

“Tata Chemicals Limited Q3 FY16 Results Conference Call”

February 11, 2016

TATA CHEMICALS LIMITED



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MODERATOR: **MR. SUBHAM SINHA- SENIOR MANAGER – INSTITUTIONAL SALES, TATA SECURITIES LIMITED**

Moderator: Ladies and gentlemen, Good Morning and Welcome to the Tata Chemicals Limited Q3 FY16 Results 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 this conference is being recorded. I would now like to hand the conference over to Mr. Subham Sinha. Thank you and over to you, sir

Subham Sinha: Good morning, everyone. Subham Sinha here from Tata Securities Limited. I welcome you to the Q3 FY16 Conference Call of Tata Chemicals. For discussing the numbers, we have here with us Mr. R. Mukundan – the MD of the Company, Mr. John Mulhall – CFO and Mr. Ranjeev Lodha who is VP and Group Corporate Controller. I now hand over to Mr. Mukundan, over to you, sir.

R. Mukundan: Thank you Subham. Welcome all to this conference call on Q3 Results of Tata Chemicals. I would like to welcome my colleagues, John and Ranjeev on the call and all of you as well.

We will start briefly by sharing with you some key highlights of our performance during the quarter following which John will share the key financial details. After which we will be happy to respond your queries.

The quarter under review saw the consumer portfolio and Indian chemical business registering robust performance. In India, the chemical business improved its performance due to lower input cost. Improved sales of salt as well as pulses over last year contributed to increased turnover of our consumer product portfolio.

The Consumer product portfolio continues to grow and maintain its leadership position with a market share of 66.7% on the national branded, edible salt market. In line with our focus on expanding consumer product portfolio, we launched a new umbrella brand, Tata Sampann, which will house current and future products of food portfolio. Tata Sampann, a range of spices has been launched successfully across seven states in Northern India and will be launched across the country in a phased manner.

Going on to Magadi, Magadi has shown improved performance and profitability. UK operations have also stabilized and shown improved performance post commissioning of steam turbine, despite a slight delay in commissioning. We continue to remain vigilant on improving the business further. The main hit this year was in the area of U.S. operations where we had production outages and extreme weather conditions.

We have also had mark-to-market charges on gas hedges in UK which are substantial and have impacted the European operation, but these are financial hedges and John will walk you through those charges.

The adverse climate and market conditions also impacted Rallis and there is continued pressure on the fertilizer business and the key stress in our business is coming from high levels of subsidies, which is at Rs. 1,577 crores as on 31st December, 2015.

Going forward, we will continue our journey of transformation to a more consumer facing business, while keeping good grip in the chemical business as the cash engine of the company.

I now request John to give you more insights on the financial performance.

John Mulhall:

Thanks, Mukund. Good morning. I would like to briefly recap on financials for quarter three fiscal year 2015-2016. On a consolidated basis, the net income for the quarter was Rs.4,637 crores, as against Rs.4,817 crores this time last year. Revenues were impacted by production outages at Tata Chemicals North America, where production related issues caused a sales reduction against last year of 207,000 tonnes year-to-date, as well as reduced volumes in agri-inputs sector which is affected by weak market conditions and high US dollar.

Profit from operations excluding depreciation was down at Rs.490 crores compared to Rs.590 crores in the same quarter last year mainly due to the reasons outlined above. Profit in the quarter after tax and adjusting for minority interest is Rs.130 crores, this considers the impact of reduced operating profits and that of the mark-to-market hedging contracts for future gas purchases in the UK.

In the quarter the mark-to-market charge is Rs.44 crores, and it brings the total charge of the year to Rs.89 crores. This provision will unwind as the financial contracts unwind beginning this quarter, the final quarter of the fiscal year 2015-2016.

On a standalone basis, the net income for the quarter was Rs.2,999 crores, down Rs.17 crores from last year's Rs.3,016 crores. However, profit from operations was up at Rs.284 crores against Rs.275 last year in the third quarter primarily due to lower input cost and improved performance of consume portfolio offsetting the agri sectors issues.

Profit before tax was Rs.206 crores against Rs.257 crores last year. Reduced dividend income from subsidiaries and joint venture which is Rs.54 crores down on this period last year contributed to the fall in profit before tax. Profit after tax is Rs.146 crores compared to Rs.205 crores in the same quarter last year.

The company's net debt on December 31st stood at Rs. 2,226 crores compared to Rs.2,142 crores at March 2015, the delay in subsidy disbursements has resulted in higher working capital borrowings. On a consolidated basis, the net debt stood at Rs.7,132 crores against Rs.6,909 crores, this increase of Rs. 223 crores includes Rs.302 crores of currency translations expense attributable to the debt and our overseas subsidiaries.

The company holds cash and cash equivalents of Rs.1,867 crores on a consolidated basis and Rs. 1,029 crores on a standalone basis at December 31st. Also at December 31st, the subsidy outstanding stood at Rs.1,577 crores, compared to Rs.1,972 crores at March 2015, but only Rs.1,005 crores at September 2015. While the amount has reduced against March, the outstanding balance has increased from September and continues to be in excess of normal or expected levels.

This brings me to end of my comments and I would like any questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Abhijeet Akela from IIFL. Please go ahead.

Abhijeet Akela: First on the US business, how long do you see these production outages continuing? What is your outlook for FY17? Is it possible for us to match the full capacity of 2.5 million tons that we have there? And also if you could comment on the outcome of the pricing negotiations that have recently happened and how the trend in input cost and what your margin outlook for the US business is?

R. Mukundan: So, firstly as far as the production outage is concerned, I think the production outage in the month of October was a planned outage and that was to bring on-stream some equipment, but we suffered due to unplanned shutdowns due to extreme weather conditions which happened in the month of December, it was (-20) degrees for a couple of weeks which lead to some of the failures and stoppages in the plant which we did not anticipate. Our target for next year remains 2.5MM tons, that is a normal run rate and heartbeat of the plant. So we expect it gets to that level. Q4 should be a good indication of whether the plant is back to normal reliability which we expect and then from then on you could extrapolate on what it should be for the year after. If you wait for Q4 that should be a good indicator for you as to what the performance for FY16-17 is going to be. As far as the market is concerned, market in soda ash is fairly balanced. We have seen certain erosion in Southeast Asian market but again prices have spiked up because 3 million tons of capacity has been temporarily taken out of China, due to an environmental issue at one of the plants which caused flooding after its ponds burst and it flooded the area. We expect this capacity should come back to normalcy only in about two to three months, so there is going to be a bit of tightness in the short run in the soda ash market, but once that capacity comes on stream the market will get back to balance. Overall, I expect the margin structure to hold and there are some indicators that the worst case scenario would be maybe a \$3 to \$5 erosion, but overall we expect the margin structures to hold in soda ash business during the year and all the contracts have been negotiated with that kind of a broad outlook.

Abhijeet Akela: Second, just on the UK and the Kenya businesses, will the benefits from the steam turbine be visible from the March quarter onwards, you had previously spoken about £25 million kind of annual EBITDA outlook for the UK business, so is that doable in FY17 do you think and likewise for Kenya \$15Mn is what we had spoken about, so is that achievable? And also if you

could just talk about this whole gas hedging contract and what the implications will be going forward from here onwards?

R. Mukundan: The gas hedging we had done primarily to protect our margin, fortunately or unfortunately, the gas prices have fallen even below the price at which we hedged, so the mark-to-market for the year-to-date stands at about Rs. 89 crores, that is what is there in our P&L this year. And the quarter three saw about Rs.44 crores of mark-to-market hit, so these will unwind through consumption. The other issue which you are asking about Magadi, Magadi has been very steady, we do not expect any changes in Magadi performance going forward and it has been consistently a positive performer for the last three quarters. So that should be giving you a sign that that unit is fairly above water now and it is going to be a positive contributor to Tata Chemicals. As far as UK is concerned, we should have been able to demonstrate a positive number this quarter but we have not been able to because of mark-to-market as well as about 15 days' delay in the steam turbine startup, it was not a major delay but it was a delay nonetheless from our expectation of the hook up of the steam turbine in the 1st of October. So all in all, I do expect in the fourth quarter we should be able to show even the European performance on a better key.

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

Abhijeet Dey: Just two questions again on the US soda ash business, the reasons for the production outages all have been taken care of sir, and Q4 would be a normal quarter in that sense?

R. Mukundan: Yes, we are planning for a normal quarter and we do not expect any major hits and definitely we have not seen up till now the signs of bad weather coming to hit us and we are better prepared now even for a bad weather now, we have done some changes in the operations there.

Abhijeet Dey: So the bad weather was also a reason for the production outage or both these reasons were separate?

R. Mukundan: No, there was a planned production outage in October, and in addition to that we had an additional loss of tons in the month of December which was close to losing about 51,000 tons in the month of December which was unplanned shut downs which were partly due to bad weather and non-anticipated issues.

Abhijeet Dey: Sir in January also on the eastern sea board the temperatures dropped and there was a snow storm, so was your operations also impacted?

R. Mukundan: No, we are not on the eastern sea board, fortunately in Jan we were not impacted.

Moderator: Thank you. Our next question is from the line of Anil Shah from Birla Mutual Fund. Please go ahead.

Anil Shah: Sir two questions, first a follow-up question by one of my colleagues who would have asked you in the first, in terms of you talked about soda ash margins being stable to \$(-3) to \$(-4)/ton. In terms of being stable, if you could just give us the broad guideline because FY14 I think we had a \$45.6/ton in US as far as margins were concerned, EBITDA per ton, FY15 we were at \$47, I mean the first three quarters we had a run rate of \$40, \$45 and \$30. So some sense of assuming that we have a full production of 2.5 and a sales of 2.5 above, where should we see EBITDA per ton for next year? That is the first question.

The second question comes to, in September 2014 end conference call which is exactly five quarters behind, we had a gross debt of about 8,000 crores and a net debt of 6,000 crores, we talked about a five-year plan to reduce it by 50% and on a specific question by one of the participants, by FY17 we said we will reduce it by 2,800 crores and specifically 5,200 crores was the number that we will come by end of FY17. So in that eight quarters we are almost five quarters in it, at the end of that point the subsidy is just 1,211 crores and today it is 1,577, so about 350 crores - 360 crores is the negative hit on subsidy as far as debt is concerned, it should have gone up by that much assuming no other free cash flow. But our debt as I said from 6,000 crores and if I get the numbers right you talked about 7,132 crores of debt. So what is the plan as far as that five-year outlook we had, the two-year number that we gave, are we still standing by those numbers, what really went wrong if at all and how do we recoup it back? Thank you.

John Mulhall: I think you are fair to say that subsidy has increased, and the variability of payments received, is a concern.

Anil Shah: Sorry, could you just repeat because subsidy as I said, the incremental subsidy from then to now has only been 360 crores.

John Mulhall: It is 360 crores now, it does vary by 500 crores in any one quarter and anticipation is that it will also increase towards the end of this year as well. But setting that on the side, we are committed to reduce our debt, that was a stated policy last year and the year before as well and it will continue to be a policy. We are mindful of performance in various businesses and occasionally you will get a delay of one year, two years where businesses are turning around, but ultimately we are targeting out debt down to minimum possible position. We will have a forced repayment of debt, we have ECBs due to be repaid in the next two years, that will force our debt down as well, I am not going to give you a quarter-by-quarter schedule but we are committed to reducing our debt down to what we said we are going to do.

Anil Shah: If not quarter-on-quarter, at least end of the year numbers, 2017, 2018, some sense of that would really help.

John Mulhall: I think we can talk about something later on, maybe at the year-end conversation, we have been through our strategic planning process just now. So give us some time on that one please. For example, we have got a \$60 million in repayments in October, which is one of our external

commercial borrowing debts. Until the budget goes through the Board, which is in March, I really cannot comment on some of these things.

Anil Shah: Because the debt had actually gone up compared to what we talked about reduction of debt, I am just trying to make a point out here. And if you could give us some guidance on EBITDA per ton as far as the US business is concerned.

John Mulhall: Yes, you made a fair comment and I am not disputing that but also build in the fact we have had a Rs. 302 crores increase in debt from March this year due to exchange rate differences.

Moderator: Thank you. Our next question is from the line of Alok Deshpande from HSBC Securities. Please go ahead.

Alok Deshpande: So I had a question, in the last con-call you had spoken about the benefits from the plant shutdown flowing in the next few quarters, so these benefits, are we talking about a better utilization or is it cost benefit, if you could just throw some light on that?

R. Mukundan: No, I think the main issue was to get the reliability up so that there is a greater productivity of the plant and we were concerned that there was not enough predictability quarter-on-quarter and that is what we are trying to address so that it is a smooth predictable run. And, as a first step we are committed to getting a predictable run of 2.5MM tons and taking it to 2.6MM tons, finally to 2.8MM tons, so that is really the plan.

Alok Deshpande: And sir just to repeat one of the questions of the previous participants, for the US business are we looking at the same range of EBITDA per ton somewhere around 45, 50 when you say steady margins?

R. Mukundan: So I think John has to give you the exact number but all I can say is that when I look at the pricing which we negotiated and the cost we are going to incur next year with the production and energy which is happening, the margin which we will get at that variable level I think it is going to more or less remain the same, that is really what I said maybe an erosion of \$2 - \$3/ton depending on which market mix we end up finally having, there we do not have a full handle, that will only evolve as we move along but leaving aside those minor movements we do expect the margin to hold.

Alok Deshpande: Sir and just, have these negotiations already happened for this calendar year, just any sense on that?

R. Mukundan: Yes, most of them have happened and where it is quarterly set, resets are in some markets like Southeast Asian and other markets and those are mainly export tons out ANSAC and the domestic negotiations are fully done in the US, so that is about 60% of the volume.

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

- Sumant Kumar:** Sir, just would like to know what is the soda ash realization in Q3 and what is the outlook in US?
- Ranjeev Lodha:** The gross realization is \$211/tonne at the gross level.
- Sumant Kumar:** This is for Q3 FY16?
- Ranjeev Lodha:** Yes.
- Sumant Kumar:** And what is YTD?
- Ranjeev Lodha:** YTD is \$217/tonne.
- Sumant Kumar:** And what is the price outlook.
- Ranjeev Lodha:** I think Mukundan has just talked about that.
- R. Mukundan:** It is more or less stable I think in domestic and maybe \$1 or \$2/tonne out in exports and that is why the market mix is fairly critical for us.
- Sumant Kumar:** And regarding fertilizer margin, it has gone down, so what is the key reason for that?
- John Mulhall:** It started with weakening of the rupee against the US dollar and the inability to pass that price on to the end users.
- R. Mukundan:** But it is keeping in line with the trend, most of the phosphatic manufacturers have been having, they have all reported similar erosion in numbers and I think ours is a fairly good reflection of what is happening out there in the market. So fertilizer market remains fairly stressed and it is continuing to be stressed on two accounts, margins getting squeezed in phosphatics because of inability of most manufacturers to pass on the cost pressure coming out of rupee devaluation or rupee falling vis-à-vis dollar. The other angle is of course increased subsidy dues from the government, so that is really the two key drivers.
- Sumant Kumar:** So urea margin is intact?
- R. Mukundan:** Urea margin is intact, I think urea is fairly a fixed return business we do not see any issues there.
- Sumant Kumar:** So what is the CAPEX for FY16 and FY17?
- John Mulhall:** Year-to-date we spent in India Rs. 138 crores on CAPEX as compared to Rs. 75 crores for the same nine months last year.
- Sumant Kumar:** And what about FY17, what we have planned?

- John Mulhall:** We are not giving guidance on CAPEX plans.
- Moderator:** Thank you. Our next question is from the line of Pratik Poddar from ICICI Prudential Assets Management. Please go ahead.
- Pratik Poddar:** Sir, two questions, one is, this adverse weather conditions, just trying to understand, is this cyclic because this should have happened last year same time also, right, you would have harsh winters last year or that was not the case?
- R. Mukundan:** You are right, this is one-off, it is not every winter and we were fairly lucky. I think two years ago there was even a harsher one where even the rail lines cracked and we could not ship the products even from the silo. So once in a while it happens, now we are learning how to cope with it and we are getting all the lubrication systems and other equipment which do not freeze up in such extreme weather. That is really the key core issue to get this out of the way. So these freak events are happening more often now than before, we can say it is all because of climate change or whatever, but we need to be better prepared.
- Pratik Poddar:** So going forward is it safe to assume, I mean you would have ...
- R. Mukundan:** We have done a check this time because of the experience this time, we hope it does not repeat again and there are one-offs, these are not supposed to be cyclical, it is not what happens every quarter.
- Pratik Poddar:** Sir second is, this Rs. 89 crores MTM gap hedging cost, where does sit in the P&L?
- John Mulhall:** It is charged through finance expenses and that is why we see a large increase in financial expense.
- Pratik Poddar:** So I mean this quarter if I were to adjust for this 159 crores, the hedging cost, what would be your true finance cost?
- John Mulhall:** Reduce that by 44, you will get the true finance cost.
- Pratik Poddar:** So this quarter you have booked 44 crores, for the first nine months you have booked 89 crores?
- John Mulhall:** That is right.
- Pratik Poddar:** And going forward when do these hedges expire?
- John Mulhall:** They start expiring this quarter, we took the hedges in 2015 to protect the margins on the soda ash production. You want to protect your margins for a business which is just recovering, so that is a safe thing to do, these hedges look forward to for another 12 to 14 months. So we have the majority of our gas purchased for the soda ash production.

- Pratik Poddar:** Could you just talk about what is your CAPEX plans for this year FY16?
- John Mulhall:** As I said, we in total spent Rs. 562 crores on a consolidated basis and this is about Rs, 145-Rss, 150 crores higher than this period last year.
- Pratik Poddar:** Your Rs. 562 crores of total CAPEX, will that includes maintenance also or that is separate?
- John Mulhall:** To the extent that is capitalized, yes.
- R. Mukundan:** That includes Rs. 60 crores of Rallis which is shown as full amount, even though we are rightful owners of only 50% of that company.
- Pratik Poddar:** Sir, any thoughts on why the debt levels are not going down, or is it just these freak events which are happening?
- John Mulhall:** No, one is currency translation, I think we will give you the numbers exactly measured in dollars at the fixed exchange rate. And there is a repayment schedule of ECB which starts in October of \$60 million out of our overall ECB of \$250MM in India and we will keep the repayment schedule on track, we are fully funded for that.
- Pratik Poddar:** When do you start this sir, October 2016?
- John Mulhall:** Yes.
- Pratik Poddar:** So that will start in the next six, nine months?
- John Mulhall:** Correct, that is right.
- Pratik Poddar:** And sir this will not be refinanced?
- John Mulhall:** We hope not, currently it looks to be internally financed.
- Pratik Poddar:** Sir just one last confirmatory question, you had talked about £25 million of EBITDA in the European operations, \$15 million in Kenya, that with the turbine coming through you are fairly confident that these numbers would be met broadly?
- R. Mukundan:** Yes, that is what we are working towards yes.
- Moderator:** Thank you. Our next question is from the line of Darshan Padmanaban from Sundaram Mutual Fund. Please go ahead.

- Darshan Padmanaban:** Sir coming back to the fertilizer business, I understand what is happening on the Indian rupee which you had alluded earlier, but do you think there is any kind of one-off which has impacted you this quarter, because the number seems to be very weak compared on a year-on-year basis or even on a QonQ basis.
- R. Mukundan:** Yes, I think two things have happened, one is that the market conditions for phosphatic were weak and secondly we also have slowed down on DAP trading and traded products because we are very concerned about the market collections and not to have any issues on our collection front. So both these are reasons and in fact trading which used to show a positive return to same quarter last year is actually showing negative returns this year. Our own production in any case is stressed due to the rupee depreciation which we are not able to pass on to the market and phosphatic segment. Urea, as I said, is running absolutely stable to the plan.
- Darshan Padmanaban:** Sir, I think in the past few years we have been maintaining the capital allocation strategy that more capital allocation focus would be towards high margin business and probably the fertilizer part of the business would see very limited or virtually no capital allocation from your side, we have also had plans of kind of pairing down focus into this business by selling some assets. I mean do you maintain that view or do you think that view has changed somewhat in the last couple of quarters?
- R. Mukundan:** So John gave you standalone CAPEX year-to-date of Rs. 138 crores, out of that what has gone to the fertilizers is Rs. 28 crores - that should give you an indicator on how tight we have become on capital allocation to fertilizer.
- Darshan Padmanaban:** And what about the sale of the plant, are we still sticking to that plan?
- R. Mukundan:** We have not made any mention, it is a media speculation, so we have no comment on it.
- Moderator:** Thank you. Our next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** I just want to better understand the accounting for the hedging for the gas cost, so my sense is that the future gas purchase cost that was hedged at a particular amount and you have taken a mark-to-market on yet entire amount which was supposed to accrue to you in future, you have done for the entire amount, is that correct?
- John Mulhall:** That is correct, yes.
- Dheeresh Pathak:** So going forward because you have marked it to market to the current spot price, going forward your cost for gas would be lower to the current spot price, it will show up in lower cogs right?

- John Mulhall:** The price that we pay for the gas will be the hedged price when those contracts are unwinding, what you will see though is the credit coming back to the interest line for the difference in mark-to-market.
- Dheeresh Pathak:** So the way you show the accounting is you will show the cogs at the hedged rate and the benefit you will show again below the line?
- John Mulhall:** Yes, exactly. Gas prices will be the hedged gas price, as the contract price, and what we will do is unwind the accounting treatment through the interest line. So we are not contaminating the cost of goods sold and the accounting treatments.
- Dheeresh Pathak:** Also, you gave the year-to-date realization for the US soda ash, can you just contrast that by year-to-date FY15 numbers and give the same numbers for Africa, India and Europe.
- John Mulhall:** I just want to make a comment, we are talking about the debt position and I think if you go back to 2012 the rupee was at approximately Rs.51 to the dollar, and now it is 66, that alone on a US dollar borrowing has cost us nearly Rs1,300 crores. So when we look at our debt profile we do really think to buy that on the original currency and not on the translated currency.
- Dheeresh Pathak:** I do not want for the quarter, I just want year-to-date FY16 soda ash realizations contrasted with year-to-date FY15 soda ash realizations for your four geographies.
- Ranjeev Lodha:** So it is \$217 versus \$210, in US.
- John Mulhall:** Africa, ex-Magadi it is \$233 versus \$219, so we are up 14. And the UK or Europe is £174 versus £198 for last year. And then in India, it is flat.
- Dheeresh Pathak:** What is that flat amount?
- John Mulhall:** around Rs.20,500.
- Moderator:** Thank you. Our next question is from the line of Gauri Anand from PhillipCapital. Please go ahead.
- Gauri Anand:** Sir, I wanted to know in Q4 you had produced beyond cut off in Urea however you had incurred a loss, so what is the update for Q4 given that urea prices have...?
- R. Mukundan:** Yes, we are not accounting the way we did last year, so the first two quarters in fact you would have seen a lower number coming out of Babrala then last year because we had accounted for that in the first two quarters. So we are now accounting quarter-by-quarter exactly what we would be getting, so Q4 would not be a negative, it would be a positive this time.

- Gauri Anand:** And sir, you mentioned stress in phosphatics, is it because of the high inventory cost that we had, I mean high price inventory that we had which impacted our margins and that margins can look up from Q4 onwards?
- R. Mukundan:** No, I think if you look at it, this is fundamentally the fact that while some of the input costs for phosphate have actually fallen in dollar terms, the rupee itself has moved sharply and that has lead to the fact that the margin in the business itself is under pressure, so that is really the broad cue. As far as the traded product is concerned, the margin has almost disappeared. So it is a very wafer thin margin now on DAP. So unless we are able to move the price up in the Indian market in rupee terms, it is going to be a problem because we have not been able to pass on as an industry the price increases which have come through not because of the commodity prices but because of the rupee depreciation.
- Gauri Anand:** And sir on soda ash, this quarter for all the businesses the domestic chemicals business seems to have done well, now what is the guidance, we will hold margins in domestic business as well and say FY17 onwards margins in your overseas businesses can look up?
- R. Mukundan:** So margins will hold, in fact last quarter I had said that we are not sure about the settlements and we were very cautious but now they are settled, so as I said the domestic as well as markets around, we do believe the price movement will be matched more or less by the cost movement which means we are seeing reduction in cost and whatever erosion happens in price we would be able to make that through the cost reduction. And it is finally whether we hold the same margin of \$1 or \$2 up or down it is going to be dependent on the market mix which we have. For example, in India whether we sell a lot in east or south which are longer legs of sales, so that is a minor movement, I would not give too much issue to it. But as such, the market is not our issue, our issue is to produce and deliver to the customer.
- Gauri Anand:** One final question sir, sir this other operating income this quarter has gone down substantially, sir what does this comprise of, I mean from about 100 crores it has fallen to about 40 crores, it is rather operating income, if you can just clarify that.
- R. Mukundan:** Gauri, that is the other income which you are referring to.
- Gauri Anand:** No, I am referring to other operating income.
- John Mulhall:** Yes, that is some cancellation fees in the UK, so we had a one-off income last year which did not come through this year.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints we will be taking the last question, that is from the line of Anil Shah from Birla Mutual Fund. Please go ahead.
- Anil Shah:** Just a question sir from a capital employed perspective, have we actually reduced our focus on fertilizer from let us say two years back, well we are not spending anything new on CAPEX

and you have been kind enough to share the numbers that out of 138 crores it has been only 18 crores or 28 crores in fertilizer. So from a capital employed perspective, even if you remove of the subsidy element which is not in our hands, are we genuinely reduced capital employed out there?

R. Mukundan: Yes, a good question. I think the working capital is still a big issue there, because we are in business we are running steady, we are holding our position in the market. I think the working capital is getting to be larger than before, so you are absolutely right. Even for the same tons which we are selling, the issue is that the prices have gone up in rupee terms and hence the working capital in the whole business has gone up. It is a serious issue, even we are focused on it, we fully understand your concern.

Anil Shah: So in the sense, when we de-focus it is not just CAPEX, right, I mean general de-focus should be just overall capital employed?

R. Mukundan: Yes, I agree, I understand and we working on it, it is an issue, we are holding our volume position but at the same time because of the price and other movements which happen the working capital in the business actually has gone up. So you raised the right concern, it is a concern for us too.

Anil Shah: Do we really need to be there?

R. Mukundan: I do not want to answer this question, we will work our way through this, yes.

Moderator: Thank you. Ladies and Gentlemen, that was our last question. I would now like to hand the floor over to Mr. Subham Sinha for closing comments.

Subham Sinha: Thank you. Thank you everyone. And on behalf of Tata Securities I would like to express my gratitude for attending the call. Have a nice day.

Moderator: Thank you members of the management team. On behalf of Tata Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Questions received by email after the call

Chetan Sehgal: One issue which was not clearly answered, was the INR 45 cr as unallocated expense in the consolidated segment reporting. What does that pertain to? As I understood on the call, the gas contract hedges were part of the INR 159 Cr. Finance costs.

John Mulhall: The unallocated expenses primarily relate to FX losses on forwards, swaps and loan revaluations along with some central admin / CSR costs. The gas hedge costs were correctly reported in Finance Costs.