TATA

TATA CHEMICALS LIMITED

Transcript of Q3/9M FY 2009 Conference call held on Jan 29, 2009

Moderator: Ladies and gentlemen good morning and welcome to the Q3 FY09 Earnings conference call hosted by ABN Amro Asia Equities India Limited for Tata Chemicals. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should anyone need assistance during this conference call please signal an operator by pressing * and then 0 on your Touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhijit Attavar of ABN Amro; thank you and over to you Mr. Attavar.

Abhijit Attavar: Thank you Rochelle, and Good afternoon everyone. This is Abhijit Attavar and on behalf of ABN Amro Securities a very warm welcome to all who logged on to this call. We have the pleasure of having with us today with the Managing Director of Tata Chemicals Mr. R Mukundan, and Executive Directors, Mr. P K Ghose and Mr. Kapil Mehan. So without further ado may I please request Mr. Mukundan to start off this call with a brief overview of the 3rd quarter performance? Over to you, Sir.

R Mukundan: Thanks Abhijit, I would also like to welcome my colleagues Prashant as well as Kapil on this call. Let me just give you a brief overview of the quarter's performance before Prashant gives the financial details. Essentially as we know the macro economic environment has been extremely challenging and there are near term threats as well as long term challenges. We hold a view that the current challenging environment is going to probably continue for at least 18 months and may extend itself to 36 to 48 months. So we are really preparing ourselves for a reasonably long ride in through this turbulent situation. If we come out of this in 24 to 36 months, we are beating the world by being lucky but our estimate is it probably everyone should prepare themselves for 36 months' ride. This has been the backbone of our financial planning which the company has embarked on. We believe that on the basis of market position and competitive strengths we will be able to create value for customers and investors through this turbulent period too.

We continue to be the market leader in the domestic soda ash business as well as have leading positions in several key markets in this business area. In this business area the surplus from China, created by the demand destruction in China, has meant that the erosion in off take as well as falling prices have really impacted the Asian market and parts of the African market. For us that includes our Indian exports as well as our Magadi operations. In Europe and the US we have seen a counter cyclical trend in a sense as our contracts have been confirmed at higher prices and they are closed but certainly I think the key challenge for us in Europe and in the US remains the level of demand compression which is going to happen there and story is unfolding even as we speak. But if you ask me, the situation the severity of this demand compression is felt more in the Asian markets than in the developed markets as we see now.

Our consumer products business is one of our most stable businesses and is fairly devoid of cyclical trends. This business continues to show steady growth and currently Tata Salt has 44% market share. Our second brand I-Shakti which was launched around a year and a half back already has about 14% market share. We hope by next year we should be able to report that the #1 and #2 brands belong to our stable as far as salt business is concerned.

Moving on to the other stable business; our play in the agriculture sector remains fairly insulated from this international downturn and the global turmoil. And in fact Indian agriculture remains fairly insulated and as a key constituent who supplies inputs to hat agriculture sector we believe our fertilizer division is fairly evenly poised even as we speak. What you may have seen in this quarter is that the temporary volatility which we experienced. We have some key learning's out of this and we do anticipate that in future out of the learning's our ability to handle this volatility will be better. The key positives are that our debottlenecking project in Babrala is complete now and is running stably. It is running at the rated capacity and rated specifications and essentially this plant was shut down for 40 days in quarter 3 which also impacted our performance and that should be back on track in the next quarter.

As far as the phosphatics business is concerned - which is both phosphatic fertilizer and phosphatic chemicals based out of Haldia - we did get an impacted by the volatility in the phosphatic prices. We expect the situation to stabilize closer to first quarter of next fiscal year. We may have to undertake closure right through this turbulent period even through the next quarter. IMACID pie forms part of that supply chain and I think that impact is continued. We are pretty close to commissioning our small biofuels plant 30 KL per day plant bioethanol plant in Nanded and this is going to be a fairly a small operation in which were we will fine tune our assessment of various seed stock for of biofuels including whether it is going to be seed provision or whether it is going to be sugarcane and this pilot plant will really be the start of what we call as a new business opportunity for this company going forward.

The other news you would have heard is about our joint venture agreement with Singapore Temasek Life Sciences Lab which is essentially in the area of the seed development for Jatropha. That again is for our bio-diesel project and we are pressing ahead and it seems to have very interesting prospects going forward. While our business challenges are quite daunting at the moment, I am confident that our fantastic team here which is assembled to face the challenges, which have the sagacity and ability to deal with the turbulent environment as we are experiencing now. I now request Mr. Ghose to give financial performance perspective.

P K Ghose: Thanks Mukund. I will share with you some details of our financial performance for the quarter and nine month period under review. Before that I just wanted to make a very brief comment that in this turbulent time our focus has shifted more towards the balance sheet parameters and during the course of this concall I will share with you some details on how we intend repaying our debts, what is our free cash flow generation, the average cost of debt which is extremely attractive, the debt profile and in terms of currency whether you could expect any further mark-to-market losses, the hedging position of each of these loans, the leverage of the company and how we intend to bring it down and finally the tuning of our capital expenditure program.

Consolidated revenues were at 10,335 crore up by 128% from the past nine months for the last year, consolidated profit from operation at Rs. 1,427 crore was higher by 127% and profit before exceptional items and tax was up 98% at Rs. 1,191 crore, profit after tax was at Rs. 476 crore translating to a basic and diluted EPS of Rs. 20.27 and 20.09 respectively for the nine-month period. The third quarter numbers also showed strong growth. Our consolidated revenues were at Rs. 3,495 crore up a 106% as compared to the corresponding quarter of last year. The consolidated profit from operation was at 301 crore of 52% from Q3 of FY08. Profit before exceptional items and tax was of 22% at Rs. 203 crore, consolidated PAT amounted to Rs. 91 crore translating to a basic and diluted EPS of 3.88 and 3.76 respectively.

There have been difficulties in this quarter as Mukund shared but both chemicals and fertilizer businesses have shown good resilience in the face of tumultuous times. This quarter we reported a notional loss of Rs. 25 crore due to unrealized exchange loss under the AS 11 on restatement of overseas borrowing including the external commercial borrowings raised to fund the purchase of GCIP. When the first half notional loss of Rs. 308 crore is added the total notional loss for the nine year to date comes to Rs. 381 crore. As you already know the loss or gain in this regard is a non cash accrual. Further the repayment period for this ECB commences only in 2012 and this borrowing has been completed at extremely competitive rates which are not Libor linked. The balance amount of US USD 300 million raised towards the acquisition of GCIP will be reflected on its own balance sheet. Repayment towards this borrowing begins in February 2009 and going forward I will share with you what is the repayment plan for this loan over the next two or three years.

Our balance sheet and cash flow position continues to be strong and capable of supporting our business objectives. Total cash inclusive of investments in mutual fund and fertilizer bonds as on 31st, 2008 amounted to Rs. 1,199 crore. Net debt to equity stood at 1:1. As we have maintained earlier our endeavor is to bring the gross debt to equity to 1:1 over the next one or two years.

During the year we have received fertilizer bonds in lieu of subsidy for a total value of Rs. 735 crore out of which we have sold bonds of the value of Rs. 220 crore actually at a premium. We continue to focus strongly on making our operations more efficient and leveraging our competitive strengths. In conclusion, I would like to say that this quarter has been good considering the conditions that prevailed through it. Looking ahead we are wary of the challenges the macro economic environment will throw up but geared at the same time to deal with them. We will now be open to questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. At this time if you would like to ask a question please press * and then 1 on your Touchtone telephone. Our first question is from the line of Mr. Abhishek Kothari of SPA Securities. Please go ahead.

Abhishek Kothari: Sir what problems have you faced in urea pricing? It has fallen from the high of USD 700 to around USD 235 or USD 250.

Kapil Mehan: Yes see that was the import price which has fallen during the quarter from a high of USD 700 - USD 800 to USD 235 but as far as our production is concerned the first 100% is covered under the new pricing scheme which is a 'group- pricing' scheme so it has hardly any relationship with what happens at the international pricing. So for the first 100% of the production there is no impact. For the rest of the production there is a tolerant gap which is you know frozen at USD 250 and so even if it has come down below USD 250 it does not impact us and in the recent times the price has moved back to in the range of USD 280- USD 300. So USD 235 prices were there for a very brief period. So the impact is quite negligible.

Abhishek Kothari: Okay and your sodium bicarbonate plant in UK for Briscarb - What is the progress there?

R Mukundan: It is going to be commissioned during the next financial year. The project is proceeding within cost and within schedule.

Abhishek Kothari: Okay could I have IMACID numbers if you have for Q3?

Kapil Mehan: The cumulative nine-month period had sales of Rs. 740 crore. Profit from operations was Rs. 90 crore; PBT was Rs. 92 crore and PAT after minority interest was Rs. 76 crore. And for the quarter Q3 it had sales of 132 crore, Profit from operations of minus Rs. 25 crore & PBT of minus Rs. 24 crore. So this is our one-third share of the IMACID joint venture. But overall because of the huge volatility of prices where you know we thought that during the quarter the prices slipped very badly and the period and inventories have been valued at the current market prices and that has you know sort of a negative impact of about 50 crore.

Abhishek Kothari: Has Babrala's debottlenecking been completed?

Kapil Mehan: Yes. The plant has been stable now at the new rated capacity for over a month.

Abhishek Kothari: So what was the Energy cost for Q3?

Kapil Mehan: I think it averages off somewhere around USD 6 per MMBTU.

Abhishek Kothari: Okay and that is it from my side. Thanks a lot sir.

Moderator: Thank you Mr. Kothari; our next question is from the line of Kenin Jain of Voyager Capital. Please go ahead.

Kenin Jain: Good afternoon sir. Just wanted to understand what is your CAPEX plan for the year FY 2010 and FY 2011 and what is the CAPEX incurred for the year FY 09 till date.

P K Ghose: See we had originally mentioned to you that our CAPEX plans are in the region of 550 crore. It will be spread over FY09 to FY11. But in view of these turbulent times part of our program which we have named as ADAPT considers three main pillars – one is reduction of cost, one is containment or reviewing of CAPEX and the third is on the conservation of cash. Now in the CAPEX portion out of Rs. 550 crore we have pruned out Rs. 150 crore which we feel can be conveniently postponed and the balance Rs. 400 crore will be spread over the three years starting FY09. A bulk of that Rs. 400 crore is actually Rs. 210 crore coming for the Babrala debottlenecking which is already been completed. What are we postponing is not very critical capital expenditure.

Kenin Jain: So for next two years you will do Rs. 200 crore more CAPEX if required. In your press release you have mentioned that your net debt is Rs. 4,600 crore broadly. So if you look at gross debt it would be additional Rs. 1,200 crore.

P K Ghose: Please keep in mind the balance sheet will reflect the devaluation of the depreciating rupee. So that keeps changing. Originally if you go back to say December 07 it would be at rate which was very different - if I recollect correctly about Rs. 4,700 crore or Rs. 4,800 crore.

Kenin Jain: No I was referring that Rs. 4,600 crore is after subtracting Rs. 1,200 crore.

P K Ghose: That is what I am coming to; because of the depreciation in the rupee the value of the loan has gone up, whatever was Rs. 4,600 crore or Rs. 4,700 crore a year ago now becomes Rs. 5,800 crore because the rupee is at 48/49 levels. If you reduce the cash of Rs. 1,199 crore it leaves the net debt is at Rs. 4,600 crore.

Kenin Jain: Fine sir. You mentioned that in February 2009 the first repayment will be starting for USD 300 million. What is that quantum?

P K Ghose: Originally we had a USD 350 million bridge loan which was to be raised on the balance sheet of General Chemicals. USD 50 million has already been re-paid during the current financial year.

Kenin Jain: Your ECB payment is starting form FY12 which is distant.

P K Ghose: Right.

Kenin Jain: About the USD 300 million you have given details; apart from this, what is the breakup of the debt and when is the repayment line for that debt?

P K Ghose: See let us go item by item. The first is the external commercial borrowing. It is USD 475 million. The first payment comes only in 2012. The second is the US private placement which is USD 125 million on which repayment is 8-1/2 years away. It is a 10-year loan so we do not have to re-pay just now. The third is the LIC non-convertible debentures of Rs. 240 crore which is very recent. The one which comes up for repayment is the foreign currency convertible bond which is worth USD 150 million out of which a USD 106 million got converted. So we have got about USD 44 million outstanding. If up to January 2010 the market does not improve and the amount is not converted then there are two options before us. One is to pay it off and the second is that we buy it back. These options will be explored at the appropriate time. The final one is of course the General Chemicals one which I said was originally 350, the 50 we have already paid off. So we finally went for only USD 300 million loan out which as I mentioned roughly about USD 70 million will get paid off in the next two years.

Kenin Jain: One last thing; what is your outlook on soda ash prices?

R Mukundan: I would say that as far as contracts are concerned which a bulk of our business is done in Europe and General Chemicals in US the contracts are over and they have seen an increase. So you will see the impact of that in the fourth quarter of the fiscal year and the first quarter of the calendar year. As far as Indian contracts are concerned 60% is on contract and there I think there is a price decline which has been close to around 10% to 12%. So I think that is what you have seen on contracts on spot - we have got a range of figures floating around USD 190 to USD 250 and the bulk of the shipments are arriving or getting traded at about USD 230 - 240.

Kenin Jain: I was actually asking about the outlook especially on the back of the housing slow down in US and Europe and you know the entire global sluggishness.

R Mukundan: We have in our financial planning assumed in the worst recession we have seen. Actually we have gone back in history and seen what happened in the worst recession. We had encountered something like 8% to 10% demand destruction in domestic markets which we have now compressed for our planning purposes at close to about 17% to 20%. Assuming that this downturn will be worse - even twice as bad as the previous time, the highest demand destruction we have seen is in the Asian markets especially in China where it has been compressed beyond 30% in some regions and as we move away from China the demand destruction is less and less. I think the more export-led economies - China as well as the South East Asian markets - have seen the highest demand destruction.

Soda ash goes to two critical applications. One is detergents & the other one is glass. within glass it goes to container glass and flat glass. Let me just give you the proportion as at about globally about 60% of the demand would be taken up by glass of which another 60% would be container glass and 40% is flat glass. Actually the flat glass is the one which is impacted negatively. Container glass basically goes into soft drink and beer bottles and we are not seeing any slow down in demand there. So essentially I would say there is a smaller segment which has been impacted - the flat glass which goes into the automotive and construction sectors. In fact detergents in the developed markets like US and UK are seeing an increase in demand mainly because people are converting from liquid detergent to powders since powders are considered as more inferior in any particular lower cost product and more value product. So in the developed markets we are seeing people shifting to powders and that has led to small surge in that number but that surge is not able to compensate for the demand slow down.

Kenin Jain: Fine thanks.

Moderator: Thank you. Our next question is from the line of Vishal Biraiya of Batlivala & Karani Securities. Please go ahead.

Vishal Biraiya: Good evening sir. Could you give me the phosphoric acid realization by IMACID?

Kapil Mehan: In the last quarter whatever has been sold was sold at USD 1,920 per tonne.

Vishal Biraiya: Is this in Q3 FY09?

Kapil Mehan: Yes that is right.

Vishal Biraiya: Okay and sir what was the production? An approximate figure would do.

Kapil Mehan: Production would be approximately around 35,000 to 40,000 tonnes. That whole complex, where IMACID is located, was taken for a annual turnaround in middle of November and it remained shut for about half of the quarter. Because IMACID's utilities are linked to the other plants in that complex owned by the partners of IMACID, it also had to face shutdown and that is why the production numbers are so low during the quarter.

Vishal Biraiya: Okay and did IMACID suffer in inventory loss because of high costs of rock phosphate or sulphur?

Kapil Mehan: I did mention that we have written down the inventory by end of December with a negative impact of about 50 crore.

Vishal Biraiya: Sir are we through with the high cost inventory in IMACID or do we still hold some amount?

Kapil Mehan: With that write down we are through with it as of now.

Vishal Biraiya: Okay sir can you also help out with the DAP realization in the standalone operations in India?

Kapil Mehan: We have very little production of DAP during the quarter?

Vishal Biraiya: Sir in the standalone at the Haldia Plant?

Kapil Mehan: Yes.

Vishal Biraiya: And sir why would that be?

Kapil Mehan: Most of our production during the quarter was used to produce NPKs.

Vishal Biraiya: Okay so if you could help now with the NPK realization - what has been the weighted average realization?

Kapil Mehan: See the exact numbers we will share later because as per the current policy these numbers keep changing depending on international DAP prices.

Vishal Biraiya: Does the realization correspond to a DAP price of USD 1000 at least in this quarter?

Kapil Mehan: No they would vary from month to month.

Vishal Biraiya: Okay because the correction has been very steep.

Kapil Mehan: Yes so for the month of October I think the number will be around USD 1,150 in event of DAP prices and for the month of November it would be around USD 980 or so and for the month of December it will be around USD 650 to USD 660.

Vishal Biraiya: Sir what is the price that we procure phosphoric acid at?

Kapil Mehan: See that has been changing. So there is no single fixed price at which phosphoric acid has been purchased.

Vishal Biraiya: If you correspond it to the December price of DAP like the USD 650 of price of DAP in December, at that point in time what will be the price of phosphoric acid, just to give a rough sense would do?

Kapil Mehan: That is a theoretical calculation. The price for phosphoric acid would be somewhere around USD 1150-USD 1200 equivalent price to support the DAP price of USD 650 to USD 660.

Vishal Biraiya: Okay. So are we able to procure considering the prices in US dropped drastically in December? Will we see some kind of production slowdown because of unavailability?

Kapil Mehan: Yes, the market has been under a major correction and is just getting stabilized and the normal operations would begin once the market stabilizes and the structural adjustments in the pricing happens whereby the phosphoric acid and DAP prices align themselves. So that structural, I think, over the last 4 months structural adjustment is taking place. It is moving in the right direction.

Vishal Biraiya: Okay. Thank you very much sir.

Moderator: Thank you Mr. Biraiya. Our next question is from the line of Umesh Gupta of Dalal & Broacha. Please go ahead.

R Mukundan: Yes. Before we start on urea, I just wanted to follow up on the phosphatics question before – We believe the phosphatics business will return to normalcy probably towards the first quarter of the next fiscal year and we just wanted to state that our view is that until the supply imbalances remain in pricing (meaning the input costs are higher than the finished goods cost) and as long as these imbalances do not move out of the entire chain of DAP, we would judge the operations and run the plant only if it makes positive contribution and positive margin. So that is the decision we have taken and hence you would find for certain periods of time us not running the plant or keeping the operation shut. That is something which I just thought I should tell…

PK Ghose: And just to add in the period of closure the losses are minimized because you have extremely low fixed cost, which you would incur. It will make enormous sense to keep it shut if the input prices are much higher than the finished good prices and one would expect that by March-April, I think there will be some amount of stability coming into the input prices when the entire thing will be reviewed again. Now we will now go on to urea.

Umesh Gupta: If you could tell us the capacity for urea, what would be the rated capacity in FY09 and FY10?

R Mukundan: Yes the capacity post debottlenecking is 3500 tons per day and 11.55 lakh tons on an annualized basis. And our 100% capacity is 8.65 lakh tons and our cut off capacity which is taken for the new pricing scheme is 9.57 lakh tons.

Umesh Gupta: So FY10 onwards your 100% would be 9.57 lakhs. Is that correct?

R Mukundan: Yes the debottlenecked import parity price with the cap of USD 250 to USD 425 will kick in at beyond 9.57 lakhs tons.

Umesh Gupta: Okay. And is there any inventory loss in domestic fertilizer segment?

R Mukundan: There is a very small amount of loss on the raw material which we have taken into account, which is around Rs. 4 crore.

Umesh Gupta: Okay. And do you expect any further losses in terms of either IMACID or whatever inventory you are carrying because of fall in raw material prices?

R Mukundan: See, as of 31st December, whatever losses that we have to book on the inventory we have booked those looses both in IMACID as well as in our domestic operations. Further losses will depend on how the market moves and how the prices pan out as we progress in this quarter. As we have mentioned earlier that the structural adjustment of prices is happening and till that happens, we will not restart our operations - neither in IMACID nor in Haldia - because it is much more beneficial to keep in that way rather than incur losses on the variable costs themselves.

Umesh Gupta: Okay. Can you tell us what the interest rate is for the USD 475 million loan not linked to the LIBOR?

P K Ghose: I would just say that the interest rates for all our loans are extremely good. I do not want to give individual loan information as to what they cost, but on an average I would say for all loans that we have taken all across, whether in USA, UK, Kenya India the average is about 6.2%. All our loans are hedged except the INR-USD movement on the USD 475 million ECB and USD 100 million USPP.

R Mukundan: Also, on the phosphatic side, there is an industrial chemical phosphatic which is made in the Haldia complex where there is a mark-to-market inventory loss of Rs. 17 crore which is over and above the fertilizer number, which Kapil gave of Rs. 4 crore, so in the chemical segment there is a Rs. 17 crore loss, which is booked. As to your follow on question of whether there any further losses coming, our anticipation is on the basis of the fall in the prices which you already have seen, there could be similar number, which could be repeated going forward.

Umesh Gupta: In Q4?

R Mukundan: It may be in Q4. It may be less because we do not know where, this number is measured at the end of the quarter so we only know the velocity of fall and we know where it will stabilize as Kapil has already said. We think those market has stabilized and our latest understanding is that similar number would be repeated and post that there will be no further repeats of that in the balance sheet because most of the material would have got through the system.

Umesh Gupta: So can you give us some inventory figure at the end of Q3?

R Mukundan: I think we will not give the specific split, but all I would say that our understanding of the number is similar number could repeat that is where we will leave it.

Umesh Gupta: Okay. Thank you.

Moderator: Thank you Mr. Gupta. Our next question is from the line of Bharat Subramaniam of the Sundaram BNP Paribas. Please go ahead.

Bharat Subramaniam: Sir, just a question on GCIP operations. In terms of the price increase that we have taken, has it been completely reflected in this Q3 quarter, or going ahead Q4 quarter is there something that could come in?

R Mukundan: See, the contracts are usually January to December. So the contacts would start playing out only from the next quarter onwards.

Bharat Subramaniam: Okay. So, what could have been the extent of price increase that you have taken?

R Mukundan: I am a bit wary of giving the number because it all depends on the market mix which you finally end up; with what shipments happen but, Mr. Ghose will answer you.

P K Ghose: The average price increase in USA where 60% of the production is sold and the exports which represents the balance 40% is approx USD 25-30.

Bharat Subramaniam: In terms of volumes, in the last call, you did mention that Latin America was quite strong and it did offset partly what was happening in US. Is the situation still the same or are we seeing Latin America as well giving up?

R Mukundan: The speed of closure happened in US it has been the fastest; we have seen the full blown impact of the slowdown in US. In Latin America, it may unfold as a story going forward. So we have not seen the slowdown yet, but that does not mean it will not come. The big caveat is on the chemicals numbers, which you will have to plug in to check how steep is the demand destruction, which is going to happen in spite of having the contract. In the past we have seen during recession times anywhere between 8% to 10% reduction and I think this being even more severe, we are factoring even twice that fraction in our planning.

Bharat Subramaniam: Okay, thank you sir.

Moderator: Thank you Mr. Subramaniam. Our next question is from the line of Rohan Gupta of Emkay Global. Please go ahead.

Rohan Gupta: Sir, on the urea front, we have increased that capacity, but I think that gas is still not available and the imported price of urea is still lower and I think we will be selling it only at the floor price of USD 250. So, would it make sense right now to produce urea as I think the plant has to run on naphtha?

Kapil Mehan: Yes, I think you are right that the plant has to run on naphtha till the KG Basin gas begins to flow into the system, but what has happened is that the naphtha prices have sharply adjusted in line with the oil prices and that makes it viable for us to run our debottlenecked capacity even if it is run on naphtha, but the way that works is that non-APM seed stock and fuel cost will be averaged out for the entire quantity, which is beyond the APM gas based urea quantity. So, it is making sense to run the plant at full capacity.

Rohan Gupta: Sir, considering that the power and fuel cost has come down at BMGL, are these kinds of margins sustainable or do you expect some price drop in soda ash? How should one take it forward sir?

R Mukundan: I think again BMGL is a mixed bag. What we present to you is combination of our African operations with Magadi and the European operations. The European operations will see increase in prices, but not their energy cost are actually contracted out, there will not be major fluctuations on energy. Whereas, Magadi is going to see a drop in realization, but it is also going to see a drop in their energy cost. So, because the market prices are still unfolding, I would be cautious in saying that we should be lucky if we can maintain these margins going forward. But we are working to making sure that we can maintain bulk of it.

Rohan Gupta: Sir, just a final question on soda ash volumes, if I just aggregate, I am not just looking at a domestic point of view, but at the global because almost 80% of our volumes are coming from global operations. So, we can see that volumes are quite intact during the quarter also; I mean it has not been down, even compared to the September quarter also. So, do you think that there has been no impact on soda ash volumes or soda ash sales (at least it is not getting reflected on the numbers) or probably this was a quarter where people have started building up the inventory or we may see some volume slowdown coming in a next quarter or maybe one quarter ahead?

R Mukundan: Yes, I think we have been impacted and I will not say that we have not been affected in the domestic market. We have seen about 6% or 7% demand contraction in the numbers. If you look at the US, we have been lucky with the customers we have - their plants weren't shut down while some competitors of our customers shut their plants down. So, essentially we were supplying to the right customers, so while the overall market was shrinking by almost 10%, we were not impacted because we had the right customers. But I think this being a worldwide economic disease it catching up with our customer base is only a matter of time. But all I would say is that in US and in Europe, we have been lucky enough that our customer base was not the first one to fall.

Rohan Gupta: Thanks a lot sir, I have some more questions, but I will come later, thanks a lot.

Moderator : Thank you Mr. Gupta. Our next question is from the line of Trilok Agarwal of Birla Sun Life, please go ahead.

Trilok Agarwal: Good afternoon sir, just want to understand that in your Forex loss that you have reported of Rs. 25 crore, I mean it also includes some Rs. 49 crore of profit, which you have booked in the UK subsidiaries, I do not know, I mean can you just throw some light on that?

P K Ghose: You know this was a distortion which had happened in the previous quarters if we corrected this quarter. If you recall when we acquired Brunner Mond Group, we used some intermediate companies as special purpose vehicles to acquire them. Now, Brunner Mond UK was the investment vehicle for acquiring Brunner Mond Group. So far we were using the GBP as the functional currency for that unit. So, when the GBP was depreciating very rapidly, you were having an impact in the P&L account. So we changed the functional currency, because that UK SPV does not have any significant transaction in GBP. It is mainly an investment vehicle, and we used it to raise the USPP of USD 100 million. We used that vehicle with a support and a guarantee from Tata Chemicals to raise money on that unit, principally because it gave us savings in withholding taxes. So, we changed the functional currency to USD.

Trilok Agarwal: Okay, so it is basically a reversal of last two quarters as well?

P K Ghose: Absolutely, correct.

Trilok Agarwal: Okay and so this is obviously onetime item, which may not be…

P K Ghose: This will not happen again, because now the functional currency of that unit has been permanently changed to USD instead of GBP.

Trilok Agarwal: Okay, so now you will not have gone through the whole process?

P K Ghose: No, we do not have to go through the whole process for that unit and it is logical because you know we have a USD loan there, the amount is being paid by TATA Chemicals on this guarantee more interest and principal in USD. There is a very, very small minimal amount of expenses, which are incurred in GBP. So, as a result the functional currency rightly is USD.

Trilok Agarwal: Okay and also, I would like to know, what are the soda ash prices that you have contracted in the US as you were speaking, you had contracted on higher prices as compare to last year, so would you be able to share the number?

P K Ghose: I just mentioned a little while ago, that in USA 60% of General Chemicals' production goes into USA and 40% goes to for exports to Latin America and other countries. The average price increase is about USD 25-30. These are price increases and do not take into account any demand contraction, which Mr. Mukundan mentioned little while ago.

Trilok Agarwal: Right, okay. So, as Mr. Mukundan has already mentioned, your internal calculations are indicating about 20% demand destruction, is that the worst case scenario we are looking at? See, I am just asking for this number because we have already seen a substantial fall in the demand destruction across various commodities in the world.

R Mukundan: Yes again, let me just highlight this, even we do not have enough data, even though many of our operations has been through four-five recessions in the past. So, we have actually gone back in our data of our own sales figures, which we have at length with us. The highest impact we have seen on soda ash is between 8% and 10% demand erosion. Now, based on what we're hearing in the press about the kind of demand destruction which is happening, we factored in additional amount of 10% into our planning. I really do not know how it will pan out; the impacts have been quite varied across the market. As I said, we have seen about 30% demand erosion in China. And the least demand erosion has been seen in the UK market, where we actually have seen very limited contractions - it is in the region of 1% or 2%. But that does not mean that the contraction in demand has not happened across the board. India is somewhere in the middle at 6%, US is about 10% as we see.

How much further demand contraction will happen, entirely depends on how the market plays out, if this is the deep freeze, complete depression, which we are going to go through where you know all economic activity comes to a standstill then the only thing which you can hope that Tata Chemicals will sell would be fertilizers because people will not stop eating food; it would be salt, because people will still add salt to their food, it will be bicarbonate because that goes into varied applications, which people cannot stop using it for. Part of soda ash demand will not contract because people will use washing powder & detergents, which is about globally about 30 - 35% of demand. In India demand for washing powder & detergents is actually 60% of the total demand and 40% is glass. Hopefully, people will continue to drink beer, so beer bottles will be needed so that demand will not contract.

The part which is impacted is approximately 20% to 30% of the demand which is the flat glass segment, where soda ash goes. This is really impacted by the automotive and real estate slowdown. We really have to see how deep the real estate slowdown is. If the real estate slowdown is 50% of the previous numbers, which we saw last year, then obviously that 30% of the demand getting eroded by 50% means 15% demand destruction. That is the way you should construct the demand erosion for soda ash. I have given you a methodology of how to construct; I will give you a forward planning on this. But this is really the way we view the world. So, this is a very easy method, you can pick up the chart and you would be able to construct demand destruction yourself.

Trilok Agarwal: Alright thanks a lot.

Moderator: Thank you Mr. Agarwal. Our next question is from the line of Mr. Piyush Harlalka of HSBC Asset Management, please go ahead.

Piyush Harlalka: As we have seen that in the third quarter in fertilizers, particularly in domestic market, we are seeing the margins dropping down considerably on back of the correction in realizations? So are we seeing that our inventory as of now has been made pari passsu with the realizations we are expecting in the current quarter?

Kapil Mehan: See, as of 31st December whatever market realization, valuation had to be done were completed. As far as fertilizer is concerned, we have run down our inventories considerably and that number I think we have already indicated to you has been Rs. 4 crore in case of fertilizer, it is about Rs. 17 crore in our sodium tripolyphosphate business, which is an industrial chemical used for detergents and other applications. So, as on 31st December and going forward, we will see how the prices are by this quarter and then from there if there is any further erosion, stock valuations will be undertaken. We are carrying very small amounts of inventory.

Piyush Harlalka: Sir, we might be carrying a very small quantum, but you must have contracted some inflows inventory during this quarter as well, which are scheduled to arrive during this quarter?

R Mukundan: No, we do not have any pending quantity to the land at higher prices during this quarter.

Piyush Harlalka: Okay, sir just one clarification as you said that till the volatility in the prices persist you will not enter into any production, is it for entire fertilizer or only for DAP?

R Mukundan: Only for phosphate fertilizers.

Piyush Harlalka: For phosphate fertilizers that includes DAP and NPK?

R Mukundan: That would be including DAP and NPK. One segment, SSP that is running fine. For that, the cost is really pass-through and that plant is running fine.

Piyush Harlalka: Is HLL is the sole buyer of the entire production?

R Mukundan: No, that is for STPP, Hindustan Unilever purchases but we sell to open market also.

Piyush Harlalka: And sir last question regarding demand destruction for soda ash which has not yet entered into the US market and we might see it entering going forward. So, in light of this demand destruction and everything, how much correction can we expect in the soda ash prices going forward? Though it might not be reflected financially as we have contracted out almost 60% in GCIP?

R Mukundan: See, I can only say that the shipments which are coming out of China now at USD 180-190 FOB are at near full cash cost. So assuming that there are some desperate inventories, which are lying, which traders want to offload or something has happened by which they value cash more than inventory, maybe another USD 20 drop would be there on the market, but you know they are not large quantities. The realistic numbers in which the material will flow at cash cost level, which means people make no money, but they produce just to keep their plant running, in our view, is around USD 230 landed in various markets. If you assume that the plant which would be exporting is coastal, add USD 30 to 35 of shipping cost. That is really our understanding but you know these are desperate times meaning there could be some desperate volumes, which could come and which could skew the picture. But I think in general we should stick to this number as a more realistic number.

Piyush Harlalka: Okay sir thank you very much.

Moderator: Thank you Mr. Harlalka. Our next question is from the line of Ashwini Kumar Agarwalla of JM Financial, please go ahead.

Ashwini Kumar Agarwalla: Sir, how much FCCB is yet to be converted?

PK Ghose: USD 44 million.

Ashwini Kumar Agarwalla: And so when do we expect these be converted because if you look at the price, conversion price is about Rs.245 and currently our stock prices are Rs.155. There is very slight chance of getting converted?

PK Ghose: That is what I mentioned again little a while ago in response to a question that with USD 44 million we have got two choices. They become due for repayment in January 2010, so if it gets converted fine, if it does not get converted we have either to pay it off or in the interim period buy it back.

Ashwini Kumar Agarwalla: And sir, any chances of lowering the conversion price?

PK Ghose: Many companies have done that during this period if you see, but I do not think we are so desperate at the moment to do that.

Ashwini Kumar Agarwalla: Do you plan to refinance the existing loans at a lower rate, because you know last year you have taken the loan in the month of Jan and the interest rates were at the peak, now they have come down to quite an extent, so do you plan to any refinance any of your loans of USD 450 or USD 500 million?

PK Ghose: You know all the loans that were taken when we took it were at the cheapest rates. Today, I do not think you have dollar loans available at all, the only additional loan that we have taken in rupees was the LIC non-convertible and that is at an 11.7% rate. I do not think we need to refinance because all these loans are at the cheapest rate. The average cost as I mentioned was only 6.2% for all our loans taken together.

Ashwini Kumar Agarwalla: And sir what is the amount of your unfunded pension fund liability which must have eroded further because of the fall in the markets?

PK Ghose: Well, this quarter there was no significant erosion.

Ashwini Kumar Agarwalla: So, till date what is unfunded pension for liability?

PK Ghose: Yes, I think if I recall at the end of last quarter it was close to GBP 50 million, close to that, but there is no significant change in the position between the second and third quarter.

Ashwini Kumar Agarwalla: Ok sir, a few more questions - at what capacities in new plant in Magadi operating?

PK Ghose: The new plant is operating at the moment at about 700 tons per day that is about 70 capacity.

Ashwini Kumar Agarwalla: And sir, what are your operating profit margins in the European plants?

PK Ghose: European profit margin for Q3 as somebody said little while ago was at an average of 21%.

Ashwini Kumar Agarwalla: Yes sir, but Magadi must be skewing the entire…

PK Ghose: Yes, Magadi for Q3, because of picking up of PAM is about 28% and Brunner Mond Europe is about 20% that is the average, which is 21%.

Ashwini Kumar Agarwalla: Okay sir, and IMACID our rock phosphate is supplied by OCP Morocco right, which is one of your partners in JV?

R Mukundan: Yes.

Ashwini Kumar Agarwalla: Sir, but have we faced any problems on the supplies, because you have mentioned that there was problems in supplies of rock phosphate in IMACID?

Kapil Mehan: There is no issue as far as availability of rock phosphate is depend, but as I have mentioned earlier in response to the earlier call that there has been a systemic correction which has been taking place between price of DAP, phosphoric acid and rock phosphate, which are the part of the entire value chain. And once that stabilizes then the price of everything will begin to stabilize; rock will come into IMACID and phosphoric acid will begin to come into Haldia and we expect that this will stabilize by 1st quarter of the next fiscal.

Ashwini Kumar Agarwalla: And sir regarding the urea production, sir have we entered into any kind of contract for supply of gas?

R Mukundan: See, all contracts are held up because of the reliance case, which has been going on in the high court, because the High Court has stayed sale of that gas, till this issue is resolved and so no contracts are being finalized, but we have received the term sheet and the GFCA draft from GAIL which is under discussion and I think as soon as the embargo is lifted things will move pretty fast.

Ashwini Kumar Agarwalla: Okay sir that is it from me sir thank you.

Moderator: Thank you Mr. Agarwal. Our next question is from the line of Prasad Deshmukh of DSP Merrill Lynch, please go ahead.

Prasad Deshmukh: Yes good afternoon, I had a follow up question on this pension liability that you mentioned just now. Do you provide for any change in pension liability annually or quarterly?

P K Ghose: No, see normally it was done annually in the UK and in UK they have a system of having triennial valuation from the regulator, but what we have resorted to now is that we will be doing it every six months, which means in the month of September and March, which will become applicable from this financial year end (March 2009). Earlier, it was being done annually, but we have now decided we will do it biannually.

Prasad Deshmukh: So, as of now for FY09, any change in the pension liability which has not been reflected in any of the financials?

P K Ghose: Whatever was the increase in the unfunded gap had been accounted through the reserves...

Prasad Deshmukh: Directly adjusted in the reserve, not …

P K Ghose: Directly, because now it is allowed as per the accounting standards to get it through reserves. For the current quarter there is no increase in that liability as I mentioned.

Prasad Deshmukh: Okay and one more question on the standalone numbers, we see a substantial drop there in EBITDA margin, which is probably because of the very high increase in the raw material cost. Is there anything beyond use of say high cost fuel other than that is there any other item over there?

P K Ghose: High cost fuel means?

Prasad Deshmukh: In the sense, maybe last year you could have done natural gas and this time you resorted to…

P K Ghose: You know that is not the reason because if you get natural gas and replace, you will get a corresponding increase in revenues. It is basically because Babrala did not operate, as de-bottlenecking of the plant was on and it was shut for 45 days.

Prasad Deshmukh: But this raw material cost is still high?

R Mukundan: Let me explain, if you see our standalone P&L statement, which is published, the power and fuel is a separate line item through which all this is accounted, you would see a decline in the numbers and that decline is a result of awaiting the de-bottlenecking project to get commissioned, which is now fully commissioned. Now, you will see that come back to its normal level. The raw material increases mainly on account of our DAP and the phosphatic business, where if you see, there has been a disproportionate increase in the raw material as compared to the revenue and this is really the mismatch which has let to compression margins in that business. As Kapil has been highlighting, we are going through a transient period right now and we expect that in three months this period should be over, wherein things should stabilize and we will be back to normal margins in Haldia.

Prasad Deshmukh: Okay.

Moderator: Thank you. Our next question is from the line of Paresh Khandelwal of Birla Sun Life Mutual Fund, please go ahead.

Paresh Khandelwal: Yes good afternoon, my first question relates to the margins on the chemical business in our standalone profit and loss account. I am just trying to understand our ability to pass on the costs and if I just adjust the Rs. 17 crore cost that we have put in on inventory losses, would we be able to pass on all the costs from now on? Our cost has not gone down as much as the sales price right?

R Mukundan: We have suffered in the phosphatic chemical, STPP, which is made in Haldia. One of the key inputs for STPP is sulphur and sulphur price has plummeted from USD 850 to close to USD 40 - 50 now, so that is a massive write down of inventory. When you come down from USD 850 to USD 50, you lost USD 800 per ton. That is a huge write down in inventory, which has happened in that business. And most of it is accounted, some of it are equal amount probably may come in the next quarter that is our anticipation that is about it. I think there is no issue of passing on any increase or decrease, if we were to buy sulphur today at USD 40-USD 50 the STPP business, which is done out of Haldia is actually profitable, it is just that our inventory is getting revalued at the market rate and hence there is the issue of this write off getting accounted in the quarter.

Paresh Khandelwal: Yes so, in that case, can I take that the EBIT margins, which have come down by maybe 5%, it would once again climb up from the next quarter?

R Mukundan: We should be able to claw back a bit of it once we stabilize and we go through the next quarter. So, in the next quarter I do not see that correcting itself, but it should correct the quarter later. Also, during the quarter in question (Q3FY09), somewhere in the middle of this quarter, we also took a price correction in the Indian market, where I think we dropped prices by about 7% and that also is accounted for in these numbers.

Paresh Khandelwal: So far as GCIP is concerned, I will like congratulations for the price increase because given the kind of a natural gas price fall that has happened and also the demand destruction that you have been talking about it is commendable that your clients have actually taken a price increase.

R Mukundan: No, I have a different view. While, this is normally described as price increase I think the prices which we were getting in US operations where and in UK where it depressed unnaturally, so they are only doing a catch up to the world market numbers.

Paresh Khandelwal: Solvay has left ANSAC, so does that in any way affect the ability of the cartel and do we now still use the cartel?

R Mukundan: Let me clarify I think Solvay has rightfully stated that it is out of ANSAC, which is an export consortium of US producers. General Chemicals remains part of the consortium and there are two other members - FMC and OCI. Solvay, while it has exited there is two year notice period for the exit. So, the exit will formally happen only in the year 2011.

Paresh Khandelwal: Okay, so ANSAC decides the prices or is it done by each individual company of the consortium for the US exports?

P K Ghose: The exports out of US other than to Europe are routed through ANSAC and TATA Chemicals and Brunner Mond compete with ANSAC.

Paresh Khandelwal: Okay, thank you, thank you very much.

Moderator: Thank you Mr. Khandelwal. Our next question is from the line of Durga Dath of Goldman Sachs, please go ahead.

Durga Dath: I have just question on the US contract for soda ash prices, if I am not wrong the energy surcharge cost included in the contract, where the soda ash prices will get adjusted in line with the energy prices. So, now with energy prices coming down, do you expect any price decreases going forward, because you need to keep in line with energy prices?

P K Ghose: The energy surcharge provision does not apply to reduction in energy prices; it only applies to increase in energy prices.

Durga Dath: For the other markets, now with the energy cost having come down, are the customers demanding a decrease in soda ash prices for the decrease in energy cost?

R Mukundan: I think where there are contracts, the customers are honoring the contracts in a similar way as we have honored contracts when we signed on a price and market prices are going higher, we continue to honor the contract. With new contracts that is the price of consignment and there is no surcharge which operates in other parts of the world, it is a very unique feature only in the US contracts.

Durga Dath: Okay thank you.

Moderator: Thank you Mr. Dath. Mr. Abhijit Attavar, would you like to add any questions or comments at this time?

Abhijit Attavar: Typically do Asian buyers going for year long contract or do they typically buy spot and instead your breakeven cash cost is about USD 230 landed in Asia, given the drop in freight rates from US to Asia, are you able to better protect your FOB realizations at GCIP?

R Mukundan: See exports to Asia are done by ANSAC. The fundamental fact is that the lowering of the freight has really helped the US exports in a large way.

Abhijit Attavar: Alright, thank you. We will wind up the call at this point, thank you very much everyone for joining in.

Moderator: Thank you Mr. Attavar, Mr. Mukundan would you like to add any closing comments?

R Mukundan: I think as we said at the beginning these are really challenging times and we do believe that the chemical segment has real challenges ahead. But as I also clarified during the call that the highest level of demand destruction which is happening for us is happening only in a part of the segments in which we sell and that happens to be the one which is more aligned to automotive or real estate - the flat glass business. The other parts of the business are not seeing at the same level of demand destruction. That should be a bit of more balanced kind of presentation of what is happening out there in soda ash market. As far as fertilizer is concern our view is that it provides a solid base for the company. It has seen a bit of volatility in the last quarter. Impact that volatility in one segment, which is a phosphatic segment is going to be felt for one more quarter, but beyond that we believe that with the kind of policy regime which we have and the kind of market outlook, which we have that should continue to provide a solid base. The salt business also provides a solid base to the company. And as Prashant highlighted we have a strong focus on balance sheet management as of now, we have launched a program ADAPT, which will run for the next 18 months and we will take a call at the end of 18 months, whether it needs to be extended further depending on how sharp and how long this downturn is. And this project really aims at cash conservation, our CAPEX postponement and cost reduction and I think we have pretty much aligned our entire team and our team is fully geared to face this challenge going forward, thank you.

Moderator: Thank you Mr. Mukundan, Mr. Ghose, Mr. Mehan, and Mr. Abhijit Attavar. Ladies and gentlemen, on behalf of ABN Amro Asia Equities India Ltd that concludes this evening's conference call, thank you for joining us and you may now disconnect your lines, thank you.