TATA CHEMICALS LIMITED

Transcript of Q3 FY 2011 Conference call held on January 27, 2011

Moderator – Vivian: Ladies and gentlemen, good day and welcome to the Post Results Conference Call of Tata Chemicals hosted by Prabhudas Lilladher. As a reminder, all participant lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference call is being recorded. Joining us on the call today from Prabhudas Lilladher are Ms. Amisha Vora and Mr. Dilip Bhat, Joint Managing Directors along with Mr. Manish Mahawar, Research Analyst. I would now like to hand the cal over to Mr. Manish Mahawar. Thank you and over to you sir.

Mr. Manish Mahawar: Thanks Vivian. Good afternoon everyone. On behalf of Prabhudas Lilladher I welcome all the participants for the Q3FY11 Post Result's Conference Call of Tata Chemicals. From the management, we have Mr. R. Mukundan, Managing Director and Mr. P.K. Ghose, Executive Director & CFO of the Company. I would now like to hand over the call to Mr. Mukundan. Over to you sir.

Mr. R. Mukundan: Thanks Manish and good afternoon everyone. I'd like to welcome my colleague Mr. Ghose on this call and all of you as well. Let me start by briefly giving you a perspective of the operating performance on this quarter, after which Mr. Ghose will take you through the financial details.

Broadly, we are seeing a stable and an encouraging demand environment across the globe. On the demand front we clearly see a very strong momentum. On the other hand, there are also increasing cost pressure, especially for the synthetic soda ash plants due torising coal and coke prices.

On the fertilizer side, the court verdict which upheld the gas utilization policy is a big plus because it ensures that the gas already allocated for fertilizer industry is not under question. Certainly, there is an issue with respect to the further commitment of gas for urea expansion, which has led to a bit of uncertainty in our financial closure for the Babrala expansion. However, we will proceed ahead only when firm commitment to this effect is available. With respect to NBS, we do believe that the policy itself has been framed well, and the policy has worked pretty well for this current year. However, next year there will be immense pressure on the operations of phosphatic fertilizers mainly arising out of the fact that the benchmark concession rate set for DAP and MOP are on the lower side compared to the price scenario world wide. This could mean a bit of tusslel between suppliers and buyers. Somebody has to give in this process. The margin structure for the entire chain will be under pressure because of this pricing set. Hopefully, we will see some movement on this as we move along, but with respect to the positive side of the fertilizer story, we are looking at good policy moves, but there are impediments on the way.

In the area of Chemicals and the Consumer Products, we remain extremely positive going forward. As we have indicated, this would be the last quarter where the pricing would remain at the old levels, and as the new quarter opens, the pricing will reset. Partly, the pricing reset is already seen in India, as you would have noticed in the standalone results, which have shown a clear positive move for the chemical business. We should see these results in other businesses too.

With respect to the current quarter, there were two big negative impacts. One was on the issue of Brunner Mond Group Ltd. UK operations, which was negatively impacted by the severe winter in Europe. This hampered production for almost 15 days towards the end of the quarter, from December 15th until the end of December. This led to unstable operations. Secondly, it also led to increased cost structure for the operations. In addition to this, the operational margins were already under pressure due to the old pricing regime on the market front and increased input cost on the cost front. The second big shift that you would see quarter on quarter is on IMACID. IMACID during the Q3 of the previous year had a one-time gain, which was due to the reset of rock phosphate prices. This quarter, IMACID has performed steadily. However, this quarter, the numbers were negatively impacted due to a one month long planned shutdown of the site. It was a cold shutdown, which happens once in about 4 to 5 years. The follow through impact of that has been slightly felt on the DAP side where the phosphoric acid arrivals were slightly irregular, which affected part of the margin structure in the DAP side earlier.

On the positive side, the chemical business out of Mithapur, General Chemicals as well as Magadi have shown positive trends. Magadi, in fact has reported the best results and the quarter overall has been better than what we had planned. We believe that this will be the norm for performance going forward.

In terms of strategic moves, we have invested in British Salt as a backward integration, which should also steady the cash flows for Brunner Mond. In addition to this, we have completed the acquisition of seed Company Metahelix, which itself has a fully owned subsidiary called Dhanya seeds, giving us distribution and entry into hybrid seeds.

On the consumer product side, we have launched i-Shakti Dals, and we continue to expand our product portfolio on all fronts, both on the industrial side as well as the farm side, in which we are now present across the value chain in terms of seeds, crop nutrition, and crop production products and of agri retail. On top of that, we continue to deepen our presence in the consumer front with increased offerings in the area of pulses as well as water purifiers.

Overall, we believe that we have paved the way for robust results and excellent momentum going forward, and we should see that build up into the next quarter and going forward, into the next year. With this, I will hand over the line to Mr. P.K. Ghose to take you through the financials. Thank you.

Mr. P.K. Ghose: Thanks Mukundan. Allow me to give you a quick recap on the financials. Net sales stood at Rs. 2,891 crore. Profit from operations was at Rs. 330 crore for the quarter ended 31st December 2010. The Company made a profit of Rs. 16.75 crore on sale of long-term investment, which is reflected in other income. These include liquidation of investments in Tata Motors DVR, Madras Fertilizers, Tata Consultancy Services Ltd. and partially in Oriental Hotels Ltd. Profit before tax amounted to Rs. 287 crore for the current quarter. The Company's notional profit on restatement of long-term debt as per AS-11 was Rs. 6.1 crore. The net profit for the business stood at Rs. 165 crore.

As discussed earlier, our performance during the quarter was primarily impacted by the extreme climatic conditions in Europe, which forced a shutdown in Brunner Mond, UK. I would also like to remind you that in the corresponding quarter of last year, profit from operations included an amount of Rs. 30 crore towards prior period adjustments for rock phosphate prices at IMACID. Further, there was a planned shut down at IMACID in which the plant was not operational for about 35 days.

For the 9-month period, net sales were higher by approximately 16% at Rs. 8,402 crore. Profit from operations stood at Rs. 1,047 crore. Profit before tax grew by approximately 12% at Rs. 859 crore while net profit for the 9-month period stood at Rs. 508 crore. The Company received subsidies amounting to Rs. 129.2 crore for the quarter. The total subsidy receivable stands at Rs. 558.3 crore. Moving on to the balance sheet, the Company's consolidated net debt as on December 31st, 2010 stood at Rs. 3,846 crore translating into a net debt to equity of 0.69:1. Total cash and cash equivalents amounted to Rs. 1,041 crore including Rs. 556 crore in mutual funds. Supplier's credit continues to be the main source of working capital finance and as on 31st December 2010, a sum of Rs. 591 crore of supplier's credit was outstanding.

Overall, we are witnessing a gradual improvement in economic conditions across the globe. We believe that the developing economies are the primary drivers of demand world over, but signs of demand revival are also evident in developed economies. The Indian growth trajectory remains positive, which gives us the confidence to look forward to the future with optimism. Also, I believe that the RBI is adopting a prudent approach in combating inflation while at the same time supporting growth. This consistent approach will enable the Indian industry to continue to perform well. This brings me to the end of my discussion. I now open the floor for questions and answers.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the Question and Answer Session. At this time if you would like to ask a question kindly press "*" followed by "1" on your touchtone phone. Participants are requested to use handsets while asking a question. Participants who wish to ask a question may kindly press "*" "1" at this time. The first question is from the line of Mr. Gopal Agarwal from Mirae Asset. Please go ahead.

Mr. Gopal Agarwal: First, concerning the operations of BMGL and IMACID, the fuel cost has reduced the profitability significantly. In the current quarter, we are very sure that the coke and coal prices will remain high. So, what kind of price hike are we taking to limit the impact of the cost increase? Secondly, what is the change you are expecting as we transition out of the old contracts from last quarter?

Mr. R. Mukundan: The numbers would be different region by region. If you look at the fresh contract in the number is just below 10 pounds approximately. That is the weighted average number. The US prices are about 13 dollars per tonne broadly.

Mr. Gopal Agarwal: So will it be able to cover the increasing cost or will we see a similar kind of subdued performance in the coming quarter?

Mr. R. Mukundan: In terms of the cost structure of UK itself, the country is not impacted by coal because steam is on a fixed contract. What will impact is the coking coal, which should continue to put pressure on the margins in UK. But the margin pressure would ease from the current quarter. So, if you look at all our operations, Brunner Mond in UK would continue to be under a bit of margin pressures. But when you look at our UK operations now with the consolidation of British Salt, you would actually see a positive uptick in the numbers.

Mr. Gopal Agarwal: To understand the phosphatic fertilizer business, what is your assessment considering the current contract price for rock phosphate and other raw materials and the selling price which the government has set. What is the impact, in your view, of these in terms of profitability?

Mr. R. Mukundan: I think if you look at the price, which has been set and concession rate for MOP and DAP, we see limited pressure on the MOP. But certainly on the DAP side, the pressure is quite strong mainly on account of the inputs which go into the DAP which is phos acid, sulphur and ammonia.DAP prices worldwide have tightened, leaving little room. The phos acid suppliers will not be willing to give phosphoric acid at the old prices. So, we will see a pressure on that business and the only thing that we can take a call on is whether to run the plant or not to run the plant. We will take that call towards the end of the current quarter and see what our options are for the next quarter. Our policy on this is very clear; if the plants don't make positive margin structure, we normally would switch them off and wait for the policy to restructure itself to a more benign number.

Mr. Gopal Agarwal: Where do we stand based on your assessment?

Mr. R. Mukundan: It's like standing between a rock and a hard place. There is really no way out. I mean if you have seen it, it's like the movie "127 Hours" right now.

Moderator: The next question is from the line of Mr. Atul Rastogi from Daiwa Capital. Please go ahead.

Mr. Atul Rastogi: Has the IMACID plant started operations now?

Mr. R. Mukundan: Yes. The plant has been running for about a month already. Shutdown was in the month of November, but it was operational in December. We are now getting steady supplies out of the plant, which is actually running much better than before.

Mr. Atul Rastogi: Secondly, the phosphoric acid contract set at the price of $750/tonne was to expire in December and there was a new contract for the fourth quarter. What is the price for that fourth quarter contract?

Mr. R. Mukundan: It is about $830/tonne for what we have signed up now.

Mr. Atul Rastogi: In case US$830/tonne remains the price for next year, would it be viable to produce at this price?

Mr. R. Mukundan: This quarter it is still viable and I think we will continue production until the end of March. I think the issue is essentially around what we finally do settle on in for the next quarter. Certainly, with the prices continuing to harden, there is a reduction in the concession rate for next year. That will be even more severe.

Mr. Atul Rastogi: With the new concession rate, will it be viable?

Mr. R. Mukundan: No, it obviously won't be viable and I think the entire industry needs to work on this. Our exposure is to the tune of approximately a million tonnes. There are other players who are much, much bigger in this specific field. We know that industry should come to some kind of a view about this.

Mr. Atul Rastogi: Is the Brunner Mond plant operating right now?

Mr. R. Mukundan: It is back to its capacity, and it never really has shutdown fully for any period of time. It probably was off for about a day or two. But during this entire cold weather period, it ran at pretty low capacity utilization. The plant is now operating at full capacity.

Moderator: The next question is from the line of Mr. Prasad Deshmukh from DSP Merrill Lynch. Please go ahead.

Mr. Prasad Deshmukh: Is the bio-fuel capex that you have announced an extension of something that we had announced when we were doing those feasibility studies for bio fuels in Maharashtra? What is the status of the Capex then, and what is the status currently?

Mr. R. Mukundan: The Maharashtra unit at Nanded was set up at a cost of about Rs. 50-55 crore, and was a pilot plant, which we had set up to demonstrate sweet sorghum as a feedstock. That demonstration has been quite successful. Simultaneously, we had asked the Government of Mozambique for a lease of land. What we have now is a 49-year lease for 150 sq km of land with an additional option for an additional 90 sq km, for which we have already applied. We are looking at a phased startup of production. All the investments we have put in have been in the agricultural side. There is fresh water available as land is next to the river Zambezi, which is a perennial river. There is no water issue for us, and the first round of irrigation equipment and plantation equipment has landed. The nursery has been set up already, and we are proceeding in a phased manner to build this business.

Mr. Prasad Deshmukh: What is the current profit or EBITDA this bio-fuel initiative is generating?

Mr. R. Mukundan: No, this is a demonstration facility, as I said, to show whether sweet sorghum would work or not work. One of the big issues we were facing at that time was to use sweet sorghum as a feedstock, and even if it is run on an experimental basis, it is run only for demonstration purposes. It is not run on a commercial basis.

Mr. Prasad Deshmukh: Will it be possible to share British Salt's last 12 month EBITDA, PAT numbers and the synergy benefits that you see in terms of for Brunner Mond UK.

Mr. R. Mukundan: On a broad basis, they do about 17 million pounds of EBITDA on a turnover of about 35 million pounds.

Mr. Prasad Deshmukh: What is the quantification of synergy that you see from Brunner Mond?

Mr. R. Mukundan: They had identified about 2.5 to 3 million pounds of synergy. The brine supply for gas is assured and there are chances of storing gas.

Mr. Prasad Deshmukh: Basically, we very recently like 6-7 months back had exited part of the operations in Brunner Mond, Europe. But, we are serious about the UK business and we will keep doing Capex if at all there is need.

Mr. R. Mukundan: If you look at the UK business, while it has had a head wind in the last quarter. Nonetheless, one has to keep in mind that it is one of the lowest cost producers in Europe. We do believe that while it is under temporary pressure in this quarter because of the coke and coal increases, we need to take market price increases in sync with those. That asset, we believe, is highly competitive.

Moderator: The next question is from the line of Mr. Rakesh Ravindra from CRISIL. Please go ahead.

Mr. Rakesh Ravindra: I just had a query regarding the urea expansion plans. You are saying that it is on hold currently regarding allocation of gas from the government. So in that case, I just wanted clarity as to whether you have drawn up any alternate plans for the incremental cash flows that you were supposed to generate?

Mr. R. Mukundan: We are looking at options and as Mr. Ghose had explained. We are looking at two projects which are essentially part of our chemical operation. One is what we call Project Pete, which is an expansion of the US facility by 100,000 tonnes. Certainly we are looking at other options in the area of fertilizers. Once they get finalized, we will announce them.

Mr. R. Mukundan: I think our historical rates are around Rs. 18,167 for Q3. Going forward, the coke market has already increased by almost Rs. 7,000, so it is hovering between Rs. 25,000 to Rs.28,000. But we will announce the next quarter numbers and what we see as the outlook for the full year in the next conference call.

Moderator: The next question is from the line of Mr. HR Gala from Quest Investment Advisors. Please go ahead.

Mr. HR Gala: What kind of Capex plan will you be forming as a result of the uncertainty we are seeing in the fertilizer segment?

Mr. R. Mukundan: See if you leave aside Babrala expansion project in which we have said that there will be an investment of Rs. 3,800 crore, we have been financing all other projects mainly internally. For instance, the salt production which is going up by 200,000 tonnes entails capital expenditure of Rs. 180 crore. In addition to the Babrala, we are also going for another two customized fertilizer plants, each of which would cost about Rs. 70 crore. And then, you have again smaller expansions in Haldia in the SSP plant which is about Rs. 11 crore.

Mr. HR Gala: Over what time set is this Rs. 3,800 crore?

Mr. R. Mukundan: This Rs. 3,800 crore is set over a 3-year period. We are doubling the production of urea at Babrala.

Mr. HR Gala: How much would that be if we go for it?

Mr. R. Mukundan: 2.2 to 2.4 million tonnes.

Mr. HR Gala: What will be the cost of that?

Mr. R. Mukundan: The cost will be close to a little under a billion. I think about Rs. 3,800 to Rs. 4,000 crore was the planned number, but I think the number would have moved up as the steel prices now increasing. So, we need to revise these numbers.

Mr. HR Gala: As far as this NBS is concerned, I believe in the month of November or December the global suppliers were to meet Government of India together with probably some of the complex fertilizer manufacturers. So has anything concrete emerged out of it or is the government determined to go ahead with these reduced rates?

Mr. R. Mukundan: I am not aware of any such move. All I can tell you is that fundamentally if the suppliers agree for a rate and government concession is fixed, the market prices will increase. And clearly the way I see it, any high increase in market price would lead to issues on the front of market demand. For the suppliers, it will mean a big impact on demand. As for the government, it may be a bottleneck in availability. So I am sure all the players are fully aware of what this means. The issue for India is slightly more complex because Brazil has bounced back with strong demand and so is US. So, alternate outlets around the world are taking the material at the higher price. It is really a cause for worry because had the commodity foodgrain markets been in a bit of a slump. Had other countries not taken in the material, then obviously the suppliers would have been keen to negotiate at a lower price. Due to robust demand from both, Brazil and America, this is going to pose a bit of a challenge. I think all the complex fertilizers (DAP, NPK) will face the music if things are not worked out amicably.

Mr. P.K. Ghose: I think this is an issue for the entire phosphatic industry.

Moderator: The next question is from the line of Mr. Tarun Surana from Sunidhi Securities. Please go ahead.

Mr. Tarun Surana: What do you think is more likely? Will government allow you to increase MRP to the extent of under recoveries or will government be keen to look at the revision of subsidy? What is the current scenario in the department?

Mr. R. Mukundan: I cannot predict the future. It may be a combination of the two because ideally, there is also a pressure on the subsidy bill from the government. So I think it may end up as a combination of the two, but we don't know today. But all I can tell you is that there is a pressure on the industry and the margins will not remain at this level for the industry going forward.

Mr. Tarun Surana: Any indication at what price we can contract for next year given the current scenario for phos acid or for DAP?

Mr. R. Mukundan: That's very difficult to say. I think even the current contract at US$830/tonne was extremely difficult and as I have explained to you, even if we continue the contract at US$830/tonne, the new concession rates don't make it viable.

Mr. Tarun Surana: Is it likely that US$830/tonne is possible for you in Q1 and Q2 going forward in the current scenario? Or can it move up further?

Mr. R. Mukundan: Difficult to say. But we will take the decision in the interst of that Company.

Moderator: The next question is from the line of Ms. Falguni Thacker from Jet Age Securities. Please go ahead.

Ms. Falguni Thacker: I guess you quoted a price of US$750/tonne for phos acid. So at that price what is the EBITDA per tonne for DAP?

Mr. R. Mukundan: DAP for the quarter at the realization will be about Rs. 23,000 per tonne. Contribution will be Rs. 2,500 to Rs. 2,000 per tonne broadly. It is at US$750/tonne, the old contract price.

Moderator: The next question is from the line of Mr. Sageraj Bariya from Angel Broking. Please go ahead.

Mr. Sageraj Bariya: You mentioned this Rs. 2,000-2,500/tonne contribution will be at a realization of Rs. 23,000/tonne?

Mr. R. Mukundan: Yes, but I don't think we should focus on the realization. Just focus on the contribution. The realization would vary from where we sell, the market mix, and what we have been asked to sell. So we can leave that aside.

Mr. Sageraj Bariya: What is the total balance sheet size and the total debt on British Salt?

Mr. R. Mukundan: We got it debt free. The British Salt Balance Sheet size is about 56 million pounds.

Moderator: Thank you. The next question is from the line of Mr. Ajay Nandanwar from UBS. Please go ahead.

Mr. Ajay Nandanwar: On your soda ash price increase, when do you expect the effects from the different geographies to fully start reflecting?

Mr. R. Mukundan: From January, it is fully reflecting in US, UK, India, and Africa numbers.

Mr. Ajay Nandanwar: How much was reflected in the December-ending quarter?

Mr. R. Mukundan: It was only reflected in India, nowhere else. Not all contracts were reset but it started reflecting partly in India first.

Mr. Ajay Nandanwar: How much do you think the realization will be at, on average?

Mr. R. Mukundan: The Indian prices were revised up in the month of November by Rs. 1,000/tonne, and the other part was about Rs. 1,500/tonne broadly. So we would have seen a blended increase between Rs. 1,000-1,500/tonne.

Mr. Ajay Nandanwar: Will we see this in the current quarter?

Mr. R. Mukundan: You would see a limited reflection of it because it was partly reflected in this quarter. It was not fully reflected.

Mr. Ajay Nandanwar: If we look at your annual report, your coke consumtion per tonne of soda ash is roughly 5% of soda ash produced, which was roughly $22-23 per tonne in India. Is that number reflective of soda ash figure in India?

Mr. R. Mukundan: No, I think in India we do have a rationalized production plan by which we switch between coke and anthracite depending on the pricing of antracite versus coke. So usually 10% should be the consumption ratio. If it is 5%, then 5% in India would have been using anthracite which is a low-cost input. That option exists for UK, but we don't use it.

Mr. Ajay Nandanwar: So UK you are going to see roughly a good $10 per tonne increase in raw material prices between December and March.

Mr. R. Mukundan: It could easily be that much and that depends on how much they blend anthracite, which depends on the operation plan market demand combination.

Mr. Ajay Nandanwar: Where do you procure anthracite from?

Mr. R. Mukundan: Anthracite has its own dynamics, but it is linked to the international coke prices. The alternate use is coke substitution. We buy this from Australia and South Africa. It is also used in the steel industry, but usually, anthracite is a less preferred option in the steel industry. Hence, it sells at a sharper discount.

Mr. Ajay Nandanwar: Coming to your urea production numbers this quarter, are they reflective in your annual performance or is there any annual maintenance shut down that one has to factor in?

Mr. R. Mukundan: No, as Mr. Ghose has already highlighted, we have had a minor flooding incident which actually did not stop the plant. We ran the plant at a lower rate, which impacted us for about a week to a week and a half. This was mainly because of the water released in the upper Ganges, which threatend to come into the plant. As a precautionary measure we slowed it down primarily because the railway stopped sending the rails to the plant. Since evacuation became a problem, we had to slow down our plant, which resulted in 14,000 tonnes being lost in this month.

Mr. Ajay Nandanwar: Do you typically have maintenance shutdowns?

Mr. R. Mukundan: This quarter shoud not have reflected a maintenance shutdown. As I said, this quarter reflects about 14,000 tonnes short production, which we lost because the railway line got submerged in and around the plant and rakes didn't come in. We had to slow down the plant.

Mr. Ajay Nandanwar: Adding the 14,000, I get the 335 KMT thousand tonnes.

Mr. R. Mukundan: If you want to know what is the peak production rate, it is about 3,600 tonnes per day of urea.

Mr. Ajay Nandanwar: Would you need to shutdown the plant for maintence for 15 days or so annually?

Mr. R. Mukundan: Annual shutdown should normally be 15 days, but when you go back to Q2 of this year, we had a shutdown extending over a month mainly because we had to bring back that converter back in operation.

Moderator: The next question is from the line of Ms. Gauri Anand from MF Global. Please go ahead.

Ms. Gauri Anand: When do you think we would start benefiting from our competitive cost structure? Do you see soda ash prices moving up because of the pressure from the input cost side and will we benefit on the national side?

Mr. R. Mukundan: If you look at it, the contracts have already been signed in. So if there is a further sharp increase in coke, I don't think we can have the contracts to manage that. Some of the contracts are on a quarter basis and we have not set all contracts on an annual basis, but substantially most of the contracts have already been set. So if the prices move because of cost pressures which is coming in because of the Australian floods, we did not anticipate at the time we were finalizing the contract. That's the thing we have to give up. What has been negotiated will come into the Company next year.

Moderator: The next question is from the line of Mr. Vivek Sharma from ICICI Securities. Please go ahead.

Mr. Prakash Goel: Where was this insurance claim accounted for?

Mr. R. Mukundan: In the other income. It was accounted in the quarter and not for the 9 months because some portion came earlier. This quarter does not have it because it was in the previous quarter.

Moderator: The next question is a follow-up question from the line of Mr. HR Gala from Quest Investment Advisors. Please go ahead.

Mr. HR Gala: Pertaining to your foray into this pulses business, how are you going to divide the entire thing between Tata Chemicals and Rallis?

Mr. R. Mukundan: The Pulse business is being run by Tata Chemicals. Rallis has got the sourcing contracts wherever they have the farm relationship. So they would get compensated on an annual basis for the services they provide. The accounting will be seen by Tata Chemicals.

Mr. HR Gala: In Tata Chemicals, the entire sales purchase everything, would be accounted in the balance sheet?

Mr. R. Mukundan: It would be the balance sheet backing of Tata Chemicals.

Moderator: The next question is from the line of Mr. Abhijit Akella from JM Financial. Please go ahead.

Mr. Abhijit Akella: Can you throw some light on the kind of volume and revenue scale up we will see over the next 3 to 5 years in the Pulses business and how would the margins be shared between Tata Chemicals and Rallis?

Mr. R. Mukundan: Yes, as I said at the time of launching, these are initial plans. They are subject to review, reset, and change. So you'll have to take that with caution. Our initial plan is to do something like a half a million tonne of pulses spread across 4 different types of pulses. We may add two more varieties to it. And essentially we have seen that we have been able to get margins between 6-7% broadly in this business.

Mr. Abhijit Akella: Would 6-7% be both Rallis and Tata Chemicals?

Mr. R. Mukundan: It would be put together and really Rallis would be on fair arms length compensation for the effort they would put in. So, a large amount of the margin may be reflected in Tata Chemicals.

Mr. Abhijit Akella: So 2/3rd of 6% to 7% will go to Tata Chemicals and the balance will go to Rallis?

Mr. R. Mukundan: This is our current line of sight. This situation can change. So we may update the plan after 6 months.

Mr. Abhijit Akella: The volume projection was 0.5 million tonnes cumulatively over 5 years.

Mr. R. Mukundan: Yes.

Moderator: The next question is from the line of Ms. Priti Arora from Kotak Equities. Please go ahead.

Ms. Priti Arora: Mr. Ghose, at the beginning of the call you mentoined Rs. 30 crore one time impact for IMACID. Where is that reflected?

Mr. P.K. Ghose: If you see the corresponding quarter of last year, we had disclosed in the investor reports that there is a profit of Rs. 46 crore from IMACID which included a one time impact of Rs. 30 crore. And if you come to slide 7 of the investor presentation, you will see it there. This quarter, you don't have that benefit, first of all, and then, we had a shutdown. Now Rs. 30 crore are reflected in the profit of IMACID for the previous years.

Mr. R. Mukundan: To state it much more simply, as far as IMACID is concerned, you should see the 9-month working for previous year and 9-month working for the current year as compared to taking quarter on quarter results because there are some lumpy numbers when you do a quarter on quarter comparison. In fact, I would suggest that if you look at the entire fertilizer business, there is a sense of lumpyness. So, you need to look at 9-month working rather than smoothen out all these issues which have happened in the business. A much smoother picture is to interpret is exactly as Mr. Ghose said. The easier way is to say spread the benefit over 9 months.

Ms. Priti Arora: To meet your 1.2 million tonnes annual target in the urea business, You will have to give a hefty number in the fourth quarter. So what is your outlook on the demand in the 4th quarter for urea?

Mr. R. Mukundan: There is a market placement in this business which happens immediately. There are no stocks, which are held in the plant.

Ms. Priti Arora: But do you think you'll be able to do more than 300,000 tonnes in the 4th quarter?

Mr. R. Mukundan: We produce about 3,600 on an average given day assuming there are no disruptions and gap supplies and other impediments.

Ms. Priti Arora: At what number do you expect to close FY11 salt capacity with that 50K expansion?

Mr. R. Mukundan: 550,000 tonnes.

Ms. Priti Arora: So post 250,000 tonnes you will reach 8 lac tonnes by FY12.

Mr. R. Mukundan: 8 lac is correct.

Mr. P.K. Ghose: It will be 8 lac tonne in terms of total salt volumes, but there is also bought out salt. We also have i-Shakti which is an outsourced purchase. This 8 lac tonne is in house production and 2 lac tonne additional would have been under the brand name i-Shakti.

Ms. Priti Arora: Did you mention that the $10-20 increase per tonne from Jan is coming through?

Mr. R. Mukundan: It is not for all locations. It is for General Chemicals and maybe Kenya.

Ms. Priti Arora: I meant for General Chemicals.

Mr. R. Mukundan: $20/tonne is for Kenya and about $13-14/tonne is for General Chemicals and about 8-9 pounds is for UK.

Ms. Priti Arora: To gain your perspective, FMC has brought back their facility and are going to start production. Is that going to be used for exports, or do you think there is demand for production to come back on line?

Mr. R. Mukundan: In soda ash, everybody is running full. So hopefully, there is a market for that. Currently, whatever is produced in the US by the US manufacturers beyond what is sold domestically, i.e. excess production which comes on stream will go overseas.

Ms. Priti Arora: According to you, that should not put a pressure on prices in US.

Mr. R. Mukundan: I think if you look at the growth of the demand, the costs should get absorbed.

Ms. Priti Arora: Are you witnessing a slowdown in demand for soda ash in India? In your earlier presentations untill about 1st half of 2010, you used to always give a double digit soda ash demand you know at 10-11% in India, but for the last 3 quarters your presentations have been talking about a 4%, 5% demand growth. So why is India's soda ash demand going down?

Mr. R. Mukundan: Soda ash demand is not going down. I think that everybody is running full capacity. I certainly think soda ash should continue pretty close to the GDP rate and if there is a temporary blip in a couple of quarters, we would make that up.

Moderator: The next question is from the line of Mr. Rohan Gupta from Emkay Global Financial Services. Please go ahead.

Mr. Rohan Gupta: In your urea business, you have got almost 8,00,000 tonne of production. But to achieve that benefit of IPP link subsidies you need a …

Mr. R. Mukundan: We have already moved ahead of the cut off.

Mr. Rohan Gupta: So will you take the whole benefit in the current quarter or has it already been spread over in the previous quarter?

Mr. R. Mukundan: It will be taken in the 4th quarter. We have not accounted for it.

Mr. Rohan Gupta: So your IPP link benefit will be at the current urea prices of $370/tonne with a 15% discount on that? So am I correct in understanding that the urea profit will be taken in Q4?

Mr. R. Mukundan: Everything will be accounted in Q4. **Mr. Rohan Gupta:** Can you just give us some numbers as to what kind of increase we have seen in Q3 in the coal, coke, and limestone prices? Also, we have witnessed some increase in salt prices.

Mr. R. Mukundan: It's not that we don't have any impact because we have 100% captive salt. So, I think the only increases are on coal and coke. Between Q1 and current quarter the shift in coal was about Rs. 750 per tonne. Coke is about Rs. 2,200 per tonne. I am taking Q1 average I am saying Q3 average. I think for the Q3 average coal number would be about Rs. 4,200**.**

Mr. Rohan Gupta: What would the number be for coke?

Mr. R. Mukundan: Coke is about Rs. 18,500, and limestone has remained flat. There is no shift.

Mr. Rohan Gupta: What is your sense about this coal and coke prices. Will it remain at this level or they are expected to increase further in Q4?

Mr. R. Mukundan: Q4 we do believe there may be a minor shift in the coke price, which may move up by another Rs. 1,000/- or so. But we will see how much the impact is because we need to blend this with anthracide and take a blended rate. The operations will attempt to manage that, but I think it will move up a little bit during this quarter by at least Rs. 1,000 to Rs. 1,500.

Mr. Rohan Gupta: So we are not expecting any kind of margin pressure in Q4 because we had taken price increases in the month of November and December, so the full benefit of soda ash price increase will be happening in Q4. So even if coke prices move up slightly by Rs. 1,000 also, are we expecting that margins would go up only in Q4?

Mr. R. Mukundan: I think we do expect that our margins should start expanding and move towards healthy numbers Q4 onwards.

Mr. Rohan Gupta: Has the BMGL Kenya plant operated at almost significant capacity utilization? Can you put some number on the production from Kenya plant 1 and plant 2, if you could give a breakup?

Mr. R. Mukundan: In our current quarter, both plants put together have produced 140,000 tonnes.

Mr. Rohan Gupta: Can you provide the breakup?

Mr. R. Mukundan: Breakup is approximately 90k tonnes in the standard ash and 50k tonnes in the pure ash.

Mr. Rohan Gupta: So the 50k tonnes is based on furnace oil, and could we see some cost reset because of rising crude prices there?

Mr. R. Mukundan: Right, there you may see cost pressure. So we have taken the price increase, and some of those cost pressures would be taken away.

Mr. Rohan Gupta: Last year when crude prices were above $100, we had seen our Kenya plant reporting losses significantly. So, in terms of realization, I think in soda ash realization, we are at the previous level. And crude is close near to $100. Do you think in the current scenario, our BMGL profitability will improve or will it remain at the current level?

Mr. R. Mukundan: There are two big differences. I think the plant is running much more steadily, so the consumptions are much lower. So as the consumption improves, the profitability becomes better even though prices are higher. Secondly, we have a proper hedging policy, so the situation is expected to be better than last year.

Moderator: We would now be taking the last 2 questions. The next question is from the line of Mr. Sageraj Bariya from Angel Broking. Please go ahead.

Mr. Sageraj Bariya: Can you give us some color on the region-wise realizations on soda ash?

Mr. R. Mukundan: See I will go by the last quarter and the full year. So if you look at Mithapur, prices will be closer to Rs. 15,000 a tonne. UK will be about Rs. 10,7000 a tonne. Kenya will be about Rs. 8,500 a tonne for one plant and if you take the average of both, it will be about Rs. 9,000 a tonne and General Chemicals will be about Rs. 7,700 a tonne. These are the gross realizations.

Mr. Sageraj Bariya: Globally, what kind of utilization level would we see for soda ash manufacturing and do you see any kind of a capacity addition to this?

Mr. R. Mukundan: No, in terms of capacity addition, there is only talk of one Turkish plan, in which we have already put in 1 million tonne and which is on stream. There have been talks of an additional 1 million tonne coming up by 2013. Other than that, I think there are no big capacity additions. China, of course, is a question mark factor, which we will only know in the middle of this year whether any further capacity expansion is happening. All plants are running at full capacity utilization.

Moderator: The last question is from the line of Mr. Atul Rastogi from Daiwa Capital. Please go ahead.

Mr. Atul Rastogi: Is the price increase of $13 - $14 applicable for the full quantity? And if not, how much of volume for calendar year 2011 will be impacted by this price rise?

Mr. R. Mukundan: It is a blended rate, so more than 90% of this amount will be covered.

Mr. Atul Rastogi: For almost 2,000,000 tonnes this would be applicable. Is there any cost pressure there in terms of energy prices?

Mr. R. Mukundan: Energy prices are coming down because of shale gas. There will be no significant margin impact because of cost increase.

Mr. Atul Rastogi: I think there should be a significant increase.

Mr. R. Mukundan: It will be better because of the higher prices.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference call over to Mr. Manish Mahawar for closing comments.

Mr. Manish Mahawar: Thanks Vivian. On behalf of Prabhudas Lilladher, I would like to thank the management to take out time for the call. Mr. Mukundan, would you like to make any closing comments sir?

Mr. R. Mukundan: We just wanted to highlight that as far as this quarter was concerned we have seen a challenging environment in Europe which should certainly improve as we go forward because of improved operations. We do believe that the input cost pressures while they have pressured us for the last two quarters; should see a bit of course correction going forward with the price movements which are fully absorbed in the market place. And certainly, as the next year opens up, while I am not going to comment on the immediate quarter going on, the challenge would remain on the fertilizer front rather than on the chemical front. We think that chemical business should continue to move at ahealthy pace while the pressure would shift next year on to the fertilizer side. Hopefully, that should also become clear as we move through the month of February and March, and we would be looking forward to the government's indications in that light.

Moderator: Ladies and gentlemen, on behalf of Prabhudas Lilladher, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.