Tata Chemicals Limited
Q3 FY 22 Earnings Conference Call Transcript
February 11, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY22 Earnings Conference Call of Tata Chemicals Limited. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you, Steven. Good day, everyone. And thank you for joining us on Tata Chemicals Q3 and 9M FY22 Earnings Conference Call. We have with us today, Mr. R. Mukundan, Managing Director & CEO; Mr. Zarir Langrana, Executive Director and Mr. Nandakumar Tirumalai, the Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties.

I now invite Mr. Mukundan to begin proceedings of the call. Over to you, Mr. Mukundan.

R. Mukundan: Thank you, Gavin. And good morning and welcome everyone to the quarterly earnings call. I'm joined by my colleague, Mr. Zarir Langrana, Executive Director; and our CFO, Mr. Nandakumar Tirumalai for today's call. I will highlight some operational issues and strategic direction after which Mr. Nandakumar will take us through the financial performance for the quarter.

As such, this quarter, was relatively good compared to the challenges we faced during the quarter. And this has been possible because of the revenue and margin momentum we've seen in our soda ash business. As we mentioned previously, the demand supply dynamics for soda ash has turned favorable, and is likely to remain favorable for certain amount of time, I would say couple of more years and we are -- if we define it like this it'll be medium term. Let me move on to individual segments within soda ash.

Indian business has delivered performance and profitability. As you know, in three of our sites, we had taken maintenance shutdown, which India, USA, and in Kenya. And so, they were a bit of a low volume this quarter, but we've seen very strong demand and prices have remained firm during the quarter, and we expect them to remain in a similar zone going forward too.

On the international business again TCNA has had growth of domestic and growth in export more importantly because there has been a bounce back of underlying demand. And there again, the shutdown had meant that in -- if you look at the trailing quarter, which is Q2 to Q3, we lost some volume. And also, because maintenance shutdown was taken, it has increased our fixed costs a little bit in both India and the US.

Magadi, has also performed well. And sequentially also we've seen improvement in operational performance. As far as UK is concerned, I think this quarter, Mr. Nandakumar will explain some of the elements of the Carbon Capture Unit as well as the hedging of co2, carbon, buying carbon in the market to hedge the future have all come in and helped us. And I think that strategy will play out so that we are well protected from any variations or any sudden spikes in the marketplace. And we continue to have a very strong risk mitigation strategy, not just on energy, input energy, but also now on carbon markets.

As far as salt is concerned, it continues to be strong and steady, both in India and UK. And Bicarb business again, I think India and UK have done well. In terms of nutrition, the Nutraceuticals and HDS, these are focused and our goal is to get to positive EBITDA level, which is what we are working to and we're working to secure customer acceptance and ramping up of our utilization.

Rallis also has declared its numbers. It's both domestic and international delivered healthy growth in revenue. Seed business had some stress. Company is investing for growth and is working on backward integration for some of the products which should help in its supply chain and margin.

As far as the strategy of Tata Chemicals standalone itself is concerned, our focus remains to expand capacity in our core segments of soda ash, salt and bicarbonate and also move the needle in terms of the HDS and Nutra. On HDS we may be accelerating the investment because we are seeing a strong demand pull from our customers. With this I'd like to state that our strategy of focusing on core business ensuring the supply dynamics are delivered well on the ground, and we support the demand recovery with strong supply chain performance, and also mitigating some of the risks which we had faced in terms of the input costs have been done well.

Also wanted to highlight that we now have a good understanding of the market supply and supply situation on the input side. And we do strongly believe that the company will be able to manage the stresses which had come on the input cost side in quarter 2, we have overcome them in quarter 3 and going forward in quarter 4, with the prices having been renegotiated across customers, you would see the margins also reflect the resilience which we have built in in terms of the input cost management, vis-a-vis the pressures which are coming from the external market.

With this, I will now hand over the floor to Mr. Nandakumar to take us through the financial performance.

Nandakumar T: Thank you, Mukundan. And good morning, to all. I'll just walk you through the performance for Q3. Our consol revenues for the quarter was at Rs. 3,142 crore up 21% more than previous year and PAT at Rs. 340 crore almost 70% more than last year. This is mainly due to the growth in soda ash and bicarb volumes, notably in US, UK and Kenya and the impact of price increases in India and other geographies.

Coming to India now, revenue was at Rs. 931 crore up 15% for previous year. The EBITDA margin was 26% an increase of 3%. The PBT has gone from Rs. 148 crore to Rs. 214 crore up 45% jump compared to last year's Q3. The CapEx is on track.

Coming to US. The volumes rebounded from previous year and revenue was INR 891 crore is up 20%. And PBT is at Rs. 37 crore. The US volumes remain strong with growth in domestic and export markets as compared to previous years. Export volume mix is higher than previous years. Export pricing is seeing recovery while domestic prices remain stable.

Coming to UK. Revenue was Rs. 551 crore up 47% and PBT is at Rs. 13 crore compared to Rs. 2 crore profit last year. UK soda ash sales volumes remain stable with higher sales price. Margins were higher for the quarter due to higher sales price despite rising input costs including Coke, ammonia, packaging cost. And as Mukund mentioned, we also started hedging our carbon in UK. The markets opened up in the UK ETS in the month of May or June and the counterparty were able to offer us the hedging for October 1st. So as of now we're hedging all our carbon exposures in UK.

Coming to Kenya. Revenues was at Rs. 132 crore up 24%, EBIT at Rs. 18 crore almost same as last year. Kenya performing well with improved sales volumes at higher sales price.

Coming to Rallis. Revenue at Rs. 628 crore, EBIT at Rs. 48 crore, revenue has been steady with growth coming from domestic crop care and international business. And margin were impacted due to the higher raw materials and fixed cost.

Our profits from our JV has been good mainly because of the joint venture in Morocco we had, see if the JV line in vis-a-vis its substantial jump compared to last year. Our CapEx spend was Rs. 1,040 crore for 9M as compared to Rs. 895 crore last year. Our net debt at Rs. 4,120 crore, Rs. 200 crore more than March.

I now hand over the floor to Gavin for the Q&A.

Moderator: The first question is from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar: My question is regarding PLIs and the reference of the Tata Motors call when the participant asked why did the Tata Group not participate in the PLI for advanced chemistry sale, so, the reply was they found that contours scheme was not working out for us. So, what's your view on that? The plan is on? Or we are not going to go in for the battery cell manufacturing? Can you just talk about that?

R. Mukundan: So, I maintained the same thing which I have been maintaining that the -- if there is anything specific to discuss or present to shareholders we will do at that point of time. As of now there is nothing specific beyond what has been stated up till now.

Sumant Kumar: Okay. So, the for the time being we are not thinking of, if there will be any progress you will intimate. Still, we are going to work on that or we are going to -- or we are having a plan to enter into the business or not?

R. Mukundan: Yes. So, I think your comment is valid that I think if there is any change in the position, any change, anything substantial to be informed, we will do at that point of time.

Sumant Kumar: Okay. Now, talking about the financial side, we have seen an interest cost in this quarter was a lower, despite the gross debt is at a similar level. So, can you comment on that? What was the reason for that?

Nandakumar: So, I think that -- see if you look at we did some refinancing and repricing of a lot of loans in the US and we've been able to refinance the bulk of the loans which were at L plus 4% to L plus 1.5% during the last 4, 5 months' time, that's why the interest cost is lower compared to last year's Q3.

Sumant Kumar: Okay. Now talking about overall US business, we have seen a margin pressure in that, if we consider the Rs. 27 crore insurance claim we have in the base quarter and we will be adjusting the base quarter despite of that, we have a margin basis in the US business and the way export business is growing and the price is going to come up, what kind of margin profile we can look for the coming quarter. And do you think the input cost pressure is going to subside in the coming quarter?

R. Mukundan: So, broadly as a principal export realizations are lower than domestic realization. And you as you know, the domestic volume never went down in US substantially. So, they've been able to maintain the volume, the growth is coming primarily of export volume, which has a lower realization and a slightly lower margin structure. Of course, the full benefit of renegotiated export prices and all will come in Q4, which should improve the margins further, but the mix impact will continue, till it becomes a steady state numbered equal to what we -- what the mix impact was for steady year before pandemic, that is all I would say.

Sumant Kumar: Okay. Thank you so much.

Moderator: The next question is from the line of Rohit Nagraj from Emkay Global.

Rohit Nagraj: So, the first question is, sometimes during the end of 2020 Solvay had indicated that they would be adding soda ash and bicarb capacity of about 1.4 million tonnes by 2022. This will be probably a brownfield expansion. Any further update on this, given that we have exposure across different continents?

R. Mukundan: So, I will not comment specifically about any company because it is unfair other than our own company, but I can give you a general comment on the market. Generally, our analysis shows market is about 3 million tonnes short as we speak and this demand supply tightness of about 3 million tonnes is going to persist for at least till '25, '26 broadly, give or take 6 months here or there.

Rohit Nagraj: Right. Got it. So, the second question is on the domestic market. So domestic market, how has been the pricing environment during the last couple of months? And what will be the currently ruling prices in the domestic market?

R. Mukundan: Yes, I just want to say the point about pricing environment is fundamentally driven off the availability or lack of availability as it stands today. So, the material is not available, we are only giving to our consistent buyers or reliable buyers, buyers who have been, with whom we've had a long relationship and we've been very fair to people who have stood by us to continue to stand by them. The basic issue is like this that on the many input side there has been a big severe impact on both availability and cost from the input side.

Firstly, on the salt because of heavy rainfall in Kutch and extended rainfall is Kutch, salt availability has sharply come down. The salt prices, input salt prices have sharply gone up more than the prices I think availability itself is something which was a big problem in the Q3, it may improve towards Q4 as the harvesting season starts on salt but it is running on a very very thin ice.

The second issue has been on coal, many of the -- if you look at the Indian plant, especially our plants in India plant is using Indonesian coal, Indonesian government had put an export ban on coal. And it had created severe issues in terms of, in terms of availability for domestic market. So, both on input cost as well as input availability, as well as the, the other key element is the coking coal and anthracite availability, which is imported from South Africa, there were shipping problems, there were supply chain problems, all this had led to a very, very tight situation on the input side, which then led to a very tight situation on the output side, which is easing a bit, but the market conditions are fairly strong. And we see this to be continuing and the prices to be firming up.

And I think on the input side, there could be some easing of pressure, which we've seen. But we need to be extremely careful and cautious. What we've done as far as Tata Chemicals is concerned is to reduce the level of risk by stocking up which has led to some -- in the working capital, if you see there is an increase in working capital, which is there, bulk of it is on the input side, we have to increase the stock level so that we can be safe and sure.

Rohit Nagraj: Got it, sir. Thank you so much for all the answers and best of luck.

Moderator: The next question is from the line of Tejas Sheth from Nippon India AMC.

Tejas Sheth: Yes. On the renewables of the US business side, which are the annual contracts, what is the uptick we have taken in this January?

Zarir Langrana: So, our US exports, as you're probably aware are through ANSAC. So in general in most markets, from what we're hearing, export markets, we've seen to Southeast Asia, and Latin America has been really based on the supply dynamic, that Mukund spoke about, significant uptick in prices on a CFR basis, which has to be balanced also, with an increase in freight costs. So, we'll probably see an increase from what we hear in those markets of anywhere between $30 to $40.

Tejas Sheth: Okay. And on the battery side, a lot of traction at the global level is happening on sodium ion batteries as an alternative to lithium ion. One is, are we looking at that space? And secondly, if that traction happens, you see us benefiting on the soda ash business side?

R. Mukundan: Really, I think sodium batteries depend on sodium vanadium phosphate as of now. So, while the work on the lab will be -- our labs continue to work, I think there are still, I would say on the sodium side challenges related to the density of energy and the -- number of cycles that can operate these need to get fixed. So, it is still in a development stage. And I would not want to hazard anything in terms of sodium demand coming off that, but work is on, if you look at the basic reason why the work is being pushed is because as you know, sodium is more easily available than other competing materials. I think you should also not forget the power of hydrogen. So, I think both hydrogen and sodium will compete with lithium. So, I can say they are at lab stage. That's about it, nothing more.

Tejas Sheth: Okay. So, we are investing towards that side of development?

R. Mukundan: No, I think I'm only addressing the question, do you see a demand uptick for sodium?

Tejas Sheth: Okay. No, to my first part of the question was, are we looking to invest in that?

R. Mukundan: I think at the lab level we do continue to work on these, because these are issues of electrochemistry, which our team is familiar with. We also work with some external labs. So, I think we do continue to work on them. And it is an effort which we will not give up. But if you -- to you second order question, does it lead to any change in demand for any of the products we make? I think that is a little bit too early to speak right now.

Tejas Sheth: Got it. Thank you very much.

Moderator: The next question is from the lineup Abhijit Akella from IIFL.

Abhijit Akella: Yes, thank you so much. Just a couple of questions. First one on the US renegotiations which Mr. Langrana just touched upon kindly. So, exports as you said, you know, you've seen about a $30 to $40 uptick. Could you also characterize the kind of increase you're seeing in the domestic side of the business?

R. Mukundan: I think Abhijit, the way you should look at domestic is going to be marginal $1 or $2 or $3 at best, not more. I think the real change in color of the EBITDA earnings for that business are going to come from export volumes going back to normal, and also export pricing going up by a range which Zarir gave I think, I would -- net of freight and about $40 odd you can take and then you can work off that.

Abhijit Akella: Okay. So, the reason there is no increase in the domestic business is because we have multi-year contracts with those customers or?

R. Mukundan: The issue on domestic is that you see gas prices have gone up and also freight local, freight rates have gone up. So, I think that is not moving the needle much, the needle is moving on the export side. I really think if we really look at the margin expansion on overall basis for the US business, it is going to come off exports only.

Abhijit Akella: Okay. Understood. Second, I just wanted to check if it might be possible to share the average realizations for the quarter for the India products, soda ash, salt and bicarbonate?

Nandakumar T: I think we have not shared the product wise EBITDA, Abhijit.

Abhijit Akella: Not EBITDA, realization I was asking for?

Nandakumar T: No, we don't share that.

Abhijit Akella: Okay. All right. Fine. And the last quick thing, just wanted to clarify Mr. Munkund has said the market is 3 million tonnes short right now. And you see that continuing with 2025 '26. Is that -- did I catch you correctly not?

Zarir Langrana: So, Abhijit let me first address your question broadly on domestic pricing, the sort of question raised by somebody else earlier as well. There has been a steady uptick in our list prices domestic. As we speak, the pricing is in the range of about Rs.31,000 per tonne, on an ex-work basis, list price. Obviously different customers will be at different price levels and different geographies will be at different price levels. But that should give you an idea of the way that domestic prices are moved up.

Your second question was sorry, on the global demand supply gap. As Mukund, mentioned, it's in the region we estimate of about 3 million tonnes today. And it's a number that we believe will continue to hold for the next 3 or 4 years. Just given the fact that there does not seem to be any substantial greenfield or brownfield capacities coming up in any of the geographies in the next 2, 3 years. And of course, demand will continue to increase.

Abhijit Akella: Okay, sir. Got it. That's really helpful. Thank you so much.

Moderator: The next question is from the line of S. Ramesh from Nirmal Bang.

S. Ramesh: So first to understand the UK performance it has come in as a really positive surprise and congratulations on that. So, can we get a sense in terms of how you managed to increase realizations? Because UK is supposed to be 100% contract and we are expecting the price revision from January? So how did you manage to get higher realizations there? And is there any one off or either kind of EBITDA margin reported in third quarter likely to sustain for the next few quarters in the UK business?

R. Mukundan: Yes, so I think I'll ask Zarir also to add color. But I think we've had a very difficult exercise done during this quarter, because of challenges faced. I think, -- and we must thank our customers for supporting us through this difficult quarter by some of them accepting immediate contract corrections, because of the sharp increase in gas price as well as the carbon cost, I think customers have stepped up and they have in fact, committed that this being a very unusual increase, which we had to take a hit of about Rs 70 Crs last quarter. I think they stepped in and sort of corrected it. And I think we can only thank our customers. But these were very difficult discussions. But I just want to put on the table that we did a fair conclusion of the ability and stability of suppliers during the quarter.

The real stable number will be from quarter 4. But quarter 3 is a reflection of a support extended by customers to ensure that we don't have heavy impact of the sharp increase which we are faced in quarter 2.

S. Ramesh: So, in terms of the UK contracts renewal going forward from January, would it also have the same impact of this $30 to $40 excluding freight that we discussed for the US?

R. Mukundan: I think customers are settled at a fair number, and it is fair to assume that the pressure which we are seen in Q2 will not continue it is going to abate. And I think that's the way it is. And customers have also accepted beyond certain cutoff a pass through for both carbon and for energy. So, I think that sort of protects us. That's all I would add at this point of time.

S. Ramesh: Okay. Just on the demand and supply, when you talk about this shortfall of 3 million tonnes. Can we get some number in terms of what is the current available capacity? And what is the consumption in million tonnes, is to get those numbers? Because the global capacity as per data is 71 million. So, I just want to get that exact number in the context of what we are discussing as a shortfall?

Zarir Langrana: Yes, so name plate capacity is about 71. You're completely right in that respect. We believe that the actual operational capacity in demand is probably maxed out today at about 61, 62, which means it's gone back to its pre-pandemic levels. And that's really where the shortage is coming because demand has bounced back, continues to grow at 1.5%, 2% globally, that's the number you can take. There is no substantial expansions happening. All of the plants that we are aware of are operating at capacity.

There's also been some reduction in capacity in China. I think, as we entered the new year, almost a million tonnes permanently went off the market in China. So, I think the focus of suppliers and producers today is really to make sure that their customers are kept serviced. And our focus is really on that to make sure as Mukund said, that we continue to service customers that have been with us for many years. And we make sure that their plants don't suffer.

S. Ramesh: So, if I understand you correctly, then how much of this gap we have in terms of available capacity as one date, and the install capacity is likely to come back given that the margins are very strong. So, the 10 million tonnes of extra capacity is not available now. Can some of that come back in the next.

R. Mukundan: Let me take that, I think the issue is that – our figures were about 3.8 shortfall. The reason I mentioned 3 is that let's say about a million or 0.8 million tonnes is something which people could debottleneck and bring on stream that still leaves about 3 million tonnes which has a time lag of execution, which is nothing less than 24 to 36 months, even if people were to start putting steel and cement on the ground. So that's where we are really and that is the reason why this tightness is likely to continue.

As Zarir has also mentioned there is a demand growth which is coming from lithium carbonate business, there is demand growth which is coming from solar glass. These are all driving demand strongly, which is leading to a situation where I think even at a including us we are also putting steel and cement on the ground as fast as we can. But I think it is it is going to take time for people to build substantial numbers on the ground.

S. Ramesh: So basically that 61 to 71 gap in capacity, that capacity is not going to come back. You're saying we need new investments and that is why we believe the supply shortage will continue?

R. Mukundan: Yes. Let's just go through these numbers carefully. I think Zarir, you can correct him. 71 nameplate and demand is at about 61. And the real capacity which is available today is about 58 accounting for shutdowns and everything put together. So that is leading to about 3 million tonne shortfall, that should give you the equation.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, first question is you know so during the pandemic one more thing which happened specifically for your India soda ash business is I think the imports were severely impacted because of variety of logistics challenges etc. Now, while we understand the global supply demand impacts, but you know now as we open up and things are getting normalized, what can be the impact of the imports coming back into the Indian markets and impact on the realization and the demand supply situation for the Indian business, Soda Ash.

R. Mukundan: See, the issue really is on both the shipping availability and shipping cost. As the shipping cost of imports keep increasing, and it stayed at elevated levels, I think it gives us a natural hedge and protection for the domestic pricing to hold them. So, I think that is one element. Second is, I think, the --- fundamentally, because of the COVID restrictions, the port operations are not really fully back to normal. Trucking availability has been a big issue in many, many countries. So, these are all leading to supply-chain bottlenecks, and we don't see shipping lines, try, coming into a situation where they're saying that there's going to be surplus of containers available or there's going to be surplus of bulk cargo available. I think this is really the issue, which is cost elevated levels and that adds the cost of import with domestic producers don't face.

Sarvesh Gupta: Understood. And in the other question, which is more at the macro level is, while there is a 3 million tons shortage that you alluded to, but at the same time because of interest rate, increase concerns etc., there can be a situation where in housing, especially the incremental new housing, which will get built can get impacted. So, do you see that as a possible threat on a global demand level, both, for your U.S., as well as India business, because that has been on a boom and there are obvious concerns on the incremental situation? And if you can also sort of, give some color on how much housing is important for your business in U.S. and India?

R. Mukundan: Fundamentally let's look at those segments in their own. So, there's one segment which is neither container glass nor flat glass. That segment which is detergents, which is other chemicals, I think from Soda Ash is used in making other chemicals, that is steadily rising. And there are new applications which have come, which is your solar glass, which I think world is switching to more and more renewable and lithium carbonate, both need Soda Ash. One ton of lithium carbonate needs almost a ton of soda ash. I think that really is driving the new demand.

Now coming to traditional demand, the switch away from plastics to more sustainable glass containers and glass bottles and these are all thin-walled glass bottles, which have very good strength and all that. I think those are driving the demand on the container glass segment. We don't see that reducing. In fact, we see the in-home consumption as it continues to hold up. Even post pandemic, we would continue to see very good demand in that segment. I think at least that's what our customers are saying.

The second element is about the flat glass. I think there are two drivers here. One is, the infrastructure and the commercial flat glass and the second one is the housing flat glass and the third element is the automotive flat glass. I think automotive demand has been bit constrained and I think demand from automotive side is constrained not so much because there is no end consumer demand. Most of the automakers are telling us that the need for private transport and safety of private transport has increased but they are not able to produce because of a shortage of various other inputs like chips and other elements. As these things ease up, I think the glass demand which is going into automotive will creep up.

Now, coming to infrastructure, I think most countries are upgrading their infrastructure after a long- time gap. You saw the infrastructure bill coming in U.S. which is going to sort of look at not just roads, which is also going to look at airports, which is going to look at all the public spaces and all of them will have a huge amount of demand for glass. And on top of that, I think residential housing restarts both, in the affordable housing area in developing markets and housing, what I call, housing recycling in many markets into suburban living. Because right now, what has happened, work-from-home and all these have moved this to larger houses and shifting into more open spaces. I think there also, again, if you see the news coming out of developed markets, the housing demand actually has picked up faster than anybody has anticipated.

So, all in all, I would say, that one segment of the market was anyway holding up right to the pandemic, which is the non-glass, non-new, let's say segment and then container glass anyway is growing as per the push towards sustainability. Then new applications are coming in, which is in the solar glass and lithium carbonate, and the good news is, we believe that the auto sector will get back to its growth story, once the short --- current shortage of things like chips is tide --- they tide over that. And lastly, I think housing certainly is growing in the developing markets. But in the area of the developed markets again, we are --- most people are saying it's positive movement.

So, this is what we are hearing from our customers. We have no better knowledge about this than anybody else. I can only tell you that we hear our customers closely and strongly and plan our future, which is why we are also planning to further expand our facilities in India and we will come back with specific plans as soon as they are cleared. As of now, the execution of the current plan, which was Rs.2,600 crore is on schedule. That's all I will comment. Thank you.

Sarvesh Gupta: Thank you, sir. Do you have any idea about housing? What is the end-user demand by housing in personal…?

R. Mukundan: We will come back to sectoral demand patterns in the next meeting.

Moderator: The next question is from the line of Chintan Modi from Haitong Securities.

Chintan Modi: Sir, can you tell us what would be the size of demand for Soda Ash in these new applications, like solar and battery materials?

Zarir Langrana: Yes. So, our estimate is that for lithium carbonate, it could be anywhere, moving up, to close to 750,000 tons per annum. So that's the demand over the next year or two. And for solar glass, it's going to be much, much higher, maybe close to 1 million tons or 1.5 million tons. Additional demand just coming out of solar, primarily in markets like China, etc., which is one of the reasons why I think Chinese exports have come down. They're focusing more now on supplying the large uptick in demand that has happened in domestic Chinese market itself.

Chintan Modi: Okay. So, it is about 3% odd currently of the total demand?

Zarir Langrana: That's right. That's right but growth rates there are in double digits.

Chintan Modi: Double digits. And does this require specific grades of Soda Ash and is there any significant difference in the pricing today?

Zarir Langrana: No, not really. The grade of Soda Ash is the same.

Chintan Modi: Okay. And are we able to map like how much would these new applications contribute for us in the Soda Ash and any kind of growth rate stat you would like to share?

R. Mukundan: Yes, I think we have a direct linkage to the lithium carbonate operations in South America. So certainly, it is going from our plant, U.S. facility. And as far as the solar glass is concerned, as the solar glass projects in India take off, we will be certainly supporting them. It is an opportunity. As of now, there is only just one solar glass facility in India.

Chintan Modi: But could you shed some rough contribution number? How much to be contributing to our volumes?

R. Mukundan: Oh, in terms of segment exposure, we will come out with broad segment exposure next time.

Chintan Modi: Sure. And lastly, for the silica and prebiotics, we were expected to get some customer qualifications. So, has that happened? And what is the kind of traction that you are seeing over there?

R. Mukundan: Yes. I think on silica, we've got one direct customer qualification. We are expecting two more. And on HDS, I think we have international qualification from market like Korea, but we are still expecting some clearances from European customers. Still pending.

Chintan Modi: Okay. Can we expect this business to kind of double in say, next two to three years for us?

R. Mukundan: Yes, I think we are seeing some positive news and positive push coming in the area of silica. So certainly, we are working on internal plans. So, we will come back to you as soon as those internal plans are clear. On nutraceutical , I think it is a bit of a --- we need to still establish our product in the marketplace before we can comment, but I think silica will move a little bit faster.

Moderator: The next question is from the line of Dhavan Shah from ICICI Securities.

Dhavan Shah: So, I have a question on the UK business. So, can you please share the realization growth we have taken for the UK business this quarter, and given that there is a trend of input price inflation this quarter as well and this UK and U.S. both are long-term calendar contracts. So, by what quantum do you foresee, that if there is any input price inflation going ahead, we can be at breakeven and beyond that, we can have some operational impact on that thing. If you can share thoughts on this.

R. Mukundan: So, I will add a broad color. I think the current structure of contracting we've done in both these markets, allows us beyond certain cut-offs to have a full path throughout the cost and I think that puts us in very, I think, stable situation than what we had experienced in the quarter two. So, I think I will stop there, because I think that's what we have negotiated with customers and customers are fairly supportive of the shift.

Dhavan Shah: Okay. And can you please share the realization growth for UK? I mean $30 per ton or $40 per ton was for U.S. So, what was the realization growth seen in UK business this quarter? Or maybe it can be sustainable going ahead?

R. Mukundan: Yes. Yes. I think across markets, the range is about the same. I think you can use the number we gave for the U.S. exports.

Dhavan Shah: Okay. And you mentioned that there could be around 3 million tons kind of the shortage between this demand-supply of Soda Ash. So, given that, if the --- after Winter Olympics, do you foresee that, given that, China is currently net imported, but it can see imports from China can get reduced, and then that can give us comfort in terms of the demand-supply situation? And…

R. Mukundan: See, actually, the reverse is true. What has happened is, because of New Year holiday and the Chinese New Year holiday and the issue related to Olympics, some of the customers/consuming industries had slowed down during this period. In fact, the price had slightly come off in China during this period. We expect once the Olympics and the season is over, the Chinese demand, the consuming sector side Chinese demand to pick up and pricing to go back to the firm levels, which were there before. So, really the phenomenon which you explained, affected our consuming entities in China. So, we expect that demand to go back to normal.

Dhavan Shah: Okay. Okay. And lastly, on the U.S. business, you mentioned that there is lower realization in the margins in the export business, but if I look at the Q-o-Q business --- Q-o-Q wise, so, there is no drop in the export business, export volume for U.S., but still the margins have been reduced on Q-o-Q for U.S. So, is that largely because of the higher gas prices or…?

R. Mukundan: Yes, the main issue in India and Kenya and U.S., I wanted to say that the --- you see, because of the shutdown, which we had taken, I think, each plant had a different level of lower production. You could take anywhere between 20,000 tons and in some plants, 10,000 tons of lesser production, that has led to lower fixed costs absorption and margin reduction. And also, that also has impacted some of the --- when you take the shutdown, it is not as if the power plant is stopped, it continues to run. So, if the variable cost needs --- continues to be incurred and that puts pressure on margins. So, that will be the broad issue, if you go from Q2 to Q3.

Dhavan Shah: Sure. Yes. That's all from my side. Thank you, sir.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment Advisors.

Bharat Sheth: Sir, just want to…one small clarification, that in U.S., last quarter we stated that we renegotiated contract for part two, after certain this thing. So, that is still in place and over and above whatever price increase that we have taken is that. Is that correct understanding?

Zarir Langrana: No. There were some export markets, I think in the last quarter, especially in Southeast Asia, where contracts were on a quarterly basis. So, those came up for renegotiation at that point in time. But currently, as we go into the new year, most of the pricing is being set at the new level. So, you would have seen an uptick in those prices as well.

You will see. Sorry. You will see as we review the results coming in for Q4 and moving forward.

R Mukundan: Yes and on those prices, if there is any movement, input costs shift, which is substantial above cutoff especially in UK, I think we are protected.

Bharat Sheth: And second, we lost some production because of shutdown, as well as supply chain issue. So, is it…Can you give some broad number, how much was due to shut down and how much due to supply-chain issue?

R. Mukundan: Yes, broadly the production shortfall, you will not see it in sales. So, the production shortfall was about 30,000 tons across all units out together.

Bharat Sheth: How much was on account of shutdown and how much on supply-chain issue?

R. Mukundan: No, no. It was the main --- it was only on shutdown. We don't lose anything on supply-chain. We have stocked up our units well.

Bharat Sheth: And when our India expansion will be on the stream?

R Mukundan: India expansion is coming in and I think, fully it will get on stream by the end of '23 or so. All of them. All the units.

Bharat Sheth: Okay. And last question, sir. On the specialty side, we had guided to breakeven in Q4. So, are we still on the same or there is some deferment?

R. Mukundan: I think we will come back. I think we are working hard to still get to that point.

Bharat Sheth: Okay. Thank you and all the best, sir.

Moderator: The next question is from the line of Omkar Kamtekar from Aamara Capital.

Omkar Kamtekar: Sir, before --- I have two small questions. Before that, I have a small clarification. Approximately 2 tons of sodium carbonate is required for the production of 1 ton of lithium carbonate. Is that correct, sir?

Zarir Langrana: Yes. That's correct.

Omkar Kamtekar: Okay. So, the first question is, from the energy business vertical. So, sir, what type of battery technology --- battery type are we focusing on? Are you focusing on vehicles, electric vehicle batteries, or energy storage batteries for the larger grid?

R. Mukundan: I think, as I mentioned, no specific decision has been taken. If there's any decision, we'll come back to you. That's all it is there to share.

Omkar Kamtekar: Okay. Okay. And second small question is regarding the battery that we will be manufacturing. So, we would be acting as a supplier for the battery manufacturer or we would be in-house manufacturing a battery for the vehicles or the grid?

R. Mukundan: So, when I mentioned no decisions been taken, I cannot comment on that.

Omkar Kamtekar: Okay. No issues. No issues, sir.

Moderator: The next question is from the line of Mithil Bhuva, an investor. Please go ahead.

Mithil Bhuva: Yes. On the accounting side, I had a couple of questions. There was some hedging done on accounting side for gas. So, if you can just highlight on that?

Nandakumar T : Yes. If you look at the accounting side, Mittal, on the other comprehensive income line in the consol, you will find the gain coming over. So, the bulk of the gas positions have been hedged in UK and the U.S. and that gain comes in your other comprehensive income line in the P&L.

Mithil Bhuva: Yes. So, can you just briefly, I mean, share the prices at which we are hedging or how is it?

Nandakumar T: So, we have a policy we go by, Mittal, in terms of the hedging policy, and we go as per that and hedge as per the forecast of what we are going to buy in cash in future. And that's why since the price of hedging was lower than the market, market has gone up. Therefore, we have a mark-to-market gain sitting in the OCI.

Mithil Bhuva: Okay. Okay. So, any particular gas price you can share wherein we are safe, actually? So, about that price area, safe so?

Nandakumar T: So, we've been hedging for the last couple of years, Mittal, therefore, our hedging has been consistently happening month-on-month. So, it's based upon the past averages. But the price has gone up in the last nine months' time. So, that's why it's muffled gain. But exactly sharing in terms of what price is hedged, is obviously lower than what the current markets are. Markets have gone up substantially.

Mithil Bhuva: Yes. Okay. Thank you, sir. Thank you for taking my questions.

Nandakumar T: Thank you.

Moderator: The next question is from the line of Saket Kapoor from Kapoor Company.

Saket Kapoor: Sir, earlier in the last call, by the end of I think so, September, October, we have taken price hike to the tune of Rs.7,000 in the domestic market. Any revision that we have taken for this quarter, sir, for the spot prices?

Zarir Langrana: So, as I mentioned earlier, 1st February onwards, we increased this price further by about Rs.1,500.

Saket Kapoor: Okay. So, for this month we have taken a fresh hike of Rs.1,500.

Zarir Langrana: That's right.

Saket Kapoor: Right, sir. And sir, for the domestic operations, sir, how much is the fixed price contract and what are we selling on spot, sir? Or is there a price revision clause for it?

Zarir Langrana: Yes, we have a mix of some customers who are on a quarterly set. There are some customers who work monthly and of course, there is some volume that goes, literally on price ruling on date of dispatch. And we try to maintain a mix of those. As I mentioned earlier, really the focus, both, for us and our customers, moving forward into the year is to make sure that we keep them supplied, that they feel secure in terms of the availability of Soda Ash.

Saket Kapoor: Sir, this price hike of Rs.1,500 which we have taken off late, is it pertaining again to the energy cost or the demand-supply that has resulted in it?

Zarir Langrana: It's very difficult to break up the two, but certainly the two broad drivers are the demand-supply and the market dynamics and of course, on input costs. But to break that up would be you know…

Moderator: The next question is from the line of Chintan Modi from Haitong Securities.

Chintan Modi: Sir, just one question. This price hike that as you mentioned, that could be a combination of both, cost inflation, as well as the demand-supply mismatch that we are seeing, let's assume that a few quarters later, when this cost inflation starts subsiding and it is at much lower level compared to earlier ones, do you believe that customers will ask for a price reduction in Soda Ash or considering the demand-supply mismatch, you will be able to sustain those prices and increase your margins?

R. Mukundan: See, really speaking, I want to tell you that the inflation has been mainly on the energy side. I think while I did mention salt availability or unavailability and all, I think those prices will correct, but they don't move the needle so much. The needle is moved by energy price. And the second needle as far as the UK is concerned, is the carbon price. So, on carbon, certainly, we are intending to make sure, if carbon prices do come down, which we --- see of carbon price normally was ruling at about EUR20, EUR25 and it has moved up to EUR60, EUR65. Right now, it is around EUR90 to EUR100. So, we don't anticipate it coming below EUR70 in any case, but if it does come down, it's a pass through. That's what we will maintain as far as customers are concerned.

When it comes to the energy fees. I think, again, while we all hope that the energy costs stabilize, actually, the needle is moving in the other direction. So, if you ask me in the short-term, in next 12 months, I don't see any respite on the energy side, because the world is bouncing back. There are pressures on coal mines from reopening, there are power plants which need to restart, and I think they're all having this --- having to scramble for input. And on gas side, I think, the current situation in Europe and worldwide is not helping us in many ways. So, I wish it was --- it would move, but I do not want to hazard a guess. Unless it moves substantially on the softening side on the energy, I don't expect anyone to come back, because this seems to be the new normal reset that will be there, at least, for next one year or so.

Chintan Modi: Sure, sir. Okay.

Moderator: The next question is from the line of S Ramesh from Nirmal Bang.

S Ramesh: Thank you, once again. So, if you go back to the UK business, if you look at the operating costs as of the third quarter, do we see that moving up in line with the current inflation for the fourth quarter and the full-year and how do we see the EBITDA margins trending in percentage terms, say in fourth quarter and over the next one year in UK?

Nandakumar S. : See, Ramesh, if you look at the first half numbers for UK, there's a substantial hit because of the carbon. As I mentioned earlier, we're able to hedge carbon only from October onwards. There was no market to hedge. So therefore, the first half of the year had a substantial hit because of the carbon impact in H1. That, as we mentioned, is not being covered by a way of hedge from Q3 onwards, and therefore, the volatility because of the carbon may not be there going forward and also, with the pass through happening of the carbon price to customers, you will see less volatility in the UK numbers, is what the presuming going forward. But first half had volatility because of the impact of the carbon and some part of the other input costs and a lag between the input costs going up and the cost increase being passed through.

S Ramesh: So how much is the increase in the UK EBITDA as a result of the MTM gains you have shown in other comprehensive income?

Nandakumar T: So, what I mean, in UK, the hedging is done --- we have a forward purchase contract, Ramesh. It is not a hedge in the normal sense of a hedge. What you see in the OCI is in terms of the gas hedge taken in, only the gas hedge taken in the UK and U.S. The carbon is bought through a forward purchase contract, which is not mark-to-market.

S Ramesh: No. So, is there any element of that MTM gain in the UK EBITDA or is it all operating gain?

Nandakumar T: No, what I was explaining you is that, in Q3, since we've been able to hedge the carbon at the --- by way of a forward purchase agreement here, there is no incremental hit in Q3 on carbon.

S Ramesh: Okay. Okay. So, that means your overall --- so, to that extent, your EBITDA is representative of the normalized operating EBITDA that you can expect.

R. Mukundan: More or less.

Nandakumar T: Yes.

R. Mukundan: If that is your question. I think that is correct. It is likely to remain in that boundary.

S Ramesh: Yes. Understood, sir. Thanks a lot. That was helpful.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I now hand the conference back to the management for closing comments. Over to you.

R. Mukundan: Thank you very much. I want to thank everyone who's on the call and for your questions and your suggestions. I just want to say that we went through a very difficult period in Q2 and I think the team has worked well to bounce back with the help of working with the customers, working with our suppliers to ensure steady bounce back in Q3. I think we hope that the current situation which we have in terms of our engagement with customers, and our current structure of engaging with our suppliers should hold us steady going forward into, not just Q4 but also well into next year.

As far as the strategy is concerned, the strategy is to expand the core aggressively and I think the investment planned in India for about Rs.2,600 crore is coming on stream and we expect most of that should be done and invested by the year-end, the coming year-end. And going forward, we also looking at further plans for expansion which will come back to all of you, as and when they are cleared by the Board.

And as far as international businesses are concerned, the commercial terms, renegotiation with the customers has made them more steady. They were very volatile. I fully agree with many of the comments, but they have become steady. And we hope to hold this steady performance going forward across all our units.

Overall, I would say the demand-supply environment continues to be tight, and the supply side challenges have been met well by the team by ensuring adequate stocking, adequate risk mitigation there on the input side. And really, it is up to operating excellence and excellence in servicing our customers, which our team is focused on, which will continue to come back to you. Thank you, and wish you all well.