



Tata Chemicals Limited

Q3 FY20 Earnings Conference Call Transcript

February 03, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Tata Chemicals Q3 FY20 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 evening, everyone. And thank you for joining us on Tata Chemicals Q3 & Nine Months FY20 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: Thank you, Gavin. And thank you everyone for joining our Q3 & nine months ended earnings conference calls. As already informed by Gavin, I have with me Zarir Langrana – our Executive Director; and John Mulhall – our CFO. I will begin my comments by highlighting some key operations developments, post which John will summarise the financial performance for the quarter.

During the quarter, we are happy to report two major events which happened, both positive. First, was the acquisition of balance 25% stake in Tata Chemicals Soda Ash Partners in North America in our partnership firm for US\$195 million. The second one was that we have now the NCLT approval for demerger of consumer business and merger with the TGBL or TCPL. Details of the same will be discussed and elaborated during the call.

On the operational performance, we have had again a set of resilient performance all across except for Tata Chemicals Magadi in Kenya where we had operational challenges, I will come to that in a minute. In terms of the basic chemistry product India operation, the revenues were slightly lower, but the margins for the quarter improved on the basis of improved efficiencies and lower input costs, which had led to better performance at the bottom line.

On the International business, as highlighted, we acquired balance 25% and we are now 100% owners of the US operations. On the operational front, TCNA had a steady quarter. Some pressure was in the market for the first time, but I think they



seem to be one-offs as we move forward. TCE also delivered good numbers on account of a better product mix i.e. sales between the manufactured and purchase for resale.

Most important point I just wanted to draw your attention related to Tata Chemicals Magadi where there has been a softness in performance due to lower sales volume, and these are being addressed to during the quarter. Their production has been steady, however, their reach to market was beset with certain operational issues which have since been rectified. Overall, I would say, basic chemistry products had a steady performance during the quarter.

As far as the Specialty business is concerned, starting off with nutraceuticals, the performance in the quarter was on expected line, with revenues from Rs. 18 crore in the quarter. Nellore facility is in the last stage of commissioning and customer approvals on the way. And we expect the same to be available by Q4 of this year.

Moving on to Silica business, we are on track with the commercial production and we are in the early stages of getting the customer approvals for commercial delivery of these products to tyre customers. And this is largely a domestic phase product and will add significant value to Specialty business.

On the Agro Science, Rallis performed well, the revenue grew at 28% and company continues to focus and invest in new product launches.

As far as the last Specialty business, which is the Energy business, we have been awarded the land by Government of Gujarat and we are beginning early project work there in terms of landfilling and other activities, which is pre-project work commencing soon, and we are also in continuous dialogue with potential partners. We will be making a formal announcement as soon as we have made a significant progress on the same.

In terms of the capital investment which is one of the key drivers of future growth. The CAPEX in Mithapur expansion is on its way and proceeding well on schedule. We have this year committed approximately Rs. 900crore, and overall, we are investing Rs. 2,600 crore into Mithapur site. Parallely, as I said, the Specialty business has a similar number for investment, of which you would see continued investment in Rallis, investments have been made already in nutraceutical and in the Silica business, and very soon the investment in the Energy business would also start. So, these are investment led growth opportunities which continue to drive future bottom-line of the company.

In terms of Consumer business, as I mentioned, the NCLT has approved the demerger of the business into TCPL, and, as a consequence of this, the financials have been demarcated as continuing and discontinued business. We expect the transition of business to close before March 2020. So in itself, the continuing business as reported in the SEBI reports are comparable. What is not comparable is the full company business which included both continuing and discontinuing business, and it's very critical to draw that attention. I will also ask John to bring that out clearly.

Within Consumer business, salt maintained a steady momentum in terms of higher volumes. Pulses and spices also grew by 22% on the basis of higher volume and good track record. We expect this piece of demerger and merger into TGBL to conclude during the current quarter.



With this, I would like to invite John for his comments.

John Mulhall:

Thanks, Mukund and good evening everyone. Before we open up to questions, I would like to just highlight a few key points from Q3 FY20 results that have been released this afternoon. Most importantly, you will note in the presentation of the company, we are showing the performance of soon to be demerged Consumer Products business unit as discontinued operation. And as Mukund said, we hope to have the demerger completed this quarter following the receipt of the NCLT order at the end of January.

On the standalone results, the PAT from continued operations is up Rs. 61 crore. But you also note that the revenue is flat against the same period last year. The major areas of change in the performance really we have seen an increase in other income of Rs. 23 crore. That's really down to two things: one is where we had an FX expense last year related to the Bio-Energy preference shares, this quarter, we had a small Rs. 6 crore gain. Offsetting that, we have reduced income from cash and our mutual fund investments, which cost us about Rs. 27 crore.

We saw a reduction in finance costs of Rs. 16 core and this really reflects the ECB loan that we repaid in mid-October. And operationally, we benefit from really a continued focus on fixed costs, both factory and corporate; and variable cost management to offset soda ash and bicarbonate price reductions notified in November last year. This effort contributed about Rs. 30 crores of profitability over this period last year.

Our India cash position reduced from Rs. 2,739 crore in September to Rs. 2,428 crore in December. This reduction of Rs. 311 crore reflects the repayment of the ECB loan with CAPEX spending in the quarter of Rs. 140 crore being more than supported by the cash generated by business operations.

Operationally, the India Business performed better than last year. Our soda ash volumes were down slightly. Net contributions were sustained through reduced energy cost across all product lines as supported by fixed cost reduction efforts as well.

On the discontinued operation, being the consumer products business unit, it recorded a 13% increase in revenue over last year. Salt, pulses and spices, all recorded increased revenue. The salt was the largest with volumes up 17,000 tonnes; that is 275,000 tonnes in the quarter, continuing above last year's run-rate from quarter two as well.

Our net profits are up from last year, reflecting both increased volume and benefits from reduced energy and cost control.

Briefly looking at our International operations, for North America the highlight was naturally the completion of the transaction where Valley Holdings purchased the remaining 25% share in Tata Chemicals (Soda Ash) Partners Holdings on the 19th of December, and this brings TCSAP entirely within the TCL Group. Production of soda ash in North America was up 20,000 tonnes over last year's performance, it's about 4%. With a year-to-day production around 3% better than the same period last year.

The company did reduce its trona stockpile which is natural around this time of year by about 180,000 tonnes. So you will see at destocking effect coming through



on the profit loss account through the year. Overall, the profit for the quarter was on a par of the last year, but we are ahead on a year-to-date basis.

In Tata Chemicals Magadi, sales volumes were lower than last year due to weather and some production related issues in the region, delaying evacuation of product from the site in December. While, this impacted the quarter adversely, year-to-date production is 3% down over last year's total. Our sales are down about 14% on a year-to-date basis. Effect of increased prices and robust cost control means that we are ahead of PBT on the year-to-date basis against last year.

Tata Chemicals Europe represents the soda ash, sodium bicarbonate and energy business units. Soda ash production was about 11% ahead of this time last year, and 4% on the year-to-date basis. Overall, sales were reduced due to the planned reduction of low margin purchase for resale products. We sold about 2,000 tonnes in a quarter against 16,000 tonnes last year. There is very little margin made in this product, so that reduction in volume did not affect that business adversely.

The company booked an insurance settlement of Rs.6 crore in the quarter, related to fire in 2018, compared to a net Rs. 8 crore non-recurring expense last year, which is made up of both insurance claim receipt of Rs. 20 crore and a pension expense of Rs. 28 crore recorded in December 2018.

British salt volumes were flat to last year, but reduced gas prices did provide some upside and improved performance over the same period last year.

With that, I would like to open lines up to any questions.

Moderator: Thank you. The first question is from the line of Viraj Kacharia from Securities Investment Managers.

Viraj Kacharia: Congratulations on good numbers in such a challenging environment. Just couple of questions. First is on the consumer demerger. So the record date, is it going to be before March? And is there anything else left or if you could just provide some update on that.

R. Mukundan: So, I can only say that we will be working our way through announcing it shortly. I think the secretarial and legal teams are going through this in detail. We do have to call a Board Meeting to clear up all the documentation and everything. I think that's going to be done shortly. So we are working to making sure that this happens certainly in this quarter, but certainly somewhere, if possible, I would say that somewhere around Feb, March time period, that is where we are looking at. But we have all the approvals in place, but we are working through the filings to make sure that we can announce the date.

Viraj Kacharia: Okay. Second question is on the soda ash, both India and US. So, if I talk about the India business, what we understand, the market currently is in oversupply situation here, inventory overhang, and part of the extended capacity with the new supply would further come in 2020. So, despite that, if you look at our spreads, we still kind of able to hold up our overall operating spreads in the business. And at the same time in US, what I understand, we took around \$15 price increase in September, but there we have not really seen that translating into the operating spread. So, just trying to understand how should one look at spreads and volume for next one or two years in the soda ash business?



R. Mukundan: So, I think the broad issue here is, what you are seeing as the inventory overhang is a bit of additional capacity which has come through little earlier out of Turkey. That's really what has happened on a strategic frame. We haven't yet assessed the supply chain knock-on impacts of the Chinese coronavirus, that is not clear to us, but I think we are making an assessment. So, those are two broad points. It is not related to Indian situation; it is more the international situation which is pushing back into Indian market on a temporary basis. Other than that, we have no view.

In terms of the operational benefits in India, as I mentioned, that the main benefit we are getting is, as the market prices have come down in line with, I would say, the energy costs having come down, it's more maintenance of margin which has happened or slight expansion of margin. Similar thing would play out in US. But certainly we are happy to clarify about this \$15 difference which we are not sure.

Zarir Langrana: So, \$15 was the announced price increase sometime in the month of September, like normally we do. But, obviously, contracts may not allow or negotiations may not allow for the full \$15. So, the price increase taken in North America would be somewhat short of the \$15.

Viraj Kacharia: So, the reason I ask is, if you look at the energy and the key raw material, the prices has been trending on downward side, right? So, one would typically see some benefits flowing in terms of operating profit but has not really materialized. So, hence the question.

Zarir Langrana: So, North America, I think energy costs have been fairly stable or flat throughout the year, where we have seen the impact of favorable energy costs have been really in India and to some extent in Kenya.

Viraj Kacharia: Last question was on the soda ash purchase we made, that translates into somewhere around \$800 million as the fair value for the US business. Now, if I look at our overall networth which we have in Tata Chem, ex the consumer business, it is around Rs. 12,500 crore to Rs. 13,000 crore. Now we have the US business and then the value of Group investment of Indo Maroc and then Rallis included. So I am just trying to understand, the business is probably trading at, adjusted price which is probably trading at a significant discount to what even the net worth is. So how should one understand the overall monetization of Indo Maroc or other Group investment? Because on a cash flow basis even after the CAPEX we will still be positive free cash flow. So the cash position will just keep on building up. So, last two, three quarters have you or the Board discussed anything on this aspect in terms of...

R. Mukundan: See, Indo Maroc is not on the immediate discussion or on the horizon as far as we are concerned, because the unit is doing fine. It has its own ups and downs depending on the commodity cycle, but it's one of the very fine units which we have. So, it has not come under the scanner of strategic review. Certainly, I think the investments I mentioned to the extent of Rs. 2,600-odd crore which is happening in TCL Mithapur and additional, if you net out in the Specialty businesses what we are planning and may be over a longer period of time but certainly what we are planning, approximately about Rs. 1,500-odd crore additional will also happen in TCL. Rallis will do about Rs. 900 crore to Rs. 1,000-odd crore investment.

So, we have presented our investment plans to the Board. Board has approved broadly all of this, if I just add the pieces Rs. 2,600 crore in Mithapur, Rs. 500 crore in the Specialty business between Nellore Cuddalore, and about Rs. 800 crore in

Dholera. And there are a few more which are in the pipeline which are getting cleared as we speak. So, if I put all that together, it is going to add in excess of Rs. 3,400 crore. So we have investment plans, but you are also right that businesses will continue to generate cash. We are actively looking on how to engage with this whole process going forward. We will come back to you. But I think in today's term, it is very important to maintain a very conservative position as far as the balance sheet is concerned in our view.

These are fairly uncertain times; we are trying our level best to funnel through this uncertain time. As I said, the Turkish capacity coming on stream is a known known, maybe that it came on a little faster than what we thought, whereas the coronavirus is a known unknown, and we don't know how many known unknowns are out there which we haven't quantified. So we are working our way through it. All we can say is that we will ensure that at every step of the way we inform you after we take a strategic decision. Our intent is to move the ROCE up, and our intent is also to make sure that capital is deployed rightfully. And if we cannot, we should try to return that back to the shareholder.

- Moderator:** The next question is from the line of Abhijit Akella from IIFL.
- Abhijit Akella:** Just on the US business, can we expect the full impact of the \$15 price increase to start showing through from the fourth quarter onwards, the March quarter?
- John Mulhall:** Abhijit, there is no \$15. We said this specifically after the last meeting, that was just an announcement, subject to separate negotiation by contract by time as well. So, it was not \$15 price increase.
- Zarir Langrana:** So I think the range would be somewhere in the region of about \$4 to \$5 for domestic, and for the export markets it's probably a little softer, but export contracts are a mix of both quarterly and annual contracts, so you will see that playing out over the next quarters.
- Abhijit Akella:** Sure, and with regard to the additional stake purchase in the US, is it fair to interpret that this was effective December 2019 in this quarter's financial, so there's only a 12 day impact?
- John Mulhall:** That's correct. Yes.
- Abhijit Akella:** Okay, and last piece is with regard to the ramp-up of revenues from the new capacities. By when can we expect the first phase of the Mithapur project to start generating revenues? Would it be sometime during calendar 2020? Second, on the Specialty Chemicals piece, I think because you alluded to expectation of getting customer approvals by the fourth quarter, is that fourth quarter of this year, March 2020 essentially? Lastly, any progress from the bicarb trials that are going on? Thank you so much.
- R. Mukundan:** So I think this time around, I think John has certainly shared certain additional details in terms of timeline, broadly broken up into certain quarters, that's lying with you in terms of soda ash, salt and caustic and cement as we see it. That should be a broad indicator of where it is going to be. With respect to the Spec Chem, I think the plant getting fully commissioned in the fourth quarter of this year is correct. And I think the various approvals, including the approvals by US regulatory authorities will happen after its commissioned, because we have to submit our filings, after that they may ask for a site visit and approval or they may even do it remotely, but



it's going to happen during the course of the first half next year. So the plant would be ready, which is what I said, and I think the approval process for different customers would take different sets of time. As far as the Indian customers are concerned, and certain local Asian customers are concerned, the plant will be ready to ship in the first quarter of next year itself. That's really the timeline on the nutrition science business.

Abhijit Akella: The last piece is on Indian sodium bicarbonate. Any update on the trial that is going on there? Thanks a lot.

R. Mukundan: The capacity coming on stream every time, I think this next set of capacity which has been highlighted in the sheet is the September 2021. I can't see any date been put out other than that.

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

Rohit Sinha: Actually, I missed out on the Africa part, way the revenue and sales and revenue are down, as well as the EBITDA is in the negative side? And probably next question on the Europe side, since we have discontinued the trading business, is it fair to assume this kind of EBITDA margin to sustain in the future course also?

R. Mukundan: I am not sure about the EBITDA, but the EBIT numbers which are there in front of the consolidated, if I look at the quarter-on-quarter, if you go to the segment results, last year same quarter was Rs. 292 crore and this year it is Rs. 367 crore, this is the EBIT number. So broadly, the EBIT number is up. We don't do Trailing quarter in the chemical business because some of this varies by seasons, so we generally compare quarter-on-quarter from the previous year. And if you take the trend line as far as the nine months ended are there EBITDA number, which is I am reading from the SEBI sheet, is Rs.1,017 as of last year, and it is Rs.1,204 as of this year. So these numbers are up. I really don't know what you were referring to.

Rohit Sinha: On the Africa business, why the production sales and EBITDA is down there?

R. Mukundan: Yes, I think we had supply chain dislocations happening which have been fixed. Broadly, the unit was producing to its level, but I think we had certain supply chain issues which were operational, which have been fixed after that. Really one-off issue which has happened in that site. And they should be getting back to normal in the fourth quarter.

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

Ritesh Gupta: On the debt side, the December balance sheet kind of reflects the gross debt shown in the presentation reflects the amount that you would have paid for the TCNA bit also, I mean, it's already reflected there, or it is the cash flow which is getting resolved?

John Mulhall: So the note we disclosed states that the net increase in the quarter because of that \$175 million borrowing.

Ritesh Gupta: Ok so that part is reflective of that, right?

John Mulhall: Yes, it is reflective.



Ritesh Gupta: And what is the CAPEX amount you are looking for in 2021 and 2020, if you have that in hand?

R. Mukundan: 2021 and 2022, I think the CAPEX does peak in 2021 and then goes down again. So, you could broadly work out that as a curve which is about Rs. 800-odd crore and then peaks fairly substantially and then comes down again.

Ritesh Gupta: Okay. So next year we will build in about Rs. 800 crore and then it gradually goes down?

R. Mukundan: Yes, not gradually, the split is first year is moderate, second year is peaking, and third year moderate.

Moderator: Next question is from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar: Sir, my question is regarding the Tata Chemical Consumer business. Is there any integration cost in this quarter? And how was the A&P expense compared to Q2 FY20?

R. Mukundan: No.

Sumant Kumar: And how is the trend of advertisement and promotion cost in Q3 FY20 compared to Q2 FY20?

R. Mukundan: I think that is fairly managed part of business, but I think may be if I were to state, it was slightly tad lower than the previous quarter.

Sumant Kumar: Okay. So overall, we have seen a significant improvement in margin as well as absolute growth, 43%. So what was the key reason for that?

R. Mukundan: See, the same quarter last year there was salt pricing, there's a shift in the pricing between that period as well as the volume increase. There's about 20% volume growth, and then there's a price increase on top of that.

Sumant Kumar: Sir, are you talking about this quarter volume growth of 20?

R. Mukundan: I am comparing it to quarter of last year, same quarter last year and this year. So the combined effort of both volume and price is about 20% broadly.

Sumant Kumar: Okay. So we have a 13% top-line growth Y-o-Y and EBITDA growth of 43%. So, it's all because of operating leverage or any other cost is lower compared to previous year?

R. Mukundan: The energy costs are lower, that certainly has gone in. But I think it's not the big driver, the driver is fundamentally volume and pricing.

Sumant Kumar: And talking about the India basic chemistry business, we have seen improvement in margins, so apart from lower fuel cost, any other cost is lower?

R. Mukundan: It's mainly the energy coming in through and some operating efficiency.

Sumant Kumar: Okay. And FY20 CAPEX, you have got Rs. 800 crore?

- R. Mukundan:** Overall, yes, we expect that to be the number.
- Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Company.
- Saket Kapoor:** Sir, firstly, the benefits of the lower energy prices will accrue going forward or has already started affecting in the number? The lower costs I am referring to.
- R. Mukundan:** See, energy prices, we do expect that it will remain benign. But I think if you just read the headline, because the crude oil prices are impacting Saudi Arabia's production of crude oil is lower by 1 million barrels. So I think the oil producers are cutting back. The bigger issue is not the energy price, we are taking stock of what may be the impact on the demand side because of coronavirus. And I mentioned, that is known unknown, so we will work our way through that. As of now, we haven't seen any major impact. But if that happens, that is a bigger issue rather than be lower energy which we continue to enjoy.
- Saket Kapoor:** And sir, domestically we are feeling brunt of inventory levels at a higher level than what it usually used to be. So, what is currently the inventory levels in the system, if you could for the industry as a whole? And what factors are contributing to it and are you seeing any decline in the same, because fourth quarter is generally the best quarter for the industry and we are one-third into it. So what is your understanding of the environment for soda ash?
- Zarir Langrana:** So, I think the environment for soda ash moving forward, at least for the next quarter or two, given the changes in trade flows occasioned by increased availability out of Turkey is likely to be about the same as we have seen today. On top of that, there's the China effect which I think a lot of people are trying to figure out how that could play out, so it's a little early to tell. I am sure it could have some effect, but in what direction both domestically and the international market is a little difficult to predict at this point in time. So I think over the next few quarters you will probably see performance in the market in terms of demand-supply dynamics being about the same.
- R. Mukundan:** And just to elaborate on the Chinese situation, one way to look at it is, because those supplies may not come to market, it could be opportunity for non-Chinese producers. That is one way to look at it. But I think as Chinese supplies don't come in many of the consuming industries, including electronics or auto, many of the parts do come, whether they can keep up their production is a question mark which we haven't fully understood and I think that needs to be factored in. So which is why I think on one side, the supply side benefits of Chinese situation will be positive, the demand side issue coming out of China, we don't know as yet. So we don't want to state anything except exercise caution on this one. So we are moving cautiously on this issue.
- Saket Kapoor:** Sir, lastly on the Budget wherein the DDT has been abolished and Tata Group in particular has been very liberal in rewarding shareholders to very good payout in the form of dividend. But now the same being taxed in the hands of the receivers, and Tata Trust and all in many cases being the largest shareholder, I know that that it is not easy within 48 hours to come up with conclusion, but there has to be some rethinking in terms of way how dividend distribution works out now?
- R. Mukundan:** See, I think we have a policy already put out in the website, the dividend distribution policy. We will continue to be guided by that. The Board has taken note of the changes in the policy framework and they will work their way through that.

- Moderator:** The next question is from the line of Dhaval Shah from ICICI Securities.
- Dhaval Shah:** So, I have one question on the segmental numbers, if I go to the result note on the page number 8, so there is some asterisk checkmark in the basic chemical segment wherein the inter-segment revenue of around Rs. 229-odd crore goes to the consumer business. So, is that related to be salt?
- John Mulhall:** Mostly salt, yes.
- Dhaval Shah:** And should we account this mean around Rs. 900-odd crore number even post the demerger of this consumer business in the Tata Chem number based on the transfer pricing?
- Like around the inter-segment revenue full year FY19 number was around Rs. 887 crore and this nine month is also almost the same number on Y-o-Y basis.
- R. Mukundan:** Yes, I think the salt revenue would continue to accrue and it would come in TCL.
- Dhaval Shah:** So this Rs. 900-odd crore, can you share the segmental EBIT number for this inter-segment sales?
- R. Mukundan:** No, I think that is part of the basic chemistry product.
- Dhaval Shah:** Yes, but the Rs. 229-odd crore revenue is coming from salt, so can you share the EBIT which is on this salt business?
- R. Mukundan:** So number is Rs. 3,000 crore is the total revenue, of which Rs. 890 crore or Rs. 900 crore is salt. And the total EBITDA of everything put together Rs. 762 crore right here.
- We have a disclosure norm as a segment which we have done. We have clarified the inter-segmental number. You would also see in the annual report, the production number of salt as they would be. We have actually disclosed the full production expansion of salt. I think that is all we would do, beyond that I think we are not in a position to disclose.
- Dhaval Shah:** Okay, and secondly about the Europe business. So I just wanted to understand what could be the maximum sales or the peak sales of the soda bicarb in the European market, TCE Because I think our strategy was to reduce the soda ash volume over there to increase the soda bicarb business. So if we can share some more thoughts on that.
- R. Mukundan:** We will come back with specifics.
- Zarir Langrana:** I think it is not constrained by market as far as bicarb is concerned.
- R. Mukundan:** So what Zarir has said is that there is no constraint in the market side, but we will come back with the broad outline of that in the next quarter presentation.
- Moderator:** We move to the next question that is from the line of S. Ramesh from Nirmal Bang.
- S. Ramesh:** See, there is this entry regarding the booking of around Rs. 707 crore by way of the difference between the considerations paid in the book value of the non-controlling

interest of your US acquisition. So is this on the consolidated balance sheet or is it on the standalone balance sheet?

- John Mulhall:** It is in consol balance sheet.
- S. Ramesh:** So that means you have booked some capital gains on that sale?
- John Mulhall:** It has been transferred from non-controlling interest to retained earnings, so it doesn't include P&L, it's just a balance sheet entry.
- S. Ramesh:** So it is not a cash flow item?
- John Mulhall:** No, additionally, when we have taken over the remaining 25% of our operation of North America, this is a true up of the various balances eliminating non-controlling interest to price paid and non-controlling interest value as reported.
- S. Ramesh:** Okay, it's just an accounting entry, fine. And the second question which I have is on the standalone specialty segment. Now we have seen persistent losses at the average level in this business, although you have a substantial investment there. If you look at the asset about Rs. 539 crore, net of the liabilities on equity investment of around Rs. 500-odd crore. So what is the reason behind these persistent losses and the low revenues from the specialties business?
- R. Mukundan:** The investments have just happened now, I mean, I think the plant has not yet commissioned, it is just in the process of getting commissioned. So I think that's a reflection of what's really playing out in the numbers here.
- S. Ramesh:** I understand what you are saying about the future investment. But on the existing...
- R. Mukundan:** No, these are existing, this is accounted fully. I think the CAPEX of Nellore is accounted, and also the Cuddalore investment is accounted in this. So these are all I think Rs. 250-odd crore for Nellore and Rs. 120-odd crore for Cuddalore is part of this. And they will start showing results. But I think this is in process of getting commissioned.
- S. Ramesh:** Yes, I understand that. So I just wanted to get some sense in terms of the reasons behind the persistent EBIT losses.
- R. Mukundan:** It's not persistent, I think I just would not want to use the word persistent.
- S. Ramesh:** You have seen that over the last several quarters, Mr. Mukundan. I just wanted to understand if there is any operational issue, or is it just a question of not having...
- R. Mukundan:** There is. I think the point is, the plant is not yet operational. We just invested, it's like, you buy a vehicle, it is not running, it will run at a later point, it's a new vehicle that's all.
- Moderator:** The next question is from the line of Sameer Gupta from India Infoline.
- Sameer Gupta:** Just had a question on the Consumer business, so you have mentioned that the salt volumes have grown around 3% in third quarter and YTD, just wanted to

understand what would be the value growth in the salt business, just the salt, 3Q and YTD both?

John Mulhall: So we don't give particularly the volume information, we never disclose segmental salt revenue by itself. Salt is the biggest part of the consumer product business unit.

Sameer Gupta: Okay. Sir, one more thing about the consumer business. So there is a sharp increase in the EBIT margins. And if I look further, this is basically because the base quarter margin was exceptionally low. So, just wanted to understand, was there a one-off there or is it a seasonal nature of the business, the third quarter margins are that low?

John Mulhall: No this is more to, as we said on the last call, and the quarter two results, most of them are allocation of some fixed costs and not related with the transactions, and also things like rent and property cost that consumer business will be accepting going forward, that's all.

Sameer Gupta: Okay. So this was a one-off in the third quarter of 2019?

R. Mukundan: No, quarter two as depressed because of certain cost being absorbed in that quarter.

Sameer Gupta: Okay. Sir, what I was asking was about third quarter of FY19. So if I do a EBIT calculation, this comes to around 12.5% EBIT margin, and this was coming down from around a 19% margin from the previous quarter. So, just wanted to understand in the 3Q FY19 what was the issue?

John Mulhall: No issue in FY19.

Sameer Gupta: Okay. So the margin that has gone up this quarter, this is an organic improvement?

John Mulhall: What we are saying is that quarter two this year had other costs coming through there. Quarter three result against quarter three last year is really result of, as Mukund said earlier, volume increase of about 17,000 tonnes, price increase, some control of fixed costs and also benefiting from input costs, energy cost reduction.

Sameer Gupta: Got it, sir, So the EBIT margin profile of this business seems to be around 19% if I look at FY19. And this is now today trending at around 15%. So, could you just give some color as to why this margin profile is lower this year?

John Mulhall: Yes, I mean, I will not sure about your numbers, I am not going to quote against your numbers. But there's nothing. What you are seeing in the last couple of quarters is as a result of the demerger, some corporate costs related to consumer products business have been attached to those numbers. And also we are seeing there is nothing different happening.

Sameer Gupta: Got it. So, as this is demerged and merged back into TGBL, it would probably again trend at around 17%, 18%, would that be a fair assumption?

John Mulhall: That's your numbers.

Moderator: The next question is from the line of Chaitanya Shah from Aditya Corporation.



- Chaitanya Shah:** Sir, my question is regarding the acquisition that we have done, the 25% acquisition. Firstly, the reason for the acquisition? Secondly, if you see the 25% stake is valued at around \$195 million, so the entire US entity would be valued at around \$800 million. So, I wanted to know what is the basis of this valuation? And thirdly, what will be the yearly impact on P&L that would be transferred from minority interest to the operations of the company shareholder?
- John Mulhall:** We got opportunity to fill out our acquisition of North America at a fair negotiated price. The other party has been public about them not wanting to own assets which are not core to their operation. Its core to us, and it gives us much more management control and much more efficiency in operation that business. The value was negotiated over a period of time and the both parties are happy with the value that came out of that.
- R. Mukundan:** It is going to be positive in terms of North America because while the minority interest will go because it's a fully leveraged acquisition, you are going to have debt which will come on, which will cost us but the net, net of that will be an improvement in the bottom-line.
- Chaitanya Shah:** Okay. So, would you be saying that you would be fairly comfortable with this \$800 million valuation that you have given to the US unit?
- John Mulhall:** The acquisition was for 25% minority stake, not the management control.
- R. Mukundan:** It is at a discount to the numbers what would be other that's because it was a minority stake, it was not a controlling stake. Controlling stake will come at a premium.
- Chaitanya Shah:** Okay, all right. And sir, I heard that you gave a roadmap for investments totaling Rs. 3,400 crore. Could you just let me know once again this would be over what period, I mean, how many year this will stretch out? And in your previous presentations you had mentioned that the ROCE that you are expecting from these investments is around 18% to 20%. So that that would be around Rs. 600 crore on an EBIT basis. So when do you expect to realize this EBITDA in the next three to five years, if you could just give me a timeline on that?
- R. Mukundan:** So Rs. 2,600 crore is going to go on the ground in next two years. And the capacity schedule has been highlighted already by John in our investor presentation. The Rs. 500 crore has been already invested on the ground, part of it about Rs. 400 crore has been invested on the ground between Nellore and Cuddalore. So that tells you the substantial pieces. The balance piece, Rallis, would be investing, I think they have invested close to Rs. 150-odd crore already and they are on their way to invest the balance over a period of time. And that is over a longer period of time, four to five years. And the energy business investment is today just in the land. And if you add the land development activities, it's about Rs. 90-odd crore to Rs. 95-odd crore. But real investment in the plant and machinery, we will come back to you as soon as we have all the agreements with the technology partner and move forward on that.
- Chaitanya Shah:** Alright. Sir, I am asking especially in the energy business, because in the demerger presentation you had mentioned the target on the energy business to have a Rs. 2,500 crore of revenue in the next five years. So I just wanted to understand how are we on track to do that or if there is anything that you could share with me on that?

- R. Mukundan:** See, I think our investment decision and support to that is dependent on two factors, one is, we are ready to move forward. But it also depends on the pace at which the electric vehicle market in India develops. Optimistic players are predicting a very high number. We will see how the reality plays out. As you know, the auto sectors already in a bit of a difficult spot and we are working with all the automakers to make sure that we can support them. But it is a transition which, while our ambition is to go ahead and initial phase spread close to 300 megawatt to 0.5 gigawatt unit, and finally turn that into 2 gigawatt unit in about two to three years' time. This is the entirely dependent on the state of the auto market. So I don't want to comment a specific timeline on that, because we don't want to be too much ahead of the curve.
- Moderator:** We will move to the next question that is from the line of Sarvesh Gupta from Maximal Capital.
- Sarvesh Gupta:** Sir, of the Rs. 2,600 crore that we mentioned, how much of that would be spent in expanding this soda ash domestic business by 200 K?
- R. Mukundan:** We had given the split sometime back, but I think the total number is what we stress, because it's a total package, it includes the investment in utilities which are shared across, and investment in caustic, investment in salt, investment in soda ash and investment in cement. So it's an overall number.
- Sarvesh Gupta:** Understood. And secondly, since you mentioned 18% to 20% ROCE, so would that be visible in terms of the numbers that we will start delivering immediately or this is more like an IRR over a longer term where ROCEs increase if the prices of these commodities increase later on?
- R. Mukundan:** As far as they get on to production, I think many of them would start showing returns because they have phased over two to three steps. So we don't anticipate a huge lag, but there will be some lag, but it is not major lag in our view. And these are capacities which are equal to debottlenecking capacities in a lot of cases. A substantial investment is for the salt expansion, which I think the market is still fairly strong.
- Sarvesh Gupta:** Understood. And finally if I may chip one, we were talking about coronavirus impact. Now there are three moving legs to it, one is of course the demand slowdown from industry which are consuming soda ash, globally as well as maybe in India to some extent. Then there is the impact of removal of capacity which is coming out of Chinese areas in terms of both imports to India as well as imports to other countries. And third is the decline in commodity prices which are raw material to us, like energy prices and coke etc. So, net, net, how are we thinking about it in case this persists for a while? Would we be better off, or would we be worse off, any qualitative color if you can throw? I know that quantitative would be impossible at this stage.
- R. Mukundan:** All I can say is, as the world comes out of this event, many buyers around the world would want an alternate to Chinese supply. But that would be a psychological impact of this. Beyond that, I don't think we should attribute anything more. A lot will depend on the quality and consistent of how supplies are. I think the short-term issue entirely depends on how long this crisis persists, and how it will play out. While there are people who are very bullish on supplies which are outside of China, there are people equally negative on what the impact is likely to be. I do think that we should have a serious consideration of the demand side problems this is going to create. But hopefully, this is a short lived issue. If it is a short lived issue, I think it

is a benefit for all countries which people who weren't diversifying their supply sources, which is a positive for Indian suppliers.

Sarvesh Gupta: And like in India, most of the supplies are based out of Gujarat. Is Wuhan and those areas which have been primarily impacted, are Chinese capacities concentrated in those regions? If you can give them some color on that, geographically in China.

R. Mukundan: The material which comes to India is mostly coming out of coastal plants, they are not in Wuhan, they are very, very far out. I think the impact is about the various supply chain knock-on effect which are happening because of the issue there. I think there is a general stoppage of travels, general stoppage of material. So I think those are things was creating issues. But the soda ash production is mostly coast based.

Moderator: The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities.

Jayesh Gandhi: My question is pertaining to slide number 16. I am not able to understand on statement of profit and loss continuing operations for the quarter ended December 2019. Previous year, profit before tax is Rs. 242 crore, current year it is Rs. 297 crore, the profit after tax is Rs. 180 crore, for previous year and current year it is Rs. 172 crore. So, how is it that profit before tax is higher in current year and PAT is lower in current year? I mean, is there any items between them?

R. Mukundan: Yes, this is mainly the profits coming from our joint ventures.

John Mulhall: You can't cut across from this piece of a number of consolidating entries, some of our international operations as well as joint venture partners as well. They will have incomes sometimes taxable, sometimes not taxable, and the tax rates will vary, so the mix of tax rates will vary across countries as well.

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

R. Mukundan: Thank you, all. I think firstly I must say that we have managed to navigate the last quarter despite certain challenges. And also, we are continuing to remain focused on navigating the quarters ahead, despite the external challenges which are seeming to be a little bit more onerous than before, especially with the news coming out of China. Having said that, we remain focused on our investment plan and growth plan. We remain optimistic in terms of delivering growth in the basic chemistry business as well as specialty business. All these investments would see the light of the day in the next few years and propel the company's performance forward. In the meantime, we are focused on the immediate term in ensuring the demerger of the consumer business and its merger in TGBL happens in all earnest and a very smooth manner, which we hope to report back to you by the end of next quarter. With this, I would like to say that we continue to remain focused on our strategy of building a very focused chemicals and chemistry business. Thank you.