

Tata Chemicals
Q3 FY2003-04 Financial Results Conference Call
January 19, 2004

Moderator: Good evening ladies and gentlemen. I am Monali, the moderator for this conference. Welcome to the Tata Chemicals conference call hosted by HDFC Securities. Mr. Jaideep Goswami of HDFC Securities is your call leader today. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Mr. Jaideep Goswami of HDFC Securities. Thank you and over to Mr. Goswami.

Jaideep Goswami: Good evening and welcome to all of you for the third quarter conference call on Tata Chemicals' results. We have with us Mr. Prasad Menon, Managing Director, and Mr. P.K. Ghose, CFO of Tata Chemicals. I would like to hand over the line to Mr. P.K. Ghose to give a brief analysis of the current quarter results and then Mr. Prasad Menon can discuss on the outlook of the company, and then we can have Q&A session. Mr. Ghose.

P. K. Ghose: Thank you Jaideep. Good afternoon everyone. On behalf of Tata Chemicals I welcome you to this conference call. Let me share with you some perspectives of our financial performance following which Mr. Menon will discuss some key insights across our businesses. After this, we would be happy to answer your queries.

Tata Chemicals has demonstrated steady growth in the just concluded financial quarter. On a corresponding quarter basis net sales have appreciated 7% to Rs. 467 crore while PAT has improved 6% to Rs. 59 crore. The inorganic chemical business segment comprised 48% of our revenues, while the fertilizer business segment contributed the remainder. On a corresponding quarter basis, the PBIT margin in our inorganic chemicals business has declined which in turn has led to a drop in the company's profit from operations. This, however, needs to be viewed in the correct perspective. At Mithapur despite the continued savings derived through the implementation of the Project "Manthan" and other efficiency initiatives, the steep appreciation in prices of key inputs like cold coke and limestone has offset some of these benefits. The company's Q3 financial year 2004 Profit after Tax has improved 6% delivering a non annualized EPS of 3.27.

Let me also briefly touch upon the company's performance from a 9-month perspective. Income from operations appreciated 6% to Rs. 1258 crore, while the fertilizer business demonstrated an 11% growth, the inorganic chemicals business improved 3% over the corresponding 9-month period in FY-03. Operating margins continue to be healthy at 29%. PBIT in our inorganic chemicals business for the nine months has grown from Rs. 136 to Rs. 147 crore. PBIT for the fertilizer segment is higher at Rs. 143 crore versus Rs. 131 crore in the previous year for the 9 months ended December 31, 2003. In the case of fertilisers, PBIT margins are slightly lower than in the corresponding period of last year mainly as a result of larger proportion of our revenues arising from trading. While

trading margins are marginally lower, this activity has enabled us to strengthen the offerings of our Tata Kisan Kendra network and improve our associations with the farmer.

PAT for the period has appreciated 38% to Rs. 188 crore translating to an EPS of Rs. 10.41. In line with Tata Chemicals' two-pronged strategy towards efficient financial management, total debt has declined 46% to Rs. 492 crore resulting in a debt equity ratio of 0.26. I need to mention here that post December we will be drawing down our ECB of 91 crore and also repaying some of our debt as a result of which the debt equity ratio may go up marginally to 0.32. The company's outstanding debt has been prepaid totally through internal cash generation. Further, weighted average cost of borrowings has reduced to 8.5% in Q3 2004 compared to 10.1% in Q3 FY-2003, while the net interest outgo contracted to Rs. 8.5 crore in Q3 bringing the total interest outgo for the ongoing financial year to Rs. 34 crore, less than half the sum incurred in the corresponding 9-month period of last year.

I look forward to continued healthy top line and bottom line growth going forward. Let me now request Mr. Menon to share with you some key initiatives and developments across our businesses.

Prasad Menon: Good evening everyone. It is a pleasure to be with you once again on this conference call. Let me just discuss some key developments across our businesses and start with the inorganic chemicals business. Tata Chemicals continues to be the leader in the soda ash segment with a market share of about 34%. Continuing with our focus on international markets, the company exported about 26,000 tons in the just concluded quarter. Domestic sales have also been healthy contributing increase in our capacity utilization levels to close to 90%. On a corresponding quarter basis, our revenues and profit from operations have been impacted as a result of two developments, the first being the withdrawal of the sales tax benefit in June. Mr. Ghose has already dwelled on the second reason, which is the steep increase in the price of key inputs, but I would like to add, however, that these changes are not peculiar to Tata Chemicals alone but are impacting a large number of industries across the sector. But we are as a company taking steps to address the situation through further efficiency enhancement and initiatives.

In edible salts as well, the Tata salt brand has strengthened its leadership position with a market share of 39%. The brand, as you may have read, was ranked No. 1 in the food additive segment in the recently concluded Brand Equity Survey of 2003. In December 2003, Tata Chemicals has also entered the high potential cooking soda category with a test-marketing launch of Samundar Cooking Soda. The response to this, as with the earlier launched Samundar Crystal salt, has been encouraging so far.

As far as the fertilizer business is concerned, the healthy monsoon has contributed to sales volumes appreciating by about 9%. The Group Pricing Policy as anticipated has marginally impacted performance. However, as I have said before, we believe that the policy will encourage efficient manufacturers in the medium term. In this regard, I am pleased to state that our fertilizer plant at Babrala, which is the most energy efficient in the country, continues to be best positioned to benefit from the gradual changes in policy.

Looking back, I believe the performance of our core businesses has been steady in a challenging and competitive environment. I am looking forward to sustaining our performance going forward.

Mr. Ghose and I would now be happy to discuss any subjects you have in mind. Thank you.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your touchtone-enabled telephone keypads. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. To ask a question, please press *1 now. We have our first question from Ms. Aparna Nirgude of SBI Mutual Fund.

Prasad Menon: Hello?

Moderator: Ms. Aparna?

Aparna: Can you throw some light on the fertilizer policy i.e. for phosphatic fertilizers? Is it affecting the profitability of your subsidiary HindLever Chemicals?

Prasad Menon: Yes, the DAP policy has just been finalized about two or three days ago, we are still getting the details, but yes, it is impacting HLCL as it is impacting the rest of the DAP industry.

Aparna: Sir, on the Group based fertilizer policy, how much will it be affecting you in the longer time or it will be beneficiary for you?

Prasad Menon: Well, you know, this is a very difficult question to answer, but I would guess that the government's policies would slowly move towards decontrol. How long that will take, we do not know, but I think the Group Pricing Policy is the first step. I am not saying that that is the best policy at the moment, but it is something which is moving us forward towards the market situation. So, I would say yes, it is the first tentative step towards moving towards decontrol, and I think that the industry should work towards making that happen.

Aparna: Sir, going forward, how do we can expect the growth in your company?

Prasad Menon: Well, I think the growth in our company will have to come from two ways, two particular strategic moves; one is to grow our current businesses, whether that is through de-bottlenecking in the fertilizer business or through similar activities in soda ash or through getting into new business areas. We are looking at all possible areas. We are even looking at the possibility of expanding our businesses outside the country. But it all depends on obtaining a good value added proposition.

Aparna: Thank you very much sir.

Moderator: Thank you very much sir. Next we have Mr. Nikunj from Kotak Securities.

Nikunj: Yeah, this is Nikunj here from Kotak.

Prasad Menon: Hi!

Nikunj: Just wanted to know how far the integration with Hindustan Lever Chemicals has progressed till now - one is the legal aspect and the other is the operational aspect?

Prasad Menon: We are moving on the operational aspect, in the sense that we have regular meetings every month on performance. As far as major decisions are concerned, they refer it to us before they go ahead with it. So, the integration aspects on the operational side are moving quite well, but we will have to await the final legal clearances before we really operate as one company, and I think that will probably take another two to two and a half months.

Nikunj: And, how do you see Tata Chemicals being positioned in the Tata Group itself. Do you see further integration taking place within the Group in the fertilizers business and agrochem business and what is your vision for this company over the next three to five years kind of a period?

Prasad Menon: As far as the position in the Group is concerned, I think we will continue as we are, and the growth for Tata Chemicals will have to come from within. As to our vision, well, we certainly want to grow in both our chemicals as well as our fertilizer businesses. We are looking at opportunities whether it is through the acquisition route or whether it is through expanding our current business, is that something that we need to work upon, but we are certainly looking at significant growth over the next five years.

Nikunj: Just a last question. What is the current trend in soda ash prices and has the recent duty reduction impacted your price realization in the domestic market?

Prasad Menon: Currently it seems to be holding firm because there are, as you know, a number of global issues, which will in the medium term start affecting the prices. One thing is that coal and coke and various other commodity prices are going up, and so is freight. So, currently we do not see any signs of any upward or downward movement in prices. It seems to be more or less firm and I think that may continue for the next three to six months.

Nikunj: Okay, thank you very much and all the best sir.

Prasad Menon: Thank you.

Moderator: Thank you very much sir. Our next question comes from Mr. Ashwin Aggarwal of Akash Ganga Investments.

Ashwin Aggarwal: Hi! You said the new phosphatic fertilizer policy, that is the DAP policy, has just been announced. Can you share more highlights and the details of the policy, and now that you have the final rates, can you tell us the differential rates realized

for DAP for Hindustan Lever Chemicals, whether it is Rs. 1000 per ton, Rs. 1200 per ton, some indications from what you have?

Prasad Menon: Well, all I can say, we do not have all the details, but we do know that there is a two group pricing policy. One group based on imported phosphatic rock, the other group based on phosphoric acid, use ammonia as well. The indications are that the base price for the phosphoric acid-imported companies like HLCL will be Rs. 11,000 per ton, and for the other group it is about Rs. 10,750 per ton. Now, the issues that we really are not very clear about right now is how they will treat the raw material prices, etc., which should be known probably over the next

Ashwin Aggarwal: By when will you get to know all the details?

Prasad Menon: I think by the end of January probably.

Ashwin Aggarwal: Okay. In your notes of the results, you had mentioned that you have taken provisional concessional rates for urea also. When would you get the details of the escalation cost that has been sanctioned by the government or the authorized ministry?

Prasad Menon: Well, that is a good question, because I cannot really give you an answer. Now, with the elections also round the corner, and I think the budget will probably come up sometime in May, so probably by May-June I think.

Ashwin Aggarwal: Okay, thanks a lot.

Moderator: Thank you very much sir. Next we have Mr. Atul Rastogi from Motilal Oswal.

Atul Rastogi: Good afternoon sir. I have a question on de-bottlenecking, which you mentioned. What kind of expansion are you looking at through de-bottlenecking, what is the cost involved, and what time period can we expect this? Is it dependent on the government policy or it is probably independent of that?

Prasad Menon: Let me start by answering your last question, because it is very dependent on government policy.

Atul Rastogi: Okay.

Prasad Menon: So, how the government is going to treat this, I understand from unconfirmed sources that we will probably know in about two or three weeks' time, so it depends on what that policy will be. But what we are really looking at in that particular policy is whether we can get a cost efficient improvement of around 150,000 to 300,000 tons of urea - if we can get about 300,000 tons of urea for 200 crore or so.

Atul Rastogi: What is the situation on gas as far as de-bottlenecking is concerned? Would you have enough gas or would you have to go to LNG, or the new suppliers coming in?

Prasad Menon: Well, LNG is going to be available, as you know probably from April onwards. And the industry, in fact, all the urea industry is negotiating together with PetroNet, and we are in the process of negotiating. We still have not come to any conclusion yet on the price. But I do believe that there will be sufficient gas in the form of L&G plus natural gas.

Atul Rastogi: So, if let us say by the month end or whenever the government policy is announced, how long do you think it will take for you to de-bottleneck?

Prasad Menon: Well, once we get our approval from the board, it will take about two years.

Atul Rastogi: Two years, okay. Thanks a lot.

Moderator: Thank you very much sir. Next we have Ms. Rohini Andani from LKP Shares.

Rohini Andani: Good afternoon sir. Can you give us some idea of the demand for soda ash, how it has been moving from both business segments - the detergent as well as the glass industry?

Prasad Menon: Overall, the soda ash demand is more or less moving at the same level that it has over the last couple of years, which is about 4%, but the growth rate in the flat glass industry and particularly float glass is much higher. That is probably in the region of 9 to 10%, but of course the flat glass industry is a much smaller consumer of soda ash than the detergents. So, overall I would say about 4% with the detergents somewhere around 3 and the flat glass industry around 9 to 10%.

Rohini Andani: Are we seeing any pick up on the detergent side or it is going to be like this? What are your expectations sir?

Prasad Menon: I think this rate will probably continue for another year or so. I do not see any immediate pickup. You know it all depends on how the big players act over the next year or so.

Rohini Andani: Sir, about the exports of soda ash, we had laid lot of importance to it in the recent past. So, sir how do you see the scenario. Are we, I mean, how is the market situation? Are we going to continue doing more and more of exports?

Prasad Menon: We are not going to continue to increase our exports beyond a certain level because it is really only the extra production capacity that we have in Mithapur, which we are using for exports. So, the level of around 120,000-130,000 tons is really what we will continue to look at, but that is dependent on two or three things. One is the competitive position in South East Asia, which as you know is really dominated by the Americans and the Chinese, as well as how the price levels move. You know, somebody else asked the question earlier about the price levels and soda ash, we are waiting to watch because the synthetic soda ash manufacturers, wherever they are in world, will

surely have some cost increases because of coal and coke, and the natural soda ash manufacturers will surely have an impact because of the markedly increased freight. So how they will strategically price their product in South East Asia is something we are waiting to watch, but I reckon that our exports will remain in more or less in that region for the next year or so.

Rohini Andani: Sir, on the urea side, how is the distribution going to be decontrolled? Are we already seeing some decontrol or how has the policy been and what change are we expecting there on the distribution side?

Prasad Menon: Well, on the distribution side, they have now brought it down to 50%, and we believe that this will probably come down to 25% or even down to zero. Whether that will happen in the next Kharif for the year after, we are not sure, but that is something that we expect will happen. And what the government will do is that for any particular supply shadows that may arise in certain states, they will ask for an easy allocation with the corresponding freight subsidy, but I do believe that they will come down from 50 to 25 or even zero in a year or so.

Rohini Andani: Okay.

Prasad Menon: And two, if you can state what is happening on the divestment of some of the fertilizer companies. What kind of progress government is doing? And are we participating on any of the divestments?

Prasad Menon: We are examining whether we should participate. The only one currently which is being talked about, of course, is RCF. We are examining whether we should participate in that or not. As far as NFL is concerned, there is no decision on that score. But I think probably these things will only speed up after the elections.

Rohini Andani: Okay, thank you very much sir.

Prasad Menon: Thank you.

Moderator: Thank you very much madam. Next we have Ms. Hetal from CRISIL.

Hetal: Good evening sir. I wanted to ask what kind of capex you are looking at in 2003-2004, the total capex for the company?

Prasad Menon: The total capex will be about 40 crore or so.

Hetal: Okay, and are you planning any kind of capacity expansion to your soda ash business?

Prasad Menon: No, we are putting in some capacity for dense soda ash, which does not increase the overall soda ash capacity, it only increases the dense capacity. Coming up we will start that project in a month or so.

Ramya: Good evening Sir, I am Ramya from CRISIL, I have another question in the fertilizer sector. Now, the government is actually planning a reduction and further reduction in the second stage in the capital related charges. Now, has that been finalized by the government or is it still under the planning stage sir?

Prasad Menon: Well, as far as we know it has been finalized. There is a drop of about Rs. 140 a ton, and that is something that we will have to factor in next year.

Ramya: Okay, and how about the distribution decontrol sir. Is that applicable from stage I or only from stage II?

Prasad Menon: I am sorry, which one?

Ramya: The distribution decontrol that has been planned by the government?

Prasad Menon: Well, I think that they will probably bring it down to 25% from next year, that is from April 1, 2004.

Ramya: So, that is only under the stage II, it is no applicable on the stage I.

Prasad Menon: No.

Ramya: Okay, thank you sir.

Moderator: Thank you very much madam. Next is a follow up question from Mr. Atul Rastogi of Motilal Oswal.

Atul Rastogi: On this distribution decontrol, currently you are getting a freight subsidy, now whatever part is decontrolled would you get any kind of freight reimbursement or will it be completely up to you on that?

Prasad Menon: You know, once they get the average of the ECA freight subsidy, which is Rs. 100 less, freight subsidy will continue.

Atul Rastogi: Effectively it will be probably be Rs. 100 lesser?

Prasad Menon: Yeah, Rs. 100 less. So, we will have to really work out our zones of concentration after that.

Atul Rastogi: Okay, and secondly, coming back to that PetroNet L&G supply you are looking at, can you give us an indication of what kind of pricing, just a range of what kind of pricing would it be at?

Prasad Menon: Well, that is, I can only tell you what they are talking about. They are talking about something between \$4.5-5 per million btu.

Atul Rastogi: Okay, and in the second stage, will it be a pass through cost or will you have to bear the cost of de-bottleneck, I mean the higher cost of gas?

Prasad Menon: That should be a pass through. No, how they will finally treat it we do not know, but as far as the policy is concerned right now, it is a pass through.

Atul Rastogi: Okay, thanks a lot sir.

Moderator: Thank you very much sir. Next is a question from Mr. Amaresh of KR Choksi:

Amaresh: Hello?

Prasad Menon: Hello!

Moderator: Hello! Mr. Amaresh?

Amaresh: Hello! This is Amaresh. I have got two questions, the first one is, what is the strategy of the company for holding investments say TCS and other companies? And would it be offered for sale in the coming TCS IPO? The second question is you have 490 crore of debt as on December 31, 2003, and investment at Rs. 570 crore as on December 31, 2003. Investment has gone up in the last nine months. Would you please suggest the correct valuation of investment portfolio? And is the company looking for reducing its debt further by encashing investment in present market?

Prasad Menon: Okay, first of all, our holdings are in Tata Sons, and what we do with that particular investment really depends on the final role out whenever that happens of the IPO of TCS. So, it is premature to make any comment on that. As far as our debt is concerned, yes, we are down to about Rs. 490 crore. We are constantly looking at ways of reducing that debt further, and wherever possible, we will use our internal accruals for that. I think we have reduced it considerably over the last two years, but currently we do not see any immediate possibility of using our internal accruals, but that is our policy. We shall continue to look at it. As far as the investments are concerned, and the current value, I will ask Mr. Ghose to give you an answer.

P. K. Ghose: Let me first talk of the debt. While the debt is at 490 crore now, we will see a marginal increase in the debt in the last quarter, and that is because we have taken an ECB of about 91 crore at very low interest rate.

P. K. Ghose: As far as investments are concerned, you see we are constantly looking at ways of increasing our net asset value in spite of the changing environment right now, but as far as the actual valuations are concerned, we will revert to you in due course.

Moderator: Thank you very much sir. Next we have a question from Mr. Devang Patel of Taib Securities.

Devang Patel: Good day sir.

Prasad Menon: Good day.

Devang Patel: Sir, there is an interest on refunds of tax of Rs. 16 crore in this quarter. Can you tell us how this has been accounted for in the segmental results?

P. K. Ghose: We have actually netted it. If you see in the segment results, we have shown the inorganic chemicals profit-loss before tax and interest, and then netted out the interest at the end. So, the profit before tax has been taken against both together.

Devang Patel: Such an un-allocable income.

P. K. Ghose: Un-allocable income, rather un-allocated assets is another about Rs. 934 crore, and un-allocable income is about negative by about, Rs. 11 crore for the quarter, but on a yearly basis, it is around Rs. 24 crore.

Devang Patel: Sir, in the segmental results, where has this amount been adjusted in the revenue side?

P. K. Ghose: It does not form part of revenues. It is netted off against the profit.

Devang Patel: And in profit, it has been netted off against un-allocable income.

P. K. Ghose: Correct, that is right.

Devang Patel: Right. Sir, can you give me the total soda ash volume in this quarter?

P. K. Ghose: Soda ash domestic sales for the current year is 415,000 tons, and for the quarter it is 145,000 tons. As far as exports are concerned, it is 107,000 tons up to date and 26,000 tons for the quarter.

Devang Patel: Is not there a sequential decline in exports?

P. K. Ghose: The exports had increased in the first two quarters, but with the increase in the input cost, as Mr. Menon mentioned a little while back, we have to take a look whether it, we will really go to the full extent of a latent 40,000 tons.

Devang Patel: Fine, sir, in terms of the relaxed ECA norms allocations, can you quantify the gains that has accrued to the company because of this?

Prasad Menon: No, I do not think we can quantify how much gains there are, because it is really going to be an adjustment period of how do we distribute our sales. I think all the companies are now sort of in that transition phase of trying to adjust and see where they can move their material. So, I think it will be a little early to say if there are any gains.

Devang Patel: Sir, if you are receiving Rs. 100 per ton as freight subsidy, what is your actual cost?

Prasad Menon: That depends on how we move. That is what I am saying, you know, ideally for instance if we can sell all our material in a radius of 200 km, that will be great.

But then we cannot do that because we have markets to service right up to Punjab and Haryana where we have a very good brand image for our Tata Shudh Urea. So, we have to have a combination of selling a fairly large quantity in our command area as well as moving it up to places like Punjab and bringing it down to Bihar. So, it is something that we will have to work out based on market realities over the next year or so.

Devang Patel: So, what kind of volume growth is expected in the next year in fertilizers?

Prasad Menon: As far as I see I think it will be pitched more or less at the same level.

Devang Patel: Is the company planning to increase production over and above the reassess capacity?

Prasad Menon: Absolutely depending on government policy.

Devang Patel: Okay, thank you sir.

Prasad Menon: Yeah, thank you.

Moderator: Thank you very much sir. At this moment, I would like to hand over the floor back to Mr. Jaideep Goswami for final remarks.

Jaideep Goswami: Thanks a lot. I would once again thank the management of Tata Chemicals for participating in this exhaustive conference call answering all the questions. I would like to thank Citigate Dewe Rogerson for working with us to make this call a success. Thank you all.

Prasad Menon: Thank you.

P. K. Ghose: Thank you.

Moderator: Ladies and gentlemen, thank you for using CyberBazaar's conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.