

Tata Chemicals Ltd

2QFY14 EARNINGS CONFERENCE CALL

MANAGEMENT:

MR. R. Mukundan – Managing Director

MR. P.K. Ghose – Executive Director & CFO

MR. Ranjeev Lodha – VP & Group Corporate Controller

Tata Securities Ltd.

MR. Nikhil Gholani – Head of Institutional Equity

Moderator

Ladies and gentlemen good day and welcome to the Q2 FY14 Earnings Conference Call of Tata Chemicals Limited hosted by Tata Securities. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Gholani of Tata Securities. Thank you and over to you sir.

Nikhil Gholani

A very good morning to all of you. On behalf of Tata Securities, we would like to welcome all the participants to the Q2 FY14 Earnings Conference Call of Tata Chemicals. Today, we have with us Mr. R Mukundan – Managing Director; Mr. P.K. Ghose – Executive Director and CFO; Mr. Ranjeev Lodha – VP and Group Corporate Controller. Now I would like to request Mr. Mukundan to touch upon the highlights post which we will open the floor for Q&A, over to you Sir.

R Mukundan

Good morning to everyone. At the start, I would like to welcome my colleagues, Mr. Ghose and Ranjeev on the call and all of you as well. I will just briefly start with sharing some perspective on the performance for the quarter and also how we see the challenges as well as the opportunities going forward, following which Mr. Ghose will share the financial details after which we will be happy to respond to your queries.

Firstly on the Tata Chemicals standalone which is the domestic Inorganic Chemical Business, The Consumer Business which is the Tata Salt, Pulses and Water Purifier and Fertilizers and the Agri-Services business. The performance has been on the expected lines. Our Consumer business continues to shape up robustly. In the fertilizer segment expectedly as we had thought, the phosphatic and the complex fertilizer did see a dip in revenue and profitability and it is as per what we envisaged the performance would be and overall we see there is an improvement in the performance during the current quarter compared to the previous quarter. There are some financial adjustments in the standalone that Mr. Ghose will touch upon when he takes you through the financial details.

So operating performance wise pretty much as expected in the standalone entity. On the consolidated front, I think, similar to what we had thought, there is the Tata Chemicals North America; who has performed as expected and has contributed to the overall segment performance in Inorganic Chemicals. However, our challenges continue to be in UK and Africa where Soda Ash business continues to face headwinds. The drop in the consolidated revenue and results is mainly attributable to the fertilizer segment in the domestic market in the consolidated results.

Going forward, we remain, positive on the demand scenario across business and across geographies and this is pretty much a change in the sentiment that we see and the change in the sentiment is not only visible in India but globally too. We see the robustness returning back to the market, the mood turning positive as well as we see similar trends in the USA which are even more positive and the prices internationally are showing upward take in the inorganic chemicals. However, in some parts, like in the UK and Africa, the margins continue to be under pressure. The domestic prices in soda ash are ruling firm and North America is also seeing an uptake on the similar lines.

The UK and Magadi have specific challenges and hopefully in terms of both, the cost structure as well as the margin structure, the steps that we are undertaking will yield the right results. In UK market especially, I think we will face another challenge in terms of customer shifting out of the island especially in the Flat Glass segment and this is a structural shift and hence to address this structural shift, may have already undertaken the necessary steps to structurally make the business more robust by restructuring some operations and we're in consultation and those discussions are moving in the right direction.

As far as the Fertilizer business is concerned, Babrala has performed on expected lines however, we want to add a caution here that any change in the gas allocation policy and in the pricing of the gas which is expected next year, is going to impact the performance of the business of course this has a caveat if the change in the domestic gas price also comes with an increase in domestic gas supply, the impact may not be negative, but as we see it, we do not see any positive sign on the availability of domestic gas, however, we see the prices going up and with the mix of gas between LNG and domestic gas remaining same, there is going to be pressure on all urea manufacturers including Tata Chemicals.

The demand on the phosphatic side while it has improved there is certainly been a softness in the market price and hence the margins and there has also been an issue with the phosphatic fertilizer on the foreign exchange volatility during the quarter, Mr. Ghose will also touch upon this briefly during his presentation.

On the Consumer business our operations have grown on expected lines, the market share remains robust and therefore Tata Salt, Pulse business also has moved in the expected lines and Operation Vista which was rolled out to increase rural retail penetration as well as in-store product visibility has been progressing well.

On the non-subsidized farm business both within Tata Chemicals and Rallis – the growth has been robust. In fact, we see double-digit growth in that segment and Rallis also has moved its sales to 603 which is 24% growth, so all in all challenges in for phosphatic fertilizers, some cautionary statement in the urea fertilizer and need to restructure and focus our restructuring

moves in both UK and Kenya, those remain our key focus going forward. As far as the growth is concerned, we remain focused on the Consumer business and the specialty business, where the first plant of nutritional solutions is undergoing sterility trials in Chennai.

With this, I will request Mr. Ghose to give you some additional insight into financial performance, over to you PK.

P.K. Ghose

Let me give you a quick recap on the financials for Q2 FY14:

On a consolidated basis, net income for the quarter was Rs. 4344 Crores up by 4%; profit from operations was at Rs. 574 Crores for the quarter end 30th September 2013. PBT amounted to Rs. 346 Crores and net profit stood at Rs. 134 Crores. Over profit for Q2 have been adversely affected due to various reasons mentioned earlier. On a standalone basis, the net income was Rs. 2355 Crores, marginally lowered by 3%. Profit from operations was at Rs. 274 Crores, profit before tax was Rs. 152 Crores and after considering the tax provision, net profit after tax was at Rs. 107 Crores.

The company's consolidated net debt on 30th September stood at Rs. 6775 Crores. The quarter witnessed a sharp increase on account of currency translation; during the quarter the company's subsidiary Tata Chemicals North America has refinanced term loans in the USA to the extent of USD 315 million. TCL India too has entered into an agreement for refinancing the outstanding ECB of USD190 million consequently the entire outstanding un-amortized exchange loss that recognized under the Accounting Standards-11 have been written off and you will see a figure of Rs. 91 Crores which pertains to that figure in the stock exchange statement. As at the end of September '13 the subsidy outstanding was at Rs. 1199 Crores and has come down compared to Rs. 1753 Crores as on 31st March, 2013, however, subsidy collection are likely to remain a challenge during the balance portion of the current year.

That brings me to the end of my brief discussion on the financials and I would now like to put the floor open for questions.

Moderator

Participants, we will now begin the question and answer session. We have the first question from the line of Punit Gulati from HSBC. Please go ahead.

Punit Gulati

First of all if you can explain to me a little more on the financials of Tata Chemicals North America on the EBITDA margin, you seems to have done quite well but PBT is not reflecting the same kind of performance, if you can throw some light there, it will be great?

P.K. Ghose

Very clear you know, the issue is as I said, we have refinanced the outstanding loan there on much better terms there through our Term Loan-B arrangement and consequently the

unamortized non-cash costs which were outstanding has to be written off in the P&L as it normally happens when you refinance a loan, so approximately Rs. 60 Crores have been charged off to P&L as a one-time cost on account of the amortization which was pending as and when we refinance and repaid the existing loans.

Punit Gulati And also if you can explain me how you move from PBT to PAT after minority interest from Rs. 73 Crores of PBT you end up getting a PAT of only Rs. 28Crores I guess it was just tax and minority interest which I think is to the extent of 25% if you can help me reconcile these two numbers, it will be helpful?

P.K. Ghose What I can tell you up front the amortization costs are not part of the minority interest, so you do it in that context then you will be able to get the figures correctly.

Punit Gulati On the Europe business, have you taken any restructuring costs so far in relation to be shut down you have taken?

P.K. Ghose No, I do not think that we have taken anything yet; no restructuring costs have been taken so far.

Punit Gulati Just a little more clarity on the US business, last time you alluded to the fact that the energy cost is going up, is that still hurting you and which you can also share what is your cash to ore ratio?

R Mukundan I think in terms of our cash to ore ratio that keeps fluctuating, even at tiny margins and it is not substantially worsened or improved as far as we're concerned, the only issue that we would say is that there has been a royalty change in US, where in on the Federal leases which we have which is about 50% of our lease the royalty has been reduced by 2%, hence we have been moving to mining those areas where there is lower royalty so what impact it has on to the ash to ore ratio, we will have to see but it would not be substantial sort of shift but in any mine, as we go away from the main shaft, there are changes and the changes are usually not towards the downward trend and so I think that we keep a watch from time to time and we will see that the reserves are quite large for us to sort of to plot which way we need to move. So there'll be minor variations every year, so if you ask me what may be the impact of that, it could be in the region of \$1-\$2 million on an overall basis up or down depending upon which space we go.

Punit Gulati And argue also using the Deca Rehydration Recovery Process in your mines or?

R Mukundan There is a pond Deca Recovery Process which we are now using and it leads to additional volumes which is ramping up and is expectedly in the region of approximately 20,000 tons of

additional shift in the numbers, broadly it is basically instead of the tailing ending up in the pond which are recovered and put back into the system, this to improve the system.

Punit Gulati So 20,000 extra production every year?

R Mukundan When it fully stabilizes, as of now, we are running with only one third of the shift, so when we move to three shift operation, at that point of time it would probably be....

Punit Gulati Is it very capital intensive?

R Mukundan No, we have already made the investment, the unit is already operational.

Punit Gulati If you can share the ore number?

R Mukundan The specified number, we have never specifically highlighted that but I think we can internally check and sort of put it up because once you put it up then you have to release it every quarter, so we will, but all I would say that there is a minor variation and not major beyond that and for most producers it is the same band.

Moderator We have the next question from the line of Apoorva Saha from Dalal & Broacha. Please go ahead.

Apoorva Saha Can you help us to simplify the restructuring process undertaken in European business?

P.K. Ghose Basically what is happening is, last year, if you recall, we took an impairment charge because of the apparent demand of soda ash had come down not only in the short term but also in the medium-term, so accordingly what we have done is and that process is on just now, we have taken the power plant from the power supplier on our books in the month of September and right now there is a consultative process going on where the site will add value added product like sodium bicarbonate and maybe reduce soda ash volume that reconfiguration process is going on right now and there is a consultative process which the British government goes through so that will take up to the first week of December till it is officially announced, so you will have to just bear with us till that time when full details will be available.

Apoorva Saha But in meanwhile can you say how much production will be impacted because of shutting down Winnington facility for soda ash?

R Mukundan Between Winnington and Lostock, the capacities are pretty much neck and neck only issue being that as Mr. Ghose highlighted Winnington is not shutting down, Winnington soda ash is closing but it is getting reconfigured to produce bicarbonate.

- P.K. Ghose** I think what Mukundan was saying is that the site is not closing down **please be clear about it.**
- Apoorva Saha** For soda ash we're planning to close it?
- R Mukundan** Yeah, but that particular place it is getting reconfigured into sodium bicarbonate, soda ash may come down but bicarbonate may go up other things might happen.
- Apoorva Saha** After restructuring what will be a volume in soda ash and what will be for sodium bicarb?
- R Mukundan** Let me just highlight that we do envisage that if all goes well, the overall numbers will come down to the extent of I think approximately 50% or maybe 40% of the volume which we have in TCL as far as soda ash is concerned but that is being made up by traded volume which we are shipping in from US, so our market share is certainly not dipping, so we are certainly making sure that we are maintaining our market share in building the market and at the same time we are knocking down the unviable part of the production to make it more viable and as you know, the light ash which is used by light ash consumers like detergents and others cannot be easily substituted with dense ash, light ash can only be produced by synthetic process and hence it has a bit of premium in UK, so we will continue to make sure that our production of light ash is concentrated and our volumes are kept up and the dense ash is substituted with the imports from US that is really the configuration that is going on but because there is going to be traded volume, we would see the contribution margin probably dipping in Europe but at the same time because we are restructuring operations, certain fixed costs will go out and in return the EBITDA margins will be expected to turn into positive zone that is really what is our process which we are undertaking.
- Apoorva Saha** Can you share the contributions from British salt and EBITDA margins for the quarter?
- P.K. Ghose** EBITDA margins would be about 30% for British salt.
- Apoorva Saha** Is there any particular reason the margin is dipping on quarter-on-quarter basis?
- P.K. Ghose** Yeah there is a reason,, it is due to Ineos which is also the producer of salt who started to compete in market so it is a duopoly in the UK and it is due that reason.
- Apoorva Saha** But that was the thing when we acquired like at that point of time like that was the duopoly and the margin was around 50%, so from 50% that have come down to 30%, so I just wanted to understand what is the change going ahead?
- R Mukundan** In a duopoly, as you know that if one player goes from market share the other player tends to retaliate, so we have had a situation where Ineos has been dropping prices to gain market

share and we had to compete by dropping our prices to make sure that we get the number, so clearly the market shares doesn't change, the margins for both players goes down because one player wants to attack, so this is something which we cannot control. we can only wait for the market to settle down and then go back to normal margins.

Apoorva Saha So what is your view for near to the margin trajectory for British salt?

R Mukundan If you look at what happened, normally the margin compression is quite rapid, margin expansion is a very slow process in duopoly so that is the historical trend, so I would just leave it there. I am not going to go beyond that to guess its specific issues here because it depends on the policy adopted by the other players.

Apoorva Saha The last question is on gain on termination supply contracts that is only with Ineos or is it something else?

R Mukundan No, I think because of the restructuring there are some gains, so we had impairment in this quarter. We had a gain and we still are yet to book the restructuring cost which we only know at the end of the consultative process.

Apoorva Saha But our contract with Ineos is still on till FY16?

R Mukundan Yeah, for the first supply it is still on.

Moderator We have been a question from the line of Abhijit Akela from IIFL. Please go ahead.

Abhijit Akela First, just wanted to understand the reason for the interest expense spike this quarter, was that mainly because of foreign exchange the INR depreciation or was there some other reason?

P.K. Ghose You are talking the consolidated or the stand alone?

Abhijit Akela Consolidated where it is showing Rs.179 Crores.

P.K. Ghose Consolidated, I have just explained a little while ago that it was due to the refinancing of the loan in USA. **All un-amortized** finance and legal costs had to be charged off upfront when you do refinancing and repay your existing loans. **what I were unamortized cost of there have to be charged out with** this non-cash costs and that has been to the extent of Rs. 60 Crores but in terms of the debt cost, the interest costs have come down everywhere and you will see that impact going forward as you can see probably even in the quarter standalone where you would have seen a Rs. 9 Crores or a Rs. 10 Crores reduction in the interest cost.

- R Mukundan** Just to highlight what Mr. Ghose has said, I think, this quarter the changes which you see on the financial as well as the AS11 charges will go to make the balance sheet more robust, so fundamentally the finance cost should return back to normalcy or maybe slightly lower, if you look at the past quarters of the normal finance cost. As far as the exchange AS11 are concerned, while it is 91 this year, this quarter it will be very close to 0 because we don't have any more exposure on that account, so we have done both issues that there is no AS11 exposure for the company, there is a very minor one \$25 million which we are trying to get hold of, other than that there is no major AS11 hits. As well as the finance cost are being brought down for the overall borrowing so that our finance costs remain more robust, so the spike which you see on both accounts are one-time.
- Abhijit Akela** Just to clarify, so this is Rs 60 Crores one-time hit in the interest expense line and there is Rs. 55 Crores one-time hit in the Rs. 91 Crores...?
- R Mukundan** Rs.91 Crores not Rs. 55 Crores, so Rs. 151 Crores broadly is the hit.
- Abhijit Akela** Just on the North American business what was the reason why the margin has come back so quickly back to old levels and do you see that sustaining and what is your outlook there?
- R Mukundan** Yeah, robust cost control, I believe. They have implemented robust cost control and you have seen the 1st Quarter margins were down to post that the management has taken action to introduce cost control in various areas including maintenance cost, and raw material cost etc. and that has shown the improvement margin and hopefully it will reflect further in the next few quarters.
- Abhijit Akela** And in terms of the pricing there, has there been any upside reset or are we still waiting for that?
- R Mukundan** I think, reset will take time, as we said we are in the negotiation zone as of now so the annual contracts as they get finalized, we will see, but in general the market situation is quite positive and the inventory overhang is also reducing and we do believe that there is going to be a plus move on soda ash pricing but it probably is going to be not of the reason which we need so I would suggest that we all look at it as a cautious uptrend as of now.
- Abhijit Akela** Just on UK restructuring, is it possible to give any kind of financial sort of direction in terms of what the impact of all these measures would be, does the UK plant potentially come back to profitability at the net level or what are we anticipating over there?

- P.K. Ghose** We will have to wait a little bit as I mentioned there will be more clarity on the entire reconfiguration of the plant by December or the appropriate time to really give you some insight will be the next quarter.
- R Mukundan** Absolutely correct and just to add to that I think once we are clear about the outcome of the consultation we will know exactly the one-time charge out which we need to do to go through the restructuring as well as what impact it has on a continuing operational basis but the discussion with the all stakeholders which means the government and the union is to return the operations to robustness so they also recognize that it is in their interest that they have a robust profitable operation so everybody is working for the same goal. **DO we have to put this...we can remove for time being**
- Abhijit Akela** Any update you can give us on Magadi restructuring plans and also on the EPM update out there in the US?
- R Mukundan** On Magadi, we probably would be in a better shape to inform in the next quarter. We have had two to three rounds of various reviews as you know that we had almost finalized with our plan and the new mining law came into play which threw the entire plant out of the gear so you had to sort of work again from zero start to get it to a stage because as per the law the royalty rate would have jumped significantly from less than 1% to 5% it took out the complete winds out of our operational restructuring so we are going through the review process and the next quarter we hope to finish it and come back to you with specifics of what options remain but this mining work change has made it extremely challenging for us, so we have also highlighted that and we are also hoping that the consultative process yield some return in terms of let's say not the kind of steep increase which we have seen in the mining royalty but that is something which is still in the process of being worked out and in the quarter we will come back. On EPM PK, you want to add?
- P.K. Ghose** EPM, What is happening is that right now you must have seen in the press as well as their website that they have just released their prefeasibility report summary which appears to be encouraging. Their feasibility report will come out only sometime next year at this time of year and it is at that point of time that we will know the entire details of the project so that is the position on the EPM just know. We will take a call at the appropriate time whether we need further investments in this project and at what time.
- R Mukundan** But as of now, we remain a 25% shareholder, that is about it.
- Abhijit Akela** In there any CAPEX budget for this year that we can share?
- P.K. Ghose** Rs. 150 Crores, mainly is a sustenance CAPEX.

Abhijit Akela	With land use of free cash flow would be mainly debt repayment?
P.K. Ghose	Yes, very clearly.
Moderator	We have been a question from a line of Vaibhav Goyal from SBI Life. Please go ahead.
Vaibhav Goyal	Exactly I was looking to understand the minority interest proportion with increased probably this quarter, was it related to exchange difference or something else?
P.K. Ghose	The minority interest is basically only two companies which is Tata Chemicals North America and Rallis and these two make up the entire thing. I mentioned earlier in answer to somebody's question that this excludes the amortization Rs. 60 Crores which we have taken obviously so net of that I think, you will find the figures are in line.
Moderator	We have the next question from a line of Abhijeet Dey from BNP Paribas Mutual Fund. Please go ahead.
Abhijeet Dey	Just wanted to know one thing what was the reason behind the sharp increase in power and fuel cost in the consolidated numbers?
R Mukundan	The power and fuel cost mainly is on account that we took over the power plant, one big item is the power plant in Europe which we have acquired and hence the entire cost is on us today.
Abhijeet Dey	But that happened only in September, I believe?
P.K. Ghose	Yes, that happened in September. But generally I think there is an increase in energy costs across.
Moderator	We have the next question from the line of Balwinder Singh from Prabhudas Lilladhar. Please go ahead.
Balwinder Singh	Regarding the interest cost, I missed that part so if you could just clarify apart from Rs.91 Crores that is there in exceptional items, what is the other amount in your interest cost, consolidated?
P.K. Ghose	The other amount is once you refinance and repay an existing loan, the un-amortized cost have to be charged out in the profit and loss account, it is a non-cash impact so we did this refinancing in USA and repaid the existing loan to replace it with a cheaper and much more interest light and covenant like loan, so as a result of this, an amount was charged in the P&L which was Rs. 60 Crores.

- Balwinder Singh** So it was included in your finance cost of Rs.179 Crores?
- P.K. Ghose** That is right.
- Balwinder Singh** On the standalone fertilizer side what I wanted to understand is since your global DAP prices have fallen substantially so how does that impact the manufacturing business as trader can again go aggressive in the market?
- R Mukundan** That is true I think you have highlighted the right point. I think in DAP in phosphatic side trading has been more stable than manufacturing and that trend has remained even if prices go up, trading in DAP will be more profitable than manufacturing, of course, high prices protect some bit of domestic granulation but clearly it is not going to be substantial.
- Balwinder Singh** Lastly on the UK business we will be able to get clarity only next quarter?
- P.K. Ghose** That is right.
- Balwinder Singh** And do you think what timeline if you could give a guess as to how much time it would take to restructure the operations and return to a profitable?
- P.K. Ghose** The current plan is in about a year's time.
- R Mukundan** I think, the restructuring itself charged off will be done if all goes well in the next quarter itself because we will take the full charge next quarter and as far as the implementation of that is concerned it may take 3 to 4 months to get the restructuring plan through and hence the full impact will be seen within the next year rather than this year, hopefully, we will begin to see the shift. So as far as the financial year is concerned in India not the calendar year we should begin to capture some of the shifts which happen.
- Moderator** We have the next question from the line of Rohan Gupta from Emkay Global. Please go ahead.
- Rohan Gupta** **Just understanding** about other expenditures in standalone, there has been reduction in that, any particular reason for that?
- P.K. Ghose** It is the loan that we have been paying off and the hedging costs pertaining to that.
- Rohan Gupta** What benefit has been there in the reduction in other expenditure because of the lower hedging cost?
- P.K. Ghose** No, it is because of having paid off debt, the debt repaid that is the simple thing that's all.

- Rohan Gupta** So can we take this current quarter other expenses as a normalized expenses going forward?
- P.K. Ghose** Other expenses constitutes many items, now this quarter your hedging cost has been effected because of the reasons I explained but other expenses constitutes many things so you cannot take a standard other expenses cost because there is trading involved, so many other things involved.
- Rohan Gupta** Because this has contributed to increasing in our EBITDA margin in standalone operations, so just wanted to check whether these kind of margins are likely to remain there or they are going to be effected?
- P.K. Ghose** No, I again clarify that hedging cost is one item, other expenses constitute various other items too, we depend on those, for instance if trading is higher or lower, it gets effected, so I think you have to go by other expenses something which we cannot predict that it will remain at that level throughout.
- Rohan Gupta** Second, the domestic and standalone operations only, we have seen a very good margins in domestic Soda Ash business once again in inorganic chemicals so. despite the increase in power and fuel cost and other things, we have seen a good margin, **so was the currency benefit has contributed strong or huge volatility in the currency has contributed these margin expansion in the current quarter which may expect that may come down in near future or we will likely to remain at the current level margins?**
- Ranjeev Lodha** Rohan, there is no currency impact on the standalone EBITDA margins and the power cost that you mentioned, the increase is largely because of Babrala may be energy prices high and which is largely in the nature of a pass through.
- Rohan Gupta** So the inorganic chemical margins in the current quarter are likely to remain there going forward also?
- R Mukundan** Yeah, I think this is a fair assessment to make except for the fact that the production cost in the interim, in the current quarter which is running post September will continue to see a higher level cost structure than what it was last year because of unseasonal late rain. If you recall Gujarat received almost towards the end of September very high rain, you would have seen in the papers that highway to Surat and all that was blocked and that has substantially increased the power and fuel consumption for our operations and that may impact for the current quarter but largely if you look at an annual figure your assumption is right.
- Rohan Gupta** As you have just made a statement that trading in complex fertilizers is now in fact more sustainable and profitable or you can say lucrative proposal going forward, so does it indicate

that that the manufacturers will continue to face problem in a domestic market or in the current environment and people will go more on trading as far as the complex fertilizers is concerned?

R Mukundan

As I said that if you look at even our domestic manufacturing, we only do granulation here which is very low value added activity and in relation to the fixed cost we remain quite, I would say not positively inclined on that side, so our view remains that the value addition is very limited, it is far better to trade especially when your product cost is so high, it is better to have a shorter cycle time, trading affords the shorter cycle time than granulation operation.

Rohan Gupta

You have also highlighted about the subsidy issues which may be there in the second half, so considering that also company will depend a lot on trading, I mean, you will continually focus on trading in the second half?

R Mukundan

No, while trading may be profitable it is also quite I would say cash drain on the company because the subsidy collection is the big challenge from the government and we see no change in that situation, so we will remain cautious and we have set up internal limits on how much we can go and will stick to those limits.

Rohan Gupta

Coming to that international operations in US, we can see that operational profit from our US subsidiary is almost highest so far ever reported at least in a rupee term in the numbers, just because of some currency gain is there because of the dollar movement in the quarter or you expect that now because of the cost efficiency which we have improved there in US operations the margin and top line is likely to remain there going forward also in medium-term?

P.K. Ghose

I think the impact of exchange rate on the US operations if you take the full half-year, not the quarter only is close to about Rs.30 Crores.

Rohan Gupta

At EBITDA levels?

P.K. Ghose

At the EBITDA levels.

Rohan Gupta

Any particular reason that you would have stopped giving the fertilizer production and volume data in your presentation because it was really very helpful?

P.K. Ghose

No, I don't think, we are giving it.

Rohan Gupta

It was missing in the current quarter presentation at least we did not get it so it would be great, if you can just distribute those numbers?

- P.K. Ghose** The presentation copy which I made yesterday has all the figures here so I don't know which one you are referring.
- R Mukundan** I have sent you the updated copy yesterday only, Rohan, it is there in that. In the slide on farm essentials there is the phosphatic and nitrogen volumes are given.
- Moderator** We have the next follow-up question from the line of Punit Gulati from HSBC. Please go ahead.
- Punit Gulati** Just wanted to understand a little bit on the European business again, you said you purchased a power plant, how big is this plant and what was the price you paid for that?
- P.K. Ghose** As I mentioned Punit, the consultative process is just now on, there is confidentiality in the agreement. We will be able to disclose most of the details you are asking for only after the next quarter.
- Punit Gulati** This is also part of the restructuring?
- R Mukundan** As Mr. Ghose explained the power plant is in our site it needs to be run by E.ON. It continues to be run by E.ON but as soon as it is transferred to us so that we can take an overall let's say consolidated view of the entire site when we restructure the Winnington site and it enables us to do that as a holistic process rather than as a piece meal process and that process is on as of now.
- Punit Gulati** But has that cost been recognized in the accounts?
- P.K. Ghose** Yes, it has been recognized.
- R Mukundan** Yes, it is being recognized and the reason that we are not specifically highlighting all, is that in the next quarter we will come out with the overall details of what has happened.
- Punit Gulati** Lastly, also if you can highlight what is the pension liability for the entire Europe business?
- P.K. Ghose** Pension liability, the determination happens at the end of every year or during the course, there are two different methods one is what the trustees adopt, one is what the government does in their official system which is under FRS-17 in UK, those figures are available only at the end of the year. So you should go by whatever was the figure on the 31st March last year which we disclosed, I think and then wait for another year because the exercise takes time and while the exercise is done every year, the government's position is that they do it every three years to reconfirm what is the position.

- R Mukundan** Pension fund liability I just want to highlight one more thing that the bulk of the deficit is also seen in ballooning up when the interest rates are low and you would all appreciate that interest rates are artificially low in Europe as well as in the current context and they will rise up, as they rise up the deficit automatically starts to fall back in and that is something which is a phenomenon we have seen in the last three, four, five years when the international interest rates have dropped plummeted, our deficit numbers have tended to increase.
- Punit Gulati** just on the accounting again in your segmented result there is an item called net unallocated expenditures, what is that allude to that seems to have gone up this quarter.
- R Mukundan** These are all corporate and related expenses which are not associated to any particular segment.
- Punit Gulati** So they have gone up from Rs.58 Crores last quarter to Rs. 83 Crores just wondering?
- R Mukundan** If you see in the standalone for the half-year it is almost at the same level, Rs. 100 Crores to Rs. 108 Crores.
- Punit Gulati** But for quarter it has so just wondering?
- R Mukundan** There could be a phasing of expenditures so that is the reason.
- Moderator** We have the next question from the line of Atul Rastogi from CIMB. Please go ahead.
- Atul Rastogi** Firstly on the balance sheet there are just one or two queries, on the goodwill that has gone up substantially so that is primarily due to exchange rate or is there something..?
- P.K. Ghose** Yes, it is. It is about close to Rs. 1000 Crores on account of currency translation.
- Atul Rastogi** Secondly, on the debt side in dollar terms has there been any reduction in debt because rupee terms the debt is almost same QoQ?
- P.K. Ghose** We have repaid the substantial amount of debt in the quarter about Rs. 1045 Crores which is Rs. 95 million ECP in India, we have the subsidy facility from State Bank if you recall some time ago on the subsidy part about Rs.180 Crores there and some others in terms of buyers credit and all that, so overall I think Rs.1045 Crores was reduced but it has been offset by about close to Rs.1000 Crores of foreign currency translation but you've got to remember that these foreign currency translation need not necessarily devolve on us because most of it is pertaining to overseas units.
- Atul Rastogi** So in terms of interest cost these repayments should have an impact going forward?

- P.K. Ghose** Correct.
- Atul Rastogi** Just one thing on the salt volumes, they have been flat for the first half, now I thought because there was some capacity expansion there, so when will you start seeing the impact of that?
- P.K. Ghose** There is a reduction in volumes of I think about 1000 tons. I think compared to the last year, if you see the quarter 229 to 230 and when you talked about expansion clearly when we increased our capacity, those volumes we are in any case seeing. The traded portion which is the I-Shakti that have come down but not Tata Salt.
- Atul Rastogi** And just lastly on the soda ash domestic business again, you would have expected some higher realization due to the domestic prices being reset on imported soda ash so has that really happened or because your revenue numbers ..?
- R Mukundan** That is the normal expectation what should have happened but if you really see what is turned out is that the environment where increasing the prices has been set up. What happened as the consequence of the rupee depreciation is that the imports went down, the pipeline stock which were there in the system dried up, so now the conditions are right for price change which has already been effected I guess, we have already effected a Rs.600 price increase but the situation is right to keep watching how much we can move.
- Atul Rastogi** So this price increase happened in October?
- R Mukundan** Yeah, sometime towards the end of the quarter not in the beginning, right towards the end.
- Moderator** We have the next question from the line of Gauri Anand from PhillipCapital. Please go ahead.
- Gauri Anand** Just seek your help in understanding BMGL numbers, see the top-line we see a decent growth, EBITDA it is squeeze Rs.3 Crores, the PBT level there is surge in profit towards Rs.50 Crores and again lost in the PAT, so I want to understand what has led to this EBITDA squeeze to Rs. 3 Crores and then thereafter a rise in the PBT level?
- P.K. Ghose** Once your volume keeps coming down in soda ash as a part of the reconfiguration you would find a reduction in the EBITDA, so that is fundamentally the reason why and of course there are some increase in energy cost and energy cost have also been effected by currency translation if you see under the Indian GAAP. At the bottom line level as I have explained earlier in one of the questions there is a receipt arising out of some contractual agreements of about Rs.150 Crores which has been receipt by UK.

- Gauri Anand** But still here the sales have gone up so is there any one-off charge you can quantify which is hurting the EBITDA so severely?
- P.K. Ghose** There is no one-off charge there.
- Gauri Anand** In case of GSAP because the EBITDA implementation is so sharp, it is also to do with the gas prices in the US last quarter fell about 13% of 15% odd if you could just give us a **break of** as to this jump is on account of what part of it is attributable to the energy cost and others?
- P.K. Ghose** I think what we will do is post the call we will ask Ranjeev to give you the breakup but one of the reasons for EBITDA increase also which again a previous question was that a little bit of it is also due to currency translation.
- Gauri Anand** Yeah that I understand.
- P.K. Ghose** Net of that you were to see and there is an improvement in EBITDA margins from 24% to 26% compared to last year, so 2% increase and the breakup between energy and other cost we will furnish to you.
- Moderator** We have ~~been~~ a follow-up question from the line of Abhijit Akela from IIFL. Please go ahead.
- Abhijit Akela** Just on the North American business, could you also update us on the status of the coal purchase contract out there, are we expecting a reset to lower coal cost sometime in the future?
- R Mukundan** We are in the midst of looking at options there and certainly there is a room as you said in terms of reset of the coal price downwards. We will quantify that specifically in the next conference call during the next quarter.
- Abhijit Akela** So basically both the price reset on the soda ash as well as this cost of reset on the coal both of these could happen within the next 3 to 4 months could **that is fair to understand?**
- R Mukundan** The coal is almost done but we will give specific view in the next quarter and the pricing negotiations are on, so that is not so much in the bag.
- Abhijit Akela** In the UK, I believe you were in the process of setting up this waste to energy plant in order to save on energy cost, what is the status on that and what percentage of our total energy needs in the UK will this plant meet?
- R Mukundan** We have got the planning permission but as of now if you ask me we are extremely focused on getting our operation right to the current energy structure so we are not looking at it, we

just want to make sure we restructure our operations to a level where it is so the coal is profitable then we will take a call on it but all I can say is the planning permission there in the bag and we will take that as a second issue after we finished the current process in UK.

Abhijit Akela

Just one final thing on the competitive situation out there in Europe, any update on the Turkish expansion plans for soda ash and any implications that might have on our UK or African operations?

R Mukundan

The Turkish expansion we will have to wait and keep watching it, so it is an impact but if you really look at it the way we see the Penrith shutdown happened in Australia, we had the Portuguese plant being announced by Solvay, we are undertaking a let's say restructuring of plants in UK so overall if you look at the market scenario as we do, about 1.2 million tons being taken off the table, so we actually don't see any fresh capacities coming on and this is going to lead the realignment of the inventory levels hopefully for the better power of pricing so we'll have to wait and watch what happens with all these changes but we don't see any negative bias coming from capacity at least for a year or two.

Moderator

Participants that was the last question, I now hand the floor back to Mr. Nikhil Gholani for closing comments. Over to you Sir.

Nikhil Gholani

We would like to thank all the participants for their time. Thank you Mr. Mukundan, Mr. Ghose, and Ranjeev for a detailed discussion of the results. Thanks all and have a very nice day.

Moderator

Ladies and gentlemen on behalf of Tata Securities that concludes this conference call. Thank you for joining us, you may now disconnect your lines.