

Tata Chemicals
Q3 FY05 Investors / Analysts Conference Call
January 19, 2005

Moderator: Good evening ladies and gentlemen. I am Parimala, the moderator for this conference. Welcome to the Tata Chemicals conference call hosted by SSKI Securities. Mr. Chirag Shah of SSKI 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. Chirag Shah of SSKI. Thank you and over to Mr. Shah.

Chirag Shah: Good afternoon everybody. I have with me Mr. Prasad Menon and P K Ghose of Tata Chemicals. I would request them to give a brief about the recent quarterly results before we kick off with the Q&A session. Over to you Mr. Menon.

Prasad Menon: Yes, thank you Chirag. Good afternoon ladies and gentlemen, and welcome to this conference call. Tata Chemicals' performance in the quarter ended December 31st 2004 was characterized by strong revenue and profitability growth. Let me start with the chemical sector first. Smooth operations at our Mithapur manufacturing facility resulted in the capacity utilization levels of our soda ash plant reaching 93.5% for the quarter under review.

Besides maintaining our leadership position in the domestic market, we continued to focus on strengthening our global presence. We exported 46,600 tons of soda ash amounting to 44% of India export volume this quarter, but we continued to have high prices on our coking coal as well as coal as inputs to the business.

In the food additives business, Tata Chemicals continues to lead the market with a 40.5% market share in the edible salt. Tata salt had the distinction of ranking first in the food brands in the brand equity ranking for the year 2004. In December, we also launched 100 gms Tata salt table dispenser sets, which have received a healthy consumer response.

STPP, though a relatively small portion of our business, also performed strongly. Sales of this product grew by healthy 30% over last year, driven mainly encouraging growth of the detergent segment.

Moving on to fertilizers, the performance in this segment was healthy provided by good monsoon both urea and complex fertilizers sales volumes were strong. Urea sales grew 10% on a year on year basis this quarter from the year before, while sales of DAP and NPK fertilizers improved by 26%.

You would recall that in the second quarter, operations at our Haldia facility was constrained due to limited availability of phosphoric acid and ammonia. In the third quarter, however, there were no such limitation and production improved considerably.

There was also considerable increase in fertilizer trading activity during the period under review driven by the re-branded 'Tata Kisan Sansar'. The network has since been extended to Agra and Chandigarh.

In addition, our Babrala manufacturing facility received the prestigious Sword of Honor from the British safety council for safety management system. The Sword of Honor is recognized world over as the pinnacle of achievement in safety management and is designed to encourage and reward best practice in this area.

Our business outlook is positive. Demand for soda ash has considerably increased with growth in the glass segment being the biggest trigger. Concurrently, while efficient management of our operations has enabled us to combat steep input cost increases. Cooking coal prices do not appear to be abating in a hurry. Soda ash prices have hence been increased by around 7% in November 2004. In the food additives category too, we are exploring opportunities to expand our presence. The company's food additive offerings continue to generate good response at both the distributor and the consumer levels. Tata Salt continues to lead the market with a high and strong market share, and the brand clearly enjoys strong equity.

I believe the prospects for the fertilizer business too are positive, while anticipation of a good rabi crop may have resulted in some advance purchases of Urea, DAP and complex fertilizers, production and sales of these products continue to be healthy.

Despite the challenges posed by the external environment, the results of Tata Chemicals thus far further fortify my belief in the ability of our company to meet those challenges, and in doing so consistently to deliver growth and value going forward. I will now request Mr. Ghosh to share with you key financial highlights of the completed financial quarter.

P K Ghose: Thank you Mr. Menon. Good afternoon ladies and gentlemen and thank you for joining us on this call. As you are aware, all comparisons of financial performance in the communication and the financial result tables shared with you are between that of the merged entity in Q3 of Financial 05, and for the nine monthly financial 05, and the restated combined financial of the two companies in the corresponding periods last year. The figures are hence comparable.

Tata Chemicals income from operations registered an encouraging 38% growth to touch 1,039 crore from 755 crore the year before. Our operating profits and margins have not moved to the same extent primarily because high portion of our sales are from fertilizer trading activity. While margins on trading are relatively thinner, the business enables us to expand and more deeply entrench our association with the farmers, which is eventually the long-term objective, though through the Tata Kisan Sansar network we are able to bundle various requirements of the farmer and provide them under one roof.

Operating margins in the inorganic chemicals business too were lower on a corresponding quarter basis largely because of the continuing high cooking coal prices as well as increased export volumes.

Enhancement of exports is in line with the Tata Chemicals objective of being a leading global player. However, export margins though healthy are relative small compared to domestic.

Our earlier initiated debt restructuring initiatives continue to deliver results. Total debt stands at 743 crore of which 40% or Rs.295 crore compromises short term buyers credit which is availed at far lower interest rates.

I may also add that during the quarter ended December 31st 2004, Tata Chemicals received tax refund, the interest element of which amounted to Rs.22 crore. This refund pertains to claims for the assessment year 1995-96.

We continued to pursue opportunities for organic as well as inorganic growth in both our business segments, and at the EGM yesterday have obtained shareholder approvals to raise additional long-term resources for the same.

Our results and the strength of our balance sheet give me reason to concur with Mr. Menon's confident outlook. Thank you for your time, Mr. Menon and I would now be happy to take the discussion further.

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 questions, please press *1 now. First in line we have Mr. Amit Dalal from Amit Nalin Securities.

Amit Dalal: Good afternoon sir. Congratulation on extremely high top line growth, much higher than I think the industry expected from you sir. Of course, as you mentioned that margins are a question, and for an increase in turnover of almost Rs.285 crore year-on-year and even perhaps similar increase quarter-on-quarter, the profit increase has only been Rs 10 crore at the operating level and the cost of traded goods has also gone up by only about Rs 60 crore, so where else in the manufacturing processes has cost gone up and whether the next quarter and thereafter we see any relief from this?

P K Ghose: Thanks Amit, I will just answer. The turnover has gone up Rs.285 crore, but in this Rs.123 crore pertains to DAP and complex fertilizers which is a much thinner margin business, and Rs. 62 crore came from the trading of fertilizers against which we have not yet received the circular for prices, the impact of which will come in the next quarter. So roughly about Rs.185 out of the Rs.285 crore have given thinner margins. That is really the basic reason why our operating profits have increased by only Rs 10 crore as against the turnover increase of Rs 285 crore.

Amit Dalal: So is there some Government relief in pricing that we can expect on this turnover in the quarters to come?

Prasad Menon: In the next quarter, we expect an increase in traded DAP price.

Amit Dalal: And in the inorganic chemicals sir, in soda ash, since prices are going up, is there going to be an increase in margins relative to the previous quarters or is cost taking some of that gains away from us?

Prasad Menon: As I mentioned, we did take a price increase, which will start biting now. And this will help us in the last quarter. As far as the costs are concerned, I think we will be able to contain them where they are.

Amit Dalal: Okay, thank you very much sir.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now. Next in line we have Mr. Sachin Kasera from Pioneer Intermediaries.

Sachin Kasera: Sir my question is pertaining to the money-raising proposal that we are perusing. I have seen that our debt equity levels are quite healthy, and if you look at the first 10 months the cash flows have been to the tune of more than 300 crore, and I think we are well on course of more than 400 crore in terms of cash flows. Having said that what is the need in terms of raising money at this point of time because I believe the type of cash flows we have and the type of leveraging we have, it would be better, if in case opportunities arise, we should go in for debt rather than raising equity?

P. K. Ghose It is a good question. Actually we have surplus cash available on the balance sheet, but in addition we are looking at various proposals. As discussed in our earlier sessions, we are looking at modernizing our plants, de-bottlenecking some of our fertilizer capacities. We are also looking at inorganic growth both in the soda ash as well as in the fertilizer segments and as you know we are looking at the Bangladesh proposal. Of all these, we certainly expect some of the proposals to fructify in the near future. The fund raising program is basically so that we are not caught napping at that time. And as you rightly said, substantial portion of this will be through debt because our debt equity ratio at about 0.3:1 is very good. Although it has not been decided, but substantial portion will be through debt.

Sachin Kasera: Sir is this an enabling resolution or we are going ahead with the fund raising?

P. K. Ghose: No it is an enabling resolution.

Sachin Kasera: Okay, and secondly sir, as you mentioned modernization and expansion, so could you just give an idea as to irrespective of say the plans we are perusing in Bangladesh for the acquisition, what is the planned capex as on date for next one to two years?

Prasad Menon: For the Babrala facility we are looking at about a spend of Rs 150 crore, and we are awaiting the Government approval because in fertilizers until we get an approval particularly in urea, we can't go ahead. In the Mithapur area, we are looking at anything between Rs 150 to 200 crore.

Sachin Kasera: Sir my second question is pertaining to, you had mentioned that consumer division is looking at further opportunities, so could you just throw some light on what is the actual thought process behind that?

Prasad Menon: See, we are looking at it from two points of view, one is in the salt category itself, we have, as I mentioned just launched the 100-gram tabletop salt dispenser. We are also looking at exporting Tata Salt and at the crystal salt segment. We have already started marketing it in the south. So we are doing segmentation in the salt business itself. Further, we are looking at the possibility of value added salts in times to come. So there are number of offerings that we want to increase.

Sachin Kasera: Okay, but it is going to be predominantly salt, we are not looking in terms of expanding the category to include other items also?

Prasad Menon: We have just started the sodium bicarbonate branded product, and that I think we need to look at over the next year or so.

Sachin Kasera: And just one last question is regarding the acquisition, we understand that one of the large players in the soda ash industry is currently being offered for takeover, so what is the status there, I mean, has Tata Chemicals participated...?

Prasad Menon: We have also heard so; we will evaluate it and see if it is worth looking at.

Sachin Kasera: But we have still not put any proposal or anything?

Prasad Menon: No not really.

Sachin Kasera: Okay, but sir can we expect something...?

Prasad Menon: It is difficult to say.

Sachin Kasera: Okay fine, thank you very much sir.

Moderator: Thank you very much sir. Next in line we have Mr. Ranjit Kapadia from Tower Capital.

Ranjit Kapadia: Good afternoon sir and congratulations for the good set of numbers. I have two sets of questions, one pertaining to the soda ash, what is the outlook for the pricing of soda ash in the coming year? Second is the effect of coking coal prices, which you have said that high coking coal

prices have affected our margins. Going further will you be able to pass the increase in price of coal to the pricing of soda ash?

Prasad Menon: Okay let me take those two questions. As far as the soda ash pricing is concerned, globally as you probably know the prices have firmed up. Soda ash is coming into India at about \$160. It used to be approximately \$136 about 4-5 months ago, so there is a distinct \$24 increase there. South East Asian markets have moved up to about a \$185. Internal prices in China have gone up to \$210. So there is a steady move up in pricing, and that is why we have been able to take up our prices in end of November, and so that will certainly start coming in now from this quarter onwards. As far as the input prices are concerned, we believe that coking coal prices will continue to be high, steam coal prices will continue to be high, coke prices will also sympathetically be fairly high. Our experiments in the first six months at Mithapur are now beginning to give us benefit, and that is the mix of anthracite and coke in our kiln, and after trying various types of anthracites from Vietnam and China and so on, we have now stabilized with South African anthracite, which gives us a definite benefit. So we would be able to stave off these increases over the next few quarters.

Ranjit Kapadia: And sir, we have said that we have taken the price increase in November, can you quantify what was it?

Prasad Menon: We have taken a 7% increase.

Ranjit Kapadia: 7% increase, okay. And how much was the coking coal price increase?

Prasad Menon: See the coking coal prices had gone up to about \$320, it came down to about \$250 and is showing signs of going up to about \$270 again. So I think we will have to accept that it will be somewhere in that \$250 to \$300 range.

Ranjit Kapadia: And in terms of percentage of raw material cost, how much does it come to?
Ranjit

Prasad Menon: Our overall energy costs are about 25% of our variable.

Ranjit Kapadia: Okay. And sir, can you give some outlook for the glass industry because this is the main ingredient...

Prasad Menon: Yes, the glass industry is actually doing extremely well, and within the industry the biggest growth is taking place in flat glass, and within the flat glass such as the float glass as you would probably know Saint Gobain and Asahi are increasing their capacity, and I am sure that Gujarat Glass will also follow suit.

Ranjit Kapadia: And this is happening not just in India but both in China and Southeast Asia. So there is very strong growth taking place. It is not just because of infrastructure and building, but also automobiles, which are growing at a fast rate, and also screens for things like mobile phones etc. So

demand for specialized glass is increasing and which is why we are putting up our dense soda ash plant, which will come up around May-June next year and will be able to cater to this particular quality on a steady basis.

Ranjit Kapadia: Sir regarding the fertilizer business, you said that we have got a 26% growth in **NPK**. What was the price, whether it was constant price or this was due to price increase?

Prasad Menon: No, there was no price increase. Actually we have just been trying to keep our balance of DAP and NPK in such a fashion that we get the advantage of the balance fertilizer growth in Bengal. So you will find us doing more and more of NPK.

Ranjit Kapadia: Thank you sir, thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Anish from Sahara Mutual Fund.

Anish: Good evening this is Anish here. What I would like to know is that do you have any tie-up for supply of coal or you will be purchasing from the open market?

Prasad Menon: No, we don't purchase from open market as such. We work with Tata International and Tata Power and they have long-term contracts. Depending on what kind of coal is required, for instance Tata Power's coal requirements maybe different from ours, say from the kind of boilers we have, they are the ones who help us to get into long-term contracts on coal.

Anish: Second question is regarding this capex plan, you have said that Rs 150 crore for fertilizer, Rs 200 crore at Mithapur, this works out around total Rs 350 crore is what you have said as far as capex is concerned.

Prasad Menon: Yes that is what we already had in hand very clearly, and of course it is public knowledge that we are looking at Bangladesh, which would be a very large sum, and as and when some of our attempts at growth in other areas, whether through new projects or through acquisitions come up, we should be in a position to be able to handle it.

Anish: And sir, Bangladesh plant is approximately, it is reported around \$500 million sort of project?

Prasad Menon: We are still doing the basic work on that.

Anish: Okay, no what I am trying to drive at from this is that, assuming this sort of capital requirement is coming in, what shall be the composition of say debt and equity, I mean, how exactly you would....?

Prasad Menon: Actually as Mr. Ghose said earlier we are still working on that. All we know is that a substantial part of it will be through debt, so that we can leverage our balance sheet better.

Anish: Okay. Recently some of the analysts have met you and they have given us the feedback that there is a possibility of some backward integration to secure supply of phosphoric acid?

Prasad Menon: That is something we have been looking at for the last one-year or so. We haven't yet got into any particular arrangement, but we are looking at that to see whether that is possible.

Anish: Fine thanks a lot.

Moderator: Thank you very much sir. Next in line we have Mr. Shiv Puri from Voyager.

Shiv Puri: Hi, couple of questions, the price hike that you took in salt towards September, did that improve margins for that business at all in the fourth quarter?

Prasad Menon: Yes, slightly.

Shiv Puri: So the margin impact was from soda ash and we understand that is because of the raw material increase and the price impact not having hit yet.

Prasad Menon: Yes, that's right.

Shiv Puri: Now when you have taken up the price 7% via customers, really this is a first full quarter we should see that, but what percent of your customers have long term contracts which would not feel the impact this quarter?

Prasad Menon: We have long-term contracts with about 30% of our customers, 30% of our total sales, but with effect probably from about January, virtually all our customers will be on the higher price.

Shiv Puri: Okay that's excellent, and then just again, a quick question on last quarter in terms of we saw exports go up quite a bit, with the domestic market so strong driven by glass, why is the export that high, why don't you supply more just in the domestic market?

Prasad Menon: See the exports market presents a strategic opportunity. As you know the domestic market also has almost about 200,000 to 250,000 tons of imports, largely coming in from Europe and from Kenya. Their main market is Southeast Asia and the Gulf region, and we also need to make our presence felt and take a little market share in Southeast Asia to combat some of their moves in this entire region. So it is largely strategic. Earlier on the kind of margins we were getting from those exports into Southeast Asia were fairly low, but in the last month or so we have been able to get long term contracts on exports at significantly higher prices, and we have been able to now sort of get the kind of prices that Europe and the US are getting in Southeast Asia, we are just close to \$180 to \$185.

Shiv Puri: And just in terms of margins, what is the differential typically between exports versus domestic now with a new price increase?

Prasad Menon: With the new pricing, it is going to be very low.

Shiv Puri: Oh excellent, that's great. And then my next question is just in terms of the raw material impact, clearly we saw what happened this past quarter, but are there any of the prices for raw materials that you get, specifically coke and coal into any sort of long term contracts so that this quarter you won't see that same increase we saw last quarter?

Prasad Menon: Yes we are in long-term contracts right now. For coking coal we have an arrangement with a converter who is based close to us, and we have annual contracts with him. On top of that, we also have contracts for supply of pet coke for our boilers. So we are fairly well insulated from month-to-month or quarter-to-quarter changes.

Shiv Puri: And these long-term contracts are typically signed at the start of the fiscal year or after?

Prasad Menon: Not necessarily. We have some contracts, which are moving into June, July, August etc., and in some cases we prefer to do a six-month contract.

Shiv Puri: So the way you look at it for the next three to six months, you don't expect raw material for soda ash to impact negatively in any meaningful way.

Prasad Menon: I don't think so. It will be probably more or less held at the same levels.

Shiv Puri: Okay thank you.

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

Atul Rastogi: Good afternoon sir, I had two questions primarily. One is on urea, for the nine months your volumes are up 10%, and do you expect the year also to end at 10% because I believe the gap is still there or has it been removed?

Prasad Menon: No, there is the gap but what has happened is that the Government has also asked industry, if possible, to produce more and give it to them because of the very high prices that are reigning outside. So there is an arrangement and a policy that has been determined by the Government where they determine a particular import parity price for a quarter, and the contribution for this extra production will be shared between the Government and the industry, so we will get 35% and the Government will keep 65%, so we are producing more than our 863,000 gap.

Atul Rastogi: So on that incremental production your margins will be lower.

Prasad Menon: Our margins will be lower, but if you compare it year-on-year from last year, it is an extra contribution that we get.

Atul Rastogi: So you would end the year with 10% volume growth roughly.

Prasad Menon : Yes we should.

Atul Rastogi: Okay. And second question was on de-bottlenecking application, the Agriculture Ministry I believe has approved it, and the Fertilizer Ministry is yet to clear it, which was expected very soon, any status on that?

Prasad Menon: Yes, it is with the Fertilizer Minister, so that's what we have heard. So if he is able to spend some time on this, I hope it will happen.

Atul Rastogi: Sir, looking at the fertilizer business your margins were stable compared to same period last year, and in spite of there being very high trading turnover and margins in urea would have gone down, what do you attribute this stable margins to?

Prasad Menon: No, the urea margin is anyway quite stable because it is based on the particular policy that they have; there is a fixed price that we get.

Atul Rastogi: No, on the incremental 10% your margins would be lower.

Prasad Menon: Overall our margins will be slightly higher. If you take it that the margins are fairly steady based on the group pricing that we get, any increase in production even at a lower margin will give you an overall higher margin because your fixed costs are covered anyway. So we are hoping that with this continuing into the fourth quarter the urea business margin should be slightly better.

Atul Rastogi: Okay, what I am trying to drive at is, in the manufactured phosphatic business, have your margins gone up significantly?

Prasad Menon: Yes, from the last year, margins have gone up significantly.

Atul Rastogi: Okay, and that could continue in the...

Prasad Menon: Problem that we faced over there is the availability of phosphoric acid that took place in the first six months.

Atul Rastogi: No, but compared to the same period last year?

Prasad Menon: Yes, compared to the same period last year we have done better.

Atul Rastogi: Okay and just a small question on other income, you had two major components, one was interest on income tax refund and the other was gain on sale of shares. Now, if you total that it comes to Rs 61 crore, which is exactly what you have shown, so there was no other income from investments or your cash which you had.

P. K. Ghose: No, actually Rs 22 crore came from interest and tax refund, and I think for the nine month period, we have got around from sale of shares, which was Tata Honeywell and before that I think a total of Rs 34 crore.

Atul Rastogi: No, I am talking about the quarter.

P. K. Ghose: For the quarter its about 28 crore coming in from sale of shares.

Atul Rastogi: So there is no other income from the cash that you have on the balance sheet?

P. K. Ghose: No, no, that is the different one, you see, this Rs 29 crore actually you will be getting, this 29 is not totally sale of shares it will be 26 or 27 crore and the difference would be the income from mutual funds etc.

Atul Rastogi: Okay, thank you.

Moderator: Thank you very much sir, next in line we have Mr. Ambrish from KR Choksey.

Ambrish: Hello Mr. Menon and Mr. Ghose, congratulations on the set of numbers.

Prasad Menon: Thank you.

Ambrish: Just a question out here that you were talking about looking at exporting Tata Salt in time to come, can you just give me an idea about what are the plans in case you are exporting and what would be the size that you are looking at?

Prasad Menon: Well to talk of the size right now would be premature, but we are looking at exports into the Gulf as a first step.

Ambrish: Have you begun any talks on that front?

Prasad Menon: No not now, we are making preparations for it. Hopefully over the next three-four months it should happen.

Ambrish: And other thing I wanted to understand is, in the December quarter, the supply of ammonium and phosphoric acid has been quite comfortable I believe.

Prasad Menon: Yes it has been much better.

Ambrish: Is this the reason why we have seen such a strong growth also happening on the volume side?

Prasad Menon: Yes.

Ambrish: How do you expect this going forward in say next few quarters, is this going to be sustained?

Prasad Menon: This is the effort that we are making now. There is no doubt that just like many of the other commodities, phosphoric acid is also something which is where the balance between supply and demand is tight, so we have been looking as I said over the last one year to see how we can securitize that and we believe that will happen over the next three-four months.

Ambrish: And are we expecting to pay little bit higher price for this regularity in supply?

Prasad Menon: No, I hope not.

Ambrish: So even if we increase the volume and supply remains constrained consistently, the margin pressure would not be increasing?

Prasad Menon: No, I don't think so. It shouldn't happen that way.

Ambrish; Thank you so much.

Moderator: Thank you very much sir. Next in line we have Anil Keeney from Rosy Blue Securities.

Anil Keeney: Good evening sir. I just wanted to know whether we have considered the impact of cash inflows, which we might get after the debt investment of rather public issue of Tata Sons Ltd. So have we considered that in the capital expenditure sir?

Prasad Menon: We have also read about this in the papers just like you have but we have no other information.

Anil Keeney: Okay, but have we considered the impact when we are considering the debt equity ratio because of that?

Prasad Menon: No.

Anil Keeney: Okay, thank you sir.

Moderator: Thank you very much sir. Next we have a follow-up question from Mr. Sachin Kasera of Pioneer.

Sachin Kasera: Sir my question is regarding salt exports; I believe that the international salt prices nearly doubled from around \$15 to \$20 per ton to around \$30 to \$40 a ton. We have our own salt mines, and do you believe there could be an opportunity where in we could look at exporting salt.

Prasad Menon: Yes there is an opportunity. The problem is that the ports that we have around our factory are not deep water ports, and really the name of the game is freight and it would have been possible if we have had a deep water port and we could have brought in larger vessels, then we would have had an opportunity for large exports, but I am afraid that currently is not possible.

Sachin Kasera: I believe Gujarat has a big coastline; so can't we explore other port opportunities nearby?

Prasad Menon: But again, the freight from the mine to the port is going to kill it. Whatever exports of raw salt that is taking place is really taking place from the Kandla site.

Sachin Kasera: Okay sir. My second question is regarding the capacity utilization of the Mithapur plant, you have mentioned it has already around 93-94%, considering that demand is growing at 5 to 7%, don't you think we should be looking at in terms of expansion because if we are talking of boom in float glass and the glass segment we should be looking in terms of expanding capacity?

Prasad Menon: Yes, first of all we are looking at capex in setting up a 600 ton per day dense soda ash plant. Right now we are using technology, which is fairly old, and this new modern dense ash plant will take care of the requirements of the glass manufacturers. So we will be able to improve our dense ash supplies to the glass side. We are looking at the modernization of that facility, but modernization of the facility should also perhaps free up some capacity.

Sachin Kasera: Okay, how much could we look in terms of..?

Prasad Menon: It is difficult to say.

Sachin Kasera: Okay. But I believe this dense soda ash would only increase the value addition, it will not increase the overall volumes

Prasad Menon: It increases the value addition, you are right.

Sachin Kasera: Okay. And sir in terms of the raw material purchase, and what we do with Tata International, are these basically volume contracts or we also have fixed price contracts because...?

Prasad Menon: We have a combination of both.

Sachin Kasera: Okay. And last question is regarding the increase in other expenditure, I believe it has moved up from around 60 crore for the last quarter to around 78 crore, considering the large part of increase in turnover has come mainly from traded goods, what has caused this sharp increase in other expenditure? And sir same thing is regarding stores and spare parts, because I believe that is also primarily into the manufacturing operations.

P. K. Ghose: Yes, the stores and spare parts is basically because of the increase in packing cost, you know, all the pouches the cost has increased, so it is almost entirely due to that.

Regarding the other expenditure which is high for the quarter compared to the previous year's quarter, I think it's a combination of three factors, one is that as you will recall our Mithapur plant had some severe calamities from earth quake, fire, etc., for which we had substantial insurance claims. And while we have received the full claims, and in fact more than that there was an amount of about Rs 6 crore, which we had to write off, and have taken in this quarter, is not recoverable. Second is that we also had certain debts which were not recoverable, which we have written off. And the third is you know because of various initiatives, which we are taking up for growth in both organic and inorganic, we had to incur some additional expenditure. So combination of these three factors....

Sachin Kasera: Okay, what was the debt write off?

P. K. Ghose: Debts written off is around Rs 5.8 crore.

Sachin Kasera: And this additional expenditure for new initiatives.

P. K. Ghose: That is also in the same region.

Sachin Kasera: Okay, thanks a lot

Moderator: Thank you very much sir. Participants who wish to ask questions please press *1 now. Next in line we have Mr. Kartikeyan from Stratcap Securities.

Kartikeyan: Good afternoon sir this is Kartikeyan from Stratcap Securities. Sir, I wanted a clarification or some elaboration on the Bangladesh project, one would be the policy framework, would this project be set up for importing into India and selling or what exactly would the thinking be, could you throw some light on that?

Prasad Menon: As I said it is very early stages for me to give you definitive answers, but I can just give you some thoughts on that. The Bangladesh domestic market itself also would require urea. What we are looking at is a combination of supply to domestic as well as exports. Now this export may not immediately come into India because as you know the urea imports into India is canalized

through three public sector organizations. So we would look at other markets in Southeast Asia .Initially, we would do that, and as changes take place in India for imports, This we believe will take place over the next 3-4 years. So it is a combination of both

Kartikeyan: Okay. And what kind of gas supply have you been assured for this project sir, has there been any kind of agreement on that?

Prasad Menon: Not yet, that is one of the major things that we still need to do.

Kartikeyan: Okay, and would it be set up on an independent basis or would some Bangladeshi entity also participate.

Prasad Menon: That also has not yet been decided. At the moment we are really looking right the infrastructure. And then we will move into having discussions with the Bangladesh Government on gas. And once that is decided then we will look into ownership issues, equity issues etc.

Kartikeyan: And what kind of timeframes are you thinking about say for possibly developing a crystallized plan?

Prasad Menon: We are looking at perhaps another 6 to 7 months from today.

Kartikeyan: Okay. I have one more question sir, this is regarding LNG that you have used in the current quarter, how much LNG and naphtha have you purchased, would there be some information on this?

Prasad Menon: Yes. LNG actually is varying because this is really LNG which is sort of backup supply, as you know that those agreements still have not been finalized, but if you take a total requirement of about 1.7 million cubic litres per day we are getting roughly any thing between 0.1 to 0.15.

Kartikeyan: Okay fine, and you buy from IOC you said.

Prasad Menon: Yes, we buy from IOC.

Kartikeyan: Sir, I understand that ammonia prices have come up quite sharply. Is that correct and how would this be impacting you?

Prasad Menon: See that's exactly what's been happening with the ammonia prices for the last two years.

Kartikeyan: Right. I mean, I observe the cyclical trend in fact sir, so would it be reasonable to say that it's a temporary thing because for three consecutive phases I notice that it is coming up sharply.

Prasad Menon: It has been there for the last two years. Ammonia prices have been very high globally. We think that it will continue for another year or so till new capacities come into stream.

Kartikeyan: You expect them to remain high?

Prasad Menon: It will be fairly high, certainly next two quarters if not three.

Kartikeyan: Okay, thank you so much sir.

Moderator: But right now I take Mr. Ranvir Singh from Capital Market, he is in the question queue. Mr. Ranvir Singh, sir you can go ahead.

Ranvir Singh: Good afternoon sir, this is Ranvir Singh from Capital Market. My question relates to soda ash. Soda ash prices were revised in November, is there any plan to further increase soda ash prices in the near future?

Prasad Menon: Not that we can think of right now.

Ranvir Singh: Secondly, is there any contract pending before when price was revised, I mean, the period before November?

Prasad Menon: From January onwards most of our contracts will go to new price.

Ranvir Singh: Secondly, I see an increase in trading activities during this quarter and in the nine-month period also; this increase in trading activities is in terms of increase in volume or price, or combination of both?

Prasad Menon: Actually this is related to our Tata Kisan Sansar where we trade not only fertilizers but also seeds and pesticides. That is the activity that will continue and the impact we will see over the next year in the form of increase in volumes.

Ranvir Singh: Sir, again, you mentioned that now our requirement is to be fulfilled through a mix of anthracite and coke. How much cost would be saved on this process, can you throw some light on that?

Prasad Menon: We are trying to see whether we can sustain the prices that we had in the beginning of the year so may be about 10% or so.

Ranvir Singh: Okay, that's all sir, thank you.

Moderator: Thank you very much sir, next in line we have Mr. Krishna Kumar from Sundaram Mutual Funds.

Krishna Kumar: Good evening sir, I just wanted your view in terms of how you see the chemical prices moving in the next one year in terms of broad cycle in terms of soda ash, I think you answered one of the previous participants, in terms of fertilizer how do you see the pricing scenario globally moving, and lastly more macro level, in terms of current chemical cycle, from where these kind of constraints emanated from, which part of the globe, is it China, or what is the kind of trigger that's happened in last six months, if you would just share your thoughts on that?

Prasad Menon: Okay, apart from soda ash and the commodity chemicals virtually every commodity price has increased, for instance the chlorine industry is doing a lot better. What is triggering this increase is largely China and rest of Asia and particularly South-East Asia. The growth in these regions is really moving the prices up. On the fertilizer front, the trigger is actually not China but more South America, and in particular Brazil and Argentina. These are the two countries where the growth in agriculture in significant amounts. So if you look forward, it's very difficult to give predictions, but it is certainly looking as if the current robust price levels will continue not just in most of the commodity chemicals but also in fertilizers whether it's Urea, DAP, or the inputs like ammonia and phosphoric acid, they will continue I think this year.

Krishna Kumar: Okay sir, thank you very much

Moderator: Thank you very much sir. Next we have a follow up question from Mr. Shiv Puri from Voyager.

Shiv Puri: I just have a follow-up question. On the other expenditure, the insurance side of it you said a little over 5 crore, is that offset against your soda ash inorganic chemicals margins?

P. K. Ghose: Soda ash margins are impacted because of that.

Shiv Puri: Okay and what about for the debtor write off?

Prasad Menon: Partially in chemicals and partially in fertilizers.

Shiv Puri: Half and half?

Prasad Menon: About.

Shiv Puri: Okay, and for insurance mostly organic.

Prasad Menon: Yes, virtually, in fact this particular amount is all for soda ash.

Shiv Puri: Okay, excellent. The other question I have is just sort of a broader strategic type of question. It has been asked in a couple of ways before, but basically how you think about capital allocation, you currently have about more than Rs 500 crore of cash, you have got 150 crore of cash or even more, you have investments the market value of which is at Rs 1700-1800 crore. You know, it is a very rich company, why would you expand using more leverage? I am not necessarily saying that's a bad thing if you can raise money cheaply, which I am sure you can, but I just wanted to understand the thought process?

Prasad Menon: Whatever the valuation of investments, we don't want to touch that, that is largely within the group. But in terms of cash availability, yes, we have about Rs 350-400 crore, and we will certainly utilize that, but the kind of proposals that we are looking at right now will require considerably more and therefore we are looking at raising debt.

Shiv Puri: Okay, and would this, are you thinking of any mix between domestic and international, have you thought about that yet or..?

Prasad Menon: Yes, we are looking at that.

Shiv Puri: All right thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now. At this moment there are no further questions from participants, I would like hand over the floor back to Mr. Chirag Shah of SSKI for final remarks.

Chirag Shah: I would like to thank everybody for participating in the call and would like to thank Mr. Menon and Mr. Ghose for taking time out for talking to the investors. Thank you very much sir.

Prasad Menon: Thank you. It has been a pleasure.