Tata Chemicals Limited

Q1 FY18 Earnings Conference Call
August 09, 2017

Moderator Ladies and gentlemen, good day and welcome to the Tata Chemicals Limited Q1 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 Q1 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 in today's discussion may be forward-looking statements 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. Welcome, everyone, for taking out time to join this Q1 FY18 earnings call. Let me first briefly run you through key strategy and operational highlight, following which my colleague John will discuss our financial performance in detail.

Let me first start by saying the Q1 results of FY2018 reflects planned performance which we had, except for one one-off which was unexpected. Broadly speaking, at a consolidated PAT level the reduction of profit was Rs. 28 crore, which one can explain on one-time profit on Turbhe land sale through Rallis of Rs. 30 crore which is not part of this year's Q1 profit. Barring that, I would say that the three elements which have broadly contributed to the numbers as they are reflected, two of them planned and one unplanned. The planned ones was the Haldia shutdown which was for shifting the ammonia pipeline, but that did last little bit longer than what we had anticipated due to CPCB notice, but the plant has resumed operations and it is moving back to normal. On the consumer side, we had taken strategy of focusing on secondary sales, not on primary sales, to destock the pipeline. That has been achieved and now the pipeline is being restocked with fresh stock, which means the primaries are back to equaling the secondary's. For the first quarter, the secondary sales were ahead of the primary in our effort to clear the inventory. And the transition through GST was extremely smooth and that is a big positive.

The unexpected one-off which happened was the UK operational blip due to failure in the high voltage line, which led to disruption of about eight to ten days, its bottom-line impact was about Rs. 12 crore.

Overall, the domestic operations remained steady and international businesses also reflected a very steady performance, especially at USA and Magadi.

We also continue to make progress in terms of deleveraging; our continued focus on cash and debt reduction has borne fruit. The net debt on standalone basis is down to Rs. 886 crore and on the consolidated basis down to Rs. 5,099 crore. And that process will continue in terms of pushing towards our target of becoming a net debt free company on standalone basis by next quarter. And also getting to a comfortable level of Rs. 3,000 crore - Rs. 3,500 crore of net debt on a consolidated basis.

We expect a complete pick up in our performance both in terms of sales and in terms of bottom-line on the back of our industrial chemicals business also with the focused approach we have towards consumer business.

Moving on to business wise performance, Domestic soda ash business remained steady on the back of a balanced demand supply scenario. The prices, while having a slight pressure in quarter one, have since moved in the direction of a tight demand supply situation and we expect the realizations to be, more or less, steady or there could certainly be certain element of tightness continuing. In Q3 when Turkish capacity comes online we need to watch it very carefully, but overall considering the situation as it exists, we do not expect any significant impact coming out of Turkey, the tightness in the market is likely to continue.

For the consumer business, the performance on a primary sale basis was soft, while the secondary basis was on target. It was due to the strategy of the business to destock the entire pipeline. The product portfolio is being strengthened through improvements which are being done in R&D and innovation, we are confident that these products will continue to gain market share and we can see early signs of that already in terms of spices, garnering a pretty good market share in Punjab and northern markets. Those were the first markets where we launched our product and the same trend is likely to continue across the board.

On the farm business, the sale of urea business to Yara is on track. We have got all the approvals, we expect the NCLT hearing to happen middle of this month and the transaction to close within about 30 days from that point onwards. Haldia is back to normal and should contribute handsomely as the best quarters they usually are Q2 and Q3.

On the international business, TCNA has given a steady and reliable performance and capacity utilization remained very strong. While the performance in the US dollar terms is higher, the rupee terms it is lower due to impact of exchange translation. The performance of European business was certainly impacted by the fire and outage due to high voltage lines and the loss of facility. We have suffered £1.5 million damage due to the fire. The performance in Kenya business was encouraging, they have performed better than the budget and better than the last year quarter. And our focus has been towards improving quality and efficiency and things are very much on target.

To conclude, our strategy to focus increasingly on consumer and specialty business is ongoing, it is on track. The consumer business already is a net revenue earner. As far as our specialty business is concerned, Rallis is contributing handsomely. The Board has cleared close to about Rs. 565 crore odd investments in the Nutraceutical project, where the land has been acquired in Nellore. The project should be commissioned by December of next year. And as far as the silica is concerned, the project also is on track with the land in Dahej very close to acquisition and our business plan moving into direction which we wanted. So, to again reemphasize, the operating performance of the current businesses remain on track, we remain upbeat on the current operations. But at the same time, our strategy is to focus on specialty and on consumer businesses.

With this, I will request John to give you insights on the financial performance.

John Mulhall Thanks Mukund, you already have the analyst pack and you saw the results last night along the press release, I just want to summarize a couple of things briefly.

First of all revenue is down, it was entirely planned. And the reduction in consolidated revenue and consolidated PBT and PAT does reflect the operations in India, consolidated into one number. I think for me the highlights were, first of all, we delivered pretty much ahead of expectation for quarter one, as Mukund referenced. Production in the US where we targeted higher production last year and we delivered that. In Magadi, we delivered higher production last year and we would have done the same in the UK, but for the fire which was discussed earlier. So, the areas of concern that we probably indicated last year seem to have stabilized and we are very happy about this, due to a lot of effort by the manufacturing teams there.

Our focus on debt has not subsided, we have delivered a working capital number of Rs. 1,300 crore , and that is down Rs. 2,000 crore over two years ago. So again a very good performance by all the business teams focusing on reducing working capital from our system. On a consolidated debt basis, we are Rs. 5,099 crore net debt, Rs. 6,785 crore gross debt. On a standalone basis we have Rs. 886 crore net debt and Rs. 1,917 crore of gross debt. These are all very good performances, better than we had at start of March. Our subsidiary outstanding was Rs. 1,101 crore against Rs. 1,684 crore at March 17, this reflects both collections from the government and also a lack of trading from Haldia operation which was down for about 2.5 months due to CPCB issue.

Just one more thing, it has not obviously effected quarter one but in quarter two you have the GST impact. I just want to confirm we have completed the first stage, with a very smooth transition on GST, we will be filing our returns as normal from next week onwards. So, we do not anticipate any significant issues from that.

So, on that, we are open up to any questions. Thank you.

Moderator Thank you very much, sir. Our first question is from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel I have two questions sir, one with respect to destocking in the consumer segment. What is the rationale behind that, because I am not seeing any change in the GST,

GST impact in your consumer portfolio and we have done significant destocking. So, what was the rationale behind destocking?

R. Mukundan I think in terms of GST it was not more out of GST, broadly the destocking focus was on pulses and on spices because unlike salt which has an extended life, these have expiry dates and we wanted to make sure that there were no old stocks and since anyway there was a pressure in stocking by the retailers, we used this period to ensure that we destock completely and we put fresh stocks in. And a part of that focus also is spilled over into salt, very minor amount but it did. So, that is really the broad strategy which we had. It was not GST led, again, it was more led by our own operations.

Prakash Goel Sir, the drop in volume of salt segment, the branded salt segment as we see is almost like an 10% drop. Are we confident that the next three quarters we will have the annual growth YoY?

R. Mukundan Yes.

Prakash Goel So, probably Q2 onwards we would see significant growth to cover up for the drop in this quarter?

R. Mukundan Yes, I think Q2 we would see normal numbers coming back and Q3 and Q4 would see the growth, and Q3 and Q4 you would see the numbers going back to beyond whatever previously.

Prakash Goel Are we maintaining our market share, any competition from like competition like Patanjali eating into our market share in the secondary sales?

R. Mukundan No, not at all. It is pretty insignificant in terms of, I think there will always be some moments here and there in market-to-market, but on an all India basis I think position still remains unassailable and our teams are looking forward to increasing this number on a three year basis to move from broadly 1 million tons to 1.5 million tons over a three to four year period. And clearly, we see our market share at 25% of overall salt consumption in India. We think there is a huge headroom to grow that to at least 40% - 45%. So, really we are not focused on the fact that we are 60% - 65% of the branded market share, the way we are measuring market share now is to say we are only 25% of the salt consumption in India.

Prakash Goel Okay. Sir, just to elaborate on this, can we understand what is our strategy to increase the market share going forward, whether it will be through higher advertisement, newer channels, new product, how would we go about it? If you can throw some light on that.

R. Mukundan If you look at our market share, I think there is a very strong market, our market share of the total consumption is as high as 35% - 40% in some markets, in some markets it is way below the 25% number, which I said, 15% or so. And this is spread across districts; it is spread across states, so we do know that some of the states and some of the districts we have headroom to even take it to our best performing markets. So, just a fact of driving market share across India in terms of would result in better numbers overall. And secondly, there are some markets which we have tended to supply earlier and tended to supply later, and certainly our market shares are lower in south and east which we will tend to push higher than the move forward.

Prakash Goel So, are we increasing the distributors margin or number of people in the distribution team, anything of that sort we will be doing to increase the market share or it is just that the focus to reach more customer in this regime where you have lower market share?

R. Mukundan Yes, in terms of retail outreach we have a long way to go, so currently we have a reach of about 2 lakh outlets and if you look at what a good FMCG company should do, it is about 6 lakh outlets. So, we have a long headroom to grow. Our strength has been mainly wholesale, but wholesale the strength actually leads to certain black spots in the market place where they do not get serviced. So, this increased focus on retail is really what we are driving and that is driven partly through, we have already added team members within our sales team last year and that is beginning to pay dividends as we move forward because more capacity is coming on stream or a Mithapur every year. So, every year Mithapur is going to be adding a slight level of capacity to take that overall number to, first to 1.2 [million tonnes] and then to 1.4 [mt] and then to 1.5 [mt].

Prakash Goel Sir, on the fertilizer side right now we are seeing obviously sharp movements in the volumes, one quarter we do very good and one quarter we completely dry out the volumes. So, what is our strategy, because we fear that if the market share is not consistent and when you try to exit this business you would not get the value you would have got otherwise, so what is your feedback on that? And why does subsidy outstanding is Rs. 1,100 crore despite we not doing business this quarter, probably the number should have been much lower. So, as an analyst are we missing out anything in that?

R. Mukundan So, I think the subsidy outstanding is mainly coming off urea which is a steady sales through the year, because urea production happens every day, the same number is produced. And urea sales, while they may be seasonal, the production is absolutely constant. As far as Haldia is concerned, we produce very close to season. And I think, as I said, we did missed a part of the season because of the CPCB notice that was unexpected. So, we would not have seen this kind of a drop had that not happened for the extended shutdown which we had. Leaving that aside, I think the stronger months are second quarter and third quarter, in fact third quarter is the strongest month for Haldia, and usually the fourth quarter we slow it down. So, you are going to see seasonal numbers coming out of Haldia because that is the strategy which we have of running for cash, so you will not see every quarter putting the same revenue number, we will not do it. Our approach is to run very close to market and to keep the pipeline almost tight.

Prakash Goel Thank you, sir. And just, this outstanding subsidy includes urea, right?

R. Mukundan Yes.

Prakash Goel We thought that since it is a discontinued operation the subsidy is just…

R. Mukundan No, we have not given that. I think maybe it I a good point you have, but from next quarter because the sale would have consummated, it will be infructuous in any case.

John Mulhall Just a clarification, Prakash, we do this as a note to our accounts. It was a discontinued operation, we run it as our operations until it's finally sold. So, we have to manage it on one basis. That is why show as one-on-one.

R. Mukundan I also want to clarify to what John said, even though it is discontinued operation, the profits earned by that unit in quarter one and quarter two would come fully to the shareholders of Tata Chemicals, it is our money.

Moderator Thank you, the next question is from Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi Sir, could you just update us on the latest with regards to the anti-dumping duty on soda ash in India?

R. Mukundan So, anti-dumping duty was withdrawn but there is a High Court injunction which just come in place again, so we really have no view on it, it is still in place. But effectively, as I mentioned, the market is extremely tight and this tightness is coming out of very tight supply situation.

Riddhesh Gandhi So, you think that a combination of let's say anti-dumping going away and the incremental Turkish capacity which comes on line should at most have a quarter or two impact and then it should sort of stabilize in terms of pricing, as in how low do you think the prices could actually end up going in the Indian market?

R. Mukundan We have almost reached the end of quarter two or we are sitting in the middle of quarter two and I think it is only a month away. So, there is hardly any impact on that. Quarter three, as I said, the supplies could come in, but the market conditions are extremely tight, so really I could have given a much clearer signal had I had the market conditions being softer. So, the current situation is that there is downward pressure which will come from anti-dumping, but the tightness in market is keeping the prices up, so that is where we are. And the other element which we need to play out is how much stronger the rupee gets beyond this point. If the rupee stays at this level I would say it is very marginal in the impact we are expecting, but rupee strengthens more than we will have a different set of number. So, I think we should wait for our second quarter results call to get a final view on where we are moving in all these three forces. So, it is the current tightness, the supplies coming on in the current tight situation and the rupee strengthening, all three may play out. As far as we are concerned, 50% of Magadi is shipped to India, and there is always a possibility to bring material from US, so we are extremely neutral as far as our broad understanding on a consolidated basis is concerned on how the sourcing plays out.

Riddhesh Gandhi Got it. And the last question, given effectively that the consumer business and the chemicals business are dramatically different, is there any plans or any thoughts with regards to potentially splitting up the two businesses unlocking on the consumer side?

R. Mukundan So, the way we see it is that we have got a neat little soda ash business which is a cash generator for company and, I think, every company wants to have one business which is a generator of cash. And we have got two growth engines of the company, the specialty and consumer, the cash which we generate will be partly used to fund. So, we will continue on the current path of focusing on consumer and specialty. And growing that as a portfolio our intended strategy which we have laid out in our annual report, this was laid out two years ago, so I think we have got three years more runway to go that this PBT and the PAT levels, 50% of the contribution would shift to specialty and consumer business at the end of the five year period, which is three more years to go, which is by 2020.

Moderator Thank you. Our next question is from the line of Alok Deshpande from HSBC. Please go ahead.

Alok Deshpande My first question is on the North American business, I just wanted to understand, despite good utilization levels in this quarter what has lead to the fall in margins?

John Mulhall There has been a price reduction in the market from last year that we saw that from start of this year. So, I think we discussed this probably in March review with you as well.

Alok Deshpande But John, if you see the sales that you have reported and you see the sales volume that is reported, the price that we are getting is sort of flat quarter-on-quarter. Is that a fair calculation?

John Mulhall No, the price is down a couple of dollars.

R. Mukundan So, price is broadly down about $3 or $4, I mean it is broadly in that range, it is really that plus the combination of stronger rupee, so there is a translation issue also involved here.

Alok Deshpande Okay, so there is no escalation in cost, right, if you comparing last year?

John Mulhall No.

Alok Deshpande And secondly, just to reconfirm what you said on the salt side, you were saying that you will still finish the year with a positive growth, is that what you are targeting?

John Mulhall Yes, that is what we are targeting.

Alok Deshpande Okay. And the sort of internal target you briefly mentioned about, taking the number from 1 million ton to say 1.5 million. Even if you look at a five year picture, 8% to 10% growth is what you had done in the internal targeting, is that a fair assumption?

R. Mukundan Yes, I think the plan is to take the capacity, our own capacity to 1.5 million and that would be executed over the next four to five year. And the market demand should, as we penetrate, should move in tandem with that because as it reaches 1.4 or 1.5 we are not so fussed about it. Yesterday the board also cleared Rs. 220 crore of investment in additional salt facilities that is information I can share with you. So that is all keeping in line with our strategy, the Board cleared Rs. 220 crore investment further in salt.

Alok Deshpande And just one last question on pulses, so considering the very sharp volatility we have seen in pulses prices last year and probably nothing much has changed this year as well. So, this quarter can we consider this quarter as a one-off or are we consciously going a little cautious on pulses this year to see how the price movements pan out?

R. Mukundan So, pulses, our strategy always has been to stick to A category stores, not to go below that and we will stick to that strategy. And we are intending to finish the year with a neutral PBT level as far as the bottom-line is concerned, and may be a flattish sort of revenue. Because while the volume may be up, the prices are also down this year, so we really cannot push the value line beyond a point.

Alok Deshpande So, we are seeing flattish sales in pulses and we are seeing some neutral PBT as in breakeven PBT or comparison year-on-year?

R. Mukundan No, I think we are looking at breakeven PBT this year, that is really what our annual target is, that will be full year run rate.

Alok Deshpande On everything put together, pulses, spices, everything put together including pulses?

R. Mukundan The question was limited to pulses, I responded to it. In spices, we will continue to invest, we are still in investment phase, we haven't reached the comfortable level of about 10% to 15% market share in most markets, so we are still trailing that. The strongest market is Punjab, there is at about 5% to 6% market share as of now. So, I think we have got a long way to go there, so we will continue to invest in spices.

Moderator Thank you. Our next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia Just a couple of questions. First is on the soda ash, kind of chemical business, now a couple of years back we were impacted by the lower utilizations and the excess capacity in the industry. And since then we have taken a lot of restructuring and the cost initiative. So, fast forward three, four years, what kind of breakeven utilization we would now have in most of these facilities in North America, Kenya and Europe, compared to say three, four years back?

R. Mukundan Broadly the capacity, we are fully sold out all the time, so really there is no issue of unutilized capacity, what we produce we sell. And the bulk of the movement, either are cost movements or are price movements, so really the margin movements would be explained by that. And ideally, we should produce every ton we can produce, there are usually sometimes one-offs, US had an unfortunate one-off during winter, and UK had a one-off this quarter. But what were the numbers last year, I think we expect the Magadi to be profitable all the way through this year, last year too it was profitable and year before it made money. And as far as UK is concerned last full year it turned profitable and this year again we expect to end the year in profits. We have set the guidance for UK is anywhere between £25 million to £26 million of EBITDA, we are sticking to that all the way through next couple of years. And Magadi, certainly I think we will fluctuate between \$5 million to \$10 million of PAT level year-on-year, that is a broad range and it will operate.

Viraj Kacharia Sir, because even if you talk about Magadi and US, the margins are still kind of below the peak we had in 2011-2012, those years. So, basically, we have focused a lot on the cost structure part, we have done a lot of restructuring. So, basically, we just want to get a sense, if the tightness in the market actually continues even after the new capacity comes onstream, what kind of margin profile we would be looking at?

R. Mukundan So, I think it is fair to say that post the peak the margins have eased a little bit for all the products, but I think you need to compare it with the commodity downfall we have seen across all commodities. I think this is one commodity which has held its ground, from that perspective. If you really look at it from an industrial commodity perspective, I think this industry has fared far better than most of other industries and would continue to fare on an even keel. The only anticipation which we have of some kind of disturbance of $5 or so was Turkey, which I think we have not seen the impact of that. So, any price drop that you have seen in US realization or any other part during the quarter one was almost like a panic setting amongst others, it was driven by the supply side, no, there was no supply side push, it is just that the sellers including us have sort of downgraded our number unnecessarily. So, it is money left on the table, so I cannot say anything more than that.

Viraj Kacharia Okay. Second question was on the investment which we are looking to make in the silica business. So, cumulatively we are looking to spend around Rs. 600 crore over next two years I guess. So basically if I can just get some color on what is the addressable market size you are looking in these two and what is your typical margin structure and what is the revenue potential we are looking at, peak utilization in this businesses?

R. Mukundan Okay. Nutraceuticals, I think both these products, basically the return ratios are in 20% to 25% range in terms of return of capital employed. Other than that I cannot say more, I want to tell you that HDS is a very new market and in terms of potential if you just have a look at some of the competitors who are already there, which is Solvay and Evonik, you will get an idea of what the potential size of the market is. The biggest consumer is the tyre industry and the potential to sort of this product to consistently steadily continue to replace elements of carbon black over a period of time, the potential is immense. In terms of Nutraceutical, again, this is a product which goes into food, companies as well as starting from baby foods to some adult foods and also part in pharmaceutical applications. But again, the market potential for this, we are only going to be servicing a very small part of the market.

Viraj Kacharia Okay. Just two more questions, one is on the pulses and spices side. If you look at more longer pieces, we have scaled up the business from Rs. 50 crore in around 2011-2012 into now almost a Rs. 400 crore business. But bulk of that, at the same time we have seen significant investments in marketing and all. So, basically if you can just provide qualitatively how we are spending it and how are we trying to increase our overall brand equity and presence in the market place? And basically what kind of profitability focus we have in these businesses?

R. Mukundan So, in terms of profitability focus, let me just give broadly the revenue on profit focus is clearly the focus and the market share and market expansion, I would say not market penetration but market expansion, we have to bring more people from unbranded to branded and regional brands to main brand, that is the focus of Tata Salt. As far as pulses is concerned, our view is to keep this penetration right up to only category A stores, not go beyond that and build a premium in that segment and have a brand recall over a period of time, is it strong, is it not strong, we expect that to gather momentum in about four to five years' time, it is a steady and step-by-step process. Are you having increasingly repeat customers asking for your brand, yes that is really what I can confirm. As far as spices is concerned, it is a very nascent journey, I think we did about Rs. 40 crore - Rs. 45 crore of turnover last year, we are expecting to close this year between Rs. 65 crore to Rs. 80 crore. And till it hits a figure of Rs. 250 crore I think we should just say it is a nascent journey. And after that is when the power of brand kicks in and after that of course it will continue to gallop in its growth the way Tata Salt has grown. If you recall, Tata Salt's growth was fairly, fairly difficult journey till about 3 lakh tons, but when it crossed 3 lakh tons it started to gain into double-digit growth for quite some time and then slowed down in to anywhere between 4% to 6% growth over a period of time against the population growth of 2%. So, I think these categories need steady support, it took 25 years to grow Tata Salt, I am not expecting to take 25 years, this should probably be a eight to ten year journey.

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

Abhijit Akella First, just a clarification with regard to the US soda ash business, by my math the EBITDA per ton this quarter was about $40. I was just wondering if you could confirm that and also just to check whether in the past until say FY13 we used to make closer to $50 a ton, do you see potential to return to that kind of level sometime soon?

John Mulhall Yes, we have seen softness in the prices, Mukund said earlier last year if you would try to sell volume for this year there was some money left on the table. With the current lack of exports coming from China we do see an opportunity to improve pricing.

Abhijit Akella Got it, thank you. Second, just a clarification on the debt, the gross and net debt numbers you have given include urea, I presume, would it be possible to just give us the numbers excluding urea?

John Mulhall Remember what I said before, there is no debt held at any of the business units, , when the money comes in it all comes into the centre, not to disburse any other working capital debt and there is not a lot of working capital debt outstanding.

Abhijit Akella And would it be fair to assume that the Rs.1,000 crore of subsidy outstanding is basically like a proxy for the urea working capital debt?

R. Mukundan Yes, it would be 65% - 70%, Abhijit; I think that is the broad range.

Abhijit Akella And in your remarks earlier you mentioned that the consolidated debt target you are working towards is around Rs. 3,000 crore to Rs. 3,500 crore post this urea divestiture, right now we are at about Rs. 5,100 crore. So, would it be fair to interpret that, basically you are planning to use about say Rs. 1,500 crore to Rs. 2,000 crore of the sale proceeds to pay down…

R. Mukundan No, I think that is really not a way to compare, in fact that is the minimum number I said. I think we may even better that, but clearly we are on target to deliver what we committed a year ago that we will become debt free by middle of this year, we will be on a standalone basis, on net debt basis. We had also communicated at that time that in about 3 to 3.5 years' time we will try towards becoming net debt free on a consolidated basis, we will deliver that too.

John Mulhall Just to clear, we are not moving cash from India out to pay debt in international units

R. Mukundan It is just net debt basis, which entity has cash, which entity has debt may still be an issue of repayment schedule and other things, but it is on a whole consolidated net debt business.

Abhijit Akella Got it. Just one last quick thing, salt, this Rs. 220 crore odd investment, how much will it help to increase the capacity?

R. Mukundan We will come back with you on that, I think the plan really is to add about 100,000 tons with every additional investment, but this specific line we will clarify.

Moderator Thank you. Our next question is from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani Sir, just a query. I just wanted to understand why has our cost of power and fuel shot up this year as compared to same quarter last year?

John Mulhall Okay. So, we benefitted from last year's soft coal prices and coke prices and we saw take off really from October onwards, so you are seeing this is really the price change.

Anand Bhavnani And sir, in terms of finance cost it has, again if I were to consider, quarter-on-quarter as compared to March quarter our finance cost has risen, while our debt has fallen. So, can you help me understand why is it so?

John Mulhall We have moved to Indian Accounting Standards, IndAS. there is some currency hedge costs and also some interest related to pension expenses. So, it is not interest but it is finance expenses.

Moderator Thank you. Our next question is from the line of Sumant Kumar from Emkay Global. Please go ahead.

Sumant Kumar Sir, realization of Tata Chemical Magadi has declined by 9% to 20k per ton. So, is this because of change in product mix and currency impact?

R. Mukundan No, I think this will be market mix more than anything else. I think any movement in Magadi would be, in certain markets there is different realization because of the logistic cost differences. So, I think it is just the market movement up and down and you should look at the annual average. Because I think the initial part of the quarter was, in the first quarter what happens even if one ship leaves to a wrong destination it will get a wrong picture.

Sumant Kumar Okay. And can we expect the better numbers in Magadi going forward what we have shown in Q1 FY18?

R. Mukundan So, I have made a guidance, broadly this is a commitment we had told everyone two years ago, there are targeting PAT from Magadi to work to a range between 5 million and 10 million and I think we will stick to that. And for UK it is £25 million - £26 million EBITDA.

Moderator Thank you. Our next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar I had a question in relation to the use of cash in the capital allocation, I see that on a standalone basis we have Rs. 900 crore of net debt and we are expecting to get Rs. 2,600 crore, plus there is a fair amount of cash flow generation which is happening. So, we will be running at net debt positive with a large net cash balance may be of order of Rs. 1,000 crore plus. So, is there a plan to use something in terms of either dividend payout or a buyback or anything else or do you intend to carry this for such projects going forward?

John Mulhall Yes, we have told you this before, any decision of dividend buyback is a Board decision and that has not been discussed.

R. Mukundan In addition to that, while the Board will take a call on this, I think I just want to say that the Board is also aware that the company itself has growth plans to invest for future., this includes investments in consumer, investments in more specialty businesses and new materials which we have not detailed out in public domain because we will disclose them at formal clearances on them. So, clearly you will see a series of announcements coming in this direction, so our strategy to get our PAT ratios in the ratio of 50% of the PAT coming in from specialty and consumer business and looking at de-commoditizing of our quality of profits is something which we are on track.

Moderator Thank you. Ladies and gentlemen, that was our last question. I now hand the floor back to the management for closing comments. Over to you, sir.

R. Mukundan Thank you, all. I think let me just emphasize that this quarter certainly was a quarter whose performance is not a fair reflection of true potential of the business. We are working on number of initiatives, they should serve as a strong catalyst for future value creation of the company. Having said that, we are on target as planned for the year and all our strategic plans for businesses which will results in about 18 to 24 months are also on track. Thank you all for participating in the call. Thank you.