Tata Chemicals Ltd

2QFY15 EARNINGS CONFERENCE CALL

MANAGEMENT:

Mr. R Mukundan – Managing Director

Mr. Ranjeev Lodha – VP & Group Corporate Controller

Tata Securities Ltd

Mr. Nikhil Gholani – Head of Institutional Equity

Moderator: Ladies and gentlemen, good day and welcome to the Tata Chemicals Limited Q2 FY 2015 Earning Conference Call, hosted by Tata Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" 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. Nikhil Gholani from Tata Securities. Thank you and over to you Sir!

Nikhil Gholani: Thank you Karuna. Very good morning to all of you. On behalf of Tata Securities would like to welcome all the participants' to the Q2 FY 2015 Earnings Call of Tata Chemicals. Today we have with us Mr. R. Mukundan, the Managing Direction, and Mr. Ranjeev Lodha, Vice President & Group Corporate Controller. We will start with the brief opening remarks from Mr. Mukundan followed by highlights of the result from Mr. Ranjeev, post which we will open the floor for Q&A. Over to you Sir!

R. Mukundan: Thank you Nikhil. Firstly, I would like to welcome all of you as well as my colleagues Ranjeev and Alok. Alok has joined us recently as Head of Strategic Finance. Let me start briefly by sharing some perspectives on the operating performance after which Ranjeev will share the key financial details after that we will be happy to respond to your queries.

Before I get into operational performance, there are key updates on the developments which we had been highlighting in our past few calls. Firstly, we are happy to report that Magadi's restructuring initiative work was completed in the last quarter and we are now beginning the first quarter of post restructured Magadi operation. All early indicators are that it is in the positive direction.

The restructuring effort in the UK is in progress and the commissioning of the steam turbine which is a critical step which we had committed will happen by September 2015. The overall project is on schedule and while there have been some issues with plant stability I think we are very much on track in terms of the overall project.

Our focus continues to maintain leadership position in the inorganic chemicals business and grow our portfolio of branded business in consumer, as well as in the nonsubsidised agri inputs farm business.

Coming to results of Q2, the standalone performance was encouraging it is mainly on the back of volumes and growth in margins in chemical and consumer business.

The margin improvements have been primarily accruing out of reduction in input cost and this regime in our view will continue for some more time. With respect to performance of inorganic chemicals the performance is in line with expectations and we have launched some new specific products with specific grades. For example we launched Gran-Plus which is the Speckle grade soda ash for the detergent industry, which offers superior performance.

Going to overseas units in inorganic chemicals as I already explained the Magadi situation that it has emerged post restructuring as a stronger unit, all indicators are that it will deliver what we had thought it would do post the restructuring.

TCE has had a performance improvement mainly on the back of improved results of British Salt. We do believe there are some challenges when we move to post the restructuring to produce bicarb with bought out CO2 but that technical issue is being addressed. All indicators suggest that the TCE restructuring is on track.

As far as TCNA is concerned while at a profit after tax level TCNA was ahead of last year because there was no onetime charge on the closure of the loan, the overall performance does show an improvement on quarter-on-quarter basis. We do believe that we could have done better than what we did. We lost out on some volumes which we hope to make up partly in the third and fourth quarter and the fixed cost increase in TCNA is primarily due to increased expenditure at the plant which had certain unexpected maintenance issues.

As far as the consumer business is concerned there has been a steady demand across the product portfolio. We continue to lead in the branded segment in salt and pulse market. The pulse sales have crossed 100 Crores in the first half year and it is the first milestone which we have recorded. We do plan to have presence of Tata pulses in about 100000 stores by the time we exit the year currently the number is standing at about 55000 stores where the Tata pulses is present.

We also launched two new variants Tata Swach Viva and Tata Swach Nova. One is the UV and UF water purifier and Tata Swach Nova is a RO water purifier and both these products the UV and UF variant is mainly for markets which have much lower TDS which is the markets like Mumbai and the parts of the coastal region whereas RO is for places where TDS is high and with this our product portfolio in Tata Swach is now fully compete as we have both offline and online purifiers across the entire product spectrum.

In terms of fertilizer, while there has been a steady operation in Babrala in urea we have seen much higher sales in DAP and NPK. I want to highlight that this year we have seen the part of the fertilizer sales which usually happen in Q3 come in Q2, so part of the numbers which you would see in terms of higher turnover actually would be bringing forward the Q3 numbers which you would have seen in the last year.

In terms of new product launch we have launched 20:20:13 which is a new product for the West Bengal market and the key focus of the company continues to be growing the non-bulk agri business. Within Tata Chemicals the portfolio of specialty fertilizer, where there is no subsidy, the pesticides and seeds portfolio put together we expect to clock close to 750 Crores by the time the year ends and we expect to grow that business to over Rs 1000 Crores by next year. That is the plan but as of now we seem to be on track to cross Rs 750 Crores in the current year. So our focus is growing the non-subsidised business in the farm space.

Rallis has performed to expectations despite the challenging weather condition mainly on the back of improved international business performance and we expect that with the elongated delayed monsoon and with water levels being high and conditions for Rabi are right for excellent results on RABI.

The only note of caution on the entire farm business, I would say is that the margin structure for the manufactured DAP is under pressure mainly on account of high phos acid price which has to go down if we have to produce at a good margin especially because the ammonia prices have increased of late and unfortunately for the Indian manufacturers of DAP the conversion margins will continue to be under pressure because international DAP prices have been on the downward trend. So while we cannot increase the finished goods price, input costs are going up and which is going to pose a challenge for Haldia.

Going forward I think one red flag in the business is the manufactured DAP which is part of the Haldia portfolio which will continue to face the pressure unlike other parts of the business which seem to be on even case.

As far as the urea business is concerned our focus with the government has been with respect to introduction of nutrient based subsidy which should we believe be introduced so that the urea pricing at the farm can be increased and help achieve balanced soil nutrition and thus the over consumption of urea is brought down. We will have no major impact in terms of the new gas price which has come in. It is going to have a very minor impact on the P&L so I do not think we would like to focus on it.

Our key focus is to make sure that the new nutrient based policy does come in. We believe with the delay in the current decision making the above cut off quantity production is under severe doubt this year, which effectively means the Q4 of this year we will have a negative performance in urea which was in line with what happened last year.

With those opening comments, all in all I would like to state that the inorganic chemical business has started showing consistent performance ; we do believe Magadi will show positive signs going forward. UK would start showing similar positive trend from second half of next year and the consumer business would be performing to our expectations and growing well.

Our nonsubsidised business are doing well, Haldia will be under pressure going forward unless ammonia prices start to trend down and as far as urea is concerned Q4 is the challenge but overall we expect that with the new urea policy which we expect should be coming and the urea business should be on a very strong footing.

So broadly I would state these are our operating issues. In addition to that I just wanted to highlight that while we have finished most of our restructuring process and these have been fully reflected in the balance sheet there maybe one or two items of investments which we had made in the past which are nonperforming and noncore. We will reviewing this and we will be reporting back to you and as we intend to clean up our investment portfolio of those which are nonperforming and noncore by the end of this financial year.

Ideally we would like to do this by Q3 December. So the team is scanning though every piece of investment we have. Our plan is with the success which we have tasted in the operational restructuring we also want to clean up our books and have a clean balance sheet by the time we start next year.

Overall as far as the debt situation is concerned, our gross debt is in the region of Rs 8000 Crores. Our intent in the next five years is to bring into 50% of the current level and we seem to be moving on track as far as the debt issue is concerned.

With these opening remarks, I would invite my colleague Ranjeev to give insights on financial performance.

Ranjeev Lodha: Thank you, Mr. Mukundan. Let me give you a quick recap on the financial for Q2 and H1 of FY 2015. On a consolidated basis the net income for the quarter was at 4803 Crores up by 11% compared to previous year. Profits from operations have demonstrated an increase of 14% at 653 Crores as compared to 575 Corers in the corresponding quarter last year.

Profit after tax and after adjusting the share of minority interest in TCNA and Rallis stands at 257 Corers as against 134 Corers an increase of 91%. The improved profits are on an account of better operating performance as has been explained earlier and the lower interest charge at TCNA.

You would recall that at TCNA last year we had a onetime unamortized cost which was written off subsequent to debt refinancing. For the six months ended September 2014, the consolidated net income for the period should at 8650 Crores up by 14%. Profits from operations recorded an increase of 17% at 1157 Crores as against 985 Crores for the corresponding period in the pervious year. Profit after tax and net of minority interest was at 433 Crores, as compared to 210 Crores an increase over 100%.

On a standalone basis the net income for the quarter was at 2843 Crores higher by 21%, profit from operations demonstrated an increase of 17% at 322 Crores as against 274 Crores in the previous year. Profit before tax was 273 Crores and after tax was 209 Crores the corresponding number in the previous year was 107 Crores therefore an increase of 96%, this is after nil impact on account of AS-11, which I will talk to you subsequently.

For the six months ended September 2014 on a standalone basis the net income was 4960 Crores, an increase of 24%. Profit from operations again by almost the same percentage recorded an improvement of 23% at 601 Crores as compared to 487 Crores in H1 of FY14.

PBT at 505 Crores and PAT at 379 Crores as compared to 207 Crores in the corresponding quarter last year demonstrated an increase of 83%. Talking of the net debt at the company level as on September 2014, the net debt on the standalone balance sheet stood at 1143 Crores as against

2058 Crores. Reduction has been basically on account of the working capital borrowing consequent to disbursements of subsidy.

On a consolidated basis the net debt stood at 6057 Crores as against 6633 Crores as on March 2014. The consolidated debt takes into account 117 Crores on currency translation and a marginal increase in debt at Magadi which was used to refinance the separation scheme post the restructuring.

The company holds a cash and cash equivalent balance of Rs 1331 Crores as at September 30, 2014. As on September end 2014 the subsidy outstanding is Rs 1211 Crores which is down by almost 600 Crores compared to the Rs 1801 Crores position which was reported as on March 31, 2014.

These are the key comments on the finance, but before I conclude there are two points that I would like to highlight in connection with our results for the current quarter. You would recall that last quarter we had mentioned that we have no AS-11 charge on account of forex evaluation. Subsequent to the ECB refinancing which was done in the last year, the new ECBs are fully hedged therefore there is no further AS-11 charge in the corresponding quarter of September 2013 this amount was 91 Crores in both standalone and the consolidated accounts.

The second point was as mentioned in the previous call Tata Chemicals, Magadi which was had announced redundancies consequent to its decision to restructure the operation, there was a charge of one time charge of 62.43 Crores which has been fully accounted for an account of redundancies. These are the two key exceptional items. This brings me to the end of my discussion and I would like to throw the floor open to questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have first question from the line of Hardik Shah from ICICI Securities. Please go ahead.

Prakash Goel: This is Prakash Goel here from ICICI Securities. Congratulations on very good set of numbers. I have two questions, primarily with regard to urea business. One what is the plan in case the new policy does not get approved for the quantity beyond IPP linked volume as the gas prices are still unviable and second what is the response of the company to the new urea investment policy the modification that has been done?

R. Mukundan: On the first one, I think if the status quo remains we are okay. I think that is not a big issue for us. We are not worse of than last year so I think to that extent we will continue, but I think our big focus not the three months. We expect to run this business for the next substantial number of years. So what we are working with government on the introduction of a more sensible NBS policy which will make sure that the operations are put on an even playing field in addition to reducing the subsidy burden of the government. We are really focused on to make sure NBS gets introduced and are hopeful that the budget session will see the announcement of NBS if not the winter session. We expect government to make enough allocation in the supplementary budget because that has been underprovided for urea in the last two years, which has led to stress in the working capital. In fact the working capital stress has been more in the urea then in the phosphatic fertilizer in the past few years. So that is something which we are trying to correct in the sort-term. As far as the new investment policy is concerned our strategy is clear. We are focused on putting investments where there is no subsidy. Even if there is a single element of subsidy we are not going to assess those businesses because we think that Indian farmer is willing to pay provided the productivity impact is positive. We are extremely bullish on specialty fertilizers, which have shown a massive increase even in the limited area we are selling today. We have seen our turnover increase from 200 odd Crores to 300 Crores in the first part of the year. We do believe that piece of the business will continue to grow and are finding extremely strong pull for the customized fertilizers. The inputs for the customized fertilizer plant is the normal DAP and NPK but then we convert that and granulate specific products for specific crop and specific region. It has got a tremendous pull for example the customized fertilizer plant this is the first season we have got that for our potato and sugarcane from the sugarcane farmers. So we remain positive on every business which is not having an element of subsidy.

Prakash Goel: That is all from my side and all the best Sir. Thank you.

Moderator: Thank you. We have next question from the line of Balwinder Singh from B&K Securities. Please go ahead.

Balwinder Singh: Thanks for taking my questions and congrats on a very good set of numbers. If you can just throw some light on how is the soda ash demand and pricing outlook across geographies?

R. Mukundan: Soda Ash demand has been very robust. In fact we were quite taken by surprise with the strong growth in demand in India of almost 19% which is unexpected from our view. Normally the demand growth is anyway between 5% and 6% and this sudden jump in India was something which caught as completely unaware but having said that I think globally the demand situation is very robust. The supply situation is extremely tight. It is likely to remain in this situation till almost some time end of 2017 or the first half of 2018 hence we do believe that the tightness in the market will remain and the pricing power is with the suppliers as of now and added to that the low energy prices which will aid the margin expansion in a nice way.

Balwinder Singh: What are the current prices and how they have behaved in the last six months, if you can quantify that?

Ranjeev Lodha: The current prices for soda ash in the domestic market is has been in the region of Rs.20000 and at TCNA and Europe in the region of $210.

Balwinder Singh: How does this compare to last year?

R. Mukundan: There is an increase of almost $5 per tonne compared to the last year.

Balwinder Singh: You see any further increase say of around 2%, 3% going forward or supply remains tight?

Ranjeev Lodha: In the developed countries all these are annual contracts so the contracts will come up for renewal only at the end of the calendar year.

Balwinder Singh: So I think we negotiate?

R. Mukundan: It is going to be end of the calendar year you will see an uptake and I think we do expect anywhere in the region of $5 to $10 and further increases would be come in the year forward. We are not sure these are under negotiations but I think there is a strong chance that it will be in that range.

Balwinder Singh: So it happens if it goes through, it will happen in December next month right, for January next time?

R. Mukundan: It depends on contracts I think you are right bulk of the contracts should get impacted by the Q4 of supplies beginning Q4 of the current financial year.

Balwinder Singh: On the margin side you highlighted that in North America there was some fixed cost increase due to unexpected maintenance so we expect the margins to come back say next quarter.

R. Mukundan: Yes, I think it is broadly about 20 odd Crores

Balwinder Singh: Why were the margins lower in India business in inorganic chemicals?

Ranjeev Lodha: India, the chemical side the gross margins were positive. It is only the plant maintenance and fixed cost increase which had impacted the net margins.

R. Mukundan: But this is mainly because we had keep on some of the maintenance I think it should get corrected over the year.

Balwinder Singh: So margins would improve from the level. Lastly on this UK and Kenya you last quarter you had highlighted if I recollect that Kenya will be doing say $15 million on an annual basis EBITDA in a normalized state of operation is that correct?

R. Mukundan: I think so.

Balwinder Singh: In UK you had highlighted that we will see some 19 million pounds coming in from British Salt and soda ash sodium bicarbonate and another 6 million pounds from that steam turbine. So that remains on track of 25 million pounds on an annual basis say from FY 2017?

R. Mukundan: That is right. It remains on track. The thing is that the stream turbine that 6 million pounds which we spoke about of which 3 million will start coming from middle of next year.

Balwinder Singh: So 3 million pounds will flow in H2 of next year and 3 million will again flow in H1 of FY 2017?

R. Mukundan: No after that the 6 million is enough number which we have put in.

Balwinder Singh: I was just talking about the incremental amount. Lastly and then I will jump back in the queue. On the investment side you have highlighted that you might clean up some investment is it related this is related to what Sir?

R. Mukundan: These are some investments we have made internationally in biofuels etc which are not our core businesses anymore. We are going through the entire list of investments and will come back. We are at this point not able to give a quantification. The rough estimate of what we maybe looking at we do not know exactly because if we find a buyer for this obviously we will sell it if we do not find a buyer we will have to provide but our first effort is to sort of sell these business to a buyer who may be interested.

Balwinder Singh: Thanks for the clarification. I am done.

Moderator: Thank you. We have next question from the line of Vaibhav Goel from SBI Life Insurance. Please go ahead.

Vaibhav Goel: Sir two questions, first on the production side we saw a decline of 56% Europe which was on account of closure of the units. So finally there these figures remain now stable going forward this would be the production level of Europe and Africa going forward?

R. Mukundan: Yes I think Africa you would not have a got a clear picture. Europe is the steady number and I think Africa the real steady number you will get it in Q3 because in Q2 also the some plant was operational. It closed exactly at the end of Q2 so Q3 on you will get the stable number. At the bottomline level we are seeing already that the Magadi has gone into PAT zero situation already.

Vaibhav Goel: Sir on the pulses side you said that we have touched almost around a lakh stores on the quantum side how does the situation remain now?

R. Mukundan: We have crossed 100 Crores in the first half and I think I said a lakh stores will be at the time of exit. We are ramping up we are at about 55000 stores as of now and by the time we exit the year which is March 31, 2015 we will be present in one lakh stores. The reason I mentioned that is that we know our retail touch point in Tata Salt is 5 lakh stores so there is huge headroom to increase penetration but we are ramping up slowly.

Vaibhav Goel: Thanks and I will join back in queue.

Moderator: Thank you. We have next question from the line of Sumant Kumar from Elara Securities. Please go ahead.

Sumant Kumar: My question is regarding US business. What is the scenario of energy cost for US business?

R. Mukundan: In terms of the US business you are right in asking a question in the first half there was a negative hit on the gas price which had gone up but we see now the gas prices coming down and holding at a lower level. The average cost gas purchase price was approximately $4.5 per MMBTU. We believe that this will be now tracking back to sub-4 levels which are really our provision as of last year.

Sumant Kumar: So you think there will be correction in energy cost and a positive impact on margin?

R. Mukundan: Yes, there is going to be a change in the gas cost as well as also we have renegotiated our coal contracts and renegotiated prices would also give us lower energy cost going forward because about 75% of our energy consumption in US is through coal, 25% is through gas so gas has gone down as well as coal cost from next January onwards to be down by certain percentage which we have renegotiated and reset the benchmark.

Sumant Kumar: Thank you so much. That is it from my side.

Moderator: Thank you. We have next question from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: Good morning gentlemen. Thank you so much for taking my question. First of all I just wanted to clarify regarding the charge taken at Kenya are there any further charges that either Kenya or UK which might be taken over the coming quarter?

R. Mukundan: No in Kenya we are actually going through entire asset register. If at all it will be some very minor number and cannot be a big number as we have written off everything whatever is needed as of now.

Abhijit Akella: UK you had mentioned there would be some 2.5 million pounds or so of charge required?

R. Mukundan: Yes, there could be minor one but I do not recall this one but we will come back to you if there is any specific. I think in both of the units we have taken most of the charges and the only thing which I wanted to highlight in this call was we are going through our investments not through our asset register so we are scrutinizing the asset register once more but I think it will be very minor if we have missed something but as of now our focus is on our investment book which we want to clean up.

Abhijit Akella: Is it possible to give us the British Salt figures for this quarter?

Ranjeev Lodha: For the half year British Salt had EBITDA of Rs 70 Crores and for the quarter it was Rs 37 Crores.

Abhijit Akella: Just to make sure I got the UK projections correctly after the steam turbine is installed we are looking at around 25 million pounds of EBITDA on an annualized basis is that correct?

R. Mukundan: Yes that is right that is what Mr. Ghose had clarified last time. He is not on the call so we will also reconfirm once more all the projection and if there is any change Alok will put it up in the website.

Abhijit Akella: At GCIP if you have seen the EBITDA per tonne picking up versus last quarter or EBITDA margin also picking up. Now you have mentioning you are talking about a $5 to $10 price increase accompanied by a reduction in energy cost. So obviously there should be room for quite a good deal of margin improvement next year, would that be a correct assessment?

R. Mukundan: It depends on negotiation. I cannot prejudge when someone says market situation is tight I have given a guesstimate. I cannot say it will happen but if you are looking for modeling I think we should be conservative.

Abhijit Akella: Just last couple of questions one is on the pulses business we are obviously growing very strongly what is the kind of profitability expectations that we can expect from the business hedge in the level of scale?

R. Mukundan: I think right now the margin structures are about 8 % to 9% but these margin structures will improve as the volumes increase because it is with a very small incremental cost we are pushing these products.

Abhijit Akella: So 8% to 9% is EBITDA margin is it?

R. Mukundan: 8% to 9% is gross margin at the contribution level.

Abhijit Akella: Finally just on the agri business, you had mentioned there was some pull forward from 3Q into 2Q what was the reason for that.

R. Mukundan: In my view I would say last year was a delayed sale rather than saying pull forward. Last year there was a delayed sale because last year I think about a lakh tonne of DAP was sold in Q3 so I should have said the right thing that we have sold in the right season this year. Last year it was a bit delayed by 1 lakh tonnes we have sold in Q3 which would actually happen in Q2.

Abhijit Akella: On the specialty fertilizer and pesticides and seeds business as you mentioned the target of doing around 750 Crores this year and 1000 next year could you give us some idea of the profitability kind of levels out there?

R. Mukundan: I think we have broadly margin range between 15% and 20% product-to-product but that is the EBITDA margin structure.

Abhijit Akella: So we are already at that kind of range?

R. Mukundan: Yes, because there is no incremental cost for us because the network is already in place.

Abhijit Akella: One last question Sir if I may, in the standalone segment financial we have seen that the unallocated expense has come down. It is just to 2 Crores this quarter, obviously last year was a much bigger number the reduction is that mainly because of the charges etc., going away from last year or is there some reduction in corporate overhead also.

R. Mukundan: Last year we had one time charges which had been factored in which are no more continuing.

Abhijit Akella: So this will be a normalized run rate for this line going forward?

R. Mukundan: Yes. In fact I think this quarter we have seen exception of VRS and the Eon payment which we received

Abhijit Akella: Thank you so much Sir. Thanks for the clarification.

Moderator: Thank you. We have next question from the line of Girish Raj from Quest Investments. Please go ahead.

Girish Raj: Thank you for taking my question. The pre-buying thing is actually answered but with the deficit of approximately 20%, 25% in the rainfall do you see pressure on the fertilizer mainly in the complex fertilizer and your view on availability and the pricing of phosphoric acid?

R. Mukundan: I think I have made this clear I do not see any issue on the demand side. That is least of our issues I think our bigger issue on phosphatic manufacturer. I am not talking about traders. The manufactured part of is not on phosphoric acid. The bigger one coming on is ammonia. Ammonia prices have trended up and effectively cutting back on the margin phosphoric acid price remains the same we will have pressure on the margin structure in NPK and DAP production which is done made locally made in India. The traded DAP is trending down which means we are in no position to increase market price. Product will sell. There is enough demand pull in the market place. The issue is not demand. The issue is the price we can charge and the price we cannot increase even though ammonia prices have increased because the DAP price internationally are coming down and ammonia prices are increasing and usually they should move in tandem they are not moving in tandem they are moving in opposite direction.

Girish Raj: Do you see a trend at least in FY 2015 that farmers may move to urea more and premium cut down?

R. Mukundan: Nothing of that sort. I think we have reached the end point of how much of urea they can put and how much of MOP or DAP they can avoid. The issue in DAP is not the demand. Let me again highlight. The issue in DAP is mainly on account of the cost structure for domestically manufactured DAP which is impacted on account of the ammonia prices trending up. This may last a quarter. It may come down after a quarter so I may change my position when we speak next time but as of now this is the reality.

Girish Raj: Thank you very much. I am done.

Moderator: Thank you. We have next question from the line of Pratik Poddar from ICICI Prudential. Please go ahead.

Pratik Poddar: Sir just one question on the branded salt space if I see the sales volume YoY it has remained flat any specific reason this quarter why the sales volume on the branded salt front has not increased?

R. Mukundan: It has increased by a small amount.

Pratik Poddar: I mean negligible.

R. Mukundan: Yes that is correct, but it has increased.

Pratik Poddar: But Sir on a long-term basis what is the sustainable volume growth you are seeing in this space?

R. Mukundan: On sustainable basis this should increase only at the rate of population growth, but I think there is conversion happening from loose to packaged and within packaged from unbranded to branded so we will have a higher rate of growth and hence we do see the opportunity to grow in this further. What has happened in this in the current half year has been conversion from some of the salt we used to buy out we have made it into domestic own manufactured salt. I think that is really what has happened but the volumes have been constant but the margins would have changed because we no longer are buying from third party but are making our own salt because we had built our sales program ahead of our investment. Now our investment is fully in place so we are going to shift fully to our own manufactured salt before we start again buying from outside.

Pratik Poddar: What is the proportion of outsourcing Sir, as of now as we speak?

R. Mukundan: It is quite minor but I think it should sort of even out as we move along.

Pratik Poddar: Thanks a lot Sir for answering my questions.

Moderator: Thank you. We have next question from the line of Jasdeep Walia from Kotak. Please go ahead.

Jasdeep Walia: Good morning Sir. Sir could you give us an idea of the free cash flow generation in first half of FY 2015 after capex and dividend payments?

Ranjeev Lodha: In the standalone?

Jasdeep Walia: Consolidated operations?

Ranjeev Lodha: In the consolidated we will also have to net off the minority so with 433 plus the depreciation of 233 so at a gross level it is almost 660 Crores and the capex I will come back to you within a minute.

R. Mukundan: I think the cash flow should be close to about 500 odd Crores on a consolidated basis.

Jasdeep Walia: This is after dividend payment also Sir?

R. Mukundan: The dividend payments during the current half year.

Jasdeep Walia: What is the gross debt number Sir at the end of first half?

R. Mukundan: Gross debt is 8300 Crores.

Jasdeep Walia: Have you thought about capacity expansion plans for the US Soda Ash business and the salt business in India? Any plans for expanding capacity for soda ash in US and salt business in India?

R. Mukundan: In US we are putting together a plan. The plant is running flat out. Our first aim is to take up the capacity from 2.5 to 2.8. We are currently running the plant at 2.65. The first step will be to add another 150000 tonnes which we should come back to you with when it will become operational. As far as salt is concerned it is under active examination we will come back to you once we firm up our plans.

Jasdeep Walia: Sir in Europe it seems that the soda ash operations have again made a loss at the EBITDA level. You said British salt made EBITDA of 37 Crores for the quarter whereas your Europe operation was showing I think EBITDA of roughly around 27 odd Crores which implies soda ash operation made a loss. So we are expecting that after the restructuring soda ash business we will be at least break even or at least contribute negligibly to EBITDA but you are not expecting the losses at the EBITDA level why what is the reason behind the losses Sir?

R. Mukundan: I think there are minor plant upsets which have led to this but we will come back to the specific response on the situation with respect to the British Salt and soda ash operation. One of the big issues is the steam turbine installation but I think we will come back to you with that.

Jasdeep Walia: So even without this steam turbine installation as per earlier guidance soda ash operation was suppose to make some 5 million pounds independently at the EBITDA level on an annual basis. So that guidance stands?

R. Mukundan: Let us review and come back. I think it should stand because I think that highlighted in the past so I think we will come back to you on this year. You are right that it has made a loss of minus 9 Crores.

Jasdeep Walia: Next quarter also we should see similar trends or we should see a better profitability from soda ash operations in the second half?

R. Mukundan: Marginally better.

Jasdeep Walia: Thanks a lot Sir. That is all from my side.

Moderator: Thank you. We move onto the next question that is from the line of Balwinder Singh from B&K Securities. Please go ahead.

Balwinder Singh: Thanks for taking the followup. Just one question on this debt reduction you gave your initial comment that 8000 Crores will be reduced to 4000 Crores over the next five years. So does this imply gradual reduction or I understand that it mostly implies your bullet repayment which is due in US say four years, five years down the line. So if you can throw some light on that?

R. Mukundan: There are bouts of bullet repayments and there are also gradual repayments, it depends on each of the geographies but we have some India repayments coming in, some working capital repayments coming in and then of course the US repayment which will be a bullet.

Balwinder Singh: So the 8000 Crores how does this number look like say two years down the line say by end of FY 2017?

R. Mukundan: By end of FY 2017 I would say it will be lower by Rs 615 Crores.

Balwinder Singh: So around 7400 Crores.

R. Mukundan: Yes.

Balwinder Singh: Thanks.

Moderator: Thank you. We have next question from the line of Rohan Gupta from Emkay Global Financial Services. Please go ahead.

Rohan Gupta: Good afternoon. Sir given our businesses in energy and transport heavy business, I just wanted to understand the impact of fall in crude prices and our margins and/or if there will be any significant structural changes will happen in a soda ash business in global market. Our people will move from synthetic to natural, how you see that?

R. Mukundan: Falling energy price is positive for us across the board because all our plant gives energy so that is the broad spectrum. Crude oil has impact mainly on Magadi where it is directly linked because they do fire some HFO but our energy consumption in Magadi has come down to one-fourth of what it was before, so while it will positively impact Magadi even more as the crude oil prices are lower we do not see it as a big value creator, value changer. The big issue for us is coal price, coal prices if they are lower we do benefit in India and in US and gas price if it is lower we do benefit in India and US. In US we benefit in soda ash, in India we benefit in Babrala.

Rohan Gupta: Sir do you think that it will change the dynamics in synthetic and natural soda ash business in a worldwide trade?

R. Mukundan: No.

Rohan Gupta: So like in China where the cost of production still remains high so it will not benefit anyway the US producers in terms of because the transportation cost will come down so it will not benefit to the natural soda ash but because especially in US?

R. Mukundan: US producers can take the material to China even today if they want. I think the issue with US producers is that they get better margin in South America. The best margin is in South America after the domestic market then the next best margin is in Asia in markets like Japan, Philippines, South East Asia which is where we take the material and in Middle East. So I think that will continue. I do not see any major change in the dynamic. The big change in my view will be if Eti

Soda in Turkey expands and that expansion should be finishing by the end of 2017 or 2018 that is our latest understanding of the time line which would bring 1 million tonnes in the market it will certainly impact the gestation operation as well as gestation market as well as the European markets?

Rohan Gupta: How do you see that Indian markets will be behaving over next two to three years. Are we expecting any capacity expansion happening in Indian market?

R. Mukundan: Next two, three years we do not believe this capacity expansion happening. The only capacity expansion which is on anvil which has been cleared which has got environment clearance as of now is the plant which is being proposed by Ghari Detergents they want to set up their own half million tonne plant but the timeline for that plant is beyond 2018 by which time India was anyway need a million tonne additional material.

Rohan Gupta: So over next three years you see that domestic demand supply scenario will be more in favorable. So is there any expected increase in prices of realization in domestic market?

R. Mukundan: No, we are on import parity. Even today almost close to a million tonne of soda ash is imported into India. India is a very big importers and that is going to increase to close to about 1.5 to 2 million tonne by the time next three four years happen so in my view India will be a market which will be dictated by import parity pricing if international prices increase Indian prices will increase.

Rohan Gupta: Sir second question on this future sustainability of your Haldia plant operation so we have been seeing that there has been significant volatility in phos acid or ammonia prices globally so do you think that the company also will have a strategic decision to keep on moving towards trading and in future the DAP plant operation at Haldia may be halted somewhere are you thinking in those direction also?

R. Mukundan: What we have done already is that Haldia has completely moved to NPK manufacture. We do not make DAP production in Haldia anymore. DAP is fully imported. So we continue to produce on the NPKs and we do not know for sure whether this trend of dropping DAP price and increasing ammonia and acid prices of forever trend but if we do believe it is a trend I think we will take whatever necessary steps have to be taken. As a management team we have not been afraid to take steps which are difficult.

Rohan Gupta: Sir just last question. Sir you mentioned about the investment clean up in a balance sheet especially like biofuel and all. Sir any rough idea and estimate that?

R. Mukundan: No, right now I do not want to give because our first attempt is to sell these off if we cannot sell off and then we will take a call in the next two quarters about how much of provision we need to make but certainly I would say there is some provisioning which will come we do not want to give but let me also highlight these are not provisioning in the region of 1000 odd Crores these are at the very tail end of our numbers.

Rohan Gupta: Thank you.

Moderator: Thank you. We have next question from the line of Gauri Anand from Phillip Capital India Private Limited. Please go ahead.

Gauri Anand: Sir the press release mentions that we had strong realizations in GCIP but when I look at the numbers actually there is not really much of a change on a quarter-on-quarter basis. So is it because it generally has a freight component in it and we are not able to see the net jump and the second is this would I would assume that this is for the spot quantities?

R. Mukundan: GCIP is all contractual quantity.

Gauri Anand: No I think about 10% or so was spot?

R. Mukundan: Yes, closely 7% to 10% is spot but that have changed materially our realizations are higher almost $5 compared to previous year corresponding quarter.

Gauri Anand: Sure, but in spot you would have had a favorable pricing this quarter is that a fair assumption?

R. Mukundan: That we do not have readily a break up of what is the quantum of spot and I will come back to you Gauri.

Gauri Anand: The second is the others in the industry fertilizer industry have particularly phosphatics we have seen many players take price hike or at least have said they now to pass on the cost pressure they may eventually take a price hike. What is the company thinking will much of the competition or how would it be?

R. Mukundan: Frankly speaking Tata Chemicals selling at higher price in the competition. Despite that the completion has not been able to move the price up so I cannot comment on the competition but we always sell at a premium to the market price that has been our policy and we will continue to maintain that policy. The reality is international prices have come down and hence since the traded DAP will land at a lower price I see the flexibility in our hands is limited.

Gauri Anand: Sir any thoughts on this gas price pooling for the sector Sir?

R. Mukundan: It is a tough concept. I do not know how it will play out but all I can tell you is that we have no views on it, because it has least impact for us but certainly it will be very difficult to implement.

Gauri Anand: Thank you Sir and all the best.

Moderator: Thank you. That was the last question from the participant. I would now like to hand over the floor back to Mr. Nikhil Gholani for his closing comments.

Nikhil Gholani: Thank you Karuna. We would like to thank all the participants for the time. Thank you Mr. Mukundan, Mr. Ranjeev for the detailed discussion of the results. Thank you all and have a wonderful day.

Moderator: Thank you Sir. On behalf of Tata Securities Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.