Tata Chemicals Ltd

Q1FY15 EARNINGS CONFERENCE CALL

MANAGEMENT:

Mr. R. Mukundan – Managing Director, Tata Chemicals Limited

Mr. P. K. Ghose – Executive Director & Chief Financial Officer, Tata Chemicals Limited

Mr. Ranjeev Lodha – Vice President & Group Corporate Controller, Tata Chemicals Limited

Simraan Teckchandani – Tata Securities Ltd

Moderator: Ladies and gentlemen, good day and welcome to the Tata Chemicals Limited Q1 FY2015 result conference call, hosted by Tata Securities Limited. As a reminder all the 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Simraan from Tata Securities Limited. Thank you and over to you Sir!

Simraan Teckchandani: Thank you. Tata Securities welcomes you to the first quarter earnings call of Tata Chemicals. We have with us Mr. R. Mukundan, Managing Direction, Mr. P. K. Ghose, Executive Director & CFO and Mr. Ranjeev Lodha, VP & Group Corporate Controller. The management will take us through the opening remarks host which we will have Q&A session. Over to you Sir!

R. Mukundan: Thank you. Welcome all. I would like to welcome my colleagues Mr. Ghose and Mr. Ranjeev Lodha on the call and all of you as well. Let me start briefly sharing some perspectives on the operating performance and the overall direction of the company and following which Mr. Ghose will share the key financial details. Then we will respond to your queries.

Before getting into specifics, I thought we should update you that the restructuring initiative on Magadi is completed during the current quarter that is Q2FY 15 and the VRS program which we launched in the beginning of July has ended at end of July. We have approximately 200 separations. The PAM plant has been mothballed as at end of July and this has enabled us to finish the process which we started and announced at the beginning of Q1.

As far as the UK is concerned, the restructuring is progressing as per plan and right now in terms of performance, in the current year it will be cash neutral, we do expect with the commissioning of the steam turbine by end of Q2 FY2015-2016 we should be in a position to move the company's performance to an overall positive territory.

Broadly in terms of the demand situation, overall we do believe that we are in a very positive zone and the results reflect that positive movement in terms of market and the margin. The key reasons are improved volumes in consumer business, cement, complex fertilizer and improved realizations across businesses especially in soda ash when you compare it with the corresponding quarter last year.The performance of inorganic chemicals is in line with expectation, demand for soda ash in domestic market and international market continues to be positive and we do believe that the margins are trending on the way up and also Haldia which recorded a very poor performance in the first quarter of last year has reported better performance, but I would like to add that the performance remains depressed on an absolute term and in our view, the conversion margins for DAP and complex fertilisers will remain depressed at least during the year on the basis of the rising phosphoric acid prices and the inability of the domestic prices to go up. Babrala performance has been on expected line and the plant has produced as per what our expectations were and we do believe that with the new urea policy which is on the anvil the Babrala performance would improve further. have placed our set of views to government including the fact that any policy shift in Delhi has to recognize and reward energy efficient units and since Babrala is one of the most energy efficient units we believe, we will be on a positively wicket.

Our focus as you know has been to move away from controlled and subsidized products. In line with this strategy we are very happy to report during the quarter this year, our overall sales of agri inputs, farm inputs was about Rs.1800 Crores of which Rs.1200 Crores that was accounted for by the subsidized and controlled fertilizers whereas Rs.600 Crores was on account of deregulated products, which is primarily specialty fertilizers, the seeds and the pesticide business. This part of the business continues to grow at more than double digit growth around 20%, 28% year-on-year and we do hope that we will be in a couple of years' time, able to take the proportion of business coming from the non-fertilizer, non-controlled portion up to at least 50% and our aim is over a period of time to make that a bigger piece of our business rather than focus on the controlled and subsidized fertilizer. We do believe that fertilizer in India will remain for a long, long time subsidized and will be under the control of government and hence our strategy has been to focus on other inputs with farm users and to focus on its productivity by bringing high levels of technology to the play.

As far as consumer business is concerned, it is on a steady wicket and we believe that the performance will continue to be in line with our expectations. The current market share of Tata Salt is at 57% and all parts of the business continued to grow.

In terms of the consolidated performance, I would like to especially comment that Tata Chemicals North America, Rallis and IMACID have contributed to the performance overall. Performance in Magadi has been stable and performance in Tata Chemicals Europe was impacted due to lower volumes post to shut down of soda ash operations at Winnington and lower realizations of bicarb.

We do believe that the Tata Chemicals Europe and Magadi have taken the right decision and the restructuring will yield handsome returns going forward during the course of the next year. The performance of IMACID and Rallis are also on expected lines as compared to what we had planned.

Going forward, we are very positive on the demand scenario across the geographies. We also believe that international prices demonstrate stability. There will be some headwinds on energy prices, but we believe that we have got plans to address those.

The biggest cause for concern going forward is as I said the complex fertilizer plant at Haldia, which is under pressure and we think that it will continue to be under pressure during the course of the current year. Overall, I think we are in a very positive demand scenario and very positive shift in terms of the consumer and the farmer expectations. Despite the shortfall in the monsoon, which we believe will get covered up during the course of the current two months where we believe the shortfall will reduce from 22% to anywhere between 5% and 10% shortfall and our performance on the basis of this scenario is going to unfold Our strategy is to focus increasingly towards consumer products and the nonsubsidized and deregulated fertilizer products is going to pay positive dividends going forward.

With these few words, I would like to invite Mr. Ghose to give insights on the financial performance.

P. K. Ghose: Thanks Mukund. You would have seen the results anyway on the stock exchange, so a quick recap on the financials for Q1. On a consolidated basis, net income for the quarter stood at Rs.3847 Crores up 17%.

Profit from operations was at Rs.504 Crores as compared to Rs.411 Crores for the corresponding quarter in the previous year. That is an increase of 22%. Profit after tax and adjusting for share of minority interest is Rs.176 Crores as compared to Rs.75 Crores, an increase of Rs.133%.

The improved profits on account of better operating performance have been explained earlier. On a standalone basis, the net income was Rs.2116 Crores higher by 28%. Profit from operational was Rs.279 Crores for the quarter as compared to Rs.213 Crores in Q1 of FY2014, an increase of 31%.

Profit before tax was Rs.231 Crores and after considering tax provision, the net profit after tax was at Rs.170 Crores as compared to Rs.100 Crores in the corresponding quarter of last year that is an increase of 69%.

The company's net debt as on June 30, 2014 stood at Rs.1901 Crores as against Rs.2057 Crores on March 31, 2014. On a consolidated basis, the net debt stood at Rs.6630 Crores as against Rs.6634 Crores as on March 31, 2014. The consolidated net debt is after taking into account an amount of Rs.74 Crores on account of currency translation in respect of debt in our overseas subsidiaries.

The company holds a cash and cash equivalent balance of Rs.1015 Crores as on June 30, 2014, net of the earmarked amount. As at end of June 2014, the subsidy outstanding at Rs.1687 Crores has increased as compared to Rs.1167 as on June 30, 2013 and this definitely has an impact on working capital interest that we pay.

Before I conclude, there are three key points that I would like to highlight in connection with the results for the current quarter. Number one, the current quarter has been rid of any exceptional items especially accounting standard AS-11 charge on account of forex reevaluation of our ECB borrowings, which were refinanced and fully hedged during FY2014.During the current quarter, there has been no AS-11 charge, which in the corresponding period of June 2013 was Rs.43 Crores.

Two, consequent to changes introduced in the Company's Act 2013, the company has reassessed the useful life of fixed asset and as a result the charge on account of depreciation in the standalone accounts for the quarter ended June 30, 2014 is higher by about Rs.7 Crores compared to useful life estimated in earlier period. Other domestic entities of the group are in the process of evaluating the componentization and useful life of fixed assets.

Third, Tata Chemicals Magadi Limited, a wholly-owned subsidiary has announced the VRS scheme consequent to its decision to scale down operation by mothballing one of its plants. No provision has been made for the restructuring in this financial result as there was no legal obligation as at the reporting date. Pending acceptance of the voluntary retirement scheme applications and completion of the restructuring the associated costs are expected to be ascertained and recorded in subsequent quarters. I may just like to mention that this amount is in the region of about $8 to $9 million and mostly will come in the July to September quarter of this year. This is in relation to the 200 odd employees that we referred who have opted for voluntary retirement scheme.

Thank you that brings me to the end of this discussion and floor is now open for question.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: Good afternoon Sir. Thank you so much for taking the questions. I will just break them down into major categories. First of all just continuing from where we had left off last quarter. We had discussion about the cash flow generation plans and I think you had promised to come back with some clarifications regarding that, so just wondering if you could share some insights into that, what are cash flow expectations are going forward and I will just come back with my other questions post that.

P. K. Ghose: What I would say is that compared to what the position was last year there has been substantial increase in the cash flow generation. The forecast is up of course, I can give you up to March 2015 where we see I think roughly cash balance of about Rs.812 Crores which was much lower figure of about Rs.200 to Rs.300 Crores when we showed it last year. So, there is a positive impact, but the one issue which is a risk at the moment is the projection on subsidies collection which is behind estiamtes, I think we have been behind by about Rs.600 Crores and hopefully I think this should be addressed by the government in due course by disbursing the subsidies in time.

Abhijit Akella: So, is it fair to say that on a normalized basis going forward free cash flow generation number, pre-dividend of somewhere around Rs.800 to Rs.1000 Crores for a year is something sustainable in your opinion?

P. K. Ghose: I do not think so. What I was saying is the cash flow projections for the year shows that we have positive collection during the year and we have a closing balance of about Rs.800 Crores. I think in terms of the free cash flow generation from the Indian operations and I am not going to take overseas here, it is only standalone. We have PAT plus depreciation of roughly about Rs.900 Crores and out of which then you pay dividend of Rs.300 Crores and there may be other incremental capital expenditure. So therefore I think the free cash flow generation, I would say about Rs.400 to Rs.500 Crores.

Abhijit Akella: At the standalone entity?

P. K. Ghose: At the standalone entity. Overseas entities, we can discuss, but I think UK and Kenya are not in the position to generate at the moment and USA in any case is cash positive and has been remitting dividends for the last two or three years.

Abhijit Akella: I will come back on that later. Second, just a few clarifications regarding this quarter result. So I just wanted to understand number one, why the interest expense has fallen QOQ. What the reason for that would be? Number two, the unallocated expense in the segment financials also is down quite considerably, why that has happened and what we expect on that? Thirdly just the standalone other income seems to be higher than the consolidated other income, so why would that be?

P. K. Ghose: The principle one is that what is happened is in UK when we went in for the restructuring, we converted the five year loan which they had by a bridge loan for 18 months which is at a much, much lower cost, which is helping them during restructuring, so that is one of the main items where interest has come down. The second area where it has come down is in TCNA where the loan was refinanced last year with term loan 'B' again at a very reduced cost and that has given an impact in TCNA; so these are the two main areas where interest has come down and I think going forward you will see marginal reduction in Kenya also as we refinanced their loan recently.

Abhijit Akella: The other two questions, I just had where on the unallocated expense and on the other income standalone was concerned?

Ranjeev: What about that Abhijit?

Abhijit Akella: The unallocated expenses down QOQ Sir, quite substantially, so just wondering why that so?

Ranjeev: That was because of hedging cost in the corporate and that is the standalone which also flows in the consolidated.

Abhijit Akella: So, that is AS-11 impact you are saying. Why is the standalone other income higher than consol other income?

Ranjeev: The standalone will be higher because the dividend from subsidiaries that we get canceled out in the consolidated.

Abhijit Akella: One last set of questions, just on the overseas subsidiary, the US EBITDA per tonne this quarter seems only around $43 which is a bit perhaps lower than what we have the potential to achieve and volumes also seem a bit lower than I think they are around Rs.570000, so I think my impression we are capable of doing more than 600000 a quarter. So, your views on when the volumes can accelerate and also what the outlook for EBITDA there is and second on Brunner Mond, the EBITDA again UK plus Kenya combined is only 15 Crores this quarter. So is this what we should expect will sustain until the steam turbine gets installed or what is the outlook this?

R. Mukundan: Firstly on US I think we had shortfall of about 15000 tonnes during the quarter which is being going to be made up during the next three quarters and usually we do expect that US is going to do a catch up on some of the margins which you are stating going forward. Clearly there was an additional impact of increased gas price which sort of impacted us during this quarter which I think over a period of next three quarters we should catch up as the pricing and other contracts start to realign themselves to a new gas price. As far as the UK and Magadi is concerned, Magadi as Mr. Ghose highlighted that in Q2, you will see a charge of about $8 to $9 million on Magadi, because the VRS scheme has closed in the month of July and the charge will be taken in the month of July and will be accounted for in Q2. If you leave that aside, post the restructuring Magadi should start to move into at least a breakeven EBITDA and close to breakeven PBT and by next year should be in a positive PBT zone all the way through. In terms of UK, I think there is a positive impact the steam turbine will bring which is quite substantial and hence our view is that by Q2/ Q3 of 2015 even UK should become PAT positive going forward. So really the way I would say is that Q3 of this year you would see Magadi moving into positive zone and Q3 of next year UK will move into positive zone and the performance of the business would consistently quarter-on-quarter improve barring Magadi which next quarter is going to show a dip.

Abhijit Akella: We are standing by the projections you have given last quarter for the steady state UK and Kenya margins right once the entire restructuring exercise is complete?

R. Mukundan: That is right. I think if you wait for the Q3 number this year, you would see a fairly steady state number of Magadi, but UK, the steady state number will actually come only in Q3 of next year where I think there is a substantial uptick expected because of the steam turbine implementation. We are really pushing hard on that project, because it has a very, very substantial impact on pushing the bottomline up at the site.

Abhijit Akella: Thank you so much Sir. I will get back in the queue for more questions.

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

Anil Shah: Many congratulations for a phenomenal set of numbers. My question is just taking back on the answer you gave for this year as far as the standalone numbers were concerned which was you talked about 600 plus 300 of depreciation which is about 900 of cash flows minus dividend and capex. What kind of numbers should be put in for capex this year in standalone Sir?

R. Mukundan: I think Mr. Ghose explained, 900 minus 300 is the dividend if you assumed dividend 600 and the capex usually is anywhere between Rs.80 and Rs.150 odd Crores depending on which projects come on stream. I think average number should be closed about Rs.100.

Anil Shah: From the standalone we are not looking at any investments to be made from this year either in UK, Magadi, or the US. ? We are not looking at the parent, Standalone Company sending any money across to other businesses?

R. Mukundan: The money will come into the standalone. We have already had dividend being paid by US. As US continues to generate cash, our effort will be, if the current taxation regime prevails which is at this 15% we will continue to get dividend from overseas.

Anil Shah: I was under the impression that the debt in US needs to be paid at the end of seven years, it is a one shot payment and you would like to keep the profits in US itself for the bullet payments that will need to be made at that day?

R. Mukundan: You are right, in a way that we conserve cash for the purpose of that payment, but at the same time, I think of the surplus beyond that. So actually there are three elements basically one is requiring the cash for the operating unit in USA, one is strategic cash which is kept back in terms of emergencies, difference is put in as cash available for paying the debt and only the difference has been planned to bring in a dividend into India.

Anil Shah: Perfect and Rs.600 Crores on a standalone PAT that you talked about obviously does not include these remittances or these dividends that come in?**R. Mukundan:** It does not. It is not included in the PAT.

Anil Shah: Could it be possible to get a similar breakup for just US business, one you gave PAT plus depreciation 300 plus 600 for the standalone. What do you think would US be this year in terms of PAT plus depreciation?

P K Ghose: Overall I think we have given you the broad direction.

Anil Shah: No problem Sir. Once again many congratulation and all the best for the future.

Moderator: Thank you. The next question is from the line of Jasdeep Walia from Kotak Securities. Please go ahead.

Jasdeep Walia: Good afternoon Sir. It seems like soda ash operations in Europe still not making money if you exclude the profits from the salt business. I was just wondering the reason behind the same because as you said in the last call that now the European plan would be only producing light soda ash which should be profitable independently, so your thoughts on that?

R. Mukundan: You are $right in the sense that the salt is a profitable piece and there is operating pressure which is reflected in the current quarter in the soda ash and the bicarbonate business, but if you recall we had made a big operational switch in the bicarb production philosophy where we have reconfigured the plant to produce bicarb through bought out carbon-dioxide from British Oxygen BOC. Now that has actually taken lot of testing in the first quarter, so we have not performed to the full potential in bicarb that would shift as we move into second and third quarter. These are initially teething problems which we experienced and I think the pressure which you see in the soda ash and bicarb operation would ease as we move along during the course of the year. But a substantial portion of this would also begin to ease by the time we implement the steam turbine which is expected to impact positively at the rate of about broadly I think taken a thumb rule about 0.5 million pounds per month.

Jasdeep Walia: Can soda ash operations in Europe make money at the EBITDA level excluding profits from the salt business without installation of the turbine?

R. Mukundan: I think it is very hypothetical because the turbine is not installed. That is not a viable business because unless you balance energy both steam and power, synthetic soda ash plants are not very viable. Hence, it is a precondition for the soda ash and bicarb business to turn profitable.

Jasdeep Walia: So without the steam turbine soda ash operations in Europe cannot make money at the EBITDA level?

R. Mukundan: Because we are venting steam, which is a waste of energy. You got to capture and use it for something else. In Mithapur for example, we capture the steam and extra energy is used to manufacture cement and caustic soda and other chemicals. I think, in Europe the easier solution is to sort of supply back to the grid.

Jasdeep Walia: Sir, the delta that you gave us in terms of £0.5 million per month on installation of steam turbine would give you just £6 million per annum whereas you on your earlier calls you said that the profitability of European soda ash operations at the EBITDA level will be close to £15 million at least. So, which meant possibly that even without the installation of the steam turbine the European operation should be at least positive at the EBITDA level? So that understanding is not correct?

P. K. Ghose: I think we should clarify it. I think what we said I distinctly remember is that our EBITDA will be about £25 to £30 million for both salt operations and European soda ash plus bicarbonate operations. So if you take a figure of £25, this £6 million pounds is not going to come till September 2015.

Jasdeep Walia: Which means that your European operation should make £19 million of EBITDA?

P. K. Ghose: Total European operations including British salt.

Jasdeep Walia: Including British salt that will be Rs.190 Crores approximately at the EBITDA level?

P. K. Ghose: That was the plan.

Jasdeep Walia: That could mean that soda ash operation will make money at EBITDA level in this year, because British salt operating profit would be close to Rs.120, Rs.130 odd Crores.

P K Ghose: The issue is, British salt will make a profit of closed to about £14 to £15 million, so the UK part with all the changes which are coming in and we explained why there is a delay in the profit you know some employees are still there, the steam turbine has not been commissioned yet, the bicarbonate plant has just come up. So there will be minimum EBITDA of about £4 million only during the year that is what we anticipate.

Jasdeep Walia: Got it Sir. Could you take us through your plan for Capex for consolidated operations for FY2015, what will be the amount and how would it be split across operations?

P. K. Ghose: Roughly my figure is Rs.275 Crores is the total consolidated capital expenditure for all units. So, just now I think we talked about the Indian operations which will be about Rs.100 Crores, but it will be roughly about Rs.175 Crores for all others which are Kenya, UK and USA.

Jasdeep Walia: This includes everything maintenance in any Brownfield expansion that is possible?

P. K. Ghose: There is no Brownfield expansion here considered at all, these are all maintenance capex and environmental related if there is any expenditure.

Jasdeep Walia: So, you are not spending money on expanding US capacity?

P. K. Ghose: But that it is not included in this capex.

R. Mukundan: Actually you are right. The US capacity addition of about 290,000 tonnes per annum is coming through a process of debottlenecking which is not a very high capital expenditure. If you look at Project Banner, we have broadly not implemented the Project Banner as of now, because we are looking towards making sure the international prices hold at a steady level before we clear the investment. Our plants are today running full, but we are very clear that only when we are sure about the pricing and the margins structures being held up in the long run will start to making the investments in the US operation that is the only place where expansion capital will go. Now, in terms of one additional investment which is happening, I don't have the exact figure, we are driving one silo in US operation which is one big chunk of a capital that is only to make sure that we are able to access our mines and reduce the operating expenditure. Today, people are traveling long distance underground to access the mine surface. That is the only one big capex which is there, which will improve the efficiency of the current operation.

Jasdeep Walia: This capex is outside Rs.275 Crores number that you gave me for consol operations.

R. Mukundan: Broadly, I think the exact figure of that Capex I think Ranjeev can let you know separately.

Jasdeep Walia: Can you give me some ballpark number including everything, what will be the capex next year approximate?

R. Mukundan: Around this much only. I think it will not be more than this. I think by next year, the silo also would be fully implemented. So, I think next year going forward it will be Rs.275 to Rs.300 odd Crores overall.

Jasdeep Walia: One question from last year annual report, last year you spent close to Rs.500 Crores on capex on your businesses outside India or outside the standalone entity. So could you elaborate on where that money was spent on what projects?

R. Mukundan: Last year?

Jasdeep Walia: Last year your cash outflow on account of investments into fixed assets was Rs.700 Crores for the consolidated operations and it was around Rs.200 Crores for the standalone operations, it went around Rs.500 Crores of capex has been done outside the standalone entity?

R. Mukundan: We will give you the split, but I think broadly what I remember is there was requirement in USA for investments to be done for environmental regulation reasons that is one item then the new bicarbonate plant has been put up in the UK that could have come here. I think some portion would be related to salt.

Jasdeep Walia: That is it from my side Sir. Thank you.

Moderator: Thank you. The next question is from the line of Devang Mehta from Canara Robeco. Please go ahead.

Devang Mehta: Good evening. Congratulations on a good set of numbers. My first question is on the European operations as you mentioned that we have moved the bicarb business through bought out carbonates. Can you elaborate why was the change in this plan and what benefit this would be in? The bicarb business we have moved to bought out carb, so what benefit would we get from CO2?

R. Mukundan: Let me just broadly highlight that if you look at the UK operations we shut down Winnington Soda Ash plant. Soda ash plants when it manufactures soda ash generate excess CO2. This excess CO2 is used to make the bicarb. So once you do not have a soda ash plant, you do not have any CO2, so you then need to buy the CO2.

Devang Mehta: By what time you see this plant stabilizing or over a year or what kind of capacity utilization out of 120000 capacity you have planned?

R. Mukundan: I think by Q3 it should be fully stable.

Devang Mehta: Second question was on the contracting prices of soda ash in America. Can you give some highlight on what levels than you have contracted have been done or something like that?

R. Mukundan: You want the US pricing.

Devang Mehta: Yes, new contracts of soda ash have done it at what price?

R. Mukundan: We would be getting about in the range of about $5 to $8 per tonnes in the new contract that we have been put.

Devang Mehta: I was looking at pricing of soda ash in terms of absolute dollar per tonne?

R. Mukundan: We can give that price, but what I think is the increase which has been obtained over last year is about $5 to $8 a tonne.

Devang Mehta: Thank you very much. That is it from my side.

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

Rohan Gupta: Good evening. First question on this UK business you mentioned roughly £25 to £30 million pounds of sort of EBITDA which we are expecting at steady stage when all our operations are stabilized right Sir?

R. Mukundan: Yes that is right.

Rohan Gupta: So, out of that roughly £15 million is coming from British Salt and balance coming from about soda ash and bicarbonate business. At the time of acquisition, I think we were even making a slightly higher EBITDA from these operations at and British Salt BMGL, so have the things deteriorated? I think at that time we were making close to 220 to 250 Crores EBITDA from soda ash operation in BMGL whether the pricing have been changed or our margins have come under pressure further. So, what are the probable reasons for that Sir?

R. Mukundan: I do not think that we have made £30 million EBITDA from UK operations. British salt was in the same region about £15 to £16 always and that is continuing. So as far as the soda ash operations are concerned, you will realize that one plant now is down, because of the soda ash position in the UK.

Rohan Gupta: Even at best after investing in steam turbine?

R. Mukundan: What I am saying it is not £25 to £30 million. We would have maximum made about £20 to £21 million pound not more than that ever in UK. I do not think this was more than that.

Rohan Gupta: Even the best scenario also we look for £25 to £30 million that including even British Salt?

R. Mukundan: That is including British Salt yes. What I am saying is when I am talking £21, £22 that is including UK one was about roughly I would say about 15 million pounds which was when both plants were running and at a time when soda ash was in a different scenario. Today, the closure of Winnington has happened, because of very clearly not only the plant but also market reasons.

Rohan Gupta: After the investment of steam turbine, what will be your total investment in BMGL including Kenya plant?

R. Mukundan: Total investment, we had put in total amount of Rs.800 Crores for both UK and Kenya. After that we have put in from the main company roughly about I would say about £15 to £20 million over the last few years and this year and we have taken an additional quantum of only £10 to £15 of debt either.

Rohan Gupta: We acquired British Salt also.

R. Mukundan: No, the debt amount for British Salt is £93 million only. So the total debt in UK is £120. Let me ask you what, what is clearly the question?

Rohan Gupta: What I was looking for was the returns (ROCE) which finally we will be able to generate from this business whether it is at par on capital employed whether it is at par with what we generate in India or will it be lower than that?

R. Mukundan: It cannot be par with India. There is no way it can be.

Rohan Gupta: Okay, but after servicing all the interest from UK business, highest ROCE we can make probably 10% to 12% from this business?

R. Mukundan: It actually will be slightly lower.

Rohan Gupta: Second question on this, you also mentioned about non-fertilizer business you are looking for to make it 50%, so what is the expected timeline for that?

R. Mukundan: Already it is 33% broadly in this quarter and I think we will continue to grow that and our target is by next two years it should be reaching that level.

Rohan Gupta: You are targeting based on current stage or any inorganic growth opportunity you are also including that?

R. Mukundan: No, this is with current operations; they are growing at a very good rate of year-on-year anywhere between 20% and 28%, depending on different growth rates of different businesses. We have no inorganic plans as of now.

Rohan Gupta: Final question, you started your commentary on a very bullish note and mentioning that especially soda ash business domestic as well as globally have been very good and very positive scenario have been there. What is driving this positivity in this sector and how long you think that soda ash prices can sustain or whether the prices will look up further? What is the tone there?

R. Mukundan: I think the demand environment is certainly improving, because the world economy is look at US which is growing, Europe is growing, India is growing, I think because of broad overall growth, there is a momentum. The markets have tightened, because of closure of many plants, that have shut down in Europe, Portugal plant of Solvay has always shut down, our plant in UK is shut down, another plant in Kenya are shut down that has taken a maximum capacity out of the system and on top of that I think no new capacities are coming immediately on stream and all this is leading to tightness in the market and the market prices will be holding firm and if you ask me how much they will improve further I think that is very speculative, but on a steady state I would say that we will be able to pass on most of the cost increases to customers.

Rohan Gupta: Thank you.

Moderator: Thank you. The next question is a follow up from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: Many thanks for taking the follow up Sir. First of all for British Salt is it possible to give the revenue in EBITDA for this quarter?

R. Mukundan: Revenue is about Rs.100 Crores and EBITDA will be Rs.32 Crores.

Abhijit Akella: Are you expecting a pickup in the EBITDA going forward, because we are guiding to almost Rs.150 Crores on an annualized basis.

P. K. Ghose: I think it is in terms of EBITDA margin percentage I said we are not expecting any dramatic pickup or shifts, all we are saying is that some of the negatives disappearing that would impact the bottomline positively except for the fact that in the next quarter there is a large restructuring cost in Magadi.

Abhijit Akella: If you could also just update on the exact capacities of the UK and Kenya plants post entire restructuring?

R. Mukundan: Post the restructuring this year, the Kenya plant is expected to produce close to about 270000 to 280000 tonnes and next year about 310000 and year after that it will become steady at about 340000 broadly and UK is approximately I would say about half a million about 450000 tonnes for soda ash.

Abhijit Akella: Your 450000 of soda ash and 120000 of bicarb, is that the some of it?

R. Mukundan: I think you will have to take soda ash at 350000, because this is the gross production, you will have to net off the bicarb.

Abhijit Akella: 350000 plus 100000 in the UK and then in Kenya what would be recovery Sir?

R. Mukundan: Bicarb is zero. It is only soda ash.

Abhijit Akella: We have some other salt or steam turbine?

R. Mukundan: We do have CRS and other salts I think they are minor products, which need not enter the calculation.

Abhijit Akella: I just wanted to go back to your opening comments regarding the new urea policy. How do you think that would impact you if at all and what are our plants, any plants are setting up a new capacity if new policy comes through etc?

R. Mukundan: I think our view of the market is very simple that we do not want to put our money in any business even has any inkling of control or regulation or subsidy, so I think we have moved away from that and our strategy is clearly focused on putting more capital where it is more either brand or knowledge or technology driven. We will focus on new molecules and crop protection in specialty fertilizers as well as on seeds and that is our growth engine.

Abhijit Akella: So the benefit from the urea side could come if the IPP related pricing in those regulations are clarified, is that what your…?

R. Mukundan: We do not have any capital expansion plan. Our plan is just that our current asset will become more productive if the government policy actually rewards efficiency because we are the most efficient.

Abhijit Akella: Sir, lastly on the consumer business, which obviously is a big growth driver going forward. If you could share a little bit more light about the components of that and which of those you see scaling up especially the nutraceuticals plant that you are setting up?

R. Mukundan: If you look at it currently there are two products which are growing at a good rate, one is the pulses, which in the first quarter, has crossed close to Rs.48 odd Crores and this is double of what last years turnover was, approximately last year at the same time it was about Rs.25 odd Crores and we would maintain the growth momentum in the pulses business. Water purifiers, our launch of the non RO and UV filters have been received well in the market and we will have to wait for a couple of more quarters for us to make any specific comment on that, but we think both these markets afford good momentum. We have test launched the Tata Spices full basket of spices including masala blends as well as straights what we call as CTCs. We have rolled out in the North Indian market first and this is will be followed by the regional rollouts spread over next three to four years, so we will be getting into the spices market and you would see more product launches as we move along. We have a pipeline of products which will come every year and we will speak about that later. This year's product which has been launched is spices, launched in a very low key manner in Punjab, but will be rolled out over a period of time in North India.

Abhijit Akella: Finally on the chemicals part, the nutraceutical plant?

R. Mukundan: Nutraceutical plant has just commenced operations. They are currently supplying liquid FOS and the drier is getting installed, which would allow it to also supply fully spray dried FOS to customers, which means then it can go to export markets. Our investment is about approximately Rs.50 odd Crores and we do believe in year II which is next year we should be hitting a turnover of close to about Rs.45 to 50 odd Crores and the peak turnover is expected to be about Rs.100 odd Crores. This is our first foray and if this succeeds we will then speak about other chemicals being added. These are specialty chemicals. They are sold in kilograms, so it is a very different business for us.

Abhijit Akella: From a profitability perspective, this should be far superior to let us say the pulses business where I mean we are probably making a single digit kind of EBITDA margin perhaps?

R. Mukundan: Margin wise it will be more. I certainly agree with you, but if you look at the potential, the pulse business today is sold only in 40000 outlets and as we exit the current financial year, we have probably one lakh outlets and in one lakh outlets, we are likely to have a turnover which is closer to about Rs.250 to 300 odd Crores in comparison, Tata Salt sells almost in 5 lakh stores, so if one does a simple multiplication, the turnover potential is quite high in pulses and in spices and in the food products. Nutraceutical by the very nature will not be very high turnover business but you are right it is a high margin business.

Abhijit Akella: Just one last question if I may, the other agri input segment that we report where we have reported on Rs.595 Crores of revenue this quarter, I believe Rs.471 out of that is Rallis, so the remaining Rs.124 would largely be your specialty fertilizers etc., is that correct?

R. Mukundan: It is seeds and the specialty fertlisers and pesticides. There is also inter unit sale, which needs to be netted off because part of the Rallis sales also happens through our network. Sale through our network is close to Rs.240 odd Crores.

Abhijit Akella: Thank you so much Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Simraan for closing comments.

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