



TATA CHEMICALS LIMITED

Conference Call Post-acquisition of Majority Stake in Brunner Mond Group

December 26, 2005 at 12:45 pm

Moderator: Good afternoon Ladies and Gentlemen. I am Parimala, the moderator for this conference. Welcome to the Tata Chemicals conference call. Mr. Gavin Desa of Citigate 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 like to hand it over to Mr. Gavin Desa of Citigate. Thank you and over to Mr. Desa.

Gavin Desa: Thank you and good afternoon everyone. Welcome to the Tata Chemicals conference call to discuss the acquisition of a majority stake in the Brunner Mond Group, one of the world's leading manufacturers and suppliers of soda ash and associated alkaline products. With us we have Mr. Prasad Menon, the Managing Director of Tata Chemicals, Mr. Homi Khusrookhan, the Executive Director, and the Chief Operating Officer of the chemical business Mr. R. Mukundan. May I now hand over to Mr. Menon?

Prasad Menon: Good afternoon everybody and thank you for attending this conference call. I am very happy to state that this transaction has been completed and it has been completed at an attractive valuation. On the December 2005 estimated results, Brunner Mond's enterprise value to revenue is less than one and the enterprise value to EBITDA multiple is less than 7. Going forward from next year onwards, we expect and are planning to drive significant improvement in profitability, which will make this acquisition even more attractive in terms of its contribution to creating value going forward.

For Tata Chemicals this transaction represents another step towards building a global soda ash business. The combined business will expand geographies across Europe, Asia, and Africa, besides strengthening the leadership position in India. It also enables us to establish a presence in the natural soda ash segment wherein the manufacturing costs are significantly lower.

Brunner Mond Group possesses three soda ash manufacturing facilities spread across the United Kingdom, Netherlands, and Kenya, with a total production capacity of 1.6 million tonnes of which around 45% is dense. The capacity of the unit in Magadi in Kenya, which is presently 330,000 tonnes is in the process of being expanded to 700,000 tonnes. Post-expansion, the combined entity would be in a position to manufacture an equal proportion of dense and light soda ash. Dense soda ash as you know is the key raw material for the glass industry, which is presently enjoying unprecedented growth.

I am quite happy to tell you that this also enables Tata Chemicals to access markets where it has not been present earlier. These include countries like Pakistan, Malaysia, Philippines, and Vietnam besides several countries in Europe and parts of Africa. Furthermore, with over 100,000 tonnes of material manufactured by Magadi in Kenya being sold in the Indian market, this transaction results in Tata Chemicals strengthening its domestic leadership position. It also to a great extent diminishes the impact of import duty reductions, which are expected to take place by 2007.

The renewed entity will gain tremendously from the combined strengths of Brunner Mond's technology and product quality and Tata Chemicals' proven ability to efficiently manage operations, all of which enables it to offer high value materials like food and pharma grade bicarb in the developed market, to optimize logistical efficiency and minimize customer response time.

I believe this acquisition will provide an opportunity for Tata Chemicals to create a cost efficient operating and marketing structure by combining common infrastructure, people and resources, thereby strengthening the Company's competitive position in its operating categories and growth markets.

Let me end by reiterating that we are very happy with the opportunities and potential offered by this transaction and will continue to identify opportunities that we believe are viable and have the potential to drive profitable growth and enhance shareholder value.

Thank you for your time, and now we will be happy to discuss any questions that you have. Thank you.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis.

We have Mr. Kashyap Jhaveri from Sharekhan. Over to you Sir.

Kashyap Jhaveri: Good afternoon sir. I just wanted to ask , does Brunner Mond do mining of soda ash or is it manufactured from salt?

Prasad Menon: Mining, but unlike the operations in United States this is from the surface of a lake, and I am talking about the Kenyan operation.

Kashyap Jhaveri: Kenyan operation. What size is the Kenyan operation could you just repeat that?

Prasad Menon: Right now it is about 350,000 tonnes, post expansion next year it will come to 700,000 tonnes.

Kashyap Jhaveri: 700,000 tonnes. And secondly I wanted to know, you said enterprise value to revenue ratio is around less than 1. This company would be having turnover of what around Rs. 800 crore or so?

Prasad Menon: No, the turn over is roughly about Rs. 1500 crore.

Kashyap Jhaveri: Rs. 1500 crore. Okay, and the corresponding part would be the debt? This Rs. 508 crore you have paid for 63% stake, so remaining can I take it as debt component?

Prasad Menon: 37% remaining equity and the rest is debt, but as I said it is less than 1.

Kashyap Jhaveri: So realizations are in line with Tata Chemicals, around Rs. 9300-9400 per ton.

Prasad Menon: Global soda ash prices vary from market to market.

Kashyap Jhaveri: Okay. To check out on geography, the Kenyan operations will give you access to Pakistan, Malaysia, and Philippines.

Prasad Menon: That is right, to the Asian market, yes.

Kashyap Jhaveri: And the way import duty comes down, even India may import from Kenya?

Prasad Menon: At the moment, India is already importing.

Kashyap Jhaveri: Okay. If I look at say import by country numbers of India, what could be the Kenyan exports of soda ash to India, what could be the size of it?

Prasad Menon : Little over 100,000 tonnes.

Kashyap Jhaveri: 100,000 tonnes per annum. Okay, thank you very much sir.

Moderator: Thank you Mr. Jhaveri. Next in line we have Mr. Hiten Mavani from JM Morgan Stanley Asset Management. Over to you sir.

Hiten Mavani: Good afternoon sir. I have two questions. One is, currently your breakup of revenue is 37% coming from soda ash, that is inorganic chemicals, and around 60% from fertilizer business. So, what will be the revenue breakup in FY 07 and 08 after this acquisition?

Prasad Menon: It will swing a little more than 50% to soda ash.

Let me just qualify that, we have been asked repeatedly in the past: Are you fertilizer company, are you a soda ash company?, But it really depends on how our growth opportunities come up into these businesses.

Hiten Mavani: Okay sir, and any outlook that you have on soda ash prices?

Prasad Menon: The outlook is that soda ash prices will continue to be firm.

Hiten Mavani: Continue to be firm. Sir, normally dense soda ash has a higher realization value, then what will be the break up between dense and light say after this acquisition?

Prasad Menon: I will just ask Mr. Mukundan to answer that.

Mukundan: The combined entity's total soda ash capacity will be about 3 million tonnes by June 06, and out of the 3 million tonnes, 1.5 million tonnes will be dense ash and the balance will be light.

Hiten Mavani: Okay Sir, it will be fairly equal mix kind of thing.

Mukundan: Yes.

Hiten Mavani: Okay sir, thanks a lot.

Moderator: Thank you sir. Next in line we have Mr. Abhijeet Dey from Kotak Asset Management. Over to you sir.

Abhijeet Dey: Good afternoon sir and congratulations on this acquisition. My question relates to your Kenyan facility. Now that you will be increasing your capacity out there, so I guess you will be looking for more imports to India?

Prasad Menon: That remains to be seen. Many of these things we will be looked at once we get into the saddle and start working on integration.

Abhijeet Dey: What is the price as compared to Indian domestic prices, what is the import price from Kenya?

Mukundan: The Indian prices are actually driven out of import parity pricing. So essentially the Indian prices reflect the international price, and international prices are in the region between \$190 to 200 parity.

Abhijeet Dey: Okay. And you expect that to remain firm?

Mukundan: We expect that to remain firm, and in some pockets it may go up, in some pockets there may be slight softening, but I think we are saying that it is going to overall remain firm. For example, in Europe and in the US we do believe there will be a \$20 to \$30 hardening of these prices. In Asian market they are going to be relatively stable.

Abhijeet Dey: Okay, thank you.

Moderator: Thank you Mr. Dey. Next we have Mr. Amit Dalal from Amit Nalin Securities. Over to you Mr. Dalal.

Amit Dalal: Yes, congratulations on the acquisition. Sir, I had a question regarding the European facility, the Kenyan facility obviously has a competitive advantage of raw material. What is the competitive advantage of plant location of these two facilities in Europe?

Prasad Menon: We should look at the European facilities as a composite of soda ash as well as the sodium bicarbonate businesses. They have a very strong sodium bicarbonate business as well. They manufacture a number of grades, and they are leaders in the pharmaceutical grade of sodium bicarbonate. But let me just say that looking forward into 2006 and 2007 our estimates of profitability is that it will be split

more or less 50:50 between the European facility and Kenya. So that should indicate to you that the European facility can stand on its own.

Amit Dalal: Since the sodium bicarbonate business is new to us, can you give us some description of what that business really is in terms of customer base and in terms of what has been the market size of that product, etc., in Europe?

Mukundan: Yes, essentially I think in Europe we are looking at close to 150,000 tonnes of sodium bicarbonate, and Tata Chemicals within India makes about 75,000 tonnes.... in India the applications have been mainly with the food, dyeing and leather tanning industries. The application in Europe is driven through animal feed, personal care and pharma. These are new applications, which we do not have in India and these are the applications we will try to drive through the Indian market too.

Amit Dalal: Okay, and sir when we talk about raw materials for soda ash or sodium bicarbonate, are they localized in the European facilities or do they have to be imported?

Prasad Menon: Localized, yes, largely around the factory site.

Amit Dalal: Okay great. Thank you very much.

Moderator: Thank you Mr. Dalal. Next in line we have Mr. Gursimran from JM Morgan Stanley. Over to you sir.

Gursimran: Good afternoon sir, this is Gursimran from JM Morgan Stanley. I had three questions sir. My first one being what is your take, you are looking at establishing a presence in natural soda ash segment, now what is your outlook on that, what is the kind of presence you are looking at developing and who are your major competitors as of now in India at least?

Prasad Menon: As far as natural soda ash is concerned, as you probably know the largest natural soda ash manufacturer is United States as a country, and the second largest is Kenya, and there is a small facility in the Northwest of China, but we all know that the manufacturing cost of natural soda ash is much lower than synthetic, and therefore it is very important looking forward to have a foothold into the natural soda ash manufacturing area, and that is one advantage we will get out of Kenya.

Gursimran: Sir if my understanding is correct, in India natural soda ash is more expensive than synthetic soda ash?

Prasad Menon: No, not really.

Gursimran: So what is the kind of market share that you very tentatively looking at going ahead?

Prasad Menon: Where?

Gursimran: In the natural soda ash segment?

Prasad Menon: No, in the natural soda ash, see the market for soda ash is a combination of natural soda ash as well as synthetic soda ash.

Gursimran: I see, and what is the break up of that sir?

Prasad Menon: At the moment about 25% worldwide capacity, well, little less than 25, about 20% of worldwide capacity is natural soda ash. The rest is synthetic.

Gursimran: All right. Thank you sir.

Prasad Menon: Thank you.

Moderator: Thank you madam. Next we have Mr. Nirav Shah from Pioneer Intermediaries. Over to you sir.

Nirav Shah: Good afternoon sir. Sir I have a few questions. Sir, are all the three plants profitable right now?

Prasad Menon: Yes, they are.

Nirav Shah: What would be the capex for Kenyan expansion?

Prasad Menon: About \$100 million.

Nirav Shah: Okay. Sir the next question is, what are the reasons for the low labour cost compared to Tata Chemicals?

Prasad Menon: Labour cost, I did not talk about labour cost. I talked about low production cost.

Nirav Shah: Okay. So what are the reasons?

Prasad Menon: The raw material is available right there on top of the lake, that is the advantage...

Nirav Shah: Sir, one last question would be, what are the key points which Tata Chemicals will do to improve the profitability of the expansion?

Prasad Menon: That remains to be seen, that is what I was mentioning a little earlier that we will be putting an integration team which will look at technology, look at cost, look at marketing, and various other synergies.

Nirav Shah: Okay. That is all. Thank you sir.

Moderator: Thank you Mr. Shah. Next we have Mr. Sharad Ramnarayanan from Birla Mutual Fund. Over to you sir.

Sharad Ramnarayanan: Good afternoon sir. Sir my query is regarding your Kenyan facility of natural soda ash. You had mentioned it is having a higher margin when

compared to the synthetic soda ash, so is it fair to assume that the Kenyan facility is earning more than 27-28% at EBIT level, which you are earning right now?

Prasad Menon: Well, it is little too early to say. We need to just sit together and understand exactly that underlying finances. All I can say is that their production costs are much lower. They do have higher costs in terms of transportation because they transport from the site to the port, but their margins are pretty good, but I would not like to put a figure to it until we really get to grip with the financials.

Sharad Ramnarayanan: Yes. But you had guided that 50% of turnover by 07 will come from this acquisition from the soda ash segment. How much of the profitability do you expect is going to come from soda ash sir?

Prasad Menon: Let us wait and see, but it will be significant.

Sharad Ramnarayanan: Approximately can you give a ballpark figure at least.

Prasad Menon: No forward looking on profits.

Sharad Ramnarayan: Okay. I will hand over my phone to my colleague. He has a couple of questions.

Jayesh Gandhi: Hello, Jayesh Gandhi here. Sir we joined a bit late, we probably missed out few of these key points, could you run us through the numbers for sales turnover, profitability numbers of the acquisition?

Prasad Menon: I think it is all there in the handout, right.... because it will take some time to repeat everything I said...

Jayesh Gandhi: The total profitability number is what we are looking at.

Prasad Menon: That number we are not going to disclose right now, but we can tell you that the top line is about Rs. 1,500 crore.

Jayesh Gandhi: Okay. And in terms of the expansion, if I understood correctly, you are doubling the capacity in the Kenyan operation for \$100 million?

Prasad Menon: Yes.

Jayesh Gandhi: So that will be taken up immediately?

Prasad Menon: That is on already. That should be completed by April-May or so next year.

Jayesh Gandhi: Okay. And finally regarding the fertilizer division, there was a talk about setting up a plant in Bangladesh, any further development on that? Any comments that you would like to make?

Prasad Menon: The only comment that I would like to make is we are still interested in it. We are still having discussions with the Bangladesh Government.

Jayesh Gandhi: Right. Where I am coming from is that the company had plans to triple the soda ash capacity and double the fertilizer capacity. Obviously the soda ash with this acquisition has gone through, what about fertilizer? Is that plan still on?

Prasad Menon: I don't know about the plan, but if Bangladesh goes through then we will double.

Jayesh Gandhi: Okay, thank you.

Moderator: Thank you sir. Next we have Mr. Sarbvir Singh from Hercules Capital Advisors. Over to you sir.

Sarbvir Singh: Couple of questions, firstly with regards to the balance ownership of Brunner Mond, Can you talk about who is holding the remaining stake and what the plans are for that?

Prasad Menon: Yes. It is widely dispersed, but our plans are that we will be making an open offer around the first week of January.

Sarbvir Singh: Okay. So your target is to get 100% ownership.

Prasad Menon: If we can, yes.

Sarbvir Singh: Okay. Secondly, with regard to the natural soda ash facility in Kenya, can you talk about the reserve position in that facility and what is the status of the leases that they have got?

Prasad Menon: Well, they have got the lease for Lake Magadi, which is where the raw material lies, and I really would not like to talk about the size of the deposit because it is well over 100 years. It is self renewing and that is why, if you take out about 800,000 to a million tonnes from there, every year it renews.

Sarbvir Singh: And thirdly you gave out some indicative numbers on what the profitability is in Kenya and in Europe, in the light of...?

Prasad Menon: We did not give you any indication of the profitability, only to say that it is a profitable company and we expect it to improve considerably both this year and in the coming year.

Sarbvir Singh: Okay that is fine. My question is in light of the profitability in the European facilities, in the UK and in Netherlands. Given that now the combined company will have natural soda ash facility in Kenya and low cost facility in India, could there be a case for not having some of the European capacity that you...?

Prasad Menon: No case at all, we are quite happy to have the European plants with us, because as I mentioned earlier, looking forward in to 2007 and beyond, we are seeing a distinct possibility of 50% of EBITDA coming from Europe and 50% from Kenya. So that is a pretty good position to be in.

Sarbvir Singh: Okay. Couple of more questions, firstly on the technology front, you mentioned it is a very high technology facility, technology is much better than what is currently there in the world, can you talk a little bit about that?

Prasad Menon: No, actually I did not say that. I just said that there could be possibilities of exchange between the plants in UK as well as us. The natural soda ash facility of course is completely different, but we certainly believe that in sodium bicarbonate technology we have quite a bit to learn from Brunner Mond and it could certainly help us in our sodium bicarbonate business here, but even in the main soda ash plant surely there will be synergies available in terms of improvement of technology. They are a well-run company and their efficiencies are very good.

Sarbvir Singh: And just quickly, can you comment a little bit about basically the plant capacity expansion taking place in Europe and in China and what implications that might have for soda ash prices?

Prasad Menon: Well, in Europe I can tell you that there are no planned expansions, any expansions really are coming out of China, and there are no planned expansions in United States either.

Sarbvir Singh: Okay, there was I guess a big disruption in the Chinese supplies last year.

Prasad Menon: Not really, the supplies are okay. They have been continuing to export over one million tonnes.

Sarbvir Singh: Okay. The final question on your fertilizer facility, can you just talk a little bit about the status of the de-bottlenecking plans?

Prasad Menon: Status remains the same. We are waiting for an official word from them as well as waiting for the final policy that will come out of the Alagh committee.

Sarbvir Singh: Okay. Although the ministry did announce that you have been given approval.

Prasad Menon: Yes, but we have to wait and see what the Alagh committee recommendations are.

Sarbvir Singh: Okay, that is it. Thanks a lot.

Prasad Menon: Thanks.

Moderator: Thank you Mr. Singh. Next we have Mr. Harit Shah from Equity Master. Over to you sir.

Harit Shah: Good afternoon. I have a question regarding the reserves which you said you are not going to talk about. How is it that there is the natural facility which is available, what you are increasing is only the production capacity which means you will be able to source from that lake. Could you explain the dynamics of that?

Prasad Menon: No, what we are saying is that right now they are going ahead with the doubling of capacity, which would come up stream sometime in the second quarter of next year. I think the first objective that we should look at is to stabilize that capacity and move it to 100% utilization before we look at any further expansion. The possibility of further expansion cannot be ruled out.

Harit Shah: Okay, in terms of, taking a three-year view from hereon, what are the three things that we need to watch out for across all the businesses, it could be either opportunity or risk that you would like to share with us?

Prasad Menon: Well, I think the first opportunity that we need to look at is in terms of the market place, how can we best organize the markets, which will give the combined entity some synergies. That is the first opportunity. The second one is obviously to stabilize the production from the Kenyan capacity. And the third one would be to see how the Brunner Mond value added products like sodium bicarbonate improve the margins. These are the three opportunities that we see immediately, apart from that as Mr. Mukundan said a little while earlier we are looking at what improvements we can do on technology including bicarbonate in India and how we can take forward certain learning on the soda ash front as well.

Harit Shah: All right. Thank you very much.

Moderator: Thank you Mr. Shah. Next we have Ms. Jasmina Parekh from ASK Raymond James. Over to you mam.

Jasmina Parekh: I just wanted to know about demand-supply statistics of soda ash in the global market, and how much is the gap currently? And also what is the traded quantity of soda ash globally?

Mukundan: Broadly speaking, the soda ash demand is about 40 million tonnes, and the production very closely tracks the demand of 40 million tonnes, and the demand is growing at the rate of 2.5% on a global basis. Now of this the demand growth in Asian market is 6%, slightly higher than 6%, and the markets in North America are not growing; they are very stable. The European markets are growing at about 1.5 to 2%, and the Eastern European markets are growing at about 4-5%. The Indian market itself is growing between 4.5-5%, which is the growth rate you are seeing. And we are seeing the capacity additions which were to come on stream in China have fully come on stream. There is one more capacity planned and is expected to come on stream during the middle of next year. That would add about a million ton but I think the global growth in demand is close to a million tonne every year.

Jasmina Parekh: Okay, and sir what is the traded quantity?

Mukundan: The traded quantity is in the region of about 30% of this overall volume.

Jasmina Parekh: So, it would be around 12 million tonnes.

Mukundan: Approximately.

Jasmina Parekh: Okay, thank you sir.

Moderator: Thank you madam. Next in line we have Mr. Jay Prakash Sinha from Kotak Private Client Group. Over to you sir.

Jay Prakash Sinha: I had just one question. You had raised an FCCB of 150 million. Now with this acquisition of Rs 500 crore and then also the capex of about \$100 million. I was just wondering what kind of debt equity you are targeting at?

Prasad Menon: Just let me clarify one thing, we are not raising the capex for the expansion, that has already been raised, that is not part of ours. We had 150 million from the FCCB, out of which about 37 or 38 we used for the Moroccan joint venture, and the remaining 112 we put in here now.

Jay Prakash Sinha: And given the fact that Government has announced today that they would be looking to divesting Indian fertilizer companies, would you be interested in any of them?

Prasad Menon: I will be interested if they can clarify what the policy is.

Jay Prakash Sinha: Right, and that is the big thing.

Prasad Menon: I think all of us in the industry are waiting to hear a clear policy guideline.

Jay Prakash Sinha : Okay, thanks.

Moderator: Thank you sir. Next is a followup question from Mr. Kashyap Jhaveri of Share Khan. Over to you Sir.

Kashyap Jhaveri: I just wanted to reconfirm the numbers. If I understand this correctly, Brunner Mond has somewhere around Rs 500-600 crore of debt on book.

Prasad Menon: Yes, roughly.

Kashyap Jhaveri: Roughly. And this includes the money that will be required for Kenyan operations?

Prasad Menon: No.

Kashyap Jhaveri: So, there is no further money required for this Kenyan operation as of now?

Prasad Menon: Nothing more.

Kashyap Jhaveri: And just to understand on operation side, you said this is not exactly mining, this is something available on the surface of the lake. Just wanted to understand how does it differs from the synthetic soda ash.

Prasad Menon: Definitely different from the synthetic because synthetic you need to get limestone, get coke, you need to get salt, and perform a series of chemical reactions.

Kashyap Jhaveri: Okay, and this is purely from the surface of the lake.

Prasad Menon: Calcining and purification, that is it.

Kashyap Jhaveri: Okay, another thing on this import duty you mentioned earlier on soda ash segment, as of now, roughly the duty would be around 15%, the base level duty, I mean, the peak level duty should be....?

Prasad Menon: That is right, 15% as of today.

Kashyap Jhaveri: Okay, and we are looking at some reduction in that over next 2 or 3 years or whatever...?

Prasad Menon: That is what the government has been saying that they will reduce it progressively.

Kashyap Jhaveri: Okay, thank you.

Moderator: Thank you sir. Next is a followup question from Mr. Amit Dalal of Amit Nalin Securities. Over to you Sir.

Amit Dalal: Sir, just wanted to know that considering that we have these capacities now which are perhaps going to make us one of the large players in soda ash, does it help us have a competitive arm relative to Ansac, United States, or the price is still determined by larger players?

Prasad Menon: No, the price will be determined by all the players, but as I mentioned earlier you will have different strategies in different markets. You might find as Mr. Mukundan said that the prices in North America and South America are perhaps 15-20 dollars above what it reigns in India. You might have pockets in Africa and pockets in Europe, which could be a little different, but by and large it will be driven by a combination of Ansac, China, and the European players.

Amit Dalal: Another question sir, you said 50% of EBITDA will come from Kenyan and 50% of it will come from European, would you say that the European soda ash operations are having a similar EBITDA margin as our current ones or would you think that it will be substantially different?

Prasad Menon: That remains to be seen. Their EBITDA margins, do not forget, are also affected by their sodium bicarbonate business.

Amit Dalal: No, I am separating sodium bicarbonate from soda ash.

Prasad Menon: Probably, it will be roughly the same.

Amit Dalal: Okay, thank you very much.

Moderator: Thank you sir. Next is a followup question from Mr. Sharad Ramnarayanan of Birla Mutual Fund. Over to you Sir.

Sharad Ramnarayanan: Sir just a clarification, you are having the current soda ash capacity of about 0.87 million tonnes and this new capacity which you are having is 1.6

million tonne which you are acquiring, so on 0.87 million tonne you are recording a turnover of about Rs. 1200 crore in FY 06. So why is it that this Brunner Mond capacity despite being double, has only a turnover of Rs. 1500 crore, is it working at lower capacity utilization or something?

Prasad Menon: No, it is working at full capacity utilization, it is Rs. 1500 crore now, I mentioned that the new capacity will be coming on line next year that will add again to the top line.

Sharad Ramnarayanan: No, no, this 1.6 does not include the new capacity, right?

Prasad Menon: Yes, 1.6 does not.

Sharad Ramnarayanan: It does not include, so its turnover, why is it only marginally higher than your 0.87 million tons sir?

Prasad Menon: Where did you get the figure of Rs. 1200 crore for our soda ash turnover?

Sharad Ramnarayanan: It is from your segment revenues, I think in FY05 it was Rs. 1135 crore.

Prasad Menon: That is chemicals, it includes salt and cement.

Sharad Ramnarayanan: Salt is just 10%, so even if you remove that it will be.., around Rs. 800-900 crores will be at least coming from there?

Prasad Menon: It will be about Rs. 800 crore, not Rs. 1200 crore.

Sharad Ramnarayanan: Okay, so Rs. 800 crore, okay sir, thanks. Sir one more question, can you just elaborate a little more on the balance sheet of Brunner Mond right now, like about their, how much is their debt, approximately you mentioned about 500 crores right?

Prasad Menon: Debt equity is about 0.75 to 1.

Sharad Ramnarayanan: Okay, and do they have any cash on book sir?

Prasad Menon: Yes.

Sharad Ramnarayanan: How much?

Prasad Menon: I would not like to give that because this is not a quoted company, so I think we need to hold back some of the details.

Sharad Ramnarayanan: Okay, and approximately, book value or something can you divulge, like your acquisition cost can we just get a, gauge it from the book?

Prasad Menon: You can gauge it from that, but we cant give you the book value.

Sharad Ramnarayanan :Okay, thanks.

Moderator: Thank you Mr. Ramnarayan. Next we have Mr. Mansingh Deshmukh from Anand Rathi Securities. Over to you sir.

Mansingh Deshmukh: Good afternoon sir. This is the question related to market share of Brunner Mond. What is the market share right now in the European market for them?

Prasad Menon: It varies from UK to Western Europe, for instance just to give you a feel, UK they have a very high market share of about 70-75%. I think in Netherlands also they have about 40%, but it varies from country to country.

Mansingh Deshmukh: Okay. Second thing is that they are an active player into the pharmaceutical market also, supply to pharmaceutical market also, how that would be an advantage for the Indian operation?

Prasad Menon: One part of the pharmaceutical market.

Mansingh Deshmukh: Yes, one part of the pharmaceutical market, would that be the technology addition what you are saying about from that...?

Prasad Menon: That could be of some benefit to us.

Mansingh Deshmukh: Okay. Secondly sir, you had said about some benefits in terms of direct advantage in terms of costing, what exactly that benefit would be?

Prasad Menon : No, I did not say on costing, I said that some of the benefits that we are looking forward to is when we look at the entire market and the spread of the market how we can suitably modify so that the overall organization gets a gain, and that is something that we need to look at. Second thing I spoke about was on technology from the sodium bicarbonate, and the third is our own experience of cost reductions and their own experience of cost reduction perhaps will help us together to drive down the cost some more.

Mansingh Deshmukh: Okay sir, thank you.

Moderator: Thank you sir. Next we have Mr. Ghanshyamdas Agarwal from BNK Securities. Over to you sir.

Ghanshyamdas Agarwal: Sir, I would like to know how integrated in the UK plant, like Mithapur plant is completely integrated, so the UK plant how integrated it is?

Prasad Menon: No, the UK plant is not like the Mithapur plant. Mithapur plant if you remember actually started with salt and then went on to soda ash and then added certain other arms like cement and caustic chlorine etc. UK plant is only soda ash and sodium bicarbonate.

Ghanshyamdas Agarwal: In terms of power, do they purchase power or do they have a...

Prasad Menon : They have an outsourced power arrangement.

Ghanshyamdas Agarwal: Okay, Sir.

Prasad Menon: Power and steam.

Ghanshyamdas Agarwal: The valuations as you said it is roughly about 180 million on a EV basis, enterprise value.

Prasad Menon: No, I do not where you got that figure.

Ghanshyamdas Agarwal: Rs 1500 crore.

Prasad Menon: We said that it is less than that.

Ghanshyamdas Agarwal: Okay, if we assume on the higher side. If you assume that 180 is on the higher side, and this also includes you said that there is no further funding requirements for Kenya?

Prasad Menon: No, there is no funding requirements at all for either Kenya or for Brunner Mond right now.

Ghanshyamdas Agarwal: So this, I mean, the 100 million will come from the operation.

Prasad Menon: It has already been done....

Ghanshyamdas Agarwal: Okay, the numbers are looking very attractive because 0.35 million we are spending about 100 million in expansion, we get this whole saving of 1.6 million for 180 million assuming on the higher side.

Prasad Menon: You work it out.

Ghanshyamdas Agarwal: Actually I just wanted to clarify, or probably, we were assuming that the margins in the UK, I mean at least the UK plant, margins would be less, probably around 10%, so that was our estimate, so that would result in the difference in valuation of the Kenya plant and the UK plant.

Prasad Menon: We have not valued it separately, we have valued the whole enterprise.

Ghanshyamdas Agarwal: Okay sir.

Prasad Menon: Thanks.

Moderator: Thank you Mr. Ghanshyam Agarwal. Participants who wish to ask questions may please press *1 now. Next in line we Mr. Siddharth Shah from Motilal Oswal Securities. Over to you Sir.

Mr. Siddharth Shah: Yes sir, can you give me the production volumes and capacity utilization of the plants?

Prasad Menon: The plants are virtually operating at 100%. It has 350,000 or so from Kenya right now, and this factory will take it up another 350,000. Europe has about 1.3 million tons.

Mr. Siddharth Shah: 1.3 million tons, okay. Thank you.

Moderator: Thank you Mr. Shah. Next we have Mr. P. Venkatesh from Corporate Database. Over to you sir.

P. Venkatesh: Sir, I understand there will be substantial quantity of salt also being extracted from there, some insights on that?

Prasad Menon: Yes, you are right. That is something we are going to have to look at to see what we can do with the salt business in Kenya. You are absolutely right.

P. Venkatesh: Currently, how big is that business?

Prasad Menon: It is very small business right now.

P. Venkatesh: Okay, I also understand that there are plans to invest in the processing plant with financial assistance from IFC?

Prasad Menon: No, that is the one which is taking place on the expansion area, IFC is involved in the expansion.

P. Venkatesh: The Kenyan thing.

Prasad Menon: That is right.

P. Venkatesh: Okay thanks.

Prasad Menon: Thank you.

Moderator: Thank you Mr. Venkatesh. Next is a followup question from Mr. Amit Dalal of Amit Nalin Securities. Over to you sir.

Amit Dalal: Sir if we had to consider expansion of our capacity in soda ash at Mithapur, and one were to put in about half a million ton capacity, what would that cost you approximately?

Prasad Menon: I would just like to tell you that, first of all we are looking at an expansion to one million, but if you look at a greenfield capacity that would cost between Rs. 20,000-25,000 per ton.

Amit Dalal: 20,000-25,000

Prasad Menon: That is right.

Amit Dalal: And the expansion capacity...?

Prasad Menon: Brownfield expansion really will vary from site to site because it will depend on how much the offsite facility you are already utilizing, so it can vary anything between Rs. 12,000-17,000 per ton.

Amit Dalal: So, this Rs. 7000 per ton acquisition approximately which we have done is obviously a very lucrative number.

Prasad Menon: Very good one, yes.

Amit Dalal: Thank you.

Moderator: Thank you Mr. Dalal. Participants who wish to ask questions may please press *1 now. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Menon for final remarks. Over to your sir.

Prasad Menon: Thank you very much everybody for joining us on this conference call, and we look forward to meeting you again at the end of the third quarter. Thank you and bye.

Moderator: Thank you sir. Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.
