



Tata Chemicals Limited

Q4 FY '20 Earnings Conference Call

May 18, 2020

Moderator: Ladies and gentlemen, good morning. And welcome to the Q4 and FY '20 Earnings Conference Call of Tata Chemicals Limited. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you. Good day, everyone. And thank you for joining us on Tata Chemicals' Q4 & FY '20 Earnings Conference Call. We have with us today, Mr. R. Mukundan – Managing Director, Mr. Zarir Langrana – Executive Director, and Mr. John Mulhall – Chief Financial Officer.

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

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

R. Mukundan: Thank you, Gavin. And thank you everyone for joining us on this earnings call. We are truly living in unprecedented times. If you recall last time when we had the meeting, and I had said that there was one known unknown and there is a one unknown unknown. And I had defined the unknown unknown last time as the crisis in China, which I had said at that point of time, we don't know how to quantify it, and we will deal with it as it come. And truly, it's upon us and I think we are looking to work our way through this with a clear strategy and a clear approach. At this point, I would like to thank Zarir, our Executive Director; and John Mulhall, CFO, who have also joined me in this conference.

I am going to start with the three pillars which are probably the way we are looking at the entire pandemic. The first pillar, which is around what I call as complete protection or protection of our employees, our assets and our communities, I think that has been the focus in the initial period. The second pillar is about cost structures and cost efficiencies and operational efficiencies, that is about operating cost as well as working capital as well as the fixed costs, I think we are extremely focused on that. And one key element of that and one key driver of that is what I would call as accelerated digitalization of the business. The third pillar is about, as we come out of this pandemic, we do believe there is a medium and long-term strategy the company is on, and I think that is a pretty robust one as we move forward.



Our assessment of this pandemic, as it stands today, is that, I think we are going to have three phases of the pandemic and that is how we are looking at this. The first phase is the phase where we come from no knowledge to, at least to a point where there is treatment for the disease, where people know how to manage the disease. We unfortunately may not be able to save some, but I think we will be able to manage the disease. I think we are towards the middle or, let's say, the third quarter of this phase as we speak in the world. The next phase is what I call the phase of cure, where there will be some treatments available. Right now, we are in the phase of treatment, the next one will be the phase of the cure, where there could be some cure available, which would give lot more confidence to people. And lastly, the phase which I call vaccine, which may come, may not come, we don't know. The second phase, we believe will be with us from about 12 to 18 months, and the last phase will be about 24 months. And these may seem a little bit longer than what others would have told you, but we believe that it's better to work with these longer time horizons than the shorter ones as we move forward.

As we had worked our way through the whole issue of the unknown unknown last time, we had started to work our way in terms of protecting our plant and assets. And really speaking, our teams have done a terrific job in terms of doing that. And even as India entered lockdown our units are working our units in U.S. never really have not stopped, our unit in U.K. never really stopped, and Kenya also was not stopped ever, it had its own issues because of the port logistics because the port operations seems to have a bit of a difficulty, especially on the consumer side, especially the Indian ports as well as the Thai ports, because they shutdown, it created a logistic issue for that entity.

As far as India was concerned, our main unit was always running and some units running at 100% rest running at about 60%, 70%. Two of our minor units, at Sriperumbudur and Mambattu, which are the Fructo-oligosacchride plants, had to stop for a while and have restarted operations. another plant which makes silica also had to stop, and that also has since started. The subsidiary plants in Rallis had a moment of stoppage because some clarity was needed with respect to the notifications of the government which subsequently came, and since they were supplying into the agriculture sector, I think they were all given the clearance to go forward. But as you know, in the results we had already highlighted, Rallis lost about approximately Rs. 30-odd crore of turnover, which was a shipment which was meant to go out and didn't go out because of logistics issues. And we do believe that part of that would be reflected in the quarter one of the current year.

With respect to Tata Chemicals, I would simply say that the demand sectors which are holding on fine, we have a metric by which we are managing our customer base and our demand sectors. The demand sectors which are holding on fine are related to the food and pharma sector. The sectors which are under pressure are the ones which are related to the Auto and Real Estate were primarily soda ash goes for the flat glass. Container glass relatively is, I would say, moderate in terms of the impact, not very high, mainly because the container glass is seen as a part of the packaging solution. Also, the detergent sector which we supply soda ash light within India, I think that has been holding on fine. In fact, the key issue of disturbance was more from the customer units, in the containment zone not able to start immediately. And as soon as they started, I think our units were back on supplying to them.

So protecting, as I said, protecting our employees and assets and second one was about looking at fixed cost and the variable cost. We have done a good job in terms of looking at those cost elements. And by the time we come to quarter one results,



you would see the results. I don't want to make any forward-looking statement here. But all I can say is that we are in good shape as far as that is concerned. Also, in terms of capex, I think the teams have shaved off capex. You would see that by the time we declare the first quarter results, the result of the exercise which has been our undertaken without impacting our long-term prospects, the teams have done a good job in terms of protecting the capital within the company. In addition to that, the finance has also drawn down wherever facilities were available to ensure that we had enough liquidity in the system in the short run. And in the long run, we do hope that we plough back this capital into productive use as we come out of this pandemic and our customers come out of the pandemic.

In the medium and long-term, which is what I want to focus on, our approach has been to look at this company with a lens post the demerger of the consumer business as to a company with a broadly three existing pillars, and the fourth pillar is still in the formation, it's still in a very early stage, a lot of work is happening in development, but not much in terms of the customer orders or customer revenues. And while a lot of prework is going on, lot more needs to be done, lot more visibility needs to happen on that. I will explain what the four sectors are as we move forward.

The first sector which we are focused on is what I call as Performance Materials, and this are mainly materials which go into various other sectors wherein they explain the characteristic of the user properties, whether it be the properties and in the use of glass, whether it is used in the properties in terms of the tires, whether it be the use of properties, the use of detergent, these all alter the performance characteristic of customer industry. And broadly the two big segments of products in this are our soda ash and all products related to the halogen group as well as silica which is a new business which has come in in this piece.

The second pillar of the company is the Nutrition Science. And in the Nutrition Science we have bicarbonate, which is both pharma and food grade and feed grade; and salt which is food grade which is the bulk, one big part of that is the long-term supply agreement with TCPL. And also new products which are coming in like nutraceuticals which is the Fructo-oligosacchride and our pilot facility in Nanded which is being set up for natural extracts, which is going through a set of period. So, broadly this is going to be nutrition and nutrition science related products. And it goes to various sectors, both feed, food, as well as to pharma sector.

The third pillar is entirely in our subsidiary, the Agri Science. Agri Science is being handled primarily by Rallis and we would be a good shareholder of that entity and we would want that entity to perform as a good subsidiary. And as and when opportunity comes, I think we will look at putting as much investment into that business as is needed.

In terms of the last pillar, which I talk about, is Energy Science. This one, I think with the current pandemic, many of the requests which we had from customers will face the delays, so we are also optimizing our capital spend on this as we go forward.

So broadly four pillars, very focused two pillars of the company, Performance Materials and Nutrition Science. The third one, Agri Science is in our subsidiary, and the fourth pillar is still formative stage where we just have acquired the land in Dholera and we have setup pilot and testing facilities in our R&D lab.

Now, going back to the business performance itself. We had a pretty stable quarter, and I think there were pretty steady volumes across the geography, and our businesses are fairly resilient. And in a way, I think they are also immune to the intensity of the pandemic as we speak. But not fully insulated, I must say, because certain sectors which are in flat glass are unfortunately, fully reflective of the demand situation those sectors are facing. But overall, we do believe that there is a good balance of mix in our operation.

In terms of the way we are looking at it, I think the businesses which are serving markets, which are close by, businesses which are serving markets which are continuous consumption will be fairly stable. And businesses which are supplying into markets which are far flung, and those will have a greater pressure because of logistic issues. And this you have experienced as a second order problem of the pandemic. So, shipments from Kenya, for example, got impacted, shipments to Thailand, shipments to India, they all got impacted because of the logistic issues which have since been corrected. Hopefully, going forward, we will not face such logistic issues as world learnt how to live with this crisis.

Our efforts are largely to get our operations fully back on track. I think the unit in the U.K. is running almost at 100%, the unit in Mithapur; the salt and the bicarbonate units are running pretty much to the full capacity. The soda ash unit is on its way back to full capacity, it's running at about 60%, 70% of capacity and we are seeing improvement every week there. The unit in U.S. has toned down the production slightly to meet with the market demand and also to ensure the logistic constraints don't put pressure back on its stocking facilities in the plant.

Also, as I mentioned, the Mambattu and Cuddalore plants now have permission to restart and we are seeing great traction from customers, especially customers who initially we had not planned as part of our initial portfolio. This is a direct outcome of the de-risking of supply chain which customers are now seeing as a pretty critical part of their portfolio, and are reaching out to us for supplies.

Lastly on capex, I wanted to stay that we had broadly scaled down the capex and you would see that in the numbers as they come out of the first quarter. We had committed Rs. 900 crore for this year, but we are scaling it down. And that sharp scale down will also ensure that our financial capital balances pretty much remain protected.

So, I think one of the things I just wanted to highlight is that as we went into this pandemic, we went into those with a pretty strong balance sheet, we went into this with a pretty sound strategy, we went into this with very sound operation. So we are extremely confident that this is going to be a positive for us. We are seeing a very, very strong resilient pull from our customers. And we feel more energized about our positions, even as we have spent two months going through this point. Also I must add a bit of word about our employees, I think they have been terrific during this change and most of them or all of them have pivoted to digital work with the speed which we had not anticipated. Our business continuity plan never had this pandemic as a risk. But all I can say is that, having gone through it, it was good that we did have a business continuity plan and a lot of the elements to the plan did play into this process.

We are also very, very clear that this is also going to make sure that the stronger companies come out with stronger relationships with their customers. And we hope that the outcome of this pandemic is greater market share and greater growth for products which we all want to drive in the future.



With these opening remarks, I would like John to make his opening comments.

John Mulhall:

Good morning, everyone. I would like to go back and highlight a few points from our Quarter 4 FY '20 Results that we sent out on Friday night before we get back to questions on the future.

Firstly, you will see the effect of the demerger of the consumer products business unit to Tata Consumer Products Limited. You will note the exceptional gain on disposal on line #7 of the standalone accounts. In addition to this, the merger of Bio Energy Venture -1 (Mauritian entity) hold-co. This results in both elimination of the quarterly preference share foreign exchange translation we used to see through the other income line of the standalone accounts and, for one time only, the restatement of prior year comparatives to take account of the effective date of the transaction being April 1st, 2019.

Specifically here, if you compare the reported other income as line 1B for the year-to-March 2019 with these accounts, which is Rs. 400.32 core, against the 31st of March 2019, accounts, where we have shown Rs. 454.76 core, this difference of Rs. 54 crore is FX gain on the Bio- preference shares recorded in the year-to-March 2019. This is now eliminated and going-forward we will not be showing any of these FX differences in the accounts.

And similarly, you will notice a reduction in the PBT line, at line #5 of the SEBI sheet, of Rs. 54.86 crore. And this again relates to the elimination of FX in Bio Ventures.

Now, setting those changes in presentation aside, the number of one-offs and non-recurring items I think you should draw attention to before we get back into the operational aspects of the business. And the standalone results show note a reduction line #1B other income, this is down Rs. 36 crore in the quarter after accounting for reduced bank interest income, both fixed deposits and mutual fund returns of Rs. 34 crore and a reduced dividend from our IMACID joint venture of Rs. 20 crore. Some are other small differences in rental income and guarantee commission charged through there as well. This is also the reason for the increase in unallocated expense, you will see at Page #2 of the SEBI sheet on the segment analysis.

The line #2D, employee benefits increased by Rs. 19 crore over the same quarter last year. This is the normal pay increase as well as an increase in the expenses related to post retirement benefits and also accrued leave encashment generated by a change in effective discount rates. It is Rs. 19 crore for the quarter and for the year it's about Rs. 21 crore. And in line 2G, we have also noted a reduction in finance cost of Rs. 14 crore in the quarter and this is really the reflection of the repayment of the ECB loan and NCDs in October and July last year.

Now operationally, in India we have benefited from our continuous focus on fixed with factory and corporate costs, and variable cost management to offset the soda ash and sodium bicarbonate price reductions, we notified in November last year to maintain our contribution position. The volume of soda ash was down 12%, bicarbonate was down 8% in the quarter and that's really the effect of the immediate lockdown in the last part of March. Cost management, our focus on efficient processes and lower overall energy cost actually kept up production cost below last year's expenses.

Our India cash position moved from Rs. 2,428 crore in December to Rs. 2,162 crore in March. This reduction was Rs. 266 crore, and our CAPEX in the quarter was Rs. 195 crore. In addition to the non-operating items I talked about above, in the standalone accounts. In the consolidated accounts you will note in line #4 the reduction in exceptional income from a credit of Rs. 98 crore last year to nothing this year. These relates to liquidation and pension writebacks last year that would not recur.

For our North America business, our sales were 3,000 tonnes and production 26,000 tonnes ahead of this period last year. Export prices were down on last year, as anticipated, but this reduction was more than supported by reduced energy costs and operational efficiencies, high production to bring up contribution per tonne just ahead of last year. Higher site expenses reduced the overall performance to just below last year. Production was around 3% above last year, with sales momentum above last year as well. Overall profit in North America for the quarter was just behind last year, though we are ahead of the full year, excepting for the Rs. 115 crore non-recurring credit we received last year.

In Tata Chemicals Magadi, sales volumes were down 5% in the quarter due to dispatch delays effectively, and partly a COVID-19 related vessel that was delayed going to India. Full year production was around 91% of last year, slipping from the 97% run rate we had in the quarter to December. And Magadi was affected by the same selling price pressure we had in Southeast Asia as TCNA has seen. This is partially offset by fixed cost compression.

Tata Chemicals Europe, which represents the soda ash and sodium bicarbonate and energy business units. Soda ash was approximately 5% ahead of this quarter last year. And year-to-date overall sales were reduced, but this was only down to the reduction in the low margin traded soda ash sales. Overall, our margins are ahead of last year, really due to overall lower energy costs.

British Salt sales volumes were up slightly on this period last year, but better contribution management also kept the performance ahead of last year.

And finally, the consolidated cash was Rs. 3,660 crore, and net was Rs. 4,042 crore.

Now, with that, we will open the floor up to questions and I hand it back to the moderator. Thank you.

Moderator: Thank you. The first question is from the line of Riddhesh Gandhi from Discover Capital.

Riddhesh Gandhi: If you could just kind of comment, we have been reading in press around the potential anti-dumping duty in India with regards to soda ash. So is there any update on that?

R. Mukundan: I will let Zarir answer that. I think the broad sense which we have from government is, I think, it is not just here government around, especially where there are domestic capacities present. I think the sense we have is most governments want to protect their domestic companies. And I think that that's the broad sense. And if you look at the market, our exports, from India we don't export a lot, it's mainly domestic supplies. U.K. also it's fairly domestic, it is not exporting much or very, very little if at all. And if you look at U.S., largely domestic, but exports go into



market where there is no domestic capacity. In Southeast Asia and Latin America there is no domestic capacity. So I think this environment bodes well for companies which have distributed manufacturing. But having said that, ADD is a very India specific issue

Zarir Langrana: So just to give you an update on where we are on that, or where the industry and the authorities are on that. As we speak, anti-dumping investigations have been initiated against soda ash imports from Turkey and North America. The investigation is under progress and public hearings have not been held this year. So I believe this might take a while to pan out in terms of following the entire process. There is also an anti-subsidy investigation against Turkish imports of soda ash.

Riddhesh Gandhi: And the other question is with regards to your pricing in India, given the exchange rate depreciation, given the slight decrease in the Real-Estate demand or heavy cars and with the demand supply dynamics, can you comment on where you see the rupee actually pricing being in India and in profitability?

R. Mukundan: So, I think Zarir can add to it. I think our pricing approach of this has always been our import parity pricing, which means as rupee appreciates, we will have to reduce the price, if rupee depreciates, we will have to increase the price. And that pattern will continue to have some impact in the long run. The disturbance which we see in the flat glass market, I think is not of the order of magnitude in the sense that if you look at the proportion of sales to flat glass to the supply the soda ash, it is not of such a high order to change India from a net importer to even a balanced market we will continue to be net importer. So, the import parity pricing would continue to be the. Zarir, you can add to this.

Zarir Langrana: No, I think that that reflects our stance as far as pricing in India is concerned. So as I said, we continue to reflect the policy of import parity pricing. Obviously, the current conditions in the marketplace, both on the demand and supply side pushes us into a little bit of a wait and watch situation. But we will continue to follow the philosophy of import parity pricing.

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

Sumant Kumar: My question is regarding the user industry running at lower utilization, and so the lower demand. So how is this going to impact utilization across geography and how things are going to be for the closing inventory?

R. Mukundan: I think I have already addressed that. I think largely the domestic demand has not been that much of an impacted issue in U.K. and the U.S. See, none of these countries had the lock-down of the severity which India had. So I think the situation there is very, very different than the situation that is in India. And if you look at the international situation, I think the Chinese have already made the move in terms of adjusting the capacities in line with the demand. That's what their public announcement says, which we are privy to as well as you would have seen it in the public domain. And that is a big move from their side, especially because these was the only source of incremental capacities if could come, massively they would have come only from China. And I think that is off the table as we speak, and that should lend itself to the ability in the market. And as I said, a lot of our dislocations have been logistics led. The entire logistics team is yet to remove all the wrinkles out of what it had gotten into. And it is normal in a situation where closures were happening, the ports were opening, closing, and the staff at ports were less. Which is why I said, the portion of demand which is supplied to domestic market will

remain stable. The one which is travelling longer distance will be impacted, not because of customer issues, it is also because of the logistics issues which we hope will straighten itself out and four to five months' time. So this is a dislocation, certainly in the first quarter, part dislocation in the second quarter. And by which time, I do believe that proper treatment would also be available, not the cure, the treatment. And hence people will be less fearful, but the fear will still be there, people will go about their life in a way that they can manage through their wearing masks and social distancing. There will be some semblance of normalcy. But certainly, I think how the demand will play out, I think we are not very clear on that.

There are very complicated dynamics here. Let me just say, our learning from U.K. has been that because bars and restaurants are closed, the in-house consumption of drinks, of beverages has increased. And that has meant that the container glass industry is now seeing a much higher pull than what it used to generally have. We are seeing detergents demand increase, especially as people go down to value brands. And in value brands, the proportion of soda ash is higher and there is a greater focus on greater amount of wash being done because of this COVID-19. Certainly, I think in-home cooking has meant that the food products has seen much greater pull in the retail chain, I think that is going to continue. I think there is an outcome which needs to be played out, and early signs are visible from China is that the view which has been expressed by many that people will move to private transportation from public transportation. China has seen a bit of increase, but the increase has come mostly in the economy and lower end of the market, it has not come in the higher end of the market. Whether this is a sustainable thing, we don't know. As far as Real-Estate is concerned, I think we have a very limited view on it. There are complicated elements being said. Because of social distancing, people are saying that you will need more space per employee, and you will need larger offices than smaller offices even to accommodate lesser number of employees. Of course, that is countered by saying many of the jobs can be done from home and they would be switched to work from home. We will see how that plays out. So the question mark is on two sectors, but that will play out in the next 12 to 18 to 24 months, we will at least see some early signs. But that's only a small percentage of the demand and we hope to pivot that demand. But also let me say that demand is not going to collapse to zero, the demand will move to some number which is more slightly lower, more moderate. And hence, our view still remains that that will be manageable.

The second element I just wanted to say is that even if it was a very, very difficult situation, I think in a business we are in, in a business especially like soda ash, it's very important to be the lowest cost manufacturer. You have to be low on the cost curve, and luckily for us, all our units in terms of the landed cost to the customer, even our UK unit is fairly competitive. So, we remain very positive on this element. U.K. also for example, while it is a unit which is probably highest on the cost curve within our four plants, is making a dramatic shift in the product portfolio. They will be switching through the carbon capture as bulk of their production to bicarbonate. And that is a massive switch in terms of dealing with the proportion of soda ash and moving it more to bicarb. And I think that is the pivot we have as a game in some of our units, including in India. And we are increasingly applying that. But the first switch you would see is that. So, if you ask me what is the impact? there is certainly an impact in the next six months. But is this impact long-term? I think we see a moderation in the long-term. But is it of a nature that we need to be worried about the business? I don't think so. I still think that this business will move forward, but move forward in a way which could be different with a different product portfolio. And most of the elements we are working on as we speak, the company which makes the switch will thrive, the companies which don't make the switch will go through even greater things. But we are positioned extremely well in terms of

knowing not just what's happening in India, in terms of knowing what's happening around the world because of our multi-geography presence, also multi-industry presence to react and work for this whole work through this entire process to our advantage. Zarir, you want to add anything to that?

Zarir Langrana: No. I think that was a comprehensive reflection of where we are across our product lines and across our markets.

Sumant Kumar: Just talking about overall the business is on contractual basis, particularly soda ash. And raw material has corrected significantly. So how we are going to see from here the across geography margin of soda ash?

R. Mukundan: In terms of margin, I just want to say that our view on margin has always remained range bound. And this I have been saying, a lot of people were saying market is tight, I have also been saying this and people have been saying that market is loose. Our view on the margin has been that margin is barely going to trend in a very narrow range, it is not going to go up substantially nor does it going to go down substantially. And that is the nature of this business. While costs have come down, certainly there is a cost element to it. But in the next six months if you see, because of working at low capacity of some of the units, their per unit cost actually may be going up, so that will be partly compensated by cost down. So, you would see margin structures not getting distorted, they will be able to tend to move in a narrow band.

Sumant Kumar: Okay. And salt volume in this quarter has improved by 11%, so what was the key reason for that? Is it because of a stocking of salt at consumer level?

R. Mukundan: No, I think the we are just producing fully, and that trend will continue. As I said, we will be bringing capacities online, and as capacities keep coming online, our journey to go to 1.5 million tonnes from 1 million tonnes, you would see those numbers trending up. So, it is pretty much part of our Nutrition portfolio. We are also looking to expand the product portfolio of salt to beyond what we are supplying to TCPL, we will also be entering different grades of salt, including pharma grade salts, and those are all in the works. So, we will elaborate a bit more in detail by the time we come to the third quarter of this year when we will have a greater understanding of the overall CAPEX and how the CAPEX is shifting. So, we will also highlight to you how we are moving even these products which are doing well to even a better trajectory than what they are today.

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

S. Ramesh: Can you give us some idea about the capacity utilization in your North America operation?

Zarir Langrana: So, I think as Mr. Mukundan mentioned, the North American market today, the domestic market still continues to be strong and we continue to supply, there hasn't been too much of an impact of the muted lockdown that has taken place there, especially across industrial sectors. As far as the deep sea and export markets are concerned, there has been obviously some impact. And we have had to moderate our production levels in North America to meet up with the shipment schedules of our export orders for our export consortium. And also to make sure that inventory doesn't back up as plant and the extended supply chain. So based on that we have had to moderate production down a little bit, trim it down to some extent. I would say that it's tough to give a number, but because that number keeps moving up and down, depending on when vessels arrive at the port. But we are somewhere in the

region perhaps of about 80%, 85% of our capacity there. But the number moves up and down, it's very dynamic.

S. Ramesh: And what is the industry capacity utilization now, say, in Europe for U.S.?

Zarir Langrana: So, Europe is a little bit of a different story from what we hear, capacity utilization in Europe across the synthetic plants there are possible in the region of about 70%-75%. And in North America, I would imagine that other units would be in some way or the other mirroring what we are doing, because really the dynamics for them is almost the same as for us.

R. Mukundan: That's correct. So I think what Zarir has said is right. I think 80%, 85% for U.S. For U.K., see, we don't have any benchmark because we are the only unit, but it's running pretty much 100% as we speak. While European units may have lower utilization, we are not reflecting that trend within our unit. Kenya pretty much is not a demand or a production issue, Kenya pretty much is a logistics problem. And their reflection of 70%- 75% production is mainly coming off situation of logistics. I would not put it on market or anything. But I think as logistics gets ironed out, I think they would be coming back on stream. As far as India is concerned, I think India is also closer to the way U.S. is around 80%, 85% as we speak.

Zarir Langrana: Just one small bit about Kenya. As Mukund said, its logistic and in supply chain related market and you should remember that Kenyan product does not go into the flat glass industry. So to that sense, their recovery and their dependence is not based on the fortunes of flat glass.

S. Ramesh: So a broader question, if you are looking at the global macroeconomic data, there seems to be widespread consensus, there is going to be a recession this year and the divergent opinion about when the economic cycle will revive. So isn't that a bit of a concern in terms of the induced sector demand from, say, autos and construction in key markets like U.S. and Europe?

R Mukundan: So I made the point very clearly in the beginning, I think there is a near-term trend which is, let's say, till the time treatment comes, we were to be very aggressive in terms of the way we look at our cost structure, the way we look at our operating operations, be very agile and flexible to customer demand and to start serving with greater vigor market segments which are not facing the downward pressure. So, certainly, I think our effort is in that direction. All I can say is that we have very much, I would say, very narrowly time focused review of our number. You can clearly see smart improvement, even between 1st and 2nd week of May. That makes us believe that some of these things will work its way through and will come together. And while there will be an impact, I think financially we don't see any major issues as far as we are concerned. We do intend to remain profitable and we do intend to remain cash positive. And we do intend to spend very much in line with our cash generation. So I think I can't see our balance sheet coming under any pressure, nor can I see our company under serious pressure because the teams have already done the work. So even as we were speaking on last quarter results, our teams were working on the concerns because it was an unknown unknown, as I said. And it was good that we did that work with a very cautious approach. With that said, I will leave it. Are we ready for this economic slowdown beyond 12 months? We are ready for that too. If it continues to 24 months, we should be still in good shape.

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



Harsh Bhatia: My question was pertaining to the soda ash price hike that was announced in September. Almost a \$15 increase for the U.S. market, that was supposed to be effective from Jan 2020. So, overall, it is still showing that the realizations have fallen, given that the volumes have remained stable. So any picture on that?

Zarir Langrana: Yes. So as we had mentioned, I think even on the last call, when this similar question was raised by many of our investors and analysts, the announcement of a \$15 increase in September is a market signal indicating an intent to increase price, not a price increase that would come in place from 1st Jan onwards. For some small volumes, a number close to that might have been achieved. But in general, I think the price increase in North America has been and has always been more modest than the actual announcements made. And that is what you have seen reflected in the results. So in North America, depending on size of the customer, depending on whether the contracts have been one year or multi-year contracts, the average price may have come down a little bit. But in general, I think North American price in the domestic market went up in the low single-digits.

Harsh Bhatia: My next question was relating to the Magadi plant, and we can see that they have reported a loss at the PBT level. So, we are trying to get a clear picture on what level of production can we expect the PBT level to turn positive going forward.

Zarir Langrana: So once again, as Mukundan mentioned, Magadi dispatches and sales were affected in that last quarter primarily due to supply chain and logistics reasons. We had the complete shutdown of the Indian market and Indian ports. There was some impact in some of the Southeast Asian countries that we supply to with partial lockdowns in place. I think we have got very positive signs from the Africans, especially the East African market where sales actually increased. We continue to focus on driving sales to markets that are closer to home and closer to our production sites, whether they are domestic or neighboring markets. And as we move, I think into this quarter and the next, we should see those numbers beginning to play out.

Moderator: The next question is from the line of Hari Shyamsunder from Franklin Templeton.

Hari Shyamsunder: My question is on the North American operations. You had alluded to the export prices being soft. Could you delve a bit more on the reasons for that? And what's your outlook for the year?

R. Mukundan: I think the pricing pattern will follow similar number as the first quarter what we had said, because the last quarter of this financial year and the first quarter of the calendar year, which has already been reported, we don't expect any change in that in terms of the domestic pricing. The international pricing in terms of the market numbers, I think they can move, but I don't think they are going to move substantially post the Chinese announcement. So that's where we are. And you could probably expect a steady number on pricing. The issue as far as U.S. is concerned, which Zarir has already alluded to is more on volumes and the supply chain and logistics and how the exports happen, not the domestic market.

Hari Shyamsunder: Right. Do we expect volumes to sustain as well? Or have you seen difficulties in placing volumes in this current environment, where there have been logistical issues all over the world?

R. Mukundan: So, I think I am not going to predict this because we are in a dynamic situation. I can only tell you, every country is wanting to open up as we speak. There is no country which is saying I want to remain in lockdown. And people are seeing

examples of how countries have opened up smartly in Southeast Asia, in various other parts. But I really cannot predict how this whole thing is going to be with respect to whether opening up will lead to spike of numbers, will it again lead to closures. I think we will have to wait. Which is why I said it's better to moderate yourself in terms of volume number rather than keep it high. And we have done that internally, but we are also agile enough to turn this stuff on the markets that aren't increasing. At the current point of time, as I said, 80%-85% seems to be a fair range to work and get to this point. I don't expect this to dip below that. But if it does dip, we will certainly come back to you with an announcement. But as a company we are in a fit shape even if that were to happen. That's all I could say.

Hari Shyamsunder: Just a follow-up on the international pricing, are the current numbers reflective of what's the pricing environment in your end markets are, is there a real softness in the end market pricing for your key export markets?

R. Mukundan: All I can say is that, even if that happened, because these are all contracts, even if that move were to happen they are not going to be sharp moves, they are going to be range bound and that is what it is likely to be.

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

Madhav Marda: Firstly, it is interesting you say that soda ash margins will remain in a very narrow band. Just to understand, there will be a drop in utilizations I am assuming for soda ash globally. What drive this stability in margins? Is it more industry structure or how should we think about it?

R. Mukundan: Yes. I think the way to think about it is, see, one big driver of this is basically how the trade markets behave, and trade market is driven by just three players in the world today, the Chinese, Americans and the Turkish players. And if you look at it, I think Chinese have already made an announcement of what they want to do because they even want to protect their domestic market, so they have made a public announcement. I think whether it was 70%, 75% utilization is what they have instructed their units to run so that they have a balanced market. The U.S. players, while they compete fully in the domestic market, in the international market I think there is a modulation to demand and that is what is seeing the modulation come through in terms of 80%, 85% utilization across the board. And Zarir has already alluded to that, everybody else also would be in similar band. That leaves the Turks, and I think Turks are also interested in keeping the margin structures fairly normal. The reason being that they have a large debt in their books, they have just expanded the capacity, they are the ones who have been invested. That's my understanding of the situation. So, I think this market certainly has the three large players and the structure itself ensures that it does not go beyond the band. And if it does, I think at some point capacity starts going out, the more expensive the capacity starts going out and market again becomes balanced, that is the nature of what we have seen. This is not the first cycle we are going through; we have gone through a cycle in 1990 and also later on in 2008. And we have a fairly good understanding of how this will play out. And what we don't have the understanding is the duration of how it will play out, and which is the reason why we are planning a 24 month play out for this whole situation. The numbers will improve but whether it returns the normalcy of balanced to tight market, that is going to be at least 24 months.

Madhav Marda: And in your estimation, the capacity utilizations were about 80% to 85% pre-COVID, right, if I am not wrong?



- R. Mukundan:** No, I think it would vary from quarter-to-quarter when somebody is taking a shutdown. I think the industry was running at a much higher pace in China. And they have gone below that number. The capacities are getting modulated as we speak. And that's where it is going to be.
- Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Co.
- Saket Kapoor:** Sir, our gross debt stands at around odd of Rs. 7,700 crore. And has the TCNA consolidation taken into impact, I mean, are the numbers reflecting both the turnover and the profit?
- John Mulhall:** Sure. We would always reflect the consolidation, because we were owning 75%, so we consolidated it. What you saw is a reduction in the ownership of non-controlling interests further down in profit and loss statement. So the revenues have always been consolidated. The debt came on the balance sheet in December 2019. So that's where you will see an increase in the gross debt from September to March of Rs. 1,400 crore.
- Saket Kapoor:** And sir, can you give the entire breakups between the geographies of this Rs. 7,700 crore gross debt number? Because the Indian operations we are debt free, I mean, having cash. So, how will you split this Rs. 7,700 crore debt? And what is the roadmap for the debt reduction going forward?
- John Mulhall:** The debt is at each individual operating entity, and as it stands each entity to generate sufficient cash to invest in the future and also to maintain and service the debt and repay the debt ultimately, as we go forward. In the U.S., for example, we have about \$92 million of cash supporting the debt that we have there. We don't, as a rule, move money from India internationally. In return, we seek and we want to invest in India where the opportunity for highest return is rather than using that to pay off international debt, which is relatively cheap compared to Indian debt as well. The debt itself, in total we have SPV debt of about \$275 million. We have got about \$45 million of debt in Kenya, about \$180 million in the U.K., and in the U.S. we have a net debt of about \$300 million. That's the rough picture.
- Saket Kapoor:** Sir, in the specialty product segment we have been posting losses, are these cash losses or the lower utilization levels that are resulting in the same?
- John Mulhall:** Yes, it's going through initial phase at present, and so the volumes are on the lower end, as we are go through our customer testing and customer approval process, that's what is happening there.
- Saket Kapoor:** And could you give some more colour on the raw material price trend, how have been the soda ash industry, how was the raw material and how well are we placed in case of a reduction in salt availability due to lower harvesting this time?
- R. Mukundan:** I don't think salt availability are any issues to us. So except for energy, which is coal or natural gas or fuel oil, we use fuel oil in Kenya, we use gas in U.K., partly gas in U.S. and coal also in U.S. And India we are fully on coal. Except this, everything else we have bulk of our raw material is in-house. We buy very, very little salt, next to nothing from the market. So it's all our own salt works. So the shortage which is there would not come to us because we produce everything and its captive.
- Moderator:** The next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, first one on the domestic soda ash demand, if you can give us some sense of the user industry and how you are catering them, which are the ones that are affected? Of course, you have mentioned that the food and some other industries are less affected, but if you can give some explanation in terms of percentage of the user industry that you are serving. And second question was, when I look at the volume numbers, they have declined by 7%, 8% for the TCL India in soda ash. But I think the overall EBIT numbers had a decline of only 3%, 4%. So, what factors came into play here to save this, because we also had a negative operating leverage there?

Zarir Langrana: Okay, let me go ahead with the Indian market dynamics as they stand today. As Mr. Mukundan mentioned, soda ash to our prime consuming sector, which is detergents, has been moving fairly strongly, we haven't seen much of an impact in that segment, detergent was very early on declared to be an essential industry and all suppliers to the industry, obviously, then had the necessary permissions to move stock to them. The only thing that impacted volumes was really supply chain issues, because some of these industries were in either red zones or in containment zones. That I think is slowly being lifted and we continue to supply at our usual rates, material to this sector. As far as the chemical sector is concerned, silicates and other chemicals, once again there was some small impact for the first few weeks, but that again is coming back on track. Container glass, most of the units continued to operate, but at low capacity utilization rates. Some of them were impacted by the fact that alcohol sales had been stopped. Now that that is coming back slowly in most states in some form or the other, that is also beginning to pick up. The only industry that continues to be impacted to some degree is the flat glass industry for automobiles and architecture. And that we believe might take another few weeks before they actually start coming back into production and dispatches. So, once again, reflective of what we have mentioned in the past, it is really the flat glass sector which accounts roughly for about 25% of soda ash volumes in India, takes a little longer to come back.

Sarvesh Gupta: Yes. Sir my second question was also related to the margins, volume decline of 6%, 7% with negative operating leverage but still EBIT falling by around 4% for the domestic entity.

Zarir Langrana: So I think that really comes up what we always mention and what Mukundan really reemphasised today, which is, we always need to be at the lowest end possible of the delivered cost curve. The volume decline was really in the last month of the fiscal, the few weeks of close down that caused some disruption in volume. But more than made up by operating efficiencies, smarter buying, better ways of working. And of course, a constant focus on driving all costs down, fixed or variable.

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

Rohit Nagraj: So the first question is on sodium bicarb. Can it be used for disinfectant for the community usage? And is there an opportunity there for higher sales?

Zarir. Langrana: So sodium bicarbonate cannot be used for large scale community disinfectant, what can be used and what we are producing and supplying as our contribution to the community and to the small villages and cities around us is sodium hypochlorite. That's a well-established disinfectant. We supplied, as I said, to about 40 villages in and around Mithapur, we supplied to towns as far away as Rajkot, we

supplied to the BMC here in Bombay, and that's something that will continue. However, sodium bicarbonate can be used as a household cleaner for fruits and vegetables, and we are seeing some signs of increase in the volumes of sodium bicarbonate that was going in that segment.

Rohit Nagraj: Okay. And the second question is on the domestic soda ash prices. So has there been any increase over the last three, four months of 2020 in domestic prices, maybe because of the exchange rates being slightly on a higher side?

Zarir. Langrana: No, I think domestic prices have kind of held firm over these last few months. So we have not seen any significant change in pricing. So, as we had mentioned earlier, that is something that we examine almost on a daily basis. So whenever there is an opportunity and a need to do so, we would realign prices either upwards or downwards.

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

Dhavan Shah: So I have a question on the spillover revenues. So can you please share the spillover numbers for this quarter which can come in maybe in the first quarter or maybe the second quarter? And is there any probability that this revenue number will come or the revenue is lost? And the second is, if you can share some colour on the medical bicarb business, how is the outlook there? And is there any probability that you may convert more soda ash into the medical bicarb which can immune around 70%, 80% of your overall business from the degrowth? And thirdly, you mentioned that Magadi, there is hardly any flat glass sale. So what led to such a drastic fall of around 20%-odd on Q-o-Q basis in realization per tonne. If you can share some thoughts on that.

R. Mukundan: I will let Zarir answer the Magadi piece as well as the medical bicarb. Certainly I want to put out a larger piece that bicarb is an area we are expanding investing, both here in India as well as in U.K.. And that will continue. And certainly it's a more stable product because a large part of it goes into food, feed and pharma sector. All sectors are individually important to us. Sorry, the question you had on Magadi, Zarir, you want to take that?

Zarir Langrana: No, the comment I made for flat glass is that Magadi volumes will probably come back a little bit stronger and earlier than others, because of the fact that it's not dependent on flat glass coming back into the marketplace. The volume drop for Magadi was as we have been mentioning, really predicated on the fact that supply chain disturbed India went into lockdown and India is a large market for Magadi product, not for flat glass but for container class and other applications. Southeast Asia had partial lockdowns in Thailand, Vietnam, Indonesia, once again key markets from Magadi. So it was really more on terms of supply chain disruptions rather than any fundamental change in market or customer demand. And we will begin to see that coming back. And of course, pricing was affected by a reflection of the general softness that started to emerge earlier on in the Southeast Asian market, which has affected not just Magadi but I think soda ash pricing across producers that serve those markets, whether it's Turkish product, North American product, Magadi product. I think as Mukund mentioned, the deep sea trade markets were the ones that went into softness, even a little before the pandemic.

Dhavan Shah: Okay. And the overall spillover sales for the entire basic chemical segment if you can share for Q4, is that around Rs. 100-odd crore?

- R. Mukundan:** So, I can't answer whether that's deferral, but certainly I think there was lost revenues in the last month because of logistics challenges we are facing. And in India it was one week, in export markets, especially in Southeast Asia, it was slightly three weeks or three and a half weeks, probably. That is all that I can say. Maybe John can add specifically whether it is, how much of deferral is because of logistics, John you have any input on that?
- John Mulhall:** Yes, nothing too specific though, Mukund. We have logistics deferrals every quarter, whether it's a vessel leaving from North America to Southeast Asia, that could be 20,000 tones that slips a day here or there, assuming for Kenya, one vessel could be a couple of million dollars. So these are just operational challenges. What we highlighted in my commentary was, because the port was not available, that's what caused the delays. So that's definitely a push of a couple of million dollars into quarter one as far as Kenya is concerned. So we are pushing to try and pick that up.
- Dhavan Shah:** Got it. And the last one, because I missed because of drop off. So, you mentioned that the CAPEX in FY '21 was around Rs. 900-odd crore which is deferred. So how much would be the CAPEX in FY '21 and FY '22?
- R. Mukundan:** So, I think really what I mentioned that the CAPEX will sharply come down, but we will come back with these numbers by the time first quarter results or second quarter results. We will let you know more specifics. The reason I want to do that at that point in time, you would also get a color on what is the kind of cash flow and how we will protect the cash. But all I can tell you is that the team has worked well and I think we have had two challenges within the team, the long-term impact on the businesses to be protected, especially those markets which serve the food, pharma and feed sectors and also we are trying to rationalize our CAPEX plan, for which we will come back to you specifically again in first quarter. So it is not Rs. 900 crore, it is going to be substantially less, but we will come back.
- Moderator:** Thank you. Ladies and gentlemen, that was the last questions. I now hand the conference over to the management for the closing comments.
- R. Mukundan:** Yes. So I just wanted to end the session by saying that, yes, what we had said at the last quarter is on us. But I think we are well prepared and we would continue to engage on the issue of how do we protect and conserve cash in the current situation while continuing to build our customer engagement. Long-term, we see ourselves as a business which has four pillars, two of them certainly within Tata Chemicals. And even today as we speak, these are large segments. So we will be reconfiguring our presentation of the way we approach strategy into first pillar of performance materials, and second pillar being the Nutrition Science. The third pillar of the company, Agri Science will continue to be done in our subsidiary Rallis. The fourth one, I think would take a bit longer than what we had thought, Energy Science. I think that is mainly because our customers are postponing their plans and we will keep pace with the way the customers build. All I can say is that the transition which has happened, has transformed us into a very sharply focussed chemical company and chemistry company, with the four pillars of Performance Materials, Nutrition Science Agri Science and Energy science. And we will continue to move in that direction because these are long-term trends we are working on and these are long-term business opportunities which are reshaping the way the world progresses, even though there is a short-term concern on COVID-19. And lastly I would say, I wish all of you a safe quarter ahead till we meet again. Stay safe, everyone. Thank you.

