

Transcript of Tata Chemicals Q1 FY2005 Financial Results Concall
held on Monday, July 26, 2004

Abhijeet Kundu: Good afternoon everybody. We at Fortis Securities take pleasure in welcoming you all to Tata Chemicals' first quarter results conference call. Today we have with us Mr. Prasad Menon, Managing Director and Mr. P.K. Ghose, CFO, Tata Chemicals. At this stage, I would like to hand over to Mr. Menon. Over to you Sir.

Prasad Menon: Thank you Abhijeet, good afternoon everyone and welcome to this conference call.

Our performance during the first quarter of the current financial year was characterized by impressive sales growth across most of our businesses. Let me briefly discuss the developments during the period under review.

I will begin with Chemicals.

While Tata Chemicals continued to be the market leader in soda ash with a market share of 31.2%, the Company's challenge is to deal with the high input cost of some raw materials particularly coke and coal. Prices of these commodities have more than doubled on a corresponding quarter basis and it is a measure of our resilience that despite this huge increase the Company was able to maintain its PBT performance this quarter. As I had indicated during the call of our previous quarter we expect these prices to sustain during the current year. On account of this we have started changing the fuel mix and are also planning equipment modification to mitigate this challenge.

In the food additive business, Tata Chemicals continues to be a leader with Tata Salt expanding its market share to 41.8% for the quarter. In an endeavor to strengthen our presence in the sub-popular segments, we have introduced 100 gm pouches of Tata Salt priced at Rs. 1.00 during the current quarter. Samundar Crystal Salt and Samundar Cooking Soda continue to enjoy an encouraging response at both the dealer and consumer level.

STTP sales too have continued to be strong during this quarter.

On the fertilizer business our performance in this segment has been steady, realizations in the urea business were healthy on the back of a normal monsoon during the first 2 months of April and May. Lower inventories at the distributor level in the beginning of the quarter further drove demand. Realization from our phosphatic business despite being impacted by continuing high ammonia prices demonstrated a healthy improvement as a result of an aggressive sales push. Sales volume appreciated 18% from 67,000 tons in the corresponding quarter last year to 79,000 tons in the current year. With regard to the fixation of price of phosphoric acid, the industry is in continued dialogue with the government to close this issue. In parallel Tata Chemicals is also exploring options towards securitizing the supply of its raw materials in an effort to desensitize itself from abnormal price movements and be protected from any shortfall in availability.

Q1 FY05 was the first completed financial quarter post the approval of the scheme of amalgamation. With operation integration in place, there will be increased opportunity to leverage the numerous synergies the merger affords.

While the environment continues to be challenging and competitive, I believe this is true for all players. In such a scenario the more efficient and well-equipped entities come up stronger in the longer term. Tata Chemicals, I believe is one such entity. We have demonstrated this by sustaining our profitability despite such an adverse scenario. The just concluded quarter has enhanced my confidence in the Company's ability to leverage its size, stature and experience to come to the most testing environment.

I will now request Mr. Ghose to share with you key financial highlights of the just completed financial quarter.

P.K. Ghose: Thank you Mr. Menon. Good evening ladies and gentlemen and thank you for joining us on this call. As you are aware all comparisons of financial performance in the communication and financial results stable share with you are between the merged entities in Q1, FY-05 and the restated combined financials of the two companies in the corresponding period last year. The figures are hence comparable.

As you would notice the Company achieved a healthy 26% sales growth and sustained its PBT level despite spiralling input prices. Since you have already the financial results table, I will not go through all the figures there.

Tata Chemicals debt as on 30th June 2004, is 619 crores, a 17% decline compared with the debt as on 31st March 2004. This figure of 619 also comprises Rs. 155 crores short-term buyers credit procured for our phosphatic business. If we exclude this, debt would be amount to Rs. 464 crores translating to a considerable 38% reduction. Interest payout too as you would notice is almost half the amount incurred in the corresponding period last year. Further, weighted average cost for long-term borrowing that is excluding buyers credit in the quarter under review have also declined from 8.4% to 6%. On an operating front, earlier implemented cost rationalization initiatives are today holding us in good stead, enabling us to combat an adverse environment.

Tata Chemicals pre-operating cash flow during the quarter amounted to Rs. 111 crores. Further, the company's interest coverage ratio stands at an impressive 11.4. These numbers achieved in challenging times fill us with confidence, going forward. As a result of the strength of its balance sheet Tata Chemicals has in place a sound growth platform.

I am also aware of the interest in the Company's holding in TCS and what the company proposes to do with the same. Tata Chemicals presently holds 11.55 lakhs TCS shares. The Board of Directors for the present has decided not to dilute this holding.

Thank you for your time. Mr. Menon and I would now be happy to discuss any subjects you have in mind.

Moderator: Certainly Sir. Ladies and gentlemen, this call for Tata Chemicals is being hosted by Fortis Securities. We will now begin the question-and-answer session. If you have a question please press '*1' on your push-button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing the '#' key. Our first question comes from Mr. Amit Dalal of Amit Nalin Securities. Please go ahead Mr. Dalal.

Amit Dalal: Good afternoon Mr. Ghose and Mr. Menon.

Prasad Menon: Good afternoon.

Amit Dalal: Congratulations on excellent sales growth, much higher than expectations. Sir, two questions, one is your raw material cost net of stock in trade has gone up substantially this quarter on a quarter-on-quarter basis. So, exactly which raw material costs have gone up to such a large extent and the second question is regarding again soda ash exports, how is this year faring and what are the prospects from here on and if there is any import threat?

Prasad Menon: Let me give you a feel of the input cost increases. If you look at the beginning of last year and the current position, coke prices have gone up from about \$130-140 per ton to about \$350 per ton. Coal has gone up from around \$25 per ton to anything between \$50-60 per ton depending on the specifications. So, you can imagine the kind of cost increases that have taken place.

Similarly, in the phosphatic business, we are seeing increases in prices of phosphate rock, sulphur and freight. All this is of course, a global phenomenon, as you know, partially driven by the Iraq crisis but I think, mainly driven by Chinese demand. So, this is the kind of situation we are facing.

Then as I said earlier, the fact that we went through the very rewarding exercise of Manthan in terms of cost reduction. And our ability to absorb all these huge cost increases, I think, shows very clearly. What was your second question Amit, I just forgot?

Amit Dalal: About soda ash exports?

Prasad Menon: In the case of exports, right now there is a bit of a problem in terms of realizations in South-East Asia. We believe that we should still end up with about 1,20,000 tons this year as well. It is something that is a strategic need for us and we will continue to do so.

In fact we have, I think I mentioned last time that we have invested in a new dense soda ash plant of 600 tons per day capacity which goes a long way towards satisfying the requirements both of export as well as glass manufacturers in India where we will have top-quality material. So, we are committed to exports, we are committed to improving our quality.

Amit Dalal: Sir one other question, your power costs have gone up substantially and we have also paid a lot of tax this year. Any power expansion capacity being put up in any other locations, other than Mithapur?

Prasad Menon: You see, we have in Babrala, a problem right now of having to use more naphtha than we were using last year. This is because natural gas availability has come down and this has not yet been sorted out in terms of our LNG price. As you are aware, the fertilizer ministry as well as the petroleum ministry are in discussion on what kind of a price LNG will have? So, we are still dependent on them but of course, the government recognizes those power costs.

Amit Dalal: Thank you very much Mr. Menon.

Prasad Menon: Thank you.

Moderator: Thank you Mr. Dalal for your questions. We have our next participant, Mr. Atul Rastogi from Motilal Oswal Securities. Please go ahead Mr. Rastogi.

Atul: Good afternoon Sir.

Prasad Menon: Good afternoon, how are you?

Atul: I am doing fine Sir. I have a few questions on your fertilizer business. If I understand correctly some companies have been asked to produce more than their rated capacity and that volume increases come in the current quarter although at a lower realization, is that correct in your case?

Prasad Menon: Yes, we have been also asked like others to if we can offer some more, we have said that we will offer and it is really dependent on government to take that up.

Atul: So, in the current quarter is any of that incremental capacity included?

Prasad Menon: If they do take some more material, a part of it may come in this quarter.

Atul: So, your average realization would be similar to previous quarter?

Prasad Menon: Yes, that's right.

Atul: But do you think for the full year you could end up with a much higher volume than last year?

Prasad Menon: Not much higher because what we are really offering is only about 30,000 tons or so more. So, I don't think it will be substantially higher. It really depends on what the government's policy will be and as you know the urea prices, import prices into India have shot up as well.

Atul: Sir, the second question was on, you mentioned that you have entered into a supply arrangement with IOC for gas in your release. Could you give some details on that?

Prasad Menon: Yeah, actually as far as Petronet is concerned the marketing arrangements have been given and various quantities have been given to GAIL, IOC and I think it is...

Atul: HPCL?

Prasad Menon: Yes, that's right. So, we have had discussion with Indian Oil about supply of LNG. Right now what's happening is that they are only fallback quantities which means that if they have some quantity of LNG available, provisionally they keep supplying us and this will have to await the final price that the ministry of petroleum and fertilizer decide upon.

Atul: So, currently they are supplying to you?

Prasad Menon: They are giving some material to us.

Atul: At what price is that at?

Prasad Menon: That is at the price that GAIL has given, it is about \$5.

Atul: Okay and government has agreed to reimburse that \$5 to you?

Prasad Menon: Yes, because this is only a fallback at the moment.

Atul: Okay, so you are using it as a replacement for naphtha?

Prasad Menon: Yeah, it is really as a replacement for naphtha.

Atul: Okay, that's all, thank you.

Moderator: Thank you Mr. Rastogi for your questions. We have our next participant, Mr. Gopal Agarwal from SBI Mutual Funds. Please go ahead Mr. Agarwal.

Agarwal: Good afternoon.

Prasad Menon: Good afternoon.

Agarwal: My question is regarding Hindustan Lever Chemicals. How are the performance there, particularly in the DAP segment?

Prasad Menon: The performance actually has been heartening this year, both in terms of DAP, NPK as well as STPP. Their performance in this quarter has been better than the corresponding period last year. Looking forward, I think, it really depends on how the monsoon goes forward, both in terms of the eastern region as well as little up in UP, but the performance this year has been better than last year.

Agarwal: Sir, what is the policy of government on the phosphatic fertilizers? Are you incurring any losses right now?

Prasad Menon: It really depends on the finalization of the phosphoric acid price that was negotiated in the end of April. The matter is still lying with the fertilizer ministry and we are hoping that they will clear it soon.

Agarwal: So, you can get the amount in the next quarter for the first quarter also?

Prasad Menon: That provision has been made in the first quarter as well. So, we are just waiting for it to be certified.

Agarwal: Any capacity expansion you are planning Sir?

Prasad Menon: Right now, no.

Agarwal: Okay, thanks a lot.

Prasad Menon: Thank you.

Moderator: Thank you Mr. Agarwal for your questions. Our next question from Mr. Sachin Kasera of Pioneer Intermediaries. Please go ahead Mr. Kasera.

Sachin: Good afternoon Sir.

Prasad Menon: Good afternoon.

Sachin: Sir, my question is regarding the dense soda ash. Could you give what was the figure for the current quarter vis-a-vis last quarter, that is June, 2003.

Prasad Menon: For dense soda ash sales or production?

Sachin: Both production as well as sales.

Prasad Menon: You will find it is about 25-26% of dense.

Sachin: So, has it proportionately improved because you talked about expansion of dense soda ash going forward?

Prasad Menon: Yes, dense capacity will really come in around April-May next year.

Sachin: So, you are still in the mode of expansion.

Prasad Menon: That's right.

Sachin: Okay, second question is regarding consolidation of the soda ash industry. Are there any signs of this happening?

Prasad Menon: Right now it doesn't seem to be. All the companies are operating as they are.

Sachin: What is your view on the current year's cash flow because we are now having a very healthy debt-equity ratio and robust cash flows. So, would we keep on continuing to hit at debt further or do we do anything on the expansion front or we may look at it in terms of rewarding the shareholders with additional dividends?

Prasad Menon: No, right now, I think, Mr. Ghose will deal with the retiring debt part of it but we are looking at a number of growth options and we hope that we should be able to come up with something over the next year or so.

Sachin: Sir, are these basically in your current areas of inorganic chemicals or fertilizers?

Prasad Menon: We are looking at various areas.

Sachin: It could also be outside these areas basically.

Prasad Menon: It could be.

Sachin: Okay, thanks a lot.

Moderator: Thank you Mr. Kasera for your questions. For any further questions participants are requested to press '*1'. Our next question comes from Mr. Sambre of ILFS Invest Smart. Please go ahead Mr. Sambre.

Sambre: Good afternoon Sir.

Prasad Menon: Good afternoon.

Sambre: Sir, what were the soda ash sales volumes for the corresponding quarter last year?

Prasad Menon: Last year's sales of soda ash was about 1,77,000.

Sambre: So, there has been a decline as compared to last year similar quarter.

Prasad Menon: This time it was about 171 or so, just a marginal decline.

Sambre: Okay Sir, during the last year, our market share in the soda ash business was 33.3% and this quarter it has come down to 31%. What is the reason for this decline?

Prasad Menon: There has been an increase in imports in the southern and eastern areas. This has eaten into the market share of the industry as a whole and that is why the market share has come down because we did have some markets in the south and east, which have been partially eaten into by the imports.

Sambre: Sir, would you like to elaborate on the pricing of these imports as to how competitive the prices were of these soda ash as compared to our prices?

Prasad Menon: As far as we are concerned, the south and the east have a greater freight cost for us and therefore our realization from the south and east are actually less than what they would be from markets in the near west. So, the problem with the south and east is in matching the import parity prices. As you know, we match the import parity prices right across the country to various customers.

Sambre: Okay, Sir there is one more question, I don't know whether you will be able to give me the details. I would like to have the breakup of your soda ash, salt and STPP business in the inorganic chemicals segment, is that possible?

Prasad Menon: No, because that is one segment.

Sambre: Actually, Sir as a suggestion if it is possible for you to give the details of the salt business because we believe that salt being a branded segment it requires a different kind of perspective altogether. If in future it were possible to give the break-up of the salt business also that would be great thing for us?

Prasad Menon: We would be able to give you sales picture of salt but not the financial separate part because we believe that that is part of the same segment as soda ash, chemicals.

Sambre: Sir, can we have the sales number for salt then?

Prasad Menon: Sure, the sales of branded salt this year was about 1,00,000 tons, last year it was about 91,000 tons

Sambre: In terms of value?

Prasad Menon: Value, you know the value.

Sambre: Okay Sir, one last question, this 11.55 lakhs of TCS shares, is that the conversion of your Tata Sons holdings that you earlier had?

Prasad Menon: No.

Sambre: So, this is your original holding in TCS?

Prasad Menon: Yes, that's right.

Sambre: Then what happens to your Tata Sons shares?

P.K. Ghose: We keep on holding these at the moment.

Sambre: I thought that once this offer of IPO was open, you all had the option to convert, Tata Sons shares were to be converted into TCS. Is that not a right statement?

Prasad Menon: We had decided not to convert, there was an option.

Sambre: Okay, Sir could we understand the pricing at which the auction was open to you all? To convert Tata Sons shares into TCS

Prasad Menon: Same pricing that is there in the open market.

Sambre: So, how many shares of TCS would your entitlement have come to, for your holding in your Tata Sons?

P.K. Ghose: Actually let me clarify. You see, we are holding 11.5 lakh shares. The Board of Directors decided not to exercise the right to convert just now. Now as far as Tata Sons holding is concerned, no action is being taken on that.

Sambre: Okay, thanks a lot.

Moderator: Thank you Mr. Sambre for your questions. Our next question comes from Mr. Prashant Desai of Rare Enterprises. Please go ahead Mr. Desai.

Desai: Good afternoon Mr. Menon.

Prasad Menon: Good afternoon.

Desai: My question pertains to your quarterly numbers that you have published. In terms of your cost of traded goods, cost of traded goods have come down from around 27 odd crores last quarter to around 6 crores this quarter, the number was around 158 crores for the full year as on 31st March, 2004. Would you give us some reasoning as to how and why this has happened?

Prasad Menon: This is actually largely because there was reduced traded sales of DAP and NPKs through our TKKs in the north this year as compared to the last. This year we did not take that amount because the pricing that was there for DAP still did not have any clarity. Therefore, we deliberately reduced our traded product sales in the quarter.

Desai: Would it be safe to assume that this would remain similar for the rest of the year or its...?

Prasad Menon: No, it depends on what kind of policy direction the government takes.

Desai: Thank you, another question which I have is again pertaining to your results is regarding the other income; you have seen a significant reduction in other income. Why would that be?

P.K. Ghose: It is mainly due to the fall in the interest rates as a result of which the income, which is coming from the surplus cash, has come down.

Desai: What would be the total investment in such interest bearing securities as on current date?

P.K. Ghose: The value of these interest bearing securities is in excess of 300 crores.

Desai: My next question is regarding the release that you have issued where you have said that you are looking at exploring new opportunities in the food additive business. Could you give more light on this as to which are the areas you are targeting?

Prasad Menon: Well, the only thing that we would like to say is right now we are looking at the branding of sodium bicarbonate, the cooking soda segment, which is something we have just started in some of the towns in the south and some of the towns in the north. We will just wait and watch. The initial response has been good and we need to see how we can take that forward.

Desai: Any particular reason why you would want to brand this particular item? Aren't there too many players in the segment?

Prasad Menon: There are no players. There is no branded cooking soda in the market today. So, that's one area, which is a natural extension for us.

Desai: What kind of value addition do you have any brand cooking soda?

Prasad Menon: The proposition that we are giving to the customer is that today most of the cooking soda or virtually all the cooking soda is loose or just packed by the retailer. The quality that they get is certainly far superior in the case of the branded cooking soda that we give and that's the value proposition we are giving to the customer. You know, it takes a little time to wean the customer away because they are all used to these packages that they get from the retailer and that's what we are working on right now. We don't want to take on another product right now until this gets established. We do have some other plans but right now nothing that we would like to talk about.

Desai: This would be on an all India basis.

Prasad Menon: Right, we would eventually put it all India. Right now we are concentrating on the north.

Desai: What kind of advertising spend do we have for this?

Prasad Menon: At the moment very little. We are just doing it piggyback on Tata Salt and on point of purchase of the advertising.

Desai: Thank you very much.

Prasad Menon: Thank you.

Moderator: Thank you Mr. Desai for your questions. Our next question from Mr. Sachin Kasera of Pioneer Intermediaries. Please go ahead Mr. Kasera.

Sachin: Sir, you had mentioned that margins in the inorganic business coming under pressure mainly because of the increasing input prices specially coke and coal. Could you throw some light as to how it has been on the pricing front and what are the ways forward there, basically?

Prasad Menon: On the pricing front what has happened is that this kind of pressure is present right across the globe. The high coke and coal prices are affecting all the synthetic soda ash manufacturers whether they are in Europe, India or China and as far as the natural soda ash manufacturers in the United States are concerned, energy prices as well as freight are definitely affecting them. In fact global companies are actually under terrific pressure. Right now, there is no upward movement of prices mainly because of the competitive scenario in Asia but we believe that sooner or later they would have to be some upward movement, it is difficult say how much but there would be. But as you know, in India Tata Chemicals moves on sort of import parity principle. So, we watch and see how the import prices are moving and then take pricing decisions accordingly.

Sachin: But have there been certain instances where some of the players even gone into losses?

Prasad Menon: You mean globally?

Sachin: Yes

Prasad Menon: I don't think they have gone into losses, but they are under significant pressure.

Sachin: My second question is regarding the Samundar salt. What has been the progress in that front because, I think, it has been more than a year now?

Prasad Menon: No, it has been more than a year from the time we did some test marketing. We are now doing regular marketing in about 4 or 5 cities in the south. The initial response has been fairly good but the issue in getting into these segments is that you are coming into direct competition even with the retailer. That's the problem we are looking right now, getting the retailer to push this as well as his own salt.

Sachin: Thank you.

Prasad Menon: Thank you.

Moderator: Thank you Mr. Kasera for your questions. We have a question coming up from Mr. Anand Shah of ICICI Securities. Please go ahead Mr. Shah.

Shah: Good afternoon Mr. Menon, this is Anand Shah.

Prasad Menon: Good afternoon Mr. Shah.

Shah: Sir, just an overall question in terms of while it may be too early in terms of monsoon and agricultural situation. Since you are in the fertilizer business just wanted to get your feel in terms of how do you see the agriculture scenario turning up?

Prasad Menon: I think there is going to be a mixed bag Mr. Shah. As you know, really the central portion of the country going right up to the north and into the northwest are the areas that seem to have been affected. For instance in our marketing territories while eastern UP has been okay, Bengal has been good, Bihar of course has been a surplus but western UP rainfall has been lower than normal and Punjab and Haryana also have been hit by scanty rainfall. The only advantage in Punjab and Haryana is irrigation water. Now irrigation water of course depends on inflows. So far, as far as our marketing territories are concerned there has been no marked effect but if the monsoon continues to be weak right through August as well then you might see some effect in the rabi season.

Shah: In terms of overall farm income perspective, do you think maybe this year if the production is impacted maybe an increase in prices of the farm produce can lead to maybe overall higher income for the farmers? Because we are sometimes seeing significant increase in prices of some of the commodities?

Prasad Menon: Yes, as you know, not a very great percentage of increase in commodities goes down to the farmer, that's the problem. Yes, there has been some improvement in some of the cash crops particularly potato for instance has got a much better prices this year. Cotton prices have improved. But the point is that unless the monsoon is fairly well spread over the next month or so then you are going to have pockets of improved performance and pockets of poor performance. So, overall if the monsoon does fail, I think, you could see a slight drop in agricultural production.

Shah: Okay Sir, thanks a lot.

Prasad Menon: Thank you.

Moderator: Thank you Mr. Shah for your questions. Ladies and gentlemen if you have a question you are requested to press '*1' on your push button phone. Our next question comes from Mr. P. Venkatesh of Corporate Database. Please go ahead Mr. Venkatesh.

Venkatesh: Good afternoon, Mr.Menon.

Prasad Menon: Good afternoon.

Venkatesh: Given the current situation, I would like to know what would be your full year guidance?

Prasad Menon: We do not normally give very clear guidance as for the future but we should be doing as well as last year.

Venkatesh: But given the higher input cost, what would be the scenario in the profitability part?

Prasad Menon: Even in the profitability and top-line we should be more or less in line with next year.

Venkatesh: Despite the rise in input costs you will perform in line with last year?

Prasad Menon: Yes, because for instance we have had a rise in input costs by about 19 crore but our operating profit has only fallen 6 crore, so we believe we have the wherewithal to be able to withstand this.

Moderator: Mr. Venkatesh, does that answer your question.

Venkatesh: Yeah, thank you.

Moderator: Thank you Sir. For any questions participants are requested to press '*1'. Please press '*1' for any further questions. As there are no more questions, I would now like to hand over the conference to Mr. Abhijeet Kundu. Please go ahead Mr. Kundu.

Abhijeet: I would like to thank the management of Tata Chemicals and all the participants for attending this conference call, thank you.

Prasad Menon: Thank you.

P.K. Ghose: Thank you.

Moderator: Ladies and gentlemen, this concludes your conference for today. We thank your participation and for using Tata Indicom conference call service. You may please disconnect your lines now, thank you.