

## **Tata Chemicals Ltd**

### ***Q1FY14 EARNINGS CONFERENCE CALL***

#### **MANAGEMENT:**

**MR. R. MUKUNDAN – MD & CEO, TATA CHEMICALS LTD.**

**MR. P.K. GHOSE –EXECUTIVE DIRECTOR & CFO, TATA CHEMICALS LTD.**

**MR. RANJEEV LODHA – VICE PRESIDENT, FINANCE, TATA CHEMICALS LTD.**

#### **ANALYST:**

**MR. SIDDHARTHA BHOTIKA – INDIA ECONOMIST, TATA SECURITIES**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY-'14 Earnings Conference Call of Tata Chemicals hosted by Tata Securities. As a reminder for the duration of the conference all the participant's lines are in listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Siddhartha Bhotika. Thank you. And over to you sir.

**Siddhartha Bhotika:** Good evening everyone. On behalf of Tata Securities I welcome you all to the conference call for Tata Chemicals Q1 FY-'14 earnings. From the management side we have with us Mr. R Mukundan – Managing Director; Mr. PK Ghose – Executive Director and CFO. Now I invite Mr. Mukundan for his opening remarks after which we will move on to the Q&A session. Thank you. And over to you, Sir.

**R Mukundan:** I would like to welcome all of you and also my colleagues Mr. Ghose and Mr. Lodha - both of them are here with me in the call. We are going to share some of the perspectives and the operating performance during quarter ended 30<sup>th</sup> June 2013 after which Mr. Ghose will share the financial details.

The broad overall business environment is challenging both domestically as well as internationally. While in some parts of the business the environment is benign but the economic environment is certainly challenging and I will go through this in detail shortly.

The performance in standalone is ahead in revenue, operating profits and PAT compared to the same previous quarter; however there are certainly issues in the Fertilizer business which we will go through separately. Overall on the Soda Ash business we do believe that the pricing environment may remain stable but the margin environment is likely to come under pressure. As far as the phosphatic, fertilizer is concerned it has been impacted due to currency volatility and would continue to face headwinds in that business. Soda Ash and Sodium Bicarbonate demand both in India and internationally are remaining stable. While domestic Soda Ash prices are more or less firm, internationally, these realizations and margins have been under pressure and this has impacted TCNA as well as Magadi. While TCNA volumes have been more or less constant, the impact of lower realization in TCNA as well as higher energy cost in this quarter has impacted TCNA. There is also an additional impact of maintenance expenditure which was preponed from Q2 to Q1 which has impacted the current year quarter at the PAT level. At Magadi the volumes of PAM and SAM have been marginally better than corresponding quarter last year FY-'13; however, due to general price pressure in the market, it has impacted both revenues and operating profits. In Europe there was a slight fall in the volume due to longer distiller rebuilt which

took longer than usual; however, that distiller is back on track, and we should be seeing volumes which are at least up to budget going forward. There is continued softness in the UK market especially the flat glass market. Babrala continues to be very stable; however, we would like to highlight that any change in gas allocation will have adverse impact on the business. The entire quantity above cut off is going to come under pressure if that were to happen. We have represented strongly with the Government of India against the same and will continue to work with the Government to ensure that the environment for the business remains positive especially since the demand environment with good kharif has been excellent for the business. And we also believe that government would be positive with respect to the request being made by the Industry.

As far as DAP and NPK is concerned the plants suffered 2-months stoppage due to non-finalization of phosphoric acid prices; however, the prices have since been finalized and the plant is running to capacity, we do believe that the foreign exchange volatility in the DAP and NPK business is going to continue to impact the business going forward.

In Consumer products business Tata Chemicals remains a market leader. We continue to roll out expansion of market on the expected lines. The Pulses business has witnessed uptick from the consumers as expected. Rallis contributed well to the growth. And overall what I would say to state is that our strategy of working on the business with more Specialty as well as Consumer portfolio is paying results and we remain cautious on the Soda Ash business with respect to the margin environment while the demand environment is stable. While we are positive on the environment in Babrala our view continues to be remained challenging as far as the Phospatic Fertilizer is concerned in Haldia. We do believe the continued delay in subsidy payment is going to continue to pressure our working capital environment. With these words, I would request Mr. Ghose to give you insights on the financial performance.

**PK Ghose:**

A quick recap of the financials for first quarter of 2014. On a consolidated basis net income for the quarter stood at Rs. 3,312 crores which is up by 8% compared to the corresponding figures of last year. Profit from operations at Rs. 411 crores. Profit before tax was Rs. 161 crores for the current quarter. The net profit stood at Rs. 75 crores. Our profits for Q1 have been adversely impacted due to various reasons mentioned by Mr. Mukundan earlier.

On standalone basis the net income was Rs. 1,692 crores up 10%; profit from operations was at Rs. 213 crores for the quarter, profit before tax was Rs. 131crores and after considering the tax provision the net profit after tax was at Rs. 100 crores.

Moving on to the balance sheet the consolidated net debt of the company as on 30<sup>th</sup> June 2013 was Rs. 6,495 crores, that was the net debt. The quarter witnessed a sharp increase on account of currency translation. The total of inventory and trade receivables including subsidiary as of 30<sup>th</sup> June, 2013, aggregated to Rs. 5,188 crores. The increase was largely on account of outstanding subsidies and fertilizer inventories. While subsidy outstanding at Rs. 1,160 crores has come down as compared to Rs. 1,753 crores as on 31<sup>st</sup> March, 2013, it would continue to remain a challenge during the balance portion of the current financial year as the allocations of both Urea and Phosphatic will be exhausted in the coming months. That brings me to the end of my discussion. I would now like to throw the floor open for questions.

**Moderator:** Thank you very much sir. We will now begin the question-and-answer session. The first question from the line of Puneet Gulati from HSBC. Please go ahead.

**Puneet Gulati:** First of all, a couple of queries which I picked up from the annual report side. There seems to have been some change in the management of Tata Chemicals North America and Tata Chemicals Africa operations. Can you shed some light on that?

**R. Mukundan:** Management change is basically Mr. Chris Douville who is the General Manager of Tata Chemicals North America has resigned and moved on, and Martin Keighley, who used to be the M.D. of Brunner Mond earlier many years ago, has moved on as the Managing Director. In Kenya Jackson Mbui has come in place of Michael Odera who has now retired.

**Puneet Gulati:** Any impact you think what has been the reason behind the change or any?

**PK Ghose:** It is normal retirement and movement on to ANSAC, nothing spectacular.

**R. Mukundan:** I think it is a normal retirement policy in Magadi where the Managing Director has retired and new person has taken over in his place. The team under him remains the same. In US there was a resignation from the Managing Director, he has moved on to another business in Soda Ash, he has gone on to become the President of ANSAC and since he was hired by ANSAC we have since replaced him with Mr. Martin Keighley who comes with very long association with this industry having worked in Brunner Mond his entire career.

**Puneet Gulati:** Secondly I also notice a huge increase in employee base in India from 3,176 to 4,429. What has been the reason for the same?

**R. Mukundan:**

**R. Mukundan:** the manpower in India is approximately 1,200 people more because this year it includes Rallis and Metahelix team which have also been added to the manpower in India.

- Puneet Gulati:** And lastly on the Phosphatic business side the problem with finalizing the phos acid price seems to be pretty much every year. What is the company doing to get rid of the problem or is IMACID not helping at all?
- R. Mukundan:** No, IMACID is not the only issue, I think the issue is for the entire industry, the prices are not finalized just by Tata Chemicals, they are finalized by the industry and clearly the pricing expectations which the seller 'OCP', who is the marketer of the product was that the market prices of DAP will move up whereas our view was it will move down and hence the standoff, and clearly if you see what has happened in the marketplace our view has prevailed, effectively the DAP prices have come down so have urea prices, and we were always bearish even though demand environment is quite benign. We were bearish because of the additional volume coming out of China and we knew would continue to depress the overall market.
- Puneet Gulati:** Lastly if you can comment on, if you have taken any price increase for DAP and any impact of the modified NBS that you may have observed from the Government's perspective recently?
- R. Mukundan:** There is no modified NBS, actually it has gone back to fixed price regime of the DAP, so there is an MRP which has been fixed by Government which is running completely counter to the NBS scheme which they had introduced. Effectively, it puts to knot the entire scheme as it was done before. We do believe that we have a very strong case, in fact we have filed a writ petition in Delhi High Court which has been admitted I think as of last week.
- Puneet Gulati:** And what is this writ petition?
- R. Mukundan:** This is to say that the MRP fixation by Government on DAP and NPK runs counter to the NBS policy introduced by Government.
- Puneet Gulati:** And consequently you also have not taken any price increase in DAP from 20 to 500, will that be right to assume?
- R. Mukundan:** The price issue is a very different one, I think price issue is not just related to MRP, and there is still a massive oversupply of the material in the market. The trade is holding a large amount of inventory which is leading to a situation where price increase will not fructify in the short run even if the rupee/dollar rate has gone up. Ideally, if you see in reality the businesses should have increased the prices but since there is oversupply in the

market there is going to be a continued pressure on this business which is why we remain completely bearish on the DAP business, it is one business where not only manufacturers are in the market but also importers, traders are in the market, and every contract of import is being fixed at a lower price, and if price continues to fall it will be very difficult for manufacturers to make any margin in this business.

**Moderator:** Thank you. Next question from the line of Atul Rastogi from CIMB. Please go ahead.

**Atul Rastogi:** Just wanted to get some better color on the North American operations. Basically, you said margins were under pressure due to higher energy cost and maintenance cost. So could you quantify that and how much was the one-time maintenance cost and how do you see this margins going forward?

**R. Mukundan:** Broadly speaking in terms of the impact due to fall in market price there is approximately \$10 difference between the market prices of previous year and this year and that has led to an erosion of Rs. 40 crores from the bottom line. In addition to that the gas price and the maintenance shut down increases led to approximately Rs. 25-odd-crores of increase in cost, of which the energy cost increase is going to continue whereas about half of it is just a timing issue, so Rs. 12.5 is the timing issue. Clearly the bigger impact is coming from the issue related to the depression in sales prices which is mainly caused by the difference in South East Asia market which has since started to tighten which we had explained in the Q4 call that the market prices would start to tighten going forward especially on the back of Penrice closure in Australia and the announcement by Solvay on its own operations in Europe.

**Atul Rastogi:** So would you say that July onwards prices have corrected to their previous levels or \$10 price would correct...?

**R. Mukundan:** I do not know how much would correct; we are trying our level best, the market has moved probably by about \$4 or \$5 as of now. This material is sold through ANSAC and not directly by us, we will get the visibility on this as we go forward. Magadi has certain contracts which are fixed on an annual basis, certain contracts which are on quarterly basis, so exact proportion of the shift we can only tell in Q2 but there is every evidence that the market prices have broadly bottomed out and they are increasing and it will be a phased way in which the price would rise. The challenging feature in this entire prediction is the state of the Chinese economy, it is wobbly as of now, which is why in my statement I have made this clear that despite all the closures of Penrice and all the announcements by some of the majors the demand environment in Soda Ash will remain very unclear and very hazy and that is a reflection of the state of two big economies in Asia; one is China, other one is India which are going through their own process of internal correction.

- Atul Rastogi:** And secondly, on the domestic Soda Ash pricing, do you think the rupee depreciation could lead to some margin improvement as your pricing is import parity based or do you think demand is under pressure?
- R. Mukundan:** Demand is certainly under pressure. There is no doubt in my view in terms of demand being under pressure but if you look at the domestic manufacture of Soda Ash in India the India is a net importer of Soda Ash, so domestic manufacturers are fully sold out. While I would say demand is under pressure, the overall issue for the domestic manufacturers is that they are fully sold out. And second question which you asked is what is the impact of the pricing environment in rupee terms because it is an import parity material, it is going to be positive, there will be some gains but they will also have to be matched up with the cost increases which we will see in the energy side for coal and also the other imported inputs.
- Moderator:** Thank you. Next question from the line of Abhijeet Dey from BNP Paribas. Please go ahead.
- Abhijeet Dey:** Wanted to know one thing on the standalone side, there has been a sharp 69-70% YoY jump in the cost of materials consumed from Rs. 315 crores to almost Rs. 533 crores. I am asking this because we all know that prices of key raw materials for your Fertilizer business have actually come down on a YoY basis. So what has been the reason behind this sharp 70% jump?
- R. Mukundan:** No, no that is broadly change in inventory
- Abhijeet Dey:** No, I am not including the change in inventory part, it is just the cost of materials consumed, Item No. 2A, that is it.
- Ranjeev Lodha:** You have to look at it along with the change in inventory because that is where cost of materials which have gone into the production process plus the change in inventory impact. If you look at both together and the purchase of stock then you can take it as a percentage of your net realization, it will be in the same region.
- Abhijeet Dey:** Why is the purchase of stock-in trade gone up sharply?
- R. Mukundan:** This is basically traded material. It is a quarter end effect, if material lands up at the end of the quarter and they have still not gone through the pipeline you would find this. You have to take both together. But when you buy a raw material, they either go through production or it goes to increasing the inventory. This time actually there has been a stocking which has happened.

- Abhijeet Dey:** And this is largely MOP and Urea maybe, no?
- R. Mukundan:** No, this is mainly the traded DAP and NPK.
- Moderator:** Thank you. Next is from the line of Abhijeet Akela of IIFL. Please go ahead.
- Abhijeet Akela:** First, just on the debt position at June and you mentioned the net debt was Rs. 6,495 crores. Could you also give us the gross debt figure please?
- PK Ghose:** Gross debt was Rs. 8,234.
- Abhijeet Akela:** The Rs. 5,188 crores is the sum of inventory plus receivables plus subsidy, is that right?
- PK Ghose:** **Rs.** 5,188 crores includes subsidy outstanding. And Rs. 5,188 is on a consolidated basis.
- Abhijeet Akela:** Finally, the inventory situation in the channel for Fertilisers, how much inventory is still out there? It was believed to be around 7 million tons of DAP plus NPK at the beginning of the year, any update you could provide on where that stands right now?
- R. Mukundan:** No, I would not have the exact figure, but all I can say is that the good monsoon has actually taken away the issue on the inventory side, I think each company is having a different set of pressures, as far as Tata Chemicals is concerned we can only say that our collections and our placements are proceeding pretty much as per plan and there is no cause for alarm on that account. The issue in this business now remains the rupee-dollar movement as well as the fact that material is increasing, arriving at lower and lower price, so since materials are arriving at different points of time the margin for the material which has been manufactured previously is coming under pressure, hence manufactured products will continue to face pressure. People who are purely into trading will certainly have margin which will be more or less protected. So you got to differentiate. The companies which do a combination of trading and manufacturing will be in the middle house which is people like us, companies engaged in manufacturing will be suffering depressed margins, whereas companies only into trading will have good margins.
- Abhijeet Akela:** If at all do you expect the inventory situation to return to some normalacy?
- R. Mukundan:** Even if inventory situation returns to normal in a falling market people who have a shorter cycle time which is basically traded goods arrive and then they get sold in the market in 30-40 days because they are just the finished goods whereas manufacturers have to import raw phos acid and process and the whole cycle time, which is huge, hence when you manage longer pipeline inventory, you will suffer damage in the margin structure. We are in a falling market and as long as the DAP market does not stabilize the margin



structure for manufacturers will be depressed. For traders it will remain stable. In a rising market again the manufacturers usually end up with a higher margin structure, it is a process issue.

**Abhijeet Akela:** One last question from me, if you could just update us on the status of the turnaround initiatives we are making in the Kenyan and the UK operations for Soda Ash, where do those stand?

**R. Mukundan:** As far as UK Soda Ash is concerned, we have a project called "Hercules ", which will be looking at the whole energy piece there and we are also working with the Government of UK in terms of making sure that they understand the energy issue which is continuing to impact us in the UK. As far as the Magadi is concerned, we are going forward with finalization of the technical details of the liquid to coal, however I want to caution here that the new mining law in Kenya which has come into effect could prove to be a big challenge for that and we are in preparing for the worst that the whole project may be infructuous if the mining law comes in total effect as it is currently being proposed.

**Abhijeet Akela:** So it would basically prohibit the mining of coal for Soda?

**R. Mukundan:** Not mining of coal, the mining law what the current proposal is doing rounds proposes a 10% free carry for the Government and about 3% royalty on the finished goods which effectively puts the entire margin structure in the PAM project completely under pressure even after conversion. We are examining the cases, and are also working with the Government to say that there must be benefit to people who value add domestically, and we are still in the process of discussions with the Government. We hope that they do heed to our advice, if not, as a company we are preparing ourselves for the worst in the sense that while SAM will still be profitable PAM will be questionable.

**Abhijeet Akela:** Lastly, could you just give me the British Salt revenues and the EBITDA for this quarter?

**PK Ghose:** British Salt for the quarter had sales of Rs. 85 crores and EBITDA of Rs. 27 crores.

**Abhijeet Akela:** The margin seems to be considerably lower than what we have done in the past. So any one-off factors impacting that?

**PK Ghose:** I think there was an increase in gas cost there that have impacted and second I think there was a stoppage in the plant, an unplanned stoppage which happened and these two impacted the EBITDA margins.

**Moderator:** Next question from the line of Aditya Jhawar from Espirito Santo. Please go ahead.

- Aditya Jhavar:** What is your plan in terms of your growth in the domestic Pesticides market?
- R. Mukundan:** In the crop protection segment our sales is close to Rs. 130 odd crores which is what we would probably be closing the year with. Last full year it was probably Rs. 70 or Rs. 80 crores, we are planning a substantial growth on the back of our own internal brand, mainly TKS brands which is what we are doing in Tata Chemicals. The other part in the consolidated results, we continue to be very positive on the domestic demand pick up and the shift in rural income that they have increased, we would continue to see good growth in that business. However, the key issues for that business in terms of beyond just growth would be the challenging environment in terms of foreign exchange and managing the whole issue of some other imported raw materials, for which we have put in place very conservative approaches to hedging and protecting ourselves.
- Aditya Jhavar:** The domestic Pesticides market, would you not be directly competing with Rallis?
- R. Mukundan:** No, I think our zones of operations mainly are in North and East which also is the market Rallis is trying to grow. So we are working to ensure that we have synergistic growth. Our growth has not impacted Rallis, in fact also for Metahelix, we remain one of the biggest distributors for Metahelix, and Rallis. So, not only do we brand the same product we also sell the product in their name using the power of our distribution. As you know, Rallis is very strong in West and South and we are pretty strong in North and East, so it is a very complimentary market.
- Moderator:** Next question is from the line of Jasdeep Walia from Kotak Securities, please go ahead.
- Jasdeep Walia:** As I understand the energy contract in Europe for Soda Ash operation is going to be revised from FY15 onwards and your company has been working towards ensuring a smooth transaction on that front, can you give us an update specifically what is happening there? And if at all the pricing moves to market rate, what kind of impact are we looking at on operations?
- R Mukundan:** This is probably one of the biggest strategic issues which we have been working on in Europe after we resolved the salt issue with the acquisition of British Salt. It is a bit premature for us to comment. Give us at least one or two quarters we would have a resolution of this issue by this year end in any case the energy contract is valid up to 2015.
- Jasdeep Walia** What will be the impact if pricing moves to market price?
- R Mukundan :** We are working our ways to it, I think it is premature to come with exact numbers. Our intent is to have a robust operation there.

- Moderator:** Next question from the line of Divanshi Dhruva from NVS Brokerage. Please go ahead.
- Divanshi Dhruva** On a standalone basis, we see the PAT is Rs. 100 crores whereas on consolidated basis the PAT has moved down to Rs. 75 crores. Can you just please highlight the reasons for this?
- R Mukundan:** I think between the standalone and consolidated, there is also dividend income of Rs. 25 odd crores which about RS. 13 and Rs.12 crs from IMACID and Rallis which gets cancelled out in consolidated results. If you knock that off, the pure standalone PAT is RS. 75 crores and pure consolidated PAT is also 75 crores All the positives of TCNA and Rallis are more or less compensated by the negatives in Europe and Magadi.
- Moderator:** Next question from the line of Gauri Anand from Phillip Capital. Please go ahead.
- Gauri Anand:** Just two questions, one is on TCNA . Is there any one-off element below EBITDA either tax or interest? May be you can clarify that later. Second thing is that you mentioned that gas prices in the US are on the rise, and maybe to compensate for this even Soda Ash prices have gone up. So would the hike in Soda Ash prices compensate for the gas increase or should we model for lower margins in TCNA going forward?
- R Mukundan:** Let me address the second question. I think the gas price increase will continue to impact the margin that is very clear to us. As far as the first one on one-off, there are no one-offs in this quarter at TCNA.
- Gauri Anand:** Is the tax outgo higher in TCNA or something?
- Ranjeev** I think you are looking at the reconciliation between the PAT and PAT after MI. It is basically because of the effect of NATronics JV and the TCNA and the interest cost and the overheads at the holding company i.e. Valley Holding.
- Gauri Anand:** Sure, I will get this clarified later. The second question is the urea prices are depressed and LNG costs domestically are on the rise. So for quantities beyond cut off limits, what strategy likely to be. People tell us that there could be a revisit to the 2008 investment policy. So I would request you to add your thoughts on this?
- R Mukundan:** **The** 2008 investment policy is undergoing revision. The only thing we have said is that the Government should adjust this floor and ceiling price and leave the entire approach as it is because it is a good policy which actually brought in debottlenecking investment into place. The second is that in our view increase in the domestic gas prices is a good thing provided the availability increases. And if the Government continues to maintain priority for Fertilizer sector even with the new price which has been decided for KG Basin gas the quantity above cut off will be positive and remunerative for companies to produce. But if

the domestic gas availability does not improve and we continue to rely on mix of imported and domestic with domestic gas prices having gone up over the scenario which you paint is correct. Our analysis is predicated on the fact that the Government, when it increased the domestic gas prices the biggest reason for allowing this increase was to improve the production and availability of gas.

**Gauri Anand:** But is there a timeline that we could look forward to before floor and ceiling prices going up?

**R Mukundan:** We do not have a timeline but 2014 the existing gas contracts will come to an end; the new gas prices will come into effect post that. The policy of debottlenecking itself did not have an expiry date.

**Gauri Anand:** Lastly on this falling coal cost, is it helping us anyway because some years ago you mentioned that we had monthly pricing for coal and our end product Soda Ash we had maybe quarterly or six monthly or annual pricing. So is this fall in coal cost at all helping us?

**R Mukundan:** If you look at the entire energy mix, it is impacting us negatively as of now between coal and gas put together. There is a benefit which is partly coming in on Coal and there is a higher impact of the rise in the gas as of now.

**PK Ghose** In USA they are able to control.

**Gauri Anand:** And in India?

**R Mukundan:** In India, the whole issue is if we look at coal certainly we are getting lower coal in dollar rate terms, but the rupee weakness has completely negated any fall in that.

**Gauri Anand:** So there is no benefit at all?

**R Mukundan:** There is no benefit in rupee Indian terms; I think it will be marginal if at all.

**Moderator:** Next question from the line of Rohan Gupta from Emkay Global. Please go ahead.

**Rohan Gupta:** Just to comment on first standalone operations in Chemicals segment where we have seen margins have dropped significantly to almost 20.6% Vs 24.5% last year and even 23% in Q4. So what is leading to such a sharp fall in domestic Soda Ash operation, where you said...

- R Mukundan:** It is not Soda Ash, I think domestically our problem, we are also a small manufacturer of Cement, and we have a half a million ton cement capacity which is now under serious pressure because the market prices in cement are depressed. So if you calculate the change in that number, I would say bulk of it is attributable to cement itself.
- Rohan Gupta:** But is our Cement operation such a large that it can affect our overall domestic chemicals operation because we made previous quarter roughly in March quarter, Rs. 178 crores EBIT from overall Chemicals business?
- R Mukundan:** Broadly, I think one is certainly an issue related to Cement which is a large attribution of this and second minor attribution is that is on increase in the distribution cost. There is a Rs. 50-crore increase in the freight cost last year in the railway freight announcement which Government had made. That is the overall annual impact which you have observed more or less and the increased volume of salt is partly compensating for it, but not fully compensating for it. We have not increased the market prices and responses that change in the freight increase which the Indian Railways had done in the Railway budget.
- Rohan Gupta:** Just to understand that the pressure on margins in Chemicals segment domestically, led by Soda Ash domestic market?
- Management:** No, it is not Soda Ash, it is actually led by Cement and Salt; and in salt it is mainly the distribution cost because of the railway freight adjustment and to the large extent of Rs. 50 crores which we have been able to negate by increase in volumes which came on stream last year, but it is going to take us a bit of time to work our way through that Rs. 50-crore increase which is an annualized increase. Second is the Cement prices having depressed approximately by Rs.500 a ton or so from what it used to be at the Q1 of last year and that is clearly impacting us in this quarter and it will continue to impact, because we see no change in cement realisations.
- Rohan Gupta:** So margins may remain here. Second is on domestic Fertilizer segment, though you mentioned that there has been shut down at our Haldia plant for 2 months and there has been overall pressure because of the inventory, but that is not getting reflected in the fertilizer EBIT margins which is close to 6.5% which has been pretty much comparable to...?
- R Mukundan:** Because the volumes are high, last year in Q1 we had a 3-month shutdown. So it is less painful with 2-month shut down.
- Rohan Gupta:** We have not accounted any sort of above cut off benefit in Urea business in the current quarter?

- R Mukundan:** No, in fact this year, the prior period adjustment is far less. Last year it was Rs. 33 crores, this year it is only Rs. 6 or Rs. 7 crores. So in fact this year the volumes have been much higher and the shutdown has been much lower. So our fertilizer in fact has been performing better than last year, but that is not a reason to state what I have stated before while Urea will perform, there is a problem on DAP and NPK wherein margin is completely eroded which will going forward continue to impact the manufactured portion, the traded portion is still protected.
- Rohan Gupta:** You also mentioned in your comment that with the current gas prices, the above cut off Urea production is becoming unviable. I think you are still looking Urea global prices at \$300 plus. So at what level of gas prices you will be comfortable and you think that...?
- R Mukundan:** No, I did not make that statement. All I said was that when the gas policy comes to an end, which is in 2014, the new gas price will come into effect, which is almost double the current gas price. At that point if the gas availability does not improve and we have a combination of domestic and imported LNG as we are consuming today, certainly above cut off will not be viable. I also said that the Government when it had announced the higher gas price had predicted that the increase in the higher gas price is on the basis that the availability of domestic gas will increase. If that does happen and we are able to replace imported LNG with domestic gas, the overall weighted average cost will come down and hence the above cut off will be viable. It largely depends on what happens to the policy as has been rolled out by Government, if the producers are going to produce more gas at this price or not.
- Rohan Gupta:** One question on TCNA operations. We can see that the current quarter margins are as low as 18% almost at EBITDA level or almost lowest in the last 5 to 7 quarters. This is mainly led by the drop in realization in DCIP market or there is some other factor which we cannot...?
- R Mukundan:** Mainly drop in realization in the export markets, not in the domestic market.
- Rohan Gupta:** Export market in US and I think that contributes to 40% of US operations?
- R Mukundan:** Approximately 40%, the weighted average impact of that is about \$10.
- Rohan Gupta:** \$10 per share on realization is leading to our margin pressure of almost 400 basis points on quarter-on-quarter basis?
- R Mukundan:** Yes, that is correct.

- Rohan Gupta:** Do we see some further drop in export realization from the US market? **R Mukundan:** There is also energy price increase which is approximately a combination of energy price and the pre-ponement of the maintenance expenditure which is contributing to Rs. 25 crores. I think you should factor that in the percentages when you calculate.
- Rohan Gupta:** So Rs. 25 crores out of preponement, there have been preponement of expenditure from the next quarter to the current quarter?
- R Mukundan:** Approximately half of that which is Rs. 12.5 crores with preponement and half of that is energy cost.
- Moderator:** Next question from the line of Prakash Goel from ICICI Securities. Please go ahead.
- Prakash Goel:** This is Prakash Goel from ICICI Securities. My question was with regard to the CAPEX plan. Is there any change in the CAPEX plan this quarter what was stated in the last quarter versus?
- R Mukundan:** No, in fact there is no change in CAPEX plan.
- Prakash Goel:** RS. 700 crores for the current year?
- R. Mukundan:** No, about RS. 500 to Rs. 600 crores. That is the CAPEX.
- Moderator:** Thank you. We are going to take a follow up question from the line of Atul Rastogi from CIMB. Please go ahead
- Atul Rastogi:** I was just wondering on debt. You said gross debt is Rs. 8,400 crores which is up almost, if I am not wrong, RS. 1,500 crores for March.
- P K Ghose:** That is due to RS. 632 crores being a foreign exchange vary, there is a notional translation. Otherwise, there has been a reduction in the debt.
- Atul Rastogi:** The total increase is around Rs. 1400 crores.
- P K Ghose:** Total increase is from RS. 8,384 crores gross debt to Rs. 8,234 crores, there is a reduction, because Rs. 881 crores has been repaid, about Rs. 632 crores is the revaluation because of the foreign exchange.
- Atul Rastogi:** And secondly, just something on Gabon, I understand the financial closure will now happen probably in CY14 only. So are you revaluating the project?

- P K Ghose:** We will have to wait a little more because financial closure has not happened and as mentioned earlier in one of the calls they are looking at the technology supplier once again. So wait for another 3 months and we will be able to give you some further information.
- Moderator:** Thank you. The next follow up question is from the line of Rohan Gupta from Emkay Global. Please go ahead.
- Rohan Gupta:** Though a small business for us, a little bit information about the agri input on our standalone business, I think which has grown significantly in terms of profitability. So, like this quarter we did roughly Rs. 170 crores of other agri input and contributed Rs. 15 crores at profit, just Rs. 19 crores was last year. I think this is a business where we have been investing from last 3 years. How you see that the potential of this business going forward and how this business can shape up in next 2-3 years?
- R. Mukundan:** Our overall number for the full year, this figure was about RS. 300 odd crores which we closed last year and is to almost get close to doubling it, that is really the plan.
- Rohan Gupta:** Doubling in current year?
- R. Mukundan:** Yes.
- R. Mukundan:** I think it is growing close to 70-80% broadly.
- Rohan Gupta:** But majority of this business is coming from the Pesticides, right?
- R. Mukundan:** No, it is coming from Seeds, Pesticides, Specialty Fertilizer, Water Soluble Fertilizer that is a bigger segment.
- Rohan Gupta:** But the concern which has been mentioned by the previous participant also, are we not eating from the Rallis business in a Pesticide space from this segment? Though it is on consolidated Tata Chemicals, it may not effect merge, but we may see some shift happening from the Rallis turnover to Tata Chemicals turnover.
- R. Mukundan:** No, we have got an aligned marketing team, they have their plans, they know exactly what they are doing and they work together as a team. In fact, there are team members from Rallis who are working inside Tata Chemicals now. The marketing and strategy head for this business is from Rallis. The business head of fertilizer marketing is an ex-Rallis person. The ex-CFO of Rallis is actually running the marketing of Agri business at TCL. So, they are pretty much clued-on on what they are doing.



- Rohan Gupta:** Just a last thing on the phos acid availability, once again we have seen that two months we did not get phos acid from subsidiary. Is it once again a cautious decision taken by the management that we would not be running our Haldia operation because of the inventory position in the market or it was the pricing related issues for the phos acid?
- R. Mukundan:** If you look at the scenario at that time at the beginning of the Q1, the subsidy number was not announced. The minister of our ministry concerned had resigned. The exact subsidy numbers came out in the month of April and we are not a speculative company to take a call on these issues without clarity on what the policy is going to be, hence we took stand which was more prudent. Irrespective of market conditions if we had a very attractive number of the phos acid price, we would have gone ahead but it was quite marginal in our view, hence we chose not to run the plant.
- Moderator:** Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas:** Two questions primarily; one, had there been any change in the thought process about the new urea plant because we heard that even Tata Chemicals has applied for the new urea plant and what has led to this new thought process?
- R. Mukundan:** We have given our views to Government on the current policy. I think the current policy probably will not see any new plant coming up. It will be very difficult for anybody to put up a plant.
- Rakesh Vyas:** But we have applied and that is why I am asking?
- R. Mukundan:** No, we are a very prudent company; we will take a very prudent decision. Yes, we had applied, but the fact of the matter is there is no gas assurance from the Government, even for the current unit the gas priority has been questioned. It is out of question for us to go ahead at this point of time. In some sense I am not very clear as to how this whole thing is going to unfold because right now we are focused on making sure our current urea operations are profitable.
- Rakesh Vyas:** So is it fair to assume that if the new investment policy remains as it is, we are not very much inclined?
- R. Mukundan:** It is very much clear that management has several options other than fertilizer and we would look at more cost-effective ways to grow the businesses and hence our focus, as you read even in the annual report as Specialty and Consumer, we have been highlighting this from the last annual report and nothing has changed in the management view.

- Rakesh Vyas:** My second question relates to this NPK. As you are highlighting that if you are a trader in this current market you would probably do much better. So I am just trying to understand what is the compulsion for us to operate the plant at all if we have a flexibility to import subsequently at lesser prices? I understand there is a fixed cost element but I am just trying to understand is that the only reason and does that compensate for the flexibility we have?
- R. Mukundan:** We are in a very unique position, we can benefit when the market is moving up, we will benefit when the market is moving down, we will benefit when the market is constant. We will play all three angles, because we have flexibility, our traded volumes and our manufactured volumes are in a quite good balance. I think we would continue to play it on a case-to-case basis. And what you mentioned about fixed cost of a manufacturing unit is certainly an issue on the table.
- Rakesh Vyas:** Can you highlight at what utilization levels are we operating in July, just to get a sense if things have changed?
- R. Mukundan:** Full capacity.
- Rakesh Vyas:** And that is largely because of lower raw materials prices or is there anything else, is there a compulsion on to produce because imports are being not allowed or anything like that?
- R. Mukundan:** No, not at all. If you ask me today the margin structure in domestic manufacturing is not as attractive as it should be. And it is an issue on the table. But I would place the issue that the falling international prices are the cause for depressed prices; we are continuing to import phos acid at a more expensive price. So clearly when the chain is long, you will suffer from margin compression and DAP in Haldia will continue to have margin compression.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I would now like to hand over the floor to Mr. Siddhartha Bhotika for closing comments. Please go ahead sir.
- Siddhartha Bhotika:** I would like to take this opportunity to thank Mr. Mukundan, Mr. Ghose and Mr. Ranjeev Lodha for spending some time with us. Always a pleasure to have you and your team here sir. And thank you everybody for your participation. Looking forward to see you next quarter.
- R. Mukundan:** Thank you very much.

**Moderator:**

Thank you. On behalf of Tata Securities, that concludes this conference call. Thank you for joining us.