



## **TATA CHEMICALS LIMITED**

### **Transcript of Q2/H1 FY 2009 Conference call held on Oct 31, 2008**

**Moderator:** Ladies and gentlemen good morning and welcome to the Q2 and H1FY09 earnings conference call of Tata Chemicals. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should anyone need assistance during this conference call, please signal an operator by pressing \* then 0 on your touchtone phones. Please note that this conference is being recorded. I would now like to hand the conference over to Nitin Tandon of CDR India; thank you and over to you Nitin.

**Nitin Tandon:** Thanks Rochelle, welcome everyone and Happy New Year to all of you. Thank you for joining us on Tata Chemicals Q2 and H1 results conference call. We have with us today Mr. Homi R Khusrokhhan, Managing Director of the company, Mr. PK Ghose, CFO, Mr. R. Mukundan, Head of Global Chemicals Business and Mr. Kapil Mehan, Head of the Crop Nutrition Business. I now request Mr. Khusrokhhan to provide us with the highlights of the company's performance and following that we will have some remarks from Mr. Ghose and then we will open the floor for questions.

**Homi R. Khusrokhhan:** Allow me to share some overall perspectives about the operating performance during the quarter under review, following which Mr. Ghosh will share with you the financial details. Thereafter we will be happy to respond to your questions.

As we are all aware the business environment has been pretty volatile in this last quarter both globally and in India, but I am happy to report that Tata Chemicals has shown a robust performance and a very encouraging financial operating performance during this review period. This highlights two points, the first being the operating environment in the sectors we operate is still holding steady. Both our businesses have done well. And despite the commodity cycles we are seeing in other businesses our commodities are holding pretty steady at this point of time. Second and more importantly, we have been able to create a very strong global profile particularly in our chemicals business and that is certainly helping to deliver superior results in a hostile market and environment. As you would have seen from our results this quarter has been good for both our businesses. In the past we have generally found that one business supports the other, this is one of the rare half-year periods where both businesses have done extremely well. Not only our Indian businesses but even our global subsidiaries have all done extremely well.

Global soda ash demand has continued to be pretty stable despite the huge depression in demand taking place globally and prices are certainly firm as of now both in the US and the Europe. We have seen some flattening of demand in the US, not much in Europe. And the only concern we have today going forward is the surplus production from China which may put some pressure on prices in Asia and Africa, but there again we have had some falling costs, which will help to compensate and of course the Indian Rupee has fallen. So we have a natural hedge there.

I would like to repeat that our global presence is going to be particularly useful in this sort of environment where different markets will be under different pressures, there will be different

cycles in different market conditions. During the quarter under review Tata Chemicals maintained its leadership position in India, in domestic soda ash. Mithapur saw higher levels of production this quarter and domestic sales also improved considerably year-on-year. The current situation may result in some slowdown in the domestic market, but we have to prepare for this eventuality and any gradual or moderate reduction in demand of prices is not likely to have a significant impact on our operation.

Coming to our overseas subsidiaries, General Chemicals has performed extremely well again this quarter. And despite the US slowdown, there is a slight drop in demand in the US. Latin American markets moved extremely well and absorbed most of the excess supply, no real impact on GC's performance. Brunner Mond, Netherlands took a mid contract price increase in August to combat the growing pressures on energy cost in Europe. And I am happy to say that price increase was very well digested by most customers. Magadi, also took a price increase effective August and operation in the pure ash facility are continuing to improve. In the last quarter, our capacity utilization would have been around 60% but as we speak, it is nearing 70% to 80%. So it is continuing to improve. The old standard ash plant is of course working beautifully at full capacity right through. Production and sales of Magadi therefore is considerably better than it was in the corresponding period last year.

In our consumer products business, we had a brilliant performance from Tata Salt, which has taken the market leadership position, 42.5% in the market with iShakti coming to 13.5% market share. Today our composite market share in all branded packaged salts is close to 56%. Falling input prices, market linkages in some of our products, and timely disbursement of subsidies have certainly helped the fertilizer business. One of the positives which have recently happened is the new fertilizer policy which will encourage fresh investments to take place in this sector.

We have of course a concern about more subsidies coming in the form of bonds, going forward, but I think the industry is representing very hard against this. And hopefully there should be some rethinking by the government as well.

Talking about our debottlenecking project in Babrala: we were one of the first companies to take the plunge and decide to debottleneck well ahead of the policy announcement coming. That project is nearing completion and you will see additional production coming out of Babrala from the 1<sup>st</sup> Quarter of next year which is by 4<sup>th</sup> Quarter Jan-March quarter you will see additional production coming out of Babrala. We will be the first company in the fertilizer sector to have completed debottlenecking and it would be a very welcome thing from the government's point of view also because of the shortage in fertilizers in the country and the fact that we are still having to import fertilizers.

In biofuels, our business is on schedule. Our production plant is coming up at Nanded on schedule. And the 30 kilolitres a day plant will be commissioned in November or early December.

Overall our business operations around the world performed well during this quarter. I would sum up by saying that we remain cautiously optimistic about the next half of the year. I admit that the growth in these times is not going to come without challenges, I think the world is going through a very difficult phase, but I believe that TATA Chemicals is strong, is resilient, and has the ability to combat any challenges which come forward. I will now request Mr. Ghose to give you some perspectives on the financial performance.

**P K Ghose:** Thank you Homi. Consolidated revenues were at 6,853 Crores, up 139% from the first half of last year. Consolidated profit from operations is at 1,077 Crores, higher by a

150% and profit before exceptional items and tax was up 116% at 939 Crores. Profit after tax, was at 385 Crores translating to a basic and diluted EPS of 16.40 and 16.33 respectively.

The 2<sup>nd</sup> Quarter numbers also showed strong growth. Our consolidated revenues were at 4,661 Crores, up 169% as compared to the corresponding quarter of last year. Consolidated profit from operations was at 670 Crores, up 169% from Q2 of FY2008. Profit before exceptional items and tax was up 120% at 587 Crores. Consolidated PAT amounted to Rs.278 Crores translating to a basic and diluted EPS of 11.52 and 11.73 respectively.

Both the chemicals and fertilizer businesses have performed well during this period due to healthy realizations and good production volumes. Haldia achieved record production in the quarter under review. In this quarter, we reported a notional loss of Rs.179 Crores due to unrealized exchange loss under Accounting Standard 11 or on restatement of foreign currency borrowings including external commercial borrowings raised to fund the purchase of General Chemicals. When the 1<sup>st</sup> Quarter notional loss of 129 Crores is added, the total notional loss for the half year period comes to Rs.308 Crores. The loss or gain in this regard is a non-cash accrual. Further, the repayment period for this external commercial borrowing commences only in 2012 and this borrowing has been completed at a very competitive rates which are not LIBOR linked. The interest cost of Rs.27.08 Crores pertains to this ECB. The balance amount of \$350 million raised towards the acquisition of General Chemicals will be reflected on the balance sheet of General Chemicals and will therefore not have a P&L impact in our books. With regard to pension liability any provision for retirement benefits is made based upon the generally accepted accounting principles applicable in the country of incorporation. As such any actual gain or loss will be accounted for on an annual basis at the end of the year.

In conclusion I would like to say that this has been a good quarter. Given the global environment there will be challenges. I believe our business profile is strong and global and will withstand tough operating conditions. We will now be open to questions.

**Moderator:** Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Mr. Prashant Poddar of ICICI Prudential.

**Prashant Poddar:** You mentioned that the slowdown or the lesser demand from the US is being compensated by demands from Latin America. Who are you substituting in Latin America? Or is it a fresh demand which you are catering to?

**Homi R. Khusrokhhan:** Basically those are growing economies and most of our soda ash in that part of the world goes into the glass sector. Architectural glass, automotive glass is growing well in the developing countries and that is probably taking up the additional production which is not sold in the US at this point of time, due to the slowdown in the glass and architectural sector in the US, but the total magnitude of the shift is only about 6% -7%. So there hasn't been a huge depression in that sector, there is a slowdown but it is easily picked up in Latin America.

**Prashant Poddar:** So the slowdown, even in US is not that pronounced?

**Homi R. Khusrokhhan:** It is not affecting us. There is a slowdown in our sector, the demand has comedown marginally, it is less than 10%. The last count was about 7% reduction in demand and that is being picked up by Latin America.

**Prashant Poddar:** You have also mentioned about increased capacity or increased surplus in China which could hurt the demand. You mentioned that it will only hurt the prices in Asia and Africa, is this because of freight related issues?

**Homi R. Khusrokhani:** Usually the material from China affects the Southeast Asian markets and to some extent some part of Africa but not so much. It comes into India also but as I said you know we have a natural hedge at the moment with the falling Rupee. So it will have to be discounted quite heavily to come into India economically.

**Prashant Poddar:** Even after these freight rates which have collapsed these economics will hold?

**Homi R. Khusrokhani:** I think yes, there will be some material appearing in the Indian market, that's why I do not want to give you an impression that there is no threat or challenge there but it is a manageable challenge.

**Prashant Poddar:** And would the current level of prices in India be at par with that in US and Europe?

**Homi R. Khusrokhani:** I don't think there is a direct correlation in Indian prices. Mukund will share with you some perspective on the Indian prices and US, Europe prices how do they compare?

**R. Mukundan:** The prices in every market are defined by the local market conditions and the competing product can land out at a marginal cost. If you look at the Indian pricing, it is dictated by what we call as re-price of product on Import parity which means that at what price can import land up and we do all the pricing from there. So every country has a similar laddering depending from where the alternate material can land. Hence it is a combination of cost of production and delivery cost into those markets.

**Prashant Poddar:** Can you tell us roughly what the pricing in India is today?

**R. Mukundan:** I think the Indian prices are between USD 270 to USD 310 depending on their quantities, the customer and where the material is going, so there is a band within which it is.

**Prashant Poddar:** The fertilizer business has also seen a very smart jump in operating profits, can you break this up into what is the contribution of urea and what has the contribution of phosphatic been as well as complex fertilizers?

**Homi R. Khusrokhani:** We do not generally give it segment wise but I will ask Mr. Ghose to take the question.

**P K Ghose:** Realizations both in urea and phosphatic have gone up enormously, in the last quarter we had also given you information that quite a substantial chunk also has been due to inventory gain which will not get repeated in the latter part of the year, but profit from both urea and phosphatic businesses have been at a very high level during these first two quarters.

**Prashant Poddar:** And these levels are not going to sustain you?

**Homi R. Khusrokhani:** There will be some one time effect. You would recall the last time the change of policy took place we got a certain jump in the 1<sup>st</sup> Quarter.

**Prashant Poddar:** Is it particularly so for phosphatic?

**Homi R. Khusrokhani:** That was the time when the global prices of fertilizers were pretty high. And I had cautioned that raw material suppliers had also started charging higher prices because of the higher profits being made in India, now that has been mitigated by the drop in international prices of fertilizers and raw materials to some extent. To some extent we are protected against that risk which I talked about in the 1<sup>st</sup> Quarter but at the same time I think there will be some one time benefits you get in a rising markets which you do not get every time in the falling market. You have to sort of keep in mind that a little bit of caution and optimism is required when looking at projections going forward.

**P K Ghose:** You are right, this one time gain due to inventories was in the phosphatic segment.

**Moderator:** The next question is from the line of Bharat Subramaniam of Sundaram BNP Paribas.

**Bharat Subramaniam:** A question on the fertilizer business, if we were to look at the volumes for the quarter; we have had a record production in Haldia. So if we were to look at the utilizations would it be fair to assume that these kinds of utilizations would sustain for the full year?

**Homi R. Khusrokhani:** Urea is always working at full capacity. It is a continuous process plant, and we flog it to the maximum extent possible so there is no sort of variation season by season in urea. In case of the Haldia plant sometimes when there is a shortage of phosphoric acid we switch over to NPKs, Kapil can answer what the prospects are going forward.

**Kapil Mehan:** As far as urea is concerned we have currently taken a plant shutdown and we will be operating with our debottlenecked capacity in the 1<sup>st</sup> Quarter of Calendar 2009 which is January-March quarter and last quarter of this year. As far as phosphatic is concerned, the plant is now performing well and barring any unforeseen stoppage of raw material disruption or some port related issues etc which keep cropping up in Haldia from time to time, other than that I do not see any disruption happening. We must also recognize that we are now in the falling market price situation so in our effort to match the raw material purchases and production there could be small windows of disruption, but we do not expect anything major to happen out there.

**Bharat Subramaniam:** In terms of the Babrala expansion you said starting January we should have the expanded capacity up and running. So in terms of volumes post expansion how would they ramp up?

**Kapil Mehan:** Post expansion we hope to produce 3500 tons per day which on an annualized basis would translate anything between 11.55 lakh tons to about 12.05 lakh tons.

**Homi R. Khusrokhani:** You can safely assume about 20% to 25% increase once the plant is up and running next year.

**Bharat Subramaniam:** And is the gas sourcing for this firmly tied up at this point of time?

**Kapil Mehan:** Gas sourcing is linked to the gas allocation policy which the government has come out with and its implementation is still being awaited. We have been promised that gas will be made available, but as of now the only available gas is from Reliance and that gas

has not been tied up in a very contractual form by anyone in the industry because it is being at the Group of Ministers level.

**Moderator:** The next question is from the line of Mr. Abhijit Attavar of ABN Amro, Singapore.

**Abhijit Attavar:** IMACID profitability seems to have dropped quarter-on-quarter substantially so is there any one off there or this is more the reason of rock phosphate prices going up per IMACID?

**Homi R. Khusrokhani:** The two major inputs which affect the IMACID pricing is of course the rock price and the sulphur price. So when there are international revisions in the rock and sulphur you do get a swing in the IMACID profitability, but usually they average out by the year end. The rock price in any case is sort of tentative price through the year and then it's sort of closed out to the end of the year.

**Moderator:** The next question is from the line of Rohan Gupta of Emkay Global Financial Services.

**Rohan Gupta:** In the fertilizer business you mentioned that in the rising scenario your profitability from DAP and urea has been good, I think it will be yielding back, so when the scenario will reverse are we going to see that the profitability is going to get eroded and we are going to show losses?

**Homi R. Khusrokhani:** No, as I said you have to be little more cautious with the projections that you make on the basis of current results, certainly not going to get into a loss situation they have a huge insulation today because of the fertilizer policy and subsidies regime so you always get insulated very largely in input cost or the import prices, but you have to be careful with your purchasing and you cannot expect to hold and make a profit because prices are rising, you have to trim your purchase requirements to what is the immediate sale requirement and if you work cautiously there is no major risk.

**Rohan Gupta:** What I can see is that EBIT from fertilizer business on a standalone basis was only 329 crore in last year in FY2008. In first half we have already done EBIT of 520 crore. And the surprising thing is that our capital employed in the fertilizer business has also not increased. So can you explain the reasons for both of these and the reasons for no increase capital employed?

**Homi R. Khusrokhani:** We have been very tight with our working capital management and fortunately we have gone through a phase where subsidies have been coming quite quickly, due to possibly some, pressure from the industry, but government put in a special scheme giving us money from priority sector lending through State Bank. All that has helped and we have been able to keep our working capital under control despite the rising prices and cost of raw materials.

**Rohan Gupta:** On soda ash we were expected to revise our contract with GCIP from this January and you mentioned in the last conference call that negotiations generally happen in the month of September-October. So have you seen those negotiations happen and what is the average price which you can assume of CY2009?

**Homi R. Khusrokhani:** I would see firm prices going forward and most of contracts are now in place.

**Rohan Gupta:** What would be the average, because last time you mentioned that it would be close to \$30 to \$35 higher than CY2008, CY2008 average was close to \$185. So are we still holding that CY2009 average utilization will be higher by almost \$30 to \$35?

**Homi R. Khusrokhani:** Maybe not across the board but wherever there was a possibility of raising prices they have raised prices, pretty firm price outlook going forward.

**Rohan Gupta:** Is the increase in soda-ash prices in Kenya and Netherlands? In between we had taken price revision in the range of \$40 to \$50 so when the cost prices had already of coal, coke and even energy had come down. So are we going to see the price increases which we had taken in between or will you take it back?

**Homi R. Khusrokhani:** It is a dynamic situation. You cannot predict prices in today's market. We will wait and watch and we will see what the competition is and what is happening, we cannot give you a commitment of whether we are going to hold prices or drop prices tomorrow, it is a dynamic market situation and we have to wait and watch.

**Rohan Gupta:** On the urea business, regarding the debottlenecking which is likely to be completed next month: You said International urea prices have dropped close to \$360 so even in a current regime and with the new government policy we will be following an 85% of IPP. So will that be a profitable business for us? In terms of whatever is the additional production you will see through the debottlenecking.

**Homi R. Khusrokhani:** See already it is a very good proposition and that is why we went forward with this, anything we would have got from the new policy which is IPP linked would have been extra. So that may come down slightly but it is still going to be a very profitable project for us.

**Kapil Mehan:** With the gas available from Reliance from January, February, or March, Whenever it becomes available, even at the minimum price of \$250 it is a very attractive proposition at this point in time. So that would give you some idea about the underlying profitability of this debottlenecking.

**Moderator:** The next question is from the line of Amit Dalal of ANSEC Securities.

**Amit Dalal:** Congratulations on such a good set of numbers in such a bad environment. It is quite heartening to know that you all have confidence that the soda-ash prices will remain firm for at least the immediate future, given all that we have seen in commodities which were happening worldwide, do you think that it is a fair statement? The market obviously believes that that's not going to happen. What are the factors that you see around you that make you feel that the demand in prices will remain where they are for soda-ash?

**Homi R. Khusrokhani:** We cannot give you a crystal ball commitment that the prices are going to remain stable, we have a geographical spread of operations so we have different sets of considerations which affect different markets. When you look at a global business you cannot go by one particular country, one particular market, and one particular region. We now are a global business. We are fairly well-insulated because we have a global business. I cannot say it is going to happen like this tomorrow but with cautious optimism we hope that we will be able to sustain going forward.

**Amit Dalal:** I understand the problem of forecasting it, it is difficult to look at it on a Dollar to Dollar basis, but given the slowdown do you yet see sufficient demand from various markets of the world that you work in or do you see some situations where you feel that the next new

contracts that you have will perhaps not be of the same size because if you feel that that is not true then that is perfectly alright but I just need some focus on that.

**R. Mukundan:** On our call we were accused of not going spot, and so much on contract. Our policy has been to be on contract in Europe and be on contract in US and substantially be in contract in India and also be in contract in Magadi, Kenya. Since we play this game in a long-term manner you may not see us getting hurt very badly. You would tend to say that this company has missed the full upside but also this company is not going to get hit on the downside as sharply by people who would be on spot, that is one fundamental difference in our approach in contracting. The second key issue for us is not so much the price numbers, we also focus on what we call as margin number which is more important to us. And very clearly I think the allocations and the kind of movements we would make would try to keep the margin under tight control.

**Amit Dalal:** I am completely with you in keeping contracts as a policy for marketing. I don't think I have ever said that it should be on a spot basis, but I do believe that if you feel that the future contracts are going to be similar to what you have already seen I think that is very positive for the company.

**R. Mukundan:** I think we have seen a shrinkage in certain markets. Let me just emphasize that as far as the European market and the Latin American market is concerned there is no let up in the demand growth nor are we seeing any let up in the demand growth in the Asian market. There is softness of demand which is happening in the US markets because of the housing and credit crisis which is there in that market. So very clearly there is slowing down of growth but there is no fall in growth. In general the US market has negative growth whereas the markets in Asia are continuing to grow, Indian market would grow at about 6% instead of growing at 8%, China would grow at maybe 7% to 8% instead of 11%. So, these are the kind of realistic figures which we have.

**Amit Dalal:** Trade banking had got into trouble because of the various issues which are there in Europe and United States right now. And almost all manufacturers are finding it difficult to look at getting their trade banking requirements passed with banks. Is that something that you see improving or did you not have that problem at all?

**R. Mukundan:** We did not have that problem. I have not seen any issues of LC's getting honored.

**P K Ghose:** Actually at the peak when prices were very high there was a tussle to get limits, but we have managed to get all those limits and we do not have any problems now because now we are in a falling price scenario. The LCs were mainly on account of phosphatic fertilizers rather than anything else. We have got a huge increase in input cost there. Going forward with the falling price scenario I think we will be well within limits, there is not much of a problem. At one point of time when prices were peaking and everybody was wanting more and more credit lines, obviously there was a tussle with the banks but we managed to get through.

**R. Mukundan:** Just to address this soda-ash question. Pricing will be partly driven by input costs which have come down. We do maintain a policy of being reasonable in our pricing and margins numbers. And we do expect that even at maintenance of current margins a drop of something like \$20 to \$30 could be there in the marketplace going forward, but this will be in pockets, we see this drop happening in the Southeast Asian market more sharply and getting moderated as the distance from Southeast Asia keeps increasing. So as we move away from Southeast Asia it will be felt less and less so that is really our

understanding of the way we stand in the market. In terms of how sharp will be the impact on the bottom-line of the company, we don't want to make any projections of that and our view is that what has happened because of the slowdown in credit both for investment as well as for trade, export as well as expansion all across the world has been hit and the capacity which are going to come online are going to get more delayed and that itself is going to take away lot of material out of the demand supply equation which we had. Whether this current turmoil is positive for the business? Yes, I view it as extremely positive because it is going to stabilize the business in a positive direction.

**Amit Dalal:** Is the Kenyan facility now working satisfactorily?

**P K Ghose:** Yes it is now producing close to 70% capacity for the last month and in the last quarter it was close to about 60%. I'll just add one particular point with regard to long term contracts. The issue of long-term contract is going to help us in terms of pricing going forward even in 2009 when the prices come up for renewal from 1<sup>st</sup> January in both USA and Europe. Where one is not sure is the Chinese intervention which may come which may affect and may soften prices in Asia.

**Moderator:** The next question is from the line of Atul Rastogi of UBS.

**Atul Rastogi:** On Brunner Mond, Europe, we have seen a significant improvement this quarter, is it purely due to the price hike that you took in Netherlands or is there some other factor or so?

**Homi R. Khusrokhhan:** We have had some cost improvement programs as well which I have kicked in.

**P K Ghose:** It is the combination of both, you have got price increases in Brunner Mond, some of the prices have increased in Europe both in Netherlands and UK. And as you remember we have a Step program there which is in operation, which is something closer to the Manthan program which we had here which has given certain cost benefits so actually it is a combination of both.

**R. Mukundan:** Our facilities in India and in UK are extremely competitive even though they are synthetic, our standard ash plant in Kenya which is the old plant also is extremely cost competitive and, out of 5 million tons of capacity which we own, our issues have centered around Netherlands which is about 300,000 ton and pure ash plant of Kenya which is another 350,000. So it is about 12% of our capacity. What has happened in the last quarter in Netherlands is because of the price. Our decision not to supply below our cost and has brought that unit onto a breakeven level through price increases. So the customers have had to pay material for taking material out of that plant. And the second one is that as far as Kenyan pure ash plant is concerned it is a combination as Mr Ghose said with respect to higher production and also the falling oil prices because that plant was placed with HFO as a key material which is directly linked to crude oil which was impacting its profitability. With the falling crude oil the margins in the business has improved now.

**Atul Rastogi:** On the balance sheet, what will be the gross debt right now and net debt roughly?

**P K Ghose:** Current outstanding debt will be about Rs 5,440 crore.

**Atul Rastogi:** If I take \$850 million as a GCIP debt, there is 0 net debt apart from that?

**P K Ghose:** No in addition you still have about \$ 44 million of the foreign currency convertible bonds and a \$125 million of USPP so that is about a \$170 million, that is about all, and you have the usual debts in UK and Magadi.

**Atul Rastogi:** On the cost side you said there is cost pressure coming off. Now in GCIP, in terms of energy cost contracted out, will those costs come down significantly going forward or are they also on long-term contracts?

**R. Mukundan:** At GCIP we have maintained the last time too, that a substantial percentage of our input is on coal and which is on contract. So it was never impacted by the uptake in the energy, it is not going to give us any benefit with the reduction, but the balance 20% which was on natural gas, as the gas prices have come off their peak, it is going to benefit us but in the US, I had said in the last conference call we have what is known as energy surcharge on the contract. So these were passed through to customers, so as the prices fall the issue is going to be that we will get benefit but it will not come in the exact proportion. Substantial part of the fall is, due to the fact that energy cost is not going to be in the same proportion for us because we were completely protected as the energy cost were increasing, and hence when it comes down also we will not be impacted substantially.

**Atul Rastogi:** The margins will be maintained on a per ton basis?

**R. Mukundan:** Yes more or less.

**Moderator:** The next question is from the line of Durga Dutt of Goldman Sachs.

**Durga Dutt:** On the fertilizer business, what are the company's backup plans in terms of fuel linkage for your Urea Expansion Project in the absence of gas from RIL?

**Homi R. Khusrookhan:** Actually we as a multi-feedstock plant, if we do not get gas we use naphtha. And in any case, as of now under the policy it is a pass through cost. So it does not really affect us. The plant will work; at full capacity even with the expanded volumes.

**Durga Dutt:** If I am not wrong the new urea capacity will be coming under the new IPP regime where you will be getting the market prices, are the energy costs a pass through or will that result in a squeeze in your margins?

**Kapil Mehan:** Yes, it is naphtha which is the other feedstock which we can use to maintain our production rate, price of naphtha also has come down substantially in line with the oil prices. Firstly, going forward the naphtha price will be adjusted downward in the market position that would enable us to use naphtha for the incremental production. Secondly, the way the scheme is going to workout is that, non-APM gas which is RLNG and spot gas and naphtha, that will be averaged for the entire production, over and above the production that we can achieve with APM gas. The combination of these two factors will enable us to continue production at a margin which will be slightly more than what would have been otherwise under NPS-free state, this is the chance but once we know the December price of naphtha then we will be able to do the sums more accurately.

**Durga Dutt:** If you are using any fuel other than gas does that mean that there will be a slight hit on your margins?

**Kapil Mehan:** As I said, we went right into the project based on NPS Stage III return, and those fundamentals still hold. It is going to be there whether we use naphtha or we use

natural gas. It is going to be incremental over that, but yes the gas will be more incremental as compared to using naphtha.

**Moderator:** The next question is from the line of Abhijit Dey of Kotak Mutual Fund.

**Abhijit Dey:** Just wanted to know the average prices of phosphoric acid for the 2<sup>nd</sup> Quarter and going ahead what are the current prices?

**Kapil Mehan:** The current quarter price which is October to December is \$ 1920 as finalized by most of the Indian importers, but given the current DAP prices which have fallen there is a process of renegotiation which is going on and some suppliers have agreed for a reduction in price.

**Abhijit Dey:** So for the 2<sup>nd</sup> Quarter it is also \$1920.

**Kapil Mehan:** We are referring to the Calendar Year. The 2<sup>nd</sup> Quarter was \$2,310.

**Moderator:** The next question is from the line of Prakash Goyal of ICICI Securities.

**Prakash Goyal:** The policy has notified that your base production being 9,60,000 whereas your last year production was 10,70,000 which is likely to be higher even this year, so it would not be on a conservative basis, however have you accounted for any benefit on account of import parity price in Urea business.

**Kapil Mehan:** Not yet!

**Prakash Goyal:** But would this be accounted for in the 4<sup>th</sup> Quarter?

**Kapil Mehan:** Our accounting policy has always been to account it in the last quarter.

**Prakash Goyal:** In IMACID business we see a drop in the top-line by 33%. As we understand the phosphoric prices were even higher than the 1<sup>st</sup> Quarter. So what has been the key reason for a drop of 33% in the top line for IMACID?

**Homi R. Khusrokhani:** The supplies were erratic at some stage, we had to stop for a little while, and sulphur prices had gone through the roof. There was a shortage of sulphur available for servicing all the Moroccan requirements. So there was a series of interruptions as well during that period.

**Prakash Goyal:** How is it doing now because sulphur prices have crashed from \$800 to \$95 now?

**Homi R. Khusrokhani:** It is a continuously changing situation, we see it as something which is restored every few months and then again there is a swing again in commodity prices, but as of now things are pretty stable for the next few months going forward.

**Prakash Goyal:** And the phosphoric acid prices wherein you said \$1920 now, the renegotiated price would be in what range?

**Homi R. Khusrokhani:** It is too early to say because it is only very recently that you are seeing a drift downwards in sulphur prices and there will be stocks available, manufacturers

have to first exhaust their existing stocks then they go for the lower sulfur cost. It will be an affair which will drag on for another few weeks.

**Moderator:** The next question is from the line of Dhaval Doshi of Aviva Life Insurance.

**Dhaval Doshi:** Coming back to the GCIP numbers, once again with my numbers it is showing a sharp dip for the quarter-on-quarter.

**PK Ghose:** On what? Is it Rupees? Is it per ton?

**Dhaval Doshi:** I am talking about Rupee. It was Rs 309 crore sales in Q1FY2009 and profit from operations was Rs 130 Crores so which is giving an OPM of 42%. This quarter it is 320 crores of sales and profit from operations is 107 Crores which is 33.4% of margins. So there is a big margin dip.

**R. Mukundan:** You are talking about from profit from operations, If you look at the EBITDA numbers, very clearly there is a Rs. 57 per ton drop which has happened, it might be marginal mixed variation in terms of where the material has gone, it is not any substantial movement we have seen. Between Q1 and Q2 there has been no big change in the pricing and no big change in the contracts which have been there, which should impact. It is just a market mix which would have created it.

**PK Ghose:** There is a margin drop but if it is due to the mix etc, it is going to be made up over the full year.

**Dhaval Doshi:** It would even out. Secondly, you had given the soda ash pricing for the Indian market which was \$270 to \$310. What would that be for the European, African, and the American markets?

**PK Ghose:** I think you can broadly take the same band of \$270 to \$310 as a band operating for almost every part of the world except the US.

**Dhaval Doshi:** So what would it be in the US?

**PK Ghose:** It's substantially lower in the US

**R. Mukundan:** It is about a \$170, different regions have different methods. The Wyoming plant in the USA where we have the mines, there is a freight element up to the place of dispatch and including that the figure is about a \$170 to \$175 a ton, as of now.

**Moderator:** The last question is from the line of Trilok Agarwal from Birla Sun Life Insurance.

**Trilok Agarwal:** On the consolidated segment, our profitability from fertilizers and specially ROCE on fertilizers have increased substantially, can you just explain the key reasons for that?

**Kapil Mehan:** Given that there was a large requirement of cash for buying raw materials and keeping your production rates up and running. And the government has been proactive in providing funds for that and also releasing it quicker than what they would normally do. This has really resulted in the working capital being very tight. That is the reason that the ROCE number is looking higher. We have been resorting to supplier's credit to fund our raw

material purchases and that also helped. Overall the working capital management which has really reflected in these numbers.

**Trilok Agarwal:** Just want to take the scenario where in the next two quarters, already the subsidy allocated in the budget has been exhausted. So in the coming two quarters can we see some pressures in terms of working capital requirements for us?

**P K Ghose:** There is already a fresh allocation which has been done as you must have read in the press.

**Kapil Mehan:** There is a fresh budget. Fresh supplementary cash has been approved to the tune of Rs 53,000 crore, and even if we assume that the special packing arrangements which the government has changed, has been factored in, this money should be sufficient to pay the subsidy bills of the government till the end of this December quarter. Then there is again a winter session which is coming up and in case there is a no allocation in that there would be pressure in the 1<sup>st</sup> Quarter, but we hope that the allocation will be there and all indications and all the promises that have been made to us by the Department of Fertilizers are that there will be adequate provisions made and we can only hope at this stage that the government lives up to its promise because what we are doing is we are only funding the government's program of making available fertilizers to the farmers at a price fixed by the government. And our capital gets involved in that and the government realizes that fact and they have been providing funds for this purpose.

**Moderator:** On behalf of TATA Chemicals Limited that concludes this afternoon's conference call. Thank you.