



Tata Chemicals Limited

Q1 & FY 2022 Earnings Conference Call Transcript

August 06, 2021

Moderator: Good day, ladies, and gentlemen. And a very warm welcome to Tata Chemicals Q1 FY 2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you, Asad. And good day, everyone. And thank you for joining us on Tata Chemicals Q1 FY 22 Earnings Conference Call. We have with us today, Mr. R. Mukundan, the Managing Director & CEO; Mr. Zarir Langrana, the Executive Director, and Mr. Nandakumar Tirumalai, the Chief Financial Officer.

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

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

R. Mukundan: Thank You, Gavin. And good morning, and welcome, everyone, to our quarterly earnings call. I hope all of you are safe. And I am joined today with my colleague, as Gavin, has already mentioned, Zarir Langrana and Nandakumar. Let me start the discussion with some key operating highlights across business and geographies, after which Nandu will walk you through our financial performance.

To begin with, I think what we have seen from the start of the year, the demand environment across all geographies has been positive. The demand environment will improve further going forward due to, we had a bit of a tough Wave 2 in India, and I think we will see sequentially even further improving demand environment going forward. But compared to previous years, certainly the quarter one of the current year was a much better demand environment. The volumes have improved substantially, especially in soda ash, and we see across all product categories, the volume pickup has been fairly strong.

Straightaway diving into the challenges - the key challenges would be the rising input energy cost, the issue related to supply chain bottlenecks which are happening



mainly in the shipping area. And lastly, the carbon price in Europe which has shot up to over EUR 50.

Broadly, we have always maintained that as the volume picks up, as the utilizations improve, the ability of manufacturers to pass on cost increases to customer also improves, and that we are seeing already. In the spot market, the prices are already up. And as contracts reopen, we expect the price improvement will continue sequentially going forward, even though, in many of the contracts the prices are still at the previous year or slightly below previous year levels.

In terms of our units, all units have performed well, especially India has done well. North America has done equally well. And Kenya also has had a very outstanding run-in terms of its volume and we will continue to see good performance.

As far as Tata Chemicals Europe is concerned, while it's being steady, they had the headwind of mainly the carbon price, which has impacted them. And we are putting in place the plan to deal with this, especially through cost improvement programs, both in TCE as well as in Kenya, where we expect that we have further efficiency improvements we had, even though they have gone into profit zone.

With respect to our Salt business, that business has done well, largely driven by volume and it will continue to grow well, approximately we had 5% growth and that growth rate will sustain going forward.

Rallis did perform well domestically and their seed business had a soft quarter. Overall, it contributed at pretty similar levels to what was the contribution was in Q1.

In terms of the three key priorities which we have, we have already highlighted that in the presentation. The first one being, to continue to invest and grow in India, we see good opportunity for all our businesses. To continue to focus on free cash flows and use that appropriately to reinvest in business, especially in India. And thirdly, to focus on the free cash flow to de-lever and pay down the international debt. These are broadly the three pillars of how we will be operating going forward.

In terms of the investments in India, we had highlighted about Rs. 2,700 odd crore would be invested in the Mithapur site itself. And that CAPEX investment is on schedule, it is slated to increase the capacity of soda ash by about 20% odd. And the salt capacity would also go up broadly by about 30% odd. There are other products which will also increase in capacity, but overall, these are the two big drivers of the volume and revenue and bottom-line growth.

In terms of Rallis, they have a plan to invest about Rs. 800 crore to Rs. 900 crore, and that also is pretty much on schedule. I think in both these activities, CAPEX were a bit impacted by about few weeks of delay due to pretty difficult COVID second wave. And we are working with all our partners to get them on schedule to meet our customer commitments which have already been lined up.

Overall, I would say, that the theme remains the same that recovery is back in terms of volume. The pricing recovery in spot market is already there. It would creep into the contracts as these contracts open up sequentially. At the same time, there are certainly cost headwinds which we are managing in terms of energy cost, in terms of the supply chain bottlenecks; and lastly, the carbon cost, especially in U.K.

I feel very confident that with the actions we have put in place, we would continue to ensure that the operations remain on a strong footing and we are able to address these challenges and navigate forward with growth and the investments which have been planned through; and on the three priorities, which I have already outlined for our future.

Thank you. With these comments, I now hand over the floor to Nandakumar.

Nandakumar T.:

Thank you, Mukundan, and good morning to everybody. Before I start, you would have seen the update this time for the quarter ending June which is an improvement over that of the previous quarters based upon feedback taken from all. We hope you find it useful. I will talk about the update in terms of five, six sections, starting off with the standalone, I will move on to U.S, U.K., Kenya, Rallis, and consol.

On the India business, revenue was up by about Rs. 200 crore, a 32% increase over previous year. EBITDA margin has improved by 4%. The PBT has gone up from Rs. 142 crore to Rs. 282 crore in the current quarter. This includes a higher other income due to the dividend which came in the quarter and this dividend came in Q2 last year, so in a way, it's a dividend getting postponed from Q2 to Q1

Coming to the U.S. operations. The volumes rebounded from previous year and revenues have moved from Rs. 619 crore to Rs. 837 crore, increase of around 35%. EBITDA has moved from Rs. 35 crore in last year's Q1 to Rs. 173 crore now, almost four 4x, 5x jump. The PBT has swung back to profits this quarter after suffering Rs. 119 crore loss in the previous year's Q1.

In U.K., the revenues have moved up by 29%. However, the PBT loss has gone up from Rs. 16 crore last year to Rs. 18 crore now, mainly because of the impact of carbon price which Mukund spoke about some time back.

In Kenya, because of higher volumes, revenues have moved from Rs. 100 crore to Rs. 134 crore, a large increase, and a loss of Rs. 2 crore last year is now Rs. 16 crore profit in the current year. So, mostly it's volume driven profit coming in Kenya.

Rallis, the revenues moved up around 11%. The profit, however, fell slightly from Rs. 120 crore to Rs. 109 crore, due to pricing pressures affecting margins and increase in the employee cost and overall freight.

At a consol level, revenue moved up 27% in the quarter and EBITDA expanded by Rs. 241 crore to Rs. 601 crore. The PAT has moved up from Rs. 13 crore last year in Q1 to Rs. 288 crore in the consol in the current quarter.

At the consol level, the CAPEX for the quarter was Rs. 323 crore. The net debt is Rs. 3,991 crore, a small increase compared to March, mainly because of small short-term borrowing taken in Singapore to fund the working capital there. And the exchange rate impact because in the last quarter rupee has come by around Rs. 1, and Rs. 1 impacting our borrowing is Rs. 100 crore impact there.

So, that is the update in terms of the overall numbers for the consol. Now we can open up for the Q&A. Thank you.

Moderator:

Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Sir, my question is regarding India business and particularly basic chemistry margin at historically high at 30.4%, and we have seen this kind of margin in Q4 FY 2018 at 29.7%. So, considering the overall higher fuel prices and other raw material prices, can you talk about apart from operating leverage, any other reason for higher margins?

R. Mukundan: I think broadly it is volumes and also the fact that we have cost efficiencies as we produce more. And from time to time, in India, we have been able to take structured, I would say, pricing adjustments and discount adjustments with customers.

Sumant Kumar: Okay. So, we can say, because of the discount adjustment which are long-term or semiannual contract or annual contract, that is one of the reasons for the margin expansion?

R. Mukundan: No, I think it's both input side. We have, I would say, some of our inputs have been managed fairly well. The operating efficiencies have been good because of high volume of production. And coupled with that, I think also that in the non-contracted volume, I think the discounts have come down even while the list prices would have moved at a slower pace the discounts would have come down. So, I think all these three put together have kept the margin at that level.

Sumant Kumar: What is the mix of the non-contracted business?

R. Mukundan: I think it varies from account to account. But I think as demand environment tightens, usually the discounting reduces as a first step before the prices are increased. And as you know, sequentially, in India we have already had two price increases of Rs. 1,000 each. And I would say, first step we withdraw the discount, second step we will start with price increase, and that's really what has happened.

Sumant Kumar: So, when we have increased the prices, sir? In June, month of June?

R. Mukundan: Yes. I think month of June and there is one more which has happened in this quarter, so there have been two price increases. One in the previous quarter towards the last month of quarter, and one more this month.

Sumant Kumar: Okay, and any inventory gain in the soda ash business this quarter?

Nandakumar T: No, not too much. It's a normal gain, not extraordinary gain report actually.

Sumant Kumar: Okay. Can you talk about what is the spot market mix number in India business?

R. Mukundan: In India I would say, for sake of simplicity, in India the pricing changes every quarter, so there's a quarterly reset. So, India is much more aligned. So, as list prices move, every quarter the contract prices will move. So, you could think in those terms. U.K. and U.S. are more annual contracts, the quarterly resets only for the Asia volumes, for U.S., which is about 20% of the overall volume.

Sumant Kumar: Okay. And my second question is, when we talk about a recovery, is there any pent-up demand in the U.S. market or any other market? Because we have seen TCNA volume of 580K tons last seen in Q4 FY 2018, so is there any pent-up demand, because market has opened in Q4 and suddenly the demand has purged. So, is this kind of demand is going to be sustain in the coming quarter or that is going to normalize? Thank you.

- R. Mukundan:** I think demand is going to sustain, there is no issue in terms of the demand environment as we see. Unless we see a very large third or fourth COVID outbreak, that's about it. So, with increase vaccination, we have seen that that risk has slightly reduced, so that's really where we are. And I have already highlighted the risk more on the input side, not so much on the market side.
- Sumant Kumar:** So, you still believe, there will be a risk through the margin of higher fuel prices?
- R. Mukundan:** So, the higher fuel price is about fact that the rate at which increases happen and the rate at which we can increase price, I think you can pretty much say, either the margin will be maintained or towards the end of the year the margin may go up. So, I don't want to make a very forward-looking statement, but certainly the potential for price to go up is much more, as contract open.
- Sumant Kumar:** So, last question is, we used to hedge our power or energy costs in the U.S. market, so is there any M-T-M gain in this quarter in EBITDA margin?
- Nandakumar T.:** Yes, there is an OCI, Sumant. So, we had a large gain, which is coming in the OCI, not in the PBT, in both the U.S. and in U.K.
- Sumant Kumar:** Sir, I didn't get that.
- Nandakumar T.:** We had the gain on hedging our natural gas, Sumant, and that is accounted as other comprehensive income as coming in the reported numbers. And those were gains made both in the U.S. and in U.K., because prices went up sharply for natural gas in Q1, as you are aware, and was generally hedged for the entire year.
- Sumant Kumar:** Okay. It is shown in the other income of yours.
- Nandakumar T.:** Other comprehensive income. See, this being cash flow hedge Sumant, this is not fair value hedging. So, all the gains on gas hedging goes to other comprehensive income, and then later flushed to P&L that whenever the buying happens So, all the positions are marked-to-market every quarter ending and that impact goes into OCI. See, Sumant, if you look at the numbers reported, Rs. 195 crore is the cash flow of hedge reserve. That is the reported number, that's the mark-to-market gain on the natural gas hedging in U.K. and the U.S. It's there on the first page of the P&L, Rs. 195 crore
- Moderator:** The next question is from the line of Zakir Nasir from Northern Investment.
- Zakir Nasir:** Sir, congrats on a good set of numbers for the first quarter. Sir I have two questions, firstly, what is your outlook for Soda Ash business for this year? And how have the prices behaving after the first quarter? Is number one. Number two is a balance sheet question; I would like to know what is your cash and cash equivalent holding? And how do you treat that, I mean, in terms of reporting gross debt or net debt sir?
- Nandakumar T.:** I will cover the question on the cash part. So, we had on a consol basis cash of Rs. 3,293 crore, that's the cash on hand mainly in India, Rallis, and other geographies. Net debt is Rs. 3,991 crore. That is a net debt, after consolidating the consol cash of Rs. 3,293 crore.
- Zakir Nasir:** Okay. So, approximately the debt will be around Rs. 771 kind of stuff?

Nandakumar T.: That's exactly, yes.

Zakir Nasir: Thank you, sir. That's at consol level?

Nandakumar T.: At consol level. Yes.

Zakir Nasir: Yes, thank you sir. I think that's sufficient. And what about the soda ash prices sir, how do you foresee these in the current year? Because I think last year they were pretty depressed.

R. Mukundan: So, for us, caustic soda is a smaller play, it is not a...

Zakir Nasir: No, I am talking about soda ash, sir.

R. Mukundan: Soda ash prices, as I mentioned, the spot prices are already up, and it varies from market-to-market. But if you take Southeast Asia market as a benchmark, it is broadly up by about \$40. We expect it probably will move up further. The contract prices are what they are. So, as I mentioned, the contract prices today are either equal or slightly lower than the previous year. But as contracts open up, depending on the geographies, so the contracts open up in Asia almost every quarter, and the contracts open up in rest of the geographies by Q3 December end. They would all tend to go up in tandem. That's it.

Zakir Nasir: And sir, one last question, sir. It is, see, Tata Chemicals has been the holding company for Rallis. There has been a lot of talk in terms of the merger, because there has been a structural change in Tata Chemicals demerging of consumer and stuff like that. So, is there any plan going forward that the Rallis will become a part of Tata Chemicals, sir?

R. Mukundan: If there is any such move, we will announce as per the guidelines of SEBI and stock market.

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

Abhijit Akella: First, just on the U.S. business sir, a couple of things. One is, regarding any benefit from the royalty cut that was announced earlier this year, are we seeing some benefit of that in the margins already or is that yet to come? And then second, just wanted to check any potential impact from this railroad disruption in the U.S. on the West Coast particularly, in the context of these forest fires, etc? Apparently there has been some logistical disruption, so could we see some disruption to shipment for the next quarter or two out of the U.S. to the export markets?

R. Mukundan: On the shipping side, we are seeing logistic problems with respect to container movement, especially out of Kenya and some ship availability. But we are not seeing any other logistic constraint. But I think, they don't pose a huge challenge because we are now started to move material closer to customers so that we can service the customers much more efficiently. So, the issue for us is fundamentally the cost to serve may go up a little bit. But I think we are getting a much higher gain by the customer having lesser risk to the supplies from us. So, I think we will do whatever it takes to manage this bottleneck, which I mentioned in the opening remarks as one of the three risks.

In terms of cost, of course, shipping costs are passed through to customers mostly, so I think that won't affect our overall margin element. What is your question on TCNA, you mentioned something about volumes, is it?

Abhijit Akella: Actually, the royalty rate cut that was announced in January.

R. Mukundan: The royalty. Yes. Exactly we are not able to quantify. There will be some benefit, but clearly it depends on the mining plan and the mining plan through the years is an equalized plan. So, there are some places where there's a royalty benefit, some parts where there is no royalty benefit. And because the royalty has gone down, the team is actually working to make sure it can maximize it. But certainly, there is a part of the benefit has flowed into the quarter.

Abhijit Akella: Sorry, you said a part of the benefit has flowed in this quarter?

R. Mukundan: Yes.

Abhijit Akella: Okay. Got it. And second thing was just on the soda ash supply outlook, if you could comment a little bit, whether you are seeing any signs of life in terms of revival of old project announcements? And if I may squeeze in one other kind of similar question, it's on IMACID, we have seen a sharp jump in profits out there, probably consequent to the jump in phosphoric acid spreads. So, how do you see that shaping up? Do you see this as sustainable for, say, the next several quarters at least?

R. Mukundan: So, on IMACID, I would say, certainly, I think it is one of the most efficient producers, just the way our TCNA, Tata Chemicals North America is, because they have access to deposits. And I think they would continue to be the most competitive supplier of phosphoric acid and we see that the margin maintainability is certainly a positive element there. It can go down a little bit, it can go up a little bit, but it will probably be range bound more or less in terms of elements, except when there is a huge sharp decline in consumption, which is a shock which is like once in five, six years, but not every now and then.

With respect to the soda ash demand environment, I said it's positive. It was already turning positive towards the quarter four of last year. And quarter one of this year it has turned more or less positive as vaccinations have picked up, and we see this has returned to normalcy. And in terms of projects, I think, as the demand environment stabilizes, people will re-announce the projects which they have put on the shelf. But I think even if an announcement is made, those projects would take at least 24 to 36 months for even the brownfield to see the capacities coming on-stream.

So, our view remains that at least near term, there will be continued environment, which will be fairly tight going forward. Unless as I said, we have a very, very severe fourth or fifth wave which will be very unfortunate. But with vaccination that risk is lower. That's about it.

Abhijit Akella: And we have not totally new project announcement so far, right sir, at the global level, whether it be in China or anywhere else, Turkey?

R. Mukundan: See, I think one of the things, the broad trend let me say, Abhijit, the synthetic soda ash manufacturing is going to be a tough proposition going forward, mainly because of the CO2 carbon pricing. And COP 26 meeting is due this year and there will be very clearly some announcements made with respect to coal, there will be very clear

announcements which will be made with respect to the carbon pricing and carbon mechanisms around the world. Developing countries will get some space and time, but I think, in most parts of the world especially in Europe, it's going to be an environment where I think this carbon price

And Europe has broadly 8 million to 9 million tons of capacity depending on what you count in and what you count out. So, there the carbon prices have already sharply moved up from EUR 30 to EUR 50, it's an issue. So, to that extent, I think, we will have other competitive capacities which will gain ground. So, even if capacities do come in, they will certainly be more carbon efficient capacity which then can serve the global demand. That is one piece which I just want to leave on the table.

Second piece which is on the demand side is, with every lithium carbonate project which is announced in the world, for a ton of lithium carbonate you probably need about a ton of soda ash to produce that. So, that demand environment is going to constantly move up with the renewable electrification, which is already on.

And thirdly, as the solar cell production picks up, the solar glass would constitute another big set of demand, which will continue to drive the growth of soda ash. So, from supply side, you would find that carbon begins to put pressure on synthetic capacities and the natural capacities usually the large proportion of them, and the growth possibility in the world is only in U.S.A in Wyoming. So, that's really the overall scenario. Short term, things may move up and down, but that gives you a broad band of the way the market is headed.

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

S. Ramesh: Sir, when you mentioned the prospects for additional demand from lithium and solar glass, is it possible to say a number in terms of the additional capacity that is required or additional demand that can be generated, assuming sustained growth in lithium batteries and the solar panels?

R. Mukundan: Yes. So, what we will do, next quarter we will come out with what is a new drivers of demand with a specific part of the investor presentation itself, so that it is much more logical and it's picking up data from all the projects. We will do that for all of you.

S. Ramesh: Okay. And the next part is now if you are looking at the advantage you mentioned for the Trona base capacity, in the context of the carbon pricing impacting the capacity. What is the headroom do you have in TCNA to add additional soda ash capacity there? And how would the carbon pricing impact has to be addressed for that project?

R. Mukundan: So, the debottlenecking of project in U.S. which we are planning is about 180,000 tons to 200,000 tons. So, that's the current immediate plan as soon as the market prices hold strongly. Beyond that, I think, we have to really go back to the drawing board and work on that. In terms of the overall differentials, again, what are the norms and how to look at the norms, we will include that in the next presentation, that is part of general information available to everyone.

S. Ramesh: Okay. Just one last. Sir, now if you are looking at the soda ash cycle now, one gets a sense that you are possibly going to see a tight market. So, has the pricing already reflected that? Or do you see the dollar per ton pricing moving up over the next few

quarters till you see new capacity being setup just typical of most commodity markets? So, what is your sense on that?

R. Mukundan: See, spot prices have already moved by \$40 but contract prices are they are what they are, because they were negotiated at the peak of the COVID and where there was excess supply. So, as these contracts open up, they would also move forward. But broadly speaking, today's contract prices are actually below the previous year contract prices which we had. But that situation would change every quarter as we forward.

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

Ritesh Gupta: Just one, sir. On the salt side, there is no profitability seen, right, this time. And your pricing would be pretty much standard on per kg basis to Tata Consumers as you said?

R. Mukundan: Salt, broadly the way it impacts the bottom line is volume led, so we need to track the volume. And as I said, our capacity expansion plan was to go from 1.1 million tonne to 1.2 million tonne and move from 1.2 million tonne to 1.5 million tonne. So, those plans have been given and that would be just volume at a constant margin moving forward.

Ritesh Gupta: Understood. And ANSAC, given that it's kind of disintegrated, I mean, how it will benefit your or impact you, your profitability? Or how does it open more markets for you? Can you just break for us on that?

R. Mukundan: So, I think this is fundamentally disintermediation as we move forward. I think as far as we are concerned, when we get closer to consumers and customers, and this has been longstanding request of our customers that they would want to have a direct relationship and I think it helps us. The second thing is that, when we sell through ANSC, there is no visibility of where our products is going. Now we can build relationships with customers and manage the customer margin, portfolio of customer management can be done. So, we can evolve in a very different way.

If you look at it, right through the pandemic, one of the things which helped this company was a higher proportion of sales to detergent and container glass. And because that is more resilient because that is more aligned to FMCG demand. So, when we have the direct sales, we can also proportionately manage the risk of and the cyclicity of business. Flat glass generally goes to automotive and Real Estate, which got impacted very badly due to COVID. Since we had a lesser exposure to that, we were less impacted during COVID as move forward.

So, we will be able to do all that on the exports out of U.S.A, which is why this direct connection to customer is important. It is to manage both customer portfolio, also customer margins. And also, it's been a longstanding request of customers that they wanted to deal with us directly.

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

Dhavan Shah: So, I have two questions, firstly about the power and fuel cost. So, if I look at the quarter-on-quarter growth for this quarter, which is roughly 13% odd in the revenue side, whereas if I look at the power and fuel cost, it is down by around 9%. And we have seen the inflation into the power and fuel. So, I am unable to understand the delta over here if you able to understand. So, this is my first question. I mean, if you

can shed thoughts on that, why the power and fuel costs for this quarter is down by around 9% on Q-on-Q.

Nandakumar T.: So, I will explain that Dhaval. See, if you remember, last time in the call we spoke about in U.S. where we had a one-off kind of impact on natural gas hedging in Q4, which is, we had about Rs. 45 crore last quarter, which is not there this quarter.

R. Mukundan: Yes. Last quarter what happened was, there was a big freeze which happened where in Texas impacting the gas supplies in US, the prices spiked for about three days. And I think that impact is not there this quarter. So, that's one. Two, I think in general, as volumes pick up, the efficiencies improve. In fact, at lower volumes, the efficiencies are lower.

Dhavan Shah: Okay. I think this kind of delta is maintainable over the coming quarters. I mean, in terms of the power and fuel cost. And we can see some more operating leverage to play out once the volume growth kicks in, so is this the fair understanding?

R. Mukundan: So, wherever you see volume growth come on where additional capacities keep coming on, I think the efficiency will keep moving much more, it will become more and more efficient. So, that's clearly because you are spreading the energy over a larger volume and you are able to throughput more. But I think where the capacities are constrained and you are producing through the capacity, there is always a limit. So, I think, after that it is just going to be, whatever happens to pricing it will just flow through the P&L.

Dhavan Shah: Got it, sir. And my second question is about the contract pricing. So, you mentioned that the U.K. and U.S. both have around 20% of the contracts on the quarterly basis while the rest is on the annual contract. So, roughly these two geographies constitutes roughly 55% odd to the basic revenue. So, is it fair to say that around 55% of the rest business, which is the India and the Magadi, and the 20% part of these two geographies, U.K., and U.S. also, will see pricing revision from this quarter itself? And we can see realization in growth going forward for the next few quarters maybe if we can see some pressure in the demand?

R. Mukundan: So, U.K. is 100% contracted, so I think there will be no reset till Q3 end, which means no reset till December. I had mentioned about 20% odd of the U.S. capacity we supply to Asia where there's quarterly reset. And India and Kenya would more or less on a quarterly basis.

Moderator: The next question is from the line of Ashutosh S from Quantum Mutual Fund.

Ashutosh Shirwaikar: Yes. So, I just wanted an update on the new businesses, if you can throw some light on your nutraceuticals and energy business?

R. Mukundan: So, on the two new businesses, Silica and on the nutraceuticals and prebiotic business, they have shown a healthy growth, which you can pretty much look at in the standalone numbers. And we are waiting for further customer approvals to ramp up the output. So, we would continue to work through that. Quarter one, there was a bit of a slight impact with respect to COVID and some dislocation, which we don't anticipate in quarter two, quarter three. So, they would continue to show increasing numbers going forward. So, that's about what I can say. And you would also notice in the standalone number, they are tending to start to move towards at least becoming less and less EBIT negative. And I think that trend will continue every quarter.

Ashutosh Shirwaikar: I was asking you on the status of the energy business?

R. Mukundan: That has been explained even at the AGM, it is under review and if there is anything specific, we will come back to you.

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

Rohit Nagraj: Congrats on really good set of numbers. Sir, the first question is on the newer capacity. So, you explained the challenges for the new synthetic soda ash capacity in terms of the carbon pricing, so what would be an optimal level of soda ash prices where these incremental projects will be feasible that would keep threshold in terms of the pricing environment at a particular level? Thank you.

R. Mukundan: I think, if you are saying what is the right level of pricing at which the new projects can come on and especially projects in U.S. As to synthetic capacity purely depends on who wants to take the risk on expanding with the carbon environment as it is. So, I really cannot make a commentary on that. From our side, we are very clear in terms of shifting the portfolio towards bicarbonate even in U.K. where we are doing carbon capture project to make sure we can capture the carbon and make it into useful product. But our exposure to soda ash in U.K., if you recall, is only 350,000 tonnes, it's a small capacity we have. And that we would increasingly move towards bicarbonate and that's one of the avenues.

But if you want a large scale of million ton, at least, I think it is a number which is not known, because even the carbon price is a moving number. Today, it may be at EUR 50, as the norms for carbon keeps tightening, we would find that the carbon price would keep moving up. So, I really would not want to comment on it. But with respect to the U.S. assets, I think, the prices need to move up a bit more for it to become viable in U.S. for any additional capacity to be financially justifiable at the cost of capital.

Rohit Nagraj: Thanks for the answer. Sir, the second question in terms of the demand environment across geography. So, has the demand come back to normalcy or recovering across geographies? And was there any impact due to the supply chain challenges because of which the supplies, there was an impact in terms of availability of the material? And how do you foresee these going forward given the current environment of supply chain challenges? Thank you.

R. Mukundan: Good question. I think, the supply chain bottlenecks are an issue. And I think if your question is, do we see any pricing spike because of localized shortages. I think that we don't want to take into account in our commentary, because they are very specific to a very narrow band of period. The only issue with it flows through is, it increases the cost of servicing customers. And as I mentioned, it is also pass through. So, we are very much aware that we want to be as efficient to our customers as possible and we would want these bottlenecks to get clear. So, really, we don't want to put any pricing number because of these bottlenecks. These are more about customer servicing and cost of servicing customers. So, I would leave it at that.

Rohit Nagraj: Sir right. And if I can squeeze in one last bit. So, sequentially in Indian business, we have seen a lower volumes. But on the contrary, the margins have gone up despite being facing the fuel cost increase challenge. Any specific reason because of which the margins have been higher in the domestic business despite the volumes being lower on sequentially? Thank you.

- R. Mukundan:** Sequentially, just to give you the data, it has been 118,000, then it went 151,000; then in Q3, it was 158,000; then in Q4, it was 184,000. So, sequentially if you take the last year Q1, 118,000; Q2, 151,000; Q3, 158,000; and Q4 was 184,000. So, it has been sequentially going up. Your question about why has it fallen to 167,000 in Q1? This I mentioned, there was a severe COVID wave two which created issues in the couple of months in the beginning of this quarter, because of which, some of the sales could not be done. But we expect this would normalize because we are seeing the environment pretty much the COVID restrictions and all the labor, everything, all returning to normal by the third month of actually by June we started to see that normalize.
- Rohit Nagraj:** Right. Sorry, I probably framed the question wrong way. My question was, the volumes have been down, but on the contrary our margins have been up despite facing some challenges on the cost front due to fuel. And at the same time, if the volumes are down obviously the operating efficiency benefits would not have trickled in. So, on the margin front I was asking on a sequential basis it has gone by 20% to 29%.
- R. Mukundan:** Yes. I think the teams have worked out most optimal operations and contained the cost. Also, they always manage the increasing input costs with variation of input material from different sources. So, they have done that piece well. And also, because this production was high but the sales could not happen, there's a bit of an inventorization of that production quantity also which happened in this quarter, especially in India. But those would move to the customer because right now the customers have started to open up.
- Moderator:** The next question is from the line of Mahendra Nayak from CMS Investment.
- Mahendra Nayak:** Yes. I have a question regarding the balance sheet. We are having a lot of investments in related Tata Group companies. So, can you quantify the amount of investments which we are holding in terms of market value?
- Nandakumar T.:** There is annual report issued some time back, it's all there, all the breakup is given there, how many shares we hold and all that.
- Mahendra Nayak:** Okay, fine. And are we having any plans to monetize those holdings to fund our future expansion plans?
- R. Mukundan:** This is really a Board decision and a Board call. And all I can say is that from time to time, the Board has taken the decision. For example, TCL used to own Tata Global Beverages, and those shares have been monetized over a period of time as and when the need arises. So, it's really a Board call.
- Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Company.
- Saket Kapoor:** Sir, I have this question pertaining to the U.S. operations, sir. And sir, we took the remaining 25% stake from our JV partner for, I think, around Rs. 1,400 crore. So, post that what has been our rationalization in improving the profitability levels? And for the current year sir, what are the current maturities? And for reasons our foreign subsidiaries are not performing at the optimum levels. So, what are the steps that are in the anvil that will improve the profitability both for the U.S. and the U.K.? And also, about this flue gas part of the story sir, if you could throw some light?

R. Mukundan: So, in terms of U.S., I think the issue really what we have had is that within the short time of our acquiring those shares, the COVID impacted us and we went through a pretty difficult period. So, I think it is more of an external environment which caught us completely off-guard, and the team has responded well by reducing manpower and reducing people cost all the way through last year, and the focus was on generating cash. So, if you look at really the cash flows, it was one of the highest free cash flow generating year where we actually managed the cash flows, made sure that the cash position of the company was always held well despite reduction in sales volumes.

As the markets open up, I think, you will see the efficiency creep in. So, I would rather wait for these efficiencies to come through as the sales volume continue to go back to normal. They are already getting pretty close to near normal with respect to the market demand. But in terms of pricing environment, they will further improve by the time we hit Q4 of this year. So, we, as I mentioned, we need to wait for two more quarters to get that, especially in the areas of contracts. Where it is open area, I think, we will probably be resetting them every quarter. So, that's on the commentary on the U.S. So, we are pretty much focused on making sure we run an efficient operation. All things going well, it will continue to work as a pretty efficient entity. And we would focus on having cash flows pull through that entity and use that same for repaying the debt.

As far as U.K. is concerned, U.K. has certainly much more degrees of freedom. They have got two product lines. As you know, they have got salt, soda, in fact three products: salt, bicarbonate and soda ash. Their salt has always been very profitable business and it continues to be profitable. Their pressure point has been on the soda ash business and bicarb also has been profitable. So, we are doing everything we can in terms of addressing the current pressure which we have because of the spiking of the carbon prices from EUR 30 to EUR 50 odd. And we are preparing ground by which the transition through this, let's say, carbon transition is done in a very smooth manner. So, that's the plan we are working through there. And I said already, the cost and the people rationalization plans are underway in two geographies through this year, which is the U.K. and Kenya. So, that is immediate plan which we are driving.

Saket Kapoor: Just a second sir. Sir, on the U.K. part you told that we were collaborating with the Government also for some carbon capture story that would play out in the near future.

R. Mukundan: Carbon capture unit is almost complete. In fact, it was supposed to hook up this quarter. But unfortunately, in Q4 of last year U.K. went through a difficult COVID and they could not get some of the technical people to commission the plant. So, they are undergoing commissioning now. So, we hope by the time we come to Q2 of this year, we will be able to report back to you that is fully functional.

Saket Kapoor: And how is it going to benefit us, sir? This carbon capture story playing out, I mean, margins accretive by what proportion?

R. Mukundan: We will give you that number separately. Right now, I don't have it, but it's useful to make the bicarbonate product.

Saket Kapoor: Right, sir. And now my next part, sir. On the flue gas and also how are we going to deleverage the U.S. subsidiary, sir, the loan which we have taken and the current maturity?

- R. Mukundan:** See, U.S. constantly generates the positive cash and even today for example, so I think it is the positive cash generating unit and as the unit gets back to normalcy, we will be in a position to sort of reduce it through the internal cash generation.
- Saket Kapoor:** Okay. And on the flue gas part story sir, for the domestic market, how is acceptability and the power plant requirement? What kind of sodium bicarbonate requirement can arise out of this flue gas opportunity?
- R. Mukundan:** I don't have the exact figure, but it is a new opportunity which has opened up. In fact, NTPC came up with tenders last year and as the air pollution norms get tighter, it is an opportunity which will grow. We will give the data separately to you. I don't have readily with me.
- Moderator:** The next question is from the line of Jigar Shroff from Financial Research.
- Jigar Shroff:** Sir I wanted a brief medium-term outlook on the specialty products segment. I think Q1 we had a turnover of Rs. 57 crore, so what is the medium-term outlook in terms of capacity utilization and further increase in capacity? If you could shed some light, sir. Thank you.
- R. Mukundan:** Yes. So, I think, as I mentioned, we are at about 50% to 55% capacity utilization, we have to go to 100% by Q4. So, hopefully, by Q4 exit we will be reaching that position with more customer qualification coming on our way and that's our plan as of now. And the plan is also to make it, at least, EBIT neutral by or at least close to EBIT neutral by Q4 so that we can then talk about what additional capacity we need to go with.
- Jigar Shroff:** And sir, no fresh CAPEX planned at the moment in this decision?
- R. Mukundan:** No. See, we can put up a new additional capacity at pretty short notice. Our view has been that first make sure that current unit works well and take it to profitability before we move further in this year.
- Moderator:** The next question is from the line of Prateek Ratija, a private investor.
- Prateek Ratija:** My question is on sodium ion batteries. There is a lot of research going on about replacing lithium-ion batteries with sodium ion batteries. So, my question is, does Tata Chemicals have any plans to enter into any research of sodium ion batteries?
- R. Mukundan:** Yes. See, as I mentioned that the work is going on in our lab. And as and when anything specific happens, we will come back to you. But the sodium ion batteries have some distance to go before they become fully commercialized.
- Prateek Ratija:** Okay, sir. Because one of the largest suppliers to Tesla recently announced that they are planning to commercialize sodium ion batteries. So, just a recommendation to the Board to consider this option. And I have a second question about the bromine-based products. I think in the previous conference call you had mentioned that there were some plans to invest in bromine-based products. Do we have an update on this CAPEX?
- R. Mukundan:** Bromine-based, can you repeat the question?

- Prateek Ratija:** Yes. My question is about, are there any plans for any investments in bromine-based products?
- R. Mukundan:** Right now, we are producing to capacity and we have some headroom to move further, but I think the team is evaluating it and there is nothing specific for me to come back to you on that.
- Moderator:** The next question is from the line of S. Ramesh from Nirmal Bang.
- S. Ramesh:** Yes. Thank you very much for the follow-up question. Can you quantify the impact of the carbon price movement in the U.K. business? And similarly, what is the benefit from the royalty reduction in the U.S. business?
- R. Mukundan:** So, in terms of quantification, I would broadly say at the current numbers, the impact would be about GBP2 million broadly for the quarter.
- S. Ramesh:** That is additional cost?
- Nandakumar T.:** Yes. It range GBP1 million to GBP2 million, depending upon the carbon prices.
- R. Mukundan:** Yes. So, you should take it in between, maybe 1.5. But it can vary Ramesh.
- S. Ramesh:** GBP1 million to GBP2 million. And second thing is, can we quantify the benefit you would have got from the reduction in royalty in the U.S. in the first quarter.
- R. Mukundan:** No. As I mentioned, there is benefit with which has flowed in, but we normally don't get into specifics of that figure.
- Moderator:** Thank you. That was the last question. I now hand the conference over to the management for their closing comments.
- R. Mukundan:** Thank you, everyone. I think what we have seen has been a continuation of what we mentioned right through Q4 of last year. Unfortunately, while the demand environment was improving in Q4, we were impacted by several one-offs which has not happened in Q1, so Q1 has turned in, in terms of the operations on a positive side. We do believe that the operating demand environment is positive, it's improving sequentially and will continue to trend the same way right through the year and beyond that too.
- In terms of our focus, our focus continues to be to deliver the growth and investment in India, timetable of which has been attached, and we will continue to ensure that that comes on stream as planned. We also are ensuring there is adequate focus on generating free cash flows and use those free cash flows to grow as well as ensure that the balance sheet is kept healthy. In terms of international operations, our effort will be to de-leverage them. I think we got our focus on these three priorities going forward and we will continue to work on them and thank you for your support.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Tata Chemicals, that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.