TATA CHEMICALS LIMITED

"Tata Chemicals Limited Q2 FY-16 Results Conference Call"

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TATA CHEMICALS LIMITED

TATA SECURITIES

CHORUS CALL®

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Moderator: Ladies and gentlemen good day and welcome to the Tata Chemicals Q2 FY16 Results Discussion Conference Call hosted by Tata Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Subham Sinha of Tata Securities. Thank you and over to you, sir.

Subham Sinha: Good morning. This is Subham Sinha from Tata Securities Limited. I welcome everyone to the Q2 FY16 conference call of Tata Chemicals Limited. We have here with us Mr. R. Mukundan, the MD of the Company, Mr. John Mulhall – CFO and Mr. Ranjeev Lodha who is VP & Group Corporate Controller to discuss the numbers. I now invite the management to take over.

R. Mukundan: Thank you Subham. This is Mukundan from Tata Chemicals, at the outset I want to welcome all of you and also my colleagues, especially John Mulhall who has joined us as the CFO and Ranjeev who is on the call. We will start briefly by sharing some key highlights of our operating performance following which Mr. Mulhall will share the key financial details. After this we will be happy to respond your queries.

Before I get into the operational performance I would like to mention some of the key highlights:

1. The company launched its range of spices in the North capital region and the Northern states in September 2015 under the brand Tata Sampann and this will be the brand for spices, pulses and other food portfolio products going forward.
2. The operating performance of Magadi has been encouraging with improved volumes in line with our expectations and this is reflected in the EBITDA and the PAT.
3. ~~1.~~3. Lastly we are also happy to announce that the steam turbine is fully commissioned at the plant in UK. It was initially commissioned at the beginning of the month with about 8 MW capacity but it is now operating at full capacity of about 12 MW. The operations in UK are being closely monitored with this shift.

Now coming to the Q2 FY16 results; broadly I would say that there has been an improvement in the Indian chemicals and the consumer businesses. However, within India, we faced headwinds in the farm business, partly due to the uneven and late monsoon in some parts of the country which has adversely impacted the overall profits which are almost at a standstill despite improvement in the inorganic chemicals and in the consumers business.

The demand for soda ash in the domestic market is stable. The manufacturing at the Indian facility was to the plan. Similarly, production was also to the plan in UK and in Magadi. At Tata Chemicals North America we continued to face operational issues that impacted volumes.

We have taken a major shutdown in September and early October and we hopefully should now be getting back to improved production reliability at Tata Chemicals North America.

There is a mark to market issue in Tata Chemicals Europe performance. But this is purely a gas hedge which was taken which should come back to us as we move along during the course of the tenure of the gas hedge. John will explain this during his part when he explains the financial results.

Internationally, the demand is stable. On soda ash we are seeing pricing pressures coming in and these pressures probably could be seen towards the next calendar year. This year we would probably not see the pressures playing into our numbers that means that the third quarter would remain even but there could be some pressures in the fourth quarter.

The consumer business portfolio witnessed steady demand and it continues to grow. Our market share in the salt segment is 67.3% and growth in terms of revenue and distribution has been excellent. Pulses have grown by over 70% in volume terms . The urea facility at Babrala performed in line with expectations and we expect to deliver to the budget performance as far as Babrala is concerned. At Haldia where we manufacture complex fertilizers, there has been dip in the margins mainly on account of higher input cost. Overall the fertilizer business continues to be impacted by outstanding subsidy which is impacting the working capital interest cost. All in all there is also weakness seen in the performance of Other agri-input business which is also a branded product portfolio within Tata Chemicals, Rallis and Metahelix, mainly due to weak market conditions driven by adverse weather conditions in India, and for Rallis it was also the adverse weather conditions in overseas markets like Brazil.

Going forward, we will continue to focus on the non-subsidized agri-portfolio as well as the consumer portfolio and their share in the overall business continues to increase. The challenge will be in the farm facing business, mainly in the fertilizer business and we continue to engage with that piece with the government in terms of ensuring that subsidy payments are released on time. We would also be closely monitoring the level of market outstandings which need to be controlled to a satisfactory level.

The focus going forward also is going to be improve the reliability of the plant at Tata Chemicals North America which would partly be off-set by some of the pricing pressure which we may face in the market place as we move forward in the next calendar year. We remain confident of delivering the year's performance and also look forward to the future with greater confidence as we change the portfolio towards more consumer oriented business. With these few words I now hand over to John to give us some insights on the financial performance.

John Mulhall: Thank you Mukund and good morning everyone. I would like to briefly recap on financials for Quarter 2 of the Fiscal Year 2016. On a consolidated basis, net income for the quarter stood at Rs.4,997 crores, up 4% driven by an increase witnessed across all segments except for the agri-inputs business and that was reflected by weak market conditions. Our profit from operations, was down just by 5~~a~~ crore at Rs. 642 crores compared to Rs.647 crores for the same quarter last year and this is again due to lower profitability from the farm side. Profit after tax and adjusting for minority interest is Rs.255 crores just Rs.2 crores below the same quarter last year.

On a standalone basis, the net income for the quarter was Rs.3,056 crores up 8% or Rs.216 crores from last year's Rs.2,840 crores. Again profit from operations was down slightly at Rs.310 crores against Rs.322 crores this quarter last year for reasons we've already described and Mukund alluded to as well.

Profit before tax was Rs.263 crores against Rs.273 crores last year. Profit after tax was Rs.192 crores compared to Rs.209 crores in the corresponding quarter last year.

The company's net debt as on 30th September 2015 stood at Rs.1,801 crores compared to Rs.2,142 crores at the end of March 2015. This reduction in debt is primarily due to timing of receipt of outstanding subsidy payments.

On a consolidated basis, the net debt stood at Rs.6,721 crores against Rs.6,909 crores in March. The consolidated net debt is after taking into account Rs.312 crores due to the currency translation of US$ and GBP debt in~~-~~to rupees. The company holds cash and cash equivalent balances of Rs.1,781 crores on consolidated basis at the end of the quarter and the subsidy stood at Rs.1,005 crores compared to Rs.1,972 crores at March 2015. Whilst this amount has reduced, the outstanding balance continues to be in excess of the normal levels.

To summarize, we saw an improved performance on domestic soda ash and salt businesses, encouraging performance in Magadi and IMACID and improved volumes of the pulses portfolio. However the rising input cost for complex fertilizers including DAP and MOP and the reduced production in North America have impacted the overall performance. This brings me to the end of my discussion and I would like to throw the floor open for any questions.

Moderator: Thank you sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel: I have two questions, one with regard to your consumer business. We are reading in the presentation that it has reported at 35% revenue growth. If you see the performance of other segments in the standalone which is largely consumer business, we can calculate that there has been a decent growth on salt business as well. What we are trying to understand, how is the profitability overall has moved in the segment now that we are seeing the sharp profitability improvement in the inorganic chemical in the standalone, so how should we read it? Has the contribution in profitability from the salt segment has also gone up?

Ranjeev Lodha: Prakash to answer your question I think the profitability of the consumer business and the chemicals business overall at India level has gone up.

Prakash Goel: Basically what we are trying to infer is that we have seen a sharp improvement in the sales if we tried to calculate the numbers assuming that total top-line of the consumer segment is 15 billion and the number which is available, we can calculate around 19% to 20% sales growth for the salt business so what kind of corresponding profitability growth would have been also there that is what I'm trying to understand?

Ranjeev Lodha: We don't give those numbers Prakash. As a policy we have never been talking about the individual consumer or product numbers since this is not identified as a segment.

Prakash Goel: What will be the threshold turnover level the company would start reporting the…

Ranjeev Lodha: We will come back to you and when we decide to report. At the moment we don't have any plans to do that.

Prakash Goel: That will help us in a great way to evaluate the company because the way the business is evaluated externally; it has a great bearing whether it's a consumer business or a commodity business. The second question I move forward to is, what has happened, why the inventory has gone up and the debt reduction has not happened as been discussed or as been planned?

John Mulhall: You're talking about India or consolidated?

Prakash Goel: Both.

John Mulhall: Well that is related to same thing. It really reflects the increase in trading of fertilizers especially with the change in portfolio. Last year while we produced DAP at our Haldia facility, this year we switched to manufacture NPK at Haldia and trade in MOP and DAP. The season for sale of NPK is actually now but we cannot only manufacture in two to three quarters of the year, so we will be manufacturing NPK product throughout the year, building up stock and selling it down over the next couple of months. At the same time we are going to increase our purchase of DAP from abroad. There has also been the impact due to some timing of receipt of coking coal into Mithapur facility as well as some sales for Rallis.

Prakash Goel: Is there any one-off in the interest cost this quarter?

John Mulhall: If you look at in the interest cost in the quarter in year-to-date that’s where we allocate the mark to market adjustment.

Prakash Goel: Would you be able to share the number of adjustment?

John Mulhall: Rs 31 crores in the quarter and Rs 44 crores year to date.

Ranjeev Lodha: And that's in the consolidated account.

Prakash Goel: So it will be broadly in the run rate of Rs 110 crores per quarter that so we see?

John Mulhall: Running interest?

Prakash Goel: Yes so if you eliminate the Rs 31 crores the mark to market losses.

Moderator: Thank you Mr. Shah. We have a next question from the line of Saurabh Gupta from Quantum Assets. Please go ahead.

Saurabh Gupta: My question pertains to again consumer business, on the pulses side can you give us some sense on what will be the capital employed in that business in terms of working capital?

Ranjeev Lodha: There is no capital per se excepting the inventory which is in the trade and the trade debtors and typically these are quick trade debtors so it's not something which is very significantly visible on our financials.

Saurabh Gupta: What would be our quarterly run rate of the advertising spend that we are doing for the pulses business, any broad sense on that?

Ranjeev Lodha: Advertisement we don't do it as a quarterly program. There is no quarter run rate right now. The business is in the growth stage so there will be spurts of expenditure and then there will be a season where we won't spend. There is nothing which we can say as a quarterly run rate.

Saurabh Gupta: Any annual number as a percentage to sale you can give us that you plan to spend that will have an impact on the P&L?

Ranjeev Lodha: As a % to sales, on a standalone basis it is just under 1%

John Mulhall: We are launching a couple of products this year so probably slightly up.

Moderator: Thank you Mr. Gupta. We have a next question from the line of Abhijit Akela from IIFL. Please go ahead.

Abhijit Akela: First just on the balance sheet again on the inventories in particular. So over the last 18 months from March 2014 to now we've seen the inventory is almost doubling from Rs.1600 crores to Rs.3400 crores now. Is that mainly because of this increase in traded imported DAP and so is there a plan to bring it down, are you confident of doing that given the weaker agricultural environment?

R. Mukundan: I think as John has already explained and as I alluded to this even in the last call, we switched from DAP to NPK production in Haldia mainly to make sure that we were producing profitable products. NPK sales are fairly seasonal and a season is currently on. By the end of this third quarter the NPK stock should be in the marketplace and then of course we have the collection of subsidy and the collection of the payments from market but that should follow a similar pattern. There has also been imported DAP which is being brought in to compensate for reduction of our own DAP production. So that's led to the increase and you would see a wind down to normal levels as soon as the season is over which is the Rabi; which is on us as of now. We don't anticipate major issues in terms of demand for fertilizer as such. The concern which we have is that while you would see the subsidy numbers come down from Rs1,900 to Rs1,000 that is only going to climb back again to normal number and if the payments from government continue to be at the similar pace which means you would see anywhere between Rs 1,600 to Rs 1,900 crores by the time the year ends because of the fact that this has been the new norm which is being established after delayed payments of about 30,000 crores odd which the government has not dispersed.

Abhijeet Akela: Is there a target cash generation or free cash flow number for this year that you could point to us?

John Mulhall~~n~~: Free cash flows for the six months is just shy of 890 crores in consolidated basis.

Abhijeet Akela: Then on the chemical side--India chemicals I am talking about—we've seen a really good improvement in margins, just to understand whether this is because of lower input costs in India or is it because of shift in mix towards salt?

John Mulhall: No, I think you are right on the first point, it has done well due to lower energy cost.

Abhijeet Akela: And this is sustainable do you think going forward over the rest of the year?

R. Mukundan: The energy cost would be sustainable across the globe because we don't see any fresh contracts in fact the recent corporate contracts are at the current level and in some cases are also slightly going down further.

Abhijeet Akela: So despite the pricing pressures that you alluded to going into CY 2016, the reduction in energy costs should help us to largely sustain our margins at the current level, would you expect that?

R. Mukundan: I would say in soda ash the price reduction will be much clearer by the end of this third quarter which is around the December. There will be a reduction in margins but that's probably going to be reduced because of the fact that input costs are reducing.

Abhijeet Akela: When do we see the US capacity coming back in a full way, will it happen in the third quarter or is the wait still longer than that?

R. Mukundan: We are really working hard to get it up. We lost close to 50,000 tons this quarter and we don't think we can afford to keep losing that. We have taken a big shut down in the middle of October. So hopefully we should be back to normal. Let's watch this quarter for that performance but we remain confident that most of the issues have been addressed.

Abhijeet Akela: On the pulses side how do you see this volatility in the end product prices impacting your business model? Were there any inventory gains this quarter because of the sharp jump in pulses prices?

R. Mukundan: I would not allude to that, our business model is fairly clear that we do harvest time sourcing to have at least better stability in our input cost and then we sell during the year. The next season for harvest is in end December so we would get our numbers clear by then. But as of now we are on target to hit our budgets.

Moderator: Thank you Mr. Akela. We have a next question from the line of Sumant Kumar from Elara Securities. Please go ahead.

Sumant Kumar: For US business we have seen a de-growth of 5% to 8% from Q4 FY 15 and Q1 also it was a de-growth and again the subdued performance in Q2 FY 16. So what is actually the issue at the operating level? Also we have not seen an encouraging performance so what is the issue and what are we doing to address the problem?

R. Mukundan: The fundamental issue as we explained is we lost about 50,000 tons of production. This quarter you would have seen not just the impact on the production loss but also higher maintenance spends we have incurred to get back the equipment reliability. The benefit of the additional spend in terms of the equipment should flow through in the coming quarters and the fundamental issue is production reliability which has been impacting us for the last 2-3 quarters.

Sumant Kumar: But what is the problem, why we are losing the production, is it a technical issue?

R. Mukundan: It's just equipment reliability so if one of the equipment goes down we lose certain hours of production to get it back. We are spending more on the asset healthcare and that should get addressed.

Sumant Kumar: What about the margin front?

R. Mukundan: Margins are stable. As I said and the negotiation process for the next calendar year could see some impact on the export front but that's what we are managing; whether we get it within the cost reduction or it's going to be slightly higher than the cost reduction.

Sumant Kumar: So can we expect our margin expansion due to cost improvement?

R. Mukundan: Cost will improve but there is going to be pressure from the pricing front. We are not in at position to comment at the moment. You will have to watch out for the Q4 performance to really get to where is it headed.

Moderator: Thank you Mr. Kumar. We have a next question from the line of Sneha Talreja from Emkay Global. Please go ahead.

Sneha Talreja: The question is with regard to soda ash segment, as you said from Q4 onwards you can see the price revision for the global market. What about our domestic market, are we seeing price pressures since now only?

R. Mukundan: Domestic market is slightly more complicated since it is also dependent on the rupee-dollar movement. If the rupee depreciates we may not see any erosion but it is really up to where the rupee dollar is going so we are watching that space. If interest rates in the US rise, rupee will move in relation to that so we are not at this point able to predict what will happen. But clearly they are selling at import parity price but when we say import parity it is rupee price so how it gets back in rupee is also dependent on dollar rupee parity.

Sneha Talreja: So are we seeing some supply pressure from China I mean increasing dumping because of their slowdown in the domestic market?

R. Mukundan: We are seeing reduction in prices out of China, we are not seeing dumping from China.

Sneha Talreja: So till now we have not taken any price decline on either of our markets?

R. Mukundan: We would see that come through in contracts that are being negotiated for Q4 of this year.

Sneha Talreja: That will be for the global market, for domestic as such we don't have any contracts, it's based on the spot market if I'm not wrong?

R. Mukundan: There is a combination of contracts, we also have quarterly contracts. We will highlight at the end of the third quarter what exactly has happened.

Moderator: Thank you ma'am. We have a next question from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Just delving on the point of your cautious outlook on the soda ash prices going forward. It is the demand contraction domestically and also international in continuation with other commodities that you are seeing the decline in prices going forward if you could add some more color to it?

R. Mukundan: We are not seeing demand contraction in India or any Asian market or South American market; we continue to be in growth markets. We are also seeing fairly stable demand in the UK and the US. There is a slight demand contraction which has happened in China or it has not grown at the same rate as before. But in soda ash Chinese supply growth also has not happened so the gap remains the same. This pricing pressure is primarily coming out of freight reduction. The freight out of China has reduced, especially the container freight. In addition to that we are also seeing that the debt costs have reduced exactly in line with what we have seen within our own business which is leading to the suppliers being able to pass on some of those changes to the buyers. So more than any big shifts in supply demand dynamics it's more coming out of the cost structure changes which have happened out of China.

Saket Kapoor: Have we seen any inventory built-up also in soda ash segment particularly for the last two months?

R. Mukundan: We are fully sold out.

Saket Kapoor: There is no inventory built-up?

R. Mukundan: I don't know exactly what the question is but I think we are fully sold out; that's our position.

Saket Kapoor: If we compare your numbers from June '15 versus September '15, the revenues are up by around Rs1,000 crores wherein the cost of material consumed is almost flat, 1,328 versus 1,320, how will you explain this imparity if one can say so?

Ranjeev Lodha: Basically this is the outcome of the seasonality associated with the fertilizer and the farm facing business and between TCL farm facing business and in Rallis the sales for the non-agri, non-fertilizer products are higher in Q2. Therefore you have to go again into the trailing quarter comparison with the previous year trailing quarter comparison. The other part I would also like to say is that as mentioned earlier with higher DAP imports, the constitution of the pricing and revenue parameters have changed because the manufactured fertilizer, NP20, we are selling as we talk, as compared to DAP.

John Mulhall: Ranjeev was talking about on seasonality but you need to take three things into consideration when you look at the quarter-on-quarter movement. The revenues up Rs 700 crores that's fine but you need to add cost of the materials consumed and the purchase of stock and trade, and changes in inventory. Now, in quarter ending June that was about Rs.1,200 crores and the quarter ending September was about Rs.1,700 crores. So you have seen the revenue gone up by Rs.700 crores, you seen the cost of production and sale up by 500 crores. So what we are saying is the seasonality has brought in stronger sales but it's been reflected on our cost base.

Saket Kapoor: Your trade payables have also constantly grown up, if you take your March numbers versus the September, what will you attribute your trade payables part?

Ranjeev Lodha: Basically this is import of traded material.

John Mulhall: So the same story coming through on inventory, across the sales and on payables here.

Saket Kapoor: That will get even out. Although you have said that you will be informing the stakeholders, there were news, are we exiting currently the fertilizer segment as a part of the Tata group Total, it seems the realigning of portfolio. Are we still contemplating something working in that direction or it should be taken as just mere speculation?

R. Mukundan: I have highlighted this in the past that it's a speculative story and we don't want to comment on that. If there is anything specific we will comeback at the time through the stock exchanges and our strategy currently is to focus on consumer and the non-subsidised agri-inputs.

Moderator: Thank you Mr. Kapoor. We have next question from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta: Sir, in your opening remarks you mentioned about the mark-to-market losses in your European operations, European subsidiary. Can you elaborate the quantum of that and on which part it is included?

John Mulhall: The year-to-date difference is about Rs 44-45 crores, in the quarter we took a charge of Rs31 crores in the finance cost line. This is really in the UK towards gas hedges

Rohan Gupta: So Rs.31 crores is an interest cost is just on account of M2M.

John Mulhall: No it's not interest cost, it is the mark-to-market adjustment included in the interest and the finance line.

Rohan Gupta: Is there any other expenses have included also including M2M?

John Mulhall: It’s in finance cost, there is no interest cost other than that.

Rohan Gupta: Second question is on the change in structure of our complex fertilizer business. Now we are using this Haldia plant for making more and more NPK. We have completely evolved in our DAP trading so definitely we are going to look for more inventories and higher working capital requirements for the business. While on one side we are focusing more and more on non-fertilizer or non-subsidized business but on the other side we have used our existing facility for making NPK completely relying on trading for DAP. So isn’t it against our philosophy or you think that there is a significant opportunity in NPK which you can tap?

R. Mukundan: Firstly we are shifting the market to NPK by working with the farmers so the DAP trading will come down as we move our portfolio sales through NPK more and more and as farmers adapt to it. And as far as the DAP is concerned we have not substituted the entire production by trading, it is only to top-up to ensure that the market does not have a huge disruption to the quantity we are trading. So we can't go from X number to zero overnight, it has to be done in phases and that's really the plan.

Rohan Gupta: So eventually Haldia will be only feeding NPK market and probably you will completely move out from DAP only just assuming trading?

R. Mukundan: Yes it will be creating to the extent it is needed and Haldia is already moved to complete NPK. It doesn’t produce DAP.

Rohan Gupta: So it is also sure that we will be spending more on our branding or advertising of our NPK brands and that will slightly have a more A&P spend in near future?

R. Mukundan: We have got a terrific brand for us and we continue to work in the market place with the same levels what we did before.

Rohan Gupta: In our urea business how we are affected under the new gas cooling policies?

R. Mukundan: As of now there is a greater certainty of margins and profit for the year including about cut off. This year effectively in the fourth quarter you will see above cut-off production happening. One of the big shift which has also happened which I think John can further elaborate is that we used to take the benefit of the fourth quarter above cut-off benefits in the first, second and third quarter. If you really look at our last quarter, last year we made a loss in urea which was basically unwinding of all those numbers. This year we are being very prudent, we are accounting in such a way it's accounted to what we are eligible. So while the profit numbers in the first two quarters, this quarter may be less than previous quarter what we have accounted, in the fourth quarter we will not have a loss in urea so overall the numbers will be much better, more stable numbers.

Rohan Gupta: So one is that above cut-off production benefit will all come in Q4 that is one. The second under the gas cooling because my understanding is that you are having one of the most cost and energy efficient plant, so have we benefited in terms of margins per ton in urea under these gas pooling mechanism?

R. Mukundan: I think to the extent the policy has worked out, it has worked out for all of us. I continue to state that if the pool gas number is higher then there is the benefit for more energy efficient units.

John Mulhall: Actually I will make a point clear here, we are not taking all the benefit in the final quarter. You will see that benefit on a year-on-year basis, Quarter 4 FY15 against Quarter 4 FY16. What we are doing is accounting for the above cut-off on a prorata basis throughout the year so it's much more stable.

Rohan Gupta: It means that for this year whole benefit of above cutoff production will not flow only in Q4?

John Mulhall: Compared to last year, you are right.

Moderator: Thank you Mr. Gupta. We have a next question from the line of Anil Shah from Birla Sun Life Mutual Fund. Please go ahead.

Anil Shah: The question coming back again is on the increase in working capital. From March '14 to September '15 as you mentioned, inventory has moved up from Rs1,600 crores to Rs3,400 crores and you have given us an explanation in terms of how you are moving more into basically trading at extra. The simple question again to ask is Rs 1,800 crores increase, what's the cost benefit analysis really given the cost capital that we have? If we exclude the upside that we are getting from changes in the urea policy which any way would have flown through, where is this business for fertilizer excluding the urea part really headed, given the fact that this is sucking up so much working capital which could have otherwise being to be shown in our free cash flows and possibly return back to shareholders or improving return ratios and so on or just reduce debt for that matter?

R. Mukundan: I think the question is fairly rhetorical; so while urea is stable, the DAP part of the business has gone through margin shifts and we had to move our product portfolio to protect the margin and you have seen the impact of that shift this year. Without that the unit, the production of DAP anywhere at any site would have been fairly unviable. So we had to do this to make sure but it is causing stress on the balance sheet and we are aware of that and it will unwind itself in the third quarter and hopefully we can address this in a structured way going forward.

Anil Shah: On a normalized basis what would inventory be? What's going to be the normal inventory going forward? From March '14 to now we have moved from Rs1600 to Rs3400, you said it will unwind, where do we see normal inventory? Could you quantify with some numbers in terms of obviously you have moved and it was important from a business perspective to protect margins and hence we moved? So what exactly is the quantification in terms of profitability that we have saved or helped improved?

R. Mukundan: I would say that the shift to the NPK, a more seasonal business, we see spikes in period-end numbers. So the period and number is going to reflect itself the way it is reflected. In terms of impact on the working capital interest I think I will leave it to Ranjeev and John to answer specifically how much would it be costing us. But it is fair to say that our analysis indicates that the shift was beneficial to the company and which is one of the reasons we have done it and also we have balanced the increase in the imported DAP to the extent we can manage the cash flows.

Anil Shah: What could be normal inventory levels please?

John Mulhall: We have had to change our profile completely especially how they are this year. If you have to add our number on a consolidated basis I would say about 2,500 to 2,750 will be a reasonable number but I really must stress here you have to watch for the seasonality here, we have a different business model.

Anil Shah: I understand the seasonality part but we have taken an 18 months' period from March '14 to September '15 that takes into account the seasonality factor and from March '14 to March '15 we saw an increase. From March '15 to September' 15 we have seen an increase so its been a non-stop 18 months which would take into account all seasons and yet we have seen this increase. I haven't seen it unwinding.

John Mulhall: That's the fair comment. Whatever sales we have booked in March and September' 15; a big chunk of that is so as the timing of receipt of that source at the end of the quarter September and some of it is the NPK stock which we did not have in previous years.

Anil Shah: I take your point, 2,500 to 2,750 is a normalized one which we should see somewhere once unwinded in March balance sheet that's the number I'm going with as you said right now.

John Mulhall: That is fair.

Anil Shah: That would obviously mean that if the receivable from the government remains status quo and not increase which are likely to increase then that is an incremental free cash flow which will be there primarily coming in from drawing down of inventory.

John Mulhall: Yes, but let me remind you- that it is in trade debtors, you liquidate from trade debtors.

Moderator: Thank you Mr. Shah. Ladies and gentlemen due to time constraint we are taking a last question. The last question is from the line of Mr. Chintan Sheth from SKS Capial and Research Private Limited. Please go ahead.

Chintan Sheth: I missed the gross debt number, if you can provide with that, gross debt that consolidated level.

John Mulhall: It is Rs8,502 crores.

Chintan Sheth: Any CAPEX number for the year and next year?

John Mulhall: As per the past year we had just under Rs440 crores CAPEX.

Chintan Sheth: And for full year and expected in 17?

John Mulhall: No I don't have those numbers.

Moderator: Thank you Mr. Sheth. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Subham Sinha. Over to you, Sir.

Subham Sinha: On behalf of Tata Securities, this concludes the con call. I thank everyone for attending.

R. Mukundan: Thank you.

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