nitrogenous and phosphatic fertiliser offering. Phosphatic fertiliser portfolio continues to comprise as a percentage of the higher value, complex fertilisers.

The Brunner Mond integration process is progressing as scheduled and our teams are present at their facility to streamline and facilitate synergies between the two companies. The expansion of our Magadi plant is a little behind schedule, but is expected to be commissioned by the end of this, maybe November or latest by the end of this calendar year. Brunner Mond soda ash sales and production volumes have been healthy during the half-year under review and were strong at 804,000 and 712,000 tones respectively. The ongoing expansion program of our Mithapur facility is improving productivity levels and reducing cost. When completed will further enhance our competitive position. Our Udaan and Unnati programs are also helping us improve operational efficiencies with new plans and structures being introduced with all our clients. I believe we are well positioned to sustain this growth momentum in the next half. I now request Mr. Ghose to give you some financial perspective.

PK Ghose: Thank you Mr. Khusrokhani and good afternoon. Let me share with you some key aspects of our financial performance. Our consolidated revenues on a half-yearly basis improved 86% to Rs. 2805 crore, while our profit from operations was higher by 60% at Rs. 496 crore. On a consolidated basis PAT for the half-year under review amounted to Rs. 274 crore, a 47% increase.

Let me also give you a brief of our performance on a standalone basis. Tata Chemicals first half FY07 standalone sales have increased 24% to stand at Rs. 1881 crore, while PAT has increased 22% translating to a basic earning per share of 10.83 and a diluted EPS of Rs. 10.26 for the period. Operating margins appear lower mainly because of a change in our sales mix during the quarter increasing the proportion of phosphatic fertilisers as well as increased use of higher cost naphtha due to limited availability of natural gas. This, however, as you are aware, does not have any cost impact as it is completely reimbursed. The increase in profit before tax is further augmented by the receipt of a dividend of Rs. 32 Crore from Tata Industries. Debt as on 30th September 2006, stood at Rs. 1374 crore. This largely comprises low cost short-time buyer credit for the phosphatic business and the foreign currency convertible borrowing raised in January '05. Cash including investments in mutual funds as on 30th September 2006, was Rs. 470 crore. I share Mr. Khusrokhani's positive outlook and look forward to continue strong financial performance. Thank you for your time. We will now be happy to discuss any questions or comments that you may have in mind.

Moderator: Thank you very much sir. At this moment I would like to hand over the proceedings to SingTel moderator to conduct the Q&A for participants connected to SingTel. After this we

will have a questions and answer session for participants at India. Thank you and over to you Sinab.

SingTel Moderator: Thank you Ahmed. We will now begin the questions and answer session for participants connected to the SingTel bridge. Please press 01 to ask a question. At this moment there are no further questions from participants at SingTel. I would like to hand over the proceedings back to Ahmed.

Moderator: Thank you Sinab. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions 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 a question. To ask a question please press *1 now. First in line we have Mr. Dhawal Doshi from StratCap Securities. Over to you sir.

Dhawal Doshi: Sir, congratulations on a good set of numbers

PK Ghose: Thank you.

Dhawal Doshi: Sir, if you could let me know, how many days of production has been affected due to the floods in Gujarat.

PK Ghose: What I can give you is the volumes compared to last year so that you can gauge roughly where we have lost out.

Dhawal Doshi: Okay Sir.

PK Ghose: In the July to September quarter soda ash was at 203,000 compared to 204,000 in the previous year.

Dhawal Doshi: Yes sir.

PK Ghose: Branded salt was 102,000 tons against 120,000 tons the previous year.

Dhawal Doshi: Okay.

PK Ghose: Cement was 127,000 tons against 141,000 tons and urea was 208,000 against 268,000 tons. This gives you a rough sort of quotation as to what was lost in production due to flood situation in Mithapur and also the non-availability of natural gas in that time.

Dhawal Doshi: Okay. So basically the cement performance has slipped quite drastically.

PK Ghose: The cement performance in this quarter as well as the 6 months April to September, but that is not only because of the rains but because of a kiln breakdown too

Dhawal Doshi: Okay sir. Sir, coming to our consolidated numbers, can you give me the breakup between Brunner Mond and IMACID? What have the numbers been? What has been the performance? I have the numbers together, so if I can get a sense of the numbers.

PK Ghose: I can give you Brunner Mond.

Dhawal Doshi: That is fine sir.

PK Ghose: Revenues Rs. 830 crore, EBITDA Rs. 120 crore. PBT Rs 40 cr. I do not think I have got a PAT figure separately.

Dhawal Doshi: That is absolutely fine sir. My margins of the consolidated numbers of Brunner Mond and IMACID is 15.5%, the operating margins at the EBIDTA level are significantly lower in comparison to the consolidated margins even in Q4 that we had for Brunner Mond and IMACID. Sir, TCL standalone margins are quite high.

PK Ghose: They are about 18%.

Dhawal Doshi: Yes sir.

PK Ghose: Whereas Brunner Mond margins would be around 14-15%, which we had indicated last year

Dhawal Doshi: Sir, if I am not mistaken you did mention it would be around in the range of 17%.

PK Ghose: We did say closer to 17%, whereas it is presently 15.5%. And I think one of the main reasons for this is the delay in commissioning of the Magadi project, where we are doubling our capacity

Dhawal Doshi: Okay.

Homi Khusrokhani: This is not just doubling the capacity, but we will be producing a new grade of soda ash, which is what we call pure ash with less fluoride content and that plant is under commission at the moment. It should be starting up either by the end of November or latest by December. There has been a slippage of two or three months and therefore you are seeing a slight dent in the margin. When this project comes on stream you will see much better margins from Brunner Mond.

Dhawal Doshi: Sir, if you can give me the energy consumptions levels for urea during the quarter.

Homi Khusrokhani: 5.34 Giga calories per tone.

Dhawal Doshi: Okay. Sir, if I am not mistaken, we are one of the most efficient players, so how would I find out what would be the benefit because of the efficiency that we are gaining?

Homi Khusrokhani: Finally it comes to what is the subsidy related to the efficiency. Unfortunately the policy does not reward or penalize you for efficiencies. So it does not really

make any difference net-net. It is certainly an internal measure of operating efficiency, which we track very carefully.

PK Ghose: The 5.34 in this quarter is obviously higher because of the production outage that we had because of the non availability of gas, arising out of the flood situation. We are actually closer to 5.1, which makes us one of the most efficient energy users in the urea industry. But so far, so long as the urea policy is not spelt out, we are not sure. It will hopefully come out in the next one or two months, and we hope it will encourage efficiency so we will wait and see.

Dhawal Doshi: Okay. Sir, also there have been talks that because of the jump in the freight cost the government is planning to reimburse somewhere in the range of Rs 100 to 120 per ton for the phosphatic fertilisers.

Homi Khusrokhani: It is a representation we have made to the government and we have met the secretary very recently, he seems favorably inclined.

Dhawal Doshi: Okay. Sir I will get back to you with some other questions. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Abhishek from Saravana Stocks. Over to you sir.

Abhishek Sinha: Yeah. Good morning. Can I ask my question?

PK Ghose: Yes go ahead.

Abhishek Sinha: Okay. First of all, congratulations on the solid numbers in Q2 despite the gas shortage owing to Gujarat floods. We hear that Brunner Mond's mining lease on Magadi lake, which is for 99 years that is until the year 2023, has being extended by another 30 years, if so, could you kindly confirm this please. Thank you.

PK Ghose: The period of the lease has been extended by roughly 30 years.

Abhishek Sinha: Yeah. So which means that this would be on till about 2050 sir?

PK Ghose: 2053

Homi Khusrokhani: Actually, this lease was there till 2023, that has recently been extended by 30 years.

Abhishek Sinha: Right sir. So I understand that the new plant in Magadi will produce highly purified soda ash and this would probably augur very well for Tata Chemicals in the coming decades. I just wonder, would you be able to get some kind of a meaningful price increase compared to what Magadi had been getting earlier sir?

Homi Khusrokhani: It is a premium product.

Abhishek Sinha: All right sir. Thank you so much.

Moderator: Thank you very much sir. Next in line we have Mr. Himanshu from Asit Mehta. Over to you sir.

Himanshu: Congratulations Sirs on the numbers. Sir, because of the disturbance, I was not able to clearly jot down the figures, can you sir please reiterate some details like you did mention about the production that has been affected by the floods in soda ash, salt, cement, and urea.

PK Ghose: I will just read them out to you. Soda ash 203, these are all in thousand tons, 203 versus 204. Salt 102 versus 120. Cement 127 versus 141, Urea 223 versus 268 and DAP NPK was marginally up 170 last year and 172 this year.

Himanshu: Okay fine, sir.

Moderator: Thank you very much sir. Next in line we have Mr. Amit from IL&FS.

Amit: Yeah, thanks very much. I just wanted to sort of reconfirm the capex plans that we would have for the medium and long term please. I know there have been statements made about it but just a recap on that will help us.

PK Ghose: Okay, the capex program is continuously under revision, but the position at the moment is that for Mithapur we expect to spend around Rs. 250 crore to Rs. 300 crore for the chemicals unit in the next two to three years. For Babrala, if the debottlenecking project is cleared in the urea policy which is required to be announced that will be another Rs. 150 crore, so that takes you to about Rs. 400 crore and in addition, for the phosphatics and other capital expenditure, we may be requiring another Rs. 40-50 crore, so I would say around Rs. 450 crore of capex over the next three years.

Amit: Related to the integration that we are going through with Brunner Mond, I just wanted to understand what further processes or what sort of other initiatives do you intend to take over the next two quarters and is it fair to assume that the operating level margins will align to our own margins?

Homi Khusrokhhan: Yes, I think one can assume that. One of the benefits we have seen during the integration process is the benchmarking which we have done between the three companies to make sure that the companies who are lower in any aspect of performances bring their margins up or bring their performance up to the best of the three.

We have also now put in an operational efficiency improvement program in Brunner Mond, Europe, along the same lines as Mithapur's Udaan and we have a cross fertilization, people going there, so there is an interchange of people between the two companies and we are thereby trying to capture the maximum amount of synergies we can out of the integration process.

By the way, I could mention that the process has gone extremely well and probably of all the five or six integrations I have been involved with in my lifetime, I think this has been probably the

best one and the acid test is where the people of the company really feel as they belong to one organization and that has come through very strongly in this particular integration.

Amit: Okay, sure. All right. Thanks very much and all the best.

Moderator: Thank you very much sir. Next in line we have Mr. Sharad Ramnarayan from Birla Mutual Fund. Over to you sir.

Homi Khusrokhani: Hi, Sharad

Sharad Ramnarayan: Yes sir good afternoon. Sir, I just want to know like, overall, you have lined up about Rs. 450 crore of capex for the next three years, but if I see your cash flows it seems that on a consolidated basis you will be generating almost about Rs. 1000 crore every year. So, overall you may end up with Rs. 3000 to Rs. 4000 crore over the next three-four years. So, how do you plan to deploy this sir?

PK Ghose: If you see free-cash flows, we generate about Rs. 250-300 crore a year. Now, look at three issues, one is the cash figure, which I gave you, about Rs. 470 crore which is available, but the internal generation which is a cash flow of about Rs. 250 crore. As Mr. Khusrokhani was telling you, we have plans for capital expenditure, which is in the domestic part i.e. in terms of expansion at Mithapur and at Babrala. Second, we have been talking of new areas of business, which is the innovation center and the biotech and nanotech initiative, and of course we are continuously looking at opportunities for growth, which of course there is a huge pipeline. There is no point in talking about it at this juncture. Your question regarding how that cash will be utilized very clearly is in capex, in the innovation center, biotech and nanotech developments, and also towards new acquisition opportunities as and when they come up.

Sharad Ramnarayan: Any take on the news reports on the acquisition of Garuda Chemicals?

PK Ghose: I think that is very surprising to us, it is only in the newspapers.

Sharad Ramnarayan: So, there are no further developments on that front right?

Homi Khusrokhani: We did not admit any developments to start with!

Sharad Ramnarayan: The other question is - you got a dividend of Rs. 32 crore from Tata Industries. Is it a one-time special dividend arising out of the Idea stake or is it a sustainable dividend going forward?

PK Ghose: Well you know, this is a maiden dividend, so I cannot tell you in advance whether it will be sustained, but it is their maiden dividend and we hopefully expect that it should continue.

Sharad Ramnarayan: Okay. So, Rs. 32 odd crore over the next year also seems possible?

PK Ghose: It is a maiden dividend, I will not be able to tell you what exactly what they intend to do from next year.

Sharad Ramnarayan: Any plans on some acquisitions in the Middle East or fertiliser related something, which we have talked about earlier.

Homi Khusrokhani: We are always looking out for opportunities and as of now we have not put anything in the public domain, so I don't think we can talk about that.

Sharad Ramnarayan: And, finally, again, it is the press report suggesting that efficiency will be rewarded for the urea producers. If at all, whatever view you have on the policy, what kind of incremental benefits will it accrue for Tata Chemicals?

Homi Khusrokhani: It is difficult to say at this point of time because I think the final touches are still being given to the policy, but I suppose as compared to our major concerns that we had a few months ago that it could be damaging and detrimental it is not looking too bad at the moment.

Sharad Ramnarayan: So you cannot quantify that.

Homi Khusrokhani: We still are waiting for the final pronouncements on certain aspects of the policy, but continuously of course, the FAI has been representing and we are hoping that the government will listen to us this time.

Sharad Ramnarayan: Okay, I think that will be it. Thank you very much sir.

Moderator: Thank you very much sir. Next in line we have Ms. Purna from Wealth Managers. Over to you ma'am.

Purna: Hello.

Homi Khusrokhani: Hello Purna.

Purna: Sir, congratulations for the good numbers this time

Homi Khusrokhani: Thank you

Purna: I have just a few questions. I want to know the percentage of exports that have come in from sales, I mean the bifurcation of domestic sales and export sales.

PK Ghose: Soda ash export sales will be roughly around 15% of the total soda ash sales.

Purna: And any other?

Homi Khusrokhani: No. That is the only product we export.

Purna: And, if you were to put it in terms of value?

PK Ghose: Export realizations were around Rs 6,950 per tonne so that translates to around Rs 18 crore from exports in the quarter

Purna: Okay. This time our trading goods that we have are about Rs. 163 crore for the quarter

PK Ghose: That is correct

Prerna: Yeah, so, if you were to bifurcate this into the constituents that we have, that would majorly comprise of fertiliser or chemicals?

PK Ghose: It is almost entirely fertilisers, in the form of DAP, MOP, and some others.

Prerna: I mean that percentage has increased very significantly, if you were to see it quarter-on-quarter.

PK Ghose: Yes, if you see the total amount of traded goods, is increasing as a component, as part of our focus on the farmer and the fertiliser business, now, last year, if I recall, it was about Rs. 443 crore, so compared to that if you see, I think this is reasonably on track.

Prerna: If you were to see it from a segment side, the fertiliser segment has not been giving as high margins as compared to chemicals, but still our focus seems to be toward the fertiliser segment.

Homi Khusrokhani: Not really, if you look on a consolidated basis now, chemicals is almost 60% of the total company's revenue.

Prerna: No, on a standalone basis.

Homi Khusrokhani: Why should you look stand alone, when we have a global chemicals business now? We see the focus moving more towards the chemicals side.

Prerna: Ok. The interest cost this quarter is about Rs. 7.5 crore, so, I mean what is that mainly on account of?

PK Ghose: The interest cost is around Rs. 3.17 crore. Foreign exchange differences which we have started showing now of Rs 4.58 crore, these are basically not interest in that sense, it is the hedging cost for our foreign currency convertible bonds. We saw a huge variation in the Rupee-Dollar taking place very recently, so we hedged our foreign currency convertible bonds and also our buyers credit, short-term buyers credit, which we use to finance our imports for phosphatics. The actual interest cost is actually Rs 3.17 crore.

Prerna: So, the rest is the buyer's credit and hedging cost. Okay. Thank you so much.

Moderator: Thank you very much ma'am. Next in line we have Mr. Dhimant Shah from Reliance PMS.

Dhimant Shah: Thank you so much. Most of my questions have been answered. I just missed out on the part that you mentioned on the consolidated earning. The way the margins are likely to move. If you can just dwell slightly more on that and the way you see any policy shortcomings which have not been particularly in favour of the manufacturer. So, can you guide on both these points?

Homi Khusrokhani: First, let me explain that margins of the first half year are not really representative of what they will be in the second half because once the Magadi expansion

comes on stream, we will be looking at EBIDTA sales of something like 17-18%. So there will be a substantial upside once that project is on stream.

Dhimant Shah: So the model is moving more towards the chemicals part.

Homi Khusrokhan: That in any case is a conscious decision we took; it is a global chemicals business. At the moment, I am not saying that we would neglect fertilisers by any stretch of imagination. But as of today, chemicals is the counting subject.

As far as the policy is concerned like I explained earlier, that still finishing touches are being given to the policy. It is not looking as damaging, or detrimental as it looked a few months ago, so we will have to wait and watch for a little while longer, but I think more or less it will neutral, it will not be substantially better or substantially worse, it will be more or less in the same place, which in a way is a relief because we were expecting, you know, every time a new policy pronouncement comes, usually there are some slippage and downsides to it.

Dhimant Shah: So, one question there would be, we always account based on the provisional pricing, do you expect any detrimental there, one time effect of that?

Homi Khusrokhan: No major difference. There will be some readjustments done, classification of companies in those fixed categories and groups, a little bit of readjustments and recalculations, but you gain on some, you lose on some, net-to-net we will have to see how we come out. It is not looking like there is anything, like a major worry or concern at this point of time.

Dhimant Shah: Okay fine, thank you so much.

Moderator: Thank you very much sir. Next in line we have Mr. Abhijeet from Kotak.

Abhijeet: Good afternoon sir.

Homi Khusrokhan: Hi Abhijeet.

Abhijeet: I just wanted to know what the average realization for soda ash was during the quarter.

Homi Khusrokhan: Close to about \$ 190.

Abhijeet: How has the trend been over the last 6 months?

Homi Khusrokhan: Firm, very firm. In fact there is a possibility that ANSAC is considering further increases. Prices are looking firm, as I said in my earlier opening, three Chinese plants are presently being relocated and that has taken a bit of pressure off imports coming in at low prices from China. Most of the imports are coming in at slightly higher prices, 195 to 200

Abhijeet: Sir, after this expansion comes on line in Kenya, what would your strategy be regarding the excess production at your Magadi plant, given the fact that Kenya is the largest exporter of soda ash to India, would you continue with that policy or change that?

Homi Khusrokhani: You see, India has great potential. If you see the per capita consumption of soda ash probably in India, it is one of the lowest in the world and with the steep increase in GDP today, there should be a substantial increase in the requirement of soda ash in India itself. Lot of large glass manufacturers are putting up new units in India. So, I see a buoyant period of demand for soda ash in India itself. We are also looking at markets in the Middle East, in Gulf are really an entire corridor which can be serviced through Magadi.

Abhijeet: Okay, that will not impact prices you think?

Homi Khusrokhani: Not really

Abhijeet: Okay, right sir. Thank you.

Moderator: Thank you very much sir. Next in line we have Ms. Kranti from IFCI Financial Services.

Kranti: Sir, I wanted to know about this urea policy, exactly what are the industry expectations and as you all are also planning to set up a new urea plant of Rs. 150 crore, so can you tell us the rough guidance what you all are expecting?

Homi Khusrokhani: Actually, first of all, it is not a new urea plant. It will be a balancing equipment to debottleneck the existing plant. As I said earlier, the policy is not absolutely 100% in print as yet, last minute touches and final touches are still being given to it, but more or less it is going to leave us neutral, it is not going to be very damaging, it is not going to be widely profitable, but we expect more of the same sort of situation as we have had in the past.

Kranti: Can you give us rough guidelines what all are the industry expectations?

Homi Khusrokhani: I think it will be difficult to generalize because I am a little new to this industry but at the same time I have seen that, you know, it is like, it depends on what your feed stock is, the age of your setup is like, in which year you commissioned, so basically they categorize companies into six groups, so it is very difficult to generalize all six groups, some may gain, some may lose, similarly in the policy actual conditions which come out, you will find, some will be positive to some companies, some will be negative, so it is a mixed bag of things and you will have to really wait till the final thumbs are done.

Kranti: Okay, sir on this debottlenecking of the urea plant, you will be using, will it be a natural gas or naphtha.

Homi Khusrokhani: It is dual feed, but we only use naphtha in emergencies. I mean gas is far, far cheaper.

Kranti: Sir, and can you give me a breakup of your fertiliser turnover in terms of urea and phosphatic on a standalone basis.

PK Ghose: We don't disclose that separately, phosphatics and urea, it is one segment.

Kranti: Can you just give us a rough estimate, is it 70:30 or 50:50 coming from that

PK Ghose: On an annualized basis it will be about Rs. 1100 to 1200 crore of phosphatic and about Rs. 700 to Rs. 800 crore of urea.

Kranti: Okay sir, thank you.

Moderator: Thank you very much ma'am. Next in line we have Sheetal Shah from Kotak.

Sheetal Shah: Sir, on soda ash, when do we expect the Chinese production which has been hit by relocation or postponement to come back on stream and then what could be the impact on prices because of that?

Homi Khusrokhani: I think in these sorts of plans the minimum period 18 months to 24 months when you are shifting a major facility like this. So I would imagine for the next year or two we do not have any major concerns.

Sheetal Shah: Thanks a lot.

Moderator: Thank you very much sir. Next in line we have Mr. Venkatesan from BNP Paribas.

Venkatesan: Good morning sir, could you give current status on the pension liabilities of Brunner Mond.

Homi Khusrokhani: Actually there is marginal improvement compared to the position you may have heard a few months. Basically, I think there is a new set of laws which have come in to force. Companies have been given the right to go back to the regulator, re-negotiate, earlier period under which the funding was to be done, so like if we had funding requirement to be done over 10 years, we can actually apply for higher levels and longer periods of time, so we can even stretch it up to 15 years. Net-net, I think we are better off than we were a few months ago. We have had further negotiations both to the pension trustees and got some agreement signed with them. So I think the position is looking healthier.

Venkatesan: Okay.

PK Ghose: Can I just clarify, if you recall what we discussed last time, the unfunded pension liabilities were closer to about 40 to 45 millions pounds which we have said we will fund over a period of 10 years, but what has happened now is that we have gone into discussion with the trustees and they have understood that it was a little too aggressive, so they have reviewed the details and we have reduced the yearly contribution by almost 2.1 million pounds. This will come into effect from next year April. Now in UK, there is tri-annual review, it is done every three years. One happened on December 31, 2005, and the next one is in 2008. In 2008 from April 2007 we will be having a lesser contribution to the pension of 2.1 million. Number two, we have extended the period and the trustees have readily agreed move it from 10 years funding for liability to 12 years.

Venkatesan: 12 years or 15 years sir?

Homi Khusrokhani: 15 years is something you can go and approach, the regulator may or may not agree, but we have gone to 12 years and this is going to be there for the next three years until the tri-annual review takes place. Luckily at the movement, you will find that both the

equities and the debt markets in the UK are doing well. And therefore as a result what will happen is when you translate consolidated accounts into Indian GAAP you may get the benefits. At least as of now but that situation may change any day.

Venkatesan: Sir it is defined contribution or defined payment system?

Homi Khusrokhani: It is mixed, new entrants all come under defined contribution some older participants who are on the defined merited scheme.

Venkatesan: One general question sir. If gas is made available to fertiliser units at international prices, whether exports would be profitable, would be viable?

Homi Khusrokhani: We are not allowed exports. Fertilisers are not allowed to be exported.

Venkatesan: The price would be competitive internationally, even though it is not permitted to be exported?

Homi Khusrokhani: It will never match with the really low cost gas producing countries in the world. So even at lower prices I don't think India can become an exporter of fertilisers to compete with certain countries in the Middle East.

Venkatesan: Thank you sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Atul Rastogi from UBS, over to you sir.

Atul Rastogi: There is one clarification about Brunner Mond, are there any correctional items this quarter or this is done?

PK Ghose: No we don't have any exceptional items but we expect to face margins pressures due to higher energy costs in Europe from next year onwards. We are not aware of how much that will affect us but we will keep a watch on that.

Atul Rastogi: Changes on the upside or the downside?

PK Ghose: The energy prices in Europe are going up.

Atul Rastogi: Okay. But they would be using coal only, primarily coking coal what you use or met coke that you use in Mithapur. How much of power cost would be a factor?

PK Ghose: I cannot say but what I am saying is that in UK and in Europe energy prices are going up and most companies are facing margin pressures because of increase in energy cost and we may also be affected by this.

Atul Rastogi: In terms of core material prices are you seeing any softening?

PK Ghose: It has plateaued.

Homi Khusrokhani: In fact it has just softened a little, but there has been some neutralization because of freight, which has firmed up, but net-net it is still better than it was last year, which is certainly better on coal and coke.

Atul Rastogi: Okay. Thanks a lot.

Moderator: Thank you very much sir. Next in line, we have a follow-up question from Mr. Dhawal Doshi from StratCap Securities

Dhawal Doshi: Hello sir

Homi Khusrokhani: Hi Dhawal.

Dhawal Doshi: Sir one clarification on the realization of soda as already mentioned average of \$190, this is on a consolidated basis or a stand alone basis?

PK Ghose: It is same for both.

Dhawal Doshi: Same for both?

PK Ghose: European prices as well as prices on an average, for instance dispatches from Kenya may vary from \$170 to \$220, so it averages at about \$190. Similarly Indian prices export and domestic are closer to that region.

Dhawal Doshi: So what would be the average for Indian domestic?

PK Ghose: It would be closer to that \$190 as I mentioned.

Dhawal Doshi: Okay, sir if you look at the Brunner Mond numbers that you give me for the half-year it was 40 crore, for the March quarter on a normalized basis, excluding the pension adjustment, it was in the range of 25 to 30 crore. So for this year on a quarterly basis average is 20 crore so the slippage could be, because one of reasons is the energy cost or is there anything else?

PK Ghose: It is not energy cost at all. Energy costs are likely to impact us later as I said.

Dhawal Doshi: So then what is the reason?

PK Ghose: The Magadi expansion which has not come through when it was expected to come

Dhawal Doshi: Sir, I am talking about the March quarter Q4 FY2006, where the Magadi expansion was not operational. The profits on a normalized basis were in range of 25 to 30 crore.

PK Ghose: You see, the EBITDA was around 20 million pounds for Brunner Mond.

Dhawal Doshi: So you are talking for March quarter?

PK Ghose: For the entire year.

Dhawal Doshi: Okay.

PK Ghose: For Brunner Mond that year was 20 million pounds.

Dhawal Doshi: So sir, going forward for the next quarter too, that is for the December quarter, could I just extrapolate this number, excluding the expansion that would give in the incremental margin?

PK Ghose: I would rather talk on a consolidated basis for performance post Magadi's expansion, present state that it is, where we expect that it will be become operational in this quarter. We would expect that EBITDA margins would be roughly closer to 50% higher than last year.

Dhawal Doshi: Okay. And sir just one question about the coke prices: You mentioned in the investor communication that the coke prices have gone down.

PK Ghose: Yes.

Dhawal Doshi: Sir to what extent has the decrease in the coke prices been?

Homi Khusrokhani: As I said a lot of it is neutralized by freight increase, therefore you will have to take the net-net figure, I do not have it here with me.

Dhawal Doshi: Okay.

Homi Khusrokhani: Some coke and coal prices have moved up due to increases in freight.

Dhawal Doshi: Sir coming to your salt business, we were planning to introduce new markets for salt – so what has been the performance of Topp Salt in those areas, have we started picking up with the sales volumes or what are the new areas that we are looking out for?

Homi Khusrokhani: I think it is still a relatively small market in the Gulf, it is not very substantial.

Dhawal Doshi: And sir even in the domestic market if I look at my market share quarter and quarter in Q1 I had a market share of 51.6% in national branded whereas in Q2 it was 47%, so what is the reason that it has slipped, is it the price increase that we had had?

Homi Khusrokhani: It has actually improved from 46% to 47%, We got a 1% improvement in market share. The 51% you refer to was based on the earlier ORG MARG panel which has since been reconstituted to reflect the earlier periods too

Dhawal Doshi: Absolutely fine. Sir there is one last question the status on the excise case.

PK Ghose: The excise case has still not been heard. We are waiting for the judgment. They have postponed the date of hearing. We are awaiting the judgment still at the hearing at the High Court level.

Dhawal Doshi: Okay sir, thank you very much sir.

Moderator: Thank you very much sir. Next in line we have a follow-up question from Mr. Abhishek from Saravana Stocks.

Abhishek: Yes thank you. I just wanted to check sir, I remember reading about a particular new development, I understand Tata Chemicals had commissioned some research with the Energy Research Institute of India, where there is some kind of fertiliser innovation based on some fungus which increases the yield of the soil. It is some kind of variant of fungus, could you throw some light on that sir? Whether you have productionized it or whether it is going to be done in the near future? Thank you.

Homi Khusrokhani: I don't think it is very significant development, certainly not which has been commercialized or brought again a near commercialization, may be some earning phases up, not really significant at this point.

Abhishek: I see sir, thank you.

Moderator: We will take the last question. It is the follow-up question from Mr. Himanshu from Asit Mehta Shares.

Himanshu: Hello

Homi Khusrokhani: Yes Himanshu.

Himanshu: Sir I just would like to have some few questions answered, sir can you give me a feel of the demand and supply scenario in the local and export markets?

Homi Khusrokhani: Yes, basically at this point of time, I think globally soda ash should be growing at about 3% to 4% on the demand side, keeping pace with the growth in demand, and at this point of time demand is exceeding supply, prices is therefore firm. Some of the soda ash facilities in the US particularly have been under stress because of environmental considerations and stock quantities are slowing down and that is increasing the pressure on supply.

Himanshu: Sir what about domestic demand use, the way the domestic demand is firming up, is it looking good? What are the expectations of Tata Chemicals when it comes to domestic demand?

Homi Khusrokhani: In India, I think detergents are growing at 3% to 4% but glass has been growing very aggressively at about 7%. So average about 4.5 to 5% in terms of overall soda ash demand. The potential is large because the per capita consumption of soda ash in India is very low. As GDP increases I think there will be a natural demand for detergents and construction of course is taking huge strides.

Himanshu: Sir, can you share the perspective that Tata Chemicals has going forward, with regards to the soda ash prices, how much upside could be expected?

Homi Khusrokhani: I don't think that there will be further substantial increases now but probably they will hold down for some point of time.

Himanshu: We had been reading about this natural gas situation in Gujarat. Considering that many fertiliser and chemicals companies are situated in Gujarat, I have heard that GSPC has increased the supply of natural gas in Gujarat but still how do you see the future panning out for this anomaly? I guess it is badly affecting the results at the moment?

Homi Khusrokhani: I think generally gas supplies in India are easing up. Gas is a pass through so it does not really make that much of a difference to the bottom line.

Moderator: At this moment I would hand over the floor back to Ms. Ms. Gauri Vaideeswaran for final remarks.

Gauri Vaideeswaran: Thanks Ahmed, before we close the call, I have just a last question. This is regarding the new business initiatives that you are planning to enter, will it be too early for you to comment on the innovation center, the biotech and nanotech that you spoke about during the call.

Homi Khusrokhani: Yes, I think these are early days, we just made a beginning and in research usually there are long gestation period that I think may be in another 6 months from now we may be able to talk more about it.

Gauri Vaideeswaran: Okay. Then we come to the close of the call. I thank the management of Tata Chemicals for their time and I wish them success in all their endeavours. Thank you every one.

Homi Khusrokhani: Thanks very much Gauri.

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.

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