

Transcript of TATA CHEMICALS Q2FY2005 RESULTS CONCALL

Moderator: Good evening Ladies and Gentlemen. Welcome to the post Q2 results conference call of Tata Chemicals Limited, hosted by Motilal Oswal Securities Limited. We have with us today Mr. Atul Rastogi, analyst Motilal Oswal Securities Limited. At this moment, all participants are in 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 head Mr. Rastogi.

Atul Rastogi: Thanks Priyanka and good afternoon to all of you. Welcome to the second quarter conference call of Tata Chemicals Limited. We have with us, Mr. Prasad Menon, Managing Director, Tata Chemicals and Mr. P. K. Ghose, Chief Financial Officer. I now request Mr. Prasad Menon to give an overview of the results, which will be followed by Q and A. Over to you Mr. Menon.

Prasad Menon: Thank you Atul, good afternoon everyone and welcome to this conference call. Let me briefly discuss the development and nature of our businesses. I will begin with Chemicals first.

We continue to be the leaders in the soda ash business and although we had a small decline in sale on a corresponding quarter basis, mainly due to the transport strikes, which lasted for almost 28 days at our Mithapur facility. But this will be made up in the subsequent quarters. The capacity utilization levels continue to be high at over 87%. In terms of the input costs, the challenge continues with the prices of coke and coal continuing to firm up. I must add, however, that alterations in the input mixes have contributed considerably to reducing our operating cost. These initiatives have contributed significantly to the healthy improvement in our operating margins.

In the food additive business, Tata Chemicals continues to be the leader with Tata Salt's market share at 40.5% in the quarter. We have started introducing Tata Salt 100gm pouches in some of our markets as they received an encouraging response at both the dealer as well as the consumer level and so also Samundra Crystal Salt and Samundra Cooking Soda. And now Samunder Cooking Soda is available in most of the major markets in the country.

STPP sales continue to be strong during the quarter and have experienced almost an 18% improvement over last year.

Our fertilizer business continues to perform steadily. The innovations of the first six months of the current fiscal have been healthy for urea. Sales volumes were lower on a corresponding quarter basis mainly because the market conditions were more favorable in the corresponding quarter last year, as also the sequentially preceding quarter. The DAP

and operations of the Haldia unit were impacted mainly because of the shortage of phosphoric acid and high prices of ammonia. This will impact our DAP operation, but the Government has rectified the negotiated price of phosphoric acid. However, ammonia prices continue to rule firm. Tata Chemicals continues to explore options of securing the supply of raw materials in an effort to desensitize the sale from abnormal price movement and secure from any fall in availability.

The environment can be challenging and competitive, but I am encouraged that in this scenario, we continue to enhance our operating margins and deliver value. I remain confident that the strength of our operations and the robustness of our business model will enable us to continue to do so, going forward as well. I will now request Mr. Ghose to share with you key financial highlights of the just completed financial quarter.

P. K. Ghose: Thank you, Mr. Menon. Good evening ladies and gentlemen. Thank you for joining us on this call. I may draw your attention to all comparisons of financial performances in the communications and financial results shared with you are between the merged entity in Q2 and H1 of FY2005 and the restated combined financials of the two companies in the corresponding period last year. The figures are hence, comparable.

As Mr. Menon discussed earlier our profits from operations has been influenced by high raw material prices and market conditions that are less favorable as compared to the corresponding period last year. However, despite these challenges I am happy to say that the numerous operations efficiency enhancing programs are delivering results and this is reflected in the improvement in operating margins from 18.2% in Q2 of the last financial year to 19.3% in Q2 of the current financial year. Tata Chemicals' pretax operating cash flow for the first six months of the ongoing fiscal amounted to Rs.252 crore and the Company's interest coverage ratio stood at an impressive 16.5.

Tata Chemicals' balance sheet continues to be robust as a result of financial restructuring initiatives undertaken earlier. Debt as on 30th September 2004 stood at Rs.659 crore and over 70% of the debt mainly comprises short-term buyers credit. It is available at far lower interest rates and it is mainly procured for our phosphatic business. If we exclude this, the debt would amount to Rs.193 crore translating to a considerable 69% reduction compared to last year. Interest payout too, as you would have noticed, is less than half the amount incurred in the corresponding quarter last year. The companies weighted average cost of borrowing with quarter under review has also declined to 4.6%. A healthy operating performance and a strong balance sheet provides us with sound growth platform, going forward. Thank you for your patience. Mr. Menon and I will now be happy to discuss any subject you have in mind.

Moderator: Thank you Sir. Ladies and gentleman, we will now begin the question-and-answer session. If you have a question please press '*1' on your push-button phone and wait your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by the '#' key. Our first question comes from Mr. Amit Dalal of Amit Nalin Securities. Please proceed with your question Mr. Dalal.

Amit Dalal: Good afternoon Mr. Menon and Mr. Ghose. Congratulations on the large free cash number which you have been able to produce under these conditions. I am quite heartened to hear that the balance sheet size now allows you to think of potential growth possibilities. Is there any global acquisitions strategy that we have in place? What are the market conditions for our products globally?

Prasad Menon: Okay, let me answer it this way, I think, after the consolidation certainly the next thing we will be looking at is growth. But we will be looking at is growth in terms of global competitiveness. So, we will look at possibilities of growing in businesses where we can be globally competitive, and I think one of the things that you would have seen in the newspapers is the interest that we have expressed in Bangladesh, where there is a possibility of our going ahead with the fertilizer plant. So it is this kind of growth that we will look at.

Amit Dalal: What is the present urea situation in terms of price and demand, which was extremely lucrative some time ago globally?

Prasad Menon: Well, in India certainly the demand with the recently concluded kharif season has been very high, sort of 7% improvement. Global prices of urea and DAP as well as MOP have hardened visibly, infact urea prices coming in to India, C&F are almost \$300 now, which just about a year and a half ago were ranging within about \$140-160.

Amit Dalal: So we are at a discount on landed cost by almost 50% that means.

Prasad Menon: Yes, I would not mind getting that \$300. And the DAP prices have gone up, now they are \$270-280, ammonium prices are \$300-320, but I think this is something that you are probably seeing across the scenario for all commodities.

Amit Dalal: Very true Sir, and for soda ash exports, we are in line with our targets?

Prasad Menon: All over the world soda ash has certainly been impacted by the increase in the input costs. There has been a lag in terms of the firming of the prices currently between \$140-145, but we do believe that this will harden further and over the next 3-4 months we will see certainly a tested dollar hardening.

Amit Dalal: So we may have higher exports this year than last year?

Prasad Menon: It will be more or less in the same region.

Amit Dalal: Okay, thank you very much.

Moderator: Thank you Mr. Dalal. Our next question comes from Mr. Deven Sangoi of Birla SunLife Mutual Fund. Please go head Mr. Sangoi.

Deven Sangoi: Good afternoon. I have one question, how do you see phosphatic fertilizer business and what kind of price revision has the Government given you post steep rising phosphoric prices?

Prasad Menon: As far as DAP demand is concerned, the demand is very strong and the availability of DAP worldwide is tightening and therefore we see prices continuing to remain firm. This is not only true for DAP, but also for the input raw materials like phosphoric acid as well as ammonia. Going forward, these prices continue to remain firm perhaps herewith.

For the phosphatic industry, in terms of demand, the prices will be pretty reasonable. It is really a question of the Government treatment of raw material cost that we have to look at and as far as ammonia is concerned, once the peaks and troughs are evened out, it should be okay. As far as phosphoric acid is concerned I think, it was good step this year that they recognized the full cost that was negotiated and that has been applied now. This probably gives a basis for the next year price negotiations as well.

Deven Sangoi: So you mean now the margins in DAP are better than what they were in the last two quarters?

Prasad Menon: Well, they are marginally better but certainly we would like to see some improvement.

Deven Sangoi: Regarding the demand side, you said for the rabi crop, the demand is looking very strong. How do you see the demand growth in the next half?

Prasad Menon: 5-7% that we saw in the Kharif will probably continue and most areas of the country are well placed on Rabi.

Deven Sangoi: Okay, as far as the soda ash business goes, you had mentioned about the competition and price going up but with the freight rates do you see less of imports coming in the country?

Prasad Menon: No, actually the imports have increased this year, and as I said earlier there has been a lag in firming up of the soda ash prices globally. Because of that lag, some increase has taken place of imports into India and I see an increase probably somewhere close to almost 170-200 thousands tons. But as I said, I do see further hardening of prices and that will continue in the next year.

Deven Sangoi: What about the global competition, especially Ansac?

Prasad Menon: Well, Ansac for instance this year is virtually running at a 100% capacity utilization. The demand has gone up both in North and South America. In China also the demand has also gone up and the availability of soda ash is not as freely available this year as it was last year. So, there is both tightening of price as well as availability.

Deven Sangoi: Going forward, if next year this situation prevails, would you improve margins in the soda ash business?

Prasad Menon: We will have to have a look at that based on how the prices harden.

Deven Sangoi: Okay, thank you very much.

Moderator: Thank you Mr. Sangoi. Our next question comes from Mr. Ambrish Mishra from KR Choksey Securities. Please go ahead Mr. Ambrish.

Ambrish Mishra: Only a few questions, one is, you said ammonia prices as well as the coal and coke prices are on the rise and is continuing to be on the higher side. Can you give a rough figure as to what was the increase in price during the quarter?

Prasad Menon: If you look at quarter-to-quarter, for coke it will be about 70-80% increase over the previous year, and ammonia will probably about 25-30%. But if you look further back, 18 months ago, ammonia prices have really gone up - doubled. Coal prices have also similarly gone up about 50-60%.

Ambrish Mishra: So this rise, which you have mentioned, is on a year-on-year basis, right?

Prasad Menon: That's right.

Ambrish Mishra: This quarter compared to last year quarter. Second thing is, the other income shows around 27 crore, can you elaborate on that?

P. K. Ghose: Sure, it comprises of dividend from our Group companies and dividend from our mutual fund as well as the gain from sale of our shares.

Ambrish Mishra: Can you give details about that?

P. K. Ghose: Dividends coming from Group companies and out of from sale of mutual funds would be around 22 crores and we sold some Tata Telecom shares, which was roughly around 6.5 crores.

Moderator: Thank you Mr. Ambrish. Our next question comes from Mr. Anand Shah of Kotak Mutual Fund.

Anand Shah: My question again relates back to DAP, you said you are worried about the ammonia prices, are we saying that ammonia price hike is not getting compensated in the subsidy policy?

Anand Shah: No, what happens is that in the subsidy policy there is a lag of one quarter, so they take the average price of the previous quarter and applied it in the current quarter.

Now, if the price fluctuation of ammonia is such that it gives you a hit this quarter and then there is a problem and that is the issue.

Anand Shah: But once this stabilizes, you would be quite comfortable.

Prasad Menon: Once this stabilizes, it should be okay.

Anand Shah: The other question is that CCA is actually trying to work out new concession policies for NPK on the basis of international prices of DAP. What would this mean on the subsidies for DAP in the long-term?

Prasad Menon: It is little too early to say, although they have given a guideline, the details have not been worked out. They will work out some details over the next 2-3 months.

Anand Shah: Okay, and another thing, they have announced the subsidies, the final rates for the first quarter for indigenous, again the base rates of the subsequent quarter is lower than the first quarter, is it a norm?

Prasad Menon: The base rates have still not been finalized for the second quarter. They are in the process of been finalized.

Anand Shah: Okay, thanks a lot.

Moderator: Thank you Mr. Shah for your questions. Our next question comes from Mr. Ashwin Agarwal from Akash Ganga. Please go ahead Mr. Agarwal.

Ashwin Agarwal: Could you inform us about the status of the de-bottlenecking of the urea plant?

Prasad Menon: Yes, we have given our proposal to the Government about 5-6 months ago. They have been going through the entire proposal and examining it through various departments. But we still haven't got a final okay. So we will be in discussion with them and hopefully in the next month or so, we should get that cleared.

Ashwin Agarwal: And after getting the clearance, any capacity enhancement? Would you share some numbers on that?

Prasad Menon: We are looking at about a 25% capacity enhancement.

Ashwin Agarwal: Okay, and can you inform the impact of Stage II, that is the CRC charges for the quarter as well as for the half-year at the PBT level?

Prasad Menon: The Group price comes down by Rs.170 a ton.

Ashwin Agarwal: Okay, and what is the impact on the PBT, atleast for the urea business?

Prasad Menon: You can make it out; it is a straight drop of Rs.170, which we are trying to make up by our improved efficiencies.

Ashwin Agarwal: Also, you said the phosphoric acid prices have been slightly common, what are those prices and whether you have gone through the reimbursement till the quarter end?

Prasad Menon: As far as getting the reimbursement in the second quarter, as I mentioned earlier that has not yet been notified. But the price is \$402.75 per ton.

Ashwin Agarwal: Okay, thanks a lot Sir.

Moderator: Thank you Mr. Agarwal. Our next question comes from Mr. Rajesh Segal from Franklin Templeton. Please proceed with your question Sir.

Rajesh Segal: Congratulations on your good set of numbers. Can you elaborate on your capex plans going forward, for the next three years?

Prasad Menon: Well, if you look at the major capex, one is for the de-bottlenecking of our Babrala which is about 150 crore. We are also looking at modernizing our soda ash facility in Mithapur, which could take anything between 100-150 crore. Those are the major ones that we are looking at right now.

Rajesh Segal: And anything on your Bangladesh plant?

Prasad Menon: That's too early, we just signed an expression of interest that needs to be followed by due diligence over the next 6-8 months and only then we can be in a position to say how it is.

Rajesh Segal: All right, thanks so much.

Moderator: Thank you Mr. Segal. We have our next participant Mr. Krishna Kumar of Sundaram Mutual Fund. Please proceed with the question Sir.

Krishna Kumar: You told us about the availability problems in terms of phosphoric acid and ammonia, what are the steps that you have taken to ensure continuous supply of these, have you got any contracts?

Prasad Menon: Yes, we have got some contracts and certainly we are looking at various options on how we can securitize these supplies over the next 2-3 years. We are discussing with various suppliers and seeing how best we can get into an arrangement with them for the long-term. Those discussions are going on.

Krishna Kumar: Sir, would the strategy be to take some stake in some of these companies, which supply key raw materials to you, would you consider this?

Prasad Menon: That is the strategy that two of the Indian companies have taken, but that is something that we need to examine ourselves, right now it is too early to say.

Krishna Kumar: Okay, thank you sir.

Moderator: Thank you Mr. Krishna Kumar. We have our next participant Mr. Ashwin Agarwal of Akash Ganga. Please proceed Mr. Agarwal.

Ashwin Agarwal: Can you give the fuel mix for the urea business between natural gas and naphtha.

Prasad Menon: Right now we are doing with 65% natural gas and the remaining 35% is based on the availability of L&G and naphtha. So, out of the 35%, about 25-30 is on average naphtha, the rest is LNG.

Ashwin Agarwal: What are the prices of LNG, which you are procuring at?

Prasad Menon: At the moment we are doing at about \$5 or so. This is not a long-term contract the only fallback LNG.

Ashwin Agarwal: For long-term contracts the industry was in discussion. What is the stage of that discussion and at what price is the industry comfortable for long-term commitments?

Prasad Menon: We have said that we are comfortable with \$3.5, but there had been no conclusion yet.

Ashwin Agarwal: But doesn't that seem too low compared to the prevailing prices at least.

Prasad Menon: Yes it does, but I told you what we are comfortable with.

Ashwin Agarwal: Okay, thank you.

Moderator: Thank you Mr. Agarwal. Our next question comes from Mr. Ambrish Mishra of KR Choksey Securities. Please proceed with your question Sir.

Ambrish Mishra: Just one question on the market share that the Company holds for the first half, in case of soda ash.

Prasad Menon: It is above 30%.

Ambrish Mishra: You mean it has come down as compared to FY04.

Prasad Menon: It has come down a little bit for all the Indian companies because of the increase in import.

Moderator: Thank you Mr. Ambrish. We have our next participant Mr. Ranvir Singh from Capital Market. Please proceed with the question Mr. Singh.

Ranvir Singh: My question is related to the soda ash anti-dumping duty for China, how many of them continue or is there any proposal to continue it further?

Prasad Menon: Well there is a sunset review taking place right now.

Ranvir Singh: That means still this is in force.

Prasad Menon: That's right.

Ranvir Singh: Is there any other country?

Prasad Menon: For soda ash, no.

Ranvir Singh: For fuel options available like natural gas and L&G, I have seen some companies using lignite.

Prasad Menon: Are you talking about the fertilizers or soda ash?

Ranvir Singh: Soda ash.

Prasad Menon: For one or two boilers we do use lignite.

Ranvir Singh: And prices are different from that?

Prasad Menon: Yes, it is better than coal at the moment.

Ranvir Singh: So is it beneficial to use lignite instead of coal or is it a comparative advantage?

Prasad Menon: We get slightly lower heating value with lignite, and only two of our boilers can use lignite because the design of the boiler should be able to take lignite. So what we are doing is we are using a combination of lignite, coal as well as PET coke in varying proportion depending on the kind of boiler that we have.

Ranvir Singh: Is there any scope to increase the margin on that front by mixing lignite with coal?

Prasad Menon: That is exactly what we are doing now. During the first six months we have been trying to get the right optimum levels. We are now stabilizing that and the second half should see a very stable operation.

Ranvir Singh: Okay, thanks a lot.

Moderator: Thank you Mr. Singh. Ladies and gentleman to ask the question please '*1' on your push button phone.

Atul Rastogi: I have a question. You took the price increase in soda ash and salt, could you give us some details as to what was the price increase?

Prasad Menon: We took the price increase in soda ash about 6-7 months ago but roughly at an average of about Rs.4.50 and in salt we took 50 ps/kg in September.

Atul Rastogi: These two would account for the improvement in EBIT margin in your chemicals business?

Prasad Menon: In salt no, because we had just started that in September, but the 4.50 increase in soda ash certainly has helped us in the first six months. We have not been able to pass on all the increase of inputs, but this has certainly been done.

Atul Rastogi: How do you account for the improvement in margins?

Prasad Menon: As I said, it is a combination of the increase in prices as well our improvement in the fuel mix and the raw material mix per kilo.

Atul Rastogi: So you expect that at least for the next one or two quarters this trend should continue.

Prasad Menon: Yes, this trend should continue.

Moderator: Thank you Mr. Rastogi. Our next question comes from Mr. Ashwin Agarwal of Akash Ganga. Please go ahead Mr. Agarwal.

Ashwin Agarwal: The first half, in terms of profitability, has been flat for whatever reasons. Can we say that looking at the review you had given for each business and the change in the fuel mix plus efficiencies plus probably higher urea out put also getting the approval from the Government, that qualitatively second half should be better in terms of profitability?

Prasad Menon: I will only say this; qualitatively the second half should be good.

Ashwin Agarwal: Okay, thank you.

Moderator: Thank you Mr. Ambrish. There are no more questions. I would now like to hand over the conference to Mr. Atul. Rastogi. Please go ahead Mr. Rastogi.

Atul Rastogi: On behalf of Motilal Oswal Securities I would like to thank the management of Tata Chemicals, Mr. Menon, Mr. Ghose and all of you for attending this call.

Prasad Menon Thank you Atul.

P. K. Ghose: Thank you Atul.

Moderator: Ladies and Gentleman this concludes your conference for today. Thank you for your participation and for using TATA Indicom conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.