Tata Chemicals Limited

Q2 FY20 Earnings Conference Call

October 31, 2019

Moderator: Good morning, ladies and gentlemen. Welcome to the Tata Chemicals Limited Q2 FY20 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you. Good day, everyone. And thank you for joining us on Tata Chemicals Q2 & H1 FY20 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 Q2 FY20 Earnings Conference Call. I have with me, Mr. John Mulhall, our CFO; and Zarir Langrana, our Executive Director. I will begin the discussion by highlighting some key operational details, after which John will quickly run you through the financial performance.

Broadly, I would say this is another steady quarter wherein all the business segments and geographies continued to perform well.

Starting with our Basic Chemistry Products: Revenues for the quarter on consolidated basis grew 1%. India operations, revenues were lower for the quarter on account of routine plant maintenance issues, but if you look at the overall year, we are on target to deliver yet another steady year. The margins were better this quarter due to higher realization and benign input costs, especially on energy.

Moving on the International business: TCNA also delivered to its performance. TCE had a lower trading of soda ash. As you recall last time, we had highlighted that we would not be buying soda ash for trading purposes because it was a low margin business, and we have exited that piece, and due to which you would see a fall in the soda ash numbers there. In terms of TCML, TCML had another good quarter this year, and continues to have improved volumes and operational efficiencies.

Moving on to the Specialty Chemistry business products: Firstly, starting off on Nutrition Solution: I think the performance of the quarter was stable with revenues of Rs. 12 crore. This is, as you know, revenue coming off a pilot plant. Our new greenfield project has come on-stream; more or less we have had a good trial run. The quality of the product meets all the requisite standards. Now, we will go through the approval process, post which we will be starting the commercial production shortly towards the end of this year.

Similarly, for Silica business: We are currently carrying out trial production in our Cuddalore facility and would expect commercial production to start somewhere around Q4 of FY20. We expect both these businesses to add value to our overall growth in Specialty Products portfolio. In terms of the biggest chunk of the Specialty Products portfolio, agrochemicals business in Rallis did deliver a steady performance, revenues grew by 14%. And there was a strong performance on the international market, while the domestic market had its own challenges.

In terms of margins: They were under pressure due to higher raw materials prices. We had already highlighted in all our businesses we are going to be moving towards higher plant utilization and higher revenues. And that strategy has paid off. The company's expansion of Metribuzin capacity, 50% of that has come on stream, we expect the balance 50% to come on stream by the end of this year. We are also moving forward with the CAPEX investment as targeted in Dahej. And you would see continued progress in terms of the revenue growth of that business.

In terms of the Consumer Product business: The salt business continues to perform well with higher sales volume. There was a higher marketing spend during the quarter because we are continuing to invest in the brand, pulses and spices portfolio grew 25% on the back of good demand. And we continue to see good traction. Quick update on the demerger, process is very much on track. This is a business which is now going to be part of a larger Tata Consumer Products Limited once it gets merged with the TGBL. Yesterday, at the EGM the shareholders voted in favor of the resolution. We will now move forward towards the next level of demerger wherein we file shareholder approval for NCLT for further proceedings. And we are also internally working on making sure the integration is robust, and those processes are well underway.

The last leg of our business, which in the Specialty product business is the Energy Science Business: We have received support from Government of Gujarat for setting up the greenfield manufacturing facility. Land has been allotted to us in Dholera. In addition to that, we have also got very advanced in terms of the discussions with technology partners, and we will keep you updated as the progress on the developments of this business.

So, overall, I think we had committed broadly in the basic chemistry business, overall investment of Rs. 2,400 crore to debottleneck and expand capacity, part of which also was to expand the salt manufacturing capacity to support growth of salt from 1 million tons to 1.4 million tons; soda ash from about 0.8 million ton to about 1 million ton. And that investment is moving on target. The investments which we had committed in Rallis, over a period of next five years of about Rs. 800 crore to Rs. 900 crore, that investment is also on target with the first phase of it having been delivered, the second part of that is getting delivered during the course of the year. Rs. 250 crore of investment in Nellore facility for nutraceutical business is almost done and over. And almost 60% of the investment committed for the silica facility also has been done out of the Rs. 250 crore which we have committed.

And the balance which we had set as an estimate in terms of the lithium battery project, which would broadly cost about Rs. 800 crore for a 2 GW plant, our initial thoughts are to set up what we would call a smaller scale cell manufacturing facility, we will come back to you with exact numbers. But these numbers are likely to be about one-third of the figure which we had highlighted, about Rs. 800-odd crore, one-third of that figure for the initial capacity to be set up for the initial demand as we see that this demand initially will be progressing at a slower pace before it picks up. So, we are matching our capacity investments to the demand which is going to be generated.

With those few comments on the investment plan which are also moving ahead as targeted and as planned, I now invite John to give some insights of the quarterly performance.

John Mulhall: Thanks, Mukundan. Good morning, everyone. Before we open the lines up for questions, I would like to highlight a few points in our Q2 FY20 Results released yesterday afternoon.

In the standalone results, while the PAT from continued operations is down slightly at Rs. 293 crore, our operating EBITDA is actually up 5% for the quarter. The difference you have noticed is really in the large drop in Other Income. Tax expenses in the income statement have reduced, and we also saw reduction in cash on the balance sheet as well.

The reduction of Rs. 94 crore in Other Incomes is a mixture of timing of dividends receipts, where we received Rs. 24 crore in quarter one this year from Rallis and received in quarter two last year. Year-to-date it is flat. We have received reduced interest income from banks about Rs. 15 crore, and last year we received a one-off credit of interest on an income tax repayment of Rs. 12 crore, again, not repeated this year. And finally, the other piece really was a reduction on the FX gain on translation of our Bio-Energy preference shares. Last year we received a Rs. 60 crore credit, this year is actually only Rs. 28 crore, again, the reduction was Rs. 32 crore over last year. These are non-operational items that affected the overall profitability of the business, but really are not related to the operations in our business.

The company recognized the tax rates changes immediately in the quarter, the effect was reduction in our deferred tax liability of Rs. 39 crore, and with a small credit of about Rs. 8 crore in the current year. Our effective tax rate for the quarter was 18.4%. And year-to-date is just under 25%, about 24.8%. Given the fact that we do receive some dividends that attract lower tax rate, I would expect a full year tax rate to be just about 25%.

India's cash position reduced from Rs. 3,300 crore in June to Rs. 2,700 crore in September, a reduction of about Rs. 500 crore. This reduction is due to one-off annual payments related to the repayment of the NCDs of Rs. 250 crore in July, the annual dividend of Rs. 380 crore in August. And also we did spend about Rs. 366 cr of CAPEX in the quarter.

Operationally, the India business performance was better than last year with EBITDA up about Rs. 12 crore over last year. While the soda ash volumes are down slightly, as Mukund mentioned, net sales revenue is up over last year, but the greater impact was seen in the reduced energy costs seen across all product lines, cement, bicarbonate and soda ash.

The Consumer Products business unit recorded a 12% increase in revenue over last year across salt, pulses and spices, but the largest was the increase in salt volume, up about 14,000 tons over the same period last year and continuing the run rate above last year's run rate on a year-to-date basis. The net profits of the BU were down mainly due to the allocation of corporate overheads. As part of the demerger process we are allocating office rent, IT and corporate costs, etc., to the consumer products business unit, which was not done previously.

I will touch briefly on our International operations. In Tata Chemicals Magadi sales volumes and prices were above last year. Production was down in the quarter due to planned maintenance outage but on a year-to-date basis, both the sales and production volumes are above last year. Expenses incurred last year due to heavy rains were not repeated this year, adding to improved cost control and the positive result of the business.

For Tata Chemicals North America, better than last year production and sales in the quarter and year-to-date are aligned with pricing which we discussed a couple of quarters ago, offset by the higher maintenance cost in the surface and the mine. Overall profit for the quarter was on a par with last year though we are ahead for the year-to-date.

As far as the UK goes, we saw similar volumes of own mix sales, we did plan to reduce the amount of volume of PFR sales and we did that in the quarter. And also we saw better pricing than last year. We were challenged by a higher input costs in brine, energy and limestone, which offset these positives. And also last year the business recorded and Rs. 11 crore insurance receipt which is not repeated this year.

Overall, the TCE business improved performance over the last year's performance. While our British salt volumes were down slightly, improved pricing mitigated at best to a large degree and profits were flat to last year.

Now with that, I will open the lines to any questions you may have.

Moderator: Ladies and gentlemen, we will now begin with a question and answer session. The first question is from Abhijit Akella from India Infoline.

Abhijit Akella: I have two broad questions. First on the soda ash business. Just two, three points to clarify. One is there's been a dip in the India sales volume this quarter, even though the production seems to be fairly normal. So, just wondering whether that's related to the demand environment in any way? And if you would also just comment on the impact of the price increase, we have taken last month in North America, whether that flows through into any benefits in the coming quarter or two. And we have seen some announcements of capacity additions by large producers globally, including Solvay and Genesis. How will you see that impacting the market over the next couple of years?

R. Mukundan: Firstly, I think in terms of, broadly if you look at the capacity increases which have been announced, most of these capacities would take at least 36 months to come on stream, if at all they progress. So, we do expect by which time the demand environment would also have reached a level of balancing because soda ash continues to grow on a global level at certain pace, and the world does need additional capacity to come on stream if it were to meet the demand. So, I think three years from now when these capacities come on stream, I think we expect the market to be fairly balanced as we saw before. We will have to keep on waiting and watching how these capacity announcements actually come to fruition and how much of that is undertaken with the speed with which the market can take up. So, that's broadly on the capacity side.

The second, I think the India specific issue is more related to our production numbers, stocks and movement of stocks, it has got nothing to do with market demand. There is no let down in the market demand. Of course, if you see the headline news in the media about automotive sector slowing down, but we had also explained auto sector constitutes hardly 15% of the total overall derived demand for this product. And hence, it is not the major one which moves the needle. The second one which I had highlighted, in times of stress the consumers move to a downshift their products to more value products. And in detergents, especially the lower more value products have higher proportion of soda ash and lesser proportion of enzymes. So, whenever the market comes into stress, you would certainly find that the demand through the detergent sector would start to move up at its own pace. So, we don't see major shift in the market demand side, the domestic market.

Abhijit Akella: okay thank you. If you could now just talk about the North America pricing?

R. Mukundan: You know, part of this will keep coming, I mean, it's part of the processes we see, and these become effective as the contracts get opened up. So, depending on which contract gets opened up, so you will see part of them coming through step by step.

Abhijit Akella: Okay. And the second piece I just wanted to clarify was on the Specialty business. You know, we have obviously articulated a very aggressive roadmap of growth in that business of reaching 50% of revenues by 2025. Given that the three broad areas we are talking about nutraceutical, silica and energy are just getting off the ground now, and maybe initial demand might be a bit weak, especially for the energy segment. How do you see the capacity ramp up happening over the next three to five years for these businesses? How quickly before you fully use up your existing capacity? And would you say we are on track to achieve that ambitious target of 2025?

R. Mukundan: Broadly speaking, if you look at it, the biggest chunk of that is our business in agrochemicals in Rallis. The plans are very clearly on target. So, broadly that entity does close to about Rs. 2,000-odd crore and would continue to drive growth in such a way that we believe that revenues would double in the next five years. If you look at the Nutrition business, broadly we expect between the salt which is sold to the Tata Consumer Products and then FOS/GOS which will be sold to various other consumer food companies, that entity also would track good growth given that the numbers are fairly committed. I do agree that the FOS and GOS would be in high triple digits and would contribute.

Now, when you speak about the battery, Energy Science business. As you know that we are looking at three pillars of growth. One is the active materials, these are actives which are coated on to make the lithium battery itself, like cobalt sulfate and lithium hydroxide and these lithium carbonate. We would be dealing in these materials. In addition to which we have already started recycling business. The first off the ground has been the recycling business where we have already done the recycling of 500 Kgs, we are looking at 500 tons recycling capacity immediately and moving that forward. As far as the lithium battery project itself is concerned, I think the market demand outlook will be, we can't pin it down, nobody can, because this is a bit like when it takes it will really take off. So, we need to be ready, which is why we have bought already land and space availability which can take up to 5 to 6

GW of capacity. But our first capacity is going to be under 1 GW, it will be closer to somewhere 300 to 350 MW hour capacity, which is what we are setting up initially. But we will be ready for ramp up as the market picks up. So, that probably should let you know that this directional figure of reaching 50:50 in the next five years is something we are intent on doing. And of course, this may take a one year here or there, depending on market conditions, those things can move. But broadly that's our plan. And we do believe we are within striking range of that plan.

Moderator: The next question is from the line of Dheeresh Pathak from Goldman Sachs.

Dheeresh Pathak: Sir, just on this capital work in progress, which I see is about Rs. 1,100 crores on the consol books. Just to get an understanding, so you said material science is about Rs. 300 crore, of which 60% is completed.

R. Mukundan: The approved numbers are like this, let me just give you the Board approved numbers. Between nutrition and material, both are at Rs. 250 crore each. The Nutrition Science's Rs. 250 crore or Rs. 260-odd crore been fully invested. In the Material Science, which is for highly disposable silica, the approved numbers again Rs. 250 crore, of which close to Rs. 150-odd crore has been invested broadly. In terms of the approved investment plan for Mithapur is Rs. 2,400 crore, and that investment is currently ongoing. I think we would have already committed close to about Rs. 1,000 crore approximately. And in terms of for the Rallis' Rs. 900 crore, I think on the ground they would have already invested close to Rs. 50-odd crore. But their plans to put another Rs. 100 crores on the ground in Dahej facility. So, this is really specifics.

Dheeresh Pathak: Okay, this is helpful. Just on Mithapur, when is the commissioning of the new CAPEX that you are doing?

R. Mukundan: The CAPEX is coming on stream, so if you look at it, part of the salt expansion will come this year, next one will come a year later, so the 400,000 tons we spoke about is going to come in I think at least three steps or four steps. So, it is going to come in the steps of 100,000 tons, 150,000 tons, the phased way it comes. Even soda ash, for example, is in two steps, first is pump up by another 100,000 tons and then finally buy another 100,000 tons. So, these are all ongoing investments, which is why we have shown the progress across various plants.

Moderator: The next question is from the line of Dhavan Shah from ICICI Direct.

Dhavan Shah: Firstly, about the India basic chemical segment. So, despite, I mean, there is a slowdown on the volume front on Y-on-Y and Q-on-Q basis. We have seen some realization growth for the quarter, I mean the realization per ton. So, is there anything related to the product mix, like we sold more Medicarb during the quarter which has lifted the overall realization per ton. Or is there anything else if you can share some more thoughts on that?

R. Mukundan: There is nothing specific on ground. Just maybe in terms of margin it is the cost of some of the inputs coming down. In terms of realization, I think it is mostly destinations and stuff like that, it is destination mixed. It is nothing major to write home about. And also, I just wanted to say that as far as the annual numbers are concerned, it will just track what we always do. So, we are performing to the target, so don't take every quarter number to read too much into the numbers. Because, the boiler shutdowns which we take sometimes could be before monsoon, sometimes we take it after monsoon, depending on when is the right time for us to take these equipment’s at all, that moves the needle by 10,000, 12,000 tons every quarter.

Dhavan Shah: And the second one is about the international market, I mean, the basic chem segment. So, we have seen good EBITDA per ton for Magadi as well as Europe. So, is this sustainable going forward, the EBITDA per ton number for these two geographies?

R. Mukundan: Let me just say this, we are saying that broadly the demand pattern and supply pattern is remaining to be balanced. We are not seeing major dislocations happen. But all I want to say is that, also new capacities, most of the new capacities have been absorbed, the fresh capacity coming into the market is going to take place sometime in future. So, only headline news you need to watch for is if there is a major dislocation in the international economy itself. I mean, if that were to happen, then we will have a consequent knock on impact. And the headline numbers I am seeing, Fed has again reduced the interest rate, there could be thawing of this trade war between China and US, so these will all be positive. So, we need to continue to watch that, but that's bit of a long shot. In the short-run it's not going to impact us, but in the medium-term it can come to bite if many of these things intensify. But then that will impact every sector, it's not it's going to impact soda ash. So, I just want to leave it there. As we see it, if things on the overall economic front remain as normal, as predicted, there is going to be a balanced market, we are not seeing any sharpness in terms of tightness or looseness across.

The second point which I just want to highlight is the energy situation is becoming more benign. It was a tough issue a year ago, we, actually, were facing huge headwinds on energy costs having gone up. So, many of the improvement in margin, which we are seeing is coming on the back of the energy market easing. We do believe the energy markets are now also in a very stable zone. They have eased to the level where it is comfortable for all.

Dhavan Shah: Thanks and the last one is about the other expenditure. So, in standalone accounts there has been an increase by around Rs. 15-odd crore. So, is this entirely related to the consumer business' the marketing expenditure or is anything else? Because the consumer margin comes around 14.3% EBITDA margin. So, what is our take on that, if you can shed some light on that?

R. Mukundan: There is a currently one-off cost which we have taken accrued for the transaction itself of about Rs. 8 crore. We expect by the time the transaction finishes, we will have a Rs. 15 crore impact this year for the demerger process, because that's part of the contract we have signed between TGBL and TCL that we will book the cost which we incurred on the transaction within TCL books and they will book their cost. And it's about Rs. 8 crore is what we have booked year-to-date and we expect another Rs. 7 crore by the time the transaction is complete. Other than that, I don't see major moment in fixed cost.

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

Sumant Kumar: The Africa business we have seen relatively the realization growth is higher, so what was the key reason for that?

Zarir Langrana: I think really shaped essentially by market conditions and the main markets swap that applies, which is primarily Southeast Asia and the Indian subcontinent, compared to last year, obviously, this year had seen better pricing as last year's contracts mount down and the new contracts came into play. But as Mukund mentioned earlier, rather than tracking quarterly numbers, we should track the annual numbers where we should be delivering as per expectation.

R. Mukundan: So, broadly what Zarir has highlighted is, some of the contracts unwound and new contracts came into effect, the price increases from Southeast Asian market has actually moved into the accounts of the Magadi numbers.

Sumant Kumar: And this Africa market is majorly spot market, right?

R. Mukundan: No, I think Southeast Asia it is contract. What they sell in Indian market is I would say three months to six month contract. So, about one-third of their production comes to India, one-third goes to Southeast Asian, and the balance one-third is scattered across various markets in Africa. So, that's really the way to look at it. The one-third of their numbers are pretty much contracted markets in Southeast Asia which is where the price increase has come through.

Sumant Kumar: Okay. And one-third is the spot market?

R. Mukundan: One-third, I would not call it spot, it is three or six months contract.

Sumant Kumar: The other one-third, the rest one-third.

R. Mukundan: The last one-third could be more or less on spot, yes you are right.

Sumant Kumar: Okay. And talking about the US business, we have seen a Y-o-Y realization growth is there in INR term. When we see the USD term, we have seen the Y-o-Y and Q-on-Q 1% to 2% decline in realization of soda ash?

R. Mukundan: But those are minor wash, I mean they are not major things you should take into account, because it could be destination, it could be the mix of the cargo, I think we should just leave it there, there's no major moment in pricing.

Sumant Kumar: Okay. But there the soda ash is majorly contracted price spot market is in what percentage?

R. Mukundan: It is mostly contracted, and it comes up for review in the month of December. So, even we see few numbers coming in the last quarter of the year, Jan to March.

Sumant Kumar: So, some amount, some quantity we are selling in Europe market also, so is it because of that the realization has gone down?

R. Mukundan: No, there is no major issue. I think it is just some destinations and some markets, because there could be minor variations and mix for some destinations.

Moderator: The next question from the line of Viraj Kacharia from Securities Investment Management.

Viraj Kacharia: I just had three question. First one is on the soda ash. You know, I understand that we should not look at quarterly, we should look at the annual trend in the wake of realization and EBITDA. But considering the fact that we are seeing a softness in the Indian market where key competitors are talking about another 4% to 5% price cuts, we are talking about some price moderation globally. And also considering the fact that we are seeing a benign energy costs environment, how should one look at realizations and EBITDA per ton in US and India in soda ash? So, that is one.

Second is on the US part, if I look at Q2 of last year, we had seen almost a 10% decline in volume. Now on that low base we have seen kind of a flattish volume for us. And for last more than six quarters we have been in that 540,000 to 570,000 tons quarterly volume run rate. So, where is the bottleneck, I mean, if you can please provide some color? And what will drive growth for that particular business in the US?

And third is on the Neutra and HDS business, what are the typical assets turns one sees on a mature steady state in these businesses? And what is the time frame we are looking to achieve that?

R. Mukundan: So, broadly the last one is usually that these businesses you should look at anything between 1.7x to 2x as asset turn broadly coming out of the unit. As far as the soda ash market is concerned, as I said, again, it is fairly flattish. I mean, if there are minor moments in pricing, I think the business can afford to take that today because of the cost structure which is more benign. So, I would just say that the margins should hold up. In terms of the overall International pricing, I think there will always be a talk from around the time of negotiations by the buyer community of market being long and prices coming under pressure, and the sellers saying that the market is tight. I see the market more or less balanced, and I would leave it there.

And I would not read too much into the whole story of slowdown in Indian market. I think the issue really is, these are dislocations which have happened, which will correct themselves. And we do believe that six to eight months blip in automotive sale is not something we should take too much cognizance about. But let's say the automotive sales continue to slide for next two, three years, then we have a cause for alarm. But I am sure many more people will be alarmed by that and they will take action much before it reaches that kind of a level. So, I will leave it there. So, I don't see, but the good news is, as I mentioned, in the Indian market the countervailing force for us always is the detergent sector where consumers move to more value if there is a stress in the market, and that has a higher percentage of soda ash.

Secondly, I think commercial real-estate is doing well. The demand from commercial real-estate for glass, which is a bigger demand than even though automotive is continuing to be robust. So, I would continue to state that we are not overtly worried about the market situation. Because, in my view, taking a one year, two year view of soda ash market also is very short sighted. This is a business for really long cycles. And I see this market continuing to be balanced and needing more material going forward.

Viraj Kacharia: Okay and on the US part?

R. Mukundan: On the US part, again, I think if you take the annual number, we should hit the study number which we have spoken about. I think the operations are doing well. We hope that our winterization plan is as good as we have committed, and we will deliver better number, unlike the past when actually our blip used to happen in the winter months. And the unit is doing as well as it can, and we hope to see the good numbers coming through.

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

S. Ramesh: On the CAPEX schedule and the capacities you are planning, if you see the presentation, you are talking about soda ash and sodium bicarbonate going up over the next two years. So, can you give us some sense in terms of how much capacity you will add in soda ash and sodium bicarbonate say in FY20 and FY21?

R. Mukundan: I think it has been a very detailed mapped out, I think, where the bar went is where the additional capacities are coming in. So, effectively, March 22 is what has been committed as the full 200,000 tons coming in. And part of it should come a year before that.

S. Ramesh: Okay. So, you are saying by March 2021 you will see half of the soda ash and the sodium bicarbonate by and large?

R. Mukundan: Yes, we will give you a specific date. It would be close to half, and next could be another half.

S. Ramesh: So, in terms of the progress on the CAPEX, what is the amount of capitalization of assets you would expect, say, in FY20 and FY21?

R. Mukundan: I would say that it is almost running at a steady even pace. I think the additional capitalization maybe Rs. 1,400 crore in the first year about Rs. 1,000 crore in the second year.

S. Ramesh: So, that is over 2021 and 2022?

R. Mukundan: That's right.

S. Ramesh: Okay. So, in terms of the soda ash market, if I may just dwell on that. See, Rohit Surfactants, a very big detergent manufacturer has commissioned a very large facility. And I think if you understand the numbers, the Indian market seems to be currently balanced in terms of capacity and demand. So, in terms of your own reading of the market, how much is that impacting the sales of companies for soda ash, because they are backward integrating, and they were customers for companies like you. So, to what action is it hurting the growth and demand for soda ash companies like you?

R. Mukundan: I think you should read what we have always said. If you look at the overall market, it's about 4 million ton, and market growth is about 4% to 5% growth. So, market needs 1 million ton every four to five years. So, India is a net importer. India does not have enough soda ash even if three more Rohit Surfactants type facilities come. So, I will leave it there because I don't want to say anything beyond that. Having said that, the market is balanced. And I think it is only fair that investments happen, and supply balances out the demand growth. Otherwise our customers are going to suffer if supplies don't come on stream.

S. Ramesh: Okay, just one last thought. So, in terms of the new businesses, Nutra and Specialties, what are the kind of top-line growth we can expect, say, in the next one or two years, FY21 and FY22?

R. Mukundan: I can't tell you 2021 and 2022. I have a broad guideline. You should see the announcements from every quarter. But broad guidance I have given, it is 1.7x-2x asset turnover.

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

Saket Kapoor: Sir, firstly, what have been the price cut in the soda ash prices for this first half, any price we have taken?

R. Mukundan: I don't think it has happened in any market [see footnote] *

Saket Kapoor: Okay. Sir, your nearest competitor has taken a 3% to 4% price cut, that was the reason I asked you also. And sir, secondly, as you have earlier guided that Europe and Magadi would be strategically reoriented in a way that they would be much better in terms of the EBITDA number going forward. So, where are we in midst of this? You guided that, I mean, you did elaborate it two quarters, three quarters earlier. So, in that process, where are we? And how strategically are these units important, because if we take the bottom-line, at the PAT levels, they are not contributing to a greater extent to the size of the company. So, your outlook on the same?

R. Mukundan: I think, Magadi, if you look at it, I think it is performing well. And I think their performance has moved as per what we guided. I think UK is still some more catch up and some more work to be done. And that work is on track. And as we said that the bicarb facility would come on stream in next 18 months, and once that comes you will see the numbers really moving up as far as that unit is concerned. So, that investment plan also is on stream and we expect to deliver that as committed. In terms of what is the linkage for each one of them, I think they are very strategically important. Magadi plays a very important role in the container glass segment within India. It is one of the lowest cost producers in the world. And it's an asset which we think the customers value and consumers' value, not just in India but around the world. And the main markets of Magadi are Southeast Asia, India, and both these markets are also critical markets for us in terms of being present and completing and servicing our customers.

As far as UK is concerned, UK soda is mainly delivered within the island. They don't take any of the major materials outside. But bulk of the EBITDA of UK actually is to be seen not as a soda ash operation, it should be seen more as a salt operation, because the larger proportion of EBITDA comes from the salt business. And salt is a very steady business even for them, and I think they are going through a capital investment in terms of completely refurbishing their boiler and energy setup. They are making major investments in the salt capacity to bring the cost down. So, that performance should also improve. So, as far as UK is concerned, one should look at UK more as a high grade bicarbonate unit and high grade salt unit. And it is really not soda ash unit going forward when the bicarbonate conversion happens, it is going to be a unit which is going to be supplying to pharmaceutical and food industry, and that is where the bulk of their demand is going to be fulfilled from. That's broadly the outline. UK unit remains our unit where all the new technologies are tested out. For example, the new bicarb we are building plant, we are building with the CO2 capture, at that technology once we perfect there it can be rolled out in any part of the world. And it's a unique technology which is focused on sustainability, reducing carbon footprint in the world, and using the waste carbon emission to produce a useful product.

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

Rohit Sinha: Just wanted to know something on the consumer side. For the last two quarters we are seeing some contraction in the margin, largely because of I think advertisement expenditure. So, how this will go on and where do we see the stabilization in the margin for this segment?

R. Mukundan: So, I think as I mentioned, this is really now as the transition happens so you will get even sharper guidance from the other team. And at the risk of not holding them to the words I am saying, because there is a transition happening, I would simply say we had highlighted certain numbers, we need to reach threshold numbers before units becoming breakeven. If you look at spice, that number was at least reaching a three digit figure, we are not there. So, till that number is reached we have to continue to invest, because remaining in the current scale is not an option in consumer business, we have to reach that minimum scale.

And once you reach that scale, it becomes engine which generates its own cash for further investment. So, to reach that point, I think we are at least a year, year and a half away. Till we reach those numbers, both in pulses and spices, I think investments will continue and they will look as if the cash generation from those businesses below the cash which is being pumped into build a brand. Good news is, the brand is very sticky, Tata Sampann brand has a good traction now, we can see that in all the modern trade stores, we can see all the online stores, in its category it is number one or number two. So, I think that positioning and the focus has allowed us to get that position and we should continue to engage with this.

After a point, I do believe that both these categories will deliver. And our approach in this business always has been disciplined, launch a new category only when one of the two categories is stabilized. We have done several pilots on what the next item ought to be. And I think as we get closer to the situation where I think last year the pulses was more or less break even, as it moves forward, I think it would create another new category. But also, discussion because we are in transition, should be had with the Tata Consumer Products team who will also relook at the strategy we have had, and probably rewire it. Good news is, the biggest robust performer in this is Tata Salt, continues to have high market share and continues to perform well, continues to clock growth. And we are on target to deliver the consumer market growth in Tata Salt from 1 million to 1.4 million ton, and all those plans are fairly in a robust space.

Moderator: The next question is from the line of Anik Mitra from Stewart & Mackertich.

Anik Mitra: My question the EBT, excluding exceptional item in terms of standalone basis came down from Rs. 380 crore a year back to Rs. 312 crore. So, can you throw some light over there?

R. Mukundan: See, the way you should read this is, there are several moving parts in terms of dividends, in terms of other income. If you go to the segment reporting, I think that is really the chart which you should see. In the segment reporting, there is segment reporting of basic chemistry, consumer and specialty products where last year it was Rs. 251 crore, that number has moved to Rs. 273 crore of EBIT that is an operational performance. Rest of them are all, because it is standalone there is dividend received from subsidiaries, dividend received from joint ventures, and then there is also this income related to investment income. And they vary depending on when those numbers come through. So, they are all moving parts. The real core number you need to focus is, is the number at revenue and the profit number in the segment reporting, which is total segment results is that holding and that number is growing.

Moderator: The next question is for the line of Ravi Purohit from Securities Investment Management.

Ravi Purohit: I just have one more broad strategy related question. In the last 1, 1.5 years or rather 2 years we have been kind of sharpening our focus in the core businesses of the company, so we have hived off the fertilizer business, now we have carved out the consumer business. We still have Indo Maroc stake, we still have taken Rallis, and we still have stakes in various group companies of the Tata Empire. So, any light that you can throw on as to how we are progressing there and what is the plan? In the sense that I think there is still a lot of shareholder wealth that can be created, but it's just not kind of visible, in the sense what our clear goal or clear plan is to do with those investments that we still hold. And which also kind of affects your ROE, because if your aspiration is to earn 20% plus ROCE, lot of this denominator is kind of stuck in these investments. So, if you could just share some light?

R. Mukundan: So, I think on the ROCE question, I think the issue is not coming just from these denominators. So, I think there's a large chunk of cash which we hold, and I think that is being put to use, as I said there is a Rs. 4,800 crore of investment which is happening. And while we do these investments, if there is anything to be done in terms of distribution of that cash, the Board is certainly very conscious of its job to not hold on to anything which is more than what we need.

The second element in terms of the Group holdings, I think the Group has been steadily unwinding cross holding. You saw the approximately Rs. 900 crore of cross holdings unwind during the last year and I think we will continue to see from time to time what can be done on that account. So, I will leave that as a program which is continuing work in progress. We completely unwound TCS shares at some point and then we have also done the TGBL shares which we used to own. The big chunk of our Group cross holding is only Titan as of now, and I think we will take a call on that as we move along.

The other element you spoke about Indo Maroc, I think you are referring to the fact that we divested fertilizer wise something in the fertilizer value chain still with us. Clearly speaking, the piece which we diverted in the fertilizer value chain was a piece of the value chain which had subsidy element in it. So, we are very happy that the element which has gone out had the subsidy recovery from government. The one in Indo Maroc actually is positioned very competitively in terms of access to rock phosphate right there next to it, and it is a very competitive operation. But we will continue to review, I am not saying never no, but the fact of the matter is it is one of our better performing and good units.

As far as Rallis is concerned, it is part of our core strategy our AgroSciences business. There is no question of us discussing Rallis as not part of the core. If you look at our strategy, it has been that basic chemistry business is in soda ash and bicarb. And when it comes to the growth areas, which we are also focusing parallelly on the specialty chemistry, which is AgroSciences, nutrition science. And in all these pieces what matters is intellectual property and customer relationship and they have better ROE and ROCE then the basic soda ash and bicarbonate business. So, we would continue to invest strongly in Rallis, we will continue to invest strongly in nutrition science, energy science and material science business, because these will help us to move towards greater ROCE.

The question on ROCE, which you mentioned, I think also is stemming from the fact that we have had, I would say, relatively a difficult performance coming from the soda ash unit, especially in the UK and in Magadi and in US, while US makes money, it needs to improve its performance, which it has done. UK as I said, once the investment in the bicarbonate unit is done, it would improve its ROCE. And

Magadi is also mending its ways. And once we also look at opportunities to change the product mix towards more pure soda ash at a lower energy intense option, which we are investigating, I think those performances are also tend to improve. So, we were to task at hand, one is to improve the ROCE of the core basic chemistry, and to invest more strongly in the specialty business, that is broadly the strategy which we will follow.

And your two suggestions on the holdings which we have, the Group cross holdings, I am only saying that it is work in progress. And on Indo Maroc investment which we hold, I think you should view it as part of the agriculture value chain. But we will never say we will never review it, but it is it a very, very good cost competitive position and it is a very good ROCE unit. If you take that as a metric you would keep it as a core.

Ravi Purohit: And sir just one question on this HDS business. So, is it right that one of the larger companies in India is Madhu Silicates? Because we were looking at their numbers, and they were making almost like 24%- 25% EBITDA margin. So, is it HDS business actually a 20%, 25% EBITDA margin business? And therefore, if you have like 1.5x, 2x asset turns, which you alluded to earlier in the call, there is a significant opportunity to scale in that business. And do you do envisage, because all of these guys actually buy soda ash from you, I mean, as their raw material. So, if you could just throw a little bit more light on this HDS business, the opportunity size that we are looking at? And over what period of time what kind of scale can we achieve? And are we looking at this business purely from local point of view or are we looking at to achieve global scale in this business?

R. Mukundan: So, I think HDS, while it is silicate it is a very highly specialized form of silicate. We have a patent protection on our product, and it has been developed in-house, the technology. And so it is part of the same family tree, but I would not put it in the same tree because there are also, it is bit like saying bicarbonate, there's pharmaceutical grade bicarbonate and there's a commodity bicarbonate. So, to that extent this is more specialty business than a commodity business what we have within our portfolio.

Second point which I just wanted to highlight is that, once we start serving the customers, basically CEAT or other Indian tire companies, I think some of them have international operations, it is only natural that we will follow these customers internationally. And we see no reason why any of the businesses, if you look at Nutrition Science business, customers are going to be overseas not within India. If you look at Agro Sciences, as I explained, the last growth has come this quarter also from international business. These are all seen as businesses which will have factories and plants R&D centers in India, but will serve international customers.

Ravi Purohit: In terms of scale, if you could throw some light, what kind of scale, over a longish period I am saying, blue sky scenario or the long-term vision that we have, I mean, it will not solve your purpose to create businesses which do only Rs. 400 crore, Rs. 500 crore revenue annually, right. I mean, if you could just share a little bit about the scale of opportunity in these verticals?

R. Mukundan: The first metric we are saying is that we must reach Rs. 500 crore in both Material Science and Nutritional Science. Nutritional Science we will reach faster because of certain internal advantages which we have. And the second phase would be to double that to Rs. 1,000 crore. So, we should track this with that perspective in mind. So, we can give the international numbers across, it is $8 billion - $15 billion demand, I think that we can share next time in the presentation.

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

R. Mukundan: Thank you all for this call. And we just want to again reiterate that the company has performed in a market environment which has been balanced and in our cost environment which has been benign. We expect the cost environment to continue in the same manner and market environment to continue to be more or less balanced. In terms of the overall strategy of the company, which is to continue to invest in core, while expanding the footprint in the specialty business is on track. And we will continue to report back to you every quarter how we progress, with additional details on each one of the business as we progress. Thank you and see you all next time.

* Note: On 27 July 2019, the Company reduced India soda ash portfolio prices (off contract) from approx. 1.6% to 2.3%