



TATA CHEMICALS LIMITED

Tata Chemicals Q1 FY2009 Earnings Conference Call

Moderator: Ladies and gentlemen good afternoon and welcome to the Tata Chemicals Q1FY09 earnings concall hosted by Emkay Global Financial Services Limited. For the duration of the presentation, all participants will be in the listen only mode after which we will have a question and answer session. Please note that this conference is being recorded. I would now like to hand the floor over to Mr. Rohan Gupta from Emkay Global Financial Services Limited to take the call forward. Thank you and over to you, Mr. Gupta.

Rohan Gupta: Thank you Melissa. On behalf of Emkay Global Financial Services I welcome all participants who have joined us for this call. Also, special thanks to the management of Tata Chemicals for being with us on this conference call. I would like to request Mr. Homi Khusrokhhan, the Managing Director to give us a brief overview of this quarter's performance which can be followed by the question and answer session.

Homi Khusrokhhan: Thank you Rohan. I have with me, from the Tata Chemicals Senior Management Team, Mr. P K Ghose, our CFO and the two business heads Mr. R. Mukundan who heads the Global Chemicals Business and Mr. Kapil Mehan who heads the Fertiliser Business which we now call the Crop Nutrition Business.

I will now share with you some perspectives of our operating performance during the last quarter and then Mr. Ghose will take you through some financial details. After that we will be happy to respond to your queries.

Overall I think our performance has been excellent during this quarter. Many of last year's problems are now behind us and we believe that the outlook for the year is good. We have strong demand from our two main businesses. Good rainfall and good agricultural outlook has had a positive impact on fertiliser demand. The new fertiliser policy will also help. It will encourage efficiency within the fertiliser industry and we, as Tata Chemicals, are well poised to take advantage of that. It is a good start of the year and I think we have a good chance of maintaining this momentum throughout the year. At the same time the world economic environment is turbulent and we have to express a certain note of caution about how things may shape on the global front.

Let me start with the Global soda ash business, demand has continued to be strong and prices have remained high. Indian prices have been inline with global levels and we feel that this trend will continue over the medium term. This is also the first quarter where we have in our performance the operations of General Chemicals as a 100% subsidiary of Tata Chemicals, and that again has created a good chunk of additional business for us. You will see the benefits of that coming through in this quarter results.

Tata Chemicals has maintained leadership position in the domestic market and our overall domestic markets share is now 32%. Our Mithapur factory has seen very healthy levels of production during this quarter and domestic sales have improved considerably year-on-year. Domestic demand under all our user segments, detergent, glass, and chemicals has been strong throughout the quarter and although US glass sales declined marginally, because of the slowdown in the US market, this quantity has been easily mopped up by other developing countries in the world, particularly in Latin America. In Europe we have seen growth in the container glass segment and that is also very encouraging.

General Chemicals' performance has been excellent and although you are seeing it for the first time, there has been a substantial improvement over their performance in the corresponding quarter of last year. They reached record production levels and have performed extremely efficiently. Brunner Mond Netherlands has taken a mid contract price increase to combat the growing pressures of LG cost in Europe and therefore is showing a better results than it did in last year's first quarter. Our new Briskarb plant in UK is on schedule and will be commissioned on schedule. There is the sharp upturn in the cost of HFO fuel oil used in the pure ash facility at Magadi, and that has impacted operations but performance has stabilized quite well on the pure ash plant. Our old standard ash plant at Magadi is operating at full capacity. Overall sales and productions at Magadi have been better than the corresponding quarter last year.

In our consumer product business Tata Salt continues on a strong leadership position. Our overall market shares are now over 53% taking the two brands Tata Salt and I-Shakti together. We have taken a price increase of Re.1 on one kilo pack because of the rise in packing and freight cost.

In the fertiliser business our income is improved due to strengthening demand and higher prices. Globally fertiliser prices have risen quite considerably. The new fertiliser policy for phosphates and potash is also very encouraging and we believe that this is going to encourage greater efficiency in the fertiliser industries, this is the first time the government has moved away from a cost plus pricing formula to market-related import priority pricing and we think that is very healthy signs for the industry and it should be improve the health of the industry going forward.

Our Babrala debottlenecking project is also progressing smoothly.

In the new businesses, the 30 kilolitres a day bioethanol plant construction is on schedule and it should come on stream in the third quarter of this year. For the Khet-Se Business, our first distribution center in Malerkotla as we said in the last conference is operational.

IMACID has given its maiden dividend this year. The company is now debt free, cash positive and doing far better than it has ever done in the past. To wrap up the operational review I think it is been a very satisfying and good performance and we are happy to report these results to you. We think that all the problems of last year now behind us and we look forward to a really good year this year. Now I am handing over to Mr. Ghose to give you some insides on the financial performance.

PK Ghose: Thank you Homi. I would now share with you some key details of our financial performance for the quarter on the review.

Our consolidated revenues were at Rs. 2,192 crore, up 94% as compared to the corresponding quarter of the last year. While consol operating profit was at Rs. 505 crore up 96% from Q1FY08, profit before exceptional items and tax was up 110% at Rs. 352 crore. This amount includes IMACID's maiden dividend of Rs. 23 crore. Consolidated PAT amounted to Rs. 107 crore translating to a basic and diluted EPS of 4.57. The standalone Tata Chemicals numbers also showed strong growth. Revenues were at Rs. 1,207 crore up 80% from the corresponding quarter of last year. Profit from operations at Rs.270 crore was higher by 57% and profit before exceptional items and tax up 54% at Rs. 258 crore. Profit after tax at Rs. 59 crore translated to a basic and diluted EPS of 2.51. Margins for both chemicals and fertiliser businesses have shown improvement mainly due to a healthy demand and good production. This quarter we have shown a notional loss of Rs. 128.87 crore due to unrealized exchange loss under Accounting Standard 11 on restatement of foreign currency borrowings including ECB raise to fund the purchase of GCIP. This when compared with the unrealized gain of Rs.28.59 crore in Q1FY08, these have downward impact of almost 157 crore to this quarter's bottom line. As you already know, and I have communicated this in considerable detail earlier, a loss or gain in this regard is a non-cash accrual. Also the repayment period for the ECB commences only in 2012. Keeping these in mind and the fact that the borrowing was done at extremely fine rates and that GCIP's earnings are also in US dollars, we believe that it is not necessary to hedge this borrowing and incur a further charge.

In conclusion I would like to say that this has been an excellent financial performance and we look forward to sustaining this momentum. We will now be happy to respond to your queries. Thank you.

Moderator: Ladies and gentlemen we will now begin the question and answer session. At this time if you would like to ask a question please press "*" and "1" on your touch tone phone. If you decide you want to withdraw your question from the questioning queue, please press "*"and then "2" to remove your self from the queue. Please note that in order to ensure that the management is able to answer all the question from the participants in the conference, please limit your questions to one for participants. Our first question comes from Atul Rasotgi of UBS. Please go ahead.

Atul Rasotgi: If I look at your standalone numbers - your fertilisers profit has jumped up quite significantly. So, what would be the primary reason for that?

Homi Khusrokhani: I think we have to -first of all- caution that the improvement that you are seeing in the first quarter will not be sustainable over the rest of the year. This is the first quarter where we have the two benefits - one is lower prices of procurement of raw materials in the last quarter of the last year and the seasonality where we actually produce quantities in the last quarter but actually sell in this quarter, so we have received double benefit.

You will see improvement in fertiliser profitability compared to last year because of the new policy and the linkage to import parity pricing, but the sort of improvement you have seen in the first quarter is certainly not sustainable and I would not like to extrapolate on this.

Atul Rasotgi: The seasonality factor was present in the first quarter of last year too wasn't it?

Homi Khusrokhani: For this year the prices have moved quite considerably quarter-to-quarter both in raw materials and finished products terms.

Atul Rasotgi: In terms of profitability it does not change things for you because your costs are pass-through, right?

Kapil Mehan: No, there is a change this year because we sold more. Our urea production has been very good and we had more sales because we did not take any shutdown during this quarter. That is one reason for the increase in our profits and the second is that the new phosphate policy has been announced and as per the new policy now there is an import parity price regime which gave us a benefit because between the Q4 of last year and Q1 of this year, there is a substantial increase in the international prices of phosphates. And that has partly benefited us in this quarter - while you are seeing a jump in absolute profit but the margin improvement is not that significant.

Atul Rasotgi: Okay, thank you sir.

Moderator: The next question is from Ms. Swati Vishwasrao of NVS brokerage. Please go ahead.

Swati Vishwasrao: Sir, I just needed to ask you two questions. First question is what are the upcoming Capex plans?

P.K Ghose: For the Indian operations it would be just above Rs. 200 crore coming up for our Babrala debottlenecking facility. We also have about Rs. 50 crore for our Bio-fuel business which is coming in Nanded. Another Rs. 50 crore is allocated for setting up of the Central Prayon Process at our Haldia plant. And although it is not finalized, Mithapur capital expansion would be about Rs. 200 crore over the next two or three years.

Swati Vishwasrao: Okay and sir, how would these Capex plans will be funded?

PK Ghose: We should be able to internally generate the funds needed for this Capex.

Swati Vishwasrao: Okay sir, one more thing what is the proportion of contribution of cement to these results?

PK Ghose: The contribution from cement was 14.5 crore.

Moderator: Thank you Ms. Vishwasrao. The next question is from Mr. Prashant Poddar of ICICI Prudential. Please go ahead.

Prashant Poddar: Does IMACID have any captive rock phosphate?

Homi Khusrokhani: It gets its requirements from the mother company OCP, who are also a partner, one-third partner in the joint venture.

Prashant Poddar: At the market price?

Homi Khusrokhani: Yes. At arm's length market prices which are charged to all other manufacturers in Morocco.

Prashant Poddar: And if we were to annualize the quarterly production what would be the capacity of IMACID roughly?

Homi Khusrokhani: It has been up and down because there have been sulphur shortages and it is not producing to full capacity just now. I think roughly our total capacity is 420,000 tons.

Prashant Poddar: What were the price increases taken in the last quarter by the different soda ash companies that you have?

R Mukundan: You will see the impact of the increase as far as General Chemicals is concerned only the last quarter of the current year. Some contracts may open up during the quarter ending December 2008 but most of it will come in quarter ending March 2009. As far as UK is concerned you will see impact of price increases coming through in the quarter ending September. As far as India is concerned I think we will see the price increase impact coming through in the quarter ended September. But I just want to caution that recent price increases may not translate into contribution increases because some of it will be eaten away by the cost price increases in the input energy and fuel cost. What we certainly can state is that we do not see any erosion of margin.

Prashant Poddar: Is Netherlands EBITDA positive?

R Mukundan: Netherlands is as of now EBITDA negative but we expect going forward in the next three quarters it will be EBITDA neutral.

Prashant Poddar: Okay, that should be all sir. Thank you very much.

Moderator: Thank you Mr. Poddar. The next question is from Mr Anindya Banerjee of IL&FS. Please go ahead.

Anindya Banerjee: The IPP for DAP is currently close to Rs. 60,000 a ton right?

Kapil Mehan: The current price is below Rs. 60,000 per ton. In the previous quarter the price was around Rs. 50,000 to Rs. 53,000 per ton on import parity price basis.

Anindya Banerjee: And sir one more question. You already have a gas linkage in your Babrala plant. Is there any plan of gas linkage happening at the Haldia plant over the next foreseeable future?

Kapil Mehan: The Haldia plant does not need any gas linkage. It needs raw material like phosphoric acid and ammonia to make muriate of potash and to make DAP as well as NPK fertiliser. For that we have long term arrangements - for example phosphate & phosphoric acid we get from our own joint venture in Morocco. For ammonia we have a long term contract with MITCO which is a Petronas company in Malaysia and for potash we have a long term tie up with Canpotex, which is the largest exporter of potash out of Canada.

Anindya Banerjee: Yes, that's all. Thanks a lot.

Moderator: Thank you Mr. Banerjee. The next question is from Mr. Bharat Subramaniam from Sundaram BNP Paribas. Please go ahead.

Bharat Subramaniam: What were the traded fertiliser revenue for the quarter?

PK Ghose: Our traded volumes would account for Rs. 94 crore.

Bharat Subramaniam: In terms of the overall complex fertilisers capacity utilisation where are we today and what kind of volume ramp up is possible given that you have policy parity coming in?

Kapil Mehan: So far we had not looked at any debottlenecking opportunity. Now once the policy stabilizes we will be examining and re-evaluating the options.

Bharat Subramaniam: Coming to inorganic chemicals - which are the specific points where you said we might see some cost pressures?

R Mukundan: Netherlands and UK have cost pressures coming from energy cost (that is steam and power) which is coming through because of increase in gas, coal and coke prices. The new natural soda ash plant in Kenya is getting impacted by the HFO price increases. The reason GCIP is not impacted that much is because they have a regime of energy surcharge in their pricing cost so they are able to pass through most of the price changes back to the markets.

Bharat Subramaniam: Okay sir thank you.

Moderator: Thank you Mr. Subramaniam. The next question is from Mr Abhijit Attavar of ABN Amro. Please go ahead.

Abhijit Attavar: Just want to touch upon the increase in the profitability of the fertilisers side. Could you help us quantify how much of that has come from DAP increase in margins and looking ahead into the second half or even the second quarter what kind of pressure are you seeing from the rock

phosphate suppliers and what kind of trend should be assumed for DAP margins or IMACID profitability for the second half?

Homi Khusrokhani: Abhijit the first question I do not think I can answer because we do not have the complete breakdowns of cost on every single product but I think as far as the future is concerned, as I said earlier also, these margins which you are seeing in the first quarter may not be sustainable. Manufacturers will be expecting higher prices for their raw material. So it is a very much of question of negotiation and I think as we have said in other publications also that you know it will depend on India's ability to get the right raw material prices now. So, it is going to be a market situation. The main benefit of the policy is that the efficient companies like ours will certainly be able to perform to international prices and not have this old cost plus return formula system. So, I think at this point of time difficult to quantify either of your two questions.

Abhijit Attavar: Fine and another question would be the increase in pricing in the Dutch plant of Euro 45 per ton. Would that flow to the entire production volumes in the Dutch plant and would you expect similar price increases for Kenya as well?

R Mukundan: Sorry, I think we would not be very specific on this because I do not want anybody extrapolating that 45 crore for our entire volume. This 45 Euro increase is being done specifically only for the Dutch operations because we have taken a decision we will not run any unit at a negative EBITDA number. So, if customers want to pick materials from the Dutch plant they have to pay a price.

Abhijit Attavar: Okay and what about Kenya, would you expect to increase some prices in Kenya to bring those operations under profit as well?

R Mukundan: Kenya we are working on various series of steps. Especially I think the problem there is no longer its production the problem there is more related to cost structure of HFO which we have highlighted and we are going to come up with solutions which enable us to work on that, both in the short-term as well as in the long-term.

Abhijit Attavar: Okay, could you update us on the capacity utilization of the new pure ash plant and how you see that ramping up in the second half?

R Mukundan: The plant capacity is about 350,000 ton. We reckon we will end the year with about somewhere around 60% to 70% which is about 210 or 200,000 tons of productions through the pure ash plant.

Abhijit Attavar: Okay, so you see no changes in that target.

Homi Khusrokhani: No, but the standard ash plant is operating at 100%-110% of capacity so that keeps us a pretty well stocked for the Magadi.

Abhijit Attavar: Thank you very much.

Homi Khusrokhani: Okay.

Moderator: Thank you Mr. Attavar. The next question is from Mr Danesh Bharucha of ING Investment Management. Please go ahead.

Danesh Bharucha: We are struggling to get a number on the increase the change in the quality what kind of delta on the EBITDA it has, if you could share that number with us as it will benefit for all of us to get an idea of what kind of number it could be on the overall full year basis?

Homi Khusrokhani: No, as I said in the start, if you look at only one quarter it will be misleading going forward, so I prefer not to give you separate figures only for this quarter. It is a changing situation. It's a new situation the fertiliser policy is improving for every one generally today. But at the same time obviously the suppliers of raw materials will also be looking at India and saying it's a big market. They will want better prices, so it's going to depend on how we are able to actually effectively tie up our raw material requirement.

Kapil Mehan: I think you need to see the huge value increase in terms of the top line because it has gone up from Rs.16 - 17,000 per ton last year to over Rs. 50,000 per ton now and you know while you may see the increase in absolute numbers but in percentage terms the numbers would remain under pressure.

Danesh Bharucha: Okay, some of us may be happy with the absolute growth on the net profit so we are just trying to understand it. My second question is on the debt on the balance sheet. What is the consolidated debt on the balance sheet now which is reflection of the total acquisition cost?

PK Ghose: The consolidated debt was in the region of Rs 4,800 crore.

Danesh Bharucha: This quarter's interest cost would be reflection of the total debt positions on the books?

PK Ghose: Yes.

Danesh Bharucha: Thank you.

Moderator: Thank you Mr. Bharucha. The next question is from Mr Vishal Biraia of Maximus Capital. Please go ahead.

Vishal Biraia: Sir, congratulations on a good set of numbers. What I wanted to know was since now your phosphate and NPK fertilisers are linked to IPP prices, you have significant room to increase your profit. So, it may not be a reflection of the first quarter but the mechanism is now being changed.

Kapil Mehan: Fertilisers never had 18% assured rate of return on net worth. It was always based on 12%. The cost plus pricing as you would appreciate never really acknowledged the efficiency of good tight operations and I think going forward that is what we believe is going to benefit companies like Tata Chemicals.

Vishal Biraia: Sir, if you are able to source raw material at competitive prices, it would significantly enhance the value for the share holders and everybody else, right?

Kapil Mehan: Yeah that is quite obvious but then it is a big if.

Homi Khushrokhani: As I said you need another couple of quarters to really see the sustainable long-term benefit of the fertiliser business.

P K Ghose: Can I just clarify this? Let's look at it from the point of view where the input materials were taken in the first quarter or earlier at much cheaper rate. Post this the import parity pricing has come in, so you have got some gains. But these gains are not sustainable in the long run - for instance let me tell you Q1 has been good, Q2 may be good or better, but going forward it will taper off, so you cannot extrapolate whatever we have achieved in Q1 or may achieve in Q2 to the entire year.

Vishal Biraia: Yeah, sir when you procure your raw materials for the NPK what kind of inventory do you plan to keep normally keep?

Kapil Mehan: We normally keep 30 to 40 days inventory in stock and then there is some stock which is always in transit because they have long deep periods and our contracts are for different durations. There are all kind of combinations in those pricings.

Vishal Biraia: Sir, IMACID caters to what kind of capacity, what kind of your requirement?

Homi Khusrokhani: IMACID can meet about 75% to 80% of our requirement and the balance is met by OCP, our other joint venture partner. OCP is the largest supplier of phosphoric acid in the world.

PK Ghose: So it meets the 270 tons of phosphoric acid every year to Haldia .

Kapil Mehan: So, our entire requirement of Halida is met from Morocco.

Vishal Biraia: Okay, so when you purchase from IMACID, is it a assured supplier contract with the price revision clause or how is it? Could you elaborate a little?

Kapil Mehan: It is an assured supply contract and the prices are under arms length basis and you know they are reflective of what the market at a point of time is.

Vishal Biraia: And sir the prices would be revised every quarter, every month or how would it be?

Kapil Mehan: I cannot get into those minor details.

Vishal Biraia: Okay, no problem sir. Sir, just one last question. Sir, how does the Government determine the IPP. Is it on actual basis like when it lands on the Indian ports?

Kapil Mehan: It is based on landed prices during a particular month or the previous month's internationally reported prices in select trade journals, which have been specified in the policy.

Vishal Biraia: Okay, sir so for the coming month, like for August do you have an idea of what would be the IOP prices that will be considered by the government?

Kapil Mehan: Well we still have to wait for the actual arrival. We have some faint idea of that but it would be unfair to share that number because we do not know how finally those averages will be calculated. It is supposed to be a weighted average price of landed imports into India or the reported prices of previous quarter as per international trade magazines.

Vishal Biraia: Okay sir, thank you very much sir.

Moderator: Thank you Mr. Biraia. The next question is from Ms. Gauri Anand of HDFC Securities, please go ahead.

Gauri Anand: Congratulations on the good set of numbers sir. I have two questions. How are the contracts for rock and sulphur? Are they on a quarterly basis?

Kapil Mehan: Rock is based on a market price basis and it is at arms length arrangement between IMACID and OCP (which is the mining company of the Moroccan Government). The price charged to us is the same as price charged to every other joint venture in Morocco.

Gauri Anand: Right and for Sulphur.

Kapil Mehan: OCP is the biggest buyer of sulphur and they do contracts for supply of sulphur out of Russia, out of Middle East, out of Canada etc. and whatever is the average sourcing price of the entire OCP Group and its joint ventures that price is applicable to us also.

Gauri Anand: But are the contracts re-priced every quarter?

Kapil Mehan: There are different types of contracts, some are quarterly, some are annual, and some are biannual.

Gauri Anand: Okay, would it be fair to assume that this quarter the spreads have widened for IMACID?

Kapil Mehan: Yeah, they have .

Gauri Anand: Okay, so what is the outlook going forward?

Kapil Mehan: I think, we will see a bit of lowering of those spreads because sulphur prices are still rising, international phosphate prices are also rising and rock phosphate prices are also moving up. I think the pace of increase in those prices is much more than the pace of increase in the international DAP prices.

Gauri Anand: How much of GCIP sales would be in spot, if at all if there is any?

Kapil Mehan: Minimal.

Gauri Anand: Okay, and what could have been the interest outgo in GCIP this quarter?

R Mukundan: Going forward interest outgo in GCIP will be in a band of Rs 35 to 40 odd crore.

Gauri Anand: Okay sir, thank you.

Moderator: Thank you Ms. Anand. The next question is from Mr. Rushabh Sheth of Karma Capital, please go ahead.

Rushabh Sheth: Sir I just wanted to ask you what is the feeling on urea policy - what kind of an impact do you see both on the investments and from your end as Tata Chemicals from the urea front?

Kapil Mehan: There has been dialogue with the government on linking additional urea production or additional capacities of urea with international prices of urea and that again I think would do well for companies which are efficient producers and can do re-vamps or debottlenecks or do further expansions depending on how the gas availability situation in the country pans out.

Rushabh Sheth: And what is your feeling on the gas availability over the next 6 to 12 months?

Kapil Mehan: See we do not know exactly when the Reliance gas will start flowing in to the system but the latest press reports do indicate that it is likely to be sometime in October. The gas utilization policy has been finalized by the government where the fertiliser industry has been given an overriding priority and that should benefit us but so far no commercial arrangements have been concluded.

Rushabh Sheth: Thanks a lot.

Moderator: The next question is from Mr. Miten Lathia of HDFC Mutual Fund. Please go ahead.

Miten Lathia: Good morning sir. For the Babrala debottlenecking do we have an indication of what the gas price will be?

Kapil Mehan:Not yet.

Miten Lathia: Is the volume tied up?

Kapil Mehan: As I mentioned in my response to the earlier question, the volumes have been indicated by various arms of the government whether it is the Ministry of Petroleum or Ministry of Fertilisers. There is a gas utilization policy in place, we are very hopeful that once the Reliance Gas starts flowing in, the priority which has been approved for the fertilisers factor will become a reality and we will have the commercial arrangement before that. So far though, commercial arrangements have been tied up.

Miten Lathia: Do we expect that may be for a quarter or the debottleneck capacity might lie unutilized for availability of feedstock?

Kapil Mehan: We do not foresee that because we are expecting the debottlenecking to be complete by end of this year and by that time hopefully the Reliance Gas would be flowing in and in absence of that there are alternate sources of LNG or PMT gas or even Naphtha which we will use. So, we will try and run the plant as soon as the debottlenecking is complete.

Miten Lathia: Okay, thank you very much for it sir.

Moderator: Thank you Mr. Lathia. The next question is from Mr. Atul Rastogi of UBS. Please go ahead.

Atul Rasotgi: I just have follow up of question. For GCIP can this kind of profitability can be extrapolated?

PK Ghose: Mr. Mukundan mentioned I think the interest cost will be slightly higher going forward because right now we are on a bridge loan, so it will be at least Rs 35 to 40 crore per quarter.

Atul Rasotgi: Okay and earlier you mentioned the IMACID paid dividend of 23 crore, so it included in the...

PK Ghose: Other income.

Atul Rasotgi: And that is your share of the total pie that is 33% of the total profit that IMACID made right?

Atul Rasotgi: Okay, thank you sir.

Moderator: Our next question is from Mr. Dhaval Doshi of Aviva Life Insurance. Please go ahead.

Dhaval Doshi: Sir, congratulations on a good set of numbers. Sir, my question is in a bit of a broader sense for the soda ash market. In your release you mentioned that there is some supply easing from China and demand slowing down from US. Overall going forward, how do you see this scenario panning out because this rise in the soda ash prices was largely on account of the demand growth as well as supply tightening from China. So, its been more or less two years since the supply tightening has been there. When do you expect the new capacities to come up and how do you see the overall impact on the prices?

R Mukundan: I think for the next three quarters the demand supply equation will be tight. We will see a bit of softness coming in as we enter the beginning of next year. And whether it leads to any kind of price impact in various markets depends on two elements, how the freight market is vis-à-vis Chinese market and second is the movement of the Chinese Yuan versus the US Dollar.

Dhaval Doshi: So, you at least say that there will be some demand supply easing of from the next year onwards.

R Mukundan: We expect a bit of a softening for about 24 months before it tightens up again. So, we believe there is a temporary blip which is going to come and then it tightens up again and that

blip may not be seen in the market place or may be seen in the market place. That entirely depends on the inventory build up which is likely to happen. One of the things we monitor is the inventory in the entire industry. It has completely tightened up in the last one year, where it is almost disappeared. There has been minimal pipeline inventory. So the first thing which is going to happen as supply eases or demand slows down a bit is inventory build up will happen. Our view is that inventory build up is going to continue to happen for the next 24 months before it starts tighten again and there will be a cut back on inventory.

Dhaval Doshi: Sir one last question, on once again the fertiliser segment. Sir, last year we kept our trading volumes much lower because we were not able to generate returns due to the policy. How would the things pan out this year sir, would we see a significant jump in the trading volumes because the policy would favour us?

Kapil Mehan: I do not think the policy has much change as far as traded fertilisers are concerned and margins will remain under pressure but you will see a jump in the value because of the substantial increase in prices.

Dhaval Doshi: Okay, so the quantum jump is because of the prices not the volumes?

Kapil Mehan: Yeah, that is right.

Dhaval Doshi: Okay, thank you very much sir.

Moderator: Thank you Mr. Doshi. The next question is from Mr. Hanshual Sehgal of Kotak Securities. Please go ahead.

Hanshual Sehgal: Good morning. I would like to know how will the subsidy be paid in bonds or cash in the new policy?

Kapil Mehan: As of now the Government has paid cash and promise that they will continue to pay in cash but some bond payments can be expected.

Hanshual Sehgal: And when will this be? In the latter half of the year?

Kapil Mehan: We do not know yet because the budgetary provision which was there will get exhausted sometime in the next month and we have the parliament session coming up where the supplementary grants numbers would be put up for the Parliament's approval. That is when we will know how much cash and how much bonds are being provided.

Hanshual Sehgal: On the Sulphur nutrient subsidy - how much of that has impacted you this time?

Kapil Mehan: That has a marginal impact on us because we have single super phosphate in our portfolio and you know if you recall because of last year's policy we had stopped production of single super phosphate which has now been resumed and our plant is running at full capacity.

Hanshual Sehgal: Has this been resumed because of the policy.

Kapil Mehan: Yes.

Hanshual Sehgal: So, will going forward the impact be significant?

Kapil Mehan: It would be very positive but not very significant in the overall context.

Hanshual Sehgal: There has been a 30% increase in sales volumes of fertilisers both urea and DAP. While the revenues have gone up by about 2.7 times, the incremental is about 1.7 times. Now the increase while some of it can be explain by IMACID, the remaining will largely the because of increase in realizations. Right?

Kapil Mehan: Yeah, that is right.

Hanshual Sehgal: So, even after that the increase is to the extent of 2x. Is my calculation correct in this?

Kapil Mehan: Yeah, you are right because going forward you will see even a higher increase in the top line because of substantial increase in the prices as well as in our nitrogen fertilisers also you will see an increase in the value because of substantial use of naphtha to maintain our production level. We expect this to continue for another maybe two months and that again pushes up the realization without having much impact on the bottom line.

Hanshual Sehgal: This is in use because of unavailability of gas?

Kapil Mehan: That is right.

Hanshual Sehgal: One final question. In your standalone fertiliser revenue you have Rs. 748 crore as revenue while our consolidated is about Rs. 932 crore. Is the additional explained by trading revenues or is there some other part revenue?

Kapil Mehan: No. if consolidated that it will be inclusive of IMACID, after netting of whatever intra-unit transfers are there.

Hanshual Sehgal: All right. Thank you.

Moderator: The last question is from Mr. Shekhar Singh of Goldman Sachs. Please go ahead.

Shekhar Singh: Yes, sir just want to know like you just now mentioned that soda ash prices will be dependent upon two things, freight versus energy cost and Chinese currency versus the US Dollar. Can you just explain how the correlation works?

R Mukundan: No, I was really giving a forward view actually. We know market prices as they exist, if you look at the marginal supplies that are coming into Asia they are all Chinese material. If the Chinese currency revalues upwards the dollar realization continues to move on. That is one issue which needs to be watched - which way the Chinese currency is going to move - because if one

assumes that there is a constant margin in business then effectively Chinese revaluation has a positive impact on non-Chinese producers. If China devalues then it is a negative impact - so that is clearly one element of pricing going forward in addition to demand supply and inventory build-up. Second one is that if there is substantial proportion of our business which is now traded. It also is natural and competes with synthetic ash which is energy intensive. So there is a place between energy intensity and freight intensity which one needs to watch out for in terms of saying how the margin structure will impact some of the operations including the operation of Kenya and US.

Moderator: Thank you Mr. Singh. Ladies and gentlemen that is the last question of the day. I would now like to hand the floor back to Mr. Rohan Gupta, please go ahead.

Rohan Gupta Thanks a lot Melissa. Sir just a couple of questions from my side please?

Homi Khusrokhan: Sure, please ask your questions.

Rohan Gupta: How much of the production of IMACID is utilized in Indian operations?

Homi Khusrokhan: It has only been set up for the India operation so all the production is shared between Chambal and ourselves.

Rohan Gupta: Okay, and it is almost 80% of your total requirement?

Homi Khusrokhan: Ys, roughly.

Rohan Gupta: Earlier also we were getting all our requirements from IMACID itself?

Homi Khusrokhan: Yes, ever since we started the arrangement.

Rohan Gupta: There has been a sharp increase in revenues from IMACID from this quarter, while the phosphoric acid prices have been moving up from last four to five quarters...

Homi Khusrokhan: Remember, that last year's price for phosphoric acid was USD 566.25 per ton, and for the first quarter of this year it is USD 1985 per ton. That is the magnitude of the increase.

Rohan Gupta: So, this \$2000 is what prices are right now, it is not for the whole year?

Homi Khusrokhan: We do not know where the prices going to reach. The way prices are moving today in fertilisers you have to be cautious about these estimates. The ballpark prices are likely to remain in the region of USD 2000 but just to give you the example that you cannot extrapolate on the basis of one quarter in this market today.

Rohan Gupta: And sir one question on the chemicals segment, you mentioned that in the Indian operations we have almost 60% long-term contract and 40% spot right.

R Mukundan: That is correct. Also let me clarify one more thing. When I said this spot increase impact in India will be seen from this quarter - in terms of impact on the contract there are contracts

which are annual, there are contracts which are half-yearly and there are contracts which are quarterly. So there will be a varied proportion of these.

Rohan Gupta: Well sir, that answers both my questions. I like to thank you for giving us the time. I'd just like to request you to give us your final remarks.

Homi Khusrokhan: I would just like to repeat that it has been an extremely good quarter for us and the year is looking positive at this point of time. The only question I have is today its very volatile environment globally and we will have to continuously track this during the year. We have had some one time benefits on the fertilisers side as I said because of seasonality and change of pricing system. We have to be cautious about the extrapolation of those numbers going forward. But overall it has been an excellent quarter and we feel quite excited about the rest of t he year.

Rohan Gupta: Thanks a lot sir. Now on behalf of Emkay Global Financial Services, I would like to thank all the participants who logged in for the call - special thanks to the management also for giving us their precious time. Thanks a lot sir.

Homi Khusrokhan: Thank you.

Moderator: Thank you Mr.Gupta. Ladies and gentlemen on behalf of Emkay Global Financial Services Limited that concludes this afternoon's conference call. Thank you for joining us. You may now disconnect.