# Tata Chemicals Limited

## Q2 FY 2021 Earnings Conference Call

## October 30, 2020

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**Moderator:** Ladies and gentlemen, good morning. And welcome to Tata Chemicals' Q2 FY 2021 Earnings Conference Call. 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:** Thank you. Good day, everyone and thank you for joining us on Tata Chemicals' Q2 & H1 FY 2021 Earnings Conference Call. We have with us today, Mr. R. Mukundan – Managing Director, Mr. Zarir Langrana – Executive Director, and Mr. John Mulhall – Chief Financial Officer.

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

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

**R. Mukundan:** Thanks, Gavin. Good morning, everyone and thank you for joining us today. Hope everybody is safe and healthy. I am joined by my colleague, Mr. Zarir Langrana, our Executive Director; and John Mulhall, CFO, on today's call. I will broadly give some outline to our quarterly performance and how we see the trend going forward, especially in this COVID 19 situation. And John will also highlight certain key financial highlights for the quarter.

Firstly, we had a very steady quarter. The performance has steadied a lot more from the previous quarter on the back of the business environment becoming more stable. With the business environment becoming more stable, the utilization levels have crept up; as we exited the quarter, they are getting very close to near normal across all geographies. While we will have certain difficult moments to navigate through this period, I think we are now in a much better situation in terms of the direction of the economic trends.

I will go through the discussion broadly in terms of the four verticals which I spoke to last about which is; Performance Materials, Nutrition Science, Agri Science and Energy Business. Energy Business is still in a very nascent stage, so will not make any major commentary on it, except to say that the trend towards electrification, energy storage is a long-term trend. But in the short-term, I think many of these plans have been pushed forward, so we will have to wait till a couple of more quarters for us to make any major point, except to say that our lithium battery recycling business has resumed and in this quarter they did do some business, although minor. Agri Science business is primarily done through our subsidiary Rallis, whose results have been released and I will go to that a little later.

The two broad businesses which are within the standalone and within the unlisted subsidiaries of Tata Chemicals are the Performance Materials and Nutrition Science. As far as the Performance Material, it has broadly two branches of the business, which is; Soda Ash and Silica.

The performance of Indian Soda Ash division is much better sequentially to the preceding quarter, volumes were higher and the demand from the market has been fairly steady. The key issue for us in this quarter was not market demand, but actually the capability to have a steady run of production, especially with very heavy rains, which happened because of the depression in the Arabian Sea which impacted our operations for some time, and which has also been notified as a one-off which we have taken in terms of certain impact on the business by about Rs. 11-odd crore, I think that came in this quarter in terms of the actual P&L impact.

There are certain other material damages for which we have actually claimed from insurance and those claims have not been accounted for, but we will account for them going forward. So clearly, the volumes have improved. The market demand is fine. There is a bit of softness in the realization which we saw in this quarter. But with the implementation of ADD, we think that softness is going to slowly give way to more steady pricing, and which will flow through in the coming quarters as we move forward.

As far as the other big performer in this vertical, Tata Chemicals North America, it was aided with pickup in volumes. And not only has the domestic volumes improved, also, export volumes have improved. And that trend is likely to continue going forward. I think it augurs well for that business. As the volumes pick up, even the pricing power comes back to the business. And I think both of these put together would only couple this in a very positive trend. But it will play out, in my view, in the next four to six months, we will have to manage that period carefully, but will continue the improving trend.

As far as Europe is concerned, it has been a steady quarter and they have very marginal material moving out of the island of U.K., and they are fairly protected in that way and they continue to perform with minimal disruptions.

On Africa, the volumes and realizations were marginally lower. The realizations were lower mainly because the big market which got impacted due to realization softness in Southeast Asia but towards end of this quarter, even realizations in Southeast Asia have started to move up due to lower availability of Chinese materials and I think that trend is likely to continue.

So, overall, on the Soda Ash piece, we probably have seen the worst of the period in terms of both realization and volume and as these will trend positively, they will continue to move forward.

As far as the contracting for next year is concerned, Zarir can add bit more colour to it. There is pressure from customers, which we are expecting, because their businesses are also under pressure, but we will manage to navigate that as best as we can. If the economic environment turns better, the volume benefit which we will get will be much bigger than any of those sacrifices which may have to be made. And the costs are also trending down so there could be some margin for us to play on that.

As far as Silica business is concerned, we continue to see good traction and we have also had few tyre OEMs which have come and audited our plant and have given a good response. And we should commence with trial orders in that business soon. That business is now beginning to gather steam and as the plant operations move forward, I think we will also be expanding capacity from the current 10,000 tonne capacity which we have there.

Going to the second vertical, Nutrition Science, which is mainly Salt, bicarb and nutraceuticals. The performance continues to be strong, aided by the consumer demand. In U.K., again, British Salt volumes are very stable. The bicarb operations in India were very good and consistent and sales service were maintained during the year. U.K. also had very consistent bicarb operations and we will be increasing the sales mix of U.K. more towards bicarb and towards Soda Ash going forward. And this should be margin accretive as the plant for bicarb is undergoing implementation and should be getting commissioned very soon.

The nutraceutical business in Nellore, Mambattu, has had a very good traction. The growth has been good, actually better than our expectation. And the demand from customers also remain strong.

On the Agri vertical, on Rallis. Their commentary has already been received by you. But the domestic crop care and seed business performed well. Their International business had some challenges. We believe that things will improve going forward. And the CAPEX plan and the new product portfolio improvements they had announced, that is well on track. And that should keep the growth momentum going forward.

A quick word on overall CAPEX:

As mentioned, we have decided to realign our CAPEX in light of COVID, with focus on ramping up capacities on those where demand visibility is good, which is things like Salt, bicarb, nutrition and Agri Science. For the rest, we have decided to scale up the capacity in a calibrated manner, and that trend remains even today.

So overall, I would say, business performance continues to improve steadily across geographies. Our efforts are mainly focused on improving the product mix right across all the geographies. And all the four verticals are shaping up well. And we are undertaking requisite steps to strengthen our balance sheet and cash position by rationalizing CAPEX spend. In fact, the operational cash generation has been excellent. And the conversion ratios have been good, and John will speak about it. And we are well positioned to navigate not just this environment. But as we come out of this environment, come out much stronger than what we are today.

With that, I now invite John to give his opening remarks.

**John Mulhall:** Thanks, Mukund. Good morning, everyone. Before we get into the Q&A session, would just like to add some details, as Mukund said, to results that we published last night.

As I mentioned that the last results call, the timing of the annual dividends from IMACID and Rallis was going to move into quarter two this year from quarter one last year, and that was the case and this led to non-operating income on standalone results being up Rs. 45 crores over last year, that is Rs. 64 crores on the last quarter. The main drivers of this growth, the timing of dividend receipt, as mentioned earlier, overall dividend received were up Rs. 46 crores over last year.

We had reduced bank balance and mutual fund and fixed deposit interest. Our standalone cash at Rs. 1,970 crores is down Rs. 770 crores on last year, but remember, the ECB loan was repaid in October last year, which accounts for the majority of the difference. Our average returns from the mutual fund and fixed deposit were also down markedly. In fact, the mutual fund yields in the quarter was down 150 basis points, and that led to bank and mutual fund income being down Rs. 19 crores over this quarter last year. Because we repaid the ECB loan, the bank interest expense was down Rs. 11 crores as well, so that was an improvement.

On consolidation, our non-operational income is an expense of Rs. 15 crores this quarter, down from an income of Rs. 3 crores last year. Again, this just reflects the reduced fixed deposit and mutual fund income in Tata Chemicals Limited. With some offsets between interest income, provisional leases and some rental income as well.

Operationally, as Mukund said earlier, while the reduction against last year remains, the rate of reduction has reduced this quarter compared to last quarter. Although, pressure does remain on pricing and the margins.

For the standalone business, India Soda Ash sales were down only 3,000 tonnes in the quarter, compared to 44,000 tonnes in the first quarter. There was a reduced NSR, with limited offset in manufacturing cost because we had the flood situation in Mithapur, affecting overall contribution from Soda Ash by about Rs. 49 crores. On the flip side, sales of Salt were up 37,000 tonnes on last year and we continue to see strong pull from that segment. Sales improved from a Nutra business, up Rs. 23 crores; and from our Silica business, up Rs. 6 crores over the last year, volume related.

And our fixed cost management remains a priority, of course, it is worth highlighting two charges in the quarter in India, Rs. 14 crores relating to gratuity, which definitely is a one-time expense provision, and Rs. 11 crores material damage relating to the Mithapur floods, where necessarily we have taken the expense in the quarter before resolution of insurance claim, as claims in the process just now.

Internationally, Kenya continues to suffer in Southeast Asia through market pricing and excess volume in that marketplace so both NSR and freight costs have been impacted adversely in the quarter. Contribution is down against last year by about $2 million.

And in U.K., Salt and Soda Ash operations were down in volume terms, bicarbonate was slightly better. But better pricing of Soda Ash and improved energy costs across the piece, both in coke and gas, improved the contribution by about GBP 1.5 million over the last year. And even though we had a Rs. 25 crores one-off income last year, we still delivered a similar EBITDA number to last year, which highlights the improvement this quarter over last year.

The US did suffer from volume and pricing pressure, and our manufacturing did suffer adversely in September through some unseasonal cold winter storm that came through in September. Overall, that probably impacted performance by around $10 million. But for the US, I think it's important to make a point here, in quarter one our sales volumes were 30% below last year, in quarter two it's 17%, so year-to-date we are just 22% below last year's sales performance.

From balance sheet perspective, our working capital has improved. Standalone working capital is 17 days in the quarter, that's a five day improvement over the first quarter, that's worth Rs. 32 crores as cash. Consolidated working capital is at 28 days, again, a 9 day improvement, and that translates to Rs. 217 crores in operational working capital improvement.

Our India cash position with cash, mutual fund and bank deposits moved to Rs. 1,817 crores in September compared to Rs. 2,000 crores in June, this is a reduction of Rs. 182 crores. CAPEX in the quarter was Rs. 128 crores against Rs. 188 crores last year mainly to our major projects in Mithapur. Year-to-date CAPEX in India was Rs. 232 crores, against Rs. 360 crores and last year, just remember, we had Rs. 694 crores as a full year CAPEX.

On the consolidated basis, we had Rs. 3,039 crores of cash at the end of September, down by Rs. 219 crores against June. And that's after Rs. 315 crores of CAPEX in the quarter. Year-to-date CAPEX spend is Rs. 544 crores against Rs. 623 crores last year and Rs. 1,196 crores for the full year to March 2020.

With that, I would draw the financials to an end, and then pass it back to the moderator to open up for questions. Thank you.

**Moderator:** Thank you very much First question is from the line of Sumant Kumar from Motilal Oswal.

**Sumant Kumar:** Sir, my question is regarding US business. So, we have seen a decent performance in US domestic sales of Soda Ash. However, exports is a bit laggard. So can you please discuss more about the export business of US business, which market of export is not doing well?

**Zarir Langrana:** You are absolutely right, if you look at US domestic sales compared to the prior quarter, they are significantly up. In fact, they have been even higher than the similar quarter last year. Export sales still need to recover. While it is about 60,000 tonnes, 70,000 tonnes more than quarter one of FY 2021, we still do have long way to go before we get back to normalcy.

Coming to your specific question about where US exports take place. There are really two key markets, one is Latin America, which includes Mexico, and the second is Southeast Asia. Both these markets were fairly significantly affected in Q1. I think across both markets demand is coming back, but at a much slower rate than the home markets of, let's say, North America or regions like India. In Southeast Asia, container demand in glass is more or less back. The flat glass sector is still to pick up in most of the markets. In China, for example, flat glass is back on track, container is back on track. But in the key markets of Indonesia and Thailand, I believe that it might take a few months before demand comes totally back. And encouraging signs are that there are two new flat glass lines that are under commissioning and shall open up within the next two or three months in the markets of Malaysia and Vietnam. So the trend is certainly positive. In terms of timing, I think we probably need to be a little more patient.

As far as LATAM is concerned, the largest market is Brazil. And as you might be aware, COVID cases in Brazil were among the top in the world, leading to significant contraction in those markets. Those are also starting to come back, albeit at a slightly slower pace than Southeast Asia. The western parts of South America or Latin America is almost back to where it should be. And Mexico, demand basically is coming back strongly, especially on container glass which it manufactures and ships across the border to North America, especially United States.

So long story short, I think a few more quarters before US exports get back on track. Trends are very positive. We are not seeing any customers cancel or defer orders. But there is a slow natural progression before we get back to where US exports used to be a year, year and a half from today.

**R. Mukundan:** Yes. I think just to add to what Zarir said, I think the trend is continuing to be in the positive side. And as the volumes keep coming back in the next two quarters, the pricing power also will come back. So it is going to be a benefit of both volume and price moving up, as both these two come in. But it's much better than before, but it's trending towards normalcy, which we had indicated even during the last call.

Towards Q3, Q4 we should be getting back to where we were. Q1 of next year will have a huge base effect, so we should not consider that. But if you take quarter-on-quarter, I think we are trending to where it ought to be.

**Sumant Kumar:** Okay. So, what I was talking about, overall, the realization of US business declined at 8% Y-o-Y and 5% Q-o-Q. So can you talk more about the price scenario going forward for U.S.? And also, for India Soda Ash?

**R. Mukundan:** See, India Soda Ash is slightly different, Zarir can speak about it. I think the fact that ADD has come in and that itself is going to lead to firming of prices, because that is very specific to Turkey and US, so I think that is a very different situation in India. So I think Indian prices, they had come down a bit, but they will trend up and they are already seeming to be trending up. So that's it.

As far as US is concerned, it is pretty much market mix and a customer mix story through the period, as far as the domestic market is concerned. And next year on contracting, what I mentioned was, there could be a bit of softness in pricing. But that softness in pricing should also get aided by the softness in the input cost. So overall, I don't think there is going to be a big issue on margins. Zarir, you want to add anything to that?

**Zarir Langrana:** No, let me start with India. You are absolutely right, Mukund. With the announcement of provisional anti-dumping duty on Soda Ash, I think it would be normal to expect that pricing would improve once the formal notification and gazettement of duty comes through, which should be fairly soon, it is just a process. We are beginning certainly to see things of that happening. But once the ADD comes in, I believe, the pace of the price improvement would improve.

As far as North America is concerned, like buyers across the world, buyers are expecting price declines to take place and softness. That's their job. And while there might be some price sacrifice that producers might need to make, I think the relief on the input side and the cost side, whatever they are doing in terms of addressing our cost base in the US, should keep margins where they are, if not a little better.

**Sumant Kumar:** And my last question regarding Salt business, we have seen a 14% kind of improvement. So, can you discuss about the key drivers for that apart from the capacity expansion?

**R. Mukundan:** There is no key reason, we tend to be supplying to customers, we supply to all the brands, all the companies who want Salt, bicarb, everything. So I think they will continue to get the product. And I also told that in terms of prioritization of product mix, if the plant has the flexibility, whichever plant in U.K. and India, all these plants have little bit of flexibility of flexing between Soda Ash and Salt. While the consumer markets are doing well, so we flex them towards the Salt business, that's about it.

**Zarir Langrana:** I don't think you should underestimate the power of brand and also the distribution strength that our customer for Salt has. So that's really the contributing factor.

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

**Abhijit Akella:** I have a couple of questions, first on the specialty chemicals business. If you could please talk a little bit about both the nutraceuticals and the Silica businesses, in terms of where they stand exactly right now in terms of customer acquisition and volume scale up. And how we should expect these to trend over the next couple of years? Are there any financial targets that we should keep in mind in terms of revenues over the next two to three years?

**R. Mukundan:** So, I would say, between the two of them, I think we should be crossing three digits this year. I think that is our first milestone, which we want to do. And that is despite a very poor first quarter where these two plants were actually shut. So that's really our target and ambition to move. And clearly, the Mambattu plant, our aim is to at least exit this year with 75% utilization of the plant. So the average number may be lower, but exit it with about 75%, which is a good exit point. We had targeted that to be about 60% to 70%, but we have upped the number because of the strong demand.

As far as Silica business is concerned, and both these businesses are going through their broad approval process from key customers. The nutraceutical plant needs approvals from the pharma and from the food companies. At least it is in the last leg of couple of pharma companies clearing the factory for approval, that would bump up the demand immediately post that in terms of deliveries. And as soon as we get close to about 80% utilization, we will be certainly kick in expansion of that unit broadly to keep in line with the market demand, so that as the demand moves up we have the next line of capacity coming on stream.

As far as the Silica is concerned, I think two of our key tyre customers have already approved the plant, and we are awaiting the first initial orders to come in. And there our intention is not to wait for the factory to fill up to 70%, 80%, we are going to be embarking on expansion shortly. We have just finished acquiring land nearby. The Tamil Nadu Government is allotted the land, the process just about finishing. As soon as that land is in our possession, I think we will embark on scale up of that plant from 10,000 tonne to at least 5x the capacity as the phase one.

And as far as Mambattu, Nellore, is concerned, nutraceutical, the step will be to double the capacity going forward from the current capacity to twice the number of capacities. And we have land and other elements already set in place to go 4x the current capacity on the current site. The Silica business was constrained with respect to land and utility, which is where we had to wait for the approvals to come through to for the next phase of expansion.

**Abhijit Akella:** And sir, just a quick follow-up on that. If I am right, then the existing capacity that we have right now in these two businesses, the Rs. 565 crore that we have invested, that itself suffices to drive about Rs. 1,000 crores of revenues at peak, is that correct?

**R. Mukundan:** I think the figure which you have, we have not invested the full money in the Silica business. I think out of the Rs. 250 crore or Rs. 270 odd crore which we were to spend on that, we have only spent about Rs. 140 crores, including the land which was acquired. The balance would be spent when we expand the capacity. And I think that is the status on that. So we already have the approval to move forward, which is why we are moving forward. But we are not moving forward to 20,000 tonnes which was our initial plan, we have upped the number to 50,000 tonnes straightaway in the first go itself. So which is why we had to acquire the land. So we will come back with specifics, but it's going to be a little more than around Rs. 300 crores, Rs. 350 crores there, which is what we will end up spending.

As far as Nellore is concerned, we have already spent Rs. 250-odd crores. But the doubling of the capacity will be at a slightly lower cost, because the utilities have been built for almost 2x the capacity already, that will not be in place. So it should probably be at half the number which we spoke about as we move forward.

**Abhijit Akella:** Great, thank you. And my second question was just on the North America value addition plans that you had alluded to on the last call. If you could highlight any specifics that you have sort of moved forward with on that. Thank you.

**R. Mukundan:** The studies are over, Abhijit. And I think what we are intending to do is to come towards end of this year to sort of give you specific plans on that. And clearly, we have to do something with our North American assets. It just cannot be left to just pump out the quantities which it needs to do. One thing is very clear to us, if we had a choice between expansion of capacity there versus, I am not speaking about debottlenecking, expansion of capacity versus moving up the value chain, I think our choices are very clear. We made the choice to move up the value chain. The initial study is complete. It is going to be the same set of chemicals we make everywhere, sodium bicarbonate, sodium silicate, those are the materials which will be made, which we have good expertise in. And the teams put together the initial plan. We are also looking at what are the other options to move the chain, but we will come back to you with specifics by the fourth quarter of this year.

**Moderator:** The next question is from the line of Ritesh Gupta from Ambit Capital.

**Ritesh Gupta:** Sir, just wanted to check on, you said that CAPEX plan has been delayed, was it for Soda Ash as well, or like did you say that Soda Ash is also delayed there in the India business?

**R. Mukundan:** I think that's right. The postponement, we have actually accelerated the CAPEX for all which we alluded for the Nutrition business, so that is moving as per schedule. In fact, we were constraint more by availability of labour. John gave financials, the entire project team that left the site, we are getting them back on stream. So, we have lost about three months of execution time on the Nutrition side.

As far as the Soda Ash is concerned, certainly both in India and in the US the debottlenecking which had to happen in the US through the implementation of the 13th dryer is been put on hold. And we will relook at that when we come to the fourth quarter. As far Mithapur debottlenecking is concerned, that is not on hold. In fact, there we have said that we should catch up going forward, all the approvals, all the agreements are in place. It is a delay which is a combination of us trying to conserve cash, and at the same time also non-availability of labor. Both these constraints are now out of the way, with near normalcy coming up in terms of volumes by September end. We do expect that we will gather pace. But I would acknowledge that in some cases we have lost three months, in some cases we have lost about five to six months of time.

**Ritesh Gupta:** Understood. And then just on the stakes that you have on the balance sheet into other Tata Group companies and including Tata Sons. Is there any way you can monetize it at some point in time? Or is there any thought process? Because now you have your own CAPEX plans as well. Is it a possibility that they can, I mean, some of them are listed, some of them are not, so any comments from John or from you on how can you ever monetize it, given that it's a Group company slate?

**R. Mukundan:** See, I think, if you take our balance sheet five years ago, and then you look at the balance sheet today, or even two years ago and look at today, it is fair to say that the monetization has happened. If you look at the entire acquisition of the US asset happened because we actually monetized the TCS shares to pay for the equity because we had to put equity into that business. It was, of course, a leveraged buyout. But whatever equity we have put in the business came through TCS share sale at that point of time.

If you look at the current cash holding in the company, a large part of that also is monetization of Tata global beverage shares which we hold. So the Group has been bringing that down. Currently, if you see the biggest chunk which is own is of Titan shares, which I think is something which everybody's looking at. And if there is an opportunity, if there is a need, I think all these things are addressed. But it has been calibrated and moving in the right way from the Group perspective. And we are today sitting on cash, we are deploying all the cash we have. So I would only say, look to the history of what has happened, that will be the guide to you about the future.

**Ritesh Gupta:** And anything on the Tata Sons stake? I mean, can that be monetized at any point in time?

**R. Mukundan:** I have read the reports as much of you have. And I think we can only say that how much we own is publicly known. And I think it's about 2.5%. John, am I right?

**John Mulhall:** Yes, 2.53%, yes.

**R. Mukundan:** Yes, around 2.5%, I think you can accurately check, but that's what we have, and other Group companies also which we have, Tata Projects and various other entities. But they all fall in the same bucket. I think the intent is to deploy these over a period of time and that will be deployed. And to be fair, all these investments which the company holds have also strengthened the balance sheet rather than anything else.

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

**Sarvesh Gupta:** I joined a little bit late; I saw that your India volumes Q2-to-Q2 have more or less normalized, I think it was 151 against 154 or something like that. But I wanted to know, how has the pricing behaved? Because this certainly looks better than one of your other listed competitors in terms of the volume recovery. But I wanted to know the pricing trend in this quarter as well as the outlook for prices in India going forward on the Soda Ash business.

**R. Mukundan:** So, we had already highlighted, the pricing pressure was there in Q1, Q2, but I think the pricing pressure is coming off because of ADD being imposed. So, it is not an internal issue, it is basically an external event. And Zarir has already explained, as that gets notified the normal trend has been there is a tightening in pricing regime which we have seen in the past, which is what the expectation of everybody is. As far as the volumes are concerned, Indian volumes are back. Our constraint has been mostly our internal operations, we have reported already that we have taken Rs. 11 cores hit on the lost material due to heavy rains, and there is additional damage which has happened which we have claimed for insurance. And that broadly explains the issue, why there was a bit of a pressure on volume. The volume pressure was not from market but from our own operations.

**Sarvesh Gupta:** Okay. But if the ADD does not come, then excluding the ADD, what is the outlook for the pricing going forward?

**R. Mukundan:** So I think, overall, let me give you a broad guide. In any product like this, as volumes come back, the pricing comes back. And if you were to ask me, is the volume coming back? Yes, it is coming back and the April-June quarter was the worst period, July-September is better, October to December is looking even better. And we expect, by the time we get to quarter four, things should tread towards normalcy across the globe, barring few places here and there. And as you know, this market is getting, again, very closely balanced, and it will tend to move in that way going forward. So by the time you hit middle of next year, the market should be tightening up if this trend continues. That's all I can say. Beyond that, we don't have any indicator. So it is improving and the best indicator of price improvement is actually the volume improvement.

**Moderator:** The next question is from the line of Tejas Sheth from Nippon India Mutual Fund.

**Tejas Sheth:** What supply are you seeing at the global level over the next two, three years per se, which can curb the realization even if the demand recovers?

**R. Mukundan:** Very good question. In fact, pre-COVID our fear was supply, our fear was not demand. Because a lot of projects had been announced and about the 4 million tonnes to 5 million tonnes was in pipeline. What COVID has done is it has completely stopped everybody dead on their tracks. I am also very sure, these are very high capital projects, with people conserving cash, these probably now are put in hold. They are probably going to take some time before they can get to see that they are moving forward, both from strategy perspective also from financing perspective. So I think this should play out in the medium-term to the benefit of the industry.

**Tejas Sheth:** Okay. On the input cost, can you just elaborate how you see that panning out in the near-term as well as on the medium-term? And the gross margin pressure is only a factor lower realization or there's some input cost pressure as well?

**R. Mukundan:** See, in India, if you look at it, there are two one-offs, which is the 11 and 14, Rs. 11 crores on account of the kind of material losses we have had. It is not just material loss, there is also efficiency loss which happens when material is wet, you need more steam, more energy to dry it and all that. So I think those were the impacts we have had because of heavy rains which happened because of the depression in the Arabian Sea, which is a one-off event. It has happened after seven years now, it doesn't happen every year.

The other one-off point is also that there is a Rs. 14 crores hit on gratuity, which is a one-time hit we had to take on the back of merging of DA and Basic pay in one of our sites, and that is an HR's call because it helps us in the long run with lower impact from cost as well. But it is a one-time hit on the P&L, which is a actuarial valuation process.

**Tejas Sheth:** No, I was more alluding to the input cost, sorry, at the gross margin level.

**R. Mukundan:** I am covering the ground. As far as the input costs are concerned, the biggest element of input cost in this business is energy. And broadly speaking, India is on coal, and that energy prices have mostly tended to be stable and have not moved up. But world over, I think the combination we have in the U.K. and U.S.A is also a bit of gas. And the gas prices have tended to be slightly benign in the US and in U.K. they have tended to be more or less flat. So we expect that trend to continue.

Magadi is on HFO, and HFO prices are being down. Of course, our prices come down a little bit more slowly than the market rate comes down, because we are hedged. And I think the hedging is good because we at least don't have the spikes in the business. But that's broadly the situation. So energy cost is a big chunk of the cost, is tending to hold or becoming benign.

The other big cost is all fixed cost, operational cost. And I think on that we have projects running to cut fixed cost out of the way, which should hold us very good next year, and also during the second half of this year.

**Tejas Sheth:** Okay. So with realizations recovering, which may happen, let's say, two, three quarters down the line, the gross margins will normalize to the levels which we see in better part of FY 2020.

**R. Mukundan:** That's the expectations we have. And the expectation also is in the medium-term it is good for the business because all the capacities which were announced are all now off the table.

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

**Rohit Nagraj:** Sir, in terms of the current inventory in India and in global system, any thoughts on this? And how have the imports shaped up for the Indian market? Thank you.

**Zarir Langrana:** So, inventory which was a record high levels, let's say, in period of March and April, specially built up in China, has now come back to almost its normal level. So I think Chinese inventory had gone up to a level of almost 1.8 million tonnes, which is huge. But they also have the capacity to store that kind of volumes. But today, we believe that, that inventory level has probably moderated down to about 750,000 tonnes or maybe even lower than that. And I think plants have taken this opportunity to go in for extended outages, maintenance outages. So Chinese domestic supply-demand position has become rather tight and caused a sharp spike in Chinese domestic pricing. Chinese domestic prices have gone up by almost $30, $35 a tonne. And perhaps this has flowed back into the Chinese export market as well.

In India, inventory levels are back to normal, I don't think any of the producers are holding large stocks. And the same can be said about the US market as well, where most producers today producing to meet market demand, just like we are. As far as India imports are concerned, those have also moderated down, they were low during the pandemic, obviously, because of supply chain issues and port closures. When the ports opened up, a little bit of the pipeline started being refilled again. I think they are at normal levels as far as imports at this point. And I think with the notification of an anti-dumping duty, imports should significantly reduce.

**Rohit Nagraj:** Thanks for that. Sir, the second question is in terms of capacity. So just now you indicated that Chinese capacities are operating probably at reduced rate or extended shutdowns. So any other feelers from other geography on the same? And the capacities which were currently under expansion phase, so how much of those capacities probably will come online in one or two years, maybe brownfield expansions or greenfield expansion? You already talked about the 5 million tonnes which was under planning stage, probably currently is on hold and will come back sometimes later. Thank you.

**Zarir Langrana:** So, I think Mukund spoke earlier, I think pre-pandemic there was very little brownfield debottlenecking going on, most of the announcements of large greenfield investments were primarily in North America and in China. The North American greenfield, I think, very sensibly, producers have possibly pushed that out by at least four to five years because those are large expansions, also requiring large CAPEX investments. And I think given current conditions, it seems unlikely that those will come up and be available in the market before four or five years.

In China, there was only one major capacity expansion that had been announced, Inner Mongolia, of natural soda ash, that also has been delayed. China, in fact, might see a reversal, we might actually see capacity coming off there permanently. There is about, in our estimate, 3.5 million tonnes to 4.5 million tonnes of Chinese capacity that's at risk, primarily sub-scale plants and plants that are facing increased environmental scrutiny and regulation. These are plants that are possibly also located in urban areas, which will be asked to relocate. And rather than relocate, we believe that they might actually shut permanently.

Europe has seen no capacity announcements being made, and unlikely that they will be made. And in India, there were some debottlenecks that were in progress. I think those debottleneck activities finished actually, prior to the health crisis. So really nothing that's on the horizon for the next two to three years.

**R. Mukundan:** Just to add to what Zarir said, in our view I think the markets will not have issue from supply side. And as demand corrects itself, I think this market is well positioned now. I think our view is that it could help the issue, the whole shakeout which happened is actually playing out for better of the industry.

**Moderator:** The next question is from the line of Padma Raju Mathi from SBI Life Insurance.

**Padma Raju Mathi:** My question is specific to the nutraceuticals business, sir. Since you said that you are awaiting approvals from pharma and food companies, so any timelines we are expecting for getting these sorts of approvals?

**R. Mukundan:** I think we were slowed down by the pandemic; these teams could not visit. And they have since done the first line of audit and have given certain changes to be done which is underway. So we will go to them for reassessment during this quarter. Hopefully, it should happen very soon. We are pretty much very close to it getting done.

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

**Dhavan Shah:** Sir, about the Silica business. So you have mentioned that there will be a capacity announcement by around 5x. So what is the realization from that business? And what kind of top line do you foresee maybe within two to three years from this Silica segment?

**R. Mukundan:** We had already said that these segments play out in a asset turnover ratio of approximately 1.5x to 2x, that's what we should expect. And that is at the normalized utilization and the CAPEX fully getting deployed. So it would trend towards that.

**Dhavan Shah:** Okay. And in terms of the CWIP, around Rs. 940-odd crore CWIP is there. So can you share it among the segments, I mean, this how much is for Soda Ash and the other CAPEX announcement what you have done. So, can you share it among the segmental break up?

**R. Mukundan:** It broadly would be within the two segments which we have, which is Nutrition and Performance Material.

**John Mulhall:** The major CAPEX is spent in the Nutrition business, HDS business which is really acquisition CAPEX or development CAPEX which was all completed effective last year. So the CAPEX coming through this year is going to be, as I said earlier, focused on the Salt side. And that's something towards the first part of the year, then it will spread back out towards the bicarbonate and Soda Ash and other processes later on in the year. But it is certainly sitting in the BCP business, performance business sector that you are seeing in the second half.

**R. Mukundan:** And I think as we start reporting by the new vertical segments, you will get that split much more sharper. We are intending to do that at some point of time. At this point, it's all mixed up. Some is lying in specialty, something is in basic chemistry, it's not giving clarity. With the changes, I think that will be clear.

**Moderator:** The next question is from the line of Harsh Bhatia from Emkay Global.

**Harsh Bhatia:** On the domestic front, for both India and US business, Q-on-Q the volumes have improved, so that is really good to see. Just to understand proportionately, where is this improving demand coming from, from which downstream industries? And is it any different from the US market and the Indian market? Or are we seeing the some markets recover at the faster pace?

**R. Mukundan:** I think both markets are seeing all the sectors getting towards normalcy. I want to tell you that in the US, for example, the auto sales, last two months were the highest we have seen. So I think the sectors are picking up, and because their supply base is also getting back on stream. What is still not fully clear in terms of end user segment is the construction segment. That's the only one which is a bit slow in terms of the recovery. But otherwise, all other sectors are slowly getting back to where they ought to be. So, we haven't seen any trend which is any different anywhere. This has been the trend right across every part of the world, including China, US India, the trend has been very, very similar. Consumer comes in first, immediately following that is the auto, and construction is last to come on stream. So when I say consumer, for example, it is both the soda ash used for detergent and the container glass, because containers go into consumer. And then next coming on stream is auto sector. And last is construction. And it's following the same trend.

**Harsh Bhatia:** Next question is on the Mithapur plan for Soda Ash and Salt. Last quarter we had indicated that Rs. 6 billion is already done and immediate Rs. 18 billion will be done by FY 2023. So the plan stays the same? And how much we can complete in this current quarter?

**R. Mukundan:** Nothing has changed on that plan. I think it's still on-stream because bulk of it is also for the nutrition and Salt and bicarb, and a small portion goes towards Soda Ash. So John, you want to elaborate a bit

**John Mulhall:** Nothing else to say there. We have CAPEX of Rs. 127 crores in a quarter, and say about Rs. 110 crores of it is all sitting within the BCP business unit in Mithapur. And so half year is about Rs. 210 crores of the Rs. 232 crores is going to be a BCP as well.

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

**Ramesh S:** Sir, I just want to understand in terms of the performance of the US, what were the reasons why the EBITDA was down and below the line why was there a loss? Because last time we had a reversal of finance charges and that contributed to lower profitability but what happened in Q2?

**R. Mukundan:** The way I understood the question was specific to US, what is the reason why EBITDA is down. One is I think volume, because it is a high fixed cost business in any case in the US, the breakeven points are high. As you move further up, as volume comes back, these margins come back. And as Zarir has said, the volumes have been impacted mainly on exports. And secondly, I think the pricing in export also have been weak in the market, and that comes back when volume comes back. So it's all back to volume, as volume picks up everything picks up. So you want to add to that, Zarir?

**Zarir Langrana:** Mukund is absolutely right, it's really a volume game and the effect of volume on fixed costs and also on pricing, specifically pricing in the export market was weak, as could be expected. But we do believe, as we have mentioned earlier on the call that trends are certainly looking positive.

**Moderator:** The next question is from the line of Hari Shyam Sunder from Franklin Templeton.

**Hari Shyam Sunder:** My question is about, you mentioned that there is some flex between the Salt and Soda Ash in terms of the manufacturing. Could you quantify what is the range of output which there is a flexibility?

**R. Mukundan:** Yes. I think it's mainly about where do we use energy and where do we use our brine. And I think the flex will be about maximum 5% here and there. But 5% is a lot when you talk about a million tonne.

**Hari Shyam Sunder:** Understood. My second question was on the margins which is reported for the basic chemistry in India. Do you expect the margins to return to what's the closer to 28%, 30% in coming quarter?

**R. Mukundan:** So, I think I would just add it will inch to that for coming quarters, because I think it will trend towards that and it will settle somewhere close to it by the time we are completely out of this difficult situation. The good news is, volume is back. The second good news is the pricing power is seeming to come back. So I think both these augur well. I don't want to pinpoint by saying it will come in the third quarter or fourth quarter, but it's somewhere in that range, it should start to get to that point.

**Moderator:** The next question is from the line of Hansal Thakkar from Lalkar Securities.

**Hansal Thakkar:** Sir, on your press release, you have made a notation that this quarter you have achieved three significant patents. Can you throw some light on that?

**R. Mukundan:** All of them are in the area of Nutrition and the Materials business. The specifics, I think it's better that we disclose it properly at the point when there is also a business opportunity coming out of them.

**Hansal Thakkar:** And just some more of an ambition statement, I am just trying to understand if the Nutritional segment essentially continues to be based like chemicals or we have consumer aspirations in there as well?

**R. Mukundan:** So we are supplying to brands, so whether we like it or not, if you really look at our portfolio today, I think the portfolio in Nutrition Science is fundamentally going to consumer companies. It is Tata Consumer, it is going to all the food companies in India, all these companies are our customers, where they all make branded food, they all need the B2B salt. Some of them brand it further and sell in the market, some of them use it in their production process. And fundamentally, it's going into that segment. Bicarbonate also goes to these food companies, because they add it to their food products and sell it. So, these are food ingredients, even FOS, nutraceuticals, vitamins and all the complimentary products and premixes we give, all go to these companies, whether it be the milk companies, whether it be biscuit companies, whether it be various food companies, they are our key customers.

So, we are not getting into brand, but our products go into brands. And we have all the marquee brand as our customers and they have a very steady demand pull from the market, and it grows steadily every year. If you look at our even Performance Material within India, a lot of it goes into detergents which also are brands. So I think that is, again, a very steady growth segment. The segment which has been impacted in this pandemic has been mostly the one which has gone into flat glass. Container glass, again, is fairly steady because that also goes and supports brands. So if you say that are you going to get into brands? Are you the people who are behind the brand, every successful brand? We are with almost every successful brand.

**Moderator:** The next question is from the line of Hemang Khanna from Kota Securities.

**Hemang Khanna:** I just had one question regarding the basic chemistry segment. When we look at the segment as a whole, for the second half of this year, how do you see the margins moving? Because we came from, obviously, 1Q was impacted at about 7%, we have recovered to about 10% in this quarter. Over the next half of this year, and probably into the next year as well, do you see us coming back to that 17% kind of margin, which we did in FY 2020? And just your views on how the recovery will be for the second half of this year?

**R. Mukundan:** I can only say, it will be on the road to recovery. I can't pinpoint it because it is very unfair for me to do that. But we are all hoping it's faster than being fluid. The market signs are positive.

**Hemang Khanna:** Sure. So basically, we can, going forward, at least into…

**R. Mukundan:** At some point it would tend to the same number, because that is the stable number for those businesses.

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

**R. Mukundan:** Thank you, everyone. I think all I wanted to say is that, just to use the IPL parlance, we had the initial overs, in which ball was swinging a lot and we clearly had to navigate very hard. We have now entered the middle overs and I think here the basic act is to keep it steady, keep it going, not do too many things and keep the ship steady. And we know that the end of the game is coming very soon, and post that I think it will be a steady run for all of us because end of this difficult period of pandemic is beginning.

And as far as our strategy is concerned, that remains pretty much on track, that we are going to be building this business with more specialty portfolio across our all verticals; the Performance Material, which is Soda Ash and Silica, and the Nutrition Science, which is salt, bicarb, nutraceuticals and natural extracts, and Agri Science. And in all these verticals investments are ongoing and the growth journey is intact, albeit a bit of delay of six months or so, three to six months. And we remain extremely confident, especially on the back of the steady bounce we have seen in the economy and the output around the world. And also, the fact that the markets and the medical fraternity is taking control of this difficult period and they are over the hump to say in terms of managing the crisis.

And we continue to remain fully confident that as we come out of this, even the energy transition portfolio, which has seen a slowdown, would also come back with full energy. On back of the fact that the shift towards renewable and the need to store energy is a need which is not going to go away. And we are confident of that vertical too, albeit it is in a bit of a slow start than what we would have anticipated.

I thank you all for your confidence and your support. And we remain committed to our goal of moving forward in this direction in this company. Thank you.

**Additional questions received during the Investors / Analyst Call on 30th November 2020**

1. What is the quantum Of ADD proposed for imports from Turkey and other nations? Kenya (South African) operations are strategic to imports of soda ash to India, are the volumes going to be affected.
**Tata Chemicals Limited Comments:** Proposed ADD is only on imports coming in from the US (except SVMI) and Turkey. The recommendations do not cover Kenya hence it won't have any negative impact on Kenyan imports. Since imports from the US and Turkey would reduce, there could be a positive impact on Kenyan volumes. The duties are based on the reference price of imports at $254.12 CIF for US and $246.07 CIF for Soda Sanayi from Turkey. For Eti from Turkey, it is still not clear in the notification. It could be anything between $246.07 and $ 254.12.

2. What steps are we taking for reducing the debt at the foreign subsidiary levels.
**Tata Chemicals Limited Comments:** Currently, we have around Rs 6,800 crs of gross debt, all debt is sitting in our international entities and being serviced by the international companies. The board reviews the situation regularly.

3. What are the updates on the Flue gas initiatives in India and UK and its potential?
**Tata Chemicals Limited Comments:** I think this is a question for demand of sodium bicarbonate. For that, the demand has started to materialize from couple of customers and will give an additional boost to bicarb market demand. This year with a potential to grow to about 100 kts over 2 years once more power plants of the state electricity boards get in.

4. When can we start seeing optimum performance in terms of profitability from our UK operations as we have already done the capex for energy efficiency improvement exercise?
**Tata Chemicals Limited Comments:** In UK, we are concentrating to move up the value chain and focus on manufacturing high grade food and pharma grade Bicarb, which would have sustainable benefit to operations in UK. Though, during this COVID situation, UK operations was least impacted due to Lockdown. The team in UK is working through multiple projects in terms of energy efficiency projects, CCU unit, etc., which will start yielding results in the near team.

5. Net Profit is given as 132 crs less non-controlling interests of about 60 crs. What does this non-controlling interests consists of as this seems to be consistent even at a higher profit level.
**Tata Chemicals Limited Comments:** This Non-Controlling Interest is pertaining to ALCAD, a partnership firm under US operations and Rallis India

6. Current Covid crisis is leading to life-style changes. Whether the current environment is helping the company to grow its health related offerings faster and how has been the experience so far with the clients. Is the company seeing ramp up of production or still some approval delays from the clients end?
**Tata Chemicals Limited Comments:** The current environment has reinforced the need for consumers to lead a healthy lifestyle, and companies are repurposing their portfolio offerings in accordance to the market demand. The Nutritional Solutions business has seen increased interest and engagement from global clients in the supplements and health foods segments for FOS and accordingly the sales have been growing over last few months. At the same time, delayed qualification and approvals with customers, is prevalent due to the evolving situation in respective global markets.

7. In the 2020 balance sheet, it’s mentioned as one of the priorities, "Adherence to milestones in key customer engagement journey" How has been the experience with the new set of customers & how has been the demand shaping up. Further, the full benefit of expansion would start reflecting from which quarter in the current year.
**Tata Chemicals Limited Comments:** Market demand through channel partners in the S.E Asian market is a focus for continued volume growth. The business continues to complete qualification requirement of customers in the infant nutrition, supplements and animal nutrition segments as demand for gut-friendly ingredients remains stable with the primary customer base. As approvals with global key accounts ramp up later in the year, we anticipate benefiting with a steady state of product demand moving into Q2 FY 22.

8. How much have we invested in Nutraceuticals and HDS?
**Tata Chemicals Limited Comments:** Total Board approved is 565 Crs, out of which Nutra we have invested completely. For Silica, we have invested ~Rs 160 Crores.

9. Would it be fair to assume that we can generate revenues in the range of Rs. 1,200 crore if we function at optimal capacity 2-3 years down the line?
**Tata Chemicals Limited Comments:** Initially we had indicated that Asset turn ratio would be broadly 1.5 to 2.0 times.

10. Can we get the volume breakeven % and why the loss are PBT below EBITDA, the reversal of finance charges in 1Q 21 did not happen this qrtr?
**Tata Chemicals Limited Comments**: There was no reversal of finance charges, as Q1 FY21 had, one time charge of USD 5 million towards refinancing of loans in US operations