



TATA CHEMICALS LIMITED

Transcript of FY 2009 Conference call held on May 28, 2009

Moderator - Faizal

Ladies and gentlemen, good evening and welcome to the Tata Chemicals Post Results' Conference Call, hosted by Prabhudas Lilladher Private Limited. As a reminder all participants' lines will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing "*" and "0" on your touchtone phone. Please note that this conference is being recorded. Joining us on the call today from Prabhudas Lilladher is Ms Amisha Vora and Mr Dilip Bhat, Joint Managing Directors. I would now like to hand the conference over to Mr. Manish Mahawar.

Host - Manish Mahawar– Prabhudas Lilladher

Thank you, Faizal. On behalf of Prabhudas Lilladher, I welcome all participants. I also welcome the management of Tata Chemicals on this call. We have Mr. Mukundan, Managing Director, Mr. P.K. Ghose, Executive Director and the CFO & Mr. Kapil Mehan, Executive Director and Head of Crop Nutrition Business. Good evening all of you. Now I would like to hand over the call to Mr. Mukundan.

Mr. R. Mukundan – Managing Director, Tata Chemicals

I would like to welcome my colleagues, Prashant and Kapil on the call and all of you as well. We will start briefly by sharing with you some perspectives on our operating performances during the quarter under review followed by Mr. Ghose who will share some financial details. After that we will answer your queries. Firstly, in light of the present macro economic environment the threat and challenge have become the norms, I am happy to report that most of the businesses have continued to be stable and are growing well. This I believe is the reflection of the strong business model of the two businesses mainly fertilizers and consumer products both of which, to a large extent, are insulated from volatility thus creating a strong overall platform. Within fertilizer, Urea provides steady cash flow and consumer products like salt have been historically growing at a very steady pace. Having said this, we are geared towards approaching this turbulence as being reasonably long drawn from this moment maybe about 12 months further down the road. And possibly this could extend beyond 12 months if certain macro economic conditions derail further as we move along to 36 months. But we probably are getting to a situation where we see positive movement in the policy framework which various governments are putting in place. We do believe that our quality of our assets is strong and we should be able to return to normalcy faster than others and being on the back of the threat of the access we have in soda ash and also the proportion of natural soda ash which we have.

The global soda ash industry is presently operating close to about 75% to 80% capacity and most of the market the demand is settling to fair degree now, the volatility is gone. We also believe that de-inventorisation process has more or less settled and has moved out of the system. The prices are currently in the range of 175 – 160 FOB China and this is a fall which is happened from 180 levels is mainly due to the 9% export incentive which was introduced by the Chinese government very recently. Chinese material is now finding its position in many markets but essentially their strong position in Asian and African market continues. We are very happy that the Indian government supported the Asian operation of Tata Chemicals by giving us the benefit of 20%

safeguard duty which effectively has impacted the Chinese imports. We continue to be market leader in domestic soda ash segment. The domestic demand continues to be healthy and we are working with all our customers to ensure that our demand remains stable. We entered into long term contracts which have actually partly mitigated the cyclical variation. GCIP has shown strong performance again amongst our overseas subsidiaries and clearly we are seeing the US demand stabilising, and the Latin American market where the demand is stabilising, there is a Chinese material threat which is beginning to rear its head there. Brunner Mond, UK performed exceptionally well, and the higher volumes and control of cost, have helped the company and have moved the company in the right direction. In Netherlands, due to the sustained stress on the operating conditions, we were compelled to approach the works council and declare the intent to seize the operations of our plants in Netherlands and the discussion and the progress of the process which we have initiated in Netherlands is now continuing as planned. Magadi performance as a whole was hit by increase Chinese supply in the market. However the situation is now coming under control with Magadi also forcefully resorting to regaining market share on most of its markets. On our consumer products business, we continue to grow well. We have 58% market share in the national branded segment with Tata Salt retaining number one position and I Shakti has also doubled its sales year on year. We launched a new product called Tata Salt Lite, and it's in its first year of operation, and already a number one market player in low sodium salt. This salt is focused on the health segment. Our debottlenecking of Urea capacity is running stably and is delivering record sales, our DAP prices have now stabilised although it having fallen back to the stable levels of 330 levels. Essentially the depression in the prices made both operations in IMACID in Morocco as well as Haldia phosphatic fertilizer apiece unviable for our Q4 operation. Operations have since commenced and going forward we do believe with stability in prices and focus on market place this volatility may reduce as we move along.

Certainly these are times when sailing is not smooth there is turbulence in the air but certainly we are now beginning to maintain a cautiously optimistic stand regarding future and we do believe the darkest hour maybe slightly behind us. With this I would request Mr Ghose to give some detailed financial results.

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

I will share with you some details of our financial performance for the quarter and year under review. Consolidated revenues were at Rs. 12,258 crore up 103% from last year, mainly on account of inclusion of General Chemical in our operations this year, as well as the high turnover from the phosphatic business. Consolidated profits from operations were at Rs 1,436 crore, higher by 80%. Profit after tax was at Rs. 648 crore translating to a basic and diluted EPS of 27.59 and 26.19 respectively for the year. The Board of Directors recommended a final dividend of 90% translating to a total outflow of Rs. 247 crore including dividend distribution tax. Like the previous quarter, this one also has been difficult. In spite of this, both chemicals and fertilizer businesses have shown good flexibility in the face of turbulent times. Our balance sheet and cash flow position continues to be strong and capable of supporting our business objectives. Total cash inclusive of investment in Mutual Funds and fertilizer bonds on 31st March 2009 amounted to Rs.1,438 crore. Operating cash flows continued to be strong. The company has exercised the option of Accounting Standard 11 as per the notification issued by the Ministry of Corporate Affairs on 31st March, 2009. Accordingly an amount of Rs.125 crore has been charged to the profit and loss account of the year under review and Rs. 357 crore to be amortised by 31st March 2011. We have introduced masonry cement at Mithapur. Masonry cement utilises fly ash. Seeing improved business opportunity for cement, the earlier taken impairment of our cement plant has been reversed. Total subsidy received in FY 09 was Rs. 4,264 crore out of which Rs. 3,245 crore was in cash. During the year we also received fertilizer bonds in lieu of subsidy for a total value of Rs. 1,019 crore of which Rs. 516 crore have been sold till date. The outstanding subsidy remains at Rs. 874 crore on 31st of March 2009. Our ADAPT programme which is a cost saving initiative running across all Tata Chemicals offices and plants is working well and has resulted in substantial savings. In conclusion, I would like to say that this has been a healthy financial performance but we look forward to better results. We will continue to explore opportunities where we can leverage our scale and competitive strengths. We will now be open to questions. Thank you.

Moderator - Faizal

We will now begin with the question and answer session. At this time if you would like to ask any question, please press '*' and '1' on your touchtone phone. Please use only handsets while asking your questions.

Moderator - Faizal

First question is from the line of Mr. Prakash Goel from ICICI Securities. Please go ahead.

Mr. Prakash Goel - ICICI Securities

Two questions from my side. The first question is regarding BMGL. Did you have any extraordinary adjustment in the profitability reported for BMGL?

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

Yes we had. About Rs. 151 crore of impairment loss recognised for the Netherlands unit, Brunner Mond BV which is the Netherlands Company has petitioned the Works Council for closing operations in The Netherlands. The matter is still under discussion but the asset impairment of Rs. 151 crore, has been recognised in the consolidated Profit & Loss account. In addition to that I think the other item was really the pension liabilities, where actually we have seen a credit of about Rs. 11 crore during the year.

Mr. Prakash Goel - ICICI Securities

Net basis, if I knock off these two items, the segmental report which we are seeing in your investor communication is showing a profit from operation of about Rs.23 crore.

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

Yes

Mr. Prakash Goel - ICICI Securities

We are seeing a total profit for the year; profit from operation for BMGL is Rs. 23 crore. So to arrive at a normal profit should I add back Rs. 151 crore and reduce Rs. 11 crore.

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

Let me just give you some broad figures of BMGL. While the investor communication is there, the total BMGL includes the Kenyan operations as well as the European operations has a turnover of Rs. 2,079 crore during the year, with an EBITDA of Rs. 333 crore. Now at the PBT level, it was negative by 48 largely because of a Rs. 151 crore charged on asset impairment and a Rs. 11 crore reversal in regard of pension liability.

Mr. Prakash Goel - ICICI Securities

By adding these two items from Rs. 333 crore, we are actually able to explain only Rs. 162 crore, but there is another Rs. 140 crore.

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

That is depreciation.

Mr. Prakash Goel - ICICI Securities

The second question which I had is related with your fertilizer business. In Q4, from consolidated level segmental result, the number I arrive at is very negative. It is coming to about Rs.187 crore loss at EBIT level, out of which Rs. 77 crore would be on account of fertilizer bond losses, approx. Rs.43 crore would be on account of IMACID losses. So on a standalone basis did you have a loss of Rs.67 crore in the fertilizer business?

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

You are talking of Q4?

Mr. Prakash Goel - ICICI Securities

I have arrived from reducing from your consolidated result, for the three quarters and the fourth quarter. So this is essentially throwing a number of losses of Rs.187 crore in the fourth quarter in the fertilizer business.

Mr. R. Mukundan – Managing Director, Tata Chemicals

I think as we explained in the conference call very clearly that the phosphatic business was impacted in the last quarter due to the falling price as well as the other impact on the business.

Mr. Prakash Goel - ICICI Securities

It will be right to assume that the Rs.67 crore losses would be on account of that in the fourth quarter?

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

You should not look at it in the Q4 context because you know these are volatile times. See what are the first 6 months and the next 6 months. I think the answer lies in the fact that while there was a hugely booming business in the first 6 months, you had the correction in the raw material prices and the finished good in the next half. Therefore your overall profitability should be seen for the full year and now the prices of raw material and finished goods are correcting.

Mr. Prakash Goel - ICICI Securities

As per a recent article the profitability of DAP is not viable, like basically considering the kind of rock phosphate prices the Indian companies are paying. So are you stopping the production or are you continuing with the production?

Mr. Kapil Mehan-Executive Director & Head, Crop Nutrition Business

Our local DAP and NPK production is not based on imported rock phosphate, it is based on imported phosphoric acid. And phosphoric acid price we are resetting every quarter, reflecting the real DAP prices, so going forward, yes margins will be under pressure but they will not be negative.

Mr. Prakash Goel - ICICI Securities

What has been the DAP and NPK production total in FY09?

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

In FY 09, Urea was 1,021,000, DAP is 148,000 and NPK is 416,000. That is a total of 564,000. If you are comparing with the previous year then DAP previous year was 243,000 and NPK is 434,000.

Moderator - Faizal

Ladies and gentlemen in order to ensure that the management is able to address question from all participants in the conference, please limit your question to one per participant. Thank you.

Next question is from the line of Paresh Khandelwal from Birla Sun Life AMC Ltd. Please go ahead.

Paresh Khandelwal - Birla Sun Life AMC Ltd.

My first question is with regards the actual, in the consolidated results there is actual deficit for overseas pension liability of about Rs. 114 crore whereas if I am not wrong you just said that there was a reversal of about Rs. 11 crore, so the rest of the liability?

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

What we were talking about was what the exceptional items in Brunner Mond Group were. In Brunner Mond Group, which is the European operations, there was a credit available of Rs.11 crore because of change in assumptions in the actuarial valuation. The net increase in the pension liability which you are seeing at Rs. 114 crore is actually on account of General Chemicals.

Paresh Khandelwal - Birla Sun Life AMC Ltd.

The whole loss that we are seeing is because of General Chemicals.

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

It is not a loss.

Paresh Khandelwal - Birla Sun Life AMC Ltd.

Yes, that is a difference, the plan assets went down by X amount and the liabilities increased by the other amount.

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

I think I need to clarify also that internationally, such movements are recognised through reserves where as Indian GAAP advises to take it through P&L so that is why we have to recognise it in P&L.

Moderator - Faizal

The next question is from the line of Mr Prasad Deshmukh from DSP Merrill Lynch, Please go ahead.

Prasad Deshmukh - DSP Merrill Lynch

One question is on the tax. This year tax is substantially gone down; the absolute number is also half of last year. Is it just because of the one time gain that we had booked last year while selling of the shares?

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

Yes absolutely, last year there is no tax on the Rs.487 crore. The second is we have got in the consolidated account the tax refund of Rs. 46.5 crore on account of General Chemicals.

Mr Prasad Deshmukh - DSP Merrill Lynch

Yes, and just second question on this Netherlands Asset Sale, is what kind of cash flow impact will this have just in case you have estimated that?

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

This is not an asset sale; it is actually an impairment which is recognised in the books because you are closing the plant. There is no cash flow impact arising out of that impairment.

Prasad Deshmukh - DSP Merrill Lynch

I am not asking about the cash flow impact due to impairment. I am asking whether that asset sale will have settlement regarding the work of pension.

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

First of all you must recognise that with this asset, there will be a settlement with the works council, which will have this cash flow which will be recognised at the appropriate time when the settlement is reached.

Prasad Deshmukh - DSP Merrill Lynch

So is there any estimate or is there any number that can be given to that?

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

I think at this point of time this is part of the process which is going on in Netherlands and I think it will be speculative for us to put a figure around it. But it will suffice to say that the progress on this discussion front has been extremely positive and we are extremely confident that the operations overseas will be able to meet the liability that arrives out of these discussions.

Prasad Deshmukh - DSP Merrill Lynch

What is the capacity utilization that DAP and IMACID are running at right now?

Mr. Kapil Mehan-Executive Director & Head, Crop Nutrition Business

IMACID and DAP currently are running at full capacity.

Mr. R. Mukundan – Managing Director, Tata Chemicals

Also going back to another question on an overall context the view which the management has taken in Netherlands to seize operations I think is barely lucrative to the overall entity as such, which is why the shareholder of that entity which is Brunner Mond Group has supported the move of the local management.

Moderator - Faizal

All participants are requested to restrict their questions to one per participant. Next question is from the line of Mr Abhijeet Dey from Kotak Mahindra Asset Management, please go ahead.

Abhijeet Dey - Kotak Mahindra Asset Management

This is regarding the phosphoric acid prices - what is the contracted price for Q4 and this quarter?

Mr. Kapil Mehan-Executive Director & Head, Crop Nutrition Business

In Q4, we contracted the price towards the middle of the quarter which was USD 760 and for April-June quarter, the contracted price is USD 630.

Abhijeet Dey - Kotak Mahindra Asset Management

And is this the current international price also?

Mr. Kapil Mehan-Executive Director & Head, Crop Nutrition Business

That is what the latest prices are.

Abhijeet Dey - Kotak Mahindra Asset Management

This year we will most probably see higher DAP production?

Mr. Kapil Mehan-Executive Director & Head, Crop Nutrition Business

We hope so; we see that the prices I think going forward in the next quarter maybe lower than these also and that should enable us to continue running our plants.

Abhijeet Dey - Kotak Mahindra Asset Management

Coming to soda ash, in November there was price reduction for the Indian operation; post that any price movement?

Mr. R. Mukundan – Managing Director, Tata Chemicals

For the Indian operation we have taken additional price reduction. This was done just around the time the safeguard duty was imposed, so we have corrected the price further for the benefit of customers and the market.

Abhijeet Dey - Kotak Mahindra Asset Management

How much would that be?

Mr. R. Mukundan – Managing Director, Tata Chemicals

The correction of the price done was about Rs 500. I'll have to reconfirm that's about the range we have done in addition to the November number.

Abhijeet Dey - Kotak Mahindra Asset Management

So current prices in India would be how much around Rs.10,000 per tonne?

Mr. R. Mukundan – Managing Director, Tata Chemicals

It varies from market to market.

Abhijeet Dey - Kotak Mahindra Asset Management

And the spot prices?

Mr. R. Mukundan – Managing Director, Tata Chemicals

I think spot price is in the range of about Rs.10,000-11,000 in a broad band.

Moderator - Faizal

Next question is from the line of Abhijit Attavar from ABN AMRO. Please go ahead.

Abhijit Attavar - ABN AMRO

I was just working out your fourth quarter soda ash volumes for the international operations. I feel that for once geography has fallen by about 25% compared to the previous quarter, for example GCIP seems to have dropped to about 446,000 tonnes which is about 25% below last quarter level. This seems to be a much more significant volume contraction than were expected, so can you give us some sense as to going forward as to how you will recover the volume because if I see that FMC is also talking about bringing back their Granger facility. So putting back all those volumes back to the market might cause some price disruptions as well. Can you give us a sense of what is happening there?

Mr. R. Mukundan – Managing Director, Tata Chemicals

I think fundamentally if you look at the volumes drop it has been severe in the case of General Chemicals as well as Magadi. Magadi has already put in a process of regaining market share and I think it is doing in a manner which is not disrupting the price and our own understanding from General Chemicals management is that they have also put in place a focus to get their market share back, especially in their export markets which I think you will start seeing the results of the same by the beginning of the second half of this year.

Abhijit Attavar - ABN AMRO

But it seems like the talk from FMC was that ANSAC has focused a lot more on price rather than protecting market share in the first quarter. They would like to put their policy now in reverse, whereby they want to go for more volumes in exports as against maintaining price stability. So would that mean that there will be a bit of a price war out there between ANSAC and the Chinese producers?

Mr. R. Mukundan – Managing Director, Tata Chemicals

I think if you ask me, broadly speaking, the Chinese material oversupplies have found their own natural level. It is only a matter of time at these prices the others start to get their market share back.

Abhijit Attavar - ABN AMRO

What is your wish list from this budget which is going to be announced, and what do you need to see there which might make you take your Babrala Brownfield expansion faster?

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

See as far as wish list is concerned, I think first and foremost is that the government should only allocate funds to be paid in cash and not to be paid in bonds because this year the subsidy is likely to be much lower than last year, so they should pay everything in cash. Number two the reforms which have been started by linking the prices to international price etc, I think that needs to be taken to the next level of freeing up the consumer prices that is the farm gate prices. That is really what our wish list is. And as far as Babrala Brownfield expansion is concerned, we wish that the government puts in place a mechanism to provide gas linkage and some sort of a long term contract for gas linkage, I think that is one factor which will make that project move forward.

Moderator - Faizal

The next question is from the line of Hetal Bachkaniwala from IDBI Cap. Please go ahead.

Hetal Bachkaniwala - IDBI Cap.

My question is regarding the de-bottlenecking capacity. What is the current IIP price that we are receiving, what is the quantity on which we are receiving?

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

There is a cut off quantity number which is at 9,57,000 tonnes. Any production over that will be eligible for import parity price within that collar and cap of 425 and 250USD and once we cross that number then only the monthly pricing will kick on, and we will have to wait till we cross 9,57,000 tonnes which will happen sometime in early January or so, assuming all goes well. But the import parity price on additional production then is uniformly spread across the year. So that is how the system works.

Moderator - Faizal

The next question is from the line of Vishal Biraia from B&K Securities. Please go ahead.

Vishal Biraia - B&K Securities

My question is related to the decrease in raw material consumption, as a percentage of sales for the stand alone business. There is a significant reduction in the raw material that we have consumed. There is a kind of inventory gain that we have booked?

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

Raw material consumption is recorded at Rs. 3,474 crore, I think the margins have been better this year mostly led by the prices in the first half and even for soda ash, the margins have been better than previous year on a annualised basis. And that is why you are seeing that raw material cost as a percentage of total sales is lower as compared to last year.

Vishal Biraia - B&K Securities

My question is specific to the fourth quarter, I get a raw material to sales of 37%.

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

That I think is primarily because we had lesser production of phosphate fertilizer. Last quarter there was no production. There was more production of our other units in Babrala that is urea and soda ash, where the raw material cost as a percentage of total sales is always much lower as compared to Haldia which is much higher; sometimes it is as high as even 90%. On an average you would see that compression because of lesser weight of Haldia production going into the average.

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

Actually there was hardly any production. It was only 1500 odd tonnes which was produced.

Vishal Biraia - B&K Securities

So the total debt that we have is around 475 million USD as ECB in the stand alone business, 300 million USD in GCIP and a 100 million USD of private placement that we did in US.

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

On the stand alone we have got 475 million USD yet on ECB, a 100 million USD in the private placement and Rs. 240 crore on non convertible debentures of LIC and the foreign currency convertible bonds which are 44 million is not converted yet. Those are the items which are on the stand alone.

Vishal Biraia - B&K Securities

So what would be the amount of debt that we have in BMGL?

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

BMGL has 60 million pounds facilities available, but I think the actual utilization varies between 50 and 55 depending on working capital requirement.

Vishal Biraia - B&K Securities

My other question is relating to the inventories that we have. Have we modified taking into account the volatile prices of raw material and the products. Have we lowered our days of inventory for raw materials as well as the products for the fertilizer category?

Mr. R. Mukundan – Managing Director, Tata Chemicals

Yes absolutely, we have marked everything back to the market price.

Vishal Biraia - B&K Securities

If you could give a number to the reduction in inventory days, for the domestic, Indian fertilizer segment.

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

We will have to get back to you on the exact number on the fertilizers specifically because as far as urea is concerned we keep no raw material. Everything comes from the pipeline and gets consumed online. For phosphate, fertilizer and Haldia we do import but our inventory levels are virtually next to nothing.

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

Let me give you specifics of phosphatics separately but on company as a whole, we have reduced from March 08 of 73 days debtors to 49 and inventory from 54 to 38 on a consolidated basis, overall.

Vishal Biraia - B&K Securities

What would be the time that we take from booking the product to converting it to a raw material?

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

Roughly it takes about 50 to 60 days.

Vishal Biraia - B&K Securities

From booking the raw material to selling the product?

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

Booking is a matter of choice, but on average you can take booking to sales is about 30-45 days.

Vishal Biraia - B&K Securities

My last question is relating to the trading sales that we do. The sales are mainly for the DAP or do we have some other products that we trade?

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

There are two components in that. One is the imported fertilizers which is DAP and MOP, and then there is a component of speciality half nutrients and pesticides which we distribute to our Tata Kisan Sansar and there is certain amount of seeds that we distribute through our network of Tata Kisan Sansar outlets. So these are the components which make up for traded products.

Vishal Biraia - B&K Securities

If we take the percentage of sales of MOP and DAP, as a percentage of total traded, it would form at least 75-80%, both combined?

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

I think if we will have to take year on year how it moves. For example in FY 08 it was almost close to 60-40, 60 bulk and 40 other. Last year because of very high prices of MOP and DAP we have not imported any DAP,

Moderator - Faizal

All participants are requested to restrict their question to one per participant. Thank you. The next question is from the line of Trilok Agarwal from Birla Sun Life Insurance. Please go ahead.

Trilok Agarwal- Birla Sun Life Insurance

In the stand alone quarterly number for the Q4, operating profit contribution is negative. I derived from the last three quarter final numbers that you gave. So what was the key reason for that?

Mr. R. Mukundan – Managing Director, Tata Chemicals

Operating profit was just about negative.

Trilok Agarwal- Birla Sun Life Insurance

So was it driven by fertilizer?

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

Because of higher profits in the first 6 months

Trilok Agarwal- Birla Sun Life Insurance

So have we taken any write off in this quarter?

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

The bonds losses; a little bit of inventory losses etc all put together comes to almost about negative for the total bond of Rs. 78 crore for the bonds alone.

Trilok Agarwal- Birla Sun Life Insurance

And what would be the volume decline which we have witnessed in soda ash only in the domestic market?

Mr. R. Mukundan – Managing Director, Tata Chemicals

In domestic markets, our numbers are more or less fairly constant with the marginal erosion which we had for about a period of one or two months. The bigger impact on the domestic production has been the fall in exports sales.

Trilok Agarwal- Birla Sun Life Insurance

And how much would that constitute?

Mr. R. Mukundan – Managing Director, Tata Chemicals

We usually used to export anywhere from 15% to 20% of our output. Now that has been impacted and there has been a cut back on exports.

Trilok Agarwal- Birla Sun Life Insurance

So can we assume that from 15% to 20%, it can come down to 5%.

Mr. R. Mukundan – Managing Director, Tata Chemicals

I think that would be more reflective of reality.

Trilok Agarwal- Birla Sun Life Insurance

You just mentioned that you have also taken a price cut in the as we speak right now in the domestic market. That price cut was primarily to keep the demand intact, or what was the key reason for that? Because as you are saying that domestic volumes have been more or less the same, what kind of move initiated that move of price cut further?

Mr. R. Mukundan – Managing Director, Tata Chemicals

I think we wanted to also align the pricing in line with the reduction in our operating margins, improve in our operating margins and also to stem the tide of imports.

Trilok Agarwal- Birla Sun Life Insurance

What would be the ball park kind of operating margin for you to be happy in this time; going forward for the next couple of year's because we have not seen any improvement or at least stable margins in the last 3 quarters. I mean having said that, we can say that the last two quarters were absolutely different from the normal course of business.

Mr. R. Mukundan – Managing Director, Tata Chemicals

I think the way I would see it is that if you pick up the normal operating quarter of fertilizer business as it would normally appear in a normal year, which is a year ago when urea and DAP and Haldia were operating. That segmental movement should give you an indicator, with added margins coming from expanded capacity. That should allow you to work that part of the business. When you look at the soda ash side of business, certainly I think you will have to move back a year and then start to work from there but with the higher volume because there is General Chemicals which is come into play. And both these are indicative and the reason I say that is mainly because as the prices are gone down for the finished product I think also the cost have come down, and as I said last time the velocity of cost reduction as well as price reduction has been more or less matched and we do believe that we can continue to maintain with going forward.

Trilok Agarwal- Birla Sun Life Insurance

As you said in the developed markets you have seen greater anticipated volume decline, so as we have also spoken in the past that 85-90% of our total volume sales are on contract basis. In the past conversations, we have been speaking about the large portion of our total contracts in

US specifically are on contract basis right, so now we have seen a 20% plus kind of volume decline in the March quarter. So I am really unable to understand that if you already have a contract, are the customers not honouring the contract or is it not been able to pick up at the pace which they generally do?

Mr. R. Mukundan – Managing Director, Tata Chemicals

I think if the customer is seeing a fall in his demand, he is going to proportionately reduce the off take from his supplier. If you are a 100% supplier you will see the full impact of the reduction, if you are a 50% supplier, you will try to keep the share of the business same with other suppliers but be cut proportionately.

Moderator - Faizal

Ladies and gentlemen due to time constraints management will now be able to address the last two questions for the day. Thank you. The next question is from the line of Vinay Shah - Reliance Mutual Fund. Please go ahead.

Vinay Shah - Reliance Mutual Fund

I just wanted to understand the break up of your standalone debt, in long term debt and short term debt and what would be the maturity spread up in two years.

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

475 million USD ECB, repayment starting from 2012. It is 6.3 years door to door, which we took last year, so from 2012 it goes on to 2013-2014. The US private placement is a 10 year loan so the maturity is after more than 8 years. And the foreign currency convertible bonds unconverted 44 million is due in January 2010. The 5 year non convertible debenture on LIC is again a very new loan it has been taken only a few months ago. It is not due; it's a five year non convertible debenture. That is all from the standalone balance sheet.

Vinay Shah - Reliance Mutual Fund

Yes also if you can share on the consolidated business

Mr P.K. Ghose – Executive Director & CFO – Tata Chemicals

Consolidated basis – USD 300 million is on the General Chemicals balance sheet and that we have already started repaying. First instalment of a small amount of USD 8 million was paid in February last year. And we will be paying at about USD 30-40 million progressively every year onwards. Since it is a progressive one, the amounts keep increasing. And then you have got about 60 million pounds in the United Kingdom, which actually becomes due in 2011 and which can be rolled over because quite a lot of it is working capital and term loans.

Vinay Shah - Reliance Mutual Fund

What is the number of inventory loss this year?

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

I think it is about Rs. 48 - 49 crore.

Moderator - Faizal

The next question is from the line of Abhijit Attavar from ABN AMRO. Please go ahead.

Abhijit Attavar - ABN AMRO

Could you give us a sense of how GCIP volumes have picked up in April and May? It would be better to have sales volumes because the critical thing is how much we are able to push through.

Mr. R. Mukundan – Managing Director, Tata Chemicals

Close to 150 to 160 bags, that is the kind of range it is running in. I won't put an exact number because it varies depending on shipments.

Abhijit Attavar - ABN AMRO

But 150 thousand, again the run rate seems to be much lower than your full capacity. This will be about 1.8 million tonnes. So it means that we are still operating at about 75

Mr. R. Mukundan – Managing Director, Tata Chemicals

I think we should take it at about 2 million tonne against the capacity of 2.4 or 2.5. The annual number would be closer to that. I think if you want to be conservative you can run your numbers at 1.9.

Abhijit Attavar - ABN AMRO

But just for this couple of months it looks like you are still operating below your potential capacity and generally the thought process was that you being the lowest cost producer you should be able to optimise capacity utilisation and short volumes because that is good for your profits.

Mr. R. Mukundan – Managing Director, Tata Chemicals

I think that process has begun. We also were very measured in our response and I think the plants are afoot already throughout the entity.

Abhijit Attavar - ABN AMRO

And just to get a sense, when you are talking of improving volumes is that out of gaining market share from other producers or are you looking at overall volume pickup from your customer.

Mr. R. Mukundan – Managing Director, Tata Chemicals

I think it is a combination of the two it is also realigning our sales position. Also realigning the volumes around the world so that the internal adjustment which we are doing and on top of that there is a market move which is building on strength of some customer relationship that we have and thirdly is the issue around what you said certain customers returning back to normal.

Abhijit Attavar - ABN AMRO

You mentioned Indian domestic prices about Rs.11,000 per tonne

Mr. R. Mukundan – Managing Director, Tata Chemicals

Actually we will have to check that because there is not one price which is why I am reluctant to hold any price, because it depends on which market you go and that is the whole issue of it. It is the location that decides the price in India.

Abhijit Attavar - ABN AMRO

Just for understanding in a coastal region. If we look at China FOB price of 160 USD per tonne and if we don't include this 20% countervailing duty, would the landed price be significantly below your current market prices?

Mr. R. Mukundan – Managing Director, Tata Chemicals

If you look at the material can land in most of the markets around the world, anywhere between 180 to 200 to 210 depending on which producer you pick up. So if you take a figure of 190 or 200 USD and I think you add the 20% to that, you get to 240. So at that price it would be touch and go for someone to import a new material with the domestic production.

Abhijit Attavar - ABN AMRO

And this countervailing duty, it's been put forth for 6 months after which there is a potential review, right?

Mr. R. Mukundan – Managing Director, Tata Chemicals

Yes

Moderator - Faizal

I would now like to hand the floor back to Mr Manish Mahawar. Thank you and over to you.

Host - Manish Mahawar – Prabhudas Lilladher

I have 2 questions. One is regarding these inventory losses. You were given a number of Rs. 48 or Rs. 49 crore. Is it for annual number or is it for a quarter you are talking.

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

See most of it has been in the last quarter only there was a very minor amount in the third quarter which was the December quarter.

Host - Manish Mahawar

One more question regarding energy norms for energy efficiency. Our urea plant energy norms, I believe would be around 5.2 gcal, right?

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

5.407

Host - Manish Mahawar

What would be the generally standard norms for the industry?

Mr. Kapil Mehan - Executive Director & Head, Crop Nutrition Business

Industry varies from 5.4 to about 6 for gas based plants and 6.5 to 7.5 for naphtha based plants. And for fuel oil plants it is about 9.5 to 10.5.

Host - Manish Mahawar

Now on behalf of Prabhudas Lilladher, I would like to thank to all the participants who logged on for this call and special thanks to the management for giving us their precious time. Now I hand over to Mr Mukundan for their final remark.

Mr. R. Mukundan – Managing Director, Tata Chemicals

Before closing I would just highlight that it has been a challenging year, the second half and essentially I think the programs we couldn't place are beginning to bear fruit and we believe going forward through this current year, financial year, we will be able to focus on higher value extractions from our current operations and as the economy comes out of this down turn we will be better poised for further growth opportunities. Thank you.

Moderator - Faizal

Thank you very much sir. On behalf of Prabhudas Lilladher that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank You.