



TATA CHEMICALS LIMITED

Investors/Earnings Conference Call

(July 30th, 2007)

Moderator: Good morning ladies and gentleman, thank you for standing by. This is Renuka, the moderator of your call today. We welcome you to the conference call of Tata Chemicals Limited hosted by Pinc Research. We have with us today Mr. Homi Khusrokhani, Managing Director; Mr. P.K. Ghose, Chief Financial Officer from Tata Chemicals Ltd.; and Mr. Ashwani Agarwalla, Analyst from PINC Research. At this moment all participants are in a listen only mode. Later, we will conduct and answer session. At that time, if you have a question, please press * and 1. I would now like to turn the conference over to Mr. Ashwani Agarwalla. Please go ahead sir.

Ashwani: Thank you Renuka. Good morning everyone. On behalf of PINC Research, I welcome you all to the earning call of Tata Chemicals for the first quarter of the current financial year. Mr. Homi Khusrokhani, Managing Director of Tata Chemicals, and Mr. P.K. Ghose, the Chief Financial Officer of the company are with us. Now, I would request Mr. Khusrokhani to brief us about the results and the company. Over to you sir.

Mr. Khusrokhani: Yes, thanks Ashwani. I would like to start by giving you a quick perspective of our operating performance during this quarter following which Mr. Ghose will share some financial details with you and then after that we will respond to your queries. Over all, Tata Chemicals' operating performance over this quarter has been positive and encouraging and I will explain why.

Firstly market conditions: We have seen that soda ash prices have risen significantly during the quarter. In fact, they are likely to be quite firm now for at least the next 2 to 3 quarters. Even over the next 2 to 3 years, there will be pretty strong prices, I believe. Today, the spot prices have reached something like \$230 to \$240 per metric ton. There is a tremendous demand for soda ash, particularly from the glass sector, and what has helped matters is the Chinese having gone a bit quiet. There has been a withdrawal of the 13% VAT, which they were getting on export coupled with strong demand for soda ash in their own country. We are not seeing any significant export coming out of China this stage. We also understand that some of their plants are being shifted today because of environmental constraint and that is why I think most countries other than China now are taking quite aggressive pricing postures.

In terms of our food additives business, Tata Salt is again dominating the market. Our market share has now gone up to 49% from 47% and the second brand we have launched, I-Shakti, is also doing fairly well in the market where we are not significantly represented in the past.

Our Fertiliser business performance also has been good. We had significant recoveries of subsidies during this quarter. The debottlenecking project at Babrala has begun. The urea plant had a shut down, which is done once a year. Last year we had done it on March, this time the full shutdown has been during this quarter and therefore urea production has been down, but this is normal. It picks up from the second quarter onwards. And we see the outlook for urea is also quite positive for the rest of this year.

We started a cost cutting program at Babrala that is focused on non-energy items. As you know, we are very efficient in energy so we are now looking at other savings that we can make. The Khet-Se fresh produce business has started off where we are acquiring land for two centers in the North and East and will be gradually rolling out this during the course of this year. Innovation Centre is also doing well. The bio-fuels business has started off. Our first ethanol facility will be coming up in Maharashtra. So, all the new activities on schedule.

As for subsidiaries go, Brunner Mond, Europe has done extremely well. They have done better than expectations. They have been operating at almost full capacity levels as of now. We have had another set of problems at Magadi at the commissioning of the second pure ash plant. The old plant has done brilliantly and has made up lot of the deficits of the new plant. The new plant is also being addressed. Some very significant changes are being made and we hope that it will be up and running very soon.

We have pretty healthy prices of phosphoric acid because of the enormous amount of cultivations that is happening for bio fuel, particularly corn in the US. Phosphoric acid prices have been extremely high and that has benefited us in terms of strong performance in acid, so we have a significant benefit there from our international operation. So, overall, it has been a very favourable quarter. We are looking to improve our performance further and exhilarate our growth in the coming quarter and now I request Mr. Ghose to give you some insights on the financial performance.

Ghose: Thank you Homi. I will share with you some key details of our financial performance for the quarter. Revenues were at Rs.1,134 crore, while our profit from operations was higher by 16% at Rs.260 crore. On a consolidated basis, PAT for the 3 month period amounted to Rs.137 crore, a 55% increase. Let me also give you a brief of our performance on a stand-alone basis. Tata Chemicals Q1FY08 stand-alone sales are at Rs.669 crore. Healthy demand across our chemicals business portfolio as Homi mentioned earlier combined with price increases, saw PBIT margins of the segment higher at around 26%. A strengthening rupee has resulted in lower foreign exchange liability and Rs. 38 crore foreign exchange gains. PAT has increased by 61% to Rs.121 crore, basic EPS for the quarter stood at 5.63 and diluted EPS was Rs.4.11. Consolidated debt as on 30 June 2007 is 1,658 crore. This largely comprises debt of Brunner Mont Group Limited. Low cost, short-term buyers credit for the phosphatic business in India and the foreign currency commercial borrowing raised in January 2005. I look forward to continue this healthy financial and operating performance.

Thank you for your time. We will now be happy to address any questions that you may have.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press star and 1 on you push-button phone and wait your turn to ask a question when guided by the facilitator. If your

question has been answered before you turn and you wish to withdraw your request you may do so by pressing the hash key. Participants are requested to restrict a number of questions to two at a time. We have a first question from Mr. Prashant Poddar of ICICI Prudential AMC. Please go ahead Mr. Poddar.

Poddar: Congratulations on a good set of numbers. I have just three questions. You mentioned the spot prices of soda ash being \$230 to \$240 dollars, against a contracted price of \$200 for last quarter, so is it safe to assume that your Q2 average prices could be in the range of 230 to 240?

Khusrokhani: Depends, you know, if we have term contracts with some of our customers then you would not increase it right away. The overall verdict obviously is that the trend is good and we will be picking up some business which maybe at the spot prices also.

Poddar: And what percentage could that be Sir?

Khusrokhani: Roughly about 30% of our sales are spot and 70% will be as part of long-term contracts. Spot prices are high quite often, and material comes in to the country also at that price. Overall, the domestic prices have also gone up, and so we see benefits in that. We have taken a significant price increase in this year itself .

Poddar: Okay. Sir, you talked about some cost pressures in the results of soda ash - like coal coke sulphur and ocean freight - so can you throw some light on that?

Khusrokhani: As of now, whatever prices decisions have been taken, are fully neutralized. So, in fact our margin has slightly improved. But, you know, that prices are significant, I mean, like the same very high prices compared to what we have seen in the past, so I guess, there will be a little bit of inflation and pressure on, I think, over the next few months.

Poddar: Okay, so the margins could be low because of these.

Khusrokhani: As long as, today, the demand is higher than supply we are not seeing any great worries for us. The price increases that have been taken were done in the beginning of this year. There has been enough to mitigate the effect of the commodity price increases; if you look at limestone or pet coke particularly, these prices have gone up. So far we have been able to mitigate them, but let see how the commodity prices will look like now in those areas. If they keep going up further, then we will have to see, but at the moment we have taken care of the increases in commodities with price increases. We also keep our cost under control through long-term contract.

Poddar: How does the Rupee appreciation impact us?

Ghose: With respect to our exports we are fully hedged. Also in respect of FCCB, we are hedged through either options or forwards, but the impact of the rupee every quarter is reflected in the P&L. The FCCB is revalued at the end of each quarter. When we took the loan sometime ago, rupee was about Rs 45 to the dollar. If you go back to the last few quarters till last year, you will find we had shown foreign exchange losses, but now there is a huge gain because the Rupee is at 40.7.

Poddar: Yes, sir, one last question is on your sales going down sharply in the phosphatic fertilisers, NPK.

Khusrokhani: Yeah, the reason is because of its seasonality. The demand picks up in the West Bengal, Jharkhand region sometimes from June onwards, so you will get the higher sales coming in June, July to September quarter

Ghose: It has already started actually. The selling season is now on and certainly over this quarter we should be completely neutralizing any sort of deficits in the first quarter.

Poddar: Why was DAP production lower?

Khusrokhani: Whenever the DAP supplies are interrupted, we produce NPK.

Poddar: Okay.

Khusrokhani: Taken together you will find volumes in line with the earlier quarters.

Poddar: Thank you very much sir.

Moderator: Thank you very much Mr. Poddar. We have the next question from Mr. Sumant Kumar of Karvy. Please go ahead Mr. Kumar.

Kumar: Congratulations Sir on your Quarter 1 results.

Khusrokhani: Thank you.

Kumar: When will the production in Magadi commence?

Khusrokhani: We had a few small interruptions; we were hoping to start this month, but actually now it would be more like gradual commissioning.

Kumar: How much volume can we expect?

Khusrokhani: I am unable to indicate that just now but certainly, there will be a slow start

Kumar: Thank you.

Moderator: Thank you very much for your question sir. We have the next question coming from Mr. Rajesh of Dolat Capital, please go ahead sir.

Rajesh: Good Morning. A couple of questions: the first one is regarding Brunner Mond. Can you give some guidance on how the industry is shaping up in Europe, what sorts of margins have you been making and how is that going to shape up in the next few years?

Khusrokhani: I think the big worry for Europe was whether America in fact would start exporting at lower prices into Europe, but that has been looking unlikely now because the global scenario developing where the demand is outstripping supply. So, if at all, I think, stability is likely, as they have already taken some small increases and are likely to take further increases, so I do not see any sort of major threats or worries about Europe performance in the next few quarters.

Rajesh: Can you please throw some light on the margins that you would be making in Europe?

Ghose: You know the prices in Europe also have firmed up tremendously and I think in the next 1 or 2 years there will be price increases. The global demand is fuelled by a shortage of material. Now, in terms of margin we have always maintained that the efficiencies in Europe are far greater than even Indian operations, so if you look at a gross margin stage which is your variable, your sales minus your variable cost of production, there the margins will be 50% or more, but when you consider fixed costs there are two areas of fixed costs which are high in Europe. One is of course the high energy cost and the second is in terms of employee cost. Since we took over this company we have maintained that on an average basis our margins should be close to 14% to 15%. These margins would have been higher for the entire Brunner Mond Group (including Kenya), but because of the delay in production at Magadi, there has been a loss in production. As the plant will be commissioned in stages the margins will improve, but on an average they would be varying between about 13-14% to about 17-18%.

Rajesh: What timeline are you looking at for the Magadi commissioning?

Khusrokhani: It is difficult to say because there were two unplanned breakdowns in the last month, which have really thrown things a little and we are looking at a gradual start up rather than a full commissioning of full capacity.

Rajesh: Thank you. In India, as you know, you have been maintaining this for a long time now. The Indian Government is probably going to be more than active in the way that can help the fertiliser industry to make an investment in the domestic market, so that they do not have to import as much. How is Tata Chemicals prepared to act in such a situation? What are the things that need to do strategically so that you can catch with this opportunity either in terms of green field or availability of gas? What are the key strategic issues that you see and what steps are being taken to that address those?

Khusrokhani: We have always been ready to put up capacity subject to gas availability. We have been looking for opportunities to grow our business. We are waiting to see what is going to happen on both the gas scenario, strategically KG basin gas. You have seen today's headline, Reliance is now getting tough with Government on gas pricing. We are waiting and watching, but we would certainly be very interested in immediate action if we have clarity on gas pricing and policy. Policy is again something where the government is making some noises about, you know, supporting new capacity in urea. We are hoping and as soon as that comes we will be ready to take off. We have our plans ready anyway.

Rajesh: And apart from gas price, can you give us some idea what kind of gas price you comfortable with and second what other issues are there.

Khusrokhani: It is not so much; the gas is today a pass through cost, so we are indifferent. It is basically a three-way thing with the government who will need to agree with the gas price which Reliance gives, it is reasonable and they are prepared for reimbursement on that basis, so it is not as though gas in itself is an issue for us. It has got to have the agreement of the government and then only Reliance will be prepared to supply, so it is a three-way thing.

Ghose: Just to add to that: you talked of being prepared for this if the Fertiliser capacity goes up in India, you know, we are de-bottlenecking our present capacity at Babrala, to close to 1.2 millions ton and Babrala in fact, is on the HBJ pipeline. It had infrastructure prepared for doubling its capacity, so it will not be very difficult for us in case an opportunity comes and gas prices are tied up.

Rajesh: The issue is this: If the government says they are allowed to put up new capacity and I will buy at import parity so that the problem then is the gas prices say \$6 then the import parity price, your cost may be higher than the import parity price in a few years from now because urea prices are now at all time highs and at that point they may fall.

Khusrokhhan: You are actually expressing exactly those doubts which the industry has today shown. Unless the government comes out with a clear policy this thing will not be workable, so we have to wait and watch. Everyone is waiting and watching at the moment and trying to put pressure on the Government now to come out with something concrete. The Government has realized that they have to encourage domestic production otherwise they will keep importing and requirements are going up. Last year they imported 5 million tons of urea and they will have to import some more if the situation is not brought under control quickly. But nothing has come in print, so it'll be very difficult to offer any clarity at this point of time. Everyone has got the same issues. Everyone is facing the same uncertainties and we will see. The encouraging thing is that obviously the Government and Industry are now realizing that things have to change, so some change of policy should be imminent that is how we feel.

Rajesh: Sir, last question from me. Despite the fact that you are in a supply constraint environment, you have made a lot of effort to build your brand especially in areas close to the plants. Is there any opportunity for you to do that in the rest of the country, so that when liberalization does come you will be in a better position to gain market share?

Khusrokhhan: Even if I was, I could not say it today. Lets leave it at that.

Rajesh: Okay, thank you.

Moderator: Thank you for your question sir. We have a next question from Dhaval Doshi of Aviva Life Insurance. Please go ahead Mr. Doshi.

Doshi: Hello sir. Congratulations on the good set of numbers.

Khusrokhhan: Thank you.

Doshi: Sir, a couple of questions, first regarding Brunner Mond. Looking at the volume numbers for Brunner Mond and the Sales Value, we find that the sales have grown up by 6.7% in terms of value, whereas the volumes have grown by 7.8%. Why is it that despite such good pricing, the sales value growth is lower than the volume growth?

Khusrokhhan: If there is some long-term contract, we would be tied up supplying at those prices. Everything is not on a spot basis. The price increases which are taking place now over the last 3 or 4 months would be, as I said, between \$230 to \$240 (spot) so obviously you will not get the full advantage of the \$230 - \$240 because you got contract tied out and with BM Europe most of the contracts are of a longer period. You

will only realize the benefit only when you go back to these customers and seek price increases later on.

Doshi: Sir, secondly one more question on Brunner Mond itself. If we are to look at the operating margins of Brunner Mond per se, Q1FY07 it was 11.2, Q2007 was 17.5, Q3 was 15.8, Q4FY2007 was 19, and Q1FY2008 is 15.9, it is not consistent as there are quite a few ups and down in the margins, so what could be the possible reason for the same sir?

Khusrokhan: No, right from the time that we acquired Brunner Mond, we have always envisaged that EBITDA margins from Brunner Mond would be in the region of 14% to 18%. It will vary depending on the product that is coming in for instance if there is larger product mix is coming in from Kenya then the margins will go up and so obviously this year because of what we had projected earlier the margins did not come to the extent that we expected because the second plant in Kenya has not started functioning.

Secondly, you will see the variations in Europe, and particularly because of long term contracts for Europe. So what will happen is you will see some changes, but you know normally it will be in the region of, as I mentioned, between 14% and 18% that is the sort of range.

Doshi: Okay. Sir, secondly could you give me the volume numbers for IMACID?

Ghose: IMACID manufactured 97,700 tonnes in the quarter out of which Tata Chemicals imported around 42,000 tonnes.

Doshi: Sir, maybe, if you could tell me the tax rate of Brunner Mond as well as Imacid?

Ghose: Brunner Mond Europe does not have any tax because they have got accumulated tax losses. Kenya has tax, roughly around the same region as India at about 35% is the tax rate there, but because there are substantial changes in interest and depreciation post the commissioning of the new plant, they may not be required to pay tax and if you recall in the last con-call, last quarter, we had also mentioned to you that there is a likelihood that the Kenya Government will give some tax benefit to the new plant for this company.

Doshi: Okay.

Ghose: Those are under discussion and will be in the form of investment deduction, which is similar to what we used to have as investment allowance. So it is expected that in future the tax from Kenya also will not be there for at least 3 or 4 years. But Brunner Mond does not pay any tax in Europe.

Doshi: Okay. Sir, but till the time you do not get that allowance deduction, would it be fair to assume that Q1 tax rate for Brunner Mond would continue for the full year.

Ghose: Only the Kenya portion would be taxable and hopefully this should not be because from this year onwards we are expected to get that investment deduction but I cannot commit with certainty because this was something which the Kenyan Government has offered and they have to finally accept that claim.

Doshi: Okay, thank you very much sir.

Moderator: Thank you very much Mr. Doshi for your question. We have a next question from Mr. Lokender of Kotak Securities. Please go ahead sir.

Lokender: Good morning to the management. Most of my questions have been answered but I'd just like to know some details, as I was reading about the new initiatives which you are taking firstly in the fresh produce and the alternative fuel space. What sort of opportunity space are you looking at and where do we potentially see these businesses' for Tata Chemicals, say, over the next 2 or 3 years, if you could throw some light on that, please?

Khusrokhani: These are really businesses which we are testing today, which get the benefit of 2% to 3%. As far as bio fuel is concerned between ethanol and diesel, ethanol is an easier task and when making it start, we are getting the first plant up and running in 18 months, this would be in Maharashtra.

The fresh produce, we start with two centres, as I said one in Punjab and one in West Bengal. Once this is complete we will have better clarity on the next two which we are planning already. Those will probably be one in Andhra Pradesh and one could be in probably in Jharkhand, those are the next two.

Early days to give you numbers at this stage. Maybe in another couple of quarters we will be able to give you some exponents how the business are shaping, but 3 to 5 years from now both could be like 1,000 crore businesses.

Lokender: For soda ash, what sort of volume growth guidelines in terms of demand and supply that would be coming from your side can we expect for the coming years or coming quarter?

Khusrokhani: In India the demand is going at around 4% to 5%, which is a very healthy rate of growth and it is driven more by the glass industry, detergents has always been around 3%-3.5%. The glass is not driving demand growth, so we would be expecting growth in that region.

Lokender: Okay. Can you assume the prices will remain stable at this level?

Khusrokhani: I think for the next 1 or 2 years it is firm prices. I do not see any risk of a drop in prices. No significant large capacity is coming up. Demand is looking pretty and healthy and as I said China is quiet at the moment.

Lokender: So, overall 5% volume growth in the existing business as for soda ash. Is that what you are looking for?

Khusrokhani: Yes, I would say that is a reasonable estimate of demand.

Lokender: And going on to the fertiliser business, what sort of benefits can we see from shifting to gas in terms of cost efficiency?

Khusrokhani: We have already been using gas predominantly. Our main benefit comes from debottlenecking and if the government policy is favorable we could even double our capacity at Babrala and look for further options in India. It all depends on how the policy shapes over the next few months.

Lokender: What sort of price levels are you comfortable with? Can we get sense of the correct price that you are buying at?

Khusrokhan: It is a price controlled industry. We are dependent on Government subsidies. It really depends on what the Government does with the farm gate price which has not moved for a long-time. It is unlikely to move significantly before the elections but later the government will have to take the hard call of changing the end price of fertiliser to the farmer.

Lokender: Okay sir, fine that is all from our side. Thanks a lot and congratulations on the good numbers.

Moderator: Thank you sir for your questions. We have our next question from Mr. Ashuthosh of B&K securities. Please go ahead sir.

Ghanshyam: Hi sir this is Ghanshyam.

Khusrokhan: Hi Ghanshyam.

Ghanshyam: Sir, on the urea side, we are talking about re-rating of the capacity for Tata Chemicals. What would that be like?

Khusrokhan: It is debottlenecking. We are actually expanding the plant now.

Ghanshyam: Not the debottlenecking. The government formed the calculation of the subsidy and there are talks of re-rating. Earlier the re-rated the capacity was 8, 64,000 right sir?

Khusrokhan: That is all done. Last October, we already submitted the capacities of all the plants. Now there is no further rerating till the next study which is done usually about 3 years later.

Ghanshyam: Sir, we saw exports grew by 56%. Why was that emphasis on export when we could have cut down our exports and served the more lucrative markets and the domestic market?

Khusrokhan: It is valuable to keep some of your overseas customers also supplied particularly in times of shortages because in the long-term you need that dependable customer base.

Ghanshyam: As you mentioned about the accumulated losses in the UK operations what is the quantum of it?

Ghose: 33 million pounds.

Ghanshyam: How much would have been contributed in the last year?

Khusrokhan: Nothing. This was all prior to the last year. In the last year we made profits. Even 2006 & 2005, I think there were only marginal losses. It was almost break-even before we took over. These are estimated losses of previous year.

Ghanshyam: Sir, with Brunner Mond we have a very high tax rate last year which is about 42% so without at least one of the units would have been losses?

Ghanshyam: Sir Brunner Mond has the taxable on 45 crore and had a profit of 108 crore

Khusrokhan: The power and operating costs at Netherlands are significantly higher as a result of which that facility is reporting a slight loss.

Ghanshyam: Thanks a lot sir.

Moderator: Thank you very much for your question sir. Next in queue is Mr. Rohan Gupta of Emkay Shares. Please go ahead Mr. Gupta.

Gupta: Good morning sir. Sir, there are a couple of things, on both the fronts, Fertilisers and Chemicals that I want to ask. I will start from Fertilisers, as you mentioned that you have the entire infrastructure inbuilt to double the capacity at Babrala plant. Sir, in that plant you will only need to set up another plant and then you can start processing and selling the Fertilisers. Is this right?

Khusrokhan: What we did was when we designed Babrala; the plot was designed for two identical plants. So, at any stage, you can always double the capacity. Today what we are doing is debottlenecking, so in the existing plant we are taking the capacity up by 25%, but the second expansion could be like a replica plant put up at the same site and that is what we meant.

Gupta: So, after debottlenecking we will have a capacity around 1.2 million tonnes right sir?

Khusrokhan: Overall little higher depending on what you are actually achieving today.

Gupta: So you have the entire infrastructure to handle somewhere around 2.5 million tonnes at the Babrala plant?

Khusrokhan: Yes we can easily; the site is capable of going up to that level

Gupta: In that case, you become the largest urea plant anywhere in the country?

Khusrokhan: Yes, it will be good. I suppose though that other people must be also thinking of similar expansions

Gupta: My worry is that there will be so much concentration in one level and even when our distribution is still capped by the government, I mean 50% distribution we have to do according to government policies, so it is going to affect our overall freight cost and all those things, our margins?

Khusrokhan: Nobody has committed to it just now. It all depends on the policy and how the government encourages production to come up. So, I am just saying it is an option available to us, because if we take that option or not it will depend very much on the policy. So we have to really wait till the policy comes down.

Gupta: Can you just throw some light that which policy will; I mean just drive this expansion to go on?

Khusrokhan: See, as of now the government is only committed on the debottlenecking and they covered and NPS-3. After you reach 110% of your rated capacity; you get the full realisation. So, there will no readjustment prices after that level. So that encourages us to debottleneck. We are hoping that the price is linked it to IPP or marked down a little from IPP.

Gupta: Okay, in the current financial year you mentioned that re-rated capacity as per NPS-3 is somewhere around 860,000. If it goes up to 1.2 million tonnes after expansion will there be any further re-rating?

Khusrokhan: As I said it is usually done every three years.

Gupta: Okay, our expansion is likely to be completed in the next 16 months?

Khusrokhan: By October next year, October 2008 we will have the higher capacity.

Gupta: Up to about 2008, right sir. So, in that kind of scenario, once we will be making somewhere around 1.2 million tones on a capacity of 8.6 lakh tones, roughly we will be operating in 135% capacity utilization, is it so? Basically, anything above 110%, if you are entitled to all the benefits, right?

Khusrokhan: Yes that is right.

Gupta: So in that kind of scenario the additional somewhere around 2 lakh tonnes which we are going to have after this modernisation is it going to add significantly as bottom line?

Khusrokhan: You are absolutely right, our focus are going for debottlenecking. It is pretty major up side for us now.

Gupta: Sir in that kind of measure just can you share how our profitability will be calculated and all our subsidies will be calculated?

Khusrokhan: I cannot calculate the figures for you. You can just say that it is a favourable development and certainly there would be an upside, but it is pretty far away, still. I talked about October 2008.

Gupta: October 2008 is not far away sir.

Khusrokhan: Ok, I will explain to you how to calculate. You have the current urea prices.

Gupta: Yes sir.

Khusrokhan: And you have got the farm-gate prices. You know what subsidy you are getting.

Gupta: Right.

Khusrokhani: Every year the Government comes in and puts new norms for cost so that we cannot predict for you today.

Gupta: Right sir, so where they calculate basically is in the fixed cost right?

Khusrokhani: Yes so what will happen is when we are producing 100% of capacity, we will get a certain amount of profitability, which you know what it is today.

Gupta: Right.

Khusrokhani: Now in the future, after October, the first 10% will be shared.

Gupta: Right.

Khusrokhani: And balance about 25% will be at the full rate, which is up to 100%. So you can make your own calculations and see that at 100% we are getting certain profitability from urea. For the next 10%, we will get 35% of the contribution and beyond that we will get the full contribution again. So, based on current cost, whatever has been decided today, you can predict what it is subject to some changes, which the government will bring in the next three year when they review the entire thing after 3 years.

Gupta: Sir, anything above the 110% which we get, it is linked to IPP.

Khusrokhani: Yeah, it is linked to IPP.

Gupta: So, in that case suppose IPP prices are Rs. 12,000 per ton, our cost of production is 8000 rupees per ton. Are we going to get 4000 rupees per ton additional?

Khusrokhani: Basically, you will get your full subsidy. There is no watering down the subsidy above 110%, so whatever you are getting today the full subsidy will come to you. Only the first 10% they will adopt a 65-35 formula. Look at it that way.

Gupta: Right sir, definitely.

Moderator: Thank you Sir. We have our next questions from Mr. Atul Rastogi of UBS. Please go ahead Mr. Rastogi.

Atul: Good morning Sir, just one question on soda ash. You were planning some expansion in the Mithapur plant, what is the status of that?

Khusrokhani: It is a 2-year project where are, like Babrala, be debottlenecking and modernizing Mithapur and we are hoping to take our capacity up to 1.2 million from the current roughly 0.9 million.

Atul: Okay, any other expansion there in terms of soda-bi-carbonate?

Khusrokhani: Cement will go up in sympathy like you know if more material comes out of the soda ash plant, cement will have a corresponding increase. As for Sodium Bicarbonate, we are looking at possible expansions linked to our global bicarbonate project, which we are doing along with Brunner Mond. For Brunner Mond bicarbonate is a very huge strength. So a global focus would be taken and if we can support from India

depending on freight rate, we will also produce some extra quantities out of India, but in India the bicarbonate market has not evolved as it is in the west.

Atul: And what will be CAPEX for this in the next 2 years?

Khusrokhani: Mithapur will be about Rs 300 crore. The cement will go up to about 640,000 to 2.6 million ton. Salt will go up too. I cannot give you the exact figure, but may be from the current 450,000 to may be 550,000 and soda ash will go up to about 1.2 million.

Atul: Okay. Thank you very much.

Moderator: We have our next question from Mr. Dhawal Doshi of Aviva Life Insurance. Please go ahead Mr. Doshi.

Doshi: Hello Sir.

Khusrokhani: Yes Dhawal.

Doshi: Sir sometime in the last year, there were some problems with the limestone mining, because of which, we started getting some imported limestone from Rajasthan. Is that problem resolved or are you still mining or still importing?

Khusrokhani: It is more or less resolved and that is okay. Wherever we need the additional material we would take it from the other mines, but as of now the situation is fairly stable.

We are taking more from the Rajasthan mines now. Yields from Oman limestone are very good. At the moment the Oman imports are restricted though, and we are mainly sourcing from Rajasthan.

Doshi: Okay. The capital mining is not yet started in a full fledged way, would take some time?

Khusrokhani: We have decided not to do capital mining just now.

Doshi: Okay. And secondly sir, there is some fall in the soda ash production during the year

Khusrokhani: There were some power shortages but not significant.

Doshi: Thank you very much Sir.

Moderator: Thank you very much for your question Sir. We have our last question from Mr. Venkatesh of Corporate Data Base. Please go ahead Sir.

Venkatesh: Good morning Sir.

Khusrokhani: Yes Venkatesh.

Venkatesh: I just want to understand what is this adjustment that has been effected in the consolidated balance sheet for FY2006 by Rs 223 crore?

Ghose: This is reflected in the sundry creditors this year.

Venkatesh: The forex gain which has affected us to the extent of 38 crores, is that included in the Profit & Loss results?

Ghose: Yes. It is accounted as per the accounting standard which has to be routed through Profit and Loss account.

Moderator: Thank you very much Mr. Venkatesh for your question. As there are no more questions I would now like to hand over the conference to Mr. Ashwani Agarwalla. Please go ahead Sir.

Ashwani Agarwalla: Sir are our long term soda ash contracts rupee or dollar denominated?

Khusrokhan: International sales are dollar denominated while domestic are in rupees.

Ashwani Agarwalla: Sir, could we have any impact on forex swing?

Khusrokhan: Yeah there could be, but as I mentioned we have forex protection. We have hedged all these exports.

Ashwani Agarwalla: Okay and sir, is this lower production a result of additional capacity commissioned by one of the competitors at last year and because of which we may a lot the market share to them.

Ghose: No that is that not the case. As we said, we had some production interruption because of power outages.

Ashwani Agarwalla: Right sir, but if you see the export, has gone down by 56% which means that you know, as you all know that down stream market is much more profitable than the export market, especially the rate at you know rupee has appreciated against the dollar it would have been more profitable than to sell higher volume in the domestic market.

Khusrokhan: See, what happens normally is that they are long-term commitments to certain major customers and you have to keep those customers even though sometimes the domestic price may be higher than the international prices. Okay, so it helps you in the long term.

Ashwani Agarwalla: Okay, so we are not putting any loss of market share domestically in the last 2 to 3 quarters, sir.

Khusrokhan: Well market share is basically based on the quantum of production, so if you have a drop in production, our market share is seen to deteriorate, but it is only a function of straight production.

Khusrokhan: But you would see that our market production comes up again.

Ashwani Agarwalla: Secondly sir, what is the problem with the new plant in Kenya?

Ghose: There have been two break-downs, one in the power plant and one in the refractory again, so it is being attended to. Both solutions are being put in place this month, so we will have some production coming shortly, But as I said it will not be a complete commissioning as the way we were saying full production capacity in day one, but gradually over a period of time we will build up.

Ashwani Agarwalla: But this quarter, we will not get any additional volumes from the new plant basically?

Khusrokhan: We will get some towards the end of the quarter

Ashwani Agarwalla: Okay, and sir what would be the average realization in Europe?

Khusrokhan: I think we are looking to a pretty stable second quarter more or less in line with the first quarter. We are not seeing any sort of major variations in prices.

Ashwani Agarwalla: And sir, as you said the breakup of full year in India, would be 30% - short-term and 70% - long-term, how would be the case for Europe and Kenya?

Ghose: In Europe a large proportion of the contracts are long term while in the case of Kenya it is more equally distributed.

Ashwani Agarwalla: And typically when you do this are they yearly contract, sir what is sir normally, you know, the time of the year when they come up for annual basically?

Ghose: Long term contracts with BMGL, Europe and Magadi are of calendar year duration while in India they are mostly for the financial year.

Ashwani Agarwalla: Okay. And sir, you mentioned that you are dealing with some specific initiative in Europe and Kenya to reduce the high power and fuel cost, so could you just give some update on this.

Ghose: Yes we are actually. We are implementing a STEP program there which is based on what we have done in India with McKinsey on the Manthan and Udaan program. So a similar program is on at the moment there where they have estimated that over a three year period they would save 20 million pounds in cost. How much of that is actually realised, we will have to wait and see, but I think during this financial year itself they have made some plan for reduction in cost.

Ashwani Agarwalla: And sir, finally, can you provide an update on the Haldia CAPEX in terms of switching over power to a cheaper source?

Khusrokhan: Yes, we are already doing, actually power cost in Haldia have come substantially because we have shifted to West Bengal State Electricity Board and as when the other power unit come up there - for instance Tata Power is also coming up there - we may be sourcing from them, this will bring down the cost further.

The second project is on gypsum. It is an 18 month project and will be starting now about in a month or two.

Ashwani Agarwalla: Sir, what is the capital for the budget.

Khusrokhan: The capital is about Rs 30 crore.

Ashwani Agarwalla: Okay, 30 crore, sir you have entered into a contract with a Gujarat State firm for procurement of Jatropha and cost of consorting in our region?

Khusrokhan: At the moment, we are trying to match the current cost, which seems possible with Jatropha, but what we are finding is the yields today from Jatropha are very variable and we are doing trials in 5 Agroclimatic regions at the moment in order to stabilize and say which is the best yield crop variety and the best agricultural region in which to try it. Jatropha even grows in wasteland and therefore we have to sort of find out which is the best place it can be grown.

Ashwani Agarwalla: Okay, sir, can you throw some light on the costing biodiesel for ethanol.

Khusrokhan : Again, you know we are basing it off the current prices, so whatever is the end up price today, which oil companies are paying for ethanol is our target cost, we have to match that.

Ashwani Agarwalla: Okay sir. Sir, one more question on phosphoric acid pricing issue of this year, I mean, last year it has been international prices, any clarity on this year's policy regarding phosphoric acid reimbursement of the subsidies?

Khusrokhan: The starting price is about \$105 up compared to last year, at \$566. As of today, internationally, the prices are even higher, a bit closer to almost \$590. So we will have to see now for the next 2 to 3 quarters. As of now, first quarter is at \$566.25 or whatever the price agrees for all domestic manufacturers taken together. As it is consortium buying, the government blesses the final price that the consortium arrives at.

Ashwani Agarwalla: Okay, and regarding additional freight reimbursement, I mean, revision of primary and secondary freight. Any development on that front sir?

Khusrokhan : No, it is still pending with the government, they claim that they will help us, but so far nothing concrete. There is a meeting which is taking place, I think, tomorrow. But they have not settled anything yet. Over the next two to three days there are some meetings going on in Delhi.

Ashwani Agarwalla: What would be the incremental gain if it happens?

Khusrokhan: It is difficult to say at this stage. First let it come through.

Ashwani Agarwalla: Sir, thank you for your comments. Thank you all for joining the conference call and to the management of the Tata Chemicals, Mr. Khusrokhan and Mr. Ghose for being on the call.

Moderator: Thank you ladies and gentleman. That concludes your conference for today. You may please disconnect your lines now, thank you and have a great day.