



## Tata Chemicals Limited

### Q2 & H1 FY19 Earnings Conference Call

### November 05, 2018

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**Moderator:** Ladies and gentlemen, good day and welcome to the Tata Chemicals Limited Q2 & H1 FY19 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

**Gavin Desa:** Thank you. Good day, everyone and thank you for joining us for Tata Chemicals Q2 & H1 FY19 earnings call. We have with us today, Mr. R. Mukundan – Managing Director and Mr. John Mulhall – 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.

**R. Mukundan:** Thank you, Gavin. Thank you everyone for joining us on the earnings call. Before I start let me Wish Happy Dhanteras and Happy Diwali to all you.

Now let me take you through the performance and key developments in the company along with John. Later, John will speak a bit more about the financial performance. Overall, we have three businesses; first one starting with Basic Chemistry, our revenue grew 7% during the quarter. The growth would have been even more pronounced had it not been for one-offs in our international business. TCNA performance was largely to an extent impacted by hookup which we had to do for an environment equipment, which has come into play because of the tightening air pollution norm and that hookup was to be done this quarter and we lost approximately 50,000 tons in terms of production volume due to the equipment hookup which was as per the plan. Had it not been for the same, we would have been able to capitalize on even strong demand and better realizations in the region. All our units perform to the tune; Magadi performed well with recovery from heavy floods which impacted the previous quarter. We expect this trend to continue going forward and across the regions we expect the international businesses to perform better than this quarter in the second half of the year.

One of the things we are seeing as a trend is increasing tightness in the market which is allowing us to pass on the energy cost increase. The energy cost increase in many accounts will be passed on by Q4 of this year, primarily because that is when most of the contracts unwind and open up, but certainly what I wanted to highlight is we have seen the Turkish capacity come on stream and bulk of that capacity has been fully absorbed and the market is continuing to be tight despite that full absorption. As you are aware that there is no protection of duty in India as well as in many parts of the world and the prices have held despite all those

elements, such as ADD going away, which augurs extremely well for this industry. So, we are going to be seeing our margins move in the positive direction where it ought to be by Q4 of this year even though this year it was subdued because of higher energy cost and some of the contracts are still at the pricing levels which were negotiated at the beginning of this year.

In terms of the Consumer business, we had a strong quarter, revenue growth of 22%. We are tracking much higher growth in pulses and spices with a small base and we are continuing to focus on market reach and availability and we are seeing a very strong salience for these two products. In addition to this, we will be introducing new categories from time-to-time, but as of now our three categories are protein, and there is an increasing trend globally in terms of shift towards non-animal protein, and we are in the right market segment with pulses as far as that element of nutrition is concerned. Salt continues to be our main stay and Spices is an area where India has a very strong competitive advantage and we are going to be driving our presence in that sector.

In terms of the Specialty business, this is largely a business which, in this quarter, is driven by the performance of Agro Chemical and the Seed business. As you are aware, our Nutrition Solutions business is in the investment phase and the plant at Nellore is on schedule for start by the Q4 of this year. We will be installing most of the equipment and doing a soft start by February of this year, by March we expect the test run of the plant to begin. As far as silica is concerned, the plant is being upgraded to meet the environment and other safety norms of Tata Group and we expect the trial runs to begin anytime during third week or fourth week of November. So, both these projects are on schedule. We had committed to all of you that we would be spending about Rs.565 crore and that spend would largely be in place by the time we end this year.

In addition to this, I just wanted to highlight that, the Board of Directors in this quarter approved a comprehensive plan towards re-energizing Mithapur. It is not just debottlenecking but it is reimagining and re-energizing of our core facility in Mithapur and there is a capital spend of approximately \$370 million, which have been cleared, i.e. approximately Rs.2,400 crore CAPEX, of which I must highlight that, about Rs.250 crore has already been spent, so the balance element of approximately \$340 million is what we will be spending; to increase capacity in soda ash by 200,000 tons. In addition to soda ash, the salt production capacity is being enhanced by 400,000 tons. We are investing in a Specialty Bicarbonate, which is Medicarb plant, which is pharmaceutical grade Bicarb, -it is a high grade product which we had introduced in the market and it is seeing a very strong traction. New capacity of this high grade product would be of 35,000 MT. In addition to this, our cement capacity is also being augmented by 300,000 tons. So, this is a very comprehensive project to be completed in 3-4 years. The entire expansion will be with zero carbon impact. We are not going to be adding any new coal fired or oil fired boilers for this energy, which is one of the big elements of this comprehensive plan of being completely environmentally-friendly. This entire project is going to be funded largely through internal cash generation.

Breaking up this into specifics, about \$90 million is being spent on energy and environment, about \$100 million each is being spent on soda ash and salt each and about \$25 million on cement, and about \$15 million on Bi-carb. So, that broadly is the breakdown of \$330 million which is the capital spend and will be phased on the basis of one-third, one-third & one-third spread over three years.

In terms of return from this capital investment, this is a very exciting investment for us because; firstly, it is zero carbon and it taking the company towards lower

carbon intensity and also is making the site more competitive in terms of cost structure. We expect that this project would be in the mid-20s IRR, which is broadly I would say around 25% IRR, if I would pick a number in between. That is about the project itself.

The other element I wanted to highlight is that the board also approved our entry into a new line of business in the chemistry ingredients space, which is going to be in the area of the energy transition, which India is going to see. We have been working in this space for quite a few years looking at alternate energy. If you recall we had invested in Biofuel business from which we pulled back. We had also worked very hard both on the electric battery as well as on fuel cell and we do believe that India is at a cusp of major growth in this area, through transition from what I would call as the fuel-driven batteries to electric vehicles. We have signed two MoUs, one with CSIR Lab and we are sourcing various technologies, but our plan is to be supporting the automotive industry as it makes its transition to electric vehicle. Broadly, the theme of this investment involves between 2 to 4 GW of cell manufacturing capacity, but we will come with a specific plan as we move forward in our negotiations and discussions with our customers.

So, broadly I would say the growth opportunities for this company look exciting. The current businesses we are in have a very strong salience and demand and they are generating adequate cash for us to drive growth through internal accruals, while primarily we are investing a large part of the cash towards the businesses known to us. We are seeding two broadly new businesses; one is the Nutraceuticals and other one is Specialty Material business in Cuddalore, and thirdly we will seed the electric battery / lithium-ion battery business as we move forward.

With this I request John to give some insights on financial performance.

**John Mulhall:**

Thanks Mukund. I will be brief in my summary. There are a couple of points I really want to make. On a continuing basis, profits after tax on standalone and consolidated, are significantly ahead of last year. Also, our consolidated net debt Rs.2,180 crore, was after taking off cash of Rs.4,441 crore. On standalone basis, we have cash on hand of Rs.3,665 crore, offset against the debt that is maturing within the next 12-months that will be when all of our debt is repaid and net cash is just shy of Rs.2,500 crore.

Based on that, I would open for any questions.

**Moderator:**

Thank you very much. We take the first question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

**Viraj Kacharia:**

Just had a couple of questions. First is just a clarification on CAPEX. It was Rs.2,400 crore which we talked about. Historically we have been spending around Rs.500-550 crore in inorganic chemicals in the past. So, the maintenance CAPEX would be in addition to that or this would be inclusive of any other maintenance CAPEX which we had planned earlier? If we look at other players in the industry who have done Brownfield CAPEX in India, typical capacity cost per ton for Brownfield is around Rs.25,000 per ton, ours roughly works out to 35,000-36,000 per ton. Just wanted to understand the nature of this CAPEX for soda ash?

**R. Mukundan:**

Firstly the capacity for Soda Ash, which has come out in the presentation is incorrect, Soda ash would be increased by 200,000. So, that is one clarification I just wanted to highlight. The second element, is we are aware of the capacities which have been talked about in other units, but ours includes integrated project



investments in environment, energy efficiency, Bi-carb capacity and other projects. So, the core soda ash itself is about \$100 million of investment which is what I explained. I have given you the split of this because I am aware that this broad number may not be clear in terms of the specifics what it may be. So, let me just walk through that; Rs.250 crore has already been invested as part of the preparatory CAPEX, it has already done over the past year, the balance of \$340 million is spread approximately as follows: \$90 million for energy and environment, \$25 million for cement, \$15 million investment for pharma grade bicarbonate and \$100 million each for soda ash and salt. So, that is about the \$330 odd investment which we are planning in terms of the additional CAPEX which would come through. We are aware that the last capital expansion done of which we have a number is in Pakistan by ICI was done at \$90 million, 150,000 ton capacity increase and ours is about \$100 million, for 200,000 tons capacity increase. So, it is pretty much benchmarking with a like-to-like investment.

**Viraj Kacharia:** The maintenance CAPEX is in addition to this, which you will be spending in basic chemistry going forward?

**John Mulhall:** Maintenance CAPEX would be reduced as we end up replacing a lot of the older equipment as we are expanding especially on the energy and steam generation side. So, we would expect that to come down but just to reiterate the point Mukund made earlier, the fact is it is a zero carbon additional load going forward, means our energy efficiency improves over and above simple brownfield expansion.

**Viraj Kacharia:** Second question was on the overseas soda ash operations. So, even if you adjust for the 50,000 tons that you talked about the production in North America because of this environmental hookup. We are still seeing kind of volume decline and profitability decline in the US operations especially despite the overall market being firm and we are seeing healthy volume growth. So, just wanted to understand where exactly has been the challenge. When we say we expect the bulk of our contracts to get renewed in Q4, typically of our sales in US and India and elsewhere, how much of the sales in our contract basis and how much is on a spot basis?

**R. Mukundan:** In US, they are annual contracts, which is on a calendar basis. As far as the UK is concerned, there are some contracts which are multiyear; it is indexed to inflation. So, it is a different structure there. In India, approximately 50% is open and balance is contracted. And in India, the contracts unwind almost every six months and barring one or two large contracts which are on annual basis. So, in India you would see some bit of movement happening in Q3 and certain bit of movement further happening in Q1 of the next year.

**Viraj Kacharia:** In terms of profitability for the US operations, so we have seen continued volume decline even after adjusting for the volume loss which we talked about?

**John Mulhall:** The volumes are done in the half year, but we would expect to recover after that towards the end of this year. Based on that we are still looking at probably a second best production in the last five years in North America.

**R. Mukundan:** That is right. I think also the certain element of cost is due to the hookup which certainly takes up the fixed cost a little bit and also since you run the plant at a lower load you have certain inefficiency creep in. So, it is a combination of all the three factors.

**Viraj Kacharia:** This environmental cost is more for one time in nature. What will be the cost of this in Q2?

**R. Mukundan:** The capital investment itself was related to in the environment related capital expenditure, which was approximately \$8 million.

**Moderator:** Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

**S. Padmanabhan:** Just taking forward from the previous participant on the subsidiaries, if one is even adjusting for the 50,000 tons and if you look at all the three subsidiaries, that is US, UK and Africa, meanwhile Africa has shown QoQ improvement, there have still been a decline on QoQ basis. If one is looking at a full year, I understand that 1Q had a lot of issues and US had some issues this quarter, what is the kind of #1 is, when you are looking at the supply/demand more favorable to us, what is the kind of run rate do you think one should be doing this year and when do you think the contracts once renegotiated will start being more beneficial as far as the margins are concerned?

**R. Mukundan:** There are two issues involved: One is the contract issue that is only recouping the energy cost increase. The real issue is operational one in US, in the sense that we do believe that 50,000 tons loss meant that much of a contribution loss which flows into the bottom line has been impacted. As far as the UK and Kenya operations are concerned, Kenya operations has more or less stepped back to normalcy and UK operations is fundamentally you would see that by Q4 of this year, it should also be back to normalcy.

**S. Padmanabhan:** With respect to the Indian soda ash, we are putting in 200,000 tons capacity and GHCL is putting about 125,000 tons capacity. If we are looking at the last few quarters, I think standalone has been doing very well for us primarily on account of the supply/demand dynamics. But do you think the attractiveness of the business probably the spreads could be a bit of challenge as the new capacities come in because supply is now will be there, close to about 350,000 tons?

**R. Mukundan:** No, I think the way we look at it is the global growth even if taken at 4%, also needs approximately even at a low rate, at least a million ton of which at least India needs about 0.35 to 0.5 mt additional material every alternate year just to respond to the growth and part of that growth will be taken up this year by the capacity of Rohit detergent which is coming on stream, but we will still be tight in the market. India used to export almost 25% of its output which has been coming down seriously and if India has become a large importer now and that position of India being a large importer is not going to change. And the reason we had acquired the US entity as India becomes a larger and larger importer, we are going to be bringing that material more and more into India. So, part of the plan of Tata Chemicals is to not just expand in India, but also leverage its very competitive position in North America to bring it to the domestic market and you would see that play out as we move forward. Effectively, our strategy has been fairly simple – Bring the world's most competitive capacity to deliver to the most competitive, most attractive market. So, we are just working on that to deliver that. So, material would flow into this market. So, I do not think Indian market attractiveness changes in any case and globally there is tightness in the market and Indian market is only reflecting the same.

**S. Padmanabhan:** One final question from my side is on the CAPEX breakup that you had given. While lot of this CAPEX in addition is towards soda ash, salt, cement and bicarb, this implies that there would be additional CAPEX towards that lithium ion, this Rs.2,400 crore of CAPEX is excluding the lithium ion? Is my understand right on this?

- R. Mukundan:** The CAPEX which we spoke about of Rs.2,400 crore, of which Rs.250 crore has been spent already that CAPEX is only from Mithapur. The lithium battery project has been approved, it will be funded separately and Rs.2,400 crore CAPEX is going to be funded entirely through our cash generation, that is broadly the view. We will come back with specific plans for the lithium battery as and when we get a specific project approved. Right now the Board has cleared in-principle investment in that direction.
- S. Padmanabhan:** Sir, as far as your broad thesis is concerned in terms of investment, earlier we had talked about spending more towards FMCG and Consumer business contrast to probably the Basic Chemicals, etc., is there a rethink in that strategy because one was under the impression that more money would be moving towards probably the consumer focus business, something like more towards pulses or something similar to that, the B2C part of the business?
- R. Mukundan:** No, I think thesis remain the same, we have two broad pillars of the Company -- Chemistry Ingredients business and Consumer Products business. Chemistry Ingredients business we have both basic chemistry products and the specialty products which would continue to grow so would the consumer products business. Consumer business is by their very nature do not need CAPEX, they are mostly run on OPEX. Our investments which are happening in CPB is flowing through the P&L. So, when we are supporting the investments in spice and pulses, there has been no cutback on those support, but those are expensed on a quarterly basis, they cannot be shown as a separate capital, but that is the nature of accounting.
- Moderator:** Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani:** Just wanted to get back that you just mentioned that the lithium you will get back to us on the new CAPEX, right?
- R. Mukundan:** That is right.
- Mayur Gathani:** For the existing CAPEX that you plan and you mentioned about everything will be used through the internal cash flow, there will be no debt taken for that purpose?
- R. Mukundan:** Yes, plus I think we have adequate cash and by the cash generations will come and maybe there will be a dip in one or two years, but the cash balance will plough back because of the cash generation from the new investments which we are putting in place.
- Mayur Gathani:** So, mid-term you may have to resort to some debt?
- R. Mukundan:** No, we look at optimal funding plan for it, but effectively the net cash position will remain net cash position. We have seen that as a calculation.
- Mayur Gathani:** On Soda Ash business, going forward like Q3 and Q4, you will have a better flow with the volumes, etc., compared to first half?
- R. Mukundan:** That is our anticipation, we have no hookups and there is the issues in Kenya behind us, so we should have a better performance and Q4 as you would know in UK also is the quarter where we get a Triad benefit wherein the energy business profit kick in only in the Q4 because that is when the UK government offers us the cash coming from the Triad business which is separately one-time which sort of happens in Q4. So, all factors are in play.

**Moderator:** Thank you. We would take the next question from the line of Abhijit Akella from IIFL. Please go ahead.

**Abhijit Akella:** First on the capacity expansion project. Just a couple of quick clarifications: One is you mentioned the IRR you are expecting is in the mid-20's. So, in a simplistic manner, is it correct to interpret that at peak utilization, this project will be generating somewhere about Rs.600 crore worth of EBIT on Rs.2,400 crore investment and how long do you expect it to take before the peak utilization?

**R. Mukundan:** Firstly, Abhijit, this is being invested over three years as I said and capacity increases come on-stream in steps in three years. So, it is almost a straight line except for one bumpy increase in the salt business which comes on stream early. So, we expect the utilization to creep up to 100% as may be in a month or two or three months of putting in because there is enough un-served market in India for these products for us to occupy that space, that is #1. #2 the broad cash generation number which you explained, I would not take a fixed number, but I would rather pick a range of Rs.600 to Rs.800 crore.

**Abhijit Akella:** This is the free cash flow generated from the project?

**R. Mukundan:** The cash generation, yes.

**Abhijit Akella:** And then second just on the lithium ion project, in terms of timelines is there anything we can indicate, how far away from commissioning is that project? Second, how does it fit into our business portfolio? I believe we do not really have access to any lithium mines or anything like that at this point in time. So, from a strategic standpoint how does it make sense for us as a fit?

**R. Mukundan:** We have two broad businesses, Abhijit - One is Chemistry Ingredients business which is both various ingredients which go into various other entities, various other consumers and we have got a consumer product business. This fits in perfectly well with our Specialty Chemicals business wherein we have been making active ingredients. We will be having partners from whom we will be sourcing the key elements. So, that is part of the plan. The first step in this project of course is to get confirmed orders from our customers in automotive business, so we are in negotiation with them, the project will take off in tune with their plans to launch any vehicle. So, I would only say that we will be working in step with our customers in the automotive sector. So, it really depends on us clinching the customer orders and then working with the automotive segment, so we will be very, very closely tied in with them.

**Abhijit Akella:** Just on the soda ash business this quarter, besides the environmental hook up in the US, the presentation also mentions lower operational efficiency. I just wanted to understand whether that was some additional factor besides the environmental hookup? And then second, higher fixed cost in Europe and Kenya if you could just elaborate on that a bit?

**R. Mukundan:** In terms of efficiency, I think we had to run one line while the equipment was being hooked up, so when we run at a slightly lower capacity, the inefficiencies creep in which is really what this whole element is highlighting. So, the prime driver for that is the hookup and the related expenses and cost of running at a lower run rate, nothing exceptional beyond that.

**Abhijit Akella:** Fixed cost also in Europe and Kenya?

**R. Mukundan:** I think in Kenya, we have to fix that entire series of equipment's which were damaged and which were impacted in the short run, of course part of it we have put in the insurance claim, so it is a spend just to get our units back on stream because lot of the electrical were flooded out and damaged.

**Moderator:** Thank you. Next question is from the line of Arjun Asher from Envision Capital. Please go ahead.

**Arjun Asher:** Broadly the lithium ion cell manufacturing is it very capital-intensive and would it be a big commitment for our company?

**R. Mukundan:** It usually comes in steps. I am going to give you some broad indicators of the numbers. Broadly for about 1.5 GW factory, it is about \$200 million investment and it can be done in steps of either 1 GW, 1.5 GW or 3 GW. For broad thumb rule you would say \$200 million for 1.5 GW, that is the broad expenditure. India's demand is estimated to be in 10-years' time about 40 GW and we are looking at 25% share of that - 10 GW.

**Arjun Asher:** The initial phase you mentioned will be 2-4 GW, right?

**R. Mukundan:** Somewhere in that region, we would want to pitch it somewhere between 2 and 4.

**Arjun Asher:** On the technological end, is it very risky or is it stable state technology currently?

**R. Mukundan:** It is extremely stable. The cell manufacturing has three broad routes -- LPO, LFP, as well as NMC. We are looking at an option between LFP which is a Lithium Phosphate Ferrous option or NMC, which is the Nickel, Manganese, Cobalt option along with Lithium and within NMC there is NMC-622 or 811. So, we will look at what options are there within that, but these are all technical details we are going through with our customer because everything depends on the vehicle specification and these are extremely stable as far as the Chinese market is concerned, Chinese are the leaders in this, the Koreans are also leaders in this, so Chinese, Korean and Japanese have a large play and we are looking at options of partnering with one of the technologies coming from one of these regions, but we are in active discussion with partners in all three countries.

**Arjun Asher:** For the end-use applications, we are mainly focused on road transportation, right?

**R. Mukundan:** We are mainly focused on four-wheelers and two-wheelers as of now.

**Arjun Asher:** The Rs.2,400 crore CAPEX, would the margins on incremental sales be any different from current operating margins?

**R. Mukundan:** Yes, it will be higher because there is no fixed cost involved in, so you would expect the contribution to flow through, #1. #2 since there is no additional energy cost because this is coming straight out of energy savings, even the contribution margin we expect to be better than what it is today.

**Arjun Asher:** The 90 million which was pending on energy vertical, would the margins improve on existing capacity also because of that?

**R. Mukundan:** It is part of the pool. So, effectively in our plan basically that 90 allows us to get almost close to nil kind of a variable cost, the energy demand for the increasing capacity.



**Moderator:** Thank you. Next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.

**Amit Murarka:** Just on CAPEX plan, just wanted to understand the commissioning timelines for the different soda ash, salt you said would come early, but roughly when?

**R. Mukundan:** Salt, the capacity of 400,000 is coming in steps, it is not coming in one go as you know that this usually kicks in the range in a region of 100,000 tons to 150,000 tons in steps, so it will be in three steps and soda ash again is going to be broadly in two steps of about 70,000 and 130,000 broad tons, so it is going to come in steps and spread over three-and-a-half years, that is a broad range.

**Amit Murarka:** But when can we expect the first 70,000 in soda ash that is to come, 1.5-2-years roughly?

**R. Mukundan:** It will come early, that is right.

**Amit Murarka:** Just a question on like the consumer portfolio, recently I have been noticing on the e-Commerce portals that the spices portfolio is selling at 50% discount kind of both the Amazon and Big Basket. Wanted to understand the strategy around that and in terms of basically discount offers who takes the hit – will it be the eCommerce partner or will the margin erosion happen at our end?

**R. Mukundan:** As I mentioned we are in investment phase. I think we have to induce trial. These are all part of schemes which we run with the e-Commerce partners. So, many of these costs are shared with them. For them also it is bringing more customers to the platform. So, people like Amazon want to drive additional sales for their grocery through the pantry section and they have been working with us very closely in terms of using some of our products to also drive customers through the pantry section, so they not only sell our products, but sell other products. So, it is a combination of us trying to induce trial to get higher share and build awareness and build traction, at the same time it is also for the partner. So, there are varying co-investment approaches in this, but it is part of our investment plan for this business.

**Amit Murarka:** How frequently would such offers be run, just to understand?

**R. Mukundan:** That is the decision of the team. We are very much focused on driving growth in this. I just want to say that our focus is to drive growth, at the same time bring in line of sight to profitability at the PBT level and clearly pulses is moving in that direction and you can see that and spice once it achieves, it goes beyond the investment phase, it will also get in that direction.

**Moderator:** Thank you. We would take the next question from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

**Sumant Kumar:** My question is regarding the pulses and spices of revenue in Q2 FY19?

**John Mulhall:** On pulses we had about Rs.40 crore of revenue which is up about a third on the prior quarter.

**Sumant Kumar:** So, whatever gain we have seen at EBIT level, there was an inventory loss in Q2 FY18?

**John Mulhall:** Not Q2 FY18, in quarter ending June we are up about third in that quarter, so it has continued expansion of the product portfolios in the marketplace.

**Sumant Kumar:** So, when we see the YoY consolidation, there is Rs.20 crore increase in EBIT level, so whatever the increase we have seen at EBIT level, what is the...?

**R. Mukundan:** One-off is not in this quarter, I think it was the next quarter, but this increase in EBIT is purely operational, purely combination of the pool profits which have come in between salt, pulses and spices. Quarter-on-quarter their PBT performance is better than previous year.

**Sumant Kumar:** Talking about the capacity utilization of North America was in H1'19 at 87%. So, can we expect the similar kind of capacity utilization what we have seen in FY18?

**R. Mukundan:** I think the numbers would tend towards full capacity utilization.

**Sumant Kumar:** Have you taken a price increase in India business soda ash?

**R. Mukundan:** Yes, there have been two price increases taken, except for the contracts most of them are affected for all other customers.

**Sumant Kumar:** What we heard the industry has taken Rs.750 per ton price increase in October. So, have we taken that price increase in October and also are we going to take a price increase further from here?

**R. Mukundan:** Yes, the Rs.750 per ton was taken I think on somewhere end of September, so most of the shipments in October have additional Rs.750 to them.

**Sumant Kumar:** Assuming INR depreciating and margin pressure is still there, so can we expect further price increase in the month of October-November-December?

**R. Mukundan:** As I said this is an import parity product. The marketing teams constantly look to opportunities to move the pricing and I also mentioned that there is tightness in the marketplace, so overall dollar price itself is going to move by Q4 up. So, there are multiple factors, I do not want to say when they will be movement of price, but they constantly look for opportunity. If you ask me is there a serious opportunity? There is an opportunity for all regions to move the price.

**Moderator:** Thank you. Next question is from the line of Rohit Sinha from Emkay Global. Please go ahead.

**Rohit Sinha:** Just wanted a clarification on the Europe business. Since we have discontinued the trading business, that shows decline in the volume, but despite that margins have contracted. So, what was the basic reason – is there only the fixed cost incurred or any other things are there?

**John Mulhall:** It is a mix of sales through our Salt business in Europe in the quarter that really pulled the margin back.

**Rohit Sinha:** So, we believe for the next two quarters also, since the trading volumes would not be there, so we will...?

**John Mulhall:** We do not trade in Europe.

**Rohit Sinha:** So, then obviously the next two quarters we might see another volume decline in the soda ash side?

- R. Mukundan:** Yes, I think but it has no impact on the bottom line because the trading was mostly at zero margin.
- Moderator:** Thank you. Next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.
- Madhav Marda:** Just a couple of questions on the lithium ion business. So, just wanted to understand that what is the ROCE that we can expect is it in line with the other Specialty Chemicals expansions that we have done in Nutraceuticals and the Silica business?
- R. Mukundan:** No, I think we would come with specifics once we have the contract itself. As of now, we would not want to give guidance. We just wanted to give you an update that we are working on that plan.
- Madhav Marda:** Sir, is there any synergy for the existing businesses of Lithium Ion or this is additions that you have to make in the Specialty portfolio?
- R. Mukundan:** We have got a very strong understanding of Lithium Ion because we also have very strong understanding of Sodium Ion. Our focus in the inorganic chemistry is if you look at the first column of the periodic basis, hydrogen, lithium, sodium, potash, all have some unifying approach and characters. So, this is part of the alkali businesses which we have a good understanding. Even as we speak, we are the suppliers to many of the lithium entities for their lithium purification business where soda ash is used and we have a very strong base in the innovation center in the lab in Pune, where our scientists are constantly working, give it the technical support
- Moderator:** Thank you. Next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor:** With respect to this volume loss for US, is it the permanent loss or we will be making up for the same going forward?
- John Mulhall:** No, it is just a tie in of a dry sorbent injection plant to clean up the exhaust gases. We would expect to recover some volume in the second half of the year.
- Saket Kapoor:** Then second half will look preferably much better on account of this reallocation?
- John Mulhall:** Yes.
- Saket Kapoor:** If you could explain sir, what is the net unearned allocated income of around Rs.158 crore for the quarter in the consol and Rs.268 crore for the first half?
- John Mulhall:** It is mutual fund and bank interest income.
- Saket Kapoor:** As Mr. Mukundan was sharing about the soda ash situation in the country, how much has been the imports for the current nine months of this calendar year or for the six months of the fiscal, how much soda ash has moved into the country if you could share some data on that?
- R. Mukundan:** Six months about 300,000 tons, so annual number should be anywhere about 550,000 to 600,000 tons broadly.

**Saket Kapoor:** Who are the main players who are competing and putting the supply here and which geographies if you could give more color on those?

**R. Mukundan:** So, it is mainly the non-Chinese players, so it is Kenya which is our own material, North America which is our material and then Turkey and Europe.

**Saket Kapoor:** So, US and Kenya, we are the one who are importing and taking advantage of the market?

**R. Mukundan:** That is right.

**Saket Kapoor:** How much have we imported from US and Kenya part out of the 6 lakh tons that has come into the country?

**R. Mukundan:** So, from Kenya it is about 95,000 or 100,000 tons and from US it is about 40,000 tons and US number probably should be increasing towards 100,000 tons annualized. So, from next year on, the number is going to be 100 thousands from Kenya and 100 thousands from US.

**Moderator:** Thank you. Next question is from the line of Saurabh Jain from HSBC.

**Saurabh Jain:** Just trying to understand on the India overall business. We on QoQ basis the EBITDA has kind of declined slightly but we see the revenue base has increased. So, we had volume growth even on QoQ basis on the soda ash and the salt business. So, just trying to understand where did we really see the margin pressure?

**R. Mukundan:** Margin pressure is mainly coming out of the increased coal contracts which we had. Energy, nothing else and that we are trying to claw back by moving the prices up which has already been done more or less.

**Saurabh Jain:** So, in future you are back to the margin that we were reporting in say 1Q or before that?

**R. Mukundan:** That is right. See, the issue is that we have to take time for some of the contracts to unwind; some of the spot prices can move immediately and also we wait for the price movement opportunity of some substantial number. So, we normally take increases in steps of 500 or 750 something like that, not in small steps.

**Saurabh Jain:** Also, I guess there was some ECB due to be repaid in October. So, has that happened?

**John Mulhall:** Yes, it is repaid.

**Saurabh Jain:** On interest income side, just struggling with, what could be sustainable interest income assuming this kind of cash level sustain, so what you are seeing in every quarter, is that the sustainable level that we should kind of take in build into our numbers?

**John Mulhall:** It depends on capital allocation. If you look at today in the financial comments Mukund made earlier on the Rs.2,400 crore that will be generated internally and of course the cash will not be touched, but if we get to the phase of investing or using other opportunities then we will have to tap into the cash on hand.

**R. Mukundan:** In terms of post-tax rate I think these are deployed in mutual funds. You should check that.

**Moderator:** Thank you. Next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

**Ritesh Gupta:** Sir, just on the earlier comments you made on the global supply/demand for soda ash, do you see any region where capacities are decreasing let us say on China, what is the status there – is it that they are still undergoing capacity compression or some of the old capacities which were shut down earlier has started to come up again? My understanding was that a lot of these markets also have creeping Brownfield expansion which can happen let us say for example the way in India even without any major Brownfield expansion you were able to expand your volumes 2-3% every year probably in US as well as in Kenya, etc., I think people could increase their volumes. So, just wanted to get your sense on where the incremental supplies will come from and probably on say next 12-18-months what kind of capacity additions you are looking at?

**R. Mukundan:** If you look at the current demand/supply situation, the capacities in China are undergoing rationalizations because of the government stringent environment norms and some of the plants have been asked to relocate from cities. So, it is part of their move. China also is looking move up the value chain rather than remain in some of these products which according to them are also creating environment issues. The second element, certainly China is going to turn broadly into producing for its own need rather than playing in the various markets which they did in the past. So, that effectively reduces the global trade in the hands of two players: one is the North America and Turkish players who would be the large traded players will play in the market because of their very competitive natural soda ash which is produced there, and that competitive advantage will allow margins to continuously expand and fundamentally reach up to a point, beyond which it will be feasible for people to put up fresh Greenfield capacity. As of now, the margins are not adequate to put up fresh Greenfield capacities and fundamentally people would be looking at Brownfield opportunities as and when they arise. I think most of the companies are pushing their limits on what I would call the Brownfield expansion, it is at the edges which is really what companies would be doing. So, beyond this we will have to wait for announcement, but as we speak, this commodity is in a situation where new capacities of synthetic plant coming up in Europe are limited. In South America, we see no chance of any capacity coming on. The only place synthetic capacities could come in is in India, but that will take another five years for any new capacities announced today to come on stream, and if you look at US, any fresh capacity announcement made would take at least three-and-a-half to four-years to come on stream. So, in the next three to four years, it is only going to be tightened further and further. So, that is our reading of the market. I have maintained for the past three to four years, it is the balanced market, but market has moved towards tightness, but as of now if someone were to think in terms of Greenfield of a million ton it is three to four years before it comes on stream.

**Ritesh Gupta:** But basis the demand/supply tightness, you would see that there would be requisite ROCEs over next two, three years to probably look at Greenfield, may not be for you but let us say for players across the globe?

**R. Mukundan:** No, I think even we would look, I mean at the end of the day, I think nothing stops us from looking, this opportunity, the pricing numbers move up to an adequate level, but certainly if you look at where the capacities can come, in our view it can come either in US or in India broadly, we cannot see any other place where major capacity additions that are going to happen.



**Ritesh Gupta:** You are talking only about synthetic capacity?

**R. Mukundan:** So, this is the broad understanding, if you want to do a natural mined operation then you at least want 20-year mine life. I think the reserves in US are adequate to run for at least the sources we are working on can run for 100-years, so we can add capacity, most of the players in the US can add capacity, whereas in Turkey I think the mine life is already constrained.

**Ritesh Gupta:** Why do you say that it should take 3.5-4-years or 3-3.5-years in US to increase capacity, is it the regulatory thing or is it the processing plant itself take that much time?

**R. Mukundan:** It is regulatory and then it is processing, I think the norms have become extremely stringent. Some of these capacities are tough to bring on stream as we speak because of the environment rules. Putting up a boiler itself is very, very tough these days in terms of air pollution issues.

**Moderator:** Thank you. Next question is from the line of Meet Jain from Prithvi Finmart. Please go ahead.

**Meet Jain:** As you mentioned, we aim to increase our import from Kenya and US by around 1-lakh tons each and as you can see that many Indian manufacturers bringing up that capacities like GHCL, Rohit Surfactants. So, would not this impact our imports and overall imports of the country?

**R. Mukundan:** Not really, I think the country is already short and every year the country demand increases by 4% to 5%. So, at this rate this country needs close to about 150,000 tons to 200,000 tons annual basis. So, there is no material other than the additional capacities which are being put in place. I think as far as we have concerned, we are fairly clear that the quantity of import into India is only bound to increase.

**Moderator:** Thank you. We would take the next question from the line of Madangopal from Sundaram Mutual Fund. Please go ahead.

**Madangopal:** Sir, I missed this number, what was the Q2 consumer non-salt business?

**John Mulhall:** It is Rs.54 crore.

**Madangopal::** Is this business put together, pulses and spices breaking even or still in a negative margin or ...

**R. Mukundan:** It is today positive of breaking even, it is beyond that, yes.

**Moderator:** Thank you. Next the question is from the line of Ravi Purohit from Securities Investment. Please go ahead.

**Ravi Purohit:** I have two questions: One is you mentioned about CAPEX relating to emission norms in India. Is it to do with the new emission norms which have been announced by Government of India on sulphur and nitrogen emission? If yes, how much are we spending on these two?

**R. Mukundan:** No, this is not that, this is more related to our movement towards energy saving and energy, and at the same time arriving at more environment-friendly investment. We could have done this additional energy which we needed through adding a new

boiler, but we decided to go in favor of green energy which is making sure that our waste heat extraction was maximum, our turbines going towards more higher efficiency turbine, in addition to looking at various other opportunities of reducing the environment load and that effectively has given us free energy with no additional carbon.

**Ravi Purohit:** So, we had read one press release by GE Power saying that they have received some order from Tata Chemicals Mithapur plant for nitrogen dioxide, NOx reduction. I was wondering if those emission norms are applicable for your business as well. They were applicable for thermal power plant for sure.

**R. Mukundan:** No, it is applicable for us and these are new burners, they are all part of the overall package of schemes which they are undertaking.

**Ravi Purohit:** Second question is more a strategic in nature in the sense when we are making these newer CAPEX now, let us say lithium ion and the CAPEX is also going to be sizeable, of course, you are saying it is very early days. But just to understand the threshold that we have been articulating in the last 1-1.5-years of 20% ROE for any new business or even for existing businesses to reach, does that apply for these new CAPEX as well and if you could share the companies that we are talking to in China and Korea, are those companies also making these kind of ROEs or whether they are actually profitable businesses, so just to understand because as shareholders we would be kind of concerned if we are spending like a couple of \$100 million in businesses where the guys whom we are tying up themselves are not making enough money, right?

**R. Mukundan:** If you really ask me, our aim is to stick to that guidance we have given of at least meeting the 20% return on invested capital and that is really what we would continue to focus on. So, the current capital as I said is in mid-20s, that is clearly meeting that guideline. As far as the new investment in battery is concerned, entire vehicle population in India is going to transition at some point to electric vehicle and if you look at the cost of an electric vehicle, one-third of the cost is just in battery. So, it is a huge investment opportunity for any company which is into chemical business, it is something which we are extremely excited about. It is obviously new technology, there will be changes in technology and this technology is rapidly moving. So, the challenge for us more than the financial returns is going to be keeping pace with the technology and investing in technology constantly. So, it is an exciting part of the business and we do not see this as a legacy business, this is the business of the future.

**Ravi Purohit:** That I completely understand and appreciate sir. Just coming from long-term investors point of view, if we have seen in the past lot of our investments did not yield return like in the fertilizer or some of the other areas that we kind of ventured out and finally there has been like sharp focus now that is coming back to our company. As long-term shareholders we just do not want to kind of go back to the same loop again and have 10-year of zero returns for investor shareholders?

**R. Mukundan:** So, clearly if you look at our sharp focus on being conservative on cash utilization, being extremely aggressive on technology, moving into new field, all these are steps in the right direction. If you look at the investment we have made in HDS Silica business, we are not going to be in commodity silica, we are going to be in what we call "Highly Dispersible Silica" which is going to be used in green tyres as the emission as green norms coming to India for tyres, tyre industry has to use silica and we will be competing with companies like Evonik. If you look at our Nutraceuticals business, again, it is not a traditional chemistry, it is chemistry for nutrition needs in terms of added fiber to food which we will be selling to all the



food brands in the world and similarly this one is the technology business wherein we are using lithium chemistry to utilize the same for the driving up energy transition in India. So, these are all very high technology business, these are not commoditized businesses as we speak.

**Moderator:** Ladies and gentlemen, that seems to be the last question for today. I would now like to hand the conference over to the management for their closing comments.

**R. Mukundan:** To conclude, I just like to state that we continue to have very sharp focus on our strategy which is invest in our core while at the same time when we open up new pathways to keep the focus clearly on Specialty and Consumer business, both these businesses are shaping up well. We now have in Specialty three broad businesses we are working on -- One is the area of the Nutraceuticals, the second is the area of advanced materials, and thirdly now the new area of Energy business. I think these constitute very strong future for this company. As far as our Basic Chemistry business, these are very highly cash generative and highly profitable business which we will continue to invest as and when opportunity arises and we will continue our focus on the Consumer business both in food and nonfood area and we will be speaking to as we get into new categories in this. As of now, we are focused on making the current categories profitable and moving forward in that direction. Thank you all for this call and look forward to interacting with you in the next quarter. Thank you.