



Tata Chemicals Limited

Q2-FY22 Earnings Conference Call Transcript

October 28, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q2FY22 Earnings Conference Call of Tata Chemicals Ltd.

. Please note that this conference is being recorded.

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

Gavin Desa: Good day everyone. And thank you for joining us on Tata Chemicals Q2FY22 Earnings Conference Call.

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

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

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

R. Mukundan: Good morning and welcome everyone to the quarterly earnings call. I have alongside with me my colleagues Zarir Langrana - Executive Director, Nandakumar Tirumalai - CFO.

I will start the discussion with a broad overview of the businesses and the geographies and the environment, we are going through. Firstly, let me just say the demand environment is as good as it can get. And it's constantly improving for the better. The demand is strong. In fact, there's been a broad change in the demand environment where I think the supply is extremely tight. And that is in fact reflected by some of our current customer orders, which we are fulfilling. For the first time, we have started to book customer orders and shipments to China, which was never a possibility. And China we expect over a period of time, we will elaborate further on this, will be either balanced or will be a net importer going forward, because of changes in that environment.



Worldwide, there have been sharp price increases in spot prices, especially in soda ash, and they continue in that direction. And we do believe that as contracts keep opening up, these prices would be reflected in our contracting environment. But that's not the whole picture. There has been also a challenging environment on the input side, where input costs have increased sharply, especially on the energy side, where coal and gas costs have increased sharply. And also, there have been supply chain bottlenecks in some markets, especially in U.S. and UK, where there has been a shortage of drivers and shortage of ability to deliver to customers.

With this backdrop, I just wanted to now dive into our specific performance. Given this environment where I think the market has been strong, the revenue grew by 16%. And we have been able to sort of contain the impact of the cost increases. While not fully and there are some challenges in two areas, which I will come to specifically later contain mostly most of the businesses and ensure that we are able to continue to deliver good performance.

The soda ash business in India delivered good volume growth of 18% and this is reflective of demand from end user industries. Besides the volume growth, we have also taken, the market prices have improved. I think currently if you compare it with April levels to where we are; I think we have seen about Rs. 6,900 increase on the list price. And of course, as contracts open some of this will get translated into input, into our pricing also. But there has been an impact on the input cost commodity prices, both domestic and globally have seen a sharp run up in coal, natural gas and carbon.

On the international business TCNA has performed well, their domestic volume has been flat however export volume bulk of the growth has come from export volume, which was extremely muted last year. And this is also reflective of a strong trend in Q1 it continues into Q2. And the overall volume growth stood 29% versus previous year. We expect that we will be fully sold out in all our businesses and we are going to make as many tonnes as possible to meet our customer requirement.

In U.S. of course the pricing on the export front which is reset in markets quarterly and it's getting reset. The domestic prices are mostly annual contracts and that is reflective of almost the flat margin structure which exists there. In terms of the UK business this is where the bulk of the impact has been in the overall consolidated numbers. The soda ash volumes and all other product volumes more or less were constant. The key issue has been higher gas price and more importantly the carbon prices.

The UK ETS scheme, the carbon prices surged from £25 to £30 range to almost £75 by September '21. And this suppressed margin in this business to almost £30 per tonnes in soda ash business, which has led to a sharp compression in the margin. However, we are also pleased to say by the same token that our Carbon Capture Unit was commissioned during the quarter. This will help to play a good role in improving not only our product mix, also removing a part of the pressure in the Carbon Emission Trading Scheme because it does capture the carbon and reduce the intensity.

In terms of Magadi:

The business continued to deliver good results with revenue higher by 54% on back of good volume, they did undertake restructuring. I must add that UK is in the midst of its own restructuring process in terms of addressing fixed costs further.

In terms of the other business, i.e. silica, which is a nascent business for us, the food grade silica remained stable.

Now moving on to our Salt business:

The performance continued to be strong. Our volume in the current quarter was 3.2 lakh tonnes, registering growth of 8%. UK Salt was fairly steady. The Bicarb business in India and UK performed well. Here again I think the pricing environment is fairly strong and you would see that reflected going forward in the forthcoming quarters. But the current quarter has seen certain cost pressure which is transmitted through the margin compression especially in the Indian Salt business.

Our focus on HDS and Nutraceutical remains fairly clear that we have to get customer acceptance and reach full capacity. And first deliver on making sure we are breakeven at EBIT levels.

Moving on to Rallis:

The Quarter 2 was tough for them, especially in the area of the Seed business, the rising input prices did lead to margin compression in the Crop Care which is the Agrochemical segment. Their CAPEX also is moving on schedule and they have completed the formulation plant and debottlenecking of two active ingredients plant.. And their multi-purpose plant is pretty much on track to complete by H1FY23. Rallis will continue to make progress on the stated objective of improving product mix and introducing new products to widen and distribution.

Overall, I would like to state the following that the project in Mithapur is being executed on schedule. Overall, I would say the look ahead for us is going to be driven mostly by what we can produce. In this context. We have annual shutdowns which were completed in the month of October in USA and Mithapur, and they are back on stream. So, you would see some quantity fall in Quarter 3. In Rallis and Magadi the annual shutdown is underway during this quarter. So, all the units have taken the shutdown in the Quarter 3, and this will be reflected in volume. However, margin will take an uptick because of the improvement in price. We do expect by Quarter 4, we will be back on full volume, and the prices should reset to the level where margin improvements will be seen all across. And it will be fully reflective of the market condition which is fairly strong and also fully account for the input cost as we move forward.

So, overall, I just want to say that our core business is in a strong footing. And we would continue to invest in them and our investment plan of Rs.2,600 crore in TCL India and also investments in Rallis would continue. Our new initiatives are shaping well, and we are confident that they will continue to make positive contribution going forward. And we are also on track to ensure that sustainability remains a cornerstone of our businesses. The Carbon Capture Unit in UK is reflective of that direction.

With these broad words, I would now hand over to Nandu, to take us through the financial performance.

Nandakumar T:

Good morning everyone. Let me just walk you through the performance for Q2 for Tata Chemicals. Before that, based upon the feedback from investors and analysts

we have added this time two more slides one on ESG and one on the input cost which is affecting us for Q2.

For the quarterly performance, revenues grew by 16% over previous year mainly on account of the higher volumes led by soda ash across all geographies, notably India, U.S. and Kenya. The EBITDA was Rs. 501 crore up 30%. EBITDA margin has moved up by 2% and PBT by 70%. Broadly, the profits were higher than previous year in India, U.S. and Kenya, offset by lower profits in UK and Rallis.

Now I will move on to business wise performance starting from TCL India business. The revenue has grown by 18% over previous year mainly on account of higher volumes. The EBITDA margin has moved up by 7%.

If you remember last year Q2, we had all dividends coming in Q2 because we had the AGMs held after the COVID quarter, but this year we got all dividends from Rallis and Morocco in Q1, that's the skew in the other income compared to quarter-on-quarter. Apart from that, because of the higher input cost affecting our variable cost or overall contribution margin has come down compared to last year's Q2. We also had a one-time write back of Rs. 20 crore of old provisions on account of our fertilizer business.

Now moving on to the U.S. business as Mukund mentioned earlier, the volumes have rebounded from previous years, the revenues have moved up by 22%. There are also cost pressures because of increase in cost of gas and freight. The EBITDA has doubled from USD \$30 million to double for current quarter. Consequently, because of the higher sales and operating leverage, the PBT has moved from a loss of Rs. 26 crore last year in Q2 to profit this quarter. We are also able to reprice our debt in U.S. L+4% to L+1.6% which will help us by around Rs. 50 crore of interest savings year-on-year going forward.

Coming to UK as Mukund mentioned, the revenues were up compared to last year's Q2. But however, because of the impact of the carbon pricing and other factors, the PBT was a loss of Rs.69 crore compared to a Rs. 2 crore profit last year.

Coming to Kenya our revenues have also moved up by 54% on better volumes, and we had Rs. 11 crore one-time cost because of the restructuring of the people there.

Rallis, the revenues have been more or less flat compared to last year's Q2. And the revenue growth has been there Crop Care offset by a drop in seed business. The margins were impacted because of sharp increase in the input cost in the Crop Care business and a slight increase in fixed costs and the Seed business not doing that well compared to last year's Q2.

On overall consol level to summaries for the quarter, the revenues have moved up by 16%, EBITDA by 30% and PBT by 70%. For six months YTD September numbers consol level the revenue has gone up by 21%; EBITDA by 48% and PBT by 150%. Performance of a Joint Venture in Morocco has been very good. They have given us good performance in both Q1 and Q2 and we got good dividends from them this year.

The net debt has seen small increase compared to last year's numbers mainly because of the Rupee impact and because of certain short-term borrowings taken in Singapore for their operations there.

With that, I conclude my remarks. We can now commence the Q&A session.

Moderator: The first question is from the line of Abhijit Akella from IIFL Securities.

Abhijit Akella: So, the first question is on the India margin, so we have seen basic chemistry products EBIT margins coming down to below 25% this quarter compared to 30% in the June Quarter, one quarter ago. So, I understand this is largely driven by the input cost inflation. But if you could please comment on, do we start to see a benefit from higher realization starting the December quarter? I believe we have taken a sequence of some four or five price increases since June this year. So, do we start to see benefits of that and will that help restore the margins back to the levels of 1Q? That was one.

And a related question was just on the hedging strategy versus the gas cost and any other input costs. If you could please just apprise us on where we stand and how much we will be able to withstand this increase in input costs.

R. Mukundan: So, firstly, Abhijit, I think what I want to say is that we have a mix of what we call as hedging as well as purchasing and just inventory stocking approach to manage the risk. And it is fairly dynamic as we speak. So, I think we will continue to maintain that. So, we are fairly comfortable with our position as we speak. And we are also comfortable with the fact that the if you look at UK where bulk of the gas is bought out (and also in U.S.) we have been in discussion with customers and we have been able to sort of more or less work with customers in terms of passing on many of these increases back to customers. In UK, especially the carbon cost we have been able to engage with them and make sure that they are aligned to the shift in the marketplace and we are covered to certain extent.

So, you would see this changing I think as far as international business is concerned from Q4 which is the Jan-March quarter, you will see this switch happening and you will see it fully come in, part of it, it will come in the Quarter 3, but not most of it.

Similar would be in India; some contracts are every quarter, some customers are actually annual contracts, but that is a minor number. So, you would see every quarter the reset happening in India. In India, actually the margin compression has happened because of couple of one offs, which were there during the quarter, there were some provisioning, which we had to make because of certain past period issues of about Rs. 6 crore.

And secondly, I think, in terms of as I mentioned, there is also a pricing adjustment, which we do with our customers, especially both on salt and soda ash, I would not put this entirely on soda ash, which I think will probably come through in the Quarter 3. So, we do expect that Quarter 3, the margin structure would come back. But you would have to balance that, as I said, with the shutdown, which will happen during the quarter. So, there would be volume dip both in India and U.S. because both of them have taken the annual shutdown in October. But in terms of the margin question, I think that will be back to normal levels and in fact, by Q4 we expect them to be even better than where we are today.

Abhijit Akella: Just, on that front, just one additional clarification, if you could guide us to how many days of shutdown and therefore what kind of impact on production we should expect to see in 3Q that could be really helpful?

And the other question I just had was with regard to Tata Group's announcement regarding the electric vehicle plans, Tata Motors has recently made announcements. In that context, if you would like to offer any comments regarding Tata Chemical's plans on that front.

R. Mukundan: Yes, so in terms of shutdown, I think rather than go unit by unit, I would just say if you take a broad number of about a week, I think that should broadly cover it. And in some units, it may extend up to 10 days nothing more than that. And the second element was on the energy business. I think if there's anything substantial, we will come back to you. That's where we are.

Moderator: The next question is from the line of Resham Jain from DSP Investment Managers.

Resham Jain: Couple of questions, first is on India business in the last six months, what is the net increase in the cost? And what is the net increase in the realization, if you can just broadly give some sense on that?

R. Mukundan: Yes, I can only give you a broad color, you know rather than get into specifics, we had taken a price increase up to end September of about Rs. 3,000 and at the margin level in soda ash this had led to a compression of margin by about Rs. 300 to Rs. 400 broadly. That's what I would say per ton. And if you see currently where do we stand on pricing we are Rs.7,000 up from April. So, by September end we were about Rs.3000 up from April and there was a margin compression of Rs. 300.

And going forward we are already at Rs. 7,000 up from, which mean another Rs. 4,000 has been taken.

Resham Jain: So, net-net the total increase in cost is Rs. 7,000 per ton, is that right.

R. Mukundan: No, this is price increase. I was saying broadly, the price increase is taken up to September at Rs. 3,000 per ton, and another Rs.4,000 has happened in the month of October. And we had a margin compression in the quarter September of Rs. 300 to Rs. 350 per ton broadly.

Resham Jain: And my second question is on Mithapur Project, the new plant. Are there any changes in the timelines there?

R. Mukundan: No, I think it's going on schedule, nothing much to report about. I think we have had excellent discussions with some of our key vendors and those who were impacted due to the oxygen shortage and all during that period, second COVID Wave and they have all worked hard to get back on schedule. So, I think we are keeping a very close watch on that, not just because it's a project we would normally want to deliver on schedule. Right now, the market demand is so strong that we need every ton we can get out of every phase of that expansion.

Resham Jain: Lastly, just one point from the industry perspective within India are all the plants running soda ash plants running completely? You mentioned you had small shut down but other than those normal shut downs no other major plants having impacted in any manner.

R. Mukundan: Regular plant maintenance shutdown, but only one issue that one of the unit is probably partly has been shut. But I think that's really the issue. Otherwise, I think all units are running flat out, but the demand is extremely strong. That's all I can say.

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

Sumant Kumar: So, we have seen a significant price increase in India business and across globe also. And the kind of the demand supply scenario is, despite the lower demand in container and flat glass, demand supply is favorable. So, assuming this scenario and flat glass and container glass is going on the full swing, do you think whatever the price increase we have taken, because of better demand supply scenario, whenever the fuel price is going to correct the overall the margin level and realization level is going to improve for the company?

R. Mukundan: I don't want to make such a comment. All I am saying is that we know where we are in terms of demand. Certainly, the market is if you look at the forward or future price in China, it is already running in the region of \$350 to \$400. And so, it's really at a very high level. And I think pricing would continue to be strong. The issue is in terms of cost, when the cost will come down, I cannot say but certainly the cost environment is also challenging. And I think what we should budget is that in terms of in terms of Q4, we should see that the suppliers are able to sort of have a better position than what they had in the past.

Sumant Kumar: Can you talk about what are the key steps, initiatives we have taken for UK business and we have seen a lot of margin pressure in this UK business. So, from here what we should assume from the margin side?

R. Mukundan: So, as I mentioned, I think the carbon cost is about £70 a ton approximately I think we have gone back to customers and have engaged strongly with them to say this is something which is completely out of everybody's control, because the carbon price is a traded product there and you have to buy from the market. And we have engaged with customers. And most of them are fairly understanding of the situation we are in. And we do expect that most of them would accept those changes in pricing due to having carbon as pass through.

Sumant Kumar: No matter what are the key business initiatives we have taken to have alternate fuel for the UK business?

R. Mukundan: In terms of business initiative, one is as I mentioned Carbon Capture Unit is now already commissioned about 40,000 tonnes of co2 is internally made. So, we won't be making external purchases anymore. And as you know UK also had a very severe shortage of carbon dioxide, which actually impacted many of the food manufacturers. We will not be impacted in future because we have our own internal Carbon Capture Unit which has come in very handy. Secondly, it also allows us to avoid the expenditure of buying co2 in the marketplace by about 40,000 tonnes. And of course, they are going through their fixed cost erosion program which is underway already.

Moderator: The next question is from the line of Anshuman Atri from Premji Invests.

Anshuman Atri: My question is on the EV front. How we will be addressing the technology aspect, whether will it be in-house we will do, JVs and when can we expect major plans on

the EV front, given that Tata Motors has highlighted in every call or slides about Tata Chemical being one of their partners.

R. Mukundan: So, there is nothing specific to report I think if we have we will come and report.

Anshuman Atri: Yes, I mean, what are the plans here? Like do we have the technology know how of, like how are we going to approach with this?

R. Mukundan: I think, we will clarify as and when something substantive happens.

Anshuman Atri: And on the soda ash contracts which we have quarterly, annual by next quarter, Q3 and Q4 will we be passing on all the increases or it will take some more time?

R. Mukundan: No, I think you should delink the two. We are not into linking these two elements fully, cost side we will manage ourselves and we will be pricing the product depending on the market conditions. So, clearly as I said the cost side, we will continue to manage our input costs. But the market conditions are fairly strong in terms of the output and sales.

So, I would like to sort of say that, in this sort of condition, our effort will be to maximize whatever we can do to ensure that the pricing remains appropriate. And the pricing remains fully justified on the basis of demand supply situation. And we will manage the input costs.

I don't want you to link the two, all I can say is that we will as we go forward, more or less fully cover the costs. But I think I don't want to say how much additional we will get but certainly we don't want to link the two.

Anshuman Atri: On the soda ash side there were reports of potential U.S. business sale. So, are we fully committed into the soda ash business or we are looking at new chemistry?

R. Mukundan: I think these are all very speculative news. And we have already said that we will not comment on any speculative news when this came out in the media. So, I think that is where we are.

Moderator: The next question is from the line of Ritesh Gupta from Kotak.

Ritesh Gupta: Just on the supply side of things, we did see some supply outages, at least what was there in the media in the last one and a half month from these China dual controls etc. So, if you could confirm or could you give us a sense that how much of capacity has gone away? And what is the current status given that some part of that will get relaxed on gradually given the tightness in various commodities. So, if you could just comment on the China demand situation as well as supply situation, if you could.

And secondly, on the U.S. side, the exports have risen. I mean, could you just also give us a sense in terms of how much of the demand is lithium driven and what contribution of demand comes from lithium side of things.

R. Mukundan: That sector is growing pretty close to double digit and we will continue to supply it. I think, at the low end, it probably is at about 7.5% and high end it probably is around 10% or 11% growth, which we will continue to see spread over many coming years.

As far as our assessment of FY22 is concerned, the world is short by about 2 million tonnes broadly today. So, that's where we are. So, I don't want to get into specific shutdown or opening. But if the demand environment continues where it is, at the low point, it probably is short by about 2 million tonnes,

Ritesh Gupta: But if it improves in significance of like apart from whatever debottlenecking and small marginal expansions here and there, barring India, you don't see any new kind of Greenfield projects getting announced across the globe.

R. Mukundan: So, I think the way to think about this is, even if a Greenfield gets announced, and let's say a million ton is announced, it's going to take 36 months to come. And with the current growth rate we are seeing in the market, the world would need at least, somewhere around 1.5 million tonnes at the low end a million tonnes done at the high end about 2 to 2.5 million tonnes, every year additional quantity. So, I think this tightness is there. And I think that's a fact.

Moderator: The next question is from the line of Gopal Agarwal from HDFC Mutual Fund.

Gopal Agarwal: Just wanted to understand the cost increase in prices. So, if we look at in the quarterly results we have seen like fuel prices have increased by roughly Rs. 90 crore while the top-line is increased by Rs. 50 crore. So, I just wanted to understand how much of the quantity is contracted and as you said, in September we have taken Rs. 3,000 price increase while cost pressure is only Rs. 300 to Rs. 400 per tonnes. So, can you be, quick to highlight, how much is contracted and will it recover back as time passes. So, just wanted to understand more clarity on this.

R. Mukundan: So, I think for calculation purpose, I think I would say in India, it's about 15% to 20% would be annual contract, rest of them all quarterly reset.

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

Sarvesh Gupta: Just a bit confused about the pricing and cost pressures that we are seeing. So, price increased a lot in H1, but costs also seem to have caught up. So, is price increase majorly taken place as a part of pass through or going forward do we see them independent of each other's because price being majorly determined by demand and supply of the end product rather than the raw material price of the manufacturing regime?

R. Mukundan: So, I think in terms of, broadly I would say that the cost increase would be close to as we exited September, we had close to about Rs. 1,500 per ton cost increase broadly. And the effective price change once you factor that in and effective realization when you factor that in, it ended up with Rs. 300 of drop in contribution per ton. So, really, if you say your entire price increase by the time the September quarter price increases were affected, they were towards the end of the quarter so it didn't fully come in.

And we do expect that going into the December quarter this increase impact would be almost in the same order again, because the coal prices have been steadily increasing every month. So, I think if you ask, is there any correlation between our cost increase and market price, I think price is driven by demand and supply; cost increase is driven majorly by the increase in coal cost as energy costs. And fundamentally, that's the biggest driver in the whole equation.

- Sarvesh Gupta:** So, there might be situation where these two get somewhat independent of each other and --?
- R. Mukundan:** They are independent. They look to be running together in Quarter 2. But I think they should run independently, going forward.
- Moderator:** The next question is from the lineup as S. Ramesh from Nirmal Bang.
- S. Ramesh:** First part is looking at your price increase for the 3rd Quarter is it going to be margin neutral based on the current trend in your operating cost?
- R. Mukundan:** Yes, as we speak today, it should probably trend back to the normal margin. But all I would say they are not correlated, please don't correlate them.
- S. Ramesh:** The second part is can you give us a sense in terms of what is the current capacity utilization in the global industry ex-China? And what is the kind of capacity utilization number you have from China because China seems to have calibrated their local production in the last few months. Can you throw some light on that?
- R. Mukundan:** See the global utilization is running at very tight levels, we are running at almost 94% to 95% so we in fact are finding it tough even to take our annual shutdown because of the demand. So, I think the utilization levels are extremely high. And we have been postponing that but I think we took an inevitable call that when prices reset in Quarter 4, we should be fully in-line to produce which is why we pushed it as far as possible to Quarter 3. So, I think that's really where we are.
- In terms of the in terms of China, I think China should be importing I think close to at least 500,000 tonnes, half a million ton approximately from being an exporter it has turned net importers now.
- S. Ramesh:** So, would you talk about this 94% capacity utilization, what are the base operable capacity you have because the number I have seen in consultant reports of the order of 73 million tonnes of capacity. So, is that figure close to what is operable today?
- R. Mukundan:** Out of plants which can run, when these name plate capacities come, there also many mothballed plants and all they get added up, but of the plant which can run, I think we are at about 94% to 95%. And 94 to 95% means that you have got a very little headroom to take your annual shutdown.
- Moderator:** The next question is from the line of Alisha Mahawla from Envision Capital.
- Alisha Mahawla:** My question is also on capacity utilization only and I just wanted a clarification the 94% to 95% is what we are saying is our current capacity utilization in the soda ash business just reclarifying it?
- R. Mukundan:** Yes, but in that case, we will also be at the same level. I mean if you account for our shutdown.
- Alisha Mahawla:** And there is no capacity expansion that we are looking in this segment that can be expected in the next, in H2 apart from the annual shutdown and whatever debottlenecking that --?

- R. Mukundan:** No, we are expanding, in H2, nothing will come on stream, H2 maybe some minor additional volumes may come, but I think it's not going to be substantial.
- Alisha Mahawla:** And just one additional clarification specialty products the reason the margins have dipped, is because of Rallis in specialty products?
- R. Mukundan:** Yes, it's clearly driven by Rallis, I think we had a shortfall of, if you just look at previous year performance and the current year the Rs. 30 crore reduction in Seeds profits, last year the Seeds in Quarter 2 made a Rs.60 crore of EBITDA and this year, it's made a Rs.20-crore loss. So, I think that has led to Rs. 30 crore swing between previous year and the current year. And that's really the main reflection of what's happened. And we are addressing the issues in the Seed business there.
- Moderator:** The next question is from the line of Chintan Modi, from Haitong Securities.
- Chintan Modi:** My question is on the UK unit, you mentioned that you have put up this Carbon Capture Unit. Can you tell what is the free allowance that you are getting today over there. Free allowance of carbon credits out of total capacity?
- Nandakumar T:** If you look at how the UK carbon works is that roughly we emit about 5.5 lakh tonnes of carbon every year and we get about 3 lakh tonnes as free allowances there. So, we have around 2 to 2.5 lakh tonnes of exposure to carbon, out of which roughly half is a pass through because we also sell power to the grid in UK. And the power pricing includes the cost of carbon. Therefore around 1 lakh tonnes is roughly the exposure we have every year on account of carbon. It is after netting of the benefit of the CCU, because 5.5 lakh tonnes is the emission 50,000 tonnes is the carbon capture, 5 lakh is the balance, 3 is the free allowance and 2 is the exposure. In that 2, half is pass through and half is exposure to us. And that's what, now we have begun hedging this month onwards.
- Chintan Modi:** And the carbon that you capture basically you utilize it for your internal use also or you sell it into the market.
- R. Mukundan:** We use it internally and if there are periods where we have certain surplus we will certainly sell in the market but it is for making sodium bicarbonate which is a very high value product for us.
- Chintan Modi:** And should we expect that from the following quarters, we can see EBIT positive, for the initiatives that we have taken in the UK unit?
- R. Mukundan:** The sharp fall which you saw this quarter may not get repeated next quarter because I think we have started to hedge; I think that will certainly play. The Carbon Capture Unit certainly reduces our costs because we are no longer buying co2 from the market. But the real issue, the real driver of the bottomline this quarter has been the fact that the open exposure which we had in Quarter 1 when Brexit happened, Calendar Quarter 1 which is a previous year Quarter 4 that became an open exposure. And also, the exposure of Quarter 1 of the fiscal year Quarter 2 of the fiscal year so broadly three quarters were completely open and when the price spiked from £25 to £75. The prior period adjustment itself was almost Rs. 30 crore broadly. And the current year exposure to carbon at £75 was about Rs. 30 to Rs. 35 crore. So, equally split between prior period adjusted going from £25 to £75 as well as the current period. So, broadly Rs.60 crore has been the hit on the bottom line in UK despite all the best efforts.

- Chintan Modi:** And just one last question, since you are the parent company of Rallis, if you look at the Seeds business of Rallis, last two quarters we have seen an influx of illegal products. Now my question is that, considering the efforts that we put in, in terms of R&D and everything as an organized player. And there is a very easily some illegal products come in to the market. And there is an acceptance by the farmers also. So, just wanted to understand like any strategic decisions that we are taking with respect to seeds business, because it seems like it's a difficult business to be in?
- R. Mukundan:** So, , good point, I think we are working very hard to look at our portfolio and we are also making sure that we can at least make sure that we are in the products which are difficult to come under pressure from illegal products. So, you will see some change in the approach we have in that business. You are absolutely right, this shift in the marketplace has hit us very hard this year. And we have learned a lot out of that. And we are going back to the drawing board. And which is why I said, we will make sure that business is brought back to at least a steady keel, and not get into the kind of situation which we found ourselves to move from Rs. 10 crore profit into Rs. 20 crore loss.
- Moderator:** The next question is from the line of Dhavan Shah from ICICI Securities.
- Dhavan Shah:** Just I have one question on the U.S. and UK pricing revision. So, I think 80% of our contracts in these two geographies are on annual basis. And the revision would happen from the next calendar year. So, considering the input price inflation and if there will be any fuel price hike from the next year or maybe in the coming period. So, to immune from that, cost price inflation, how much pricing revision are we expecting for these two geographies for the next calendar year, if you can share in terms of maybe relative terms or the absolute terms --
- R. Mukundan:** Broadly I think we are more or less going to be covered on the input side, and that's not going to be an issue next year. I think we have been working with customers that even for Quarter 3 we need some support especially in UK, because of the carbon issue. Most of the customers are understanding of the situations which the carbon market has created. There may be a few who are still in discussion but we expect to close it with them, because I think this is an unprecedented situation which UK has found itself. And we are in discussions, even though there are annual contracts, we have gone to them to say, while we have annual contract we need to have a discussion because of unprecedented situation, I think that's where we are. Next year, we should be more or less covered.
- Dhavan Shah:** Can we expect some more positive delta because these markets would be more in terms of the demand favorable because China is also importing for the first time. So, can we see some more positive delta in terms of the realization growth for these two geographies, going ahead?
- R. Mukundan:** Allow us, in the month of Jan to come back to you, because we would have concluded all the contracts by then, at least we would be. And we are also reworking some of the contracts to include carbon surcharge, energy surcharge, all put in place, which was a learning we have had. Unfortunately, up till now this spike in carbon had not happened and it's an event which I think caught us on the wrong foot, we have corrected that. And in January we will clarify to you exactly where we have landed with customers. But the discussions are all on very positive territory.
- Moderator:** . The next question is from the line of Saket Kapoor from Kapoor & Company.

- Saket Kapoor:** Firstly, if I could, I mean just articulating what you said, from April '21 to October on event date, we have taken a price hike of Rs. 7,000 per ton?
- R. Mukundan::** Rs. 6,900 to be accurate.
- Saket Kapoor:** Rs. 6,900 to be accurate, and up to September the hike was Rs. 3,000 and Rs. 4,000 is the steepest hike, if I may use the word for the month of October itself.
- R. Mukundan:** That's correct.
- Saket Kapoor:** And for the inflationary part, it is Rs. 400 per tonne that is the total inflation cost or how should that be aligned for the seven months, taking into account the coal and the salt prices.
- R. Mukundan:** No, I think for the six-month period, while we have taken Rs. 3,000 the net flow into our account because it was taken at different period of time, what we could reflect was in the Quarter 3, an improvement in the pricing of about Rs. 1,500, but that Rs. 1,500 resulted in a shortfall of about Rs. 300 which means our margin compressed by Rs. 300 per tonnes.
- Saket Kapoor:** And this hike in the month of October would be far higher than what the inflation, it is more about the demand-led or will it have inflation component with it, the hike which you took for October.
- R. Mukundan:** It is more supply-demand led because that's we don't want to say that our price movement are just led by the cost. Cost is only one element, but also demand supply is another element.
- Saket Kapoor:** So, this is more of a bottomline contribution this hike will be, the October month hike.
- R. Mukundan:** Costs are also moving up in parallel, so I would not say entirely everything will come. And also, all of them will happen at different periods of time, because each customer has a different reset during the quarter. So, I think all we have indicated is that demand environment is positive. The cost environment is a challenge. And we are managing both together. And Quarter 3 there are also, all our units have gone through shutdown because we could not take them earlier in previous period because of very strong market condition. And we want to enter the new contract period with full capacity available for us to serve the customers.
- Moderator:** The next question is from the line of Rohit Nagraj from Emkay Global.
- Rohit Nagraj:** The first question is in terms of the demand situation, if you could just elaborate in terms of individual geographies what are the driving factors because of which the demand has suddenly gone up. Supplies you just mentioned that there have been issues, but which are the demand-led factors across different geographies.
- Z. Langrana:** So, if you look at the demand side, essentially let me start with China, I think that there has been a very strong bounce back in demand in China, topped up by increased demand from certain new segments primarily solar glass. And I think that have been driving demand in China. Southeast Asia demand is back and it's in the traditional segments of flat glass and detergents. Container glass in Southeast Asia is still a little subdued because of the tourism industry not fully coming back. We

believe there could be headroom for demand growth there once some of those typically conventional tourist economies open up.

In North America we have seen strong housing starts, consumer demand is back, flat glass demand is back totally. In India, of course all of the sectors are running at full capacity, container and detergent saw little a bit of dip for about a month or two which it sees every year in terms of monsoons, but that is back again.

And of course, in Europe, all of the flat glass demand and container glass demand, some of which had been shuttered during the first and the second wave, have all reopened again. So, we are seeing demand back to a little higher, actually at the pre-COVID levels. And moving into 2022, we will probably see demand growth globally at a slightly elevated level compared to what we have seen traditionally in terms of CAGR.

Rohit Nagraj: The second question is, we generally see some or other restructuring cost and somehow the geographies coming in a particular quarter. So, anymore such, one-time cost which may arise for any of the geographies in future quarters or we are more or less taken care of for most of restructuring cost.

R. Mukundan: I think restructuring in Kenya is done. I think as far as UK is concerned, I think they are managing it and they will take the appropriate action. But we don't expect a big, heavy, one-time cost structure.

Moderator: The next question is from the line of Ritesh Gandhi from Discovery Capital.

Ritesh Gandhi: Just to clarify, so I think what we are saying is that in Q2, the average increase in realization blended although we took in Rs. 3000 price hike. The blender higher realization is about Rs. 1500 and the cost has gone up by about Rs. 1800 a tonnes, so therefore effectively there is a Rs. 300 shortfall.

Now we have taken an increment of Rs. 4000 hike, so effectively the net is Rs. 7000 hike but the impact of the Rs. 4000 will be even slightly higher, because only Rs. 1500 of that is reflected in Q2. So, just wanted to understand in terms of Q3, what is the expected over Q2 on a blended average basis. And how much is the inflation expected on a per tonnes basis.

Z. Langrana: So, I think as Mukund has mentioned earlier this is really a blended number that we are working on in the market place, driven both by supply demand balances and by inflationary pressures that we are seeing. And as we move into the next quarter and more so in Q4, which is calendar year Q1, we will see all of this kind of flowing through.

Ritesh Gandhi: Additionally, the demand is effectively speaking, driven by the demand supply in soda ash which is extremely tight given high demand and low supply. And your cost is driven by the near-term implications around commodities, around coal etc., which we expect to get normalized. So, I understand that while pricing will actually remain the same potentially increase, hopefully in Q4 as the commodities ease off we would expect a reasonable amount of enhancement in profitability. But just wanted to understand in terms of Q3, where do we expect to be in terms of EBITDA per ton compared to let's say Q2?

R. Mukundan: I wouldn't make specific comment, all we would say is that I think we would not want to link the improved changes in the market price to cost increase alone. It is a

demand supply situation that's where it is --. And if you want to see a steady number flow through, where will we settle down I think Q4 would be the right quarter to check that piece, because there are moving parts in Q3, but Q4 it should settle down more or less.

Ritesh Gandhi: And the other question was that we understand that I mean on the demand supply side on soda ash, supply is obviously constrained given in the lead time to putting up incremental capacity, just wanted to understand, what is leading to the increase in demand and is that just the bounce back from COVID where people had a lower inventory levels or is this something that is structural in terms of the demand.

Z.Langrana: I think it's a mix of both, what you probably saw in the earlier half of the year was customers restocking and bouncing back. But as I mentioned earlier, there are also structural changes happening in the market place. We are seeing new centers of demand, new application centers of demand opening up for lithium and lithium carbonate, for solar glass. And of course, there is the normal growth in demand that we are seeing across flat, float and container glass. So, it's a mix of both, as I mentioned 2022 demand globally are likely to be much higher than what we have seen traditionally. It should get eased back into its normal growth levels of maybe 2.5% to 3% per annum, CAGR globally, it's of course regional variations. That should continue into the foreseeable future for sure, while price catches up.

Ritesh Gandhi: So, just sort of interpreting of what you are seeing, for Q4 onwards and then next year onwards, assuming commodity prices effectively speaking normalize, because anyways like I think as coal demand has been reasonable flattish. You would expect, I mean numbers which are materially higher effectively than where we have historically have ever been.

R. Mukundan: I think you should wait for Q4, I would certainly say, because I think we know that coal is now more or less stable at an elevated levels, it has not come down. And natural gas, again for example in UK, is holding at elevated level, it has not come down. In U.S. again it is holding at elevated level. So, I think we have to wait for market signs to say, when it will actually taper down, which is why I think I am bit reluctant to sort of give you some point about next year. But Q4 will be a clear indicator of where we are landing.

Moderator: We will take one last question which is from the line of Abhijit Akella: from IIFL Securities.

Abhijit Akella: Just a couple of clarifications regarding couple of data points mentioned previously. One is the Carbon Capture Unit in UK, this 40,000 tonnes of co2 that we saved, should we just interpret that to mean that you know we basically multiplied 40,000 tonnes into £75 per tonnes and that is the quantum of savings that we should expect to realize out of this.

R. Mukundan: That could be one method. I think the way Nandu has explained I think is the right approach, which is to say that our overall number, net of that Carbon Capture is about basically, and the free allowance put together 3 lakh free allowance would be, we have a net number of 2 lakh tonnes of carbon which we have to buy in the market of which I think 1 lakh tonnes is a pass through and 1 lakh is the net amount for which we need to hedge and we need to buy in the market.

Abhijit Akella: And the other one was on the USA interest cost renegotiation. So, if I heard you correctly, it is going to lead to a saving in finance cost of about Rs. 50 crore a year, is that the right number?

Nandakumar T: Yes, on this loan, yes Abhijit, it was a \$275 million dollar loan and L+4 was the earlier pricing, now it is 1.6%, so 2.5% savings per annum. On \$275 is for a Rs. 50 crore per year.

Abhijit Akella: And that will begin from the December quarter is it or?

Nandakumar T: Yes, from December quarters onwards, because this got done in end of Q2, so that will start flowing towards from Q3 onwards.

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

R. Mukundan: Thank you. And I think let me start by saying that we have been through a very interesting times in the last quarter. These kind of market developments both on the demand and the supply side were certainly fairly unprecedented. But our team has responded well, with agility to serve the customers. And they have engaged well with customers to explain the situation. And we do expect that I think in terms of the short-term we will be able to continue to deliver to the best expectation of all shareholders.

In the long term our story still remains the same. Our growth expansion in Mithapur continues on stream. And both in soda ash and in salt, I think the market demand and market opportunity is fairly strong. Our approach to making sure that we get our two new businesses at least to EBITDA positive, I think it's still our first step and we are well on our way. And in Rallis, we have an additional task now of fixing the seed business which we will continue to focus on and deliver.

In terms of overall, I think the teams are enthused with the positive turn of event and with slight reduction in the waning of COVID. I think our teams are fully energized to deliver in the marketplace. I would like to end this call by wishing all of you a very happy Diwali, and see you all in month of Jan, when we will come with fresh update on where we stand. Thank you.