TATA

TATA CHEMICALS LIMITED

Q3 & 9M FY2006 Conference Call
Wednesday, 1 February 2006

Moderator: Good afternoon Ladies & Gentlemen, thank you for standing by. This is Roshni, the moderator for your call today. We welcome you to the third quarter results conference call of Tata Chemicals, hosted by Batliwala and Karani Securities Limited. We have with us today, from Tata Chemicals Mr. Prasad Menon, the Managing Director and Mr. P.K. Ghose, the Chief Financial Officer and Mr. Ghanshyam Das Agarwal, from Batliwala and Karani Securities Limited.

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Ghanshyam Das Agarwal: Thanks Roshni. Good afternoon everybody and welcome to the Tata Chemicals third quarter earnings conference call. We have with us Mr. Prasad Menon, Mananging Director and Mr. P.K.Ghose, CFO, Tata Chemicals. I would now hand over to Mr. Menon for his opening remarks. Over to you Sir.

Prasad Menon: Thank you Ghanshyam and Good afternoon Ladies & Gentlemen. On behalf of Tata Chemicals, Mr. Ghose and I are happy to welcome you this conference call. The quarter ended December 31st 2005, has been an extremely strong one for Tata Chemicals. Our net sales have improved 21% to Rs. 1,258 crore and profit from operations has increased by 31% to an impressive Rs. 171 crore. The strength of our operating performance has meant that our profit after tax has demonstrated growth on a year-on-year basis despite a significant Rs. 51 crore income in the corresponding quarter last year on account of profit on sale of investment and interest on tax refund. Our strong performance during the quarter has been enabled by enhanced volumes, improved realizations and a continuing effort towards sweating our assets to enhance productivity.

Let me briefly take you through the performance of our business segments. Starting with chemicals, both sales and production volumes of soda ash have been strong. The modernization program that has been undertaken at our Mithapur facility has enabled us to achieve far better capacity utilization levels. Sales realizations have improved on the back of the price increases which had taken place earlier in the year. And this combined with stable input costs has contributed to significantly improved operating margin. In December 2005, Tata Chemicals also acquired a majority is stake in Brunner Mond group of the UK. For Tata Chemicals this transaction represents another step towards building a global soda ash business. It makes us the third largest soda ash player in the world enabling us to establish a presence in the natural soda ash segment wherein manufacturing costs are significantly lower. The combined business also enables us to reach the geographies of Europe, Asia and Africa besides strengthening our leadership positioning in India.

In the food additive business, Tata Salt continues to lead the Indian market and the export of our Topp branded edible salt have been encouraging.

Moving on to our fertilizer business a healthy agricultural season enabled strong fertilizer demand. Tata Chemicals continues to be the most energy efficient player in the urea sector with an energy consumption of 5.05 giga calories for one metric tone of urea. Moreover all production during the quarter was completed using natural gas and regasified LNG with no consumption of naphtha. At our phosphatic fertilizer plant in Haldia with an increased thrust on the NPK and complex fertilizers, contributed to improve realization. Our tie up with IMACID Morocco has enabled uninterrupted operations despite continuing tight supplies of phosphoric acid and rock phosphate globally. However, delays in the settlement of the phosphoric acid prices by the Government remain a challenge. We are still looking for some clarity with the tabling of the Abhijeet Sen Committee report to the Government.

Our business outlook remains positive, the demand environment for all our products continue to be healthy. The plant modernization programme alongwith the Brunner Mond acquisition considerably strengthens Tata Chemicals' competitive position in the soda ash segment, which I believe has tremendous growth potential going forward. In the fertilizer segment we are consistently paring our energy consumption level and increasing our thrust on NPK and complex fertilizers. The increase in *Rabi* acreage is also expected lead to higher consumption fertilizer.

Thank you for your time. Mr. Ghose and I would be happy to take any question from you.
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Moderator: Ladies & Gentlemen, we will now begin the live question-and-answer session. We have our first question from Mr. Hiten Mavani of Morgan Stanley Asset Management.

Hiten Mavani: Good afternoon Sir, congratulations on your good results. You have acquired 63.5% stake in Brunner Mond in November and the total soda ash capacity is 1.6 million tonnes as of now which will be increased to 1.9 with the capex in Kenya. I wanted to know what the capacity of sodium bicarbonate is because there is a difference between bicarbonate used here and one which is produced in the European facility which is more of a pharma grade. So what is capacity of this new acquisition for sodium bicarbonate?

Prasad Menon: There is sodium bicarbonate capacity both in the UK plant as well in the Netherlands plant, so taken together the capacity is about 120,000 tonnes.

Hiten Mavani: Is it even more than double?

Prasad Menon: Yes it is double of what we have in India.

Hiten Mavani: Could you tell us the difference between them, because right now in India sodium bicarbonate is not used? Please correct me if I am wrong.

Prasad Menon: Yes, very little.

Hiten Mavani: Can I know the difference in terms of pricing right now? Is there a significant difference?

Prasad Menon: Yes, in the European market there is.

Hiten Mavani: Could you give me the price range?

Prasad Menon: It's about 30-50% higher.

Hiten Mavani: And of the capacity that UK and Netherlands has, how much goes for predominately pharma grade?

Prasad Menon: Pharma grade will be about 20-25%.

Hiten Mavani: Okay and the balance will be for dyeing, leather tanning and other uses?

Prasad Menon: Various other uses.

Hiten Mavani: Thanks a lot Sir.

Moderator: Thank you Mr. Mavani for your question. Next in queue is Mr. Sharad Ramnarayanan from Birla Sunlife AMC.

Sharad Ramnarayanan: Good morning. My question is regarding Brunner Mond. Are you in a position to give some figures of Brunner Mond's performance during this particular quarter?

Prasad Menon: No, not yet because we will be having the Brunner Mond Board meeting to take in the results only in March.

Sharad Ramnarayanan: Would you be able to share with us some ballpark figure?

Prasad Menon: No, we can't share unless it is taken through the Board meeting. But 2005 figures are certainly a marked improvement over 2004. And with the considerable improvement coming from 2006 budget things are very positive.

Sharad Ramnarayanan: You won't be able to tell us even about the margin?

Prasad Menon: No.

Sharad Ramnarayanan: Okay, the other question is on the urea front. There are talks about the Government planning to change pricing of urea to import parity, have you got any clues on that front?

Prasad Menon: It hasn't been finalized yet. We had hope for some breakthrough in policy but I don't think its happening.

Sharad Ramnarayanan: But another recommendation which was forwarded was actually bringing the cost structure to the 2006 level, which will be a negative development for the Company, am I right?

Prasad Menon: It will be a negative development for the entire industry.

Sharad Ramnarayanan: So is that possible?

Prasad Menon: No I think what they are going to do is probably bring it to the 2002-03 levels.

Sharad Ramnarayanan: And finally something on your production front, what kind of volume growth in soda ash is expected in the next year?

Prasad Menon: Soda ash is expected to go up by about 7 - 10%, because we are now working at virtually full capacity

Sharad Ramnarayanan: And how will the product mix change between dense and light? Currently dense is 34%, am I right?

Prasad Menon: It will be around the same.

Sharad Ramnarayanan: The proposition is going to remain the same.

Prasad Menon: It will be around 40-45% of dense

Moderator: Thank you Mr. Ramnarayanan for your question. We have our next question Ms. Preeti Jain of SKF Securities.

Preeti Jain: I just want an idea about the price realizations for soda ash that we are expecting from the Brunner Mond group.

Prasad Menon: The prices received by the Brunner Mond group will be in line with European and global prices. Right now it ranges between $180 to about $200-210.

Preeti Jain: What is the margin for NPK and STPP that we are presently working at?

Prasad Menon: The margin is roughly about, 8-10%.

Preeti Jain: Thank you.

Moderator: Our next question comes from Mr. Sampath Reddy of Voyager Investment Advisors.

Sampath Reddy: You just mentioned that for the next year you are expecting Soda ash volume growth of around 7-10%. But for first nine months you have grown only about 1% . So do you expect significant jump in the demands from the domestic market?

Prasad Menon: In the domestic detergent market there has been some draw down of stocks and usage of soda ash. But what we see going forward is that it seems to have reached the bottom of its cycle right now. And we believe that the detergent market will be quite strong next year. As far as glass is concerned, as you know the Saint Gobain plant has just begun operations in November. We are expecting the Asahi plant, which is coming in the north to get into production by the end of the year. So you will see some step jumps in demand of soda ash, going forward.

Sampath Reddy: Okay, that's all.

Moderator: Thank you Sir. Next in queue is Mr. Pawan Sachdeva from Principle Mutual Fund.

Pawan Sachdeva: Thank you Madam. Sir did you also bid for the facility in Romania, which Gujrat Heavy Chemicals has acquired.

Prasad Menon: No, we didn't.

Pawan Sachdeva: And does Saint Gobain have a global tie-up for sourcing of soda ash from some of the dedicated facility.

Prasad Menon: No, they generally source from Solvay but that doesn't mean that they source only from Solvay

Pawan Sachdeva: What would your current realizations for soda ash be? Is it the same as what you would have got in the last quarter?

Prasad Menon: Are you asking in comparison to the previous quarter?

Pawan Sachdeva: Yes, compared to the third quarter last year

Prasad Menon: The average realization would probably have grown up by about 5-10%; that really depends on the contracts that we have entered into.

Pawan Sachdeva: And are your spot sales minimal?

Prasad Menon: Our spot sales are very little. Most of them are contracts but whatever we put in the market through the trade will also more or less follow those prices.

Pawan Sachdeva: Right, thank you so much Sir.

Moderator: We have our next question from Ms. Jasmina Parekh of ASK Raymond James.

Jasmina Parekh: I would continue on this Soda ash point again. This quarter your soda ash volume has gone down and infact the market has grown by about 1.5%. Why is that so?

Prasad Menon: What has happened in the third quarter is that there had been a certain draw down in the market and that's what hit us. And in December freight has been another feature. As you know the Supreme Court has decided that freight carried in a truck has to conform to the legal requirements. So then there is little bit of a problem with our freight coming out of Mithapur, which we are resolving now.

Jasmina Parekh: So, you mean to say that soda ash volumes would be good in the fourth quarter?

Prasad Menon: It will be reasonable.

Jasmina Parekh: Okay, thank you Sir.

Moderator: Thank you Madam. Next in line is Mr. Sharad Ramnarayanan from Birla Sunlife Mutual Fund.

Sharad Ramnarayanan: Sir, a follow up question. Just for my under standing, your production in nine months of soda ash was about 608 whereas sales was 505. Has the difference been a build up as inventory or is it internally consumed?

Prasad Menon: No, our actual production was about 546. Just to remind you we make a gross figure of soda ash which includes purification as well as what we put in for sodium bicarbonate. So the figure which you got is the gross figure but if you take the net figure of soda ash which is available for sale, we have produced about 546 and the sale was about 505, more or less matching.

Sharad Ramnarayanan: So about 10% of that is inventory right now?

Prasad Menon: That's right.

Sharad Ramnarayanan: And you expect that would be sold off in the fourth quarter?

Prasad Menon: Generally we like to keep in little inventory as we don't want to go absolutely off-bottom.

Sharad Ramnarayanan: Another thing that I would like to know is what's your current level of cash in the books? Has the amount raised from the FCCB already been paid towards the acquisition of Brunner Mond?

Prasad Menon: Yes, of course.

Sharad Ramnarayanan: What will be the impact of the interest cost, going forward?

P.K. Ghose: We have utilized the FCCB and some of our mutual fund investments so the level of cash would have come down to the extent of about Rs. 400-500 crore. And we expect that by the April it will go up again to around Rs. 600 crore.

Sharad Ramnarayanan: Okay, so by March you will end up having about Rs. 600 crore of cash?

Prasad Menon: No, by April.

Sharad Ramnarayanan: Will there be any impact on the interest cost going forward? You have indicated net interest figures

P.K. Ghose: Yes, there will be some impact because the investment income will be moderate compared with the levels of last year, when the full amount was available.

Sharad Ramnarayanan: When can you finally expect the consolidated numbers to come out?

Prasad Menon: What happens is Brunner Mond takes January to December as its financial year. We have to do an audit for their sub-period of January to March, current year and only then their results will be available. We will be declaring our results sometime at the end of May and we will be consolidating at that point of time.

Sharad Ramnarayanan: So we can expect full year consolidated numbers in May?

Prasad Menon: Yes.

Sharad Ramnarayanan: Okay Sir, thank you.

Moderator: We move on to our next question from Mr. Sampath Reddy of Voyager.

Sampath Reddy: In terms of EBIT from the inorganic chemicals, if you look at the soda ash volumes in quarter 2, we have sold around 172,000 metric tons, and in quarter 3 we have sold around 183,000 metric tons. And also for quarter 3 there has been a price increase of around Rs. 400 per ton for soda ash. So why has the EBIT come down from Rs. 92 crore in the quarter 2 to Rs. 90 crore in the quarter 3?

Prasad Menon: Part of that is because there have been a lower sale of the STPP and that gives rise to the margin drop.

Sampath Reddy: Apart from that there are no cost increases?

Prasad Menon: No.

Sampath Reddy: Why is it that lower STPP sales have taken place in this quarter or is there any seasonality attached to that?

Prasad Menon: No, both soda ash and STPP go through the issue of being dependent on the detergent segment. A detergent manufacturer may decide to use little less of both whenever a pricing war take place. Secondly in case of STPP, now the Chinese market has become a little more active and therefore the imports from China have also started going up.

Sampath Reddy: Was there any pricing pressure because of imports from China?

Prasad Menon: Yes, there was some pricing pressure.

Sampath Reddy: What do you think is the soda ash price outlook for the next fiscal year?

Prasad Menon: It should remain more or less firm.

Moderator: We have our next question from Mr. Hiten Mavani from Morgan Stanley AMC. Please go ahead Sir.

Hiten Mavani: Sir, I wanted to know whether you think you will be able to maintain the margin in your products especially in soda ash and fertilizer?

Prasad Menon: What periods are you talking about?

Hiten Mavani: For 2007-08.

Prasad Menon: Well, it mainly depends on two or three things. One is of course how the oil prices move and what kind of impact it will have on freight. We believe that the prices of soda ash will more or less be firm in the next year as I mentioned earlier. As far as fertilizer is concerned it really is going to depend on what kind of policy the Government follows. So these are the key factors.

I think on the chemical side the freight element is one issue which could have an impact and for fertilizer the Alagh committee report and the General Policy guidelines the government will have will be key. Also, as I mentioned earlier the pricing for phosphoric acid have still to be finalized.

Hiten Mavani: Okay Sir, thanks a lot.

Moderator: Our next question come from Mr. Rohit Ahuja of ASK Raymond James.

Rohit Ahuja: I just have a couple of questions; one is what would be the combined soda ash capacity with Brunner Mond?

Prasad Menon: Well, when the new capacity of Magadi expansion comes in, including ours it will be close to 2.9 million MT.

Rohit Ahuja: Our raw material prices have gone up around 56% in third quarter, any particular reason for this?

Prasad Menon: That is a result of increased production and sales of phosphatic fertilizers.

Rohit Ahuja: Secondly we have quite good improvement in EBITDA margin of around 100 basis points. Would this be sustainable in 2007?

Prasad Menon: That's why I mentioned the two factors that are needed to be take into consideration for next year. While we believe that the prices will be more or less stable, it is really the freight that's going to be an issue for any manufacturing unit.

Rohit Ahuja: Okay, thanks a lot.

Jasmina Parekh: For the soda ash industry, you have mentioned in your press release that domestic sales demand has grown by 1.2%. However, due to significantly lower imports, domestic sales have grown by 5%. But if you see nine months soda ash volume of Tata Chemicals, then this was up by about 1.2%.

Prasad Menon: All I can tell you is that the growth in the entire domestic soda ash market has certainly been only about 1.2%. What has happened is that the imports have come down and the domestic manufacturers have taken up their sales.

Jasmina Parekh: Sir, then are you saying that because of the reduction in imports, the domestic sales have grown by 5%. Then why has not the sales of Tata Chemical's grow by 5%.

Prasad Menon: The domestic sales also include whatever the internal consumption of Nirma has been.

Jasmina Parekh: Okay, thank you Sir.

Moderator: Our next question comes from Mr. Sidharth Shah of Motilal Oswal Securities.

Sidharth Shah: Yes Sir, can you give me an outlook for fertilizer volume growth for Q4 and next year?

Prasad Menon: You know for fertilizers Q4 is always less than Q3. Fertilisers have got two peaks, one is the second quarter, which is July to September and the other one is the third quarter which is the *Rabi* season. There is a spill over into January, so you generally find that the volumes of sales in the 4th quarter will be a little lower than the 3rd quarter. But that is a seasonal shift.

Sidharth Shah: But Sir, vis-à-vis the same quarter last year what sort of growth trend do you forecast?

Prasad Menon: That will be more or less the same because anyway as far as the urea fertilizers are concerned we are constrained by what we are allowed to sell.

Sidharth Shah: Okay, and could you give any idea about next year?

Prasad Menon: Next year will be probably the same. Again as I said the urea fertilizer we will sell is what we are permitted to sell. It is really 100% of the capacity.

Sidharth Shah: Okay, thank you.

Moderator: Thank you Mr. Shah for your questions. Our next question comes from Mr. Prashant Mehra of CRISIL Research & Information. Please go ahead Sir.

Prashant Mehra: Mr. Menon, just wanted to come back to the raw material cost. Both the raw material consumption and the cost of the traded goods have gone up by more than 50% in the 3rd quarter. How much of this has been volume driven?

Prasad Menon: The significant increase in the raw material cost compared to last year was also due to phosphatic input prices. Ammonia prices for instance have gone up and also the phosphoric acid prices. If you remember the prices of phosphoric acid the previous year was about $402, this year it has gone upto $445. Ammonia also has shown a marked increase. These two have driven up the raw material cost for phosphatic fertilizers. As far as the traded goods are concerned about 90% of our trading which we do to at our Tata Kisan Sansar is really DAP and MOP.

Prashant Mehra: Okay. You had mentioned that you would be making the open offer for the balance Brunner Mond stake in January. Has that happened?

Prasad Menon: Yes, that has happened. It will close on the 6th of February. We are hopeful of achieving close to 100% stake.

Prashant Mehra: Could you share any details?

Prasad Menon: Not yet because it is dependent on the acceptances and whatever acceptances have taken place we are on the right path.

Prashant Mehra: And what price did you offer?

Prasad Menon: We offered the same price.

Prashant Mehra: Could you give us any update on the Babrala capacity expansion?

Prasad Menon: The Government has given us a clearance to go ahead with certain conditions. We are in discussion with them concerning those conditions because we still don't know what the final policy of the Government is going to be for urea pricing. And that is something that we need to engage with them for getting a clearer understanding..

Prashant Mehra: Okay, thanks a lot Mr. Menon.

Moderator: Thank you Mr. Mehra for your questions. Our next question comes from Mr. Jyoti Roy of HDFC Bank. Mr. Roy, please go ahead.

Jyoti Roy: Good afternoon Sir. Could you give us an update on the export of branded products?

Prasad Menon: Yes, as we mentioned earlier we have just gone into the Dubai and Oman regions. So far they are pretty encouraging; the secondary sales are pretty good. The shelves are getting sold off very fast. It is not a large volume. We reckon that we should be able to reach may be about 4,000-5,000 tons of sales in a couple of years. But the initial acceptance has been very good.

Jyoti Roy: Okay, in case of Brunner Mond, do they also have certain brands? Would there be any change in policy?

Prasad Menon: There won't be any change in policy. We always look at which brands are successful in which regions and we will continue to support those brands.

Jyoti Roy: Okay, thank you Sir.

Moderator: Thank you Mr. Roy for your questions. We have our next question from Mr. Kashyap Jhaveri of Sharekhan Securities.

Kashyap Jhaveri: Sir, you said that in FY07 the soda ash volume growth would be somewhere around 7-10%, And how do we see FY-06 ending? Would the growth remain around 1-1½% only?

Prasad Menon: Right, it will be somewhere around the same.

Kashyap Jhaveri: Okay, thank you.

Moderator: Our next question comes from Ms. Toral Munshi of India Infoline. Please go ahead Madam.

Toral Munshi: I believe you were expanding soda ash capacity by another 75,000 tons in the domestic side. Could you give us the status on that?

Prasad Menon: Yes, with the modernization program, that is going on I think we should be in a position to progressively increase our capacity over the next two years.

Toral Munshi: Okay, so this comes on stream over the next 2-3 years is that right?

Prasad Menon: Yes, in the next two years.

Toral Munshi: Okay and currently what is the dense ash capacity?.

Prasad Menon: It is about 600 tons per day.

Toral Munshi: Okay, thank you.

Moderator: Next in line is Mr. Sharad Ramnarayanan from Birla Sunlife Mutual Fund.

Sharad Ramnarayanan: Sir, one last question. I just want to know about the outlook for coal prices because I am reading a lot of reports on coal prices softening and also the dry bulk freight rate coming down. Are you feeling the impact on your long-term contracts?

Prasad Menon: We have entered into 6 month contracts.

Sharad Ramnarayanan: At what price have you locked the coal price?

Prasad Menon: We have locked up with more or less the same as we achieved in July-August, which was around $48-50.

Sharad Ramnarayanan: Okay, and are you importing coal?

Prasad Menon: Yes, we are importing coal.

Sharad Ramnarayanan: Okay, so in terms of the freight rates, your impact should be profitable, am I right?

Prasad Menon: Well, let's see, it is true right now but. I think we should not take it for granted that it will continue. There could be another hardening that takes place little later this year.

Sharad Ramnarayanan: Okay and how much will the impact be approximately?

Prasad Menon: We don't know that.

Sharad Ramnarayanan: Okay.

Moderator: We have our next question Ms. Gauri Vaideeswaran of HDFC Securities. Ms. Gauri please go ahead.

Gauri Vaideeswaran: Mr. Menon, I have a question here. While we say the urea policy is likely to be negative for the industry as a whole, the NPK and complex fertilisers should be benefiting the industry and Tata Chemicals as well, is that right?

Prasad Menon: Well, we don't know. I would like to see the Policy first before making a comment on that. The Government still has to come up with what their policies will be on the entire fertilizer industry.

Gauri Vaideeswaran: What is the subsidy that we are looking at? The phosphoric acid price is as you indicated close to $445 per ton, so how much subsidy should we be getting? I mean how much have you accounted for as subsidy?

Prasad Menon: We have accounted for the USD 445 in this particular quarter. But in the earlier quarters, we have accounted only for the provisional price which was about 425.

Gauri Vaideeswaran: Okay, thank you Sir.

Moderator: Thank you Ms. Gauri. As there are no more questions I would now like to hand over the conference to Mr. Ghanshyamdas Agarwal. Mr. Agarwal, please go ahead.

Ghanshyamdas Agarwal: I would like to thank all the participants for participating in the call and I also like to thank Mr. Menon and Mr. Gosh for their time, thanks a lot.

Prasad Menon: Thank you.