Tata Chemicals Limited
Q3 & 9M FY 2021 Earnings Conference Call
January 29, 2021

Moderator: Ladies and gentlemen, good morning. And welcome to Tata Chemicals Limited Q3 & Nine Months 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, Steven. Good day, everyone. And thank you for joining us on Tata Chemicals' Q3 & 9M FY 2021 Earnings Conference Call. We have with us today, Mr. R. Mukundan – Managing Director & CEO, Mr. Zarir Langrana – Executive Director, and Mr. John Mulhall – Chief Financial Officer.

We will begin this call with opening remarks from the management, following which we will have the floor open for interactive Q&A session. Before we begin, I would like to point out that some statements made in today's discussion may be forward-looking in nature, and a note to this effect has been stated in the invite sent to you earlier.

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

R. Mukundan: Thanks, Gavin. Good afternoon and welcome to our Q3 and 9M FY 2021 earnings call. I am joined by my colleague Zarir Langrana, our Executive Director, and John Mulhall, CFO, on today's call. I will start the discussion by highlighting some of the key operational development across our business, post which John will discuss the financial highlights for the quarter.

Q3, on an overall basis, was a fairly stable quarter for us, which showed sequential improvement in the business following resumption of trade and commercial activities around the globe. Utilization levels as well have started trending upwards, with pickup in demand. Broadly we are almost back to our pre-COVID levels in product segments, with some exceptions, which we still need to move forward into the next phase. But certainly as we look at them, the next quarter we could probably say most business segments would be at par in terms of their volumes and numbers.

Getting into specific segments and specific product areas. If you look at Performance Material area where we have the Soda Ash as the main business, the Soda Ash has performed well during the quarter. And there has been a pickup in demand in all end use industries. And this we have seen in all the domestic markets, especially domestic market in India, domestic market in U.K. and domestic market in USA, they have continued at a fairly high utilization level and have clocked pretty similar to what their normal trend has been in the previous year.

In terms of the TCNA performance where we have the export as one of the key elements of their production volume and sales volume, the exports continued to have a subdued demand because of the key export markets are still some distance away in terms of the volume growth to catch up with the previous year. We do expect that by the time we go to Q4 that trend would have also caught up broadly.

One of the key elements which happened during the quarter was, the decision to exit from ANSAC which will be effective from 31st December 2022. And broadly, I would say that nothing material would change for a couple of years, during which time we would have a transition phase where we will be ensuring that we get into direct connect with our customers and also build supply chain. And this allows us to build a bridge directly with customers and engage in a manner that we are able to use all the tools available with us in terms of ensuring customer intimacy, customer proximity, and also have a more aligned businesses across the globe.

In terms of Magadi, I think while the container glass volume has improved, we do believe that it's got further scope for improvement. While they have done financially well within the current volume they have done, we do believe that it's got further scope to improve, especially in the Southeast Asian markets, where slowly the tourism pickup is beginning to happen and it takes some time.

So, overall, the way we see it is that the business was already back to normal in the domestic market. The U.S. business also should get back to the normal clock speed by the Q4.

With respect to the businesses in silica, which is part of the Performance Material, the market traction has been good. The response from our customers of rubber and tire has been good. And this 10,000 tonnes capacity which we have was a pilot foray into the business, we will be taking further expansion of capacity for which land has been already allotted by Tamil Nadu Government. So, we will come up with specific numbers in the subsequent quarters with respect to the capacity expansion plan, investment and the return ratios for the same.

With respect to Nutrition Science, Salt has done well, so has bicarb, and the volumes have tracked better than previous years and margins have held up well in our both India and U.K. As far as Bicarb business is concerned, both the units have delivered good and healthy performance because they go into food and pharma sector and they continue to be greater portion as we switch the alkali business to more and more bicarbonate, that to in higher value food and pharma segments. And that would improve the margin profile in U.K. going forward as they switch their product profile.

Basically, we have three platforms, one is the inorganic chemistry platform, which is basically Salt, edible Salt and pharma Salt, and the sodium bicarbonate which is also part of that same inorganic chemistry.

The second platform we have is fermentation platform and in the fermentation platform our business has done well, especially with respect to FOS. And the business continues to grow and in fact, if we look at the overall number between silica and these specialty products, we had guided a number of Rs. 100 crore, that has been already crossed in the three quarters and we expected to do even better by the time we end the year. And next year, again, I think this will clock very high growth rate, off a low base though. And we are intending that this business should at least more than double going into the next year.

In terms of Agri Science business, the performance of Rallis has been encouraging during the quarter. While the international growth has been strong and domestic and international business has recovered well. We are undertaking required investments to enhance the product mix to reduce dependency in terms of sourcing of raw material and making sure that we don't have bottlenecks on that account.

In terms of the CAPEX plan which we have highlighted, which John will also highlight. Mithapur expansion plan is progressing well. And we have the CAPEX spend which we have already highlighted of Rs. 2,400 crore, we have already committed Rs. 800 crore and balance will be spent over the next two years. And all the equipment orders and all the civil contracts have been done already, and they are all in their pipeline to be delivered.

Part of the revenue, a very small number, will be coming towards the end of this year. When I say this year, it effectively means that the budget year i.e. 2021-2022 and some revenue will also kick in and 2022-2023 and the full utilization will be in 2024-2025. So, broadly, you would see that substantial part of the element coming on stream between 2022-2023 and 2023-2024. And it will be in almost equal steps in terms of the revenue impact as well as in terms of the bottom-line impact. Overall, we estimate that it would be about Rs. 1,400-odd crore of revenue and about Rs. 600-crore in terms of the contribution and slightly less than that in terms of the EBITDA and EBIT numbers.

So, to conclude, I would say the business environment is steadily improving across geographies. We are well positioned to deliver consistent growth. And the business segments we have chosen are absolutely the right ones in terms of making a shift away from what we would call a standard business within Soda Ash towards more value-added business within the inorganic chemistry and the new chemistries we have chosen to play in.

And lastly, I just wanted to highlight that our approach in terms of certain elements in terms of Energy Science, we have said that this is a very nascent business at this stage. We are yet to firm up any plans on scaling up and we have not undertaken any major investments in this area. We believe electrification as a theme will be very strong going forward. But we would come back to you specifically on that piece of business only post presenting alternates and issues to our Board, and our Board also agreeing to move forward in a direction which is comfortable for the Company. So, I would just emphasize that the CAPEX investments which have been committed up till now are essentially towards the Performance Material and towards the Nutrition Science and to Agri Science. And that is up to the plans which have been cleared by the Board.

With these words, I would like to now invite John to come in with more details in terms of financial numbers and walk you through the specifics of the financial performance. Over to you, John.

John Mulhall: Thanks, Mukundan. And good afternoon, everyone. As usual, I will go through a few highlights and clarifications before we get into the wider Q&A session.

Now that the timing of the dividend receipts has settled down between quarter one and quarter two, we can really see the underlying gap in deposit income due to the fall in rates. Of the reduction in other income on a standalone basis of Rs. 9 crore, fixed deposit and mutual fund incomes saw Rs. 15 crore reduction in the quarter against the same period last year, but we did have some compensation through increased rental income and guarantee fee income.

On the consolidated statement, non-operational income was down Rs. 15 crore against last year, again, mainly the fixed deposit and mutual fund income. The rates have fallen substantially against last year and even against the first quarter this year. Operationally, the business has improved over quarter one and quarter two this year but, as expected, still lags to FY 2019-2020 performance. Volumes are recovering in all regions; though pressure still remains in pricing and ultimately in margins.

For the standalone business, Q3 production & sales volumes were above last year's quarter, the first quarter this has happened but net prices in India still continue to be under pressure. The adverse price trends in the quarter on Soda Ash alone was just over Rs. 30 crore against last year, and year-to-date it's almost Rs. 100 crore. But interestingly, prices in quarter three are pretty much on par with quarter two this year, so that price pressure seems to have stabilized.

India Soda Ash volumes were up 10,000 tonnes in the quarter, improving on the quarter two variance which was 3,000 tonnes below quarter two last year. And on the flip side, sales of Salt were up nearly 50,000 tonnes over the same period last year. And we continue to see strong pull in that segment. Sales improved from our Nutraceutical business unit, up Rs. 20 crore over last year on high volumes. And just a point, the insurance claim we referenced last quarter in relation to the flooding in Mithapur, that remains under the process and we continue to provide information to the loss adjusters.

From an International perspective, market pricing related to, really, surplus volume continues to impact Magadi operations in Southeast Asia. Although contribution is better than last year by over $1 million, this is more to do with a poor Q3 FY 2018-2019 in volume terms. In the U.K., Salt and Soda operations were pretty close to last year, slightly down in volume terms, better pricing in Soda Ash and Bicarbonate, and improved energy cost across both operations actually gave us a better contribution from last year by over GBP 1 million but it's in the U.S. where we have seen the biggest impact of volume. The operations there continue to experience volume price issues in international market, domestic is okay.

Overall volume is down 95,000 tonnes on quarter three last year. The same variances as quarter two versus quarter two last year and pricing does remain under pressure contributing to a reduction in contribution of $15M last year’s Q3. The important point to make here is that U.S. production has increased in the quarter to 496,000 tonnes against 453,000 tonnes in quarter two, and 372,000 tonnes in quarter one. So, the production is coming back up again.

Working capital has improved, standalone reported a negative working capital in the quarter of Rs. 11 crore, Rs. 134 crore improvement over quarter two. While consolidated working capital is up slightly at 31 days, from 28 in quarter two, that's really due to both inventory build in Rallis and TCNA, as I said, we are expecting a stronger quarter four in volume terms than we had in quarter three.

Our cash position in India of cash, mutual fund and bank deposits moved to Rs. 1,965 crore in December, compared to Rs. 1,817 crore in September. Capital spending in the quarter was Rs. 111 crore against Rs. 187 crore last year, again, mainly in Mithapur, as Mukundan referenced. Year-to-date CAPEX is Rs. 343 crore against Rs. 530 crore last year, and Rs. 694 crore for the full year to March 2020.

On a consolidated basis, we had Rs. 3,118 crore of cash at the end of December, up slightly from September 2020's balance of Rs. 3,039 crore. Net debt was Rs. 3,743 crore, pretty flat with September's Rs. 3,767 crore. And consolidated CAPEX was Rs. 232 crore in the quarter against Rs. 274 core last year, and year-to-date we have spent Rs. 776 crore against Rs. 898 crore last year.

So, with that, I will close my comments and hand you back to the moderator to open up for questions. Thank you.

Moderator: The first question is from the line of Sumant Kumar from Motilal Oswal Financial Services. .

Sumant Kumar: Sir, can you please discuss more about the export business scenario in the U.S., particularly in LATAM market?

R. Mukundan: Okay. So, I just wanted to say that what I have mentioned I will continue to mention again, without getting into specifics. The shortfall for Q3 is real, which John alluded to, and bulk of the shortfall in the TCNA volumes, because TCNA is the one which serves the South American market largely. And it goes through ANSAC, and we would not be able to get to know exactly what proportion when, because that part, as I mentioned, we don't have a direct visibility. Which is one of the reasons why we want to be having a direct visibility into market by having direct connection with customers. And that was an agreed pathway with ANSAC to sort of move forward in terms of our marketing aspirations. So, right now, but all we can say is that the shortfall is primarily coming from there and partly from the Far East and the Southeast Asian market, where the material goes, broadly out of ANSAC.

In terms of the numbers we have, at least for Q4, and our understanding of the market, we would be back to where we were in the Q4 of last year. And all this is, as you know, one ship leaves early or later, so it may be slightly ahead or slightly back, but it is going to be there and thereabouts by Q4. And we believe, after that the market would almost be pretty much the same place in terms of the volumes. So, in terms of international market, as John already alluded to, there are margin pressures because the cost and price are not moving in sync as we speak. And the only way we can address the margin pressure is by focusing on cost efficiencies and cost improvement, which is what we are doing. I think the current year contracts around the world have been at a lower realization than what they have done before. And this varies from market to market. And Zarir, do you want to sort of input that, what really is being contracted already? Over to you, Zarir.

Zarir Langrana: Thanks, Mukund. So, as Mukund mentioned, while we certainly are seeing demand recovery across markets, both home and deep-sea export markets, typically, prices tend to lag demand recovery. As there has been pressure on pricing in the last quarter, we expect to continue into perhaps Q1 and Q2 of calendar year. Contracts seem to have settled in. Depending on markets, Southeast Asia and LATAM maybe about \$10 to \$12 lower than the 2019 pricing. In India, we have seen some pressure on pricing that John alluded to. But I think as Mukund said, as demand recovers, with a lag pricing will also recover, because in many of these markets pricing is on a quarterly basis. So, the freedom and the scope to move pricing up typically happens with lag of maybe three to six months.

Sumant Kumar: How is the China soda ash market, how is the supply scenario? You were talking in the past, supply is going to be lower, the smaller plant is going to be set. So, can you discuss about that?

Zarir Langrana: So, I think that is still playing out, and it's playing out more or less in the direction that we had indicated. We have seen plant closures, not just of some small plants but some of the larger plants that are under environmental regulations, they have kind of shuttered. So, last year we saw about 1.2 million tonnes coming off. China domestic demand has recovered, especially on float glass, and specifically on solar glass, so glass for solar panels. Auto demand is back. Chinese exports have tightened up a little bit. All of which has led to an increase not just in China domestic pricing, but also in China FOB pricing. As you all might be aware, container rates have gone up significantly out of China and a lot of Chinese exports is done through containers. All of which has kind of impacted China's supplies into the export markets. Chinese inventory, which at one point had touched close to 1.65 million tonnes, we believe is now down to about 800,000 tonnes.

R. Mukundan: Yes, just to supplement that. I think going forward the key element in international play as far as what we call as deep-sea markets, which is markets where there is no domestic production, it's going to be a play between the Turkey and the U.S. players largely. And that play is what is going to determine the international pricing, not the Chinese numbers, they will have a role, but it is not going to be substantial in terms of the way the markets move. Zarir, do you want to add anything to that?

Zarir Langrana: Absolutely. In fact, we have seen the effect of China on international markets for soda ash over the last four or five years has consistently been dwindling, primarily because of the strong demand in their own domestic market and the realignment of supply and demand in the domestic market. Absolutely right Mukund. The two contenders that would set international pricing would be North America and Turkey.

Sumant Kumar: Any update on bicarb CAPEX in the U.S. and U.K.?

R. Mukundan: No, in terms of the bicarb CAPEX in U.K., I think it's on schedule. I think the investment is proceeding as we planned. We have had a small incident of flooding in the beginning of the year, there was a storm which the Manchester Coast had to hit. So, there probably is going to be a delay of a week or so which we will see how much we can catch up, but we don't anticipate any large changes on that number. As far as U.S. is concerned, I think plans are under evaluation. I think as soon as anything is confirmed to that nature, we will come back to you. We are currently evaluating all plans and looking at where to sort of set these elements.

What we have done in the meantime is we are also set out to convert part of the CRS which we make in Magadi into bicarb within India. And if that process comes out to be more positive, then our plans may be that we add capacities closer to market, the Asian market is the one which is growing, and bring the material from international market into India to process it for the markets which are growing. But leave it with us as an issue, we will come back to you specifically on the U.S. case which you are referring to, where and how it will get implemented.

Sumant Kumar: When the U.K. bicarb plant is going to come?

Zarir Langrana: Yes. So, as Mukund said, there has been a slight delay, but I think our carbon capture units in the U.K. should be up and running maybe by April or May of this year.

Sumant Kumar: Bicarb?

Zarir Langrana: Yes, the carbon capture that moves into bicarb, that's right.

Moderator: The next question is from the line of Madhav Marda from Fidelity.

Madhav Marda: My question was just that we are seeing a bit of commodity cost inflation across the board, and then some of our contracts are seeing a bit of pressure at least near-term. So, could we have for the next couple of quarters some margin pressure on the Soda Ash business, is that a fair assumption to make?

R. Mukundan: I think that's absolutely fair assumption to make. And I would say that that's what we said very clearly. The only thing you need to factor in is that we do have similar to the contracts which we have signed, as Zarir highlighted, there are annual contracts mainly in USA and U.K., rest of the world is in quarterly contracts. So, as the world begins to absorb the material, which is coming on stream, and as demand tends to move up, the pricing would then move in tandem with the cost structure. And our understanding of that point where this will be reached, with the current pace of pandemic and restarts and second wave, and you put all that together including vaccine and everything, we believe it is likely to be somewhere in the region of Q2 of next fiscal year. And that would be the best judgement in our view.

Now, that clearly means some of the contracts would start resetting which are which are on quarterly basis would start resetting, and where we would be able to claw back some of the margin pressure which we will face in the interim. As far as the U.S. and U.K. are concerned, they are annual contracts, but they are also backed parallelly with annual contracts on the energy side. So, I think that commodity pressure to an extent in those businesses are to the extent what we alluded to in terms of those numbers, which Zarir already referred to. We don't see anything beyond that because to the extent they are annual contracts, we also hedge the input materials in about the same proportion so that we don't leave ourselves exposed.

Madhav Marda: Okay. And my second question was on those specialty products. If you could give us some sense in terms of by when we are expected to reach optimal utilization in both the new segments? And is there like any sort of thought process by when we announce the larger CAPEX in each of them?

R. Mukundan: So, the larger CAPEX is certainly an issue for the silica business, because the 10,000 tonnes is only a proving ground and optimal CAPEX would either be 25,000 tonnes additional or 50,000 tonnes additional. I think we would certainly announce that during the course of either next quarterly results, hopefully by then. We should certainly be coming back to you with specific numbers on that, or at least a very specific timeline and numbers so that you can at least put that in the planning process. In terms of the Nutraceutical, also, I think it maybe a little longer because I think we do have some distance to go in terms of pushing the product and moving ahead with our customer engagement. And that we would also come back to you during the course of next year itself.

In terms of the business scale up, as I mentioned, our anticipated trajectory for this business was, we were expecting to clock about Rs. 100 crore by the end of the year, I think we have clocked more than what we had anticipated. And going into next year, we certainly would want to keep an ambition of doubling that number, whatever number we get, or get close to double of that number. Because I think that with a low base, it's a good ambition to at least grow at 100%. In terms of the margin, we do expect at least the Nutraceutical piece to turn EBITDA positive in the next budget year. And the Cuddalore one, which is the silica piece, would follow once the new investment comes on stream and that capacity starts to get utilized. That's probably the trajectory.

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

Abhijit Akella: One was with regards to the Mithapur plans, the outline regarding the new capacities coming on at Mithapur in the presentation was very helpful. I did however want some more colour regarding the power cost reduction initiatives that are also at play there, I believe there is some turbine installation, etc. So, could you possibly give us a schedule for when that might happen? And when and how much we could expect a reduction in power cost consequent to that?

R. Mukundan: So, I think the question which you are asking is, there is a blended power which will happen broadly, because I think whatever incremental power we are putting we need it for the expanded capacity. So, I am not aware whether any of the current generator turbines are going to be decommissioned and new commissioning going to come. And if at all there is going to be any change, you can link it to the input energy prices directly. So, I would not move in that direction. And our plans, at least in terms of the financial planning model, don't assume any movement. Beyond that, the expanded capacity also would produce power around the same cost as we are incurring today, assuming the coal and gas prices remained around the same number. So, I hope that piece I have addressed.

And in terms of the volume numbers, I think, to the best understanding, we have already shared that in the presentation, at least giving a greater visibility to you where the project is. The CAPEX re-phasing which you see in vacuum and bicarb, that's largely driven off constraint which we are having in terms of power and *steam* and that's why that got pushed a little bit. And overall, I think, rather than get into specifics of what these numbers would be, I had already mentioned that our current understanding is that this all put together, when all these units are firing in the sense that they are sending the products to market, they would lead to incremental revenue of about Rs. 1,400 crore and incremental contribution of Rs. 600 crore, with some marginal cost being adjusted for some marginal increase in the fixed cost and some depreciation, that's broadly the number.

Abhijit Akella: Got it. That's clear. Thank you. And my second question was just with regards to the performance of a couple of subsidiaries this quarter. So, the U.S. business has reported surprisingly strong margins. I believe EBITDA per tonne was almost $45, even though the business hasn't really recovered fully in terms of volume. So, just wondering what happened there. And similarly, IMACID side, I was actually expecting better profits given that phosphoric acid prices have been so firm, yet it doesn't seem to have done as well as I thought. So, any color you could provide there?

R. Mukundan: So, IMACID, I think you should wait for the IMACID numbers coming next quarter to take a view on it, because I don't want to give any forward-looking view. Certainly the market was fairly difficult in the first half and it has started improving, and it is probably doing well in the current period. The issue fundamentally for IMACID has been that the off take in India for its phosphoric acid has been an issue that one of its customer which used to be our Haldia unit, we have sold it, as you know, we have exited the business. And that loss of that unit, they need to figure out who will be the customer they will need to support. As of now, they are doing a tolling with OCP, which is our joint venture partner, and that tolling has a lower margin than what you would get if you brought the material to India. The team is actively working to resolving that issue over a period of time. And that would explain the margin issue, not because of demand, but it's basically one large customer, which was our unit, is no longer there as a customer, because we have moved out of that business. But the numbers would continue to improve. It is not as difficult as it was in the first two quarters.

Abhijit Akella: Yes, this was the U.S. business, which reported surprisingly strong margins.

R. Mukundan: Yes. U.S. business, I would request John, because John did allude to the insurance claim which came in this quarter. John, do you want to add to that?

John Mulhall: Thanks, Mukund. Yes, just probably three things that are going on here. One is focus on fixed cost management, higher production in the quarter with slightly better overhead recovery, both in mine and surface operations. As well as, we got about Rs. 27 crore of insurance received as to do with some issues we had in November 2018 and March 2019.

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

S. Ramesh: So, if you were to look at the next two years, what is the kind of sense you have in terms of the soda ash volumes edging close to the peak volumes you have done in the past of maybe 3.5 million to 3.6 million tonnes per annum? Is there something which we can do by FY 2023 or would we take maybe another year?

R. Mukundan: So, I would only say that it may be earlier than what you say. But in terms of margin, as Zarir highlighted, the trajectory would start following from Q2 of next year, it will start moving up on the pathway, in terms of the pathway to the peak margin. Now, in terms of the way I would look at the numbers, this is broadly, I think you should look at a combination of bicarb and soda Ash together. Because what's happening is some of our units are actually moving actively to convert their base product into bicarb, which is more value added. And if you look at that, certainly we would be doing better than what we did at our peak. Because that conversion also helps us in terms of tonnages which we can extract. So, that's where I would leave this point.

S. Ramesh: So, if you are looking at the conversion of Soda Ash to bicarb in the U.K., say, over the next two, three years, would you convert the entire thing? What is the proportion of soda ash volumes that will go into bicarb in the U.K.?

R. Mukundan: See, the point you are mentioning is that there is, for example, when we brings CRS from Magadi to Mithapur, and we use that as a base material to convert to bicarb, we are releasing the soda ash which has been used for converting to bicarb for release in the market, so that adds to the quantity. And that's one additional number. And every tonne of soda ash which is converted to bicarb gives us close to 1.3 tonnes of bicarb. So, I think that is a shear stoichiometric equations which we can see. So, Zarir, do you want to add specific to U.K. what the numbers are?

Zarir Langrana: Specific to U.K., as I mentioned, we are on that expansion path. And one would imagine that over the next two, three years, we would continue on that trajectory. Perhaps reducing Soda Ash by another 10%, 15% and taking that similar stoichiometric conversion back into the bicarb space.

S. Ramesh: Yes, just one follow-up on the U.K. business. Is it possible to give some sense in terms of the contribution of Salt in the U.K. revenues?

John Mulhall: Yes. So, it's probably about a quarter of the U.K. sales.

S. Ramesh: In terms of value?

John Mulhall: In terms of value, yes.

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

Ritesh Gupta: Ritesh here from Ambit Capital. Sir, just one question on the Soda Ash bit. So, did you say that given that the volumes have started to recover in India, and pretty much things are coming to normalcy, the pricing realizations will start improving sequentially in the upcoming quarters? And my understanding was, there were a lot of contracts which were done annually towards the beginning of the year. So, what's the status there? I mean, are you kind of delaying some of those annual contract signings as more visibility comes in? Or is it a formula based pricing or something like that?

R. Mukundan: So, I think annual contracts with the big customers, I think, usually the behavior is, if market is tending to go weak, they would certainly not sign up an annual contract. And if the market is going to go up, they would tend to sign up an annual contract to protect themselves from move. So, I think the very fact that most customers have signed up, I think in their view, also, they probably think that the market would probably sort of tend to tighten somewhere during next year. So, that gives you an indicator of where their data is coming from. Having said that, I think those customers with annual contract we have signed up, I think we tend to keep them as our base load. And our view is that, those who are on quarterly pricing, those prices would start, as Zarir has already alluded to, by Q2.

Ritesh Gupta: Understood. And just on the earlier participant's comment on the China bit. So, you are saying basically the production rationalization, etc., which had to happen in China, and probably you would have seen as a good lever for Soda Ash prices to go up. Are you saying that that driver has already played out and in a way that driver has been negated by increased capacities in Turkey, etc.?

Zarir Langrana: As I mentioned, they are still playing out. I think it might be another year, year, and a half before it fully plays out. But as I also mentioned, the China impact on export markets has over the last two or three years has actually been coming down. And obviously, the reduction in Chinese soda ash capacity, which our estimate is, over the last three years it might be closer to 2 million, 2.5 million tonnes, in a sense is beginning to now negate out the excess capacity, not the excess, the new capacity that came up in Turkey.

And you might recall that before the pandemic there were already announcements in place in North America for expansions happening, predicated off increasingly tight market that people were looking at. So, that might get delayed by two, three years. But that's the general direction.

Ritesh Gupta: Understood. And just on the battery bit, I mean, in the newspapers, at least, there has been a lot of buzz around recycling of lithium-ion batteries, and a couple of initiatives actually on the battery side. So, if you could just highlight in terms of what is the latest there? You made some comments in the beginning, but probably if you could just throw lighter there and how are we looking at that opportunity? Or is it something that we are going to tie-up with automotive divisions within Tata Group as well, which is like Tata Motors, etc.?

R. Mukundan: So, on the battery recycling, that's a business which we think in any case makes sense for us to sort of move into, because I think right now the battery collection and recycling is a very small number coming of mobile and laptop batteries. But that number only will go up as the population of vehicle increases. And its part of a work which we have done in terms of having a very environment friendly process which we can execute, and we are doing what we call as a proving ground in terms of what technologies will be needed in future. Real volumes will come broadly seven years after a battery is playing out in a vehicle. So, if India sold, let's say, 5,000 vehicle with batteries, seven years from there, you would start seeing some part of it getting retired and getting into the recycling business. So, it's really preparing for a business which will play out in the long run.

Also, as battery manufacturers set up shop in India, I think they will need this recycled material because that saves them from the whole trouble of going into mining and getting the fresh extraction of fresh material. So, that's the piece which we have already embarked upon. And our technical approach has worked well. And it will be a small business but could shape out to be an opportunity which we will want to anyway tap into, because we have skill sets in that.

As far as the battery business is concerned, as I mentioned, it is electrochemistry after all, but I think that we would not make any statement on that till our Board has reviewed the plan and has fully cleared those plans. We always review various businesses for business outcome, so this is another set of businesses which we will certainly keep on radar. But broadly speaking, I think we haven't reached a stage where we can come with specific numbers to you in terms of what that investment is likely to be or what that number is likely to be.

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

Rohit Sinha: Just coupe of things, one on the Salt business. In this quarter we have seen some strong number in terms of sales, and even in the realizations part also I think there has been some uptake. So, just wanted to know the reason behind better relation there.

R. Mukundan: So, I think as a part of a structured agreement which we have, and I think part of that also would be countered by the costs which we would be incurring to deliver to the customer. So, I think that's broadly the way it is. And the two big costs in Salt broadly are centered around the energy cost and the cost of logistics, and of course, the cost of getting that off the salt pan. So, these are the three broad costs, but logistics is a big cost. So, I think that really is the way one should look at that piece of business. And in terms of volumes, we have always guided that that business would continue to grow, because India has a huge unbranded market, our brand now is with Tata Consumer. But we know that business intimately well, and we know the pathway to that business. We had said that our current plan broadly takes us to something close to 1.5 million tonne, but that brand can go even beyond that, so we are in the process of looking at even steps to be undertaken even beyond the plans we have shared. But those plans are bit out beyond 2023-2024, so we have not put them firmly in the sheet which is shared with you.

Rohit Sinha: Okay, fair enough. And just on this previous participant asking what that battery part, on the EV side or overall lithium-ion battery angle what we are looking at. So, just wanted to understand when, I mean, as you said, for the replacement side it is I think a seven-year cycle. But apart from that, what kind of revenue contribution we should be expecting from the overall that battery part from next two to three years? And how much CAPEX would be there overall, I think, if you can help us on that?

R. Mukundan: So, we have already mentioned in several forums, our approved business plan which we have from the Board, gives us a line of sight close to about Rs. 16,000 crore to Rs. 17,000 crore of revenue, and that does not include battery. And we will not comment on a business which is not cleared yet by the Board, at least in the broad contours. We of course explore every business opportunity and that we would continue to do. And as and when we reach a stage where we have done all that and we have got the approval we would disclose. Because it's a very significant disclosure input and I think there is nothing which has happened in that business for us to make any disclosures in terms of those numbers.

In terms of what are the capital needed in that business and what are the revenue? I think there are several public listed entities there, and nothing in India is going to be different from what other entities would incur.

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

Rohit Nagraj: Sir, can you provide some colour on the global demand supply dynamics on soda ash? And given that there will not be any new capacities coming in the next one, two years, how would it shape up? And the concurrent question to that, at what price of soda ash the capacities would be feasible?

R. Mukundan: I think Zarir has already highlighted that the absorption of the capacity, this is pre-pandemic, if it had gone the word was looking at very tightening market, and hence, several people had announced the expansion, which were all shelved because there was a sharp fall in demand, almost 10% of the demand went out on a 60 million tonne, broadly 6 million tonne went out and that's still coming back. So, the key issue is, as Zarir has highlighted was, how quickly would the Turkish capacity get absorbed? And with the Chinese capacity being taken out, that process would have normally played out over 18 months to 24 months. And that process is being played out even as we speak. And as plants restart, that would happen. And at that point you would see a tightening. And as utilization hit a level of, global utilization and not specific company, global utilization hit close to 85% or so, you would see the prices becoming very much in the suppliers favor rather than buyer’s favor. That's how the market plays out. And that really is my understanding, and anything beyond I think would be difficult. Zarir, you want to add anything specific beyond this?

Zarir Langrana: No, I think that's absolutely fair comment, Mukund.

Rohit Nagraj: Alright, thanks. That helps. Sir, the second question is on the lithium battery front. So, I think earlier we had indicated that we had introduced the InsperiCo™ recycle cobalt plant. So, any more understanding on the same? And we had started lithium battery recycling in Q2, so how that particular business is likely to shape up, any colour on that? Thank you.

R. Mukundan: Yes. So, the recycling piece is continuing, I think we still do recycle and supply to customers who want it. So, within India it is going to specific customers, because we don't have a battery unit here, it is going to other applications. And there are enough applications for the quantities we are recycling as of now, which is very small. And also, the issue with the recycling, with the current thing with respect to mobile and laptop is, we have to ensure the recycling chain is fairly ethical, which means issues related to unacceptable practices like child labour and all are not involved in that whole collection and recycle process. So, it is a process which is evolving. As the vehicle batteries come on stream, I think that process will get straightened out because automakers say it's in their interest to get it done with an entity which is reliable and they would ensure the supply chain or the reverse supply chain, I would call it, is having a great visibility and does not have elements which may be unacceptable. So, I think that broadly would be the way that business would go. And that business, from time to time we will start to indicate the number. As of now, it is in a pilot proving phase which has worked out well. And that is why we introduced the brand in the market and those sales will continue. And it is in preparation for the big numbers which may start coming in as the auto vehicle batteries start coming into the market for recycling. That's my understanding. As far as the other one, I have already addressed about the lithium battery piece, and we will come back to you as soon as we have any specific or appropriate elements to share.

Moderator: The next question is from the line of Saket Kapoor from Kapoor Company.

Saket Kapoor: Sir, in your press release part, therein you have mentioned that during the latter part of Q3 there has been a significant increase in the import of soda ash as well as bicarb. And there has been the rejection from DGPR on the anti-dumping duty, some specification was mentioned. So, could you throw some light, what is the reason? And how are you looking at the realizations going forward?

Zarir Langrana: Sure. So, let me start with the anti-dumping duty piece. As you all might be aware, the DGTR had come up with a provisional finding on dumping on imports from Turkey and North America pending final hearings and pending a final determination. They have now I think about a week ago, after hearing all interested parties, importers, exporters, and users, determined that anti-dumping duty should not be imposed. I think that follows the process of going to finance and for final ratification of finance, so we are waiting for that. I don't think it's going to make too much of a difference on pricing in India. Certainly, it will open up the market again to Turkish and North American imports. But that has been coming in any case over these last few months. We saw a little bit of a spike in the month of November and December, but that typically tends to happen when sometimes these supply chains get clogged up, right. Global supply chains haven’t still completely opened up, there is pressures on containers, on shipping etc., some of the ports still have congestion. So, that could be a temporary spike. But as Mukund and we have maintained, there will be some degree of pricing pressure in the Indian market, even moving into the next one or two quarters, after which we should, as the demand picks up, begin to see the pricing also moving up.

Saket Kapoor: And my second question really relates to the debt on the U.S. part and a holistic approach of the company Tata Chemicals towards its subsidiaries. We have taken steps to restructure the U.K. operations, are they yielding the optimum result? And how far have we reached to sweat these assets in the best possible way? I think so the major debt is on the U.S. subsidiaries. And what steps are we taking for the non-core investment divestment on that? These two points.

R. Mukundan: We evaluate constantly the portfolio which we have, and that is reviewed by Board, that is reviewed by us. And I think we have been consistently ensuring that we make sure that whatever comes to our light in terms of opportunity, in terms of realizing value which can be added to the balance sheet and then shared with the shareholders is done, so that has been our effort and that effort will continue. I don't want to specifically say what elements are there. In terms of investments today, which we have on the portfolio, which are operating investments, the large one would be IMACID. And I think it's a three-way joint venture. As of now it yields good dividends and it's something which we can examine from time to time. So, I don't want to put a timetable, but I think we are comfortable today with the scale of businesses we have and the business lines which we have. And I think our effort would be to scale up in terms of the each of the verticals to much higher revenue and profit numbers. Now in terms of the U.K. and U.S., Zarir, you want to address it?

Zarir Langrana: Yes. So, I think sweating the assets, if you look at the U.K., really the plant has over these last few months almost reached capacity. And obviously when that happens, all of the benefits that flow in from operating a plant at capacity tend to kick in. There is a focus that turns to how do you control your fixed costs and actions are in place on that. In North America, there is still headroom, but as demand increases and as you have seen from the presentations that we have sent you, sequentially production has also moved up and we expect that trajectory to continue till we hit capacity.

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

R. Mukundan: Thank you very much. And just wanted to close by saying that we have had a quarter which was better sequentially. And we believe that the volumes and the market demand is going to sequentially continue to improve. There is going to be margin pressure in the first two quarters, and we will have to address that, and the team is well on its task to address that margin pressure. Coming both from pricing which will sequentially continue to improve as market demand continues to improve. And secondly, especially for Soda Ash, and the cost pressure in terms of input costs, especially on the energy side, which we will address.

As far as the long-term strategic plan view is concerned, our verticals are all geared to making the shift from commoditized to more specialized businesses and continue to scale up in the direction. Nutrition and Agri portfolio are absolutely on the specialized fields, specialty chemistry field. In the Performance Material, I think the transition is already underway, including our investments in silica. So, we have a portfolio and a plan, and we have also shared with you the specific investment plans in Mithapur and we would continue to execute this to the best of our ability and continue to engage with you and look forward to suggestions on improving performance. And thank you all for your support.