Tata Chemicals Limited

Q3 FY19 Earnings Conference Call

February 06, 2019

Moderator Ladies and gentlemen, good day and welcome to the Tata Chemicals Limited Q3 FY19 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 would now like to 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 Q3 & 9M FY19 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 in nature, and may involve risks and uncertainties. I now invite Mr. Mukundan to begin proceedings of the call.

R. Mukundan Thank you, Gavin. Thank you, everyone, for joining us on the earnings call. I have John Mulhall alongside me, who will run you through the financial performance.

Let me begin with key operational performance for the period under review.

Our performance this quarter was, to a large extent, impacted by certain one off and exceptional items which impacted the margins and profitability. Barring these, it has been a relatively stable performance for the quarter. It could have been certainly better, but it is relatively stable.

Let me now briefly discuss the performance of individual business.

Starting with basic chemistry products, the revenue from India operations were up 10% on account of better realization. Volume, though, remained soft, which impacted the overall performance. Soda ash margins improved over the previous quarter, as we too sales price increased during early part of the year to recover increased energy cost expenses. Demand in domestic market continues to remain balanced.

Moving on to International entities, TCNA had a challenging quarter despite reporting higher volumes and revenue growth of 13% for the quarter. Operational performance was impacted by one off power outage, for which we have filed insurance claim, which has not been accounted and will account as and when the claims are accepted. Operational performance was also impacted due to lower sales realization, though year-to-date pricing is better than last quarter, and additional energy costs because of power outage.

Below the line exceptional items experienced last year recognizing deferred tax liability, changes in post-retirement medical benefit plan makes quarterly performance appear more stark than it really is. We continue to focus on improving operational stability in US operations.

Moving on to Europe, performance remained more or less steady, despite stable revenue, profitability was impacted due to lower salt volumes. Some sales of lower value salt and higher natural gas cost, in salt, have impacted the margins in the UK operations. Coke cost was increased sharply during the year in soda ash business. UK team is working hard to improve both volume and margin mix in the salt business.

At our Kenya operations we saw improved sales realization and stable fixed cost during the quarter. We are still feeling the effect of low production and related maintenance spending due to adverse weather conditions in the first half of the year, but the sales price increased 12% up on last year and steadying expenses are improving the situation.

As we move into the new contract year, we would expect internationally to see on an average about $5 price increase per ton compared to year-to-date December 2018.

Moving on to our consumer business, salt business continues to maintain leadership position with market share of more than 25% of overall salt industry. Volume as well remained higher during the quarter. Pulse and spices as well performed well with revenue growth of 110% over previous year, albeit lower base. We continue to see strong traction for our products in the market.

We have also stepped up our marketing initiatives and discretionary ad spends, and that can be seen impacting our quarterly margins temporarily, but it is important to maintain brand salience and to build brand equity. We continue to focus on modern trade for augmenting sales and visibility of pulses and spices. We are also happy to state that our new products introduced this quarter, basmati rice and rice poha, both have been received well by the customers. In addition, we are also test marketing value price detergent in the West Bengal market.

Going on to specialty products, we saw a revenue growth of 8% during the quarter driven by improved performance of Rallis International business and higher revenues from Metahelix. Nutrition Business Solution continues to be in investment phase with efforts directed towards building dedicated state of the art manufacturing facility in Nellore, for which we are likely to install most of our equipment during this year.

On silica business, we have upgraded the plant as per prescribed norms and have enhanced the operation readiness during the quarter to meet customer specifications. We have also undertaken test run to check plant capabilities and we remain very much on track to completing both the projects within stipulated time, i.e. early part of the next year.

Just a brief update on lithium-ion opportunity, we have signed MoU with C-MET in Pune for developing collaborative technology for lithium-ion batteries. We will keep you updated as and when there is progress on this front.

To conclude, despite the challenges faced during the quarter, our business is shaping well. Basic chemistry business continues to witness steady growth on the basis of consistent demand across geographies. Completion of Mithapur expansion which is progressing as per schedule should help us further in maintaining our leadership position in the business. Consumer business is also on growth path, we are seeing good traction for our products and we are also focusing on improving our visibility by investing on marketing initiative and are confident of scaling up business significantly in the coming years. Our product portfolio continues to remain strong and healthy with exciting new products in the pipeline. Specialty products business continues to shape up well. With the investments which are being undertaken by all the three businesses, these businesses are on a growth phase and have high potential for future and should see significant traction in the coming years.

Now, I would like John to add any points before we open up the lines to questions.

John Mulhall Thanks, Mukund. I think just to reiterate what Mukund has said, we had a couple of poor performing operations in the quarter in North America; due to power outage, and in the UK; due to energy costs and adverse sales mix. Fundamentally, the business is pretty much on par with last year, baring exceptional gains and deferred tax adjustments from last year December. We included a note for this in our presentation, which we issued last night.

And we also continue to focus on cash management, focus on working capital management and you can see some benefits of that coming through in the quarter.

So, I think you have plenty of questions, so I will open the lines up to questions now.

Moderator Thank you very much. The first question is from the line of Viraj Kacharia from Securities Investment Management Pvt. Ltd.

Viraj Kacharia So, while we assess our performance as business managers, does our Board or top management give any way to shareholder returns? If we look at our ten year returns they now stand at less than 5%. And our problem in the past was a lack of focus, so it seems that post the exit from the non-core fertilizer business we are not going back to that era. So, what is Tata Chemicals? Is it a B2C company, is it a B2B company or is it a mini Tata Group within Tata Chemicals, a collection of good, average, below par businesses? So, just wanted to understand your thought process on this.

R. Mukundan It is a company has got two broad pillars, one is the chemistry ingredient business and the second business which we have is the consumer product business. And they are housed within the same company because Consumer business started out as an extension of our chemical business; the salt business has grown to build a terrific market franchise. We run them fairly independently, but they are housed within the same company. The chemistry ingredient business, we have got what we call industrial chemicals, which is mainly soda ash;, where we have a leadership position, and then there is a specialty business; which is a portfolio of businesses which we are building, including agro-chemicals, nutrition solution and advance materials. These are purely chemistry-based business. So, if you want to ask what is our focus? our focus is fundamentally chemistry solution and / or chemistry-based business.

Since salt started as a consumer product business and we are extending that to include other food products, where we have at least some connect with customers. We are sourcing from the farm and bringing it back to the customers in case of the food ingredient business. And that remains the focus, nothing else. As new chemistries come into play, we are introducing products to address the new chemistry and we will continue to focus on new chemistry. Even the energy transition business is a chemistry business, it is basically focusing on electrochemistry, and all these businesses are being spawned in our innovation center. We have labs in Pune and Bangalore where all this work is being done. So, that is really the broad definition. So, we will continue to be a chemistry lead business with consumer business which is housed within it for historical reasons.

Viraj Kacharia Thank you. Just a follow-up, then why not separate the two verticals? I mean, actually you have a consumer and then a non-consumer. We can say we have a chemistry-based strength or a science lead approach, but considering the investments we are looking in certain capital intensive sectors like lithium ion battery, just trying to understand, why not actually split the two verticals altogether?

R. Mukundan So, the Board continues to look at various options of structures. And as and when the Board reaches its decision we will come back to you. As a first step what we have done is we have started a segment reporting on consumer products. If you recall, last year there was no segment on consumer product at all, this is the first time we started to report consumer products as a separate segment so that we can at least share the performance. And as the performance picks up and it sort of builds a good franchise and a good portfolio, which is what it is doing now, I think various options will be examined and the Board will reach its decision at the right time.

Viraj Kacharia Okay. Just coming back to your overall approach of science lead chemistry-based approach to different segments which you are looking to, either see or get into. Just want to understand a broader thought process, what are the segments we won't be getting into? Because when you say chemistry-based approach, the whole spectrum is quite wide and open and it can lead to a lot of possibilities. But as a shareholder and a long-term investor we are just trying to understand eventually what our company will be known for in different businesses?

R. Mukundan So, as I said, nutrition solution is a very strong platform for us, agrochemical also is a very strong platform for us for historical reasons. So, both these remain very clearly our focus area. There is a very strong understanding of inorganic chemistry. If you look at the periodic table, sodium, lithium and potassium, they are all part of the same alkali metal vertical, an alkali and alkali metal vertical in the periodic table. And our team has a good understanding of that. We will enter only those chemistries which we fully understand. The team also has got terrific understanding of silica chemistry, silicates are made from the downstream of soda ash and hence our understanding of that line of business is also extremely good. So, we will move into adjacencies where we have a good understanding, not into areas which we do not understand, which is a combination of inorganic chemistry and agrochemicals and nutrition products which are based more on fermentation technology.

Moderator Thank you. Our next question is from the line of Trilok Agarwal from Birla Sun Life Insurance.

Trilok Agarwal Just a couple of questions on the US operations. This quarter you have already stated power outages and also selling prices were the issue. So, what kind of insurance claim do we expect to completely come, get reversed?

R. Mukundan We have filed approximately USD 3 - 3.5 million.

Trilok Agarwal And what are the key reasons? I mean, is there that we have seen such incidents in the past and how are we trying to prevent that in the future?

R. Mukundan This was one-off cascading effect from the tie line and grid which normally should not happen. The only solution for that is to island our own power plant. We are examining it, but this never happens in the US, the power usually is very reliable there.

Trilok Agarwal Because in the US business when I look at the realization per ton basis on the numbers that you have shared with us, it is not a meaningful kind of a decline that you have highlighted. So, just can you throw some light over there? When I calculate the realization it is approximately Rs 15,700 per ton, versus the last quarter similar numbers. And you have mentioned in the opening remarks that you see a $5 additional realization for the next year in the soda ash business.

So, for the quarter when you highlight, there is in the TCNA, lower average selling prices have resulted into such kind of performance variation.

John Mulhall Yes, what we saw was 9,000 ton increase in sales over December 2017 quarter, but we did see a couple of dollars reduction in price, so it will be the destination mix more than anything else that was one of the reasons for the average variance in the quarter. And looking forward we are seeing a tighter market where we are expecting price increases as we announced, and a more steady production situation.

Trilok Agarwal And the next question is pertaining to Europe, even the UK business. I am sure the team would be working on to get back the normalized number, but can you just give us some more details, what led to such wild swings?

John Mulhall The two energy pieces – one is the purchase of raw material coke and also natural gas which has seen some fairly wild swings generally in Europe, especially in the UK in the last 12 to 18 months. That is one of thing that came through there. Coke, again, is imported through Poland, depending on which grade you are taking. And also we saw slightly lower sales and the mix of the sales of salt which is at best to what we have done in the year. But it is a combination of three or four things at the same time.

Trilok Agarwal So, do we expect this to kind of normal, can you expect this to get to a normalized level from next quarter onwards, what are your thoughts on those UK piece?

R. Mukundan So, on UK for example, I think energy will normalize because it is one of the spikes in the gas pricing which happened, that should normalize. As far as coke is concerned, coke remains at a slightly elevated price around the world, even though it has come down slightly, it is not much of a let up on the coke pricing and it has not come to the levels we are comfortable. So, energy prices are coming down, so to that extent margin expansion will happen. But coke remains a worry, both for UK and for India. So, that may not change in the short run. And as far as the sales mix is concerned, it will correct itself as we go forward into the next year. And that mix we are trying to sort of correct it as we get more and more fresh contracts into the company.

Trilok Agarwal So, we can expect a double-digit EBITDA margin from the European business, is that fair to assume going ahead?

R. Mukundan We have maintained that the maintainable number there is about GBP25 million, I think that is really what we will be trying to keep steadily in most of the quarters.

Moderator Thank you. We have the next question from the line of Vihang Subramanian from Ambit Capital.

Vihang Subramanian Just another question on Europe only. I was just looking at your volumes and they have declined even on a nine months basis. And even over last like almost 10 to 12 quarters the trend has been pretty much downwards. So, could you give us some sense on like is there any structural change in the business? Because we are hearing that the demand environment is very healthy for soda ash. So, in such an environment why are our volumes declining?

R. Mukundan See, in terms of volumes, the volumes which we are letting go in the market are the traded volumes which we do not produce. These were volumes bought for customers with whom we had contracts and we were unwinding those contracts around the time we had reduced the production, if you recall, we had shut-down one of the operations. So, that purchase for resale (PFR) material, has been reduced to almost zero this year; last year the PFR volumes where lower by 20,000 tons and last year this PFR volume was 35,000 ton and we have reduced that to 16,000 tons this year. And we will continue to take it down because the margin in PFR business is not high, it is only to service existing customers so that they can unwind from us in a structured way. And as you know, the UK business is continuing to focus itself on a higher value-added products. And as the new sodium bicarbonate plant comes up we will further reduce the soda ash production and move towards sodium bicarbonate. But this is not because of own production, own production the variation is hardly 1,700 tons, the purchase for resale material is what has come down. And that hardly gives us any margin in any case.

Vihang Subramanian Okay. And sir just another thing on the energy cost, normally we pass this on, right? So, will the energy cost that were high this quarter, that will be compensated with price hikes in the subsequent quarters?

R. Mukundan See as far as UK is concerned, part of the natural gas we actually hedge and part we do not hedge. So, there was a spike in that un-hedged portion. So, because the natural gas prices have come back to normalcy we do not expect us to swing our pricing because of the gas pricing. And this has been done because of the risk management committee has had a view that we should not go to 100% hedge on this and we should give a structured hedging which takes care of some swing but not the full swing.

Vihang Subramanian Okay. But normally these are passed on, right, like through our priced contracts which are revised? I do not mean particular to the Europe business, like even with respect to all the business we have seen.

R. Mukundan Yes, I think they are annual contracts and as the new contracts come in I think the average number which I spoke about, about $5 per ton, this is an average around the world, I think that is really the number which will trend upwards.

Vihang Subramanian So, and just last one, on Magadi there has been some news flow that the Government is, like we are running into some trouble with the government trying to shutdown our operations and demanding some Rs. 1,200 crore as land arrears. So, just wanted your thoughts on like how will this pan out?

R. Mukundan So, as far as Magadi is concerned, we have a long lease running up to 2053, and those lease terms are fairly clear. In Kenya there was a change in law wherein they established a new set of county governments which didn't exist before and they have given them certain rights to sort of levy certain fee, rates and cess. Our current rates and cess were negotiated three years ago and they have come up for renegotiation. The normal tendency should have been to increase that by the rate of inflation, but in this case the county Government chose unilaterally to sort of move that number almost 10x to 15x the number which is due to them. And we have contested this in court, the matter is in court. Some of the officials in the county Government have taken certain unnecessary stance on this and we have been working our way through a normal process that law must take its own course. So, we are fairly hopeful that this will be settled fairly soon. But this is just one of those areas where some officials are flexing their muscles and we do not want to be side tracked by that. We have been assured by both Mining Ministry and by the Federal Government, they are fully supportive of our efforts and they will arrive at a fair solution.

Moderator Thank you. We have the next question from the line of Amar Mourya from Emkay Global.

Amar Mourya Sir, on the consumer front. your indicative target of reaching something around Rs. 4,500 crore to Rs. 5,000 crore kind of a number, I mean, are we on track? And how do we see these things pan out? Because by launching these small products, are we confident that we are going to reach that mark? And even if we do, there is probably lot of things are going to go towards the marketing and the branding part, so probably we might increase the size but the bottom-line is now going to increase because of this. So, your thoughts on that, sir?

R. Mukundan So, I think in terms of the broad numbers which we have in terms of where we are today, I think three quarters we have already clocked approximately Rs. 1,370 crore and we are well on our way to be hitting our annual budget numbers which were close to about Rs. 1,900 crore for the year. And this is a healthy growth from the previous year in terms of revenue growth. Last year we had closed the year with about Rs. 1,500 crore and the next year target is still continuing to be high. If you look at our growth rate, salt is clocking in single-digits, whereas if you look at pulses and spices we are clocking in excess, in certain quarters close to about 100% odd growth, albeit on a smaller base. So, the potential for growth is both, volume for both spices and pulses are very high. So, they remain the category. This year we are very clearly achieving a breakeven in the pulse business and it is going to be positive PBT and our view is that as it enters the positive PBT field, as we said that at any given point of time we will be investing in two new categories so the investment will continue to be happening in spices which will tend towards positive PBT next year. And we are looking at what other options we have in terms of launching. We do feel that some of these categories which we are aiming will provide the next phase of growth for this business. But if you look at bulk of that 5,000 which we spoke about, bulk of that revenue is from three broad businesses, one is salt, second is pulses, third is spices. The other categories will come in and they will also shape up for going beyond the Rs. 5,000 crore turnover. So, it is just building that continuous momentum of growth for that business. In terms of spice itself if you look at strays, both in chili and turmeric, I think our market share is fairly high. We are in several markets now inching towards leadership position and we will continue to move in that direction. In addition to that, the company will be backward integrating into spice production, spice plants itself so that we have complete control over the whole quality control and the production of spice facilities. A test facility is being set up and the board has cleared investment for that pilot phase this year and on the basis of the success of the pilot we will be coming out with a full expansion and investing in spice production facility. So, it is trending to be in terms of numbers in terms of category as good as what we have in salt. So, we have a very strong view that this business is shaping up very well.

Amar Mourya So, sir, at what size of revenue do you see that the spices and pulses business is going to be in a self-sustaining mode? Meaning, it can sustain its growth from its own internal accruals. Because currently I believe even if we might be growing but still, we will be not in black.

R. Mukundan So, I told you, pulses is already turning positive PBT this year and it is I think around Rs. 350 crore to Rs. 400-odd crore, we will be probably closer to that, so it is in that zone. And spices, as it crosses about Rs. 80 crore to Rs. 90-odd crore, it will be positive. It is getting to that number. A safe figure to assume in spices, it will be positive about Rs. 100-odd crore.

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

Abhijit Akela Just on the margin pressures that have surfaced in the last couple of quarters because of these rising energy costs. I know we have spoken about taking these price increases and thereby restoring margins, what kind of timeline do you see for going back to the guided margins that we had? So, like you mentioned in the UK GBP 25 million per year, in the US I think our target should be about $50 a ton of EBITDA on average and India we were making 27%, 28% EBIT margins. So, do you have a timeline in mind by when we can sort of hope to get back to those levels?

R. Mukundan So, the timeline on these fresh contracts are all coming into play from 1st of January this year, so 2019. There are some two or three years' contracts, a small portion of it which will unwind themselves next year or during the current year, but most of them are clocking in in the current calendar year, that is a negotiated number.

Abhijit Akela So, is it fair to infer that by 1Q or 2Q we should be around those levels?

R. Mukundan So, it will start showing in the Q4 of this current quarter. So, number in our view that we have around $45/t EBITDA, around about that is what the US should get to and UK should be getting GBP25 million EBITDA number between salt and soda ash put together.

Abhijit Akela Second on the consumer business, I just wanted to understand how much the advertising and promotional spending was in this quarter? And what your outlook on an annual budget is for that business? And if it is also just possible to break out the revenue this quarter between salt and the other businesses?

R. Mukundan Yes, so the pulse business has clocked Rs. 50-odd crore this quarter and the spice business has clocked Rs. 15-odd crore this quarter. And Salt is about Rs. 400-odd crore.

Abhijit Akela And the advertising spend was the other question.

R. Mukundan The advertising spend this quarter was up by almost Rs. 12 crore, our usual run-rate is between Rs. 12 crore to Rs. 13-odd crore a quarter. This quarter we ended up spending Rs. 24 crore.

Abhijit Akela Just one last thing, the other income, are there any one off items this quarter or is this a sustainable run rate we are seeing going forward?

John Mulhall Other income includes about Rs. 45 crore of insurance receipts from the UK, due to fire and damage we had in the year.

Moderator Thank you. Our next question is from the line of Sumant Kumar from Motilal Oswal Securities.

Sumant Kumar So, my question is regarding Tata Chemical North America. So, soda ash business has seen a capacity utilization in the range of 92% to 95% over FY11 to FY15. Then we saw 85% to 89% utilization, which has declined, and again we have jumped to 94%, now we have in nine months 88%. So, in past three years we have seen EBITDA per ton was hovering $43 to $47 per ton versus earlier five to six years $48 to $52. So, hence we see a lot of earnings volatility in the US business due to plant shutdown due to unfavorable climate conditions, sometimes technical problem. Then this quarter we have a power outage. So, my question is, do the US plant need modernization? And what are the other key challenges we have, how are we going to sort out that?

R. Mukundan So, I think US plant has more or less capital investment going on, on an ongoing basis. So, in fact, a lot of the winter effects which we used to have, peak winter effects are mostly behind us, including if you look at the polar vortex which came very recently as of last two weeks, the plant has continued to perform well. So, I do not think we have any major issues with respect to that element. Our CAPEX spend in US has been running at a fairly good rate, last year for the same quarter this year we were at Rs. 64 crore of CAPEX and this year we are spending Rs. 95 crore of CAPEX. Year-to-date we have already spent Rs. 210 crore and last year we spent Rs. 164 crore. So, I think capital spending has not been anyway trending down, I think we have been supporting it and the plant is completely modernized. It is just unfortunate that a plant which is well set up to push ahead has had a challenge because of a one-off event, the issue last quarter was the hook up of DSI which was fundamentally DSI is a new system we had put in place to adhere to environment norms, and that hook up took longer than usual, which is what we had explained. And some of the energy cost increase we are seeing, as we are stabilizing the DSI, there are no longer any issues with operating the DSI, the cost of running the DSI is being fine-tuned as we go along. So, if you really look at US, it has had massive inflow of capital to upgrade its equipment to meet the environment norms as they are getting tighter and keeping it ready for future. Even in India if you look at it, the capital expenditure in the last two, three years was high not because of major operating investments which are going mainly in salt, a lot of the spend has gone into what I would call environment control measures, both for cement plant and for soda ash plant, because there is a continuous tightening of norms, 24x7 monitoring, Sox & Nox norms are being tightened. So, we are just getting our plants future ready. So, that has been our effort and we continue to stay ahead of the curve. This quarter I would simply place it to one off unfortunate event which was not planned. Last quarter it was a very much a plant issue, the DSI hook up took longer than what we had anticipated.

Sumant Kumar And what is the new contracted price of soda ash for India?

R. Mukundan In India we tend to take price increases as and when the opportunity arises. As I said, overall, the contracted prices around the world internationally on an average, is about $5 per ton.

Sumant Kumar Lastly, you talked about the adverse salt sales mix in the UK, so what does it mean by that?

John Mulhall Really, it's a difference being selling the lower value salt and our normal higher margin product. But this is a small amount this year, but more, lower volume in the quarter and albeit the more of the lower value salt that was sold of the overall mix, that caused the problem.

Moderator Thank you. We have the next question from the line of Anil Shah from Birla Mutual Fund.

Anil Shah Sir, just wanted to reiterate, if my understanding is right. As far as UK is concerned we are saying volumes which used to be, I am just saying, if you look at volumes in UK in FY17 were about 481,000, in FY18 the volumes were about 394,000, we have just not clocked about 249,000 approximately for nine months, and we will clearly be running short of 395,000. But you are saying that you are not doing a lot of the bought out volumes which were low margins for the time, but it is more to do… and obviously the EBITDA is completely much significantly lower, so if you see your own presentations we are running at about Rs. 78 crore of EBITDA for the nine months versus Rs. 139 crore for the same nine months. So, you are saying this is not to do with volumes, more to do with mix and more to do with cost going up, particularly coke and other energy costs. And the fact that starting next quarter you will be running back at about GBP25 million on a run-rate basis from a EBITDA perspective for UK. Is my understanding, right?

R. Mukundan So, your understanding on the volumes, margin and margin decline is absolutely right. And from next quarter on the price increases will kick in and that would soften some of the pressures on the margin.

Anil Shah So, we should be back at GBP25 million run-rate, at least for next year, if not the next quarter immediately? We will see improvement next quarter but we will be back to GBP25 million in UK from an EBITDA perspective next year?

R. Mukundan That is right. And also I just wanted to say that UK has also achieved a landmark process. One of the big issues there was sustainable soda-ash operations and they are very close to signing up a tri-partied deal between the company, the land developer and the pension trustees, trying to develop a sustainable plan for the soda-ash business going forward by investing in bicarbonate. And hopefully all the deals and all the thoughts will get signed up, but clearly we are working to address one of the balance sheet issues we have had with respect to the pension fund deficit, that also is underway.

Anil Shah Sure. Sir, the other question is related to the US again. Again, just wanted to reiterate what I believe I have heard you right, we have had for whatever reasons volumes over the last couple of years has not really reached the full capacity. But you were saying hopefully with the weather turning out to be fine we should be somewhere close to 2.3 million – 2.4 million next year, and based on that and the prices hike that you have taken, we should be at $45 EBITDA per ton plus in US, is that understanding right?

R. Mukundan Yes. you are right about 2.4 million to 2.45 million, around that number is absolutely right and $45 per ton is also right. And if you look at the weather-related issue, we have not had a weather related issue, let me just highlight that. I think last quarter was DSI hookup which was hooking up pollution control equipment this quarter, in the third quarter it was more to do with the unplanned power outage, it had nothing to do with the weather.

Anil Shah Yes, I think last year was weather, but yes, I mean we have been having issues unfortunately or the other, for some reasons. And just again on US itself we have asked for insurance claim of between $3 million to $3.5 million, correct?

R. Mukundan That is right. And we will account for it when it is accepted.

Moderator Thank you. Our next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas My question is on the consumer product business margin, so even if I account for a higher marketing expense, if I look at quarter-on-quarter it seems that the overall sales revenue has actually marginally increased which primarily implies that broadly the sales mix has remained same or slightly better. But on QonQ basis the margin seems to be reasonably lower, so can you just explain as to is this a seasonal phenomena, because we see similar kind of margin last year as well. And because you are reporting it for the first time, so I am just trying to understand whether in the consumer business we see a seasonality in the margins quarterly or we should get back to what we have seen in second quarter?

R. Mukundan So, I think it is mostly to do with in terms of the lower marketing expenses, also some fixed cost movement. But clearly the margin in this business should remain more or less flat and steady.

Rakesh Vyas That is where I am getting to, I mean, if we look at the salt volumes sales for last three quarters, it is broadly stable at around 270,000 tons to 280,000 tons; implying that margins on that should broadly be same. And if I look at quarter-on-quarter the sales from pulses and spices, probably should have actually either been same or improved. But the margin, even if I account for a higher Rs. 12 crore number on the marketing expense, the EBIT has fallen reasonably sharply. So, that's why I am just trying to get some sense as to whether this Rs. 82 crore to Rs. 85 crore of EBIT which we have shown in the cost is a more reasonable number or we should normalize this Rs. 60 crore that you have shown?

R. Mukundan I think you should normalize, the reason for that is, some of the distributor incentive plans kick in once they achieve certain numbers and they get accounted for. So, I think it will be better that you normalize it for all three quarters, take the year-to-date average as the number.

Moderator Thank you. Our next question is from the line of Madhav Marda from Fidelity Investment.

Madhav Marda Sir, just wanted to check, how much is the capital employed that we have in the North America soda ash unit?

R. Mukundan Balance sheet nos could be discussed during annual results.

Moderator Thank you. Our next question is from the line of Amit Murarka from Deutsche Bank.

Amit Murarka So, my question is on the consumer business. So, further to what Rakesh and few others were asking, even if I kind of adjust for the marketing spends, as in the advertising spends, there is a dip in EBITDA. And I have kind of raised this query in the previous call as to when you take these discounting on the online portals like Amazon and Big Basket which has been going on for the last two three months, even currently what I am checking is that it is at a 30% to 50% discount, your spices portfolio on Amazon and Big Basket. So, who takes the hit on these discounts? And how is it kind of shared between the two of you?

R. Mukundan: See, I think the shift in the margins has not been caused by spices. I think these are shared kind of support plans, I will have to look at the specifics, but it is a shared plan, it is not as if the company is taking the hit. I think the larger issue is coming broadly on account of the marketing spends, and secondly, it is coming from the fact that on salt, especially on certain volume achievements, certain incentive plans are passed on. So, I think it is more to do towards those elements, so which is why I said you should normalize it to three quarters rather than one quarter.

Amit Murarka: And generally speaking, what is the game plan, at least for the ecommerce portals, like you are in an investment phase I believe. So, will the discounts continue for a long time till the time the desired scale up or run-rate is achieved?

R. Mukundan: See, I think for us to be present in the ecommerce as well as in modern trade is critical. And each one of them has their own market support mechanism. In the e-commerce portals usually largely discounted out of the funds they have, it is not going out of our pockets. So, I think the only way to stop that is by not doing a deal with them. But we do believe that having a presence there is helping the brand and helping the customers that do trails, especially those who come on line. So, we will continue to engage with this. So, if your question is, are we discounting very deeply and getting into our margin when we deal with ecommerce? That is not right.

Amit Murarka: And just lastly on the soda ash contract, so most of the contracts, I mean the US, Europe contracts just have been reset. So, basically this $5 should be the increase for the full year then, right?

R. Mukundan: For the next year you should take it for three quarters, there will be negotiation again for January. Because the negotiation is done in calendar year

Amit Murarka: yes, so it should have been done for this calendar year is what I mean.

R. Mukundan: Yes, that is right, January to December.

Moderator: Thank you. Our next question is from the line of Arjun Ashar from Envision Capital. Please go ahead.

Arjun Ashar: The e-commerce rules in India have been recently tweaked, any impact on the same on our consumer business strategy?

R. Mukundan: So, for us the impact is going to be minimal because we have a very small share of our business. So, I hope that these rules will be reasonable and I think they will still undergo changes, revisions because there are several players who have issues with it. So, we should just let the system get cleared on its own. For us we are not changing any of our internal numbers and internal targets.

Arjun Ashar: And Rice launched under Tata Samppan, what are your plans there? And the current prices seem to be at a significant premium to competition, so you are aiming for the mass market or what are your plans there?

R. Mukundan No, I think it is a different kind of rice, it is parboiled rice. So, we will maintain this margin. And suffice to say that it is too early to say the outcome of that launch. But all I would say is that red rice poha has taken off exceedingly beyond our expectation. And also there has been a strong pull for the detergent launch in West Bengal.

Arjun Ashar Okay. And how confident are you on being on the right side of technological development for EV battery? Because you have the Japanese ecosystem of solid state battery, then you have the Chinese dominated lithium ecosystem. So, in all of that where do we fit in?

R. Mukundan So, solid electrolyte is a technology being developed around the world. I think it is being done in the US, Japan, Germany and France and we are pretty much locked into many of these developments. There is additionally entire chemistry being reworked between lithium and sodium itself, sodium chemistry and lithium chemistry is something we understand. And there is a whole host of shift happening which is trying to eliminate cobalt from the NMC. So, we are clearly focused on NMC and not on LFP as a product. If we have to do LFP we will do LFP, but we are focused on NMC. And as the solid electrolyte comes into play, we will be ready for it because we are plugged into many of these developments. Our partnerships are with several of these areas. So, it is something which we are watching, this technology will continue to evolve. And we will evolve ourselves along with the technology. And the assets we are putting on the ground are flexible irrespective of what shift happens in the factors and what shifts happen in the electrolyte.

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

Saurabh Jain I might be reiterating by just going specific, so in the India business we last took a price hike in August. After than when has the next price hike been taken?

R. Mukundan Last price increase we had taken was in Sept 2019. In Dec18 quarter, we have not taken any price hike.

Saurabh Jain Okay. But in January any price hikes that you have taken now, because you were mentioning $5 across the geographies?

John Mulhall That was on the international business.

Saurabh Jain Not India?

R. Mukundan No, not india.

Saurabh Jain Okay. And secondly, any thoughts on the new capacities that have been coming into India? So, some of the players have increased capacity and there is an estimate that 3 lakh tons to 4 lakh tons of capacity might be added in 2019 and it might continue to have even for the year after that. So, can we get into some kind for an oversupply situation in India?

R. Mukundan See, India is still a net importer irrespective of all these capacities coming in. And even at 5%, 6% market growth India will need close to 250,000 tons to 300,000 tons of additional product every year. So, the growth rate will, whenever there is a new alkaline added the growth rate spikes to 8% to 10%, otherwise it clocks back to 4% to 5%. So, on an average if you take 8%, I think India will need at least

200,000 tons – 250,000 tons of fresh capacity or fresh material coming in. And India will largely remain an import-based market.

Saurabh Jain But on the other side, are we seeing continuous reduction in China imports, do we expect that to continue in 2019?

R. Mukundan So, market is fairly balanced to tight, and we see no change in that view. I think the full Turkish capacity has come on stream. And as capacities come on stream in China they are also taking out capacities. I do not see massive shifts in this balance happening for quite some time, that is our view today, it is going to remain balanced or tight.

Moderator Thank you. We have the next question from the line of Rakesh Vyas from HDFC Mutual Fund.

Rakesh Vyas Just wanted to understand this $5 price hike that we have taken, essentially takes us back to the margins on a normalized basis for the full year, given the contracts that are entered. However, how do we now account for the volatility in the energy cost cross, because we have seen large volatility in the last two, three years and that actually takes away significant portion of these margins over period of time. So, are there any mechanisms put in place to ensure that after a certain threshold of energy cost it gets passed on or are these $5 baking in some additional cost that might come through during the year? Just trying to understand. Because today when we enter the new contracts these are based on the existing cost elements that we are seeing.

R. Mukundan Broadly speaking, the kind of adjustments and pricing we can do, I think this is on non-long-term contracts in India which is where it is possible to adjust those prices. Otherwise, what we tend to do is to hedge the energy so that we do not get spikes. But what we cannot hedge which is for us there is no hedging mechanism available is on the coke prices, which if they spike up will impact India and UK. And UK, even though it is on a long-term contract, so those spikes will continue to get back to UK. And also on gas pricing, while we do hedge we do not hedge 100%, and I think that policy has helped when gas prices have trended down. So, we will have brief periods where these sort of shifts will happen. But as long as there are reasonable banks, we are fairly comfortable with that.

Moderator Thank you very much. Ladies & gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

R. Mukundan Thank you very much, everyone, for this call. We fully appreciate the concerns which are being raised on the quarterly performance. But I want to assure you that as far as the performance going forward is concerned, we are all pretty much focused on delivering what we had said. And in addition to that, our strategy is well underway in terms of delivering the growth in the specialty business and also growth in the consumer business, which remain the two pillars of future volumes and value drivers for this company. Thank you.