



## TATA CHEMICALS LIMITED

### Transcript of Q3 FY08 Conference call held on February 1, 2008 at 12:00 noon

**Moderator:** Ladies and gentlemen good morning, I am Rochelle the moderator for this conference call. Welcome to the Quarter Results with the Management of Tata Chemicals. For the duration of this presentation all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa of Citigate Dewe Rogerson, thank you and over to you Mr. Desa.

**Gavin Desa:** Thank you Rochelle, Good afternoon everyone and welcome to this conference call. We have with us Mr. Homi Khusrokhhan, the Managing Director of Tata Chemicals; and Mr. P K Ghose, the Executive VP & CFO of the Company. I would now request Mr. Khusrokhhan to share some introductory remarks after which Mr. Ghose will take us through the financials. We will then have a question answer session.

**Homi Khusrokhhan:** Thanks Gavin. Good morning everybody. Mr. Ghose and I welcome you to this call. Although the purpose of the call is not to talk about the recent news of our having signed definitive agreements with the acquisition of the Soda Ash business of General Chemicals Industrial Products, if you do have a few questions, we can answer them. But I have to caution that we are still awaiting regulatory approval and therefore I can share very limited information about this acquisition. This call is essentially to talk about the results of the last quarter. So let me share with you some perspectives of our operating performance during this quarter, following which Mr. Ghose will share the financial details. After that we will be happy to respond to your queries. Demand for our chemical products has been strong. International soda ash prices have risen even further and spot prices are in that range we talked about last time of about USD 280 to 300 per tonne. The US housing recession has resulted in their domestic demand falling a little, but the growth in the Asia Pacific region plus of course the very strongly growing market in Latin America and South America has compensated for that. And from our information, there has been no surplus of material in the US; everything is being mopped up by the developing countries. The Chinese domestic demand is increasing whereas supply is not. That is leading to firmer prices in the region. Domestic production has improved over the last quarter and we have virtually wiped off some of the losses we had in the second quarter. We believe that demand will continue to be firm for some time. This quarter we have taken the third price increase during this fiscal year. In the consumer products business, Tata Salt continues its market leadership. The market share dropped a little to 46% because of the shortages due to the monsoon interruptions in the second quarter. But we are back to a growing market share that is gradually picking up. In the national branded segment i-Shakti has been launched in non-metro towns now and it's doing pretty well. If I remember correctly, we are crossing around 10,000 tonnes a month now. We've launched a low-sodium salt, Tata Salt Lite, which has less of sodium, and more of potassium salt and the reviews we've received have been very encouraging. I think we are rapidly moving towards becoming the number one brand in that

segment. We are also looking at other additions to the consumer products portfolio, different varieties of salt and fortified salts. We will continue to evaluate the potential of these new products. In our fertilizer business, DAP prices have increased substantially because of the radically high input cost. There are phenomenal increases in the prices of rock & sulphur. Around the world, the demand for fertilizers is so high that prices have risen to unprecedented levels. Lower production and import of phosphatic fertilizers in the first half of the year have also, sort of, contributed to a shortage in the market and the farmers are screaming for supplies of DAP at the moment. The de-bottlenecking project at Babrala is progressing very smoothly. We should be completing on schedule around October 2008. The work in our new business areas is also moving on schedule. We, as I told you last time, are constructing a 30 kiloliters a day bio-ethanol plant in the Nanded district of Maharashtra. That is expected to commence around October this year. We have had very successful crop testing of sweet sorghum at Parbhani and research is going for Jatropha in five different agri regions in the country. The development of the Khet-se fresh produce business is progressing smoothly. The first center near Ludhiana and will be ready by April this year. There's a second center coming up in Mumbai in the New-Bombay region. During the quarter in our overseas operations, have seen some non operational hitches which Mr. Ghose will explain. But our Moroccan operation IMACID has done extremely well and has clocked it's highest ever production of 104,000 tonnes during this quarter. While this year may have seen some ups and downs, we are looking to better results in quarters to follow and certainly more growth opportunities, particularly with our recent acquisition. So I'll now request Mr. Ghose to give you some insights in the financial performance and thereafter we'll address your questions. Thank you.

**P K Ghose:** Thank you, Homi. I will share with you some key details of our financial performance for the quarter under review. For the quarter under review our revenues were at Rs. 1,700 crore. Consolidated profit from operations was at Rs. 256 crore while our PAT amounted to Rs. 91 crore. For the nine month period consolidated revenues are at Rs. 4563 crore, profit from operations came to Rs. 793 crore and PAT was Rs. 457 crore. Coming to our standalone Tata Chemicals numbers, revenues are Rs. 1,224 crore for the quarter and Rs. 3,145 crore for the nine month period. PAT has improved 7% and 11% over the corresponding quarter and nine month period respectively. Margins for the chemicals business continue to be healthy on the back of strong soda ash demand. Fertiliser margins have improved too primarily because of lower trading during the quarter under review. Consolidated profit from operations for the quarter took a hit primarily because of four reasons. Firstly, we refinanced some high cost debt at lower interest rates for which we paid a prepayment penalty. Secondly at Magadi, as we have mentioned before, the interest and depreciation costs of the expanded facility have been capitalised. Also adding to this are logistical losses owing to the political problems in Kenya. The net effect of all these was in excess of Rs. 35 crore this quarter. Additionally, since most of Brunner Mond's sales are part of long term contracts renegotiated at the beginning of every financial year, we had to absorb the rising input costs. Consolidated debt as on December 31, 2007 stood at Rs. 1,488 crore. Debt largely comprises low cost short term buyer's credit for the phosphatics business, the USD 66 million net Foreign Currency Commercial borrowing and the USD 125 million US Private Placement. The USD 66 million of FCCB debt is net of conversion of USD 84 million as on December 31, 2007. As of today, the converted amount has gone up to USD 96 million which amounts to 64% of the total FCCB holding. As of 31st Dec 07, our outstanding subsidy amounted to Rs. 463 crore. We received bonds worth Rs. 182 crore as a result of which net outstanding stands at Rs 281 crore. That was a brief on our financial performance. Thank you for your time. We are now open to any queries.

**Moderator:** Thank you sir, ladies and gentlemen we will now begin the question and answer session. Participants who wish to ask a question kindly press "\*" and "1" on your phone. You are also reminded to limit your questions to two per participant during the initial

round of question and answer. Please use only handsets when asking a question. First question is from the line of Mr. Pramod Gupta from Principal Asset Management. Please go ahead Mr. Gupta.

**Pramod Gupta:** What is the financing methodology for the acquisition?

**Homi Khusrokhani:** Pramod, just now we haven't yet finalized the financing plan. Mr. Ghose will just talk about it a bit.

**P K Ghose:** You know we have several options for funding this. It will be primarily be through both equity and debt. There will be cash infusion from the company as well as debt. But the details have to be worked out because it has to actually be efficient not only from a tax point of view but from other perspectives too. We will revert to you shortly after we have closed the deal. But in summary, it will be a debt and equity with some cash infusion from the company.

**Pramod Gupta:** Can you also share some financials of the General Chemicals business ?

**Homi Khusrokhani:** I don't think it will be appropriate for us to talk about it just now till the regulatory approvals are through. So Pramod, I would like to be excused from that question at this point.

**Pramod Gupta:** Alright, and finally, sir, can we expect that some of your investments in the book may be used to finance the funding of equity for this acquisition?

**Homi Khusrokhani:** There is a lot of flexibility available on our balance sheet and we'll use all necessary avenues.

**Pramod Gupta:** Okay, thank you sir.

**Moderator** Thank you Mr. Gupta, the next question is from the line of Mr. Abhijit Attavar from ABN Amro. Please go ahead.

**Abhijit Attavar:** Thank you, just wanted to touch upon the one off impact on your Kenyan operations. You said the total was Rs. 35 crore. Could you just break it down into the prepayment penalty and other issues? And considering the political problems continuing in Kenya, what kind of swing can I expect in the Brunner Mond profitability? I am looking at the Rs. 31 crore loss in third quarter. What can I look forward to in the fourth quarter?

**Homi Khusrokhani:** I will ask Mr. Ghose to tell you about the prepayment penalty. But on the political scene, I can reassure you that of the last couple of days production has been restored, absolutely normal again at Magadi. We are producing pretty well. We had the record production actually yesterday. So always it is a very good day for us.

**P K Ghose:** Abhijit, the prepayment penalty was about Rs. 14.5 crore. If you remember, they had a very high cost debt and we had to refinance it. So there was a one time hit, which we have been able to refinance at a very low cost. Brunner Mond Europe has had high input cost in the last quarter which has not been offset by the prices because they are on long-term contract and has hence affected us. They will be able to offset the rising input cost in this quarter. So that's number two. And number three is that there have been temporary disruptions in supplies in fuel in the last couple of weeks in Kenya, which resulted in loss of production.

**Abhijit Attavar:** Okay. So just to touch upon that again, you had a Rs. 31 crore loss in Brunner Mond in the third quarter. If I just take off some of these one-off issues, do you expect it to swing back to normal profitability back in the fourth quarter?

**P K Ghose:** As we have mentioned in our previous call, the second plant will be operating at about 60 to 70% capacity under normal circumstances post August 2007. And as Mr. Khusrokhan mentioned just now, yesterday we learnt that the plant had at the highest production ever which was more than 80%. Just to take a more conservative view, we are still saying that it will continue to operate at 60 to 70% capacity. Having said that, we also need to remember that Kenya has still not returned to normalcy so we are hoping there would be no disruption in fuel supplies.

**Abhijit Attavar:** Okay. Just a follow up, you have debt of about Rs. 1,488 crore from the book, what is the cash and liquid investments apart from your strategic investments currently?

**P K Ghose:** We have about \$170 million cash in mutual funds including some investments which are still lying outside, arising out of the inflows which came in from the private placement which is about \$25 million. In addition to that, if you take the market value of quoted investments that will be close to about Rs. 1,300 crore.

**Abhijit Attavar:** Will this \$1 billion will be the total cash price paid? Will you be taking on any debt from General Chemicals as well?

**Homi Khusrokhan:** No, this is a cash free debt free company. It's total enterprise value. So there's no question of picking up any further debt.

**Abhijit Attavar:** Does General Chemicals own 100% of the soda ash facility or is there a glass manufacturer which owns 25% of the total mining composition?

**Homi Khusrokhan:** The total enterprise value has been determined on 75% free cash flows. So there is a 25% minority interest at the moment from the mining operation.

**Abhijit Attavar:** Okay, so basically you are getting 75% of the manufacturing.

**Homi Khusrokhan:** Everything is worked out on the basis of 75% free cash flows.

**Abhijit Attavar:** Fair enough. Thank you.

**Moderator:** Thank you Mr. Attavar, the next question is from the line of Mr. Dhawal Doshi from Aviva Life Insurance. Please go ahead Mr. Doshi.

**Dhawal Doshi:** Sir, just one question on the prepayment penalty. What would be the amount of savings that we would receive going forward as far as the debt is concerned, savings in the interest cost?

**P K Ghose:** The earlier arrangement was at LIBOR plus 4.75%. We have replaced it with debt, which is at 6.4% fixed.

**Dhawal Doshi:** Okay. Secondly at Brunner Mond Europe, the production has gone down from 3,16,000 tonnes to 2,98,000 tonnes. Was that because of the fuel disruption?

**Homi Khusrokhan:** No, not in Europe.

**Dhawal Doshi:** Not Europe, right? Sir then why has the production in Europe gone down?

**Homi Khusrokhan:** There was a mechanical breakdown in two plants for a few days. We've been assured that this will be picked up again in the next quarter.

**Dhawal Doshi:** Can tell me what the old Magadi plant was operating at?

**Homi Khusrokhan:** Close to 100%.

**Dhawal Doshi:** No, because of this disruption, what was the utilization level during the quarter?

**Homi Khusrokhan:** I think the disruption was only about a week or so. If I remember right, the elections were 21<sup>st</sup> December and the problem started around 23<sup>rd</sup>, 24<sup>th</sup>, just around Christmas time. So it's just about one week's production was disrupted.

**Dhawal Doshi:** Sir and even the new plant would have been operating at . . . ?

**Homi Khusrokhan:** That time it was going at about 65- 70% per day. And I think then we had some interruptions there also. So I can't give you the exact figure just now, but we can dig it out if you want.

**Dhawal Doshi:** Okay. Thank you sir.

**Moderator:** Thank you Mr. Doshi, the next question is from the line of Suman Kumar from Karvy. Please go ahead.

**Suman Kumar:** Yes sir, my question is: since you are not able to forward the input cost due to long-term contracts, how are you going to manage the margin increase?

**P K Ghose:** The new prices have come into effect from 1<sup>st</sup> of January, 2008

**Suman Kumar:** Okay.

**P K Ghose:** Yes. Most of them are 2008 but a few large customers can be 2009. No contracts beyond one year are being given now.

**Suman Kumar:** Okay. General Chemicals is 100% soda ash business?

**Homi Khusrokhan:** Yes, it's a 100% soda ash business.

**Suman Kumar:** Okay. Thank you sir.

**Moderator:** Thank you Mr. Kumar, the next question is from the line of Ranjit Cirumalla from Gupta Equities. Please go ahead Mr. Cirumalla.

**Ranjit Cirumalla:** Hi, my first question is related to the gas pricing. Recently there was news that you are in discussion with Reliance Industries for ensuring gas availability. Can you throw a little bit of light on that?

**Homi Khusrokhani:** I don't think Reliance has signed any contracts with fertilizer manufacturers so far. But in principle they are agreeable to supply our full requirements. So we don't see any difficulty in obtaining the quantities. In terms of price, today in the current policy, it's not very relevant because gas is a pass through cost. So whether we pay 5 or 6 it's not going to make a significant difference. It finally comes out of the subsidy bill.

**Ranjit Cirumalla:** And that would definitely be lower than what you are paying now right?

**Homi Khusrokhani:** This will be lower than spot gas, but probably we have to see now because government is also talking about APM gas re-pricing by about a dollar at least. But in terms of impact on our bottom line, there's going to be no real impact because it's a pass through cost as I said.

**Ranjit Cirumalla:** And what is the quantity that is required for the plant?

**Homi Khusrokhani:** I think incremental quantity would be about 2- 2 ½ mmfct per day.

**Ranjit Cirumalla:** Yes, de-bottlenecking. And the second question is related to the soda ash plant at Mithapur, you said that due to the flats the spillover effect would be there in the coming quarters. So has that been restored?

**Homi Khusrokhani:** That's been restored. Third quarter has done pretty well.

**Ranjit Cirumalla:** Okay. Thank you sir.

**Moderator:** Thank you Mr. Cirumalla, the next question is from the line of Mr. Chetan Gupta from Tricolor Advisory Services. Please go ahead Mr. Gupta.

**Chetan Gupta:** Yes. Good afternoon. I have a couple of questions on GCIP. Was this a competitive bid in the sense that were there other participants who were involved? And secondly, could you give a color on the sales mix for the company in terms of which regions do they sell to and what kind of end clients make up a percentage breakdown of the sales?

**Homi Khusrokhani:** No. I think during the regulatory approval period I can't make any disclosures about the bidding process or anything that is not in the public domain.

**Chetan Gupta:** Okay. Thank you.

**Moderator:** Thank you Mr. Gupta, the next question is from the line of Mr. Siddhay Saikar from UTI Mutual Fund. Please go ahead.

**Siddhay Saikar:** Hi, you indicated that there would be some pricing increase from 1<sup>st</sup> January. Is it possible to quantify the same sir? Would it be substantial over what we did last year?

**PK Ghose:** Well it could be in the region of about \$15 to \$20/tonne varying between UK and Netherlands.

**Siddhay Saikar:** Also, for urea you had indicated by October you would complete the brown-field expansion. So for the increased production we would get the import parity price right? Any guidelines on that?

**Homi Khusrokhani:** No, not yet. It's not yet import parity. I think earlier they were taking away a certain percentage in production in excess of 10% of name plate capacity. Now I think that in NPS3 that restriction was removed. So we'll get the full subsidy benefit on the entire incremental production. That's the only change. The import parity suggestion is still, I believe, under discussion with the government. If that comes, that will give us further relief.

**Siddhay Saikar:** And sir in case the guidelines come for investments, are we prepared to make the investments in the fertilizer side given the fact that we are now full with this acquisition?

**Homi Khusrokhani:** We would be very happy to invest. We are quite happy to put up another identical Babrala plant, but we want to make sure that the policy is also encouraging investments. If we got today's import parity pricing, we would have no problems in putting up a new plant. But if that policy doesn't come, then we'd be a bit reluctant to take a big investment today because for any new urea facility of this size, the cost would be about Rs. 4,000 or 4,500 crore. That sort of investment we'd be reluctant to make unless there's some absolute clarity of the policy.

**Siddhay Saikar:** Sir what are the investments you're making in the bio fuel as well as in the Khet-Se venture?

**Homi Khusrokhani:** So far it's been very small because it's just a pilot plant. I think I would say in bio-fuels so far we would have committed about Rs. 50 to 60 crore during this year. In terms of Khet-Se again, the investment would be as of now about Rs. 20 crore or so. And every centre we put up will be another Rs. 10-15 crore.

**Siddhay Saikar:** Sir is there any plan to scale up the bio fuel once we see some kind of success in the project?

**Homi Khusrokhani:** Certainly, this is a business which could be as large as Tata Chemicals itself in 5 years time. We're going very systematically and surely from the beginning. We want to make sure we get the agri-side tied up first, get the best plant variety, standardize the yields, because nobody has done really any much agricultural research work on these plants. And I think that's the important starting point. If you have the right seed varieties, then you get the yields and then you get the results.

**Siddhay Saikar:** Okay. Thank you.

**Moderator:** Thank you Mr. Saikar, the next question is from the line of Mr. Rahul Bhangadia from Lucky Securities. Please go ahead.

**Rahul Bhangadia:** Yes. I have two questions. One is you said you refinanced your loan which caused you a prepayment hit of about Rs. 14.5 crore. How big a loan was this?

**P K Ghose:** It was between \$40 and \$45 million.

**Rahul Bhangadia:** Okay. My second question is in spite of soaring prices of phosphoric acid IMACID seemed to have suffered a profitability dip. How did that happen?

**Homi Khusrokhani:** See the problem has not been just the phosphoric acid and rock prices going up, sulphur has gone up tremendously. Sulphur is needed to make sulphuric acid for the conversion to P2O5 and sulphur prices as you know, have gone astronomically high for

about I think average of about US\$ 45-55 last year to about US\$ 530-550 now, so sulphur has just gone crazy.

**Rahul Bhangadia:** So sulphur has gone up ten times?

**Homi Khusrokhani:** Ten times, yes. So that is bound to affect the profitability. Although OCP has probably the lowest sulphur prices in the world because of their long-term contracts, but we had still had some effect of that in the last quarter.

**Rahul Bhangadia:** Will we see phosphoric acid prices here now reflecting the increased prices of sulphur so that we get back to some kind of normal profitability out there?

**Homi Khusrokhani:** That will happen when the government comes out with the policy from April quarter. It really depends on whether or not the Inter-Ministerial Group (IMG) formula is accepted. If it is then we'll get a lot of relief on the pricing. But even if the old system of negotiated prices continues, they will have to negotiate at a much higher price next year and it could be in excess of \$1,200-\$1,300 per tonne. That is today's expectation of the new prices for next year as against this year's \$566.25.

**Rahul Bhangadia:** Okay. So are you saying second quarter of 2008 we'll see IMACID increasing profitability?

**Homi Khusrokhani:** Yes. From April onwards you'll see a different set of profit numbers. But last quarter in any case is not really relevant because it's a seasonal product. In January March quarter there's not much DAP anyway. We have to wait and see what the policy is, for the next year.

**Rahul Bhangadia:** Okay. Thank you very much.

**Moderator:** Thank you Mr. Bhangadia, the next question is from the line of Mr. Chetan Vora from Brics Securities. Please go ahead.

**Chetan Vora:** Hello sir. I just wanted to know what will be the installed urea capacity post expansion?

**Homi Khusrokhani:** It will be say roughly 1.2 million tonnes. But we usually do squeeze out more productivity, so it could be touching about 1.3.

**Chetan Vora:** And what would be the capex for that?

**Homi Khusrokhani:** It could be in between Rs. 150 and 200 crore.

**Chetan Vora:** And I also wanted to know your view on the forthcoming urea investment policy.

**Homi Khusrokhani:** I think the government is still not very clear. But they need to do two or three things. One is to get everybody to convert to gas based plants. There are many old plants which are struggling today; unnecessary subsidies are being paid on that. So a one-time subsidy to encourage people to convert would be something we expect the government to do. Thereafter the closer they get to import parity pricing, the better. The trouble is there is being an election next year they are unlikely to touch the actual farm-gate prices to

farmers. But unless they change that, the fertilizer bill is just going to keep increasing. Next year they are expecting the fertilizer subsidy bill to be touching almost Rs. 80,000 crore.

**Chetan Vora:** So in a view of the gas availability improving down the line after maybe 2 or 3 years there will be the inducement of all investments from the private sector, don't you think?

**Homi Khusrokhani:** Yes, but you see, the gas availability will only improve around July-August this year. So, they have to really take a call on the new policy once gas becomes freely available.

**Chetan Vora:** Okay, fine. Thanks a lot sir.

**Moderator:** Thank you Mr. Vora, the next question is from the line of Mr. Bhavin Shah from Dolat Capital Market. Please go ahead Mr. Shah.

**Bhavin Shah:** Thanks. Given the mining operations that GCIPL has, it must be quite rich in natural resources?

**Homi Khusrokhani:** Yes, it has low-cost natural resources.

**Bhavin Shah:** Do you feel that the US market will be in a better state than Europe?

**Homi Khusrokhani:** Most of the economists feel that even if there is a recession in the US, it will be for maximum 2 quarters. So let us see by the middle of the next fiscal the US economy should rebound and be back at normal. But you can never really say much about these things. But as I said, it's not that consequential to us because the global demand is so high and developing countries are growing so fast, there is a huge amount of construction taking place, new infrastructures being put up. Architectural glass is growing great demand in most of the developing world countries. So I think that will mop up any surpluses from US.

**Bhavin Shah:** Would China play an important role here?

**Homi Khusrokhani:** China, at the moment, is struggling to meet its own requirements. They got such huge requirements of glass today that they also take material out of America now.

**Bhavin Shah:** Okay. Wish you all the best. Thank you.

**Homi Khusrokhani:** Thanks Bhavin.

**Moderator:** Thanks you Mr. Shah, the next question is from the line of Mr. Venkatesan from Sundaram BNP Paribas. Please go ahead.

**Venkatesan:** Good morning sir.

**Homi Khusrokhani:** Good morning Venkatesan.

**Venkatesan:** What were the top causes behind the acquisition and typically what would be the mix of natural soda once this acquisition goes through in your overall mix?

**Homi Khusrokhani:** We saw four real drivers of soda ash. One was the rapidly urbanizing economies of the world. Increase in global freight, because low cost soda ash has risen, it

can absorb freight cost and move more easily. We saw benefits coming through because wherever synthetic soda ash is made energy prices are affecting the cost of production. And this is natural soda ash so it has a distinct competitive advantage over synthetic soda ash which is now struggling in some parts of the world because of rising energy costs. And the last is most of the philosophical implications, climate change. And I think we would prefer to be greening our businesses and doing things which don't really affect the environment. So I think for these four reasons, we thought it was a very good idea. I can't really answer your question fully just now because I am not supposed to say anything in the regulatory period about what the consolidated business may look like. So please excuse me from that.

**Venkatesan:** Okay. And when you were talking about cost pressures in Europe, typically which inputs were seeing significant pressures?

**Homi Khusrokhani:** Coal is going up very steeply. Energy costs are rising.

**Venkatesan:** And entire fuel is coal-based over there?

**Homi Khusrokhani:** In most countries coal would have a significant implication in soda ash manufacture, because of the calcining process.

**Venkatesan:** Sir, typically in our inputs what is the kind of contract we have in terms of the tenure?

**Homi Khusrokhani:** Generally these are annual contracts. They get renegotiated at the start of the next financial year.

**Venkatesan:** Sir and lastly in terms of the urea operation, just one question. Would there be a revision in the rated capacity of our urea operation when the new policy comes in?

**Homi Khusrokhani:** Not with new policy, as I said, in any case we've embarked on the de-bottlenecking project. So that takes up our capacity by 25%. And thereafter if the policy becomes more favorable, we will think of further expansion and investments in Urea.

**Venkatesan:** No sir. My question is that when the government allows the import parity for the Brownfield expansion; prior to this would they be looking at revising the capacity of the existing operations to what you actually produce?

**Homi Khusrokhani:** No, I guess that's a question mark today. They are only talking about giving import parity pricing for Brownfield expansion. No policy has yet come out. When it comes out, we will see what their qualifications are. Whether you go by original name plate or you take products over the last 3 years. We don't know yet, because the policy is not out.

**Venkatesan:** Just this last one, do you have to buy carbon credits in Europe for covering your pollution?

**Homi Khusrokhani:** No not so far. I think they are managing. But there is some talk going on after the last round of protocols, on how they are going to manage the situation.

**Venkatesan:** Thank you very much.

**Homi Khusrokhani:** Okay.

**Moderator:** Thank you, the next question is from the line of Anurag Jain from Kotak Mutual Fund. Please go ahead.

**Anurag Jain:** Good afternoon - just two questions. You mentioned that there was a price increase in soda ash for a third time during the year. What are the current prices?

**P K Ghose:** The price of soda ash net of excise is around Rs 10,300 YTD.

**Anurag Jain:** And secondly on your natural soda ash facilities, compared to synthetic soda ash what kind of a operating margin do you make in Magadi for example?

**Homi Khusrokhani:** I would say the cost of production is around 40% of the synthetic.

**Anurag Jain:** Okay. And sir, could you tell us the prices of soda ash?

**Homi Khusrokhani:** I said average prices, average price because we have contracts, and there's also spot sales. If you take the current quarter, after the price increases, it will be closer to 11,000.

**Anurag Jain:** Okay. Thank you very much.

**Moderator:** Thank you Mr. Jain, the next question is from the line of Mr. Ashwini Agarwalla from PINC Research. Please go ahead.

**Ashwini Agarwalla:** Sir I have a few questions for you. Sir, can I know what is the retention price of urea in your Babrala plant?

**Homi Khusrokhani:** It was Rs. 8,513.

**Ashwini Agarwalla:** One thing more sir. We have seen that the sales, fertilizer sales have gone down, but the total amount of profit has gone down, gone up.

**Homi Khusrokhani:** We haven't been importing DAP. We found last year we are making losses on imported DAP, so we've cut back on trading of DAP. That's the reason you are seeing that.

**Ashwini Agarwalla:** Okay sir. So there has been nothing from the new policy which has come in which has been increasing the profitability in fertilizers?

**Homi Khusrokhani:** Except for the de-bottlenecking, which will substantially improve our profitability; so far there has been nothing really favorable in the new policy.

**Ashwini Agarwalla:** Okay sir.

**Sachin Kasera:** Sir Hi. This is Sachin Kasera here. Just one question regarding the tie-up on coal and coke – how would you place it both in India and in Europe? And what are the types of contracts that you have and when they are coming up for re-negotiation?

**Homi Khusrokhani:** What we do is when there is a shifting up of coke prices we change to anthracite so there is a possibility of using a different mix of fuels. So it's not necessary that you can just calculate from the coal price increase what the damage is going to be. We change over that time to anthracite and we've got a huge stock of anthracite which is

awaiting use for insulating against coal prices next year. So it won't be such an easy calculation to do.

**Sachin Kasera:** What about coke sir?

**Homi Khusrokhani:** Coke is also quite high today.

**Sachin Kasera:** If you could tell us the coke prices when you did the contracts last year and how much has been increased since then, that could probably give some sort of an indication.

**Homi Khusrokhani:** The price increase is around 8 - 9% YOY

**Sachin Kasera:** One last question regarding sir expansion of Mithapur facility in India, I think you are supposed to go to 1.2 million from April this year. Any updates on that?

**Homi Khusrokhani:** Not April this year. It's a 3-year project where we start de-bottlenecking and we will gradually take it up to 1.2 million tonnes.

**Sachin Kasera:** Can we expect an increase in FY09?

**Homi Khusrokhani:** Only productivity improvements. It won't be any substantial capital investments which take the capacity up in this year. It will take over 2 years to take the plant up.

**Sachin Kasera:** So the major gains will only come in 2010 and 2011 in terms of volumes.

**Homi Khusrokhani:** That's right.

**Sachin Kasera:** Okay. Thank you sir.

**Moderator:** Thank you sir. The next question is from the line of Arun Malhotra from Smith. Please go ahead.

**Arun Malhotra:** Yes. I just wanted to ask; you said the price increase in the Brunner Mond soda ash would be around \$15 to \$20 per tonne. What were the average prices for 07 for Brunner Mond? And what has been the cost increase per tonne for the Brunner Mond facility?

**Homi Khusrokhani:** We would prefer not giving this price sensitive information on individual plants.

**Arun Malhotra:** Okay secondly, what would be the cost increase in Brunner Mond on the freight and energy?

**Homi Khusrokhani:** Energy and freight costs have both increased around 10%

**Arun Malhotra:** Thank you.

**Moderator:** Thank you Mr. Malhotra, the next question is from the line of Shekhar Singh from Goldman Sachs. Please go ahead.

**Shekhar Singh:** Hello sir. Just want to understand what is the sort of margin that we have seen for your soda ash business?

**PK Ghose:** I can't give you an exact number but it will be in excess of 30%.

**Shekhar Singh:** Okay. And sir, last two quarters for various reasons have been slightly disappointing. Do you think, overall the macro environment looks very good, but it never shows up in the numbers. So in the coming year, do you think like everything is fine or there are some other problems?

**PK Ghose:** In the second quarter, the heavy Gujarat monsoon affected Mithapur's profitability. That was unavoidable. And secondly this quarter we have had those problems which I explained now in Kenya. In terms of debt refinancing, high debt cost involved a prepayment penalty. Also we have capitalized the plant now so interest and depreciation cost has started kicking in and disruption of fuel supplies. Going forward, as you can see as of now, in Q3 Mithapur has already stabilized. And it has made much more profit. So we would expect that trend to continue. As for Brunner Mond, because of the price increases in Brunner Mond Europe, the new price which will take effect from January and there also we should be more or less stable. In Kenya, while the plant has started performing well as we mentioned at the beginning of the call, the only question mark would be if there is any political disruption in fuel supplies and transportation due to political tensions prevailing then.

**Shekhar Singh:** And sir, lastly for this acquisition which you have done, if you were to transport soda ash from Wyoming to India, what will be sort of freight cost per tonne that you will be incurring?

**Homi Khusrokhani:** That again I can't talk about just now in the regulatory period.

**Shekhar Singh:** No, but roughly?

**Homi Khusrokhani:** I can't say anything about GCIP today by American law we are two separate entities competing with each other. We are not supposed to give any joint statements.

**Shekhar Singh:** Okay. Thank you.

**Moderator:** Thank you sir, the next question is from the line of Pranab Ganguli from Centrum Broking. Please go ahead.

**Pranab Ganguli:** Yes. Just wanted to know that after this acquisition of General Chemicals, and given robust outlook for your DAP fertilizer business, are you looking at similar expansion plans in this DAP business?

**Homi Khusrokhani:** I wouldn't say plans are similar where different industries are going through different cycles. Commodity cycles are different. But DAP today is in short supply and probably the next major expansion or relief in terms of supplies will come only when the Saudi project comes on stream, which is around 2011-12. It's a short-term window. If it's an interactive opportunity, we will look at it, but it doesn't make sense to put up huge Greenfield plants.

**Pranab Ganguli:** Okay. Thanks a lot sir.

**Moderator:** Thank you Mr. Ganguli, the next question is from the line of Rohan Gupta from Emkay Shares and Stock Brokers. Please go ahead.

**Rohan Gupta:** Good afternoon sir.

**Homi Khusrokhani:** Hi Rohan.

**Rohan Gupta:** Sir one question on the prepayment penalty of the loan - you mentioned that you have refinanced \$40 to \$45 million. And the interest savings is up to the tune of around 4 to 5%. Can it be annualized somewhere around Rs. 8 crore savings per annum?

**PK Ghose:** The original loan was LIBOR plus 4.75% which is now being refinanced at 6.44% fixed.

**Rohan Gupta:** Only on the \$40 to \$45 million.

**PK Ghose:** Yes, but we have refinanced only that just now. BMGL Europe's loans were refinanced earlier.

**Moderator:** Thank you sir. The next question is from the line of Mr. Trilok Agarwal from Birla Sunlife. Please go ahead.

**Trilok Agarwal:** Good afternoon sir.

**Homi Khusrokhani:** Yes Trilok.

**Trilok Agarwal:** Just want to know your views on the upcoming fertilizer policy and any particular view on how much time will it take?

**Homi Khusrokhani:** It will be difficult to estimate how much time it's going to take as it is an election year. Many drastic changes are likely, but we are expecting at least some policy norms which will encourage investment. I doubt there will be a significant change in the way the prices are reimbursed or what the subsidy schemes are. In the investment encouragement policies, we should be getting some relief.

**Trilok Agarwal:** Alright. And sir if possible, can you, give me the breakup of the equity structure of GCIP?

**Homi Khusrokhani:** No, not at this point. I can't speak on behalf of GCIP.

**Trilok Agarwal:** Okay. Not an issue sir and sir just another one.

**Homi Khusrokhani:** Yes.

**Trilok Agarwal:** On the overall, consolidated basis the main reason of the Rs. 35 crore decrease in PAT were those reasons that you mentioned. Could you repeat those?

**PK Ghose:** One was the payment of high-cost debt. The second was higher interest and depreciation cost at Magadi because the plant has now been officially commissioned and capitalized, rather capitalized after 1<sup>st</sup> October. The third was this disruption in Kenya, because of political issues. And the fourth was that the higher cost at Brunner Mond on coal not offset by price increases which will take effect from only 1<sup>st</sup> January.

**Trilok Agarwal:** Alright. Thank you sir.

**Moderator:** Thank you Mr. Agarwal. The next question is from the line of Mr. Rohit Nagaraj from Angel Broking. Please go ahead.

**Rohit Nagaraj:** Yes. Good afternoon sir just couple of questions. One is what would be the fully diluted equity post conversion of the FCCB?

**PK Ghose:** If the entire FCCB gets converted, the increase in share capital will be Rs. 654 crore divided by Rs. 230 per share which comes to about Rs. 28 crore.

**Rohit Nagaraj:** Okay sir. What would be the strategy of acquiring GCIP? Would we be looking at exporting most of the production or we would be looking domestic given the fact that there's a housing slow down which has been witnessed in past couple of quarters.

**Homi Khusrokhhan:** I did explain that earlier. Basically the US slowdown cannot significantly affect this industry because there are lots of economies around the US which are growing very strongly. Also a lot of US supplies come in to the Asia Pacific region and some of it actually is going into China now. So I don't see the depression affecting soda ash generally in the US.

**Rohit Nagaraj:** Okay sir and one last question. What is the consolidated gross block at the end of the quarter?

**P K Ghose:** As on December 31<sup>st</sup>, 2007 it was Rs 5,739 cr.

**Rohit Nagaraj:** Okay. Thanks a lot sir.

**Moderator:** Thank you Mr. Nagaraj, the next question is from the line of Bhairavi Gupte from IL&FS Investsmart Limited. Please go ahead.

**Bhairavi Gupte:** Good afternoon sir, actually I am new to your company. I just wanted to know a little bit about your Khet-Se initiative. Could you elaborate little bit on that? What exactly you do there?

**Homi Khusrokhhan:** What we are starting with is agricultural procurement of about 10 key vegetables & 10 key fruits. They will be picked up from various districts which specialize in those crops. We'll be working with farmers, giving them inputs, giving them agri advice, contracting with them, and the fresh produce will be picked up brought to primary packaging centers, they will be sorted, graded, and then sent to distribution warehouses which we call distribution centers. From the distribution center it goes to small cash and carry outlets.

**Bhairavi Gupte:** Okay.

**Homi Khusrokhhan:** So that's basically the model and we are only in the wholesale business. We are not getting into retail at all. So we will be supplying to any large retail outlets, small retail outlets, and even wheelbarrowalas who can come and pick up stuff from our cash and carry outlets.

**Bhairavi Gupte:** Okay. Thank you sir.

**Moderator:** Thank you Ms. Gupte, the next question is from the line of Ram Krishna from Economic Times IG. Please go ahead.

**Ram Krishna:** Good afternoon sir.

**Homi Khusrokhani:** Hi.

**Ram Krishna:** With regard to your acquisition, could you share the actual production of the US Company in FY07?

**Homi Khusrokhani:** No, I can't give you the actual data on that company because I am not supposed to share information on behalf of GCIP.

**Ram Krishna:** Okay sir. Thank you.

**Moderator:** Thank you Mr. Ram Krishna, the next question is from the line of Abhay More from Sharekhan. Please go ahead.

**Abhay More:** Sir there has been substantial increase in power and fuel cost during the quarter. Can you explain the reason behind it?

**Homi Khusrokhani:** The reason is that in this quarter natural gas was not available. This is substituted by an amount of naphtha which is of course a pass through. So you'll see a corresponding increase in realization and a corresponding increase in cost.

**Abhay More:** Okay. Thank you.

**Moderator:** Thank you Mr. More, ladies and gentlemen that was the last question. I would now like to hand the floor over to the management for any closing comments.

**Homi Khusrokhani:** Thank you very much. It was a good call and we enjoyed answering your questions. If there's any further information, please contact us directly. Thank you.

**Moderator:** Thank you sir. Thank you for joining in and you may now disconnect your lines.