Tata Chemicals Limited

Q4 & FY 2021 Earnings Conference Call

May 04, 2021

Moderator: Ladies and gentlemen, good morning, welcome to Tata Chemicals Q4 FY 2021 Earnings Conference Call. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir

Gavin Desa: Thank you, Margret. Good day, everyone. And thank you for joining us on Tata Chemicals' Q4 & FY 2021 Earnings Conference Call. We have with us today, Mr. R. Mukundan – Managing Director & CEO, Mr. Zarir Langrana – Executive Director, and Mr. Nandakumar Tirumalai – Chief Financial Officer.

Before we begin, I would like to mention that some statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation.

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

R. Mukundan: Thank you, Gavin and good morning to everyone and welcome to our Q4 and FY 2021 earnings call. I hope all of you are safe, sound and healthy.

Before I start, let me introduce my colleagues, Zarir Langrana, Executive Director; and Nanakumar, who is our new CFO who took over from John from 1st April 2021.

Before getting into operations, I just want to say that we are all working very hard to keep our employees safe as well as our community safe during this second surge. A lot of work is going on in terms of our effort towards contributing towards handling this crisis and this effort is not just centered in Mithapur where our operational plants are located but also in Gujarat in Dahej or Ankleshwar where Rallis units are, but also right across where our big clustering of our teams are. So, they are all working hard to make sure that we overcome this current crisis.

Operationally, when you look at the overall volumes for this quarter, market side data has been positive, but you may have noticed that financial outcome has been fairly muted and has been fairly sharp reduction in the financial outcome especially in terms of profits. We will walk through that.

Let me start with, firstly, the volumes are completely back, the TCNA export volumes have picked up nicely and are back to the normal run rate, and that is a big positive and we will continue to see that run rate go right through the next year.

In terms of demand across sectors, all of them are showing positive trend. And I will speak with one exception, maybe some kind of a delay or movement by 10, 15 days in terms of deinventorization may be happening in India because of this current COVID situation. But otherwise, overall, we think the volumes are going to continue to be strong going forward in the current year. And that was reflected in Q4. What did happen in Q4 was very specific to several one-offs, which we will speak about as we move forward.

The second element during the year has been extremely tight focus on cash flows and operational cash flow. And the teams have done well. I think India has actually delivered negative working capital for the first time, very creditable performance. At the same time, we have had, even with lower profits overall, much higher operational cash flows right through the year, both at standalone and consolidated level. And Mr. Nandakumar will walk you through that when he comes on and presents the financials of the company. The demand from sectors - Detergents and glass segments, all are back. Container glass is slightly soft right now, but we expect that it would pick up.

In terms of margin, we did have, as we had alluded to, TCNA exports, there has been a price reduction of $5. But sequentially we expect the prices to move up in line with spot. Spot prices have had a very strong bounce back, in some cases expanding as much by $25. So, every quarter as the spot quantities which we have in the market would then get reset to the market prices and we would see the complete reset by the time we come to Q4 of this year on the contracted quantities.

As far as the US is concerned, we had one-off coming from the event which happened in polar vortex which froze the oil wells in Texas from where the gas feed happens to our unit, and that resulted in approximately a one-time hit of Rs. 45 crore. And we are relooking at our hedging policies to make sure that this sort of price spikes which happened do not impact the company going forward. The prices spiked up from $2.30, which is a normal range for MMBtu to right up to $150 to $160 per MMBtu during that period of a presidential holiday, which was a four-day weekend.

In terms of UK, again, while the business was steady, there was a bit of softness in UK in terms of the salt sales, mainly arising out of the very, very strict shutdown orders which UK had done in the quarter. As UK opens, it will post its corona cases coming down, I think this softness should start to come down. Otherwise, UK is also fully sold out and we would continue to see good outcomes from there. However, we had two one-offs in the UK, one was a refinancing cost for the quarter, there was also a tax asset write-off which we had to take this quarter, and there was an impact of unseasonal floods which impacted the operations in a minor way for a small period.

In Magadi, while the realizations were lower, the margins did contract. The team did a very creditable job of ensuring the fixed costs were controlled, and they ended up delivering a profitable outcome as far as the final numbers were concerned. So, very creditable performance by the team in terms of making sure they were profitable.

So, overall, as you see, the operations in India, both Tata Chemicals and Rallis are profitable, and Magadi delivered a profit. And there were one-offs in UK and USA, which impacted our final number.

In terms of the new businesses, other than what is in Mithapur, the Cuddalore unit is doing well, and they are going to continue to work towards moving their product mix towards the rubber and tire industry. And Nellore unit, in fact has also done well, and would continue to improve the utilization going forward.

And in terms of the salt sales, there has been an encouraging growth, and it continues to grow. And we believe that our expansion plan which we put up in Mithapur is on the right track which supports the expansion of salt along with the debottlenecking of soda ash.

As far as agri business is concerned, Rallis has done an excellent job, delivered a very, very encouraging quarter. And their plans are going to be prioritizing and delivering growth in the coming years with focused investments to ensure they can enhance their product portfolio.

A quick word on CAPEX. Out of total committed Rs. 2,400 crore, we have earmarked approximately Rs.400- Rs. 500 crore for FY 2022 and have spent about Rs. 300 crore in FY 2021. The expansion, plan both and Mithapur and Rallis is on track with some moderate delays due to COVID situation because of shortage of labour in some of the contractors.

Happy to share with you that Board has announced a dividend of Rs. 10 per share, this would be subject to shareholder approval in the AGM. To conclude, I want to reiterate that our strategy of building the Performance Material business beyond soda ash and silica is on track. Our Nutrition business, we are trying to build a portfolio of products especially based on fermentation technology beyond salt is on track and our focus to offer a wide portfolio of crop protection and seeds to our agri farmers through Rallis is also on track.

We believe that we will be able to overcome this surge in cases which we are all going through in the coming months. And we believe with the pace of vaccination picking up, as it is expected in the coming weeks, we will slowly get through this crisis which India is facing.

With this, let me hand over the floor to Nandakumar. Nandu, as we know him, has been part of the Tata Group since 2012. He was with Titan prior to joining us here as Vice President Corporate Finance, and was overseeing the complete finance function in Titan, overseeing including corporate finance, business finance and subsidiaries.

With this, now let me hand over the floor to my colleague, Nandu, who will take you through the financial performance. Over to you, Nandu.

Nandakumar T.: Thank you, Mukund, and good morning, everyone. I will just walk you through the financial performance after which you can start the Q&A. This talk would be over five sections, standalone, following which i will move on to the US, then the UK, Kenya, Rallis, and consol.

Standalone business part, the key highlights are:

The soda ash volume for the quarter at 184 lakh tonnes is 16% more than last year's Q4. Standalone business, our revenue for the quarter has gone up from Rs. 734 crore in Q4 to Rs. 841 crore in Q4 of this year, a 15% jump over last year's Q4. The revenue in the Basic Chemistry has gone up at 13% and Specialty by 59%

though they have a smaller base. The other expenses for the quarter has gone up from Rs. 118 crore to Rs. 141 crore, an increase compared to last year's Q4, mainly because of consumption of stores and spare parts and repairs and maintenance, this is more a timing issue as the overall other expenses for the year is almost same as previous year.

The EBITDA has moved from Rs. 140 crore to Rs. 164 crore, a 17% jump and PBT has gone up by 11% here. There has been an increase in fixed cost in Q4 mainly because of the mentioned reason on top. But this has been offset partially by a one-off interest booked of Rs. 18 crore on income tax refund. So, the increase in fixed cost is offset by the one-off income on the interest on the income tax refund which we have got in Q4.

On the balance sheet and cash position, for the full year our cash generation has improved from Rs. 427 crore in FY 2020 to Rs. 672 crore now, a big jump mainly because of tight working capital and CAPEX control. Our cash position moved to Rs. 2,098 crore on March 2021 compared to almost same number last year. The capital spending for the quarter was Rs. 205 crore against Rs. 143 crore last year mainly in Mithapur, and the entire year CAPEX spend is Rs. 548 crore against Rs. 694 crore last year, a Rs. 150 crore drop in the CAPEX spend here.

Our investments in the quarter, shares in the group companies has gone up sharply, which has resulted in our net worth going up. Net worth has gone up Rs. 11,977 crore to almost Rs. 1,500 crore increase in the current year.

Moving on to US:

In the US business where you have seen a sharper drop in the PBT, I will talk more about that in the section now here. The soda ash volumes have improved from 5.5 lakh tonnes in Q4 of last year to 5.68 lakh tonnes, a 3% increase, which led to an increase in revenue also. A cumulative drop in Q1, Q2 and Q3 of 20%, and for the first time in this year, we have seen for the quarter four an increase in the volumes.

The PBT was adversely affected during the quarter, and a Rs. 92 crore profit made last year has gone to Rs. 60 crore loss in this current year Q4, mainly because of the following few reasons. One is that the price recovery is not complete and still lags the previous year net sales price. Second was, in mid-February of this year, there was arctic blast led to extreme cold weather, led to natural gas demand shooting up natural gas price shot up by, as Mukund mentioned earlier, almost 100 times. And we have a policy of hedging our gas and we were able to curtail the impact because we were hedged mostly, but on the unhedged part of the gas exposures, we had a Rs. 45 crore impact on the open position, which we believe is a one-off event.

The production levels came down in the quarter because of which, as you know, when production lags the sales, the fixed cost under absorbs, we had a Rs. 40 crore impact because of the under absorption of cost because the production was less than sales. But this again is timing issue, let us say, next quarter the production goes up we will have recovery happening here. So, both aspects mentioned here are one-off, we believe, for Q4. And a higher spend in Q4 on account of repairs and maintenance. So, these for four, five reasons caused the drop in the PBT in the US from last year to current year.

Coming to UK:

In UK, the volumes in both soda ash and bicarbonate were lower than Q4 of last year, a bit lower, mainly because of the impact of flooding that happened in the UK and a bit lower demand. The revenue for the quarter was 5% more than the corresponding previous year's Q4. We had a Rs. 28 crore loss in Q4 in UK as compared to Rs. 13 crore profit in previous year, mainly because of the one-off expenses like a tax write-off and refinancing costs & floods.

Moving on to Kenya:

Magadi – The revenue has come down a bit compared to last year's Q4. However, because of tight cost control, the PBT has moved from a loss of Rs. 4 crore last year in Q4 to Rs. 10 crore profit in the current year, mainly because of the margin expansion during the quarter, lower input cost, improved efficiency and fixed cost getting optimized.

Rallis – if you look at the whole thing, revenue has gone up by 36% in the quarter compared to last year's Q4, mainly because of crop care jump and very good International business. PBT grew from Rs. 1 crore last year to Rs. 8 crore this year because of the above growth.

The last section is the consol:

Considering all the previous sections, overall volumes grew for us in Q4 compared to previous Q4. The consol revenue grew by 11% over last year's Q4. EBITDA for the quarter stood at Rs. 283 crore, at 30% lower over previous year and PBT fell from Rs. 217 crore to Rs. 80 crore. The consol CAPEX was Rs. 411 crore compared to Rs.300 crore last year, and on the full year basis the CAPEX was half of last year.

The free cash flow from operations for the year was at Rs. 450 crore, a 65% increase over the last year's full year due to efficient working capital management. The consol gross debt was at Rs. 6,933 crore, down by Rs. 770 crore compared to last year, net debt is at Rs. 214 crore lower than last year and standing at Rs. 3,828 crore. Consol net worth has gone up from Rs. 12,898 crore to Rs. 14,290 crore, an increase of Rs. 1,400 crore in the last year.

That is a brief summary of the last year's highlights. We can now commence the Q&A session.

Moderator: The first question is from the line of Amanjeet Singh from Oculus Capital.

Amanjeet Singh: Sir, in the last quarter call, with reference to electrochemistry, you mentioned that the Board had cleared the plan, but nothing was finalized. So, just wanted to check about any update or any plans that have been firmed up on the lithium ion?

R. Mukundan: There is no further update; the entire business is under evaluation. And if there is anything specific, we will come back to you. As of now, as you know, our status remained the same, we have got licenses from several entities like CSIR, as well as ISRO and the R&D work will continue. But beyond that, there is no further update. And whenever there is an update, we will come back to you.

Amanjeet Singh: Okay and anything on the battery recycling? Last time you had mentioned that you are making investments in that…

R. Mukundan: That is continuing, and the business is being handled as part of the Performance Material vertical now, because they have got a good sales team. And because the business is now scaling up, it is being handled under the same Performance Materials vertical. We will call out specifically the numbers maybe from the first quarter of next year in terms of what is the recycled sales, and it has now gone beyond lab into actual business line.

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

Rohit Nagraj: Sir, just taking the earlier question forward. So, till a couple of quarters back we were showing in our presentation as the fourth pillar being the Energy Sciences sector, but this particular presentation shows only the three pillars. So, is there some change in terms of strategy for the lithium battery? Or is it gone on backburner due to COVID related factors or any other factor? Thank you.

R. Mukundan: So, I think our view was that, in fact, we wanted to make sure that we were very accurate in our statements. And since it was being picked up as an extra item because we had been maintaining that this is a business which is under review, we are making all the right first few steps in terms of exploring it, I think that status remains exactly the same. We did not want to sort of pitch it beyond that, which is where we have said that we will focus on where the revenues are and that shift has happened after our internal review, that's about it. In terms of the exploration, I think the company would continue to explore that space, because there are several opportunities in that space in terms of serving that market as India and the world transitions to new energy outcomes.

Rohit Nagraj: Sir, the second question is on the soda ash market. So, have we seen any kind of new capacity additions across any geographies? And what is your view in terms of pricing of soda ash across different geographies for the next maybe six months to one year?

R. Mukundan: So, I think Zarir will add more color to this. But I just want to highlight that the demand is fully back, I think, across the globe. The container glass demand is only one which is slightly lagging now, as tourism picks up even that would pick up across the board. And overall, there is tightness in the market because of its spot prices have moved up. And I think this situation is likely to continue for some time. And as you would know that several of the expansion announcements which were made, have all been put on a pause mode. And there have been public statements made by several of the entities which had announced this because of the current pandemic, which will probably mean that any fresh announcement would take at least three to four years to fructify.

Zarir Langrana: I think that is absolutely right. I think producers who had announced earlier are probably waiting to see long-term secular trends, both in terms of demand picking up which is very positive, as Mukund mentioned. But more importantly, I think the lagged effect of pricing, once that comes into play you might see some of them coming back with announcements, but it will probably be at least three to four years before we see any fresh volumes coming out of these plants, which means that the market will continue to tighten.

Rohit Nagraj: And Zarir, just a follow-up on that, any sense on the pricing across different geographies?

Zarir Langrana: So, as Mukund mentioned, spot prices in many of the export markets have staged a sharp comeback. In some of these markets, I think, people are contracted. But as these contracts, whether it is quarterly, half yearly or annual, come up for renewal, I think you will find soda ash producers, including ourselves moving in tandem with what market pricing is. So, yes, the movement is positive and upwards in most markets. India, given the current state of what is happening on the pandemic, as Mukund said, there is some deinventorization that's taking place, and that might affect price movements maybe by a few months. But overall, demand is back and that is always a positive sign.

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

Sumant Kumar: So, my question is regarding the US business; post incorporating a Rs. 45 crore of the one-off cost, still US business EBITDA is subdued. So, I can understand you are hedging your energy cost, so maybe some part is not hedged, and fuel price has increased, apart from that any other reason for the subdued performance?

R. Mukundan: See, what Nandu has already explained is that there are few effects which happens, because of high cost of gas we only produced to the extent we were hedged, so that we reduce the impact of the spike in the gas prices, so that led to loss of production. But our sales remained, we were selling out of our inventory. But when you deinventorize and your cost is still continuing, you have unabsorbed fixed cost which already Nandu has highlighted was also equal to, we cannot put an exact number, but I think it's estimated to be close to another Rs. 40-odd crore. Nandu, you want to explain that?

Nandakumar T.: That's correct, Mukund. See, how it works Sumant, is that, whenever in a quarter we have production which is less than sales, the costs are under absorbed. In a quarter where the production is more, it is over absorbed. It is more a contra item and timing issue and not really a loss in that sense, which is a permanent loss. So, a Rs. 45 crore natural gas event which has happened, we cannot recover that, however, this Rs. 45 crore or Rs. 40 crore of the fixed cost under absorption is more a timing issue. Next quarter in case the production is more than sales, we will get the gain back. But for the quarter, we had a double whammy in terms of the gas price as well as in terms of cost under absorption because of production lagging the sales.

Sumant Kumar: But when we see the performance of the previous year, Rs. 208 crore, and we subtract, say, Rs. 45 crore, the EBITDA difference is Rs. 96 crore. So, going by your number, the Rs. 96 crore to minus Rs. 40 crore, Rs. 45 crore, again there is a gap of Rs. 40 crore, Rs. 45 crore. So, what are the cost has increased in Rs. 40 crore, Rs. 45 crore, whatever difference we have?

Nandakumar T.: Yes, so the balance is mainly because of the increase in the fixed cost more because of we had one week, 10 days of lockdown happening in US for the plant, and spare parts consumed were higher in Q4. But for the year as a whole, fixed costs are intact..

R. Mukundan: Also, one more point we should add here, which is a point you had already highlighted. The exports are fully back now, and the export volume when you take a $5, let us say, which is what the fall in price is, that would account for the rest of the change which has been there.

Sumant Kumar: So, can we say the overall mix of the business has changed towards the export because domestic sales have declined and they have better margin compared to exports?.

R. Mukundan: I think the way to look at it is that the mix is now at the level it should be with domestic and exports, exports are fully back, and export prices are lower by about $5. And I think as Zarir explained, every quarter as we get the pricing back, I think this would sort of start to move up again. So, for example, the contracts in Asia are quarterly, so the export contracts in Asia get reset on a quarterly basis, they should get adjusted over a period of time.

Sumant Kumar: This quarterly basis is going to hit in the coming quarter?

R. Mukundan: Yes, the quarterly change, I think Asian contracts of exports out of USA are quarterly contracts. So, every quarter you would see them moving in tandem, close to the spot prices, because that is where the market is. Zarir, you want to clarify further?

Zarir Langrana: Yes, I think that is exactly right. I think the majority of export contracts in Asia are quarterly. As they come up for renewal, you will see pricing getting reset in some of these markets as far as exports are concerned. So, yes, the trend is going to be upwards as far as Asian pricing is concerned. In some of the other geographies where contract size are half yearly or annual, it might spill over into subsequent quarters.

Sumant Kumar: So, what I understood, overall Rs. 141 crore difference of the EBITDA compared to previous year same quarter, and out of that Rs. 45 crore one-off and Rs. 40 crore, Rs. 45 crore operating fixed cost, then Rs. 40 crore, Rs. 45 crore is all because of the price, whatever the price decline in export market, and any other reason for freight cost?

Nandakumar T.: There are four elements, Sumant, if you could hear me right. I will repeat that. One is the gas price increase of Rs. 40 crore, Rs. 45 crore that has impacted, which you spoke about. Rs. 40 crore would be an account of the fixed cost under absorption because of lower production than sales. Third is the fixed cost itself going up because we have moved expense from Q3 into Q4, but the overall fixed expenses remain intact. The fourth element is what Mukund explained on the price drop compared to last year, last year's Q4 to this year's Q4, there was a price difference. All the four put together has led to this drop.

Sumant Kumar: Okay. And you talked about the other expense increase because of repair and maintenance cost in a standalone. Any other reason for higher other expense in consol level?

Nandakumar T.: No, not really. See, if you look at consol for the year of a whole, Sumant, I think it is almost on par with last year, it's not much of a change. So, there is no other reason apart from some costs moving in from Q3 in to Q4, so we cannot time it exactly, the spend happens the way it is supposed to happen. So, there is no other reason beyond that, it's mostly because of more bunching up that is happening.

R. Mukundan: Nandu, actually the fixed cost Internationally has gone down, but on the rupee term it is remaining constant mainly because of the issue related to FOREX, because last year the fixed costs were translated at Rs. 70, this year the fixed costs are getting translated at close to Rs. 74, Rs. 75.

Sumant Kumar: That's right. And can you quantify the UK, any one-off in EBITDA level?

Nandakumar T.: UK, we explained I think at the beginning of the call-in terms of three, four factors. One was the impact of the flood. Two is that he had a deferred tax asset write-off in the easy quarter. And the third was refinancing cost taken in Q4. These three elements are more…So, EBITDA is more because of the flood impact, and because of the refinancing cost.

Sumant Kumar: Okay. And talking about the domestic US business, volume decline is because of lockdown or any other demand slowdown? The US domestic soda ash Y-o-Y has gone down.

R. Mukundan: No, I think Zarir, you may want to explain what has really happened with one specific contract broadly. But otherwise, there is no decline, isn't it, Zarir?

Zarir Langrana: Yes, I do not think there is a decline. I think as Mukund mentioned, demand has completely come back, which means all customers across application segments are operating at normal rates. What has happened here is one of our large customers, domestic, that has a plant both in North America and across the world, moved some of their volumes from domestic to International. And in order to support them, we have moved some of those volumes also into the export market. So, that is what has happened there.

Moderator: Next question is from the line of Parthiv Jhonsa from NVS Brokerage.

Parthiv Jhonsa: Sir, I was just going through your presentation and the PAT margins about a year back, they were in the range of 8% to 9%. Just wanted to check, you have just explained a couple of reasons, but when do you perceive quarter-on-quarter basis we will achieve this kind of a margin going forward? And what is your basically take for next one or two years on the top-line growth going forward?

R. Mukundan: So, on the top-line growth, as the capacities which we are putting in India, mainly in Mithapur and in Rallis, and the full utilization of the units in South happen, our estimation of the growth is close to I am going to give a range, at least 50% to 70% growth will be there on the top-line, and that will happen. And that is on the consolidated basis, which means it includes almost, let us say, nil growth elsewhere, but mainly in all the Indian units, including Rallis, our subsidiary. In terms of 8% to 9% margin, if you look at the numbers, we have had a fall of about 5% dip in contribution itself, which is largely led by the price erosion which we have had, and shortfall in certain volume numbers in the H1 of the year, which has led to this. And I think volumes are back. And the prices, as Zarir has already explained, will continue to improve quarter-on-quarter, and we expect the Q4, when we negotiate next year contracts, and assuming the pandemic stays under control globally and we get back to those levels, we should be inching closer to that 8%, 9% margin which we said.

Parthiv Jhonsa: I believe some gentleman initially had asked you on the EV front. So, just wanted to understand, are we still progressing? Because I got just cut off for a second in between, so are we still progressing on the EV front or there has been some deviation of the plans?

R. Mukundan: In terms of the progress itself, it stands at the same level. We are reviewing it, there is no specific decision taken. And our efforts in the R&D continue. But beyond that, it is just in a review mode.

Parthiv Jhonsa: Okay. And sir, the 50% to 70% growth in the topline what you just mentioned right now, it will be over a period of next two to three years, if I am not wrong, right?

R. Mukundan: You could probably say closer to 2025/ 26.

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

S. Ramesh: The first thing that I would like to understand is, if you can quantify what is the kind of volume growth you can expect in FY 2022 and the average improvement in prices one can expect taking all the geographies for the FY 2022, that will be helpful.

Zarir Langrana: Yes, I think in terms of volume growth the way we see it today, if you look at our various geographies, I think they should all be back to normal operating rates there, which means that volume will go back to historical levels as we progress into the year. In terms of pricing, as I mentioned to you, we are seeing price improvements in most of the export markets, but there we are constrained by contractual commitments. As they come up for renegotiation, we will see a recovery in prices there as well. In the case of US domestic, those are typically annual contracts, which means that we are unlikely to see any price declines in those markets. And as we come into the end of the calendar year and into next year, we should see either stable or an increased pricing in some of those markets as well.

R. Mukundan: To highlight, the full impact of the recovery of price would be visible by Q4, but sequentially it should be improving as contracts come for renewal.

S. Ramesh: Yes, so just to follow-up on that, so if you look at FY 2023, can we expect the average volumes of around 3.6 million tonnes to 3.7 million tonnes which you have had in the last five years, assuming normal consumption growth in all these sectors? Or will it be more like in FY 2024 that you see the kind of peak volumes?

Z. Langrana: No, I believe it will probably happen in the next financial year for sure.

S. Ramesh: Okay. And just one last one, in terms of the US and UK operations, you had this one-off item kind of impacting the numbers. So, how long do you think it will take for the normalized revenue growth and margins in the US and UK operations, assuming normal energy prices and your costs are absorbed on normal volumes?

R. Mukundan: In US you should see this during the year, so there is no need to change. As far as UK is concerned, I think even as the salt volumes pick up because the hospitality sector opens, there also the margins should move to normal levels. So, you would see this shift happening during the year. And we have taken all precautions with these unseasonal floods, we are now seeing extreme climate events are going to be the new normal, so we need to prepare for it. So, whatever precautions are needed, we will work through the year to make sure they are put in place well in floods.

Moderator: Next question is from the line of Madhav Marda from Fidelity Investments.

Madhav Marda: I just wanted to understand the CAPEX spend that we have lined up for FY 2022 and if there is any sort of broad thought process for FY 2023? On what projects are we spending the growth CAPEX, if you could just help take it down a little bit, that would be really helpful.

R. Mukundan: Actually, we had shared this in the previous presentation, so we are happy to share that again. But broadly, let me say, this CAPEX spend is spread over the next three years and it is going to be in Rallis close to balance left is about I think Rs. 500 odd crore, but it's going to be spent on mainly the manufacturing of technical and formulation units in Dahej. And in terms of the chemicals itself is concerned, the CAPEX spend is largely concentrated in Mithapur and large part of it is for expanding salt capacity from 1 million tonne to 1.5 million tones, we are already at 1.2 million tonnes and I think we will inch towards 1.5 million tonnes by adding another 300,000 tonnes of capacity there incrementally over next two to three years. And the soda ash capacity would go up by another 200,000 tonnes broadly. Part of that 200,000-tonne expansion will reflect itself as a bicarbonate output, because that also would go up. And part of it would reflect as pure soda ash. So, these are the three broad product lines of investment as of now, which have been cleared and approved which are under execution.

Madhav Marda: And just as a follow-up, I think in the 2Q FY2021 concall we have founded out growing capacity for the HDS and the nutraceutical business in a fairly aggressive way. So, will that happen in the next couple of years, or it is sort of more two, three years out once the existing capacity ramps up?

R. Mukundan: No, I think that is also on track. And sorry if I missed that out. The first priority is for us to shift the product mix in silica. And after that the next phase of investment to grow this capacity from 10,000 to 50,000 is what we had said at that point of time, we will come back to you with a specific plan. But it is pretty much on the radar and it's not off the radar. And second, in terms of the Nellore capacity to move from 5,000 to 10,000, that is also on the radar. But right now, the utilization is what we want to exit. We want to exit this current year with the high utilization of 75%, 80% utilization with the current unit so that we can deliver on the bottom-line. So, our approach is that the plan we had set out is on track, we want to make sure that this year we deliver a steady outcome in terms of EBITDA margins, so that when we expand we build on the margin as the new streams come on stream.

Madhav Marda: And this 75% exit utilization we are looking at for both HDS and nutraceuticals end by end of FY 2022, so that is the sort of target?

R. Mukundan: So, there is a difference. The silica business actually has a pretty high utilization even now, there they have to shift the product mix from food grade to rubber and tire grade, which is higher specification, so it's a grade and mix issue. As far as Nellore is concerned, it's a capacity issue which currently they have existed close to I think at about 40%, 45%, they need to up the utilization close to 70%, 75%.

Madhav Marda: And my last question is basically on the battery chemicals bit, a lot of questions have been asked already but I just wanted to understand basically what will be the trigger for us to sort of commit CAPEX for this project? Is it basically looking at India's electric vehicle industry as a whole picking up, is that what we are basically looking at before we start submitting CAPEX there?

R. Mukundan: There's an all-round review going on. I think we are seized of it. And whatever the outcome is, once it is done, we will come back to the specifics. As of now, I think what we are really focused is making sure that the review is comprehensive.

Madhav Marda: Okay. And does the Government's PLI program also sort of help us in this direction? Does that sort of benefit any CAPEX in this way? Does that have any allocation for the kind of investments that we might do in the space in the future?

R. Mukundan: No, I think in terms of the PLI program across all categories, we are in active discussions, we have given our solutions to Government. And our view is, these are welcome. And there are some suggestions we have given in terms of how each one should operate. And the Government is also actively taking them on board. If it makes financial sense for us, we will go through the route of the PLI scheme. In other cases, we may just do the investment in any case, because the market needs it.

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

Harsh Bhatia: I just had two simple questions. Considering that Church & Dwight and Owens-Illinois, these are key customers in the North American market. Owens-Illinois, for example, is ramping up its recycling efforts in the glass segment, that's what we can see from their commentary. How does the management in, obviously, next two to three years look at this recycling impact on the soda ash demand? So, that is my first question.

R. Mukundan: I think Zarir will also expand on this. I think the focus on sustainability is extremely critical. As you know, Tata Chemicals also has signed up, and have our targets, which have been approved. And our team is actively working to make sure our capital plan henceforth is aligned to move in the direction of the science-based targets. And we are also working on a plan what we need to do beyond that target, which has been set for 2030. And I think likewise, all our customers are moving in the same direction. And it's very important to be part of this network of companies which are committed to climate change and climate change efforts.

One piece of that is of course, the recycling business. In every area people will be moving towards recycling. And effectively, with recycling, the need for fresh soda ash would come down marginally. But as you know, globally the demand for soda ash continues to increase, and with that, with the movement away from plastics to glass, which is a normal trend as part of the sustainability, we believe it is right for container glass manufacturers to the extent they can move towards recycled the glass, it is positive.

But also, just wanted to highlight, the recycled glass usually cannot be the clear glass, clear glass is usually made from virgin material. Recycled glass is used mainly for colored glass production. And I think there is a limitation in terms of the demand that kind of a glass would have. So, both can coexist. And our view is that we welcome this move by our customers, and we would support them to the extent they can, and I think this will also make sure that need for virgin material overall, even as growth of demand happens, it is supported well with the current supply base already established.

Broadly, overall, if you look at it in container glass, the shift from plastic to glass is going to be a bigger shift than this recycling going out in creating a township. Zarir, you want to add anything?

Zarir Langrana: No, I think Mukund, that's exactly it. And actually, if we look at OI, we are actually working along with them on some of these initiatives. And there are two things happening in OI, one is exactly what you picked up, which is the move towards greater recycling. But at the same time, we are also expanding capacity for container glass across the globe. And that has really been driven by what Mukundan spoke about, which is the move from plastics to glass. And it is not just OI, I think we are seeing all of our container glass people doing that.

Harsh Bhatia: That's really helpful. Moving on to the soda ash royalty reduction that Government has in North America, specifically for Wyoming, has slashed the rates from 6% to 2% for the next 10 years. Going back to the same quantitative move in 2012, the Government had moved from 2% to 6% in the reverse direction. At that point, Mukundan sir had commented that the impact would be in the range of $7 to $10. So, obviously this time it might be slightly different. If you could share your views, how should we look at the soda ash royalty reduction in the current terms? And over the next 10 years what is the quantitative impact on a per tonne basis?

Zarir Langrana: I think, once again, two, three things will determined this, is the mining plan of various producers. So, how much do you mine out of Government leased areas and how much from private. And obviously, the team in North America is trying to optimize that. I think the numbers should land somewhere close to what you mentioned, perhaps a little on the lower side, but we will get greater clarity as we work through our fresh mining plans.

R. Mukundan: Yes, I think just to clarify, in US, there is an alternate between federal lease and state lease, and I think the alternate plots of 1 square mile. So, you really need to work through your mining plan to arrive at the exact number. But it probably is going to be in the same range, we will get back to you next time on exact number once the team has completed its review of its mining plan.

Harsh Bhatia: Just one last question from my end, are we looking to broaden our portfolio in the Specialty Chemicals business, looking at downstream derivatives in the benzene chain, something like that?

R. Mukundan: Yes, so I think the team in Mithapur is looking at what beyond the plan we have already got approval from board, and I think the current plan certainly includes the expansion of caustic, but also I think the chlorine and bromine derivative is one area the team is focused on, but we will come back to specifics. I don't want to make any comment. But to tell you directionally, the focus is there in terms of where to take Mithapur so that that site becomes more and more a specialty site.

As far as the Nutrition portfolio is concerned, our approach is to build on the fermentation platform. I think it's a pretty sound platform and current unit in Nellore can go at least 4x, 5x the current capacity and there are exciting products which we believe are there. Once we prove the current unit and deliver EBITDA and positive turnover and after that we will move forward with further investment. In terms of the Performance Materials concerned, I think silica is a business we believe is extremely versatile with wide application, and we would continue to push ahead building on what we have already talked about.

So, all the three elements, which is your inorganic chemicals, which has to be Halogen chain, the Silica chain and the Performance Materials side, on the Nutrition side fermentation platform, both these are multiple product portfolio and I think these are the areas we are going to continue to focus and expand. Right now, I think we are committed to delivering on the approved plan. And as that plan comes to close, we have seen most investments are on the ground, we will come with the next phase of plan beyond that.

Moderator: The next question is from the line of Tejas Sheth from Nippon India. AMC.

Tejas Sheth: The US annual contract which was signed for this year, what would be the price difference versus last year?

Zarir Langrana: See, I think US domestic contracts typically tend to be one year or longer. So, there are some multi-year contracts. So, if you look at pricing between last year and this year, I will imagine that while there is some compression, it's not really as large as the compression that we have seen in the export markets, which again, as we mentioned, is recovering.

Tejas Sheth: Okay. And in US operation, how much of the volume would be contractual and how much would it be in the spot?

Zarir Langrana: U.S. volumes are almost all contractual, there's very little spot in US domestic. Which is why I said the pricing, somebody else had asked earlier, the pricing for this year is set for US domestic.

.Nandakumar T: Last year's numbers, there was a question earlier on the CAPEX spend, I don't know who asked the question, I can answer that in case you want. That will also help you to build the model. So, we have Rs. 1,250 crore CAPEX last year on the whole, Rs. 550 crore was Tata Chemicals for standalone company, Rs. 250 crore is US, Rs. 270 crore is Europe, Rs. 160 crore is Rallis, and Rs. 15 crore is Kenya. Rs. 1250 crore is the overall number for last year. So, next year's number, you can work out with your assumptions.

Tejas Sheth: Just on the investments towards nutraceutical. Mukundan also highlighted that it can be a big, big opportunity of 5x. When can we see a larger investment going in that space, considering that we will be looking at exiting this year at a very high utilization?

R. Mukundan: Yes, I think, as I mentioned, towards the end of this year we will come back, because I think we would have had surety of all the pieces falling in place and then going into the next phase of investment in that. But at the same time if you look at the Nutrition portfolio, the salt also remains equally attractive as other ones, so there is headroom to move the needle around both fronts.

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

Abhijit Akella: First is, Mr. Mukundan just mentioned some time back about 15% to 17% consol revenue growth target for the next few years. So, just wanted to make sure I heard the projection correctly. And also, if you could drill down a little bit in terms of what the key building blocks of this growth rate will be across business divisions.

Mukundan: Sorry, I think it was not growth rate. I said, by 2025/26 our numbers should be inching close to 50% to 70% higher than where we are, broadly in that range for you to plan on the basis of investments. And the breakdown is growth in, let me start with our subsidiary, Rallis; there is growth in the Mithapur unit, mainly in salt. There is also growth in soda ash, there's also growth in the Chloro caustic chain, all these three put together. In addition to growth, the neutraceutical business based out of Nellore. But exact split, we could start sharing what these buckets continue in terms of revenue, maybe by next quarter we could share broadly capital spend as well as the revenue split, what we anticipate with broad ranges established.

Abhijit Akella: The second thing I just had was on the US business, the North America, is it possible to just roughly break out the geographical breakdown of exports from there, how much goes to Asia, how much goes to Latin America and other regions? And how you are seeing the spot prices behave across these regions?

R. Mukundan: Zarir, you want to go ahead? I think it's probably 50:50, but Zarir, go ahead.

Zarir Langrana: Yes. So, most of our exports, as you are aware, is through ANSAC. So, while we may not have exact numbers, because we do maintain a wall, the two main markets are, obviously, Latin America and Southeast Asia, split roughly equally between the two. And as we mentioned, we have seen prices in Southeast Asia moving up, spot prices, in some cases as high as $25. In Latin America, also we have seen a movement upwards, it's not to the same extent but it's certainly in the same direction.

Abhijit Akella: And in LATAM as well, is the pricing on a quarterly basis, sir?

Zarir Langrana: No, LATAM tends to be slightly longer in terms of contracts, so it's half yearly and annually.

Abhijit Akella: And just one last thing, if I may just squeeze in. On the gas cost, is there like a pass-through clause that you have, some kind of fuel surcharge clause that you can invoke in case the gas cost goes up? Or is that not an option anymore? And second, on the mining royalty front, the royalty rate reduction, do you expect it to boost your EBITDA margin in the U.S.?

R. Mukundan: On the royalty, I think it will boost the EBITDA because it is part of the cost structure. Secondly, on this gas cost, there is a clause on energy, certainly in all contracts. But I think we have not invoked anything with our customers as of now.

Zarir Langrana: Yes, obviously, we have not invoked it. The second, while it exists in the contracts, there is certain minimum period for which these prices need to persist.

Abhijit Akella: Got it. Thank you so much. I wish you all the best.

R. Mukundan: Thank you. And I just wanted to address the previous question. The CAPEX, our anticipation for the current year is about the same as we landed the current, next year is going to be about the same way we landed the current year, as Nandu has explained. But there is an increased bias of CAPEX within India rather than overseas. So, there is a higher proportion of this in India, both through Rallis and Tata Chemicals India.

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 all. And I think with the current situation of COVID, I think we all have to stay safe and protect ourselves and protect our families. And we are extremely hopeful that this current surge will start to subside in couple of months, in some regions it will start to subside in a month, and it will take probably a couple of months for us to get complete control over it, and that's the way we are planning the business. Hopefully, post this stay we would have learnt the lessons to deal with this pandemic in a more effective manner so that it allows both lives and livelihoods to continue.

In terms of our business plan, our strategy in business continues to be the same, our pillars of Performance Material, Nutrition and Agri Science are the three broad pillars in which our investments are being done. A larger part of this investment is focused in India and for India as well as for the world market. And as we come out of the pandemic, as prices recover, I think we would be back our normal run rate, both in terms of return ratios as well as in terms of our margins, contribution and profitability margins.

This quarter has been difficult, but we are looking forward to the coming year with a great optimism on the back of the demand of soda ash coming fully back on stream, and also the pricing power coming back. And sequentially we will see this flowing into our financials going forward into next year.

Thank you for your support.