Tata Chemicals Limited

Q3 FY23 Earnings Conference Call Transcript
February 2, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY23 Earnings Conference Call of Tata Chemicals Limited.

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

Gavin Desa: Good day and thank you for joining us on Tata Chemicals Q3 FY23 Earnings Conference Call.

We have with us today Mr. R. Mukundan – Managing Director and CEO, Mr. Zarir Langrana – Executive Director, and Mr. Nandakumar Tirumalai – Chief Financial Officer.

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

I now invite Mr. Mukundan to begin proceedings of this call.

R. Mukundan: Good day, and welcome everyone to our quarterly earnings call. I am joined by my colleagues, Mr. Nandakumar Tirumalai – CFO and Mr. Zarir Langrana – Executive Director.

I will start the discussion with a few key highlights, following which I will request Nandu to walk you through the financial performance.

During the quarter, the operations were steady. The US which had some elongated shutdown last quarter has returned to the normal production run rate. Revenue and profitability were robust, with better realizations compared to Q3 of last year.

Overall, demand for soda ash continues to be resilient, and we believe the market to remain balanced, with a bias towards increasing demand, especially with the reopening of China and newer glass applications. Point to be added here, the Chinese inventory is at an all-time low of 2.8 lakh tonnes, unusually low figure. Hopefully, this will catch up and normalize, but that's the current state of one specific geography.

Rest of the geographies are balanced, with India having some winter type slowdown, but we expect the overall demand to pick up fully . We expect further tightening as we move forward.

Costs are under control, in a sense that the prices of most of the input materials and energy are very stable. They are not increasing anymore, and some of them are beginning to trend down a little bit.

There are few non-operational one-off items during the quarter by which the PAT was impacted even though EBITDA has been almost at the same level as last quarter, which is why we have indicated a normalized EBITDA, and Nandu will share the specifics of this, and these were flow through from our joint ventures.

Our expansion projects are on schedule. Our contracts for 2023 have been finalized right up to December 2023, and the impact of those contracts and the contracting arrangements will be seen at the end of the Q4 results. While we will not be making any forward looking statement, we can indicate that all our capacities are more or less booked and we are fully able to service our customers.

I now hand over the floor to Mr. Nandakumar who will take you through our financial performance.

N. Tirumalai: Thank you Mukundan and good morning everyone.

If you look at the numbers for the quarter, we had a good quarter. The revenue for the quarter was at Rs. 4,148 crore, a 32% growth over last year's Q3. The growth was broad based, with all the businesses and geographies performing well. EBITDA grew by 69% standing at Rs. 922 crore for the quarter. EBITDA margins were at 22%, which was 17% in the same quarter last year.

Moving on to individual businesses:

Starting with India; revenues for the quarter were at Rs. 1,218 crores, higher by 31% compared to last year's Q3. Growth was supported by higher realization as compared to last year's Q3. The PAT for the current quarter was lower than last quarter's PAT on 2 factors; one was in terms of Q2 in India, we had dividends coming from investments, which mainly came in Q2, and did not come in Q3. We also had a one-off kind of tax refunds coming in Q2, and not in Q3. These 2 factors led to the quarter-on-quarter PAT coming down, while EBITDA is almost on par with the last quarter.

The US maintains momentum with revenue and volume growth of 48% and 4% respectively for the quarter. Q3 witnessed volume growth over Q2 as well. We had shutdowns in Q2 in the US for some days. We made up for that in Q3, with higher volumes compared to Q2. The EBITDA margins were around 25% as compared to 15% in the last year's Q3, due to better operational efficiencies. We also prepaid $65 million of loans in the last 9 months' time.

Coming to the UK, we have been able to perform well, with revenues improving by 34%. While the uncertainty with regards to energy prices remain, we are undertaking steps towards rationalizing our costs and improving the overall efficiencies.

As far as Kenya is concerned, business did well and had another quarter of good performance, with both revenue and profits having good growth over previous year, and I am also happy to say that for the first time Kenya is debt-free. We prepaid all debts in the last 9 months' time.

Regarding Nutra and silica, silica operations are at an optimal level, and we are working towards increasing the capacity to better meet growing customer demand with better engagement. For Nutra our efforts are focused on acquiring customer approvals and increasing installation at the existing unit.

As far as Rallis is concerned, the Q3 was largely impacted due to the seasonality of the business. Management has continued its efforts on improving the product mix and cost efficiencies and widening the distribution reach.

As Mukundan mentioned, there were a few one-offs in the quarter, I just talked about that for standalone financials. In Q3, we had, as I explained earlier, India had the dividend income and the tax refunds in Q2, not coming in Q3. Apart from that, in Q3, there was a particular JV loss in the quarter. We have 2-3 JVs, one is in Morocco, one is Tata Industries. Overall, for the quarter, in the case of Morocco, the selling prices have come down as compared to last year's Q3. Last year had a very good pricing of phosphoric acid. So quarter on quarter or quarter over last year's Q3, the prices were lower, leading to a loss in Morocco in Q3.

We also had a one-off impact in Tata Industries' and the loss on account of this was booked in Q3. We don't expect this to continue in future in terms of the Tata Industries We expect to return to the normal numbers going forward.

On a consolidated basis, we had Rs. 2,119 crore of cash at the end of December, majority in India and the US and Kenya. The net debt was at Rs. 4,357 crore. During the year, the gross debt was lower due to debts being prepaid, and around 15% of debts have been prepaid during the current year.

Our consolidated CAPEX was Rs. 445 crore for the quarter and around Rs. 1,200 crore for 9 months ended.

With that, I will close my comments and hand it back to the moderator to open up for the Q&A. Thank you.

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

Sumant Kumar: My question is regarding soda ash business in India. We have seen a volume of 156,000 metric tons and a similar kind of volume was in Q2, and Q2 had a production loss because of plant shutdown. What was the key reason we are not showing the momentum what we have shown in FY21, even FY22 of a range of 170,000 to 178,000 or 180,000 metric tons?

R. Mukundan: India volumes largely, we do not see any issue in terms of demand in the market. As I mentioned, there have been some pockets where there has been a bit of a slow pickup in the marketplace and additional imports which have come in during this quarter. But as such, if you look at the overall picture and leave the quarter-on-quarter movements aside, whether it is 10,000 more or 20,000 less, and look at the overall numbers, globally, the inventory levels are low because the biggest producer, their inventory levels are low in China. We expect this one-off imports which had come in and also one-off softness in some of the markets, especially with respect to the dyes and pigments which saw some export markets taper off, to correct itself through demand from other segments, especially glass and detergents going forward.

Sumant Kumar: My second question is, when we are talking about recession in the developed countries, the US and Europe, and if the demand is going to decline from here - we are talking about a favorable demand-supply scenario; in that case, whatever scenario currently we have, do you think with the recession, whatever consumption we have of 60 million tonnes, there might be some decline and then there will be a pressure on the margin side in the soda ash? Whatever golden period we are seeing, there might be some pressure on that side?

R. Mukundan: Actually, we are seeing the reverse. We are seeing the opening up of China. I think we are going to be short of materials. There is no recession, at least signs of recession, in the US. The demand is continuing to be strong. Even market like the UK which has seen very high gas prices, we are fully booked, and our customers have actually contracted fully with us. Kenya is fully sold out, where we are not seeing any signs of recession, especially because Kenya exports mostly to India and ASEAN. We have a good amount of understanding of what's happening in markets. The current situation we are seeing is with China which is not fully yet coming back on-stream. In fact, if China does come fully on-stream, which we expect will happen, there is going to be much more demand. On top of that, I think India is going to have at least 3 additional solar glass lines and China is going to launch about 4 to 5 solar glass lines in the intervening period.

I would say, while there is a talk of recession, we are not seeing recession signs in our demand pattern. And, in any case, we are prepared for any sort of eventuality. The only thing we can control is our costs. So, we are extremely agile and extremely cost-focused, which we do in any case. In terms of the market side, we have not seen any adverse signs.

Moderator: The next question is from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Just a couple of questions, one is on the India EBITDA numbers for the stand-alone India operations. We are still significantly lower than the high watermark that we reported for the June quarter, which was about Rs. 398 crore of EBITDA from India. We are still at below Rs. 300 crore for the second quarter running, whereas one of our leading peers in India has actually reported more or less stable numbers for the last 3 quarters. If you could please just shed some light on what might be happening there?

R. Mukundan: As far as we are concerned, most of our input costs, basically, coal, coke, or limestone, in quarter 1, there would have been inventory of the previous year's purchases and fresh inventories would have come in in the current Q2 and Q3. We don't see any major shift in the cost structure which is remaining more or less stable. I don't want to comment about somebody else. I can only say that we are operating at optimum levels at the current kind of operations. And if at all going forward in the next fiscal year, some of these costs will ease because we are seeing signs of that happening.

Abhijit Akella: Just to understand, should we take this quarter's run rate as a normal number for the India business or should we expect to sort of trend back towards the June quarter numbers gradually?

R. Mukundan: I cannot say beyond the point that as input costs come down, it would go back to probably to June, but I think that is the process which will happen. You can monitor the coal prices as much as I can monitor.

Abhijit Akella: The only other thing I just wanted to check about was, while you did mention that we will be able to provide some flavor on the US contract re-negotiations only by the end of this quarter, the news reports out there do seem to indicate that the kind of price increases that have been witnessed in the US domestic market are at all-time high levels. Any color you could provide there, at least qualitatively, in terms of whether it has been a satisfactory contract renegotiation season for yourself and the industry?

Zarir Langrana: I think broadly, your comment is correct. All new contracts that were entered into - or in our case, all have been entered into - are at significantly higher pricing.

Moderator: We will move to the next question from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: The first question is on Kenya performance, if we look at QoQ performance, the EBITDA is down by about Rs. 10 crore, but the PAT is down by almost Rs. 45 crore. Any particular reason? And you also alluded to the fact that we have prepaid the debt. So, probably the interest component also must have been lower?

N. Tirumalai: Rohit, in terms of Kenya, Q3, we had a higher tax provisioning, because the year is looking good. That extra tax provisioning was made in Q3. That's why the PAT was lower than Q2.

Rohit Nagraj: And the second question is particularly in terms of India demand. Was there any weakness in Indian demand during Q3 particularly, because the volumes on a QoQ basis have been flattish? And how are we looking at when we have entered into Q4?

R. Mukundan: I already clarified, that in India, firstly the pigments and dyestuff sector, which takes a bit of soda ash, had export headwinds, and that has been widely reported even in the media. That has impacted a bit of the demand. Also, some imports did come in in the intervening period, which I think was a one-off. We don't expect the level of imports with the kind of inventory levels which are in China. So, I don't think that is going to continue. This was a one-off issue and which has led to a bit of inventory buildup in India, which will smoothen out as we go through the year.

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

S. Ramesh: If I were to understand the UK performance, they are going from strength to strength. The question is, how much is this pricing power sustainable, and is it some kind of a structural turnaround we are seeing in the UK? And the second thought is, if you can share some numbers in terms of the India consumption for the quarter for the industry in soda ash, and how you see this consumption growing, say, in the next 2 years in India? And if you can put some percentage growth numbers for the global consumption, that will be useful.

R. Mukundan: The growth rate in India, broadly, we are expecting to be in the range between 5.5% to 6.5%, especially on the back of some of the new lines that are coming on-stream. And overall, globally, it should be anywhere between 2% to 3% growth rate. That's really the broad number; because some parts of the world will probably just stagnate, will not grow that much, but other parts like Asia and Africa will continue to grow in a good way.

As far as the UK is concerned, just to give a color on what kind of contracting has been entered we have entered for next year, is what is known as fixed margin contracts. So, we will have margins which will be protected in the next year. This year, it was a bit of an open contract which was linked to energy costs. Next year, we have pegged it to fixed overall margins. So, I think you will get a better color of that in Q4. And we do expect that the UK would perform well. Whether it's going to be this kind of number, I don't want to comment on that, but it's going to perform at a steady rate next year.

S. Ramesh: If you talk about the UK fixed margins, is it going to be on a per tonne basis, or is it going to be on a percentage basis?

R. Mukundan: It is on per tonne basis, not on percentage. It is not that if gas prices go 2x, we will get also benefit of a certain percentage of the 2x, it is on whatever the pricing of gas is, on top of that, we will get a certain number for soda ash and bicarb.

S. Ramesh: In the second quarter, there was a mention of some one-off in the UK, is it possible to share what was the one-off? Because just to understand the UK performance at the EBITDA level, is it something which is the normalized EBITDA for the 2nd and 3rd quarters? Or was there any one-offs? We will be glad to understand that.

R. Mukundan: I think you should wait for Q4 when things will become clearer, and how that normalizes out. I don't want to give any forward-looking statements. I have made this point that it is going to be fixed margins and it is going to be profitable. Beyond that, I don't want to make a point.

Moderator: The next question is from the line of Ranjit Cirumalla from IIFL Securities.

Ranjit Cirumalla: Just wanted to get a bit more sense about post the ANSAC exit, how we are looking at the exports from the US. Would it also change the mix that we have currently from those geographies? And second, how to look at the logistic costs over there?

R. Mukundan: In terms of our contracts, we are done for next year, even for exports, we are fully contracted out. As far as logistics is concerned, we have entered into an arrangement with ANSAC, they will still handle the logistics, but they are not going to handle customer contracts. That is the understanding.

Ranjit Cirumalla: These contracts are largely fixed price contracts?

R. Mukundan: In the US, we have a fixed price contract. It's a 1 year fixed price contract and on a calendar year basis.

Ranjit Cirumalla: And that is what you are alluding that should start reflecting from 4Q onwards?

R. Mukundan: Yes. Also in the UK, it is calendar year. So, fixed margin that will also be visible in Q4.

Ranjit Cirumalla: Could you share a bit more light on the geography mix from that US exports? Is it more towards which….?

R. Mukundan: It is going to remain stable, the export volume which is close to about 45%, about 50% goes to LATAM and 50% to Asia-Pacific.

Moderator: The next question is from the line of Riya Mehta from Aequitas Investments.

Riya Mehta: I just wanted to look at the soda ash industry as a whole. Since we are not having any global capacity coming up in the next 2 to 3 years, everything coming in 2027 in a major way apart from our whatever incremental we are getting, what kind of realization jump do you see coming forward because of this?

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Zarir Langrana: You are right in what you are saying. We also are not 'seeing any substantial new capacity coming up, at least till the 2026-27 timeframe. In between, you will see some capacities coming up, but those will be primarily de-bottlenecks. There is talk of some natural soda ash capacity coming up in China. But that number has been swinging quite widely over these last few years, and we expect some capacity to come up. The volume and the timeframe are not very certain. So, yes, as Mukundan mentioned, we are going to see, if not complete tightness in the market, the market will continue to remain balanced. A lot of that has flown into pricing towards the latter half of last year and as we go into this year, and we expect that kind of firmness to continue. You might see some flavors in various geographies, but we do believe that the trend is going to be positive.

Riya Mehta: And since China reopening and we are hearing of their manufacturing PMI increasing to 50.1, do you see that there we might have some export opportunities out there, or at least the dumping would reduce to an extent and the domestic dynamics would get better, and we can have whatever price cuts we have taken for soda ash in domestic arena, we can just recoup that? Do we see such a phenomenon happening anytime soon?

Zarir Langrana: Very likely, as Mukundan also mentioned, with the reopening of China, with the new solar glass plants coming up there, with a slight relaxation on regulations on the real estate sector there, we are are expecting to see a rebound in Chinese demand. Obviously, that is going to have an impact on whatever they had exported or had available for export during the 'Zero COVID' timeframe. It might open up possibilities again for Chinese importing soda ash. Whether those will come out of Turkey or North America, we do not 'want to take a guess right now. And obviously, that will ease off also on Chinese import pressure, that existed for maybe 2 or 3 months into the Indian market, which will ease off as well.

R. Mukundan: Just to add, I think you would recall, last year, we had exported from Kenya into China for the first time. So, it may be possible it may move in that direction. Let me just again go back to this point. China reopening is an issue to watch. Second issue to watch is that Europe has fared much better than what we anticipated. I think what we are missing also in this is that while Europe did go through a bit of a difficult period, I think Europe has fared better. So, the pressure which has come on the dyestuff and pigment segment, which I spoke about in terms of exports to Europe, I think that may also be easing off because of how they have performed. Their gas storages are good. In fact, the gas prices in the UK and Europe have almost come back to the normalized number, well below the peaks we have seen. A peak of GBP 7, it has come down to GBP 1.5 already per therm. That has been more than one-fourth the figure which we saw at the peak. That explains the broad trend in the world. Of course, we cannot predict the economy and most economists also would not dare to predict the economy, there is still talk of recession, but we are not seeing that in our business. That is all I can say.

Zarir Langrana: Mukund, I am glad you mentioned this. EU just yesterday released their container glass sales figures for last year, and it's at a record high. It's the highest it has ever been, in a year that the R-word was being used and is still being used. So, that's another indicator.

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

Chintan Modi: Two questions from my side; firstly, despite having such a great year in terms of demand and also in terms of profitability, if you look at our volumes for 9 months, they have degrown by almost 3%. And I understand the Q2 phenomenon, the one-off that we had, but even if that was a normalized quarter, I don't think we would have seen a big growth in the volumes. That was one. And secondly, despite having such good profits, our ROCEs are just inching closer to 10%. I would like to know how does the management think about this, and how do you plan your future capital allocations in the long run?

R. Mukundan: Firstly, on the volume piece, just to assure you, we are operating at full utilization. We are producing whatever we can. Unless we expand, I don't expect the volumes to go up substantially. And of course, the Q2, where we had extended shutdown, I think that has played a part in this. As capacities come on-stream, only then we will see the volume uptick happen. And that should come in phases as we move forward during the course of the next financial year.

In terms of the capital employed, we are fairly clear in terms of putting our capital to the businesses which yield return, and we are using them judiciously. But in terms of ROCE, I think there is a fair degree of the investment book which we have, which also partly is attributable to this whole process. But other than that, as a business, we are very clear that our return ratios are at a premium to our weighted average cost of capital, ideally getting close to, anywhere between 15% to 20%.

Chintan Modi: And in terms of investment book, any plans to, say, monetize some of the investments?

R. Mukundan: I will only say no comments. And our history shows that in a phased manner, it has been happening over a period of time. But that certainly is the board's decision.

Moderator: The next question is from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani: Sir, if you could just give some sense on the demand trends that you are seeing in different geographies? I know you mentioned that all your capacities are booked for 2023. But if you could give some color in terms of the demand trends that you are seeing from your bigger end segments, that will be helpful.

R. Mukundan: Overall, the demand is firm. The demand-supply situation is balanced with trend tending towards a tightness, especially because China has reopened and their inventories are running low. We are continuing to see a very positive bias right across. And I also mentioned that India did see a temporary blip with respect to 1 or 2 segments like dyes and pigments and also some one-off imports coming in Q3, but that is not reflective of the growth trend in this market, which is close to about anywhere between 5.5% to 6.5% growth rate which we are expecting, especially on the back of new capacities of glass lines coming on-stream. China also is going to grow with at least 5 or 6 more glass lines coming on-stream, and Zarir already alluded to record container glass production in Europe. We are mainly selling in the UK to container glass, and no other segment. And lastly, LATAM continues to make steady progress in terms of their sectors too.

So, LATAM growth and Australian growth are going to come mostly from lithium carbonate and lithium businesses. Rest of the world is seeing a very strong pull coming from the solar glass business. And the other segments are holding steady and growing further. The world GDP is going to grow, and soda ash will be needed, and bicarbonate will be needed. All the chemicals we make will be needed.

Vivek Rajamani: The second question on the UK and Kenya; again, very strong numbers there. You had highlighted in the past that you could see some normalization in the margins. Any color in terms of how you see this trending maybe in the next couple of quarters? I know you said that operations and demand are still very strong there. But if you still maintain, a bit of normalization might happen? Any color on how that could trend over the next couple of quarters would be helpful.

R. Mukundan: Quarter 4, without saying anything, in the UK, as I mentioned, we have got a fixed margin, and you will get a color of that when we give the results for the quarter 4. And this is the Q1 of the calendar year, the first of the contracts we just shifted. It will be a profitable operation, but it will normalize as you used the right word, but I can't go beyond that.

In Kenya, certainly, the revenue side is not going to see any major change because the prices are holding in all markets, and I don't see that as an issue. But I think the fresh hedges of oil which we are taking and HFO which we are taking are all coming at the current trended oil/HFO prices. So, there is going to be a bit of a normalization.

Moderator: The next question is from the line of Akul Broachwala from IIFL Securities.

Akul Broachwala: Just a follow-up on the UK again. For the 9 months, we have reported Rs. 390-odd crore of EBITDA. Could you quantify the benefit that we are kind of getting from carbon capture unit?

R. Mukundan: We don't have the figure readily. We will keep that ready for the next meeting and we will be able to give you some color on that. Sorry for that.

Akul Broachwala: There was a news article stating that you have also entered into a contract with a European manufacturer for probably sourcing of low carbon. What's the sense out there? Are you looking at this very closely in terms of yielding further benefits?

R. Mukundan: It's a heads of terms agreement. It's an MOU, and it's in early phase. I UK government is very keen on a green and hydrogen economy. So, we are fully supportive, and we will work closely, but it is in a phase of early understanding. What I mean to say by that is that for the vertex to sort of go ahead with their investment, they need customer arrangements and also arrangements from government in terms of support to hydrogen, which is what they are securing as of now. As it sort of gets more mature, you should look at it. But for the next 2 years or so, we do not think you need to bother about this agreement. It's only much beyond that this agreement will come into play.

Akul Broachwala: Secondly, specifically for North America, many of these large manufacturers have either revived their capacity or announced new capacity. Are we also looking at that opportunity in near term or maybe few years down the line for adding fresh capacities?

R. Mukundan: We have already announced that we will be moving from 2.8 million tonnes to 3.2 million tonnes. That's already in the works. And in India, we are going to a million, and there is also a 1.3 million expansion happening in India. These are part of the expansion processes on our journey to nearly double our overall capacity.

Moderator: The next question is from the line of Manikantha Garre from Franklin Templeton.

Manikantha Garre: Sir, you mentioned earlier that your capacities have been fully booked for this calendar year. Just wanted to understand, would there be typically any take-or-pay percentage clause in this quarterly and annual contract which you have signed? That's the first question.

R. Mukundan: No take-or-pay.

Manikantha Garre: And the second question is, as you have pointed out and as we have been tracking, gas prices in the US have fallen significantly in Q3 also. But I see costs going up sequentially in the US and the UK for us, is it because of the hedges that we have placed and as a result of which we are not seeing the benefits yet? And if that is the case, which quarter we expect to see the low gas prices probably returning?

R. Mukundan: It's the reverse - we have already seen the benefit of hedges we placed. As the hedges unwind, it will go to realistic figures of current gas prices, which have tendered down. What has really happened to us is because of the hedges, we were not affected by peak gas prices and they are normalized now. And we have sailed through that entire process through input costs almost remaining still.

Moderator: The next question is from the line of Arjun Khanna from Kotak Mahindra Asset Management.

Arjun Khanna: Sir, I just wanted some color on our specialty piece. We understand what's with Rallis, it's a separately listed entity. If you could just give us a flavor how does one understand the seasonality in this? Because we see profitability change substantially quarter to quarter. And secondly, you mentioned in the opening remarks certain losses in Tata Industries. Could you bring out that number - what was that loss per se? And how do you see our Morocco JV pan out, given that phos acid prices are on the way down?

N. Tirumalai: I will talk about the second part first, Arjun. We have this JV loss of Rs. 91 crore in the quarter that consists of 3 or 4 JVs, and we don't really give a break-up of that in terms of which JV made how much losses. But it consists of – one is in Morocco where the phos acid prices have come down in Q3 compared to Q2. In fact, they made a profit in Q2 and a small loss in Q3. And in the case of Tata Industries, one part is normal loss from operations, and the second is the one-off loss they had in the quarter and we got our share of 9% we hold in the company. we don't expect the one offs to repeat going forward. So it's more like a one-off only for the quarter on account of a business sold by Tata Industries.

R. Mukundan: Going back to the Moroccan phos acid entity, firstly, I think while the DAP prices and phos acid prices are coming down, that also reflects to the raw phosphate prices. While there could be some course correction period where prices fall but the raw phosphate may be coming in through some past purchases. As those stocks get consumed, it will also normalize. Generally, these have tended to move in the same direction with some margin expansion in the periods of tightness. So, DAP, phos acid, and raw phosphate move almost in the same direction. And there's a margin which you earn and the margin expands if there is a tightness in the market.

As far as our view of phosphate is concerned, it also remains as a key resource and we do believe that the world will continue to see phosphate consumption on a growing pattern, as food production gathers even more momentum in terms of access to high-quality fertilizer.

N. Tirumalai: And also, in terms of the same topic, Arjun, I think if you look at Morocco, we had very huge profits last year and now they are getting more normalized as per the past trend. So, now what is being seen is the right numbers in terms of the profits.

Arjun Khanna: Just to understand that, when you say right numbers, in terms of losses or do you see this entity move back to historical profits?

N. Tirumalai: Yes, I think if you look at the historical numbers of the profit in Morocco in the last many years, we make about Rs. 200 crore or Rs. 300 crore of profit every year as a company, and we get one-third of that. That's the past trend. Last year was an abnormal year in terms of the pricing shot up and we made a big gain. Otherwise, Rs. 200 crore or Rs. 300 crore what they make generally year on year in Morocco, we get one-third of that in our books here.

Arjun Khanna: And the first question, sir?

R. Mukundan: There is no seasonality in the other business. During monsoon, some offtake may reduce because some of the industries may be having lower production during monsoon. But otherwise, there is no seasonality. Our tire line in silica is fully booked, with 100% utilization. Our food line in silica is at about 75% utilization, that goes mainly into toothpaste and battery separator markets. And the tire line goes to the tire manufacturers and rubber manufacturers.

As far as our prebiotic, the fermentation - platform is concerned, there the utilization is about 68% to 70%. I think as the utilization moves up, these will move towards positive. The GC margin in this business tends to vary between 25% in fermentation and 13%. Those percentages will keep improving as the utilization improves. We have to get more customer orders and increase our sales of these products. That's what we are putting efforts on. There is a broad acceptance of these products. The customer base is good. We have to continue to serve them to get the utilization up.

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

S. Ramesh: On the India Specialty, is it possible to give a timeline in terms of when we can see a positive EBIT in your stand-alone reporting?

R. Mukundan: In stand-alone reporting in terms of positive EBIT, we have to scale this beyond the current pilot scale. As I mentioned to you, the board has cleared a 50,000 tonne silica expansion. That will take time to come on-stream, at least 24 months to execute that project. We have just finished the acquisition of land and the groundbreaking in Cuddalore. Till that time, this will run on a pilot basis, which will have to get customer acceptance.

S. Ramesh: And just going back to your second quarter call, there was a mention of some one-off items in the UK P&L. Is it possible to share that? And are we to understand that the UK performance in the 3rd quarter is without any one-off item?

N. Tirumalai: There is no one-off in 3rd quarter in terms of the UK.

R. Mukundan: Yes, the UK is a normal operation in 3rd quarter. And in the 4th quarter, we would be switching to fixed margin for the next calendar year.

S. Ramesh: I am referring to what you mentioned in the 2nd quarter call. There was a reported one-time item in the UK payable for 2nd quarter. You were supposed to come back on that. If you can give us some clarity on that, it will be useful.

N. Tirumalai: There was some land sold in the UK, which was a small gain booked in Q2. Apart from that, there was no other one-off in Q2, and Q3 is without any one-offs in the UK.

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

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Saket Kapoor: Sir, could you please explain the reason for the increase in power and fuel costs on a Q-on-Q basis from 700, the freight and forwarding charges on a consolidated basis? Your thought process on that. I am talking about the power and fuel cost of 901.

N. Tirumalai: If you look at the whole thing, power and fuel has got 2 components. One is in terms of your consumption of coal in India and gas in the UK & the US and also the US consumes coal. So, broadly, quarter-on-quarter, the gas prices had gone up but have come down now. That reflects the increase in the gas prices across geographies, mainly in the US and the UK. It went up sharply in Q3. But now it has come down to let's say GBP 1.5 a therm in the UK as compared to about GBP 4 or GBP 5 in Q3.

Saket Kapoor: There is a pass on in the realization also. It did not have a dent on margin is to be underscored?

N. Tirumalai: Correct. Whatever you are seeing, an increase in the power and fuel and freight is coming in the top line.

Saket Kapoor: As you mentioned that China is having the historically low inventory, and for India domestically, we are having some inventory. Was it that this inventory being from the Chinese only before their reopening? And if we refer to the Chinese prices, sir, just referring to their website, the Chinese prices have moved up more than RMB 110 over a period of last 1 month. Do those prices have any relevance on how the market is shaping up? Would you like to share some thoughts on the same, sir?

R. Mukundan: In terms of India inventory, I think broadly, most companies hold between 12 days of inventory that has probably gone to 20 days of inventory. It's not a big number. I just wanted to leave it there. And the Chinese domestic prices keep moving up and down, and that's a separate phenomenon. But all I would say is that the international prices are currently steady and holding.

Moderator: The next question is from the line of Yogesh Tiwari from Arihant Capital.

Yogesh Tiwari: Sir, my first question is on the UK. If I refer to your presentation, the sales volume for soda ash has declined on a quarter-on-quarter basis from about 69% to 63%. What would be the driver for it?

R. Mukundan: It's just the timing. It's a very minor decline. It's just a timing issue, nothing major.

Yogesh Tiwari: And even on a year-on-year basis, it has been a decline. Any reason for the continuous decline?

R. Mukundan: We are fully servicing all the orders. That's what we are doing. We may have cut out some of the low-yielding tail which was going to some customers, but I think they are running the business to maximize bottom-line.

Yogesh Tiwari: And last question on the India business, in November, we took a price reduction in light and dense soda ash. How is the situation in India in terms of prices and pricing?

R. Mukundan: That again was a bit of a seasonal move which was made and also reflective of some input cost reduction which we were seeing coming in. But if you ask me, as the inventory situation eases, which is what we are expecting in the next 2 months. I think the prices should again be on a firmer footing.

Moderator: The next question is from the line of Rohit Sinha from Sunidhi Securities.

Rohit Sinha: Just a few things. One is, as you mentioned that the pigment and dye stuff industry is facing some headwinds because of which we lost some bit of demand. I just wanted to understand what kind of percentage, if at all, could you mention that this industry is consuming the soda ash?

R. Mukundan: 4% to 5% overall demand.

Rohit Sinha: And secondly, on the power sourcing, I just wanted to understand how we are looking to go ahead with the green energy kind of thing or are we looking to reduce some power costs with sourcing for renewable power?

R. Mukundan: We have 4 different units which are on a different trajectory. The UK already is 100% on gas, and the next step for them would be to explore hydrogen because that is one of the cleanest fuels in terms of carbon intensity. And Magadi will move from HFO to mostly solar for their energy requirement. The US are 25% on gas and 75% on coal. They would also switch to gas over a period of time, and that is the trajectory they will take. India will have a combination from 100% coal to renewable solar as well as to biomass, as the 2 fuel switch options which we will be doing over a period of time.

Rohit Sinha: Any time line in this?

R. Mukundan: Our teams are working to reducing 30%, which means wherever it's 100%, we will go down to 70% carbon intensity, and the coal usage should come down to 70% of the current level.

Moderator: That was the last question for today. I now hand the conference over to management for closing comments.

R. Mukundan: Overall, I just wanted to close by saying that we are continuing to see a steady demand-supply situation. Next year looks to be in a good steady wicket with the reopening of China as well as better-than-expected European performance, especially with respect to their gas storage and their ability to manage through this difficult cost situation which they were facing. With this, we are confident that our trajectory which we had laid out for our business is on the right path. In addition to that, just adding a further point to the last question, we are also augmenting our efforts both in the area of sustainability and going green and adding a digital layer to our operations, and we will continue to report progress of all these efforts quarter-on-quarter. Thank you all and have an excellent quarter going ahead.