



TATA CHEMICALS LIMITED

Q1 FY06 - Conference Call Transcript

21 July 2005

Moderator: Good afternoon Ladies and Gentlemen. Thank you for standing by. Welcome to the Tata Chemicals conference call hosted by Motilal Oswal Securities Limited. We have with us today the management team of Tata Chemicals and Mr. Atul Rastogi, analyst from Motilal Oswal Securities Limited. At this moment all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question please press '*1'. I would now like to turn the conference over to Mr. Atul Rastogi. Please go ahead Sir.

Atul Rastogi: Thank you. Good afternoon Ladies and Gentlemen. Welcome to the first quarter conference call of Tata Chemicals Limited. From Tata Chemicals we have with us Mr. Prasad Menon, Managing Director and Mr.P.K. Ghose, CFO. Now I would like to turn the call over to Mr. Menon.

Prasad Menon: Thank you Atul. Good afternoon ladies and gentlemen. on behalf of Tata Chemicals Mr. Ghose and I welcome you to this conference call. I must right at the beginning apologize that we have got unfortunately only a little bit of time because we have to both proceed to the AGM, so we would probably have just about half an hour.

Before going on to the main details, I would like to mention that some of the statements and discussions during the call might be forward looking. And for this I request you all to refer to the Q1 FY-06 results released which contains a statement in this regard.

Coming to the performance, our strong performance during the quarter is a reflection of healthy realizations and enhanced operations across all our businesses.

Let me first start with chemicals. Earlier price increases that we took in the beginning of the year have contributed significantly to increase realizations from our soda ash, edible salt and cement businesses. In soda ash particularly, these price increases combined with the tight control on input costs, through efficient operations and the usage of alternate fuel, have enabled us to a great extent negate the impact of earlier steep input increase. What is extremely encouraging is the significant improvement in the high-value dense soda ash, which is used by the faster growing glass segment. This is a segment we propose to continue to gradually increase our capacity.

Moving on to the food additives business the demand continues to be encouraging. We have also entered the international market for the first time with a shipment to the U.A.E. in Dubai and we are soon hoping to move into Singapore also. STPP sale volumes have improved about 11% compared to the corresponding quarter last year. There have been some softening of prices from China on STPP.

While the IMACID partnership has enabled us to get a stable supply of phosphoric acid, the sales during the first quarter were at lower levels because of the delayed monsoons, but this will be made up during the second quarter. Delays in the settlement of the phosphoric acid prices by the Government are a bit of a challenge still and we are hoping that something will come up over the next month or so.

We continue to focus on increasing the proportion of NPK, high margins and complex fertilizers as part of our overall products. This quarter also represented the first complete period, wherein naphtha has not been used as a fuel in the manufacture of urea. This has been achieved through the combination of RLNG and the natural gas and this will now result in the Government beginning to take a major part in its subsidy outlook.

Our business outlook is positive; demand traction is strong in all our businesses. Efficient operations, enhanced customer relationship and strategic sourcing will continue to be the key drivers of our growth. We will continue to explore viable growth opportunities in both our businesses across geographies. I believe Tata Chemicals is well positioned to deliver strong and sustained business growth. Thank you for your time. Mr. Ghose and I would now be quite happy to take this discussion forward.

Moderator: . Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please press '*1' on your push-button phone now. We have our first question from Mr. Sampat Reddy from Voyager Capital Advisory.

Sampat Reddy: Thank you. I have few questions, one is on the soda ash volumes, they were 150,000 this quarter, the last few quarters it is been at 180,000 plus. You have mentioned in your press release that the plant was shut down for two weeks. Has the decline been primarily due to that or is this more cyclical? And also do you expect to make this up in the next quarter? Further, on the fertilizers business, I assume the delay in monsoons is a factor for lower sales as mentioned the press release. How confident are you of making up that shortage again in this quarter?

Prasad Menon: The first question, yes, we did take a shut down in the first quarter in the month of May, which naturally impacted the volumes of soda ash coming out from the factory. This will be made up and we certainly are confident going forward that we will meet our budget numbers. As far as fertilizers are concerned, as all of us know the advance of the monsoon was slightly erratic and delayed in certain parts. But the monsoon, particularly from the end of June and early July, has started improving considerably and in our areas, the geographical regions of the north and the east, things are normal again. So we are hopeful that the sales will stabilize once again, in fact July sales will certainly be much better.

Sampat Reddy: In terms of realizations for soda ash, how do you see that going forward? Do you expect it to be at the same levels where you are today after the price increases?

Prasad Menon: Yes, I can certainly speak for this year. I think it will remain the same.

Sampat Reddy: And your branded salt business, which you are exporting to companies in Dubai and Singapore. What proportion of your branded sales you expect to come from the overseas market over a period of one year?

Prasad Menon: They are very small. This is the first time that we are entering those markets, so the quantities will be very small and insignificant. The idea is to make first move and get into those markets, start looking at customer response and repeat purchases. The first year will really be a trial year and I don't think we will get any significant quantities.

Sampat Reddy: Are they better than and profitable in terms of margins?

Prasad Menon: Yes.

Sampat Reddy: Thank you .

Moderator: Thank you Sir.. We have our next question from Mr. Sachin Kasera of Pioneer Intermediaries.

Sachin Kasera: Yes, congratulations on the very good results. Two questions, One regarding soda ash you said, the production was hit, So was there any corresponding decline in terms of volumes compared with last year , You have mentioned 150,000 for the quarter, if you could share the figure for the corresponding quarter?

Prasad Menon: Yes, there was a small drop. Previously we had sold 160 and this year we have done 150.

Sachin Kasera: Has there been a hike of Rs.500 a ton from April, in case of soda ash in the current year?

Prasad Menon: Not from 1st April, we had done it a little earlier to that.

Sachin Kasera: Was that in March Sir?

Prasad Menon: Yes.

Sachin Kasera: So basically it is to say that in the last year you have increased the price at the rate of 500 per ton ?

Prasad Menon: We had two actually.

Sachin Kasera: One was November and one was this year. Okay thanks a lot.

Moderator: Thank you Mr. Kasera for your questions. We have our next question from Mr. Sharad Ramnarayanan from Birla Sunlife AMC Ltd.

Sharad Ramnarayanan: Good afternoon Sir. Where do you see the coke prices, which acts as a raw material of salt going forward ?

Prasad Menon: According to us, coke prices will be more or less stable this year. We don't see any significant increase.

Deven Sangoi: Good afternoon and congratulations for the good result. This is Deven Sangoi. Regarding the acquisition strategy, you did try for Egyptian Fertilizer Company and the acquisition has not gone through, now what is your strategy on acquisitions going forward and second thing, in case of fertilizer how do you see the raw material scenario?

Prasad Menon: Okay, our strategy on acquisitions continues to be the same for current businesses.

Deven Sangoi: You mentioned in the earlier conference call that in case you don't get anything you have a Greenfield project coming up outside India.

Prasad Menon: The strategy remains the same to look for a project and capacities in geographies, which have both larger availability of gas, size. We are still in the fray for this in Bangladesh, a one million ton plant and for this discussions are still going on.

Deven Sangoi: Okay. What is the situation on the raw material side, phosphatic, rock phosphate and sulphuric acid?

Prasad Menon: As far as the phosphatic fertilizer plant is concerned the phosphoric acid has now been ensured because of our arrangement with IMACID . Globally the availability of rock and acid is tight, which is reflected in the freight level.

Deven Sangoi: Okay, do you expect any kind of increase in subsidies from the Government for the domestic price?

Prasad Menon: Well, I just want them to give us what our dues.

Deven Sangoi: Okay, and any progression on the 5th pricing policy, any changes which might impact you?

Prasad Menon: Well, it is too early to say. The pricing committee is still at its job, which I think they will not be able to finish before September.

Deven Sangoi: What kind of capacity utilization in fertilizers do you expect this year from the Government as far as phosphatic is concerned?

Prasad Menon: A 10% higher than the....

Deven Sangoi: Okay, that 10% you will be getting the market prices or how is it?

Prasad Menon: The arrangement is that, first of all the Government has to ask you for that quantity that can range to 50,000-70,000 tons extra and from that contribution 5% of the margin goes to the government, 35% with us.

Deven Sangoi: Okay, and what is the maximum extent to which you can go what is the maximum capacity utilization you can have?

Prasad Menon: 5-10% overall.

Deven Sangoi: thank you.

Moderator: Thank you. We move on to our next question from Mr. Ghanshyam Agarwal from Batliwala and Karani Securities.

Ghanshyam Agarwal: Your cost of raw material has decreased substantially from 54.7% to about 48%. What do you attribute this to, one is okay, naphtha was not used and LNG was used. What other factors led to that decrease in cost?

Prasad Menon: If you just take the traded product services last year and this year, the traded products that we pushed through the Tata Kisan Sansar. We have had a drop from last year, because of availability as well as the later monsoon. So that itself will take care of the difference in the expense. Because there its only a trading margin that we get.

Ghanshyam Agarwal: Thank you. Also the break-up that you gave for revenue inorganic chemical, last quarter it was about Rs 255 crore and this quarter it is Rs 219 crore. So do you think this is because of the traded product difference or because soda ash production was less?

Prasad Menon: Yes, it is lower sales in soda ash...

Ghanshyam Agarwal: What would be other reasons, other than soda ash?

Prasad Menon: It, is mostly soda ash.

Ghanshyam Agarwal: Thank you .

Moderator: Thank you Mr. Agarwal. Our next question comes from Mr. Rajesh Pherwani from HDFC Mutual Fund.

Rajesh Pherwani: Good afternoon Sir. Can you throw some light on why DAP, NPK and complex fertilizers sales volumes were lower because of the late monsoons while urea sales were higher.

Prasad Menon: That is because they are largely two different regions. The eastern region in Bengal in particular got its monsoon very late, whereas in the north the onset of the monsoon, if you normally observe this the rain comes first in the eastern regions and then move up to the north. So as far as the north is concerned, the monsoon moves into Uttar Pradesh, Haryana and Punjab more or less on time. But it moved in late in Bengal.

Rajesh Pherwani: Okay, so will you be able to make up in the phosphatic segment?

Prasad Menon: Yes, we will make it up.

Rajesh Pherwani: Thank you.

Moderator: Thank you Mr. Pherwani. We move on to our next question from Mr. Nikunj from Crisil.

Nikunj: Good afternoon Sir. What are the capex plans over the next 2 years? And secondly there are has been a steep decline in DAP sales last year and huge increase in the complex fertilizers sales. So is there a strategic move over there, moving to the complex fertilizer sale?

Prasad Menon: Well there are 2 issues here; one is that last year we also had erratic supplies of raw materials, namely phosphoric acid. So that was part of the reason why we had much lower DAP production and therefore sales. But we are moving towards much more balanced production of NPK complexes and DAP. But this year with definitive supply of phosphoric acid DAP productions should be higher than last year.

Nikunj: Yes, regarding the Capex plans?

Prasad Menon: Well, over the next three years till 2008, if you include the 150 crore of it budgeted for the de-bottlenecking of the urea plant in Babrala, it will be some where around 600 crore.

Nikunj: Okay, and what is the growth in the fertilizer segment that you see over the medium-term for each of the products urea, DAP and complex fertilizers?

Prasad Menon: In urea and DAP the growth rate generally that we have seen over the last 3-4 years is between 2-2½%. And that is a fairly steady growth that has taken place.

Nikunj: Okay, so is it that complex fertilizer moved outgrow the DAP and the urea segment?

Prasad Menon: Not necessarily, all these things are partially dependent on the kind of the policy that the Government has and therefore the pricing and second, the kind of cropping pattern of the farmer is going to follow

Nikunj: Thank you .

Moderator: Thank you Mr. Nikunj. We have our next question from Mr. Sidharth Dembi from UTI Mutual Fund.

Sidharth Dembi: Good afternoon Sir. Urea manufacturers have become a potential candidate for Kyoto protocol and trading in carbon credit. Are you expected to benefit out of that or have you applied for carbon credit? Can you give me an update.

Prasad Menon: We are looking at carbon credit not only for the fertilizer plant but also for the Mithapur plant.

Sidharth Dembi: Okay, so have you applied for getting carbon credits. What can be expected, number of credits or amount...?

Prasad Menon: In the process of doing it.

Sidharth Dembi: Thank you.

Moderator: Thank you for your question Sir. We move on to our next question from Vinit Sambre from IL&FS Investsmart Limited.

Vinit Sambre: Good afternoon. Could you give us information regarding the profitability of phosphatic and nitrogenous fertilizer segments. Were your phosphatic fertilizers profitable? If yes then how much, if not then what was the loss, which you have borne this quarter?

Prasad Menon: We perceive both together as one segment.

Vinit Sambre: If you can just inform whether phosphatic was a profitable segment?

Prasad Menon: It is a profitable segment.

Vinit Sambre: So, you earned profit out of this, your DAP operations, basically the phosphatic operations.

Prasad Menon: We earned profit out of it and it is dependent on the Government policy.

Vinit Sambre: So if the policy is announced by next month, then profitability should improve going forward?

Prasad Menon: Profitability may not improve significantly, but it will certainly prevent it from going the other way.

Vinit Sambre: Thank you .

Moderator: Thank you for your questions Sir. We have our next question from Mahesh Chhabria from Birla SunLife Asset Management.

Mahesh Chhabria: Yes, Need a clarification on your Capex, which you said is about Rs 600 crore. How would you be funding it, to what extent will you be raising debt?

Prasad Menon: Can be out of internal accruals because we have got substantial funds.

Mahesh Chhabria: Would it be entirely from internal generation?

Prasad Menon: Yes.

Mahesh Chhabria: Can you give me the gross interest cost figure?

P K Ghose: The cost of borrowings is now down, because of having gone for an FCCB, which is at 1% open rate upto around 2.2%.

Mahesh Chhabria: Okay, and the net what is the interest received but which is reflecting in the P/L, if you could just share with us please?

P K Ghose: There are two refunds, one is a refund of income tax.

Mahesh Chhabria: Can you go to the micros of the quantum of the interest received part?

P K Ghose: Interest received, out of our total receipt of Rs 115 crore in income tax, roughly Rs 6 crore is tax refund, Rs 5-6 crore, the balance is income from mutual funds.

Mahesh Chhabria: Thank you.

Atul Rastogi: Atul here, I have two questions. One is, you said phosphatic volumes dropped; can you give us the numbers how much was it lower by this quarter? Last year I think it was 79,000 tonnes, what was the number this quarter?

Prasad Menon: 35.

Atul Rastogi: What was the soda ash exports this quarter Sir?

Prasad Menon: 18,000 tonnes.

Atul Rastogi: Okay, just one more question on other expenses that have gone up 26%, is there anything significant or is it just normal increase? Any one-time exception?

Prasad Menon: There is one item of about Rs. 5 crore which was really all the expenditure that was incurred for bidding process in Egypt.

Atul Rastogi: Why is there a drop in salt market share from 41% to 37%?

Prasad Menon: We have to take it from quarter-to-quarter, sometimes what happens is that some material gets pushed in from one or two of the suppliers and there is a bit of a lag. These have to be looked at 2 quarters in a row.

Atul Rastogi: Thank you

Moderator: Ladies and gentlemen as there are no more questions I would now like to hand over the conference to Mr. Atul Rastogi. Please go ahead Sir.

Atul Rastogi: Thank you Ladies and Gentlemen for attending the conference call and thank you to the management of Tata Chemicals Mr. Menon and Mr. Ghose. Thank you very much.

Prasad Menon: Thank you.