



Tata Chemicals Limited

Q2 FY18 Earnings Conference Call

November 13, 2017

Moderator Ladies and Gentlemen, Good Day and Welcome to the Tata Chemicals Limited Q2 & H1 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa Thank you. Good day, everyone. And thank you for joining us on Tata Chemicals Q2 & H1 FY18 Earnings Call. We have with us today, Mr. R. Mukundan – Managing Director and Mr. John Mulhall – Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made during today's discussion 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.

R. Mukundan Thank you, Gavin. And thanks, everyone, for joining us to what has been a strong quarter for us. I have with me our CFO – Mr. John Mulhall, who will run you through the key financial highlights for the quarter.

Let me start the discussion by highlighting some of the key operating performance for the quarter:

Our performance for the first half is a result of various initiatives which we have undertaken and are primarily focusing on operating efficiency and profitability, as well as some of the non-recurring expenses last year, i.e. losses incurred on pulses last year as well as adverse FOREX charges. Also, we continue to make significant progress towards deleveraging our balance sheet and presently we are almost debt-free on TCL standalone basis.

From the business perspective - Domestic soda ash business continues to deliver steady performance. There has been a stable demand-supply scenario. Our realizations have remained steady and we did not witness any material impact, except for some input costs, in the energy cost moving up. Going forward, we expect the business to perform consistently in line with expectation.

International businesses have also performed well. TCNA was strong on volume, better utilization, stable prices and have delivered a strong quarter in terms of revenue, margin and profitability. The European business too has performed well. As you recall, Q1 was impacted by fire and failure due to high voltage line leading to disruption for about eight to ten days. The volumes are now at normal operating levels. The performance in Africa continues to improve with the improved

profitability margin during the current quarter was largely due to lower input prices and also consistent quality of production.

For the consumer business – Tata Salt continues to perform well, maintaining its leadership position. The volumes were strong for the quarter and this quarter we have seen the business trending back to normalcy. By the last month of this quarter, the business was back to where it should be, in terms of our plan for the year.

Our pulses and spices business performed well with improved profitability and controlled market spending, but the volumes in pulses have remained a bit soft on the back of our renewed focus on looking at modern minded stores and also making sure that the volumes were controlled enough to ride through the falling prices, which impacted several players in the business.

Moving on to the Farm business: We await the NCLT's approval for urea transaction. With respect to the Haldia plant – we have announced the sale of phosphatic fertilizer to IRC Agrochemicals, a subsidiary of Indorama Singapore. The transaction would involve transfer of manufacturing facility, working capital, product brand, but excluding the subsidy. In the case of urea, the transaction includes the subsidiary amount and the transaction is very much in line with our strategy to exit the regulated business and focusing more on chemicals, specialty chemicals and consumer business.

A quick comment on the specialty chemicals and new business before I conclude. , While it is in nascent stage, I would like to state that we are pleased with the way the business is shaping up. As recent addition to our portfolio, our efforts are to continue to invest and build exciting product pipeline. In this regard, for the nutraceutical plant, the land in Nellore Andhra Pradesh is in our possession and, the ground breaking for the operations is expected to be tomorrow. And as far as HDS plant is concerned, we intend to progress, as planned, as we move along.

To conclude: I would like to mention that we are progressing pretty much in line with our stated strategy of focusing on building profitability and delivering higher return at the same time deleveraging balance sheet. And our strategic direction remains firmly in place, which is; continue to maintain leadership in our industrial chemical business, continue to build and grow the specialty chemical business and enter new categories in the consumer business.

And with this broad strategy we are building strengths, both operational, strategic and people strength in the company. With these few words, I now request John to give you insights on the financial performance.

John Mulhall

Thank you, Mukund. Let me just summarize what happened in the quarter under review. The analyst presentation has all the specific details on financials. We were pleased the way the business has performed during the quarter, both domestically and internationally. In the Indian operation, soda-ash business performed well on the back of demand- supply and stable realizations. Salt performed well and covered from the lower sales volume in the first quarter and we continue to maintain its leadership position. And while the Haldia plant was shut for whole of first quarter, it has restarted in the second quarter and has performed very well in this quarter.

From an International perspective, Tata Chemicals North America, their production held up well and fixed costs did contribute to support the profit for the quarter. And the European operations, both the salt and soda-ash businesses contributed profits

in their own rights in the quarter. Magadi's improved performance was partly aided by lower raw material costs.

And finally, we continue to focus on our debt reduction and working capital management. And you will see that in the notes before, our net debt position in Indian business is just over Rs. 184 crore down over Rs. 1,000 crore in the start of the year.

So, on that basis there I will open to any questions.

Moderator Thank you very much, sir. First question from the line of Mononita Mitra from Stewart & Mackertich. Please go ahead.

Mononita Mitra I have a couple of questions on the company's subsidiary, which is Rallis India.

John Mulhall Sorry, that question is best directed towards the Rallis management on their call.

Mononita Mitra Okay. For Tata Chemicals, the management indicated that the standalone business will become debt free. So, by which year it will be debt free?

R. Mukundan Standalone, we have said net debt is almost, so I made a statement that it is almost net debt free. I think the net debt figure is close to Rs. 184 crore.

Mononita Mitra Okay. And the company also was investing in manufacturing facilities in Gujarat and Andhra Pradesh. So, can you throw some light on it, how much, what is it?

R. Mukundan The specific figures were announced at the time we did announce, so I think put together it is in excess of about Rs. 500-odd crore. The first of the plant which is the nutraceutical plant, as I mentioned, the ground breaking is tomorrow.

Mononita Mitra Ok. The Tata Chemicals sold its Haldia fertilizer's business for Rs. 375 crore. So, can you tell me with the additional cash flow of Rs. 375 crore what are the plans that the company have?

R. Mukundan I think we have already highlighted, our strategy is to focus on continue to maintain leadership in the Industrial chemical business and also to build the specialty chemical business. So, as and when the investment process is cleared by the board, we will come back to you. We have really an exciting growth journey charted out for this company.

Moderator Thank you. Our next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S. Padmanabhan Sir, my question is around the soda-ash business, both on the domestic and international terrain. If I am correct, last year you had talked about potential capacities coming in this year. If you can throw some light on what do we expect both on the Indian terrain as far as soda-ash prices, spreads and all? And also internationally how this year is going to pan out and probably the next year?

R. Mukundan I think part of the capacities have already come in, close to the tune of about 0.5 million tonnes from Turkey and the markets have absorbed it. There has been a marginal tightening of supply, the prices have actually moved up a bit in the market, mainly on the back of certain capacities in China having been taken down. So, we are witnessing, I would say, stable to tight market conditions as we speak. Next year when the additional capacities in Turkey again come on stream, there

may be slight or marginal pressure. But largely our view of this has been that the conditions will remain largely balanced.

S. Padmanabhan

Sure. And in India how do we see that?

R. Mukundan

India is part of the global balanced situation; I do not think there is going to be any big shift in the Indian market. Our view has been that the supply-demand situation will largely remain balanced, except for pockets where sometimes there could be some ships arriving ahead or behind. I think those things happen as a very temporary basis but they are a not long-term trend.

S. Padmanabhan

Sure. Sir, on the salt business, I mean, more or less, has the business in terms of volumes kind of caught up in terms of achieving?

R. Mukundan

Yes, I had mentioned that. I think it is certainly ahead of last year, but I think let me just state that in terms of in line we do track growth year-on-year, it has just about caught up with our plans what we intended for the month of September in the month of September. So we do expect H2 to remain pretty much on target at what we had budgeted, and it will be slightly ahead of last year.

S. Padmanabhan

Sure. And sir just one small additional question from my side, I mean, at this point of time while the standalone debt has come off pretty significantly, we still have about Rs. 4,500 crore or Rs. 4,400 crore of net debt. With the cash coming out of probably the sale of these businesses and the cash, what would be the net debt which you would be comfortable with? Because I also assume that we are looking at increasing the share in some of these other businesses that you spoke about.

R. Mukundan

Yes. I think broadly speaking, the net debt in the international businesses, the movement would start to happen as the loans come up for repayment. So I think John can highlight that very clearly. Broadly speaking, we do expect that the cash in the Company's books as we go forward will be used for the various directions and strategy, including strengthening and building the leadership position in the soda-ash business, also investments in the specialty chemical business, which we will announce from time to time. So, I really want to say that the Board has reviewed these strategies with the company and they clearly see the first step is to get back the lost turnover which we have lost, because of sale of the fertilizer business. And over a period of time, even catch up with the growth as we move along.

S. Padmanabhan

Just one thing, if you can throw some light with respect to the strategy and what we are targeting in the specialty chemicals business? Because it looks like a lot of companies are not talking about it, talking about benefits coming out of China. I mean, what are we really targeting in this space?

R. Mukundan

So, as I said, the two approved projects, one is in the area of nutraceuticals; which the plant's ground breaking is tomorrow. And approximately, if I recall correctly last year, Rs. 260 crore or Rs. 270 crore was cleared by the board as the first phase of investment in oligosaccharides and polyols. And a second investment is in the silica business, which is HDS, which is used in various chemical inputs including pesticides, rubber industry, and that is about same amount, . And there the next steps for the business projects are being undertaken by the team. But these two are approved projects as of now.

Moderator

Thank you. Our next question is from the line of Abhijit Akela from India Infoline. Please go ahead.

- Abhijit Akela** First, just on the soda-ash market, a follow-up. We have seen soda-ash prices trending up in some markets in the last few months because of these environmental issues in China. Do you see possibility that margins could pick up from the levels we have seen in 2Q, say in 3Q and in 2H?
- R. Mukundan** So, I think I made this point that to that extent there would also be additional capacity coming in from Turkey. So, my prognosis for this market is that it is going to be fairly balanced with a slight bias in some pockets for hardness, in some pockets for softness. As I said, it will be very temporal in nature, it is not going to be a permanent feature. So, suddenly you may find that some material has landed in some market and prices have dropped by about \$5 - \$10. In some places the material may not be available. So, I think these dislocations will continue to happen in markets. But if you ask me overall, I think I would rather today take it in terms of balanced biased.
- Abhijit Akela** Okay. And second, has the Tata Global Beverages share sale proceeds been already factored into the debt reduction this quarter?
- R. Mukundan** Yes, it was a net debt number, so it was after accounting for that cash.
- Abhijit Akela** Right. So, that could have been about Rs. 900 crore, is that correct?
- R. Mukundan** That is right.
- Abhijit Akela** Okay. And timeline on the NCLT approval for the urea project, do we expect it within the next quarter and do we have a firmer sense of exactly what the final settlement amount will be?
- R. Mukundan** We said it is \$400 million, the exact rupee figure was released at the time, Rs. 2,670 crore is the figure and I think there will be some working capital adjustments made closer to the deal. But broadly speaking, we do expect that NCLT approvals should be available to us, including all the other issues somewhere in January, February region.
- Abhijit Akela** And just to clarify, the urea business it does include the subsidy outstanding as well?
- R. Mukundan** Yes, the entire working capital is part of that. So, when we announced the IRC the number was Rs. 375 crore, the Rs.375 crore does not include the subsidy outstanding on the Phosphatics.
- Abhijit Akela** Got it. This quarter we have seen, or rather in the first half we have not seen much sales from the other agri input segment in the standalone financials, which I believe is the pesticides business for you, excluding Rallis. So, any color on that?
- R. Mukundan** No, I think it is clearly the Company's strategy to concentrate the farm business through Rallis. So, we have moved a strategy in line with that. So, clearly that business is being done by them and there is no duplicity of efforts because you would see that we are exiting the business, we will have no team to deal with this within Tata Chemicals very soon.
- Abhijit Akela** Okay, got it. And lastly, on the US business, congratulations on a very good recovery there. This production increase of 600,000-odd tonnes for the quarter, are we seeing that continuing into 3Q?

- R. Mukundan** That is the total production in the quarter. So, I think they have produced to a plan, we expect that there is a complete winterization plan which they have, which means to deal with severe winters. And last year also we had done a lot a planning but I think it did fail in the month of Jan. So, we hope this time our plans are better, so that is all I can say. I think we are just entering winter, hopefully we will get through the severity of winter this time.
- Abhijit Akela** And just one last quick clarification, excluding the growth projects you have announced, which are these Rs. 550-odd crore for nutraceuticals and HDS, and about Rs. 220 crore for the salt business you announced last quarter. Excluding that the maintenance CAPEX on an annual basis would be in the range of Rs. 600 crore to Rs. 700 crore per year, is that correct?
- R. Mukundan** Yes, I think about Rs. 550 crore to Rs. 600 crore. In addition to that, I think what I would say is that there is a very clear focused effort on looking at some of the additional investments in the inorganic chemical business, so we will come back to all of you shortly as soon as the board clears it.
- Moderator** Thank you. Our next question is from the line of Sumant Kumar from Emkay Global. Please go ahead.
- Sumant Kumar** Sir, my question is regarding soda-ash. So, in recent months we have seen energy price has increased, so what is the impact on margins across our soda-ash business in TCNA and Africa, Europe and India?
- R. Mukundan** I think the bulk of the impact you would see a continuation of the current impact, because as far as TCNA and Tata Chemicals India is concerned, we are mostly linked to coal, and most of these coal contracts are signed for the year. So, whatever the run-rate margin is that would continue going forward. As far as Magadi is concerned where it is a stronger linkage to fuel oil, there is a marginal impact on their numbers, but it is fairly marginal as of now.
- Sumant Kumar** And what about Europe?
- R. Mukundan** Europe is gas completely, so I think gas and coal are more or less hedged and covered for the period.
- Sumant Kumar** Okay. And in standalone business we have seen a decline in PBT level of inorganic chemicals. So, I think what we have seen there is a decline in soda-ash sales volume in Q2 FY18. So, what are the other key reasons for declining profits?
- R. Mukundan** There is no key reason, I think it is fundamentally related to the impacts of the margin in terms of the coal price increase which has come through. And that continues, it was in quarter one and it is quarter two. In fact, if you look at the unit, that has performed better than budget, and we had budgeted for these price increases.
- Sumant Kumar** No, I am just asking the salt business, how the salt business margin was and soda ash margin in India business?
- R. Mukundan** Yes, that's what. So I am just mentioning, there is the same energy which has come in so they have performed better than budget, and slightly behind last year that is on soda-ash. As far as salt is concerned, it is better than last year and better than the budget, broadly.
- Sumant Kumar** So, only key reason is decline in margin in soda-ash business?

- R. Mukundan** Yes.
- Moderator** Thank you. Our next question is from the line of Chintan Modi from Motilal Oswal. Please go ahead.
- Chintan Modi** So, few questions on your consumer part of the business. So, again, this quarter we saw subdued performance of around Rs. 338 crore. Can you highlight like again this would be largely due to GST related issues?
- R. Mukundan** No, I think these are not GST related issues, if you look at the same period last year the pulse prices were almost twice of what they are ruling today. So there is a price impact, so even if you sold the same tonnage the price would have come down. The second is that we also shifted the focus, as I said, to modern stores. And we are focusing on stores where we can get higher level of brand acceptance faster. And lastly, the third reason is that the team had actually strategically slowed down some of the sales due to the issues relates to falling pulse prices. So it is primarily on account of pulses and we plan the way they have done. And that has impacted, that has come out very positively in terms of better protection of margins.
- Chintan Modi** Okay. And should we assume that out of the total other segment revenue, 70% would be coming from pulses business? I mean, is that a right way to look at it?
- J. Mulhall** Pretty much, yes.
- Chintan Modi** Okay. And from a long-term perspective when do you intend, I mean, from a company's total overall strategic plan, when do you expect this to breakeven, the consumer business?
- R. Mukundan** It will. And I think we should see it breaking even from next year, that is a broad plan. But as we start breaking even in the categories we are existing, we will be launching new categories.
- Chintan Modi** So, you mean to say that the existing categories will breakeven by next year, but since you may launch new categories that may again require some kind of investments. So, on an overall basis we may not see positive number on the bottom-line from this business?
- R. Mukundan** I am not making any statement. All I am saying is that you will see consistent investment in this business because we see a long-term potential. So, that is all I am making a statement. And I am saying, as far as existing categories are concerned, our effort will be sometime during next year we move towards breakeven.
- Chintan Modi** Okay. And can you also highlight like what kind of budget do you have for sales and marketing, or advertisement for the consumers business?
- R. Mukundan** So, usually once business stabilizes it should be about 7% to 9% broadly Advertisement to Sales ratio. But in the initial period it can be as high as 25%, 30%, 40%.
- Chintan Modi** And just one last, if you can highlight on your spices business, how that has performed during the quarter? And you had plans to expand in more geographies.
- R. Mukundan** So, I think as far as the southern geography is concerned, we have not yet opened it up because this means a lot more new variants coming on the horizon. So, we

are spending a bit more time on the geographies we are present to make sure that we have got a deeper market share in these existing geographies.

Moderator

Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you, sir.

R. Mukundan

So, let me just thank everyone for joining on the call. And I would just like to close by saying that I think the company has made an exciting shift in the strategy of moving away from subsidy driven businesses and having concluded at least the agreements for the sale of urea and sale of the phosphate business. And now the management is content on progressing its plans in terms of building the inorganic chemicals, the specialty chemicals in the consumer business. Thank you everyone for this. And we will continue to progress our strategy.
