

Q1FY13 Post Result Conference Call Transcript**Representative:**

**Mr. R Mukundan, Managing Director,
Mr. P K Ghose, Executive Director & CFO**

PL Rep.:

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Operator

Ladies and gentleman good day and welcome to the conference call to discuss the Q1FY13 result of Tata Chemicals hosted by Prabhudas Lilladher Private Limited. As a reminder for the duration of this conference, all participants' line will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Manish Mahawar from Prabhudas Lilladher Private Limited. Thank you and over to you sir.

Manish Mahawar – Prabhudas Lilladher

Good evening everyone. I welcome all the participants in the earning call of Tata Chemicals. From the management, we have Mr. R. Mukundan, Managing Director and Mr. P. K. Ghose, Executive Director and CFO for the call. We will start with the brief opening remarks from the management, followed by Q&A session. I would now like to hand over the call to Mr. Mukundan. Over to you sir.

Mr. R. Mukundan – Managing Director

Thank you Manish. Good evening everyone and thank you for joining the call on such a short notice from the results announcement. Some of you would have already received the presentation in fact I am going to be requesting at the end of my short opening comments. Mr. Ghose to walk you through the presentation itself. Broadly I wanted to highlight that this was pretty tough quarter for us with two of our plants were not running for almost three months that is the Haldia and the IMACID plant i.e. the entire phosphoric acid chain. We had a one month plant shutdown in the Barbala plant which was part of the annual shutdown where we hooked up the new converter. Magadi operation was partially affected by flood which was caused due to heavy rains. All these facilities have now resumed operations in full strength and are operating to the expected levels. The positive during the quarter has been that the demand as well as the margins scenario of both soda ash and salt has been extremely positive. Our portfolio has expanded in Tata Salt further. Overall environment is still appearing little grim and weak on the fertilizer and agri-input side due to the late as well as the weak monsoon in many parts. Inorganic chemicals business has continue to show strength so broadly in line with that if you look at the segment results of EBIT numbers which have been shared there is an approximately Rs60crores fall in fertilizer and also marginal fall in other agri inputs whereas the EBIT numbers for inorganic chemicals have actually expanded. With this, we do see the environment going forward is with a continued sense of hope that there could be certain late turnaround in the monsoon. However, we are still taking the mitigating actions from within the company to ensure the agri-input business is not affected very adversely, going forward. We do believe that urea business will not be affected at all and the places where we sell our DAP and NPK which is mainly in the regions of Eastern region has not been very highly impacted by the delayed and weak monsoon. As far as the inorganic chemicals business is concerned, there are certain signs of weakness in Europe and the rest of the world demand signs remain robust. We have not seen much of weakening on that account at all and we do believe that would continue to be the case, going forward. As far as the consumer business is concerned, it is maintaining its strong momentum and growth. We

believe it will continue to maintain strong momentum and growth, going forward. So, those were the three main businesses and their outlook in terms of broad environment in which we operate. With these few words, I would request my colleague Mr. Ghose to take you through the presentation.

Mr. P. K. Ghose – Executive Director and Chief Financial Officer

Thanks Mukund and good afternoon to all of you. There is a very brief presentation on the results and I will request you to turn to page 3 straight away, which gives you the consolidated financial highlights for Q1FY13. Income from operations stood at Rs3066 crores and profit from operations at Rs495 crores. The PBT was at Rs210 crores and PAT after minority interest was Rs108 crores. EPS was Rs4.2 and it is not annualized. Coming to page 4, the key performance highlights for this quarter were significantly impacted on account of the following, number one - no production of complex fertilizers at Haldia owing to phosphoric acid price impasse and we have mentioned some time back that the phosphoric acid prices were settled some time again in the month of May. Production in the Haldia plant started from June 2nd. A month long shutdown at Barbala for maintenance and replacement of the Ammonia converter, significantly lower production at IMACID due to non-finalization of phosphoric acid pricing which is linked to item one, operations at Magadi impacted due to unseasonal heavy floods and the increased exchange loss of Rs100 crores on account of both trade and borrowings which was the accounting standard level impact. Next page, Haldia operations have resumed post the finalization of the phosphoric acid prices, Barbala operations have now stabilized in line with expectations, IMACID resumed production with effect from 2nd June 2012, operations at TCNA stabilizing and Tata Chemicals Magadi is taking all steps to face the challenges posed by the floods. Turning to the next page, it gives the consolidated key ratios, net debt to equity is 0.55, net debt to asset to is 0.26, net debt to EBITDA is 1.92 and the working capital cycle is 31 days. In addition, ECB of US\$475m, which is on the standalone balance sheet, we have paid off the first installment of US\$95 million in June 2012. Next page 8, gives you the summary of financial highlights unit-wise. So, you can go through this but FY13 TCL had a net sales of Rs1538 crores with profit from operations of Rs224crores and PAT of Rs68crores. TCEHL which is the European operations, consisting of the soda ash units and British Salt has Rs411crores turnover with profit from operations of Rs72crores and PAT of Rs14crores. TCAHL which is African unit comprising of Magadi has income from operations Rs170 crores and PAT at Rs25crores. IMACID was Rs42 crores sales with PAT at Rs12crores. TCNA Rs669 crores turnover with EBITDA of Rs178crores and PAT of Rs78crores. Rallis has Rs347crores sales with EBITDA of Rs37crores and PAT of Rs12crores. Therefore, the consolidated figures were Rs3066 crores with EBITDA of Rs495crores and PAT of Rs108crores. Coming quickly to the next slide, which is on the industry essentials while global demand for Soda ash and bicarbonate was stable in quarter one. Going forward, demand environment could weaken. In India, soda ash demand is expected to be in the range of 5% to 7%, TCL India soda ash production was lower than previous quarter. TCE productions were on expected line that is Tata Chemicals Europe. Tata Chemicals Europe - Salt sales impacted this quarter due to poor demand. Tata Chemicals Magadi the production was greater than expectation and North America production down due to plant issues. On next slide number 10, first quarter sales volumes for Mithapur Soda ash production 179,000 tonnes and sales 154,000 tonnes. Europe production was 196,000 tonnes versus sales of 195,000 tonnes. Africa was 103,000 tonnes of production and 104,000 tonnes of sales. USA has production of 566,000 tonnes and 575,000 tonnes of sales. In Living essentials, we launched the double fortified salt and Flavoritz, both the products is showing encouraging response from customers. I-Shakti Dal is now available in 21 states across the country and Tata Chemicals remained the national branded leader with 64.7% market share in the branded segment. Branded salt production volumes were 251,000 tonnes in this quarter and sales was 228,000 tonnes. Slide 12, farm essentials the Barbala plant was shut down for replacing the ammonia converter from 30th March 2012 to 1st May 2012. The Barbala operation ramped up post converter replacement, and is now stable. Haldia operations remained standstill during Q1FY13 due to phosphoric acid pricing issue and of course, the IMACID production was impacted throughout the quarter due to price agreement and the price settlement has not taken place. Urea production volume was 194,000 tonnes during the quarter and sales was 222,000 tonnes. In phosphatic fertilizer, there was no production and no sales. So, with this, we come to end of my presentation and we are open questions and answers.

Operator

Thank you. Participants who do wish to ask for question may please press “*” and “1” on your touchtone telephone, if you wish to remove yourself from the question queue you may do so by pressing “*” and “2”. Participants are requested to use only their handsets while asking a question. Anyone who has a question may please press “*” and “1” at this time. Thank you. A gentle reminder that please limit your questions to only two per participant. We have our first question from the line of Ajay Nandanwar from UBS. Please go ahead.

Ajay Nandanwar – UBS

Good afternoon and congrats on the good set of numbers given some of the production issues that you faced. In your other costs in standalone as well as consolidated have gone up meaningfully. Could you please throw some light on it specifically on the growing standalone by almost Rs74 crores and consolidated by almost Rs130 crores?

Mr. R. Mukundan – Managing Director

Other expenses in standalone are Rs274.6crores against Rs201crores last year. Reasons for increases are, business forex loss of Rs42crores then there are more of agri sales so more commission by about Rs11 crores, Barbala turnaround cost of Rs8crores. At the consolidated level, Rs75 crores is from standalone, Rs18crores is from Rallis sales and the US dollar appreciation in TCNA about Rs30 crores.

Ajay Nandanwar – UBS

And in presentation, you mentioned that Soda ash outlook maybe weak going forward, but you know FMC had sort of in July said they are looking to take a tender, how do you reconcile that to?

Mr. R. Mukundan – Managing Director

Soda ash demand in India is going up at 5% to 7% growth, so Indian market is not a problem. We don't see the US market being a problem. We also don't see problem in the South American market. The issue mainly for which we have exercising a lot of caution is on China. China is certainly witnessing a slowdown of their growth and we need to be watchful of China that's about it. For the US, India and Europe producers that's less of a concern. 50% of the world's production and demand is in China. So if that is weakening one needs to be cautious.

Ajay Nandanwar – UBS

Are you seeing any pressure from cost to imported Soda ash from China?

Mr. R. Mukundan – Managing Director

In India, we have not seen any major issue as of now and in fact there is an anti-dumping duty in place. So, the Indian industry has been able to sell most of its produce and for the minor surplus, it's been able to find export markets where we can compete with effect to China.

Ajay Nandanwar – UBS

On pulses side, company is currently present in 22 states, how does performance in these early days. And how does the distribution is compared to the distribution of salt, if we could explain a bit?

Mr. R. Mukundan – Managing Director

It is a common distribution. We are selling pulses only in A class stores so it is only catching the upper end in terms of the distribution. We have not penetrated down because the sourcing volumes are still small.

Ajay Nandanwar – UBS

And you had earlier mentioned that you have some concerns with respect to stability of soaking down across in a different dal category, so is that sort of have now that you are also advertising on TV should one sort of look at the signal that those issues are over and out?

Mr. R. Mukundan – Managing Director

These are initial days and we are not pushing. We do believe that we need to create the customer demand at a fair premium and that's what we are working towards. We will continue to ensure that we build good customer franchise and brand equity. Then the product will take care of itself so it's a process and it's something which will take time. So, we don't want to be pushing the product and creating a negative impact while showing short term burst in sales.

Ajay Nandanwar – UBS

What do you think would be the parameters one should be watching out for I don't know milestones looking out for you know evaluate this business on three year basis?

Mr. R. Mukundan – Managing Director

It is pretty much the same kind of situation we had with salt in the initial days, it's a virgin territory there is no one national brand available as a category. Hence, if we can create customer franchise and India being a vegetarian country with its requirement, it is something that we believe that we should be creating leadership, going forward. Key strength we do bring to the table that our ability to source the product from the farmer and we will build this over a period of time.

Ajay Nandanwar – UBS

And on the water purifier side you were advertising a lot earlier that we see has come down a lot, what do you think has brought a change in that business given that both of these are for the consumer initiatives you have, brought up change in that business that you have cut your advertising?

Mr. R. Mukundan – Managing Director

No it's not that, we do believe that to create an impact and to remove the clutter, you need high intensity burst of advertising. We rely more on brief burst if intense advertising. What we have seen in the water purifier business is the positive demand pick up in the replacement bulbs demand. Bulb is really the model on which the whole business is predicated on. You sell the unit and after every 9 month, you would get a refill demand of the cartridge and that demand has picked up in fact in the last month the volumes sales the bulbs and the volume sales of the unit have become equal. So, we see this as a population of the water purifier continues to increase. The key driver of growth in business will be the sale of the cartridge and it is moving as per the plan and the team will be taking appropriate decisions on the advertising strategy as they go along. New products variant has been launched very recently and once that product hits the market place, there will also be increasing the visibility of the campaign in the media space.

Ajay Nandanwar – UBS

On the IMACID side we have always seen that this volatility in the IMACID production and profitability, should we expect IMACID to hit given that it's a third party JV? Do you expect this to be a norm or do you expect that at some point IMACID would stabilize? What factors would continue the stabilization?

Mr. R. Mukundan – Managing Director

IMACID is a supplier to the Indian operations and if the pricing in Indian market is not adequate for their margin structure that board does take a call on whether to keep the operations running or not. The first three months the decision was not to produce. They subsequently have been producing in the last month, which is they produced towards the end of the last month of the first quarter and the production is now running at full speed. Even, Haldia both streams are operational as of now. We see that the operations would run at a stabilized pace going forward from here on. Hopefully, there is no blitz in the market place and this would continue.

Ajay Nandanwar – UBS

Thanks so much.

Mr. R. Mukundan – Managing Director

Thank you.

Operator

Thank you. Participants who do wish to ask a question maybe please press "*" and "1" on your touchtone telephone. A gentle remind to all the participants once again to please limit your questions to only two per participant. Our next question is from the line of Abhijit Akella from IIFL. Please go ahead

Abhijit Akella – IIFL

First of all on the chemical Indian chemical margins which are now at a two year high you know what exactly is the driver and how sustainable are these levels?

Mr. R. Mukundan – Managing Director

Key driver that has been that the prices have remained stable and I had said that's because the most of the volumes are contracted out even in India on an annual basis, so the product mix which we have allows us to maintain prices and the costs have slightly come down because of easing of energy basically around coal and coke prices. So, you have seen a marginal uptick in the margins and we do expect that would continue for better part of the year.

Abhijit Akella – IIFL

And also the other agri inputs line in the standalone segment that is up very sharply either revenues are up 57% so could you just talk about what that is?

Mr. P. K. Ghose – Executive Director and Chief Financial Officer

We will get back shortly on the details.

Abhijit Akella – IIFL

Also on the amortization of the forex loss, given that we have another Rs150 crores remaining to be amortized, do we expect this runway to continue?

Mr. P. K. Ghose – Executive Director and Chief Financial Officer

It depends on the rupee-dollar rate. If the Rupee stays at the same level then Rs150crores has to be amortized. If Rupee depreciates then it will increase and if Rupee appreciates, it will go down. We are also trying hard to address this issue and once we have some solution we will update you in the next 6 months.

Abhijit Akella – IIFL

And if the Rupee stays at this level then this Rs150crores needs to be amortized over the next two years is that correct?

Mr. P. K. Ghose – Executive Director and Chief Financial Officer

Next two years, correct

Abhijit Akella – IIFL

So the run rate should go down apart from next quarter.

Mr. P. K. Ghose – Executive Director and Chief Financial Officer

It will go down step by step. It is not going to go down sharply because it is also over the balance loan which is to be repaid. As the loans keep getting repaid the amortization will also reduce, so this is the higher. Next quarter, it will be lower and the quarter next to that would be even lower so it will be like a sliding curve.

Abhijit Akella – IIFL

Your press release also says that the total forex loss was Rs100 crores.

Mr. P. K. Ghose – Executive Director and Chief Financial Officer

Rs40crores is on account of the trade forex loss which is clubbed as part of the operations. It is included in other expenses but clearly, it is one big variable in this current quarter.

Abhijit Akella – IIFL

Just a question on the debt if you can just give us the gross debt and cash figures and also the US\$95million repayment we made during the quarter. Are we basically using internal accruals for that or is that being refinanced with other debt that is coming out of bank. Essentially just trying to understand whether the game plan is to de-leverage the Indian entity over the next two years once the entire debt comes fewer or do we need to take additional debt to replace that?

Mr. P. K. Ghose – Executive Director and Chief Financial Officer

The plan is to de-leveraging the Indian entity. The plan is also to push the debt to the operating entities where the debt belongs. You would have seen in these consolidated balancesheet the debt would have gone up last year because we took additional loan in Tata Chemicals North America and pushed that money into India to repay that debt. So, you will see the standalone debt coming down whereas the international debt going up the gross long term debt as of Mar 12 was Rs. 5485 Cr and at June 12 Rs 5424 Cr. In view of the requirements under revised schedule VI total debt is broken up under long term borrowing. Rs. 5424 Cr in June 12 versus Rs 5485 Cr and the balance is coming under current liabilities which is Rs. 5253 Cr and Rs. 5686 Cr so the total debt consisting of long term and debt due for repayment within one year is about Rs. 7030 Cr.

Abhijit Akella – IIFL

And one final question on the Capex plan for the Indian entity if you could talk a little bit what is the budget for FY13?

Mr. R. Mukundan – Managing Director

Rs360 crores.

Abhijit Akella – IIFL

Thanks a lot and I will come back in queue if I have some more questions.

Mr. R. Mukundan – Managing Director

Thank you

Operator

Thank you our next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf - Spark Capital

Thank you for giving me this opportunity. The first question is on the soda ash business in mid of July we saw that one energy group came out with an announcement that they are idling certain capacities in North America as well as Europe citing the reason that there is a significant excess capacity flow cash capacity in the system and they also said that they do not see that improving in the coming year, so this will directly impact our soda ash volume in North America as well so could you please comment on this?

Mr. R. Mukundan – Managing Director

Which group is this?

Mukesh Saraf - Spark Capital

The energy group Pilkington Glass.

Mr. R. Mukundan – Managing Director

If you look at our sales is mainly to Pilkington, sales are in Europe in UK and certainly we have tied up with new customer base on this front, so far as USA is concerned our biggest customer is OI which is into container glass and we haven't seen the kind of any demand abatement from their side. While the process of rationalization of capacity is going on, over all we do remain full sold out as we speak.

Mukesh Saraf - Spark Capital

What about your North American capacity?

Mr. R. Mukundan – Managing Director

North American as well as in Europe, we are sold out. Europe had to resort to some imports from North America due to shortfall in production just to meet the customer demand, so clearly across the board we are sold out including Kenya and because of the floods in Kenya, we have had to support them with the quantities coming in from North America. So, the current company situation is that we are running pretty tight in our inventories in soda ash and in salt. The issue is mainly in terms of inventories are not being there which we have had to fill.

Mukesh Saraf - Spark Capital

You just said that you are sold out but earlier you had commented that you are seeing some weakness in Europe so that is not going to affect us is what you are saying.

Mr. R. Mukundan – Managing Director

We don't see that impacting us immediately on the Soda ash side in terms of the sales to customers atleast during the year but Europe we would be watchful because Europe is going through its own economic contraction, so we need to be watchful of how Europe sort of continues to behave and especially there is a sharp contraction in the continental Europe and some of those players could try to seek markets into Britain where we are present.

Mukesh Saraf - Spark Capital

So the price hike that FMC and Solvay have announced and even we have taken that US\$10 per tonne price hikes for off list products?

Mr. R. Mukundan – Managing Director

But that's a list product and it's part of the next year of negotiations process which is running with the customers, so as of now as we said we have annual contracts that doesn't impact bulk of our sales during the year. (upto December)

Mukesh Saraf - Spark Capital

And on the domestic soda ash business currently are we importing any soda ash from Kenyan operations?

Mr. R. Mukundan – Managing Director

About 40% of the Kenyan production comes to India.

Mukesh Saraf - Spark Capital

So the anti-dumping duty how would that affect our imports from Kenya?

Mr. R. Mukundan – Managing Director

Well certainly the anti-dumping duty is applicable on Kenya and we are resisting any reduction in prices but we will have to see and we have to watch the market.

Mukesh Saraf - Spark Capital

But you don't see I mean although your contracts are annually in India but you don't see you have been able to increase prices here to make up for anti-dumping duty.

Mr. R. Mukundan – Managing Director

No in fact since anti-dumping duty on import the customer would want a discount to the extent of anti-dumping duty to match the domestic price. So I mentioned that we are working with customers to not to have that pressure of, so that we can maintain the prices at the same level.

Mukesh Saraf - Spark Capital

And my final question is with regards to the Gabon unit I realized that in the annual report we had on absolutely no comment about it, so I am just wondering what the status of it is.

Mr. R. Mukundan – Managing Director

FEED (Front End Engineering and Design) work is going on; till we have the financial closures there is nothing more to disclose. We will only know closer to December of this year exactly where it stands. We are awaiting further more from the major shareholder of that business in terms of financial closure.

Mukesh Saraf - Spark Capital

But as of now are we on track for the 2014 kind of operations?

Mr. R. Mukundan – Managing Director

As of now we do believe that the FEED work is probably off by about a month or two but it's not substantially behind.

Mukesh Saraf - Spark Capital

And in the gas pricing agreement that stays as it is, I mean there is no issues?

Mr. R. Mukundan – Managing Director

The front end engineering was the main contract awarded to Technip and the work is complete. It was off by about 60 odd days beyond that there is no major issue as far as the project is concerned as of now. We need to have financial closures as the next step because engineering design is almost done.

Mukesh Saraf - Spark Capital

Thank you.

Operator

Thank you. Participants' who do wish to ask a question please press "*" and "1" on your touchtone telephone. We have our next question from the line of Tarun Surana from Sunidhi Securities. Please go ahead.

Tarun Surana – Sunidhi Securities

I have a question on British salt, how much of their production would be consumed captively and can you disclose the numbers of British Salt sales volumes and value?

Mr. R. Mukundan – Managing Director

British Salt captive sales as of now is very limited, the plan is over a period of time beyond 2016 they may consider supplying atleast 50% of requirements internally and as of now we have contract with Ineos who is a 100% supplier. As far as the production numbers are concerned, we had 196,000 tonnes and production was 20,000 tonnes less than same quarter last year mainly because of mild winter which Europe had, in which demand fell by 20,000 tonnes.

Tarun Surana – Sunidhi Securities

Can you also comment on the value of this?

Mr. R. Mukundan – Managing Director

Value of British Salt sales turnover is about Rs74 crores.

Tarun Surana – Sunidhi Securities

My question is on DAP. Has the distribution commissions gone up because of excessive competition that we are witnessing and what would be the distribution commission that Tata Chemicals would be offering now?

Mr. R. Mukundan – Managing Director

More than that the discounting has started in the market so the prices are the net price. The other issue is that margin structure in DAP has collapsed with the sort of reduction in subsidy which Government announced in the NBS. So while people were having carry over stock they were still probably selling with decent margin but when you start from zero stock the way we had started our position it is going to be very different margin scenario this year. This is what I have been highlighting from the last call itself that the phosphatic chain will see a sharp contraction in margins.

Tarun Surana – Sunidhi Securities

Are you saying discounting in the sense that farmers would get DAP cheaper than the MRP printed on the bag or is it distributor and dealer take that cane?

Mr. R. Mukundan – Managing Director

It is the combination of the two things, since he is taking this much stocks on its books. It's about what financing happens, it's the way of giving himself some support.

Tarun Surana – Sunidhi Securities

That's it from my side. Thank You.

Operator

Thank you. Our next question is from the line of Ajay Nandanwar from UBS, please go ahead.

Ajay Nandanwar – UBS

If you can just talk about the particular business loss in forex how that sort of could you explain?

Mr. R. Mukundan – Managing Director

It's a notional item, it's the payment we made to trade creditors. Last year the same quarter, the amount was Rs5crores and this year the amount is about Rs59 crores versus last year just hold on for a minute we would give you the exact figures between.

Mr. P. K. Ghose – Executive Director and Chief Financial Officer

Rs59crores and last year it was Rs16crores.

Mr. R. Mukundan – Managing Director

See because the rupee last year was Rs44.70/US\$ in June last year. this year its Rs55.62/US\$. And in March last year the rupee was Rs44.60/US\$ and it was Rs50.88/US\$ in 2012, So the incremental is Rs4.4/US\$.

Ajay Nandanwar – UBS

Do you mean is this part un-hedged is it like a liabilities?

Mr. R. Mukundan – Managing Director

They are payables.

Ajay Nandanwar – UBS

So they are payable and so the forex currencies are not hedged?

Mr. P. K. Ghose – Executive Director and Chief Financial Officer

Ajay, you know to the extent of the inventory that is in transit is not hedged completely, and that is marked to market.

Ajay Nandanwar – UBS

And you know on the Gabon side, your last analyst meeting which in June, we had come that you had still not very sure about the amount of the gas available, is that an area where you know you have got clarity now?

Mr. R. Mukundan – Managing Director

What we said is that the gas for the first stream is more or less the same. That is our current line of sight. The issue is currently more around financing. Even environment approvals are more or less in place and it is the lender's environment due diligence is going on, so it's the part of the lending process.

Ajay Nandanwar – UBS

And does this sort of your initial deal was for two streams and that you are not certain about second stream, are you able to go back and renegotiate how the participation happens in the first stream?

Mr. R. Mukundan – Managing Director

No, we are first ensuring that the project is starting off so the challenges there are more around as the financing as the environment gets tougher and tougher. That's the first challenge we need to address.

Ajay Nandanwar – UBS

Thanks so much.

Operator

Thank you. Our next question is from the line of Apurva Shah from Dalal & Broacha.

Apurva Shah – Dalal & Broacha

Good evening sir. What is the contribution of bottom line from British Salt?

Mr. R. Mukundan – Managing Director

See we don't disclose the exact contribution margins but British salt margin in normal circumstances that's 50% margin. You can take it as 50% EBITDA margin. But, this time it's being lower.

Mr. P. K. Ghose – Executive Director and Chief Financial Officer

We are keeping it between 45% and 50%.

Apurva Shah – Dalal & Broacha

Earlier we used to give the bottom line like in Q1 it was around Rs22crores so now you have stopped giving the numbers?

Mr. R. Mukundan – Managing Director

Whatever was disclosed earlier as of practice the same has been disclosed.

Apurva Shah – Dalal & Broacha

And is it possible to tell the realization on account of different facilities?

Mr. R. Mukundan – Managing Director

We can give it if you want but then can we do it later as we have to take out the details against each individual unit.

Apurva Shah – Dalal & Broacha

And last question that what is the allotted budget for I-Shakti pulses advertisement because currently we are seeing lots of advertisement during the prime time so what is the advertisement budgets for pulses?

Mr. R. Mukundan – Managing Director

We will communicate it and put it on our website.

Apurva Shah – Dalal & Broacha

Thank you very much.

Operator

Thank you. The next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta – Emkay Global

I just wanted to understand about our IMACID business and despite it being a tri-tiered JV why we were not able to access any sort of phosphoric acid from this plant despite there has been few players in the industry who has been buying phosphoric acid from other joint ventures or in an open market? So we have been always sure about that company has an internal JV so atleast volumes are always ensured of phosphoric acid but there has been slight, I mean mismatch in this quarter because of the phosphoric acid is not available, so what can be the particular reason for this?

Mr. R. Mukundan – Managing Director

It is more to do with the commercial contract closure. It has nothing to do with the intent or ability of that unit to supply. At the end of the day, the boards of both the entities the commercial management of Haldia and IMACID have to agree on pricing and what is possible and they have to meet their profit expectations while it is a part of the same value chain and they take this commercial call from time to time.

Rohan Gupta – Emkay Global

It increases the risk of non-availability for material for our production in Haldia in future?

Mr. R. Mukundan – Managing Director

So the reality would have been same had we sourced it somebody else, so I don't think the reality for us would have been substantially different. So the clear issue was the what is the right approach to do commercially and that's the commercial decision which each board takes at every point of time.

Rohan Gupta – Emkay Global

It was primarily related to pricing issues that what prices they wanted to sell to their domestic operations and we were not able to agree on that.

Mr. R. Mukundan – Managing Director

That's true and that's clearly an arm strength relationship and the commercial agreement is pretty critical to supplies in any case.

Rohan Gupta – Emkay Global

And is there any sort of foundation on this IMACID that they have to sell only to Tata Chemicals or its an independent agency and can sell this phosphoric acid to anyone in the market?

Mr. R. Mukundan – Managing Director

If we refuse to pick it up obviously they have a choice to sell to somebody else.

Rohan Gupta – Emkay Global

It means that the prices they were offering to Tata Chemicals at that price there were no takers in the domestic market?

Mr. R. Mukundan – Managing Director

No, if you really look at the structure of this entity the marketing agent for IMACID is OCP. OCP has a pricing structure. There is an India price and if the India customers don't pick it up then nobody picks it up that's it. They were to find buyers in other markets.

Rohan Gupta – Emkay Global

Even from India there was no buyer at that price.

Mr. R. Mukundan – Managing Director

So there were no other buyer at that price or and I also doubt any other player who were supplying anything in that quarter it is all carryover of the previous quarter which was being consumed.

Rohan Gupta – Emkay Global

My second question is on this domestic soda ash volumes it has been down by almost 10% y-on-y but I don't think that there is any pressure on the supply side so what is the reason for this weak demand or weak sales volumes in soda ash domestically?

Mr. R. Mukundan – Managing Director

That will be bunching of some sales. It will get straightened out. The key number we watch is the production or it could even be an export consignment that would be waiting in the port so it will be just it has nothing to do with market.

Rohan Gupta – Emkay Global

If I have some follow up questions I would come in queue again. Thank you.

Operator

Thank you. We have the last and final question from the line of Gauri Anand from MF Global.

Gauri Anand – MF Global

My question is on GCIP. What is a marked improvement on a Q on Q basis be. It the topline or operating profits and PAT but if you could just walk us through in terms of profit from operations, that is just a growth of about 6% on a year on year basis and I

understand the new capacity expansion would have kicked in this quarter and there has been substantial improvement in price also compared to last year. So you know that profit growth has somewhat subdued and is it to do with gas prices which have risen in the US? And secondly on the plant capacity expansion locally if that aiding the excellent margin growth that we have seen in Q1 versus Q4 and I just wanted to understand if that capacity has kick started.

Mr. R. Mukundan – Managing Director

The growth is on the salt side also and also the margin improvement in both salt and soda ash because the higher throughput the plant has achieved. So the spread of fixed cost over larger volumes in these improves the contribution, that's the effect you are seeing in domestic business. As far as TCNA is concerned you are right absolutely that we have had an approximately certain amount of increase in the gas price which has impacted. There has been a slight increase in the royalty rates. So, variable costs have gone up between last year and this year by approximately US\$15 per tonne broadly but the average expectation for the variable cost increase during the year is anywhere between US\$7 to US\$10 per tonne so it would be stabilize as we go forward. So it's more cost driven the issues at TCNA and they will stabilize over a period of time.

Gauri Anand – MF Global

And there are expectations that gas prices in the US are set to rise, could you just walk us through what is the energy surcharge gross, I remember you explaining us this sometime ago?

Mr. R. Mukundan – Managing Director

Energy surcharge is no longer applicable and we don't anticipate the gas prices would sharply rise atleast during the year, they are going to remain stable and the issue is more to do with what may happen in couple of years. We have a process of hedging which we follow to secure ourselves and that has worked well with us in the past and will continue to be something which we would use to cover our pricing and hedged when the prices whenever we get an opportunity so we lock in to meet the budgets whatever internal commitments we have made in terms of meeting the budget. So as far as the current variable cost increase is concerned it is partly due to rate and partly due to consumption and all that is seasonal or specific to this quarter and we do anticipate out of that US\$15 per tonne increase in variable about we should be able to claw back atleast about US\$8 to US\$10 per tonne back and as an average during the next three quarters.

Gauri Anand – MF Global

Thank you very much and all the best to you.

Mr. R. Mukundan – Managing Director

Thank you. There was one question which came from Abhijit about the other agri inputs and the answer to that question is higher volumes of sales in new geographies Gujarat, Maharashtra and mainly to wheat, paddy and pesticides. This on account of other agri inputs of Tata Chemicals wherein we have been expanding our geography of operations also. Thank you.

Operator

Thank you. That was the last question. I would now like to hand the conference over to Mr. Manish Mahawar from Prabhudas Lilladher Private Limited for closing comments.

Manish Mahawar – Prabhudas Lilladher

I would like to thank the management team of Tata Chemicals to take out the time for the call. Mr. Mukundan, would you like to make any closing comments?

Mr. R. Mukundan – Managing Director

I would like to say that we had anticipated the three issues which we highlighted at the beginning that the foreign exchange issue which we have battled with during this quarter about Rs100crores hopefully that will not aggravate further with the right policy steps being taken by the Government. If it does it will be a marginal movement from here the sharpness of the impact may we hope may not continue in future. As far as the operational issues are concerned both the Haldia and the phosphatic chain are working now normally but margin wise they have continued to be under pressure. Urea is back on stream and soda ash and salt units are working upto capacity. And we do hope that the current challenge which we face in the first quarter we would be able to work on them and improve the performance going forward into the second quarter. Thank you very much.

Operator

Thank you so much. And we have from Prabhudas Lilladher Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.