Tata Chemicals Ltd

3QFY14 EARNINGS CONFERENCE CALL

MANAGEMENT:

MR. R. Mukundan – Managing Director, Tata Chemical Ltd

MR. P. K. Ghosh – Director & CFO, Tata Chemical Ltd

MR. Ranjeev Lodha – VP & Group Corporate Controller

MR. Raj Mehta – Tata Securities Ltd

Moderator Ladies and gentlemen good day and welcome to the Tata Chemicals Limited Q3 FY14 Earnings Conference Call hosted by Tata Securities Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Raj Mehta of Tata Securities. Thank you and over to you sir.

Raj Mehta Thank you. On behalf of Tata Securities, we welcome all of you to the third quarter earnings call for Tata Chemicals. On the call with us we have Mr. Mukundan – MD of Tata Chemicals and Mr. P. K. Ghosh – Director and CFO. The management will take us through the comments initially and post which we will open the floor for question and answer. Thank you and over to you Mr. Mukundan.

R. Mukundan Good afternoon thank you Raj and I think I would like to welcome my colleague Mr. Ghosh who is on the call and all of you as well. I will just start briefly sharing some perspectives for this quarter ended following which Mr. Ghosh will share the financial details. Before I get into operational performance I just want to highlight few key points which are strategic after which we will get into the specifics. Broadly the company is being in the process of executing its restructuring plan in Europe which is on track and what you have seen in this quarter is last of the financial impacts which will be taken on our books with the European restructuring. The Winnington plant has seized operation as of Sunday last shift the final shift, so Monday was the first day Winnington plant did not operate after 140 years of operation and did not produce soda ash and there is one further charge which we have not taken in our books which is about approximately £7 million which will be taken spread over five years and that is essentially on account of demolition of the plant. Actual expenditure maybe somewhere lower or the maximum we expect is about £7 million.

In terms of the restructuring over the operation itself things are moving on schedule. The union and the local governments have been very supportive and we will get the redundancies which we have planned in terms of the manpower reduction. In addition to that there is a reconfiguration of the plant which is underway bulk of which should be finished by the first quarter of next financial year. The only one item which will be pending for implementation will be the recalibration of the steam and power circuits in the plant, which is awaiting installation of a steam turbine which will take about 18 odd months from the time of placement of order which is likely to be at the end of this month. With that we would expect the European operation to be driving strongly into the sustainable growth at the end of this restructuring we will have 50% production of soda ash bulk of which will be partly converted into bicarbonate about 100,000 tons nearly approximately that will leave us with about 400,000 odd of which large chunk will be light ash which does not face any international competition and we will have a small portion of dense ash for the customers which are going to be closed to our plant who are more competitively served by our own operation. Our focus in Europe is going to be bicarbonate and value added products and that's what we will continue to do. Our salt operation is then affected by all these changes and would continue its operations as planned. We had also acquired the power plant of EON which currently has been running with under our control and we also have concluded a long term gas arrangement with Gazprom in UK which is supplier of gas to us.

As far as the power plant itself is concerned post the implementation of turbine that also would start generating positive profits and overall we believe the operations would be clearly on a road for healthier tomorrow with even with the current economic environment even if it continues. The second element of our restructuring operations is on Magadi, we are in the final leg of choosing one of the two options which we will make clear during the next quarter briefing and bulk of the issues of restructuring on Magadi will also be taken around the next one or two quarters, the exact numbers of what maybe the impacts which we will have will be clarified when we have conference call next quarter. So, idea from our side is to sort of exit this financial year with most of the restructuring cost taken on our books so that from the next year onwards we have a clean operation to run the company and focus it on the right direction. In terms of our current operations itself let me just highlight that the soda ash operations in India and in North America have been quite robust in fact North America has been exceedingly robust and could continue to move in the robust direction next year. The Indian operations have also been robust but the quarter three has been partly impacted because of low cement prices and also higher bought out salt which is one of the inputs which we had to buy which impacted our profits by about Rs.30 odd crores part of which is 50% of that will be recovered that because our own salt production is back on stream after undue heavy rainfall which washed away the crystallization in our salt fields.

In terms of the fertilizer business we continue to have the same stable run in both Babrala and in Haldia and in IMACID and in terms of our non-bulk sales for the first time the Tata Chemicals non-bulk sales in the three quarters has crossed Rs.560 odd crores. We will probably finish the year in non-bulk sales closed to Rs.650 odd crores. In terms of non-bulk, non-subsidized agri inputs at the consolidated level including Rallis and Metahelix we are very closed to Rs.2000 crore marks, I think 1968 was broadly the figure which we have clocked up till now and this will be the first year we will cross Rs.2000 crore mark in non-subsidized agri input sales. Consumer business has also grown just similar to the farm input growth which is grown at quarter-on-quarter 20% growth rate consumer business has grown at similar rate of 20% quarter-on-quarter and we just about missed Rs.1000 crore mark, our consumer business sales at the end of three quarter is about Rs.970 odd crores and we expect to finish this year very strongly in a Rs.1000 crore category. So, two of our growth platforms one consumer other one the non-subsidized farm business both will hit a figure of Rs.1000 and Rs.2000 both landmark figures during the year and could continue their growth momentum going forward.

As far as the chemical business is concerned as we had mentioned that our investments in this business are largely going to be sustenance capital. There are no big CAPEX proposals in these parts of the business except for debottlenecking capital which will be invested in United States taking advantage of low variable cost of production in United States. In terms of fertilizer business, we will continue to run this business for cash and that has been our emphasis to make sure that this business runs as well as it can and generate the cash to pay down the debt and fund growth business in consumer and in farm input business. Our net debt position at the end of this quarter in the standalone was Rs.1800 odd crores, it's down from Rs.2600 crores which was there at the end of March '13. And on a consolidated basis our net debt position is almost static but one has to take into account the broad figure of increase in the revaluation of the international debt which is a debt which is held in North America and in UK which is about Rs.1000 crores, so in real there has been a repayment of Rs.1000 crore but it is not reflected in the numbers. In terms of our new categories which we are entering in consumer product we have just launched the RO water purifier in addition to offline water purifier and this has been launched in the cities of Calcutta and Bangalore and on the basis of the performance we will be having a national rollout of this product. It has been extremely very well received. Our initial monthly target of the sales was met on the first day of launch itself.

Our subsidiaries continue to do well Rallis has accorded a growth of 17% and so has Metahelix and we do believe going forward the demand environment is going to be positive across all the products we are in, whether it will be inorganic chemicals which remain positive territory, in positive territory despite the issues of restructuring and the fertilizer business also would be stable with respect to its current positive demand environment and the consumer and the farm non-subsidize farm input would continue to grow. So, overall we are committed to delivering on our strategy of restructuring our commodity businesses and at the same time continuing to pursue growth in our consumer and branded farm business. With these few words I hand over the next session to Mr. Ghosh to give you insights in the financial performance.

P. K. Ghosh Thanks Mukund. Before I take you through the results there are few points which I would like to highlight in connection with our results for the current quarter as well as for the last financial year. Firstly, the current quarter has been affected on account of one time exceptional item amounting to Rs.102 crores this is on account of exceptional items which largely related to the cost associated with the restructuring of the European operations as well as the exchange loss on borrowings. Second, it maybe noted that the standalone and consolidated profits for the quarter ended 31st December 2012 that is the previous year had included onetime gain amounting to Rs.130 crores on account of exchange gain consequent to the redemption of the company's investment in preference shares. So, I think when you look at the quarterly results you have to take these two major adjustments in to account to have a normalized profit levels. In addition I would just like to comment that during the course of this year we would be taking whatever adjustments are required for cleaning up the balance sheet and going forward as Mukundan said we will be starting on a new slate.

Let me also now quickly give you a recap on the financials of Q3 FY2014. On a consolidated basis net income for the quarter stood at Rs.4580 crores up by 10%. Profit from operations at Rs.504 crores for the quarter ended December 31, 2013. Profit before Tax amounted to Rs.132 crores for the current quarter. Our operating profits for Q3 have been adversely impacted due to various reasons mentioned earlier. On a standalone basis the net income was Rs.2,672 crores higher by 5% and the profit from operations at Rs.273 crores for the quarter. Profit Before Tax was Rs.190 crores and after considering tax provisions the net profit after tax was at Rs.148 crores. The company's net debt as on 31st December 2013 stood at Rs.1810 crores as against Rs.2624 crores on 31st March on a standalone basis. You will notice that fair amount of debt has been repaid during this period which has brought the net debt down. On our consolidated basis the net debt has marginally gone up to Rs.6,621 crores against Rs.6543 crores and the increase is on account of currency translation impact amounting to Rs.972 crores in respect of debt in our overseas subsidiaries. During the quarter the company has repaid the NCDs of Rs.240 crores which bear our coupon rate of 11.8%. As at the end of December 2013 the subsidy outstanding is at Rs.1678 crores and has come down as compared to Rs.1753 crores as on 31st March 2013. However, subsidy collections are likely to remain the challenge during the balance portion of the current year.

This brings to the end of my discussion and I would now like to throw floor open for questions.

Moderator Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. Our first question is from Puneet Gulati of HSBC. Please go ahead.

Puneet Gulati Just wanted a little more understanding on the European operations. You said the large part of cost for restructuring has been booked, so does that include all the cost for employee redundancies as well?

R. Mukundan Yes, the employee redundancy cost have been fully done I think all costs including the legal fees and the transaction fees everything, whatever is needed towards the restructuring has been booked, the only cost we could not book because of an audit issue is the £7 million which I spoke to you about that the auditors have informed us we can take only when specific demolition happens year-on-year, it cannot be taken in advance.

P. K. Ghosh The issue there is that the £7 million is for demolition of the Winnington plant there is no obligatory event on the company to do it just now so it can be done only when it happens.

Puneet Gulati Secondly, in terms of the steam turbine you said it will commission only 18 months from now?

P. K. Ghosh Yes, I think the steam turbine is more to make profits out of our power plant itself and rather than to run it on a breakeven basis and clearly it, you see that what has happened is our demand for the steam for process had reduced after we shut the plant 50% of the plant and that steam has to be used for some productive purpose and the only productive purpose we can put that is now for power generation for which we have, we are in the process of ordering the turbine and our estimation is anywhere between 15 to 18 months.

Puneet Gulati And since you took over E.ON power plant, does that increase your cost of power for the business?

P. K. Ghosh Yes in fact that's exactly the reason we have gone ahead with the restructuring in the sense that we acquired the E.ON power plant which then took us to the market rates of energy which effectively meant that we needed to restructure the business which is what we have done. So, the overall action has been done in a way that we could proactively restructure the business. What we have achieved through this process is that broadly the acquisition benefits of taking over the E.ON contract have partly been use to obviate negative effects of restructuring.

Puneet Gulati Okay, so the Rs.138 crore benefits which you have got last quarter?

P. K. Ghosh Yes.

Puneet Gulati And secondly, on the Magadi operations where exactly are you in terms of restructuring that if you can give more color what's happening there in terms of royalty and other profit sharing which was likely to come as well?

P. K. Ghosh I think from our analysis the standard ash plant which is the plant which is historically the older plant continues to give profitable operations so there is no question on that part of the business so we will continue to operate that so effectively the question which we are raising is with the new royalty rate is it profitable to run the pure ash plant with a newer plant at all or not and it has its own implications in case we do desire it is not profitable in the new royalty regime then we will have to take several non-cash charges in our book effectively the asset impairment charge the goodwill impairment charge which are associated with the pure ash plant and that numbers will be known only after the board takes the decision whether to run the plant or not, so these are all non cash charges which you will take and also if we do move ahead with the PAM closure which is one of the options on the table then effectively we will also have to provide for redundancies in Kenya which will be a cash charges which we will have to bear so we will come clear with these charges. Once we are clear whether we want to run PAM or don't want to run PAM.

Puneet Gulati And since you reported better EBITDA versus last quarter what is the reason for that, have you already implemented some change their Q-on-Q the EBITDA was zero versus the loss last quarter?

P. K. Ghosh Yes, can you go to the next question we are just checking this, okay.

Puneet Gulati And then lastly I think I missed the standalone operation also had some issues in terms of some salt crystallization which I thought lead to weaker inorganic chemicals profit margins if you can shade more light on that as well?

P. K. Ghosh No, we had to buy 2,00,000 tons of salt from the market to make up for lack of production which effectively our harvesting of our own salt was delayed by almost a month and that has imposed the additional cost of Rs.15 odd crores and I said the other element is on the cement, our realizations have fallen from previous year same quarter which has hit our bottom lines approximately another Rs.15 odd crores.

Puneet Gulati Even on Q-on-Q, Q-on-Q is largely Rs.15 crore impact?

P. K. Ghosh I think both put together it's about Rs.30 odd crores between cement and the salt purchase. And the cement one is not likely to correct itself because the market continues to be weak whereas the salt one has already corrected itself.

Moderator Thank you. Our next question is from Milind Karmarkar of Dalal & Broacha. Please go ahead.

Milind Karmarkar I just wanted to know about the branded pulses business and what are the products currently in that what is the size of the business because some time back we had indicated that there is a big opportunity there but probably due to whatever reasons that the business seems to be growing a bit slowly, so could you please tell us something about the business and how large the business is now?

R. Mukundan The business is as I said about this year we will cross about Rs.120 odd crores and currently we are present effectively in about 12000 retail outlets on a consistent basis and our exit number and number of outlets will be present is about 40,000 outlets we are not present in large number of outlets if you look at by comparison salt is present in 5,00,000 outlets so there is a huge headroom to grow and one of the reasons why we are growing it at consistent pace year-on-year rather than ramping it up too rapidly is we don't want to, we want to create a brand premium and create an experience over a period of time rather than push the product and commoditize the product and that's the only reason why we are doing this if you look at the salt the history of salt is over 25 years, we built a brand over 25 years, one needs to be patient about this .

Milind Karmarkar Besides pulses are there any other products which have been added or value added products like besan or?

R. Mukundan Besan has already been launched and in fact besan also has got a good traction so I think within pulses the range is all pulses plus besan that is what we are selling right now and in terms of new product launches whether it's something which is adjacent to besan in terms of suji, aata there are many under consideration but we will speak to you specifically as we develop product and product propositions and launch them in the market. The first one we have done in this quarter has been in the area of water where we have gone from offline to online water purifier with full blown RO water purifier which is Rs.16000 and it has been well received in the market place.

Milind Karmarkar One last question about the bypassing the APMC because I think that is also one of the major problems but with congress saying that APMC bypassing would be possible only for fruits and vegetables as of now, any problems which you foresee it or is this a major hindrance as far as this business is concerned.

R. Mukundan No, APMC is not an hindrance at all I don't think that is an hindrance I think for organized players the issue with most product is there is a maximum limit of material you can store, creating and issue with respect to building efficiency in supply chain for example, for us and these restrictions are from state-to-state different so for example we may not be able to hold more than 35 tons at any given point of time and that's a too smaller number who want to build efficiency but we are engaging with state, this is not a national level issue it is a state level issue.

Moderator Thank you. Our next question is from Balwinder Singh of Prabhudas Lilladher. Please go ahead.

Balwinder Singh On the European business side I mean I understand that we are in a restructuring mode but at the EBITDA we have made Rs.60 crore losses so if you can throw some light on that including the European and Africa business?

R. Mukundan Yes the European business Rs.60 crore loss is because we have shut the operation and if you look at, because we are shutting the operation we were not producing to the full efficiency and we still are carrying the old fixed cost. For example if you take the current month also we have effectively closed our operation as of yesterday as I said but the redundancies will happen over a period of two three months immediately everybody has a different leaving date and those things take process, take their own time so our fixed cost hasn't come down commensurate with our reduction in our operation, which is why the business will bleed till it reaches a level of first the break even and then moves into a profit zone, so our expectation is that to get into next year, going into next financial year at least we should be aiming for making sure there is the business is breaking even so that we don't have further we stem the losses and year after next we would be moving into and that's exactly the way.

P. K. Ghosh It's also due to the energy prices which are high which will also come down one the turbine investment is made.

Balwinder Singh So, essentially once this restructuring is there so you mean to say that FY15 you are looking at something like breakeven?

R. Mukundan That's correct.

Balwinder Singh Including the Europe and Africa business?

R. Mukundan Africa the restructuring plant has not yet ready so we will compare to exactly what the numbers are like, it will be at end of next quarter and the African business we have to take the call as I said between, see both plants we are keeping only one plant.

Balwinder Singh And if your results apart from the Rs.102 crores of exceptional items that are stated is there any other exceptional item that is there?

P. K. Ghosh No that's the main one but as I said if you compare with last year, last year there was an abnormal gain of Rs.130 crores so we got to see like-to-like.

Balwinder Singh So, this interest expense of Rs.166 crore had shot up by almost Rs.50 crores on a Q-o-Q basis?

P. K. Ghosh The reason for that basically is that we have prepaid some of the loans both in India as well as overseas. Prepay the loan the amortization of expenses which happens over life of the loan is up fronted and charged to the P&L account, it's a non-cash charge.

Balwinder Singh How much would that be?

P. K. Ghosh That will be about I think if I recollect correctly about $9 million $10 million in the USA and about Rs.80 crores in India.

Balwinder Singh 18?

P. K. Ghosh Rs.80 crores.

Balwinder Singh Rs.80 crores out of that Rs.166 crores?

P. K. Ghosh I will just confirm that figure, is Ranjeev there-?

Ranjeev Lodha Yes, Ranjeev here on the call.

P. K. Ghosh The figure is right?

Ranjeev Lodha The write off for the refinancing what UK was Rs.25 crores the refinancing charge and India we have taken a charge of Rs.24 crores for the exchange loss which is shown as an exceptional item or which is part of the Rs.102 crores.

Balwinder Singh No, what I mean is within the Rs.166 crores of interest cost that is there in the results, only Rs.25 crore is the one off related to UK so our interest cost was around Rs.140 crores or so?

P. K. Ghosh No, Rs.140 crores plus I think there is also within that there is another charge in India.

R. Mukundan That's coming under exceptional is it, but where the US one?

Ranjeev Lodha US one is part of interest.

R. Mukundan That's what I am saying so 10 million would have come there.

Balwinder Singh So, I am just trying to understand the normalized interest going forward as such?

R. Mukundan Yeah okay, I think we will give this figure to you but you are right this year there are some abnormal charges which have come for because of repayment and we will just work that figure out and give you.

Balwinder Singh Sure and regarding this standalone margins in the chemical segment you said Rs.15 crores was because of cement and Rs.15 crores other was because of I think salt so next quarter how does that look?

R. Mukundan Next quarter as I said the cement would continue in similar way because cement prices are still depressed but the salt one will disappear?

Balwinder Singh Okay so probably that 15 crore, okay thanks.

Moderator Thank you. Our next question is from Abhijeet Dey of BNP Paribas Mutual Fund. Please go ahead.

Abhijeet Dey From the standalone results while your overall revenues is up by 6% the other expense figure is jumped by almost 23% is there any exceptional item in there?

P. K. Ghosh I doubt there are any exceptional item.

Abhijeet Dey Was there a shutdown in any of your plant in Mithapur or somewhere?

P. K. Ghosh In the standalone it's largely because of the hedging cost and the other area.

Abhijeet Dey Okay in the other expenses you are saying?

P. K. Ghosh Yes.

Abhijeet Dey How much is that?

P. K. Ghosh Increase would be in the region of around Rs.23 crores.

Abhijeet Dey Right and you may have explained this before but what was the logic behind buying the power plant from E.ON in Europe?

R. Mukundan Okay, I think we only pre-poned the purchase that was not so much about buying the power plant the contractually the power plant was for the transfer at some point of time, the only benefit of preponing that is we are today for example taking the negative hits of buying that plant over which would have come maybe two years from now by pre-poning it we got the cash which is now being used to make sure our restructuring finishes.

P. K. Ghosh Rs.130 crores or Rs.140 odd crores which is taken.

R. Mukundan That is what is being use to finance the restructuring so that we pay lot of earnings in that unit itself.

P. K. Ghosh And in addition the bigger benefit is that there was a much larger charge which would have come later on fixed charges which the company would have borne after the contract finished which is now waived.

Moderator Thank you. Our next question is from Prakash Goel of ICICI Securities. Please go ahead.

Prakash Goel I want to enquire about what is the state of royalty at Magadi, has it been started to be paid and?

R. Mukundan Yes, I think this year we will be taking, we have already taken into account $1 million and that's 2% and the royalty is going to increase in a graded manner spread over next four years from 2% from 5%, the maximum royalty is 5%.

Prakash Goel And what was it before?

R. Mukundan It was quite negligible I think it was almost marginal. So, we are actually moving from nearly closed to nil to these figures.

Prakash Goel I missed out the part like you said there are two option in Magadi and one was to close both the plant and one was to?

R. Mukundan No, I think option was not to close both the plants, the option we are examining is whether to run both the plants or to run one of the plants.

Prakash Goel And can you share any scenario how would it planned out in terms of-?

R. Mukundan I think internally we are in the final leg of looking at all the financial models we will come back once we have cleared that internally.

Moderator Thank you. Our next question is from Atul Rastogi of CIMB. Please go ahead.

Atul Rastogi My question was on well maintenance of plant again you said 5,00,000 tons of capacity will be left so will that be available for the full of next year or there will be?

R. Mukundan Yes, it's already available that is not, lost of capacity has not been impacted that is a newer plant more energy efficient, what you are close to the energy inefficient Winnington plant which was about 50% of the capacity in UK.

Atul Rastogi And something on the pricing contract for soda ash for next year for 2014 especially in the US?

R. Mukundan I think most contracts have been negotiated, we are expecting move on prices. On an average I think broadly two to three dollars move is what is expected finally.

Moderator Thank you. Our next question is from Abhijeet Akella of IIFL. Please go ahead.

Abhijeet Akella First of all actually just with regard to the interest expense again, so if you could just clarify how much was the one off item within interest expense and also I mean whether we expect any such charges going forward also because last quarter also we had taken a charge.

R. Mukundan Oh you are talking of the current quarter only or are you talking of the cumulative nine months.

Abhijeet Akella No, just for this current quarter.

R. Mukundan For current quarter is what Ranjeev said just now-

Ranjeev Lodha Rs.25 crores is one-time charge and there is incidence of Rs.14 crores because of currency translation impact.

R. Mukundan So, about Rs.39 odd crores.

Abhijeet Akella Okay so excluding that the interest expense is around Rs.125 crores console.

R. Mukundan Rs.126 crores.

Abhijeet Akella Okay so that seems to have gone up from last quarter's run rate right because last quarter we had Rs.179 of which I think Rs.60 was the charge?

P. K. Ghosh Are you saying the trailing quarter?

Abhijeet Akella Yes the second quarter.

R. Mukundan Yes the trailing quarter where we took the US charge Rs.60 crores-

Abhijeet Akella Okay so the sustainable run rate on interest expense is around Rs.125 crores or Rs.130 crores going forward is that fair?

R. Mukundan Right, see a little bit of this is because of the subsidy delays.

Abhijeet Akella Right understood and sorry just to clarify in the UK now what is our product wise capacity breakup?

P. K. Ghosh Product wise capacity breakup I think it should be closed to about 470 or so of soda ash but that soda ash is not available for sale because it has been converted in to bi-carb so someone has to give you the figure, one minute. We will just give you specific number once towards the end of the call.

Abhijeet Akella Sure perfect. And following this redundancy in the UK as well as the restructuring completion what should we expect in terms of employee cost reduction and in terms of the power expense and what are the kind of margins you are targeting for the overall UK business going forward from FY16 onwards?

P. K. Ghosh FY16 onwards?

Abhijeet Akella Yes, because I think you mentioned that FY15 will just be a breakeven because of the spillover effect of the shutdown and I think from FY16 onwards you said you will return to profitability in the UK right?

P. K. Ghosh Yes that's right. We will give you the exact figure.

R. Mukundan No, these projections are in the process of finalization because they are still being worked out and they are of course projections for 2016 so you will have to bear with us a little while right.

Abhijeet Akella And Rs.1000 crore consumer business number that you gave the sales that include salt also?

R. Mukundan It includes salt, water purifiers, pulses I think broadly these three and small bit of branded bicarbonate.

Abhijeet Akella Just one last question. The own agrochemicals business that we have at Tata Chemicals.

R. Mukundan It's not agrochemicals alone what we have, we have a combination of specialty fertilizer where there are no subsidies and it has **agchem** and it has seeds.

Abhijeet Akella And the agrochemicals we are sourcing from some contract manufacturers or we are producing it ourselves?

R. Mukundan All these products are sourced out sold partly in our brand we have been increasing our own brand over a period of last three years this year I think our own brand versus alliance brand it would be about 50-50 our plan is to over period of time move this entire portfolio to own brands and this is clocking broadly 20% growth year-on-year.

Abhijeet Akella Right and you don't see any competitive impact on Rallis's products in case both are sold in the same locations?

R. Mukundan No not really I think we have very distinct alignment and as you know as the market itself is highly fragmented. It by us not being there doesn't mean that entire volume will go to Rallis, it can go to only that share of that volume and so effectively we are making sure our resources are very highly focused on areas of our strength which also are the areas probably where Rallis needs to add strength. Our strength is north and east, Rallis's strength is west and south.

Abhijeet Akella One last question was on the North American soda ash business with the $2 to $3 uptick in prices that we are expecting. Can we expect margins to sustain at this level how are the cost input pressures looking that?

R. Mukundan Cost should not vary a much at all because I think it's fairly stable except for in the last because of the cold winter in the last quarter the current contracts we are seeing for the last quarter of this financial year which is running right now the cash prices have gone up but we hope it's a temporary phenomenon it is not a permanent phenomenon we don't expect that will because they had a very, very unseasonal cold wave which cost these cash prices to spike up so we don't anticipate any negatives in terms of cost next year but certainly so I think broadly if you ask me the margin should hold.

Moderator Our next question is from Parth Shah of ICICI Bank. Please go ahead.

Parth Shah What is the outlook on the fertilizer segment do you foresee any difficult scenario in near future?

R. Mukundan As we said the subsidy payout is a difficult scenario it's a cash flow issue it reflects itself in higher interest cost so I think that currently if you look at our subsidy outstanding it is at about 1600 even if it remains at that level that is higher than what we normally would have at about Rs.900 odd or Rs.800 odd crores so we are running today at twice the subsidy number would then what we should have normally had in our books so that's one issue. In terms of DAP I think the excess inventory is fully out of the system so we don't believe there is an issue on the DAP NPK side but the margins will be back to normal levels and the discounting should reduce so broadly we do believe both DAP and MOP and NPK volume should bounce back smartly in the next year. The urea I think we will have issues because of the gas price increase which will impact the subsidy again because the subsidy bill for government is going to rise as you know the gas price increases a pass-through but it will reflect itself in higher subsidies, if the gas price comes so I think the issue remains the subsidy payout and delay in subsidy payout that's really and lastly again the concern, other big concern remains is on the above cut off quantities at the $8.4 the above cut off quantity is completely unviable, unless the government starts to reimburse at least some portion of the fixed cost there is a formula which has been put forward by the ministry to process which is in advanced stage of clearance if that happens we don't see any negative impact of that also.

Moderator Our next question is from Jasdeep Walia of Kotak. Please go ahead.

Jasdeep Walia I believe your nutraceutical plants has started functioning so could you just take us through the revenue potential that you see there and kind of profitability that could be generated?

P. K. Ghosh Yes, I think we will just give it to you in a minute but broadly it's 5000 tons plant and in the peak year of production which is three years from now. In a stable year it is expected to broadly be at about Rs.150 odd crores – outlook for that plant.

Jasdeep Walia What about margins?

P. K. Ghosh This is a high value product so the bottom line if it hits Rs.150 crores will be closed to about Rs.40 odd crores.

Jasdeep Walia And you expect it to function at optimal levels of utilization in around three years?

P. K. Ghosh Yes that's right.

Jasdeep Walia Any incremental investments you are making in the same segment in nutraceuticals or as of now this is it the one plant that is online?

P. K. Ghosh No, we have ability to at the same time go up to twice the capacity.

Jasdeep Walia 10,000 tons?

P. K. Ghosh Yes but this is mainly for international market not for domestic and we will have to see how the sales off take is there and there is not one product we are actually making a range of Oligosaccharides and we have to see what is the uptick by the international food companies like Nestle, Kraft to Indian supplies as of now this market has been dominated by the European supplies.

Moderator Our next question is from Himanshu Nayyar of Quant Capital. Please go ahead.

Himanshu Nayyar Firstly a clarity on the tax rate, are there any one-offs there because I see a tax of Rs.92 crores on a PBT of Rs.132 crores here on the console numbers?

R. Mukundan I think let's Ranjeev clear it, the tax rates are if you look at the standalone tax rate that is more or less normal I think there are no issues with that.

Ranjeev Lodha Yes and in the consolidated the tax is up because of IMACID which is reported profits in the current year so unlike last year where it was equivalent to a MAT which is linked on the revenues at a very low rate there it is a full tax impact has come that's the reason the tax expense has gone up and of course there is also be the translation impact because of the overseas TCNA tax.

Himanshu Nayyar And secondly, on that IPP related stuff that you were talking about that above cut off quantities are not viable so and that is dependent on what the government decides going forward so as of now are we taking any I mean, are we reducing our production of urea do we plan to do that.

R. Mukundan The current year if you look at it I think the proposal which government is saying is to compensate the industry a grade of Rs.2400 per ton which is what is in the process of clearance if you look at the current situation that proposal has not yet been it signed up by the ministers so and hence this year we have actually pulled back on productions because that note is suppose to be effective immediately on signature so we will only pull the production up only when the note is made effective.

Himanshu Nayyar So, what's the production we are looking at if you can give a number for this year?

R. Mukundan All I would say is this last quarter you are looking at average production run off 3000 to 3100 tons per day rather than 3500.

Himanshu Nayyar And next, I know we are facing all these issues in terms of restructuring etc. So, are those expansion plans that we had in Gabon, EPM as well as the India expansion so are they on the backburner as of now or are we still actively pursuing all of those.

R. Mukundan So, you know we have made this very clear that we have put all the growth in commodity business on the shelf we are not looking at growing the commodity business, so nothing is on cards except for minor debottlenecking capital in CAPEX which we may spend in US for releasing small capacities. Our focus is to reduce debt in our books and at the same time nurse the chemical business back to health and not put further capital in subsidy driven business so that's on one hand other hand what we are going to do is to focus our attention on this non-subsidize farm business we think agriculture demand will remain very high and also to focus on the consumer business especially in the food area.

Himanshu Nayyar Finally, just on the industry part you said subsidy would be a big concern, can you give a ballpark estimate of what would be the outstanding subsidy for the industry as a whole as of now?

R. Mukundan I think last figure was closed to about 70 odd now that 10000 has been paid as FDI I suspect it's about 60 but I think we can reconfirm that number to you.

Himanshu Nayyar Do you think this will go down over the next two quarters or there is no hope on that front?

P. K. Ghosh No comments.

Moderator Our next question is from Sumant Kumar of Elara Capital. Please go ahead.

Sumant Kumar Volume growth is 10.5% and overall revenue growth for Europe is 40%, so what other segments is has done well?

R. Mukundan No, I think there is also an element of power sales we will give you the deconstructed numbers next time.

Sumant Kumar Power sales?

R. Mukundan Yes, because as a power plant there is a surplus power being sold back to the grid.

Moderator Our next question is from Badrinath Srinivasan of Credit Suisse. Please go ahead.

Badrinath Srinivasan I apologize if it's slightly generic in nature. But I want to understand the business economics. So, for your Uttar Pradesh plant what would be the rough fixed up cost or you would rather import than manufacture for urea?

R. Mukundan Urea import?

Badrinath Srinivasan Yes, I suppose to say manufacture what would be say the rough fixed up cost where it is just cheaper to import as suppose to manufacture.

R. Mukundan If you look at importing LNG at anywhere between $12 to $15 per MMBTU. You should multiply every dollar with $25 so if it is. So, I think end of the day I think this unit will be viable only because it's completely written-down in asset, vis-à-vis a new unit it will still complete but if there is a depreciated asset internationally where low gas cost is it is not competitive.

Badrinath Srinivasan And just one more quick second question. Regarding your ammonia **train** again in UP, when would it actually be cheaper to just import ammonia as suppose to manufacture it using either say naphtha or LNG or even higher price domestic gas?

R. Mukundan I didn't get that, we don't produce ammonia, we straightaway convert the ammonia into urea.

Moderator Thank you. Our next question is from Rohan Gupta of Emkay Global. Please go ahead.

Rohan Gupta First question is, if you can give us sort of contribution of this TC or European plant of these Rs.547 crore revenue from British Salt and power and soda ash and sodium bicarbonate?

R. Mukundan We don't have the split we will start sharing it probably next year here.

Rohan Gupta Second question on this debt number. If you can just give us the subsidiary wise debt number that how much debt is pertaining to which subsidiary and currency. Like you have total Rs.6600 crore consol net debt so I would like to know the total debt number and how much is on the domestic operation, how much is in US and Europe and African plant.

R. Mukundan Yes I will give you in local currency right that will be better, USA will about $315 million, Magadi will be about $85 to $90 million, UK will be £140 million and then you take the Indian currency which is.

Rohan Gupta How much that is in Indian currency, is it roughly Rs.2000 crores?

R. Mukundan Ranjeev, exactly figure I don't have it with me.

Ranjeev Lodha Yes, can I just give broadly the net debt split so that the net debt is like this Tata Chemicals is 1800 and Tata Chemicals North America is 1400, Rallis is 43, Europe is 1700.

Rohan Gupta And Magadi?

Ranjeev Lodha That is part of the UK group which we-

Rohan Gupta Okay, so total UK group in INR is 1700 crores?

Ranjeev Lodha Yes, 1720.

R. Mukundan Yes, but that net debt not growth rate.

Rohan Gupta Yes, I mean net debt.

R. Mukundan And there are debts in international special purpose vehicle which is about Rs. 425 crores.

Rohan Gupta In SPV we have 425 crores?

R. Mukundan Yes.

Rohan Gupta Out of this only probably UK debt we will be facing issues in servicing that debt right because I think our European subsidy is not generating enough cash to serve their debt.

R. Mukundan It will be both I think UK and Kenya.

Rohan Gupta Yes, UK and Kenya put together because you mentioned 1700 crore is a net debt on UK and Kenya put together.

R. Mukundan That's right I think that's the only debt which needs constant refinancing because it's difficult for these units to pay down they are able to pay the interest but not able to pay down the debt.

Rohan Gupta Would you have a comparable figure for this UK and Kenya net debt put together for the last year also it will be really helpful?

P. K. Ghosh See it will be not very different maybe £10 million – £20 million more in the UK.

R. Mukundan Yes, it's about last year's amount would be same.

Rohan Gupta What is the repayment schedule here?

R. Mukundan Repayment schedule UK is just now actually on a bridge loan so this will be after 18 months or so it will have to be refinance?

Rohan Gupta And these UK assets this debt which we have taken on this subsidiary is a recourse to Indian balance sheet?

R. Mukundan No, it's not on a recourse Indian balance sheet but the Kenya one which is about the principle loan of about $40 million that at a five year term I think we are running the third year just now that has got a recourse to the Indian balance sheet.

Rohan Gupta And as you have mentioned in your opening remark that European plant operation is still remains to probably in FY15 also I mean it will be tough to come in on breakeven or maximum we can see breakeven so this arm of the company will continuously require funding from our other operation maybe Indian operation or maybe US operation, am I right sir?

R. Mukundan Yes that's right till it nurses to health which is about a year away.

Rohan Gupta Any ballpark number which you can assign either I mean you are also thinking about restructuring at the African plant also so how much investment can further go in whole European plant if you can just give us some ballpark number or some number which you have?

R. Mukundan There is no number which we can give, all I can tell you is that as far as Europe is concerned as of now the plan itself funded by themselves. As far as Magadi is concerned, if there is any support will come back with the specifics of that number when we are restructuring.

Moderator Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Raj Mehta for closing comments.

Raj Mehta Thank you so much Mr. Mukundan and Mr. Ghosh and Mr. Lodha for sparing your valuable time interacting with the investors. With this we close the conference.

R. Mukundan Thank you.

Moderator Thank you. On behalf of Tata Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.