Tata Chemicals Limited
Q1 FY19 Earnings Conference Call
August 14, 2018

Moderator

Ladies and gentlemen, good day. And welcome to the Tata Chemicals Limited Q1 & FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. I now 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 on Tata Chemicals Q1 FY19 earnings call. We have with us today, Mr. R. Mukundan – Managing Director and Mr. John Mulhall – 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. A detailed statement in this regard is available in the results presentation.

I now invite Mr. R. Mukundan to begin proceedings of the call.

R. Mukundan

Thank you, Gavin. And thanks, everyone, for joining our earnings call. Today I have with me colleague, Mr. John Mulhall – our CFO, who will run you through the headline numbers and briefly update on our financial position for the period under review. Prior to him doing so, I will just give broad highlights of the business and strategy and also the quarter gone by.

This quarter we completed the transfer of our phosphatic fertilizer business which includes the facility at Haldia and trading business to IRC Agrochemicals which is part of the Indorama Group. With this, our exit from fertilizer is complete and the major step in our stated strategy that is focus on leadership position in the basic chemicals while continuing and investing to grow our consumer and specialty products is well underway.

Post the divestment of fertilizer business and based on the recommendations of Audit committee, the Board has approved new segment reporting which brings far more clarity on the way we run the business. And the three segments are the Basic Chemistry Products; which include soda ash, bi-carb and other basic chemicals which has long-formed the backbone of the company.

The Second segment is Consumer Products; which includes salt, pulses, spices and branded consumer products which is the growth business of the Company which already has a substantial revenue and profit momentum behind it. And has been sequentially growing over the past few years on the back of the strong consumer market growth in India.

The Third segment is Specialty Products; which includes the Agrochemicals business and seeds business in Rallis and Metahelix. Coupled with the new investments we are making in nutrition solutions and advanced materials, these are products which have come out of our innovation and R&D center in Pune. This R&D and innovation center in Pune also houses our food science lab which is where most of the new products enter for consumer product portfolio are being designed and developed.

So, these segments reflect the current strategy and the structure of the company and also clearly define the growth drivers for the Company which are mainly in the consumer and specialty products.

On the quarterly performance the Basic Chemistry products which are soda-ash and bi-carb continue to deliver steady performance, and the overall situation in the market place remains fairly tight. We had highlighted during the previous call we need to wait and watch for the situation as it unfolds when the Turkish capacity comes on stream. In reality, the full Turkish capacity has now fully come on stream and the market still is tight on the back of very strong global demand for soda-ash. And we anticipate that this trend is likely to continue.

On the back of such a strong demand pattern and the tightness in supply situation, the energy cost increase which this business had to incur has been fairly passed on in a manner that we have been able to hold our margins in this business at a steady pace. While operating performance in India was on par, the US operation, had a planned shutdown in this quarter which was part of the overall plan to hook up the equipments related to improving the environmental performance which was part of your long-term plan. And that has been hooked up and the plant in US is back to full production as we speak.

Kenya had a minor hiccup in terms of heavy rains which caused a bit of operational difficulties. But the plant has fully recovered post that operational difficulties in Q2. These led to some minor negatives in terms of the operating performance, but that was more or less made up by excellent performance coming in from India and UK.

Overall, the market remains tight and if this global situation continues it is going to trend towards even greater tightness going forward and we remain extremely positive on the margin protection in this business. This business, as you know, is our cash business, so we are focused on this business in generating cash for our growth. And the growth businesses are the consumer products.

On the consume business side Tata Salt continues to deliver volume and value and we have launched a slew of products, but the three platforms which we have spent time maximum on which is salt, pulses and spices are beginning to trend in a very positive direction. The mature part of the business, Salt, has trended positively.

In terms of the consumer metrics the businesses of both pulses and spices have trended very positively, delivering on a base which was low over 100% year-on-year growth in terms of the volume numbers. We do believe this business overall which has delivered about 33% growth in terms of revenue, would continue to trend in a strong way moving forward.

During the quarter we also launched a new set of products like chutneys and also, we have launched several other new variants in mixes in the market place which were available on Amazon and other modern trade stores. Our approach to seeding the business is primarily to launch them in ecommerce platform, moving them on to modern trade before bringing them to general trade. And that trend has continued, and it allows us to pick the winners out of the product portfolios when they launch and then move the winners into general trade over a period of time. You would continue to see every quarter new product launches and the older products maturing and gaining market share and moving forward.

In terms of specialty products front – Rallis and Metahelix showed healthy performance, this segment grew 25% year-on-year. Our plans for nutrition solution and HDS facility is on schedule. We already announced during the quarter the acquisition of Allied Silica at Rs. 123 crore where additional investments are being made to get their plant up to speed to Tata standards before we start supplying to our customers, both in food and in the rubber space.

To conclude, we remain committed to our strategy in transforming this business, moving beyond the leadership in chemicals business to gain and garner leadership position in consumer business and also to get leadership in specialty business. So, effectively we are on our way to moving forward in our strategy and I am confident of meeting our strategic objectives.

I now would like to invite John to give his insights on financial performance.

John Mulhall: I just would like to echo what Mukundan said, if you read our integrated report before the AGM, the title page is Transform to Grow, we have done a good job over the last two years of transforming the business. We have exited the final piece of the fertilizer business and in light of that, the Board recommended that we also transform how we report our business segment, aligning what we want to do strategically in the next few years; focusing on consumer products and specialty products. This quarter's results are the first results where we have shown the salt operation as part of consumer products. Naturally, you will see its manufacturing in chemistry business, and the salt sales in consumer business. We use a transfer price, a properly calculated transfer price to appropriately share the benefit of both operations.

Specifically, for the quarter, our revenues on our consolidated basis by 10% to Rs. 242 crore and on a standalone basis by 15%. This mainly represents increased sales of salt over last year by about 42,000 tons and also additional revenues from our pulses business.

Our consolidated profit after tax both in continued operations and also including the discontinued operations are both up by 24% and 16% effectively and a standalone profit from continued operations of 20%, about Rs. 190 crore. Our consolidated cash at the end of the quarter was Rs. 4,960 crore, of which Rs. 3,996 crore related to TCL standalone.

And on standalone basis the company is net debt free with net cash of Rs. 2,855 crore, up from Rs. 2,347 crore in March. But bear in mind we have the dividend payment and DDT payments to come off of that, so a further Rs. 670 crore relates to that payment in July and August.

And finally, our subsidy outstanding at the end of June is Rs. 511 crore, that is down from Rs. 859 crore in March and Rs. 1,115 crore in June 2017.

On the back of that we will open up the lines for any questions.

Moderator: Thank you very much. We have the first question from the line of Tarun Lakhotia from Kotak Securities. Please go ahead.

Tarun Lakhotia: First, I would like to appreciate the adoption of new segment disclosures which will help us relate with your strategic focus on Consumer and Specialty products in a better way going forward. Could you just help us understand the inter-segment transfer between Basic Chemistry to Salt business? Essentially what I am trying to understand - Is there a portion of margins related to salt which is in manufacturing part itself included in the basic chemical segment?

John Mulhall: Yes, that is correct.

R. Mukundan: Yes, I think the manufacturing margins are in the basic chemistry products whereas the beyond manufacturing margins are in the consumer product, which was the right transfer pricing model we have adopted.

Tarun Lakhotia: Is there any color that you can give in terms of what will be the proportion which is being retained in the manufacturing side?

R. Mukundan: No, I think broadly speaking, the color which you would see is that the margin structures in consumer products would reflect the margins structures which exist in most consumer products. We have actually chosen margins which normal consumer companies earn, and these are independently reviewed by auditors and independent valuers to arrive at what is the appropriate and market acceptable, and this is also done in a way that tax authorities will also have resonance. So, it reflects what is expected in a consumer business in a normal range.

Tarun Lakhotia: Could you just remind us the amount of loss which you would have made on the ex- salt business in consumer product for fiscal year of 2018? I am talking about that Rs. 100-odd crore of revenue which you got from pulses, spices and other products last year.

R. Mukundan: No, not really. I think there is marginally. It depends on what kind of costing you want to adopt, but I think there are several shared resources if we look at the teams which run. I think most of the products are at gross margin level, they are certainly positive even post the appropriate fixed cost absorption they should all be positive.

Moderator: Thank you. We have the next question from the line of Amar Mourya from Emkay Global. Please go ahead.

Amar Mourya: Sir, firstly, this US plant and the Kenya plant, for how many days these two plants were shutdown?

R. Mukundan: Really I think if you say what are the lost tonnages we had in Kenya, we had a lost ton of about 16,000-odd tons broadly. And in US we had something like 25,000-odd tons.

John Mulhall: And just a point to make in the US, it was one production line that was down for a scheduled extended maintenance period.

R. Mukundan: Just to add also on Kenya, the plant was not stopped, plant was running but at a lower load because of logistic issues of shipping through flooded roads and flooded rail lines, it was more an issue we had to slowdown our rate of evacuation.

Amar Mourya: Secondly, if I look at even on India business, in India business the volumes were down on a year-over-year basis. So, is there anything to read into this? I believe the realizations were pretty strong.

R. Mukundan: I think one of the points which we are doing even in the Indian business is to slowly move the soda-ash which is marginally down also shore up the volumes up in terms of the bi-carbonate which is marginally up. There will be minor issues caused due to sales, evacuation and dispatch. There is nothing major to speak home about in terms of production.

Amar Mourya: And secondly if I can ask, on a consumer business as you have said that this series of new launches are going to happen, this quarter I believe we have launched chutney. So, basically, the Rs. 5,000 crore run-rate which we are talking about as a vision for the overall consumer business, how much of this is going to be driven from the organic growth and the new product expansion, any clarity? Because beyond a point we will not be able to feed the new product launches, because when we launch new products there is an expenditure at all angle, right from distribution to the marketing and at every level.

R. Mukundan: So, I think if you look at it, broadly the Rs. 5,000-odd crore turnover is built largely on three platforms which we already have presence in, which is salt, pulses and spice. In salt you would see approximately about 100,000 tons of additional salt being brought to market to feed what we call as our opportunity markets. These are markets where our market share is still not in line with our national average and there are still opportunities to grow in several parts of India where the distribution is being strengthened. So, in salt, the strategy is to improve the reach. So, in about four years' time we should be reaching at a figure of about approximately 1 million tonnes of salt to about 1.4 million tonnes of salt, for which the Board has already approved close to Rs. 500 crore of investment which is being invested as we speak. So, this is part of the growth agenda which should account for at least 50%, or more than 50%, of the turnover at that point when we said it will be Rs. 5,000-odd crore. The food, which is the non-salt food category, these two categories account for balance 50% where again we are investing and co-investing in various packing centers and distribution centers along with our partners. This may not fully be reflected in our balance sheet because there are enough partners who are willing to invest for us. And this is going to be a slew of products which are built on what we call as various platform, the first platform is the protein platform and vegetable protein platform has pulses, it now has organic pulses which was launched this quarter.

First powder, which we launched was besan, but then on top of that we have launched mixes; the first mix which we launched was Khichdi mix, then we have launched nutri-mixes; which are Chilla mix, very shortly we will also launch other mixes where pulses are added.

To give you slight color on that, it will be things like Dhokla, Idli, Dosa, all of these where some element of pulse exist, they are all going to be part of protein platform. And these are all products which are designed in our innovation center and the common characteristic of them is that they rely heavily on one form of dal or another form of dal as the ingredient.

When it comes to spices, this is the second platform which is the part of our completion of taste portfolio, in taste portfolio we first launched the CTC which is Chili, Turmeric and Coriander in form of straight, then with various mixes. We currently have a range of about six mix and we are not present all India, because we have stayed very much focused on North, West and East, and we have stayed away from south in terms of penetrating spices because the spice mixes in South

India tend to be very different in terms of range compared to rest of the country. So, our first focus is to deliver on these three regions before we go to south. We have actually taken a strategic wait for the southern market, but we will enter it at some point. So, our broad numbers on this Rs. 5,000-odd crore is out of these three platforms. Any additional platform we launch will only add to this number.

Moderator: Thank you. Our next question is from the line of Abhijit Akela from India Infoline. Please go ahead.

Abhijit Akela: Just a few questions understanding the segment disclosure a little bit better. On the last conference call I believe we had said that total consumer revenues for the company stand at about Rs. 2,000 crore, out of which salt alone would be Rs. 1,700 crore to Rs. 1,800 crore. When we look at the new segment disclosure it shows a number of around Rs. 1,500 crore, so I was just hoping to understand why that difference there?

John Mulhall: I think we said Rs. 1,400 crore – Rs. 1,500 crore last year.

R. Mukundan: Our figure was we should be clocking around Rs. 2,000 crore in the current year, exit rate was about 2,000.

Abhijit Akela: Out of which salt would be about Rs. 1,500 crore or so, is that the right number?

R. Mukundan: I would say maybe even more, maybe about Rs. 1,700 crore or so.

Abhijeet Akela: And the Inter-segment revenue that is shown there of Rs. 695 crore for the full year, March 2018, that basically does that primarily represent the sales of salt from the basic chemistry segment to the consumer product segment?

R. Mukundan: That is right, absolutely correct.

Abhijit Akela: And the jump in consumer products EBIT that we see this quarter compared to both previous quarter as well as corresponding quarter last year, it is up from Rs. 50 crore odd range to Rs. 82 crore this quarter. Is that driven primarily by margin improvement in the non-salt product segment?

R. Mukundan: It is primarily driven by efficiencies. The fixed costs are not increasing substantially with higher volumes. So, when that Rs. 100 crore of additional revenue was throughput this quarter, a lot of actually translated to bottom-line, that is what you are seeing there.

Abhijeet Akela: So, it is premature to conclude that the non-salt portfolio has turned profitable for the quarter?

R. Mukundan: No, I am saying the non-salt portfolio is delivering margins. If you say on Rs. 100 crore additional revenue we have got Rs. 30 crore bottom-line, broadly, and that is because the fixed costs are fixed, the entire gross margin is flowing down.

Abhijit Akela: So, this is a sustainable going forward?

R. Mukundan: Yes, the fact is that there could be some quarters where there could be discretionary movement of Rs. 5 crore to Rs. 6 crore or Rs. 7 crore, which depends on advertising spends. That is the only number which I do not want to guide on because that I leave it to the teams to deliver because that is pretty critical. So, other than advertising discretionary spend, I do not think any major moves will be there. But I cannot pinpointedly tell you that this is the number because quarter-on-quarter they may have different plan because sometime Diwali will come in second quarter, sometime it may come in third quarter and they need to launch a blitz they will launch blitz at that time.

Abhijit Akela: And the Rs. 500 crore worth of CAPEX that you mentioned for salt over the next four years, we should assume that that comes within the basic chemistry segment, right?

R. Mukundan: Yes, that is right. I think it is part of Rs. 500 crore to Rs. 550 crore odd CAPEX which we regularly put in, so it is already of that range. This year I think our CAPEX may be trending close to Rs. 800 crore. About Rs. 500 crore in the basic chemistry and about Rs. 300 crore would be spent in the specialty product segment, part of which I think Rallis may end up with something like Rs. 25 crore – Rs. 30 crore and you would have a CAPEX, the balance number would be in Nellore plant which is for the nutraceutical and the other part would be in the Cuddalore plant for HDS.

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

Arjun Asher: My question was, this consumer business of the company, will it stay with the company going forward because there is talk in media bout being merged with some other Tata Group entity?

R. Mukundan: I think these are speculative news, and there is no active proposal either with the Management or the Board. We also read the same press, so we have the same news.

Arjun Asher: Okay. And recently I saw your advertisement for Tata Sampann on some very mainstream popular shows on general entertainment channels. So, should it be read as a sign that you have hit some kind of critical mass in your distribution or anything like that?

R. Mukundan: Yes, I think we have a critical mass. At this stage, I would say some amount of ad spend may be the air cover, which is beyond what our distribution ought to be. So, clearly if you look at our reach, our reach in terms of direct reach, I am not going to speak about indirect reach that is fairly wide, it is approximately 0.6. And I think our target is to reach about 0.9. I think that is really where we are heading to.

Arjun Asher: And do you have some kind of a big campaign coming up in future in advertising on these mainstream platforms or it will be in bits and spurts as it is right now, the ad campaign?

R. Mukundan: There is a media team, which has very good understanding of what to do, so I will leave it to them. I really do not have a specific plan, which I would like to share at this point of time. But clearly, they understand what product needs what kind of a support. If it is an initial launch phase, they spend mostly on trial inducement. After the trails are induced, to ensure repeats are good, they launch a plan for what we call as supporting at the point of purchase, so that there is adequate active in store support. And finally, once they reach this maturity, they would go mainstream media. So, it is clearly a 3-phase approach, and it is something which the team is well versed of delivering.

Arjun Asher: And the final question, the impact of fall in the Turkish currency on global soda-ash prices and the antidumping duty, which has been taken off in India?

R. Mukundan: So, as I mentioned, I think there has been hardly any impact. This is what I been saying even in the last call, anti-dumping duty may not play out as a big an event as we thought, and it has not played out. The market is extremely tight and prices are going to move up in rupee terms in any case, because rupee also has weakened.

Arjun Asher: The Turkish currency?

R. Mukundan: The Turkish currency has no impact because this is a trade which is done in dollar terms.

Arjun Asher: Okay. So, you do not foresee any kind of volume ramp-ups on their part because they would be desperate to earn dollar or anything like that?

R. Mukundan: These ramp ups cannot come that fast. I mean if you think of a ramp up today, then it takes about three to four years to hit the market.

Moderator: Thank you. The next question is from the line of Viraj Kachariya from Securities Investment Management Ltd. Please go ahead.

Viraj Kacharia: Just had couple of questions. First on the soda-ash part. So, you talked about us having a potential loss of around 25,000 tons in US. But even if we adjust for that, we have seen some volume de-growth in Q1. So, I am just trying to understand, if you look at full year, for FY19, should we see some positive volume growth in US and other geographies for soda-ash?

R. Mukundan: The annual numbers would be almost flat. So, I do not see any change in the US number, because they are running flat out. So, our annual numbers still remain the same, so there is no impact on that. In UK, for example, there will be a volume fall if you just look at the volume, but that is mainly the quantity, which we have pulled back, which was a traded quantity, which we were not manufacturing it, we were buying from a third party and selling it to a customer. We pulled back from that because it was at zero margin. So, we took a call to move away from that trade. As far as Kenya is concerned, I think, this 18,000 ton loss is a onetime loss, it probably may not get recovered, but for the year, they should deliver better performance than what they did in first quarter.

Viraj Kacharia: Second question was again on soda-ash, so if I look at next two years, you highlighted in the market, it has been very good and the demand is very strong. So, based on the current utilization levels, would that be enough to meet the market demand? Or will we need to see more investments in soda ash to reap the incremental demand?

R. Mukundan: So, our investment strategy is that we want to be very measured in our capital investments, which are focused on consumer, and specialty product. Consumer products of course does not need that much of a capital, but our focus is to grow these segments. On soda ash, our view is to do debottlenecking in US, where I think the plan is already underway, those capacities may come on-stream. But it is not a big part of our growth agenda. In India, certainly, we have put in debottlenecking plan, which is subject to Government approval. So, in India I am not willing to commit various approvals, which we need for this kind of a unit. So, as far as UK is concerned, there will be investments more focused on value. Which means within the product range we have they may move to higher value product like bicarbonate and other products, but they are not going to be spending to increase the capacity. So, you would see a value shifting UK, you would see slight volume growth in US and some volume growth in India that is about what we are thinking off and this spread over about three years, our CAPEX numbers are close to about $50 million in US and about Rs. 1,500 crore in India, so that is probably the number. You need to knock off Rs. 500 crore which was being earmarked for salt, so about Rs. 1,000-odd crore for soda-ash. This is spread over three to four years, so it is not a big number for us.

Viraj Kacharia: Just one last query was on the consumer business, on the food business. So, in last 1.5 - 2 years we have launched a lot of new products in the market. So, how many of those products we would have seen those products eventually evolving to say modern trade or general trend. Just trying to sense in terms of how we are?

R. Mukundan: So, if you monitor the online stores, e-commerce which you can easily access, you would find the product range there. And that is the product range, which is available in the e-market. So, clearly, you would see the pulses, the mixes as well as the range of spices available in that and that is the same, which is available in the modern trade too.

Viraj Kacharia: Okay. Just last query was on the tax rate, so this quarter tax rate was quite high around 35%, so how should we look on a sustainable basis?

John Mulhall: Standalone basis, it is a 28.5%.

Viraj Kacharia: On a consolidated basis I meant?

John Mulhall: You cannot look at tax on consolidated basis because of impact of various losses amongst countries.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Sir, my question is regarding UK business. So, we have seen incremental revenue growth of Rs. 18 crore in Q1 FY19, while we have seen incremental EBITDA of Rs. 23 crore. So, can you tell me what is the key reason for that and what is the sales mix?

John Mulhall: Last year, the facility suffered a fire, which constrained production. And this year what you have seen is fairly decent production. We also received an insurance payment of 1.5 million pounds related to the fire instance last year.

R. Mukundan: This year production is a normal, this year run rate is a normal run rate. Last year, there was some disturbances in the plant, that is the issue. So, I think this is the realistic number.

Sumant Kumar: Okay. And could you please give us the business of UK business? How much salt power and all?

John Mulhall: The power operation is directly linked to the soda-ash operation, so we treat that as one sector. So, we do not think of it separately. What I would say is probably the soda-ash, bicarbonate unit represents probably 75% of the total

Sumant Kumar: Okay, okay and rest salt and power?

R. Mukundan: No. Power is the part of the soda ash business.

Sumant Kumar: Okay. So, we can say 25% salt?

R. Mukundan: Yes, that is right. But in terms of margin, I think, at the EBITDA level it will be other way around, which is 1/3 would be the soda ash and the power business and 2/3 would be salt.

Sumant Kumar: So, can we assume there is higher sales of salt this quarter for margin expansion?

R. Mukundan: In UK, I think it is mostly B2B sales, we sell to brands. In UK salt demand is pretty flat, because it is very, very mature market. But you should think of the UK salt and UK soda-ash and UK power business as part of the basic chemicals product, because we do not think of that is a consumer business at all. And they are reflected in that segment. So, do not split the UK salt into consumer. Consumer business is effectively consumer products sold in India.

Sumant Kumar: Right. So, you said that you shutdown the plant because the margin was thin?

R. Mukundan: No, UK till last year was supplying what was product meant for trade, which was about 23,000 tons, which was material bought from other manufacturer, and supplied to customers in UK, which they have stopped. The traded volume have stopped, not the manufactured volume.

Moderator: Thank you. We have the next question from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: My first question relates to the salt business. So, if I look at quarter-on-quarter sequentially, the revenues and the volume seem to be almost similar, but the profitability in consumer product had improved significantly. So, is it fair to assume that large part of this is led by improvement in the margins in the salt business or is there anyone off?

R. Mukundan: It is improvement in margin in all the three categories: spice, pulses and salt.

Rakesh Vyas: Why I am asking this is because the intersegment increase in revenue is almost Rs. 15 crore. The total increase in revenue sequentially in the consumer products is Rs. 30 crore. The volumes in salt business are almost same, so I am just trying to understand if there was a transfer pricing on manufacturing, it was passed in.

R. Mukundan: So, I think sequentially also the fact is that the margins in all three categories has improved and its margin improvement, you're right.

Rakesh Vyas: Okay. Clarity of salt business, the annual report suggest last year revenue to be Rs. 1,275 crore FY18, and you seem to be indicating that this year revenue could be Rs. 1,700 crore, I didn't got that bridge correctly, it seems.

John Mulhall: Yes, the Rs. 1,700 crore came from that was exit rate from last year; it wasn’t the run rate at this quarter. It should be above last year because it has improved from first quarter, but that is as far as we can say.

Rakesh Vyas: So, we should expect this to Rs. 1,275 crore to improve materially, but it will not be Rs. 1,700 crore for FY19?

John Mulhall: Yes. As the additional capacity comes on stream, Mukund talked about earlier, it will increase the revenue

Rakesh Vyas: My second question relates to India soda-ash business. So, we are expecting Rohit to commission their capacity sometime soon. Given the tightness in the market, should one expect any major impact on pricing, margins, etc, in near term over the next four quarters?

R. Mukundan: No, not really. we adjust the prices as the dollar rate changes. I think if you look at it as recently as, and current week there was move of Rs. 500 in pricing. Prices have increased by Rs. 500 because the rupee has fallen. So, I think this will be just benchmark to the rupee fall. And we do not see any material impact of the supplies coming on stream because, in fact the market will be fairly tight even post that.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity. Please go ahead.

Madhav Marda: Sir, just wanted to understand on the consumer business, I mean, all the products that we are launching, just in my understanding they seem like products which are extremely unorganized, people are buying from the normal retail shops. And we are trying to brand them and package them under our very strong brand name. Just trying to think, how should we get confidence on that scaling up and becoming profitable, because there will be so much competition from the unorganized side, or it is something that we have done in salt over the years and we are trying to play the same card here?

R. Mukundan: So, I think the fundamental way is that we should go to the shop and see the pricing. I think you will see the pricing is at a premium and the customers pay a premium for quality, customers pay premium for assurance of purity. So, I think it is about the shift in the market place which has moved from unorganized to organized, from unbranded to branded. I think this is going to play out and the Indian market is not going to be any different. The only thing is that the consumption pattern India for food is very specific to Indian food habits. So, that is the difference, which we will see in the kind of products being there in the marketplace. So, our view of this entire market is that this market is going to increasingly get organized. And broadly, I think, overall about eight of the metros will account for maybe 50% - 60%, depending on the category of the demand, and rest of the country will be the 40% demand pattern. So, this is going to be led by the fact that, this will be driven by the urbanized parts of India and will filter down over a period of time into, let's say semi-urban and rural part. So, it is a process and it is a process which has happened in various categories where players have entered. Where players have not entered, those markets have not organized themselves. So, it is just the way on salt, we entered and some people entered atta, some people on rice, those got organized. I think we are working getting the segments organized and moving them to branded space.

Madhav Marda: Sir, just a second question on the spices side. I just did some basic such as Amazon, etc, so there are some of these players which are already in the space, I think there is MDH and there is Aachi in the South. So, there are these decent brands which have been established over the years. So, is there any differentiation we have about them, or how do we intend to compete with these players in the spices category?

R. Mukundan So, we have about three categories which is Healthy for You, Better for You and a Fun for You category, and right now our focus is on Healthy for You. And even if you look at spices, our focus is to deliver spices with higher amount of essential oils. I think the whole issue for us is around retention of these active ingredients. So, these are all scientifically done in our lab and it is supported by claims. And secondly, if you look at our packaging, it is a pack in pack, so it is a single use pack. There are five packs within one big pack of a carton and it retains the freshness over a longer period of time. So, the teams have worked out what is a unique selling proposition for each one of our category, and which is why these products have found resonance and they will continue to gain market share and also drive growth in the market.

Moderator: Thank you. We have the next question from the line of Vihang Subramaniam from Ambit t Capital. Please go ahead.

Vihang Subramaniam: So, my question is basically related to the reclassification of segments that has happened. So, from my understanding, you have taken salt out of the inorganic chemicals and that is not into consumer products. And in the last five years the consumer products division, which consist of pulses, spices and nutritional solutions, it has never been profitable on an operational level. So, in 1Q FY19 you have done Rs. 82 crore of EBIT on like Rs. 438 crore of turnover. So, I am assuming that the entire thing is related to salt here, so is that assumption correct?

R. Mukundan: I think the entire move is not related to salt, it is related to all three categories. But salt is a big portion of it, because salt has highest share of revenue.

Vihang Subramaniam: So, you are saying that there is some margin improvement in pulses and spices as well that you witnessed in 1Q FY19?

R. Mukundan That is right and I think as volume improve the margin also do. So, it is a phenomenon in consumer product as your volume picks up, the margin also picks up. They both move in tandem.

Vihang Subramaniam: Okay. But in the last five years, I mean, what has gone wrong that you have never been able to generate like, so do you think this year you are saying margins have improved, do you think probably consumer business excluding salt could be profitable?

R. Mukundan Firstly, the last five years is a misnomer. Spices have obviously second year of normal operation. But if you look at pulses, last year the big setback obviously was that we had to reconfigure our entire supply chain based on the learnings from market where there are controls in terms of movement of prices. So, that supply chain has been reconfigured and has worked very well in terms of high levels of fluctuation, delivering steady margin. So, we have done that bit, which is part of the learning process. And some amount of element of de-stocking, some amount of slowness in the market, which came through disturbances, which were, let's a policy lead, those have not been event this year.

Vihang Subramaniam: So, do you expect to be profitable in the consumer division this year, like these margins that you spoke about that improved, do you expect them to sustain like throughout the year?

R. Mukundan: So, I will repeat the same caveat. Quarter-on-quarter it should deliver similar numbers, but for the advertising and discretionary spend, which will vary from quarter-to-quarter.

Moderator: Thank you. We have the next question from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: First of all, a very productive presentation, and thank you for the same. Sir, firstly, if you could tell what are the likely margins for our foreign operations that is US, UK and Africa? We find them at dismal levels of 4% to 8%, maybe one-off items if we exclude also, what is the margin trajectory from these geographies, sir?

R. Mukundan So, broadly speaking, if you look at our US operations, the US operation is fairly profitable and UK and Magadi, margins are what we have guided was EBITDA of £25 million and $10 million for Magadi, and about $100 million for US broadly, that is our EBITDA margins which we had guided. So, that remains a pretty steady. I think the impact of energy cost has been fully been factored in now and it is translated into market price and the margin have been more or less protected.

Saket Kapoor: Sir I was looking at the PAT margins, the PAT margin continue to be lower compared to peers, these are natural producers, for US I think it is the natural soda ash.

R. Mukundan So, I think if you look at EBITDA margins, it is broadly between 18% to 19% in US. And PBT margins will be closer to 8% to 10%, it will be in that sort of range. Kenya would also tend to be in the same range, and UK tends to be slightly different in terms of its PBT margin because, there is a high level of debt in that company.

Saket Kapoor: Sir and last question, again, on the Turkish Lira part. Sir, don't you think they would be having an age that is currently being depreciated? And so we can also upload more stock with lower margin since the currency has depreciated vis-à-vis the USD?

R. Mukundan I really don't understand, because this is a dollar denominated trade worldwide and pricing is all negotiated in dollar. And everybody is sold out, there is no material impact. In fact, if there was a ton available, it will move to the highest price buyer.

Moderator: Thank you. We have next question from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: So, if I sum up the three segments, that is Basic Chemistry Consumer, Specialty and the number that I get, there is a difference of about Rs. 675-odd million between consol. EBIT and this. So, it seems like there was exceptional feel of Rs. 64.3 crore in TCNA or is that basically built in basic chemistry division here?

R. Mukundan No, there is no exception in US

Amit Murarka: FY 18?

R. Mukundan Yes, FY18 yes, there was exceptional item in previous year.

John Mulhall: Two things happened in the US last year. One was the change in federal tax legislation and also there was where we changed the post-retirement medical benefits.

Amit Murarka: Yes, so the EBIT that therefore basic chemistry division, does that include this Rs. 64.3 crore of one-off exceptional gain? Seems to me like that, I mean, based on.

John Mulhall: Yes, absolutely.

Moderator: Thank you. Next question comes from Rakesh Vyas from Mutual Fund. Please go ahead.

Rakesh Vyas: On the pulses and spices business, if you can just throw some light on how the ramp up has been quarter-on-quarter? Because as you highlighted last year first quarter was probably a low base. Just trying to get some sense on how the revenue has been moving sequentially here?

R. Mukundan: Yes, sequentially it is a growth of approximately 20% odd. In pulses and spices, I do not know percentages matter in spice, it is 250% sequentially.

Rakesh Vyas: If you can just give the consolidated revenue of these two in 1Q 2019 and 2018, that would be help, just to get a sense how it is ramping up.

R. Mukundan: So, I think sequentially, pulses number is about 20% up and spices is about 250%. (but with a small base, I don't know if this helps)

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

R. Mukundan: Thank you all for the session and the questions. I think as we move forward in our strategy and as we move forward in our quarterly disclosures, more clarity will emerge on the segmental results. This is the first quarter, which we have reported with new segment. We remain focused on our strategy in terms of delivering good cash flows in basic chemistry products and focusing on the growth of consumer, and specialty segment. Thank you all.