TATA CHEMICALS LIMITED

Transcript of Q2 FY 2010 Conference call held on October 30, 2009

Moderator:

Good afternoon ladies and gentlemen. I am Rajkumar, moderator for this conference. Welcome to the conference call of Tata Chemicals Limited. We have with us today Mr. R. Mukundan, Managing Director; Mr. P. K. Ghose, Executive Director and CFO and Mr. Kapil Mehan, Executive Director for the Q2FY10 conference call of Tata Chemicals to discuss the quarterly results. 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 * and 1 on your telephone key pad. Please note this conference is being recorded. I would now like to hand over the conference to Gauri Anand.

Gauri Anand:

Thank you Rajkumar. Good afternoon everyone. I am Gauri Anand and on behalf of MF Global I welcome you all to the second quarter earnings conference call of Tata Chemicals. It is a pleasure to have with us today the management of Tata Chemicals. I would now request Mr. Mukundan to brief us on the results, expansion plans and future outlook.

R. Mukundan:

Firstly, let me welcome everyone on the call. Overall our view of this quarter results has been positive, on the back of positive undertone on the macro environment and also the ability of the company to have delivered results with the weak monsoon with which we started this quarter.

Going forward we believe that the quarter-on-quarter performance will continue to strengthen as the market rebounds. Coming down to the specific statements, on the chemicals side, Indian soda ash market continues to maintain 8% growth. We are also happy to see glass factories and flat glass furnaces being restarted around the world. There is a significant bounce back in terms of capacity utilization which we had seen right through this quarter, week on week and month on month. The current situation in various parts of our operation remains pretty strong. US today is completely sold out. So is bulk of the overseas operations. In terms of pricing, adjustments in pricing have already been done and fully reflected on the ground and we see for this current year, the prices remaining more or less stable or remaining within a very narrow band. Input costs are going to remain more or less within a narrow band. There is a slight increase between Q1 to Q2 in terms of input costs but our anticipation is that going forward, the cost structure would more or less remain the same and contribution margin would continue to be stable in the same manner.

In terms of the allied products, sodium bicarbonate as well as branded salt have continued to show excellent growth and would continue to grow at a good clip going forward. Along with Tata Salt and I-Shakti, our market share has expanded to 57.8% amongst national brands and since two months of the last quarter, we have both number 1 and number 2 branded national brands within the Tata Chemicals portfolio.

Shifting to agri input sector, our urea production has fully stabilized and is delivering the full capacity of 3,500 tons per day. The import parity pricing, which is supposed to be giving us the positive benefits of de bottlenecking, will be visible only in the fourth quarter due to the accounting issue which very clearly states that the benefits of import parity pricing can be accounted for once you cross 957,000 tonnes, which is the capacity from where we de bottleneck the plant.

The other sector, which was a cause for worry in the first quarter was the phosphatic and complex fertilizer, is now showing signs of stabilization and was a combination of both stable market environment in terms of market pricing which is now moving in a very narrow band as well as input cost which also stabilized at positive contributional levels for the business. We believe we are going to see return to normalcy and the next two quarters would deliver normal margins for this business. There has been a significant policy shift in SSP where the de control of farmgate pricing of SSP is a positive move; we believe it is the first step towards moving in the right direction as far as government is concerned in terms of the policy framework across all nutrients in the agri input sector.

In terms of new businesses our Nanded plant for bio-ethanol, even though it is a demonstration unit, we are happy to inform that it has commenced production and its operations are being stabilized as of now.

In terms of our other restructuring effort, we have ceased operation of Delfzil as on 31st August during this quarter and the plant itself will be decommissioned by the end of this calendar year. This restructuring move is expected to yield us positive results. Those were the key highlights of the operations within the company and in addition to that we are also happy to note that the growth plans of the company remains in focus because as the environment begins to turn positive, we need to change our strategy from being focused on tightening and improving our cost structure to focusing on strategies for growth. In line with that, the first move was our acquisition of interest in Rallis which was completed during this quarter and we are also in the process of acquiring additional stake which should make Rallis from an associate company to a subsidiary firm. In addition to that, we are also focused on ensuring that we firmly plant our growth strategy in the agri inputs sector by focusing on expansion of Babrala. We have put in a team which is working on ensuring that the project is put beyond the drawing board. But the key factor there of course remains the signing of the gas supply in purchase agreement which we have impressed upon the government and we will continue to engage the government in that area. With these few words I now invite Mr. Ghose to give insights into the financial performance of the company.

P. K. Ghose:

Thank you Mukund. I will share with you some details of the financial performance for the quarter under review. Revenues were at Rs 2,242 crore in Q2FY10, profit from operations stood at Rs 297 crore and net profit after tax for the group was at Rs 223 crore. Total consolidated net debt as on 30th September 2009 amounted to Rs 4,322 crore as compared to Rs 4,428 crore as on 30th June. During the quarter under review, the debt repayment was Rs 222 crore. As on 30th September the company's net debt to equity ratio is 0.91:1 as compared to 0.98:1 on 30th June 2009. Suppliers and buyers credit continue to be the main source of working capital finance. Outstanding on these accounts amounted to Rs 561 crore as on September '09; these are of course at much lower levels than what you would have seen in the second half of last year. The company's cash and cash equivalent balance as on 30th September amounted to Rs 1,140 crore. I must also highlight the positive contribution of our focused cash management and efficiency program ADAPT which has enabled considerable savings to the tune of over Rs 500 crore till date. Further, post purchase of shares from other promoters and group companies, Tata Chemicals announced its stake in Rallis India to 45.97%. In September '09, the board of directors of Rallis India passed a proposal to allot shares not exceeding 980,000 to Tata Chemicals, the main promoter, on a preferential basis at a price determined as per SEBI norm. Upon approval of this proposal by share holders of Rallis India and acceptance by Tata Chemicals, Tata Chemicals stake in the company will increase to 50.06% which will make it a subsidiary and therefore we will be entitled to the consolidation benefits. In September 2009, the company unlocked value with the sale of 810,000 equity shares of Rs 10 each of Titan Industry Limited for a net consideration of about Rs 100 crore to Tata Sons as a block deal on the stock exchange at a price of Rs 1,233.40 per equity share.

In conclusion, I will like to say that our performance has been encouraging. We are emerging from the recession well and I look forward to improved performance going forward.

Question and Answer Session

Moderator:

We will now begin the question and answer session. First question comes from Vishal Biraia of B&K Securities.

Vishal Biraia:

Could you elaborate on the operational performance of BMGL and should we see a volume improvement in the future?

P. K. Ghose:

BMGL would be divided into three parts. One will be the UK operations, one will be the Netherlands operations and one will be the Magadi operations. On the UK operations, our EBITDA this year has been at a much higher level compared to the previous year. Overall, it is more than a 50% increase in the EBITDA margins. But at the bottom line level, it has shrunk because we had to take that restructuring cost of closing Netherlands which we had announced in the last quarter of Rs 87 crore. So the EBITDA margin of UK itself was 24.7% which was an exceedingly good performance in tough times. As far as Netherlands is concerned, in the last quarter we had reported improved performance of Netherlands but in the next quarter, production started to slowly taper off because they were to close the plant. Therefore we ended up with minor loss and a minor EBITDA margin. On 31st of August all production had stopped at Netherlands. Production operations have ceased both in the soda ash and bicarbonate areas and there is a process going on which will formally decommission the plant by 31st of December this year. As far as Magadi is concerned, Magadi was the one which was under the maximum threat in terms of volumes as well as prices because of the Chinese material flowing into Africa but they have withstood this strongly. Their EBITDA has been marginally lower as compared to the six months of the previous year. Their EBITDA is almost at similar level and that is inspite of lower volumes and lower prices. They have done an enormously good job under ADAPT program of cutting down fixed costs and that has enabled it to remain at that level. Their EBITDA margins are also high at almost 22%.

Vishal Biraia:

Now that the fuel costs have been rising for the past two quarters, will we see an effect of stable prices, though slightly higher energy costs, in the third quarter?

P. K. Ghose:

Yes because Magadi uses fuel for both the pure ash plant and the standard ash plant. And since the fuel costs have now slowly edged up from 70 levels to 80, they would be affected but all efforts are being made to see how their operations can be sustained in these circumstances.

R. Mukundan:

The UK operations will not be impacted at all. Only Magadi will be impacted where there is only pure ash, which is 350,000 tons.

Vishal Biraia:

UK operations won't get impacted because of the cold steam being generated outside the plant?

R. Mukundan:

Yes. That's a long term contract and hence it has no direct correlations to any short-term coal price movements.

Vishal Biraia:

So to some extent it would be related to coal?

R. Mukundan:

This is a contract structured in a manner that is related, by a large extent, to the consumer price index. So as inflation comes down, we get the benefit of stable or reducing prices.

Vishal Biraia:

So all of the energy costs at UK would be related to CPI?

R. Mukundan:

Yes, all of it is related, by a large extent, to CPI.

Vishal Biraia:

My second question comes on IMACID. What would have been the phosphoric acid price realization for the quarter?

Kapil Mehan:

Realization for that quarter has been USD 520

Vishal Biraia:

What are the specific reasons for the operational loss?

Kapil Mehan:

There is a depreciation in the rock phosphate price and its impact is yet to flow in.

Vishal Biraia:

And when shall it flow in?

Kapil Mehan:

We hope to close that soon.

Vishal Biraia:

So IMACID buys rock at spot prices from OCP?

Kapil Mehan:

IMACID buys rock from OCP at market price.

P. K. Ghose:

We witnessed a huge decline in the phosphatic fertilisers and the IMACID businesses in the second half of last year. That is stabilizing in that the DAP prices have stabilized at certain levels. The IMACID pricing is in the process of finalization and in the last quarter from the month of August, there is stabilization in the overall operations of IMACID and Haldia.

Moderator:

Our next question comes from Bharath Subramanian of Sundaram BNP.

Bharath Subramanian:

This is related to the urea plan that you mentioned to double the capacity that is close to advanced stages. What would be the milestones and what is the capital outlay that we are looking for? Also what will be cost structure that we are comfortable with in going ahead with the project?

R. Mukundan:

They are still in the process of putting all the final numbers together but certainly it is going to be in line with the policy which the government has laid down, that the project cost should at least be Rs 3,000 crore. So it will fall within the framework and only when we nail down all the contracts would we know how close it is to Rs 3,000 crore. That is one indicator of what we will be doing broadly. In terms of the other issue, the project is viable at the current structures of gas contracting which happened with the domestic gas. So our whole effort is to ensure that the domestic gas allocation happens in this process.

Bharath Subramanian:

And in terms of the expanded capacity; does that bring further efficiency gains or in terms of costing; any significant changes from what we have as on date?

R. Mukundan:

It will bring some benefits of integration which certainly should come in and that will be part of the objective to ensure that we build that into our planning.

Kapil Mehan:

In addition, this is going to be a new plant which will be separate from the current plant. There will be an integration and connection of the two plants in terms of some vitality but otherwise it will be a very independent plant set up next to the existing plant.

Bharath Subramanian:

In terms of capital cost, has there been a reduction in capital cost that has made this project much more viable? Has there been a change in the capital cost compared to a year ago?

P. K. Ghose:

Capital cost estimates from about a year or two ago was at a much higher level. It was close to Rs 4,300 crore but now we feel that there will be a reduction in capital cost. The exact figures could be anywhere between 3000 to 3500 levels. We will freeze that in due course but it is certainly a reduction from the original estimates.

Bharath Subramanian:

In terms of time line from 0 date, how much time does it takes to implement a project of this scale?

Kapil Mehan:

A project of this scale will take 34 to 36 months from 0 date.

Moderator:

Our next question comes from Paresh Khandelwal of Birla Sun Life Mutual Funds.

Paresh Khandelwal:

My first question relates to the soda ash business in United States. As you said that US capacities are sold out for CY 2010; so does it mean that the price negotiations have also concluded?

R. Mukundan:

The price negotiations are undergoing as of now and we have certainly put up our list price in the US by USD 10. Our effort will be at least to maintain the strong position on pricing. When we say sold out, effectively it means that we have already contracted for ensuring that what we usually would be selling in US is available for US. The balance is actually getting shipped out. We are now going to get back our normal market share in the international market.

Paresh Khandelwal:

So for US domestic consumption, we are confident that all the orders will come in place and we will do a 100% capacity there.

R. Mukundan:

We have already started to get back the market share of exports which only leaves a certain net volume for US sales.

Paresh Khandelwal:

So next year we are projecting capacity realization to be around 90 to 100%?

R. Mukundan:

It should be upwards of 90%. That is our aim and we will certainly try to push it as much as we can.

Paresh Khandelwal:

Regarding the numbers that we have shown this time, cash for clunkers and other schemes are going on around USA and developed countries. So what kind of impact do you think has come in because of that and why do you think that it is more sustainable as compared to other's who have a view that this might not be sustainable; demand can once again go down again and specially so because ours is one of the commodities which is getting impacted more by car and automobile demands.

R. Mukundan:

If you look at the compression in the volume in US, it is already compressed to a level where it is quite stable. Any further compression from current levels is going to be marginal. That really does not move the needle as far as we are concerned in terms of soda ash sales because we can very easily place it in the rest of the market in the world. Our internal demand itself is quite high in continental Europe.

.**Moderator:**

Our next question comes from Ballabh Modani of Enam Securities.

Ballabh Modani:

Do you see these Chinese exports to spoil the pricing any further? On the fertilizer side, the volumes have gone up but the EBIT has come down drastically so any specific reason for that?

R. Mukundan:

As far as Chinese pricing is concerned, our pricing strategy globally is going to be based on the fact that we have decided to protect our home markets. Our effort is to ensure that the safeguard duty continues in India and we are not impacted by Chinese dumping. As far as the other home market is concerned, South Africa, we are going to go after markets share in that market. As far as UK is concerned, it is well protected because of the pound situation there and we don't expect any Chinese material impact on that market at all. The main impact would on the South East Asian exports coming in from US. As far as our prices into those markets are concerned, they are already at cash cost of Chinese and Chinese are selling at a loss. So our numbers reflect that.

Ballabh Modani:

But you don't see any kind of correction in soda ash prices from now on downwards?

R. Mukundan:

On South East Asia, it is in the USD 150 to 170 (FOB) range. It will remain range-bound. There will be some people who would be desperate to push stock out even at a loss. They will be selling at USD 150 but this will be very small cargos. Most of the cargoes will be between USD 150-170 and at that price the Chinese plants would be losing money.

Ballabh Modani:

On the fertilizers EBIT margin, was there any specific reason other than obviously urea prices being pretty low?

Kapil Mehan:

There are two parts to the fertilizer. In the urea part volumes have gone up. The profits have also gone up as far as urea is concerned and the EBIT margins have improved. It is only in the phosphate side that there is a reduction and in the last year's second quarter, we were in a very special quarter where the price was moving up and we gained from the stock as well as inventories. This year the price started correcting only from August-September onwards and price volatility which has happened in this business resulted in the second half of last year being equally bad, as has been the first quarter. We are now seeing that the business is returning to normalcy.

R. Mukundan:

In terms of urea when you look at EBIT margins, the depreciation charge on debottlenecking is being taken every quarter The benefit of higher revenue though can be expected only in the fourth quarter.

Moderator:

Our next question comes from Jay Shah of Reliance Mutual Fund.

Jay Shah:

As you mentioned that the Netherlands plant's production has stopped now, what kind of capacity utilization are you planning for Brunner Mond for this year?

R. Mukundan:

The capacity utilization remains to run all our plants at full capacity, except pure ash plant which will run at around 60% capacity.

Jay Shah:

In the domestic soda ash plant, what kind of volumes are you targeting for this year and what would be the realization?

R. Mukundan:

We should at least be inching towards last year's volumes. We don't see any reduction in volumes.

Jay Shah:

And what about the pricing for the domestic market?

R. Mukundan:

Our view is that pricing regime is going to range-bound and stable. We really see no reason why there could be an impact on that unless of course the government withdraws the safeguard duty which we have told the government very clearly our position that this needs to be contributed due to large scale imports at dumping prices coming in from China. No other exporter from anywhere in the world is selling at these prices and it is the Chinese capacity which is highly in excess of their domestic demand which is forcing this surplus material to find an export home. We have very clearly said that any impact on the Indian production facilities would straightaway impact not just the soda ash industry but would impact the salt workers who are the lowest of the low paid workers and it is a critical ingredient in making soda ash. We are hopeful that the government takes this issue quite seriously.

Jay Shah:

What would be the range of the price for domestic soda ash?

R. Mukundan:

Depends on region to region but I think we are currently selling it at about Rs 11,000 or 12,000.

Moderator:

Our next question comes from Shekhar Singh of Goldman Sachs.

Shekhar Singh:

You mentioned that the pure ash plant will be 60% capacity utilization. So what percentage of your total capacity is pure ash?

R. Mukundan:

Pure ash in Magadi is about 50% capacity. If you look at overall capacity, our capacity is 5 million tonne.

Shekhar Singh:

That is half of the African operations?

R. Mukundan:

Yes that is correct.

Moderator:

Our next question comes from Rohan Gupta of Emkay Global.

Rohan Gupta:

First question is on BMGL. Could you explain the positive difference between PBT and PAT of Rs 11 crore?

P K Ghose:

This is actually because of deferred tax credit which occurred in Magadi.

Rohan Gupta:

Second question is on DAP in India. We can see that there has been a sharp decline in DAP sales of almost 49% Y-on-Y. Is it because of high sales last year or is it just a market decline in the current quarter?

Kapil Mehan:

Sales of DAP and NPK volume keep shifting depending on the demand factor at a particular part of time and this year, because of the impact of monsoons, this demand shift happened quite dramatically. If you see on a half-year basis, our sales during the first half is down by about 10%, whereas production is more or less the same. We had 300,000 tonne production last year and this year it is actually 302,000 tonne. In the quarter it is less because this year we had placed advance tonne in the first quarter it self. As far as our inventory levels are concerned we are more or less completely sold out.

Rohan Gupta:

The third question is on the US market. On quarter-on-quarter, there has been a sharp improvement in volumes by almost 24% visible in the US market. Is it reopening of some packaging units and container glasses which is contributing this demand or is it an improvement happening in the housing industry in the US market?

R. Mukundan:

The bulk of the shift in sales in the US has been driven by increased exports out of US.

Rohan Gupta:

So is the US domestic demand in a bad shape?

R. Mukundan:

It is improving. Certainly the tonnages are increasing every year but the sharpness of off take increased mainly because in the first quarter we had ceded market share to competition. In the second half, we went after market share and we are consistently regaining our market share.

Rohan Gupta:

I have one more question on your Magadi plant. Last year when the crude was at USD 130-135 the company was suffering losses on this plant because it is based on furnace oil. At that time you mentioned that the company is looking for opportunities to put a coal based plant there to take care of all these circumstances. Now crude has once again started inching up. So have you once again started looking for that coal plant which was earlier just kept aside because the crude came down significantly?

R. Mukundan:

No, we are re-examining it. We have actually reopened that exercise but we have not concluded anything on that. We are not very sure which way the crude will go. The jury is still yet to be out with all this focus on green energy. With US and other consumers shifting to smaller and more fuel efficient vehicles and with so much of capacity which may be coming on stream in both crude and in refining, we still haven't got clarity whether it is going to go anywhere beyond USD 70-80. It may also just remain range bound for quite some time so we will time it properly

Rohan Gupta:

Second question on increasing stake in Rallis, is the company having any long-term plan or some near-term plan to merge this company with Tata Chemicals. What is the idea behind it and how you are planning to get the synergies between Rallis and Tata Chemicals?

R. Mukundan:

Just as we want to grow in the crop nutrition business which is one part of the agri input sector, Tata Chemicals has decided that it will like to grow even the crop protection business in the agri input area equally. Our efforts would be to ensure that we give adequate funding and support to Rallis to grow their business even more aggressively. There is no plan to merge them as of now.

Rohan Gupta:

So will it continue to become a 50% plus subsidiary or an associate company of Tata Chemicals?

R. Mukundan:

Mr Ghose has also clarified that our only intent was to make it a subsidiary because then we get the benefits of consolidation in our balance sheet and P&L. Otherwise we would continue to support that company and management as a large share holder would do and we would use that vehicle as our growth engine for expansion in the agri input area and the crop protection area. In fact we would work with the management to ensure that their growth rates accelerate even further.

Rohan Gupta:

My last question is on soda ash in China. Would you be able to give some numbers on what operating label or capacity utilization is there in China as of now. And in previous quarter, has there been any improvement in those operating rates in China?

R. Mukundan:

Chinese produces are running at right now close to about 79%. During the worst period, they had gone down as much as 60%.

Rohan Gupta:

You are referring to January and February periods?

R. Mukundan:

Towards the last leg of the previous financial year, somewhere around Jan or Feb. Then it had marginally gone up beyond 85% and it has dropped back to 79% as of now.

Moderator:

Our next question comes from Tarun Surana of SPA Securities.

Tarun Surana:

My question is on the ministry side. Mr. Atul Chaturvedi has now moved out so do you think it will slow down the overall process of reforms and implementation of gas allocation for brown field projects and other reforms like nutrient based subsidy?

R. Mukundan:

Nothing in our view and our interaction with the ministry suggests there is going to be any shift in their position.

Kapil Mehan:

We see that the government's policies and government views continue to be same so there is no change. These are administrative changes which are part of life.

Tarun Surana:

But the Fertilizer Association and the Secretary had a good understanding and things were moving quite fast in the right direction for the industry in terms of reforms.

Kapil Mehan:

We always have good understanding with the government.

R. Mukundan:

We have been dealing with this issue and the ministries, different governments and different secretaries for more than 15 years and we believe that the government policy shifts are not sudden or not linked to any administrative changes. They are related to policy moves and our linkage and interaction with government remains strong and we see nothing concrete to change our view and we believe that the government wants to move in the right direction.

Kapil Mehan:

While as a company we have been dealing for the last 15 years but personally I have seen five different secretaries and have seen only positive movements.

Moderator:

Our next question comes from Vinay Shah of Reliance Mutual Fund.

Vinay Shah:

You have given the broad outlay of your capacity expansion at the urea plant. How does the capital structure work?

P.K. Ghose:

The Government allows you a 2:1 debt equity structure but it depends on whether we will consider that ideal or not at an appropriate stage when we form the entire financing plan. One thing is sure that we will route it through a special purpose vehicle and then the relevant debt equity norms will be decided.

Vinay Shah:

How long will the financial process take?

P. K. Ghose:

It is entirely dependent on the gas purchase agreement. In all our statements we have been emphasising that as one of the most crucial elements for the project. Once that is closed then everything will flow.

Vinay Shah:

Are there any changes in the prices of the agreement?

R. Mukundan:

It is not just the gas pricing. You have to look at a 15-20 year horizon of a plant. You have got to look at our outlook of urea price and our outlook of gas price as a scenario and what is the net margin between these two prices as they move along. I think in your analysis you need to leave aside the stable regulated regime which this business had into this caller and cap and movement of pricing. Our understanding of these curves suggest that this is an interesting and attractive project.

Kapil Mehan:

It is important to note that the fundamentals of this business are driven by the food requirement and if we see in the last two three years, globally we have seen food shortages. With developing countries developing faster, the food requirements are going to only rise. Some estimates put that in the next 15 years you will need 50% more food and fertilizer is a very critical input to realize that goal of having sufficient food for everybody. India's situation is even more critical because we are not only a country with lot of people but we are also currently import dependent. Urea is the only fertilizer that we can rightfully make because raw material is now available.

Moderator:

Our next question comes from Dikshit Mittal of Alchemy Capital.

Dikshit Mittal:

On the Netherlands plant which you are closing down. What is the capacity of that plant?

R. Mukundan:

The Netherlands plant which is closing down is about 350,000 tonne.

Moderator:

Our next question comes from Abhijit Akella of J.M. Financial.

Abhijit Akella:

Can you tell me the current net worth and the goodwill?

P. K. Ghose:

Goodwill as on 30th September ‘09 was Rs 5,414 crore. Networth of the Company is Rs 4,749 crore.

Abhijit Akella:

We have closed one of the facilities. So any goodwill related to that which we plan to write off?

P. K. Ghose:

No, we had taken an impairment of Rs 150 core in last year’s accounts and all the payments to employees and other closure costs which we have provided for was Rs 87 crore.

Moderator:

Our next question comes from Sumant Kumar of Karvy Stock Broking.

Sumant Kumar:

My question is regarding BMGL. What is the price realization for soda ash?

P. K. Ghose:

It is about USD 250

Sumant Kumar:

Operating margin of GCIP has declined from 31.6% to 28.5%. What is the main reason for the decline?

R. Mukundan:

The main reason is we have been regaining market share and pushing material into exports.

Moderator:

Our next question comes from Umesh Gupta of Dalal & Broacha.

Umesh Gupta:

What are the current markets which you are servicing and what are the additional markets which you are targeting?

R. Mukundan:

The current markets we are servicing mainly are Latin America and South East Asia as well as parts of Europe. The only additional caveat being that because we ceased Netherlands operations, some part of our material is going to feed our own internal customers.

Moderator:

Our next question comes from Priti Arora of Kotak Securities.

Priti Arora:

Why has the other income more than doubled Y-o-Y to Rs 41 crore?

P. K. Ghose:

This is mainly dividend income

Priti Arora:

Secondly on your fertilizer margins with the benefit of urea coming back in the fourth quarter and DAP stabilizing, what kind of margins outlook we are looking at? Are we looking at double digit second half or late single digit second half?

Kapil Mehan:

As far as fertilizers are concerned, our margins are currently in line with what the new pricing scheme third phase indicate. In the fourth quarter we will also get the benefit of import parity price because that we can book only after we cross the production figure of 9.57 lakh tonne. So, on average margins may improve by a couple of percentage points. As far as DAP is concerned, the value addition of DAP is always less than 10% and while we are seeing the huge price swing, it went up dramatically last year and dramatically this year but from the month of August-September this year onwards we are witnessing that we are now more or less returning back to normal.

Priti Arora:

So you mean the same margins as last year?

Kapil Mehan:

Same margins if you go back to ’07-’08. I think those are the kind of margins that we should be looking at.

Priti Arora:

On the soda ash pricing, we are hearing conflicting reports. FMC has increased prices by USD 10 and in their quarterly call transcript, they mentioned that the scale is slightly tipped towards the producers but at the same time articles suggest that consumers are unlikely to agree to these pricing at higher levels because of lower energy cost. can you comment on that and what is your take on this as of now?

R. Mukundan:

Our comment is essentially that this is a usual thing which happens near the negotiation period. The facts will speak for themselves. We have put out our data that we have fully sold out and that means there is only limited material available for US producers to buy within.

Priti Arora:

What is the guidance for tax rate for FY10?

R. Mukundan:

We do not give any guidance. What I can give you is in September, we have seen a decline in the effective tax rate compared to the previous quarter. The reason for this is basically because we have sold shares of Titan which is not taxable. So the effective rate comes down.

Moderator:

Our next question comes from Prakash Goel of ICICI Securities.

Prakash Goel:

I have a question related with your urea capacity which is being planned. What is the capacity being planned in the new expansion?

Kapil Mehan:

In the range of about 1.2 to 1.4 million tonne.

Prakash Goel:

And you are saying your approximate CAPEX cost would be about Rs 3,000 to Rs 3,500 crore.

R. Mukundan:

What we are saying is that it will be in excess of Rs 3,000 crore because that is what government policy stipulates. How much is it going to be in excess is what we are still working out. It is certainly not going to be in the Rs 4,000 crore range which we spoke before.

Prakash Goel:

Going by the current prices of urea and the current prices of gas, do you maintain your statement that the project is highly viable?

Kapil Mehan:

Based on the current policy, we'd say it is a viable investment. See, it depends on how you look at it. We have seen almost the bottom of these prices. From USD 800 they came down to USD 260-270 levels and now they are at around USD 280-290 levels. Despite demand structure and whatever bloodbath that you have seen in the last 12 months, the urea price did not drop below USD 270.

Prakash Goel:

The other thing was why the EBIT has come down and why is there a drop in profitability Q-o-Q in domestic chemical business?

R. Mukundan:

The EBIT did come down and this was a function of us shifting a bit of strategic. Monsoon is actually a low production month. So one of the ways we have counted the low production this year so that it is not impacting our material availability was to ensure that we were using slightly more expensive inputs to run the plant without impacting outputs and we now will revert back to the old cost structure.

Moderator:

Our next question comes from Sageraj Bariya of Angel Broking.

Sageraj Bariya:

Are the realization of soda ash less in US as compared to India?

R. Mukundan:

Yes, it is less because the domestic prices in US are probably the lowest in the world.

Sageraj Bariya:

Any reason why there is such kind of disparity?

R. Mukundan:

It's just that it is almost at a price which is export parity for them.

Sageraj Bariya:

In case of urea, you are looking through SPV route, right?

R. Mukundan:

Yes, that's correct.

Moderator:

Now I hand over the floor to Gauri Anand for closing comments.

Gauri Anand:

Just two questions before we conclude. You mentioned in the release that US capacity is sold out for CY10. So does it mean that the agreement for soda ash realization has been concluded?

R. Mukundan:

The price negotiation for US domestic is still continuing. Any increase in production is now finding export overseas markets. There is no capacity number which is lying idle as of now.

Gauri Anand:

In Q4, we took some impairment expenses. In Q1, we had some restructuring expenses. So now that the plant is getting decommissioned, would we see any more one off in the quarters?

P.K. Ghose:

No, we have already provided for the entire payment. In Q4 of last year, we charged impairment expenses of Rs 151 crore for the Netherlands plant. In the first quarter, we have charged Rs 87 crore. We have to take the entire cost of paying out workers and closing the plant upfront, although the actual expenses will be spread over 3 to 5 years. So the entire figure has been taken upfront, there will be no further charges.

Gauri Anand:

Thank you so much. I would like to thank the management of Tata Chemicals, Mr. Mukundan, Mr. P.K. Ghose and Mr. Kapil Mehan for taking out time. It is a pleasure to have you heard on the call. I wish the entire team of Tata Chemicals all the very best.