



## **Tata Chemicals Limited**

### **Q4 and FY17 Earnings Conference Call Transcript**

**May 29, 2017**

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**Moderator:** Good Day, Ladies and Gentlemen, and a Very Warm Welcome to the Tata Chemicals Limited Q4 & FY'17 Earnings Conference Call. As a reminder, for the duration of this conference call, all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' followed by '0' on your touchtone phone. I now hand the conference over to Mr. Gavin Desa. from CDR India. Thank you and over to you, Gavin.

**Gavin Desa:** Thank you. Good Day, everyone and thank you for joining us on Tata Chemicals Q4 & FY'17 Earnings Call. Today, we have with us Mr. R. Mukundan -- Managing Director and CEO 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 maybe forward-looking in nature and may involve risks and uncertainties. A detail statement in this regard is available in the Results Presentation. I now invite Mr. R. Mukundan to begin proceedings of the call.

**R. Mukundan:** Thank you, Gavin. Thanks, everyone for taking time to join our Q4 & FY'17 Earnings Call. Let me briefly run you through some of the key operational highlights following which my colleague John would run you through our Financial Performance for the period.

FY'17 has been a good year for us. A year in which our business has delivered good performance, while emerging businesses offered a glimpse of their future potential in a very positive way. Further, the year also witnessed delivery of our strategy both in terms of exiting the regulated business with the sale of urea and customized fertilizer business to Yara India and profitable running of both UK and Magadi businesses, which was committed to all of you and that has been delivered.

Lastly, we also repaid our ECB loan and achieved significant reduction in working capital borrowings during the year, which is reflective of our businesses strong cash flow. Specifically, the Indian Chemicals operations with Soda Ash, Sodium Bicarbonate and other chemicals during the year delivered steady operating performance on the back of stable margins, good demand and better volumes.



Despite some challenges in terms of higher coal prices during last few months, broadly, our operations continue to maintain their margin structure.

US operations were strong during the year, in fact, year-on-year that volume has grown; however, during the last quarter, there was a minor production problem due to severe cold weather conditions and environmental enhancement outage, mainly to meet air pollution control norms, due to which we had to take a shutdown of the plant to install equipment. This improved production also helped us to offset marginal price reduction in the market.

Performance of our UK business was also good on the back of cost rationalization measures, good performance of Soda Ash, Bicarb, Salt and Energy business units. In fact, strong result of about Rs.100 crore profit in UK has redeemed our faith in that business and we continue to look at that business with a positive view.

The Kenyan business has also delivered positive results despite a pressure on its margins mainly due to the quality issues which we faced at the beginning of the year. Now, our customers are back, the business is showing significant improvement and we do look Kenya with optimism during the current year.

Our Consumer business also saw good traction during the year. Tata Salt maintained its No1. position in the Food Category in the Brand Equity Survey. Overall, while the number of Salt looks at 1.4% growth from 1,009 Kts to 1,024 Kts year-on-year, Tata Salt franchise itself grew 4% year-on-year, somewhere from 867,000 to 904,000 tonnes.

In terms of this quarter performance, year-on-year the Tata Salt franchise has grown 5%. But a trailing quarter basis, it did decline by 4.2% which some of you may have raised a concern but this is the way they have saved the salt pan out. In the last quarter, we do expect a dip. So year-on-year it has actually grown by 5% from 218,000 tonnes to 229,000 tonnes.

Pulses de-grew. Indeed, the Food business sales fell from Rs. 85 crore to Rs. 30 crore on the back of management decision to pull away from the pulses business, for some time, due to government price capping prices impacting the business. Structurally, we see a lot of potential in this space and our focus has shifted from selling plain dals only, which we will continue to do in A-Class stores and also to add more value-added business portfolio in terms of besan and various mixes. The first of the mix which we launched is the Bhajji Bonda Mix in the market which has been received well.

Spice business continues to chug along and continue to gain market share year-on-year. We have covered three regions. We do anticipate during the current year we will enter the fourth region i.e. Southern region.

As far as the Crop Nutrition business is concerned, we have signed an agreement for Transfer of Ownership Rights of Babrala operation to Yara India. We have had the shareholders meeting, which approved the transfer. Now we are waiting for NCLT approval. We anticipate anywhere between 60-90 days for this transaction to close.

Haldia has had a good second half, with an improved top line and profitability. Our focus has been on generating cash flow from this business and holding a tight



operating structure and producing only to market needs to continue to generate positive cash.

Rallis India, including Metahelix has shown healthy performance.

So moving on, we do feel that our business focus in terms of Consumer and Specialty businesses, first of which was Rallis which we acquired, is the right approach for the business to show robust growth going forward. In line with this, the Board of Tata Chemicals approved Rs.295 crore investment in Highly Dispersible Silica (HDS) which is a versatile product, and a downstream addition for our Soda Ash business. Its applications include Rubber, Coatings and Agrochemicals. The technology for manufacturing HDS has been developed at the innovation centre, for which eight patents have been filed. The huge interest which we see in the marketplace from our customers and also from overseas competition has already encouraged us to push this business forward in a very strong manner. We are in the process of acquiring land and a pilot plant in Gujarat where this business is to be sited.

In addition, our Nutraceuticals business pilot plant in Chennai has performed to our expectations. And in line with that, the Board has approved an additional investment of Rs. 250 crore for setting up of Greenfield project for Nutraceuticals plant in Nellore district, Andhra Pradesh for which the Company has signed a MOU with Government of Andhra Pradesh for allocation of land. Both of these businesses will leverage the capabilities of Tata Chemicals in the Specialty Chemicals area and especially in the area of Food and Nutrition.

We are also happy to inform the Board of Directors, in line with the improving performance, falling leverage, has recommended a dividend of Rs.11 per share.

I would like to conclude by stating that we are extremely positive about our businesses. We have had good challenges in terms of maneuvering this change in the business construct and they all seem to be moving in the right direction.

With this, I would like to invite John to give his Insights on Financial Performance.

**John Mulhall:**

Thanks, Mukund. Starting with our International businesses: The improved manufacturing performance in TCNA we saw up till December 2016, though offset by the manufacturing outage we had in January, sustained the business along with reduced energy cost and reduced fixed cost to deliver performance pretty close to what we had last year.

The performance of the UK business was good compared to the prior year where we reported a loss. This was done through an improvement in fixed cost, improvement in margins in the Bicarb and Salt businesses, our Energy Supply business and the FX were weakening sterling against the dollar and euro as well.

Kenya's performance also improved with focus on quality and operational effects in business as well.

Moving on to India's operations the Soda Ash, Bicarbonate and Cement business continue to remain strong, steady demand during the quarter. The Soda Ash business is also impacted by slightly with higher coal prices really from December 2016 onwards. The Salt operations reported another year of solid performance with a million tons of sales and production. The Haldia operations delivered a small



profit in the quarter even though it had ceased production from the 21<sup>st</sup> of February due to the shifting of ammonium pipeline in the quarter. The improved performance of Urea operations is larger volume led and some one-off timing and technical accounting adjustments has contributed to the increased profitability over the prior year. The outstanding subsidy is down by Rs.218 crore at Rs.1,684 crore and at the year-end our consolidated net debt fell from Rs.7,830 crore to Rs.5,573 crore, a reduction of 29%. Our standalone net debt was Rs.1,310 crore, down from Rs.2,937 crore this time last year.

This brings me to the end of summary. I open the floor up to questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session.

**Prakash Goel:** This is Prakash Goel from ICICI Securities. I have three questions; one, with respect to FMCG business, we believe it reflects in other segment at the standalone where we are seeing a significant decline YoY in the quarter as well as yearly number is also low. Is it on account of the Pulses commentary that you made or there is any IndAS related impact which is we are missing?

**John Mulhall:** No, that is pulses related issued we had

**Prakash Goel:** So the drop in turnover from almost Rs.458 crore, right, excluding Salt, has come down to something like Rs.375 crore this year?

**R. Mukundan:** I think the Consumer business including Salt has remained more or less flat at about Rs.1,700 crore and while there has been an increase in the Salt turnover and Spice turnover, the fall has been mainly on account of Pulses wherein we took a conscious call not to end up with any further erosion of margin especially due to the government control of prices and you have seen what has happened even with the government's own purchases in the market. So that has really been a very prudent decision from our side. You would also see if you leave the revenue aside, the negative number which is there for the quarter has fallen sharply from 2016 which is Rs. (33) crore to Rs. (18) crore this quarter. This is net of the investment we are putting in the marketplace in terms of marketing investment.

**Prakash Goel:** Just to understand, out of this Rs.86 crore PBIT losses, how much is one-off, last quarter we were told around Rs.50 crore one-time?

**R. Mukundan:** Close to that much, we can send the detail to you, but we took a write-down on the stocks and also write-down on some of the markets. The no is anything between Rs.40 crore and Rs.50 crore, we will give you the exact figure.

**Prakash Goel:** This segment asset is also reflecting the same like close to INR 2 billion drop in the segment asset in the FMCG businesses basically. So what is the status on ground now are we doing the Pulses business or like we have curtailed our activity out there?

**R. Mukundan:** We are continuing to do the business and as I said we are focusing ourselves not spreading in beyond 'A' category stores, so we are present in those stores where customers are willing to pay premium for a product and there is a good franchise for that too, in fact, the customer pull has kept us going. As far as the value-added products are concerned, whether it is besan and various mixes, I think that is being



pushed harder because we see the price premium in those are much easier to get and the brand itself gets the much higher premium in the marketplace.

**Prakash Goel:** What is happening on the anti-dumping duty and your view on the global soda ash outlook?

**R. Mukundan:** Anti-dumping duty will go in July, we are well prepared for it and there will be some market adjustment. But we do not see major impact of that in terms of overall business. Our approach to the business is very much optimistic.

**Prakash Goel:** Has that decision with respect to anti-dumping duty not continuing been taken or is it still to be taken?

**R. Mukundan:** Right now, any anti-dumping duty has a natural date at which it expires, that date is already in the month of July. As far as any continuation is concerned, if someone has a sunset review, and the government decides to start the sunset review, it will get extended to another five years. While the industry has petitioned for sunset review, I am making my statement that our optimism in the business will continue because if you look at the international market, there is tightness in the market. So I think the international market is continuing to be between balanced and being tight.

**Moderator:** Thank you. The next question is from the line of Abhijeet Dey from BNP Paribas Mutual Fund. Please go ahead.

**Abhijeet Dey:** What is the reason for the sharp fall in profit from operations in Q4 for TCNA?

**John Mulhall:** As we said, that was the maintenance outage which we had in January of this year, which we did not have last year.

**R. Mukundan:** It is a little longer because of the severe cold weather temperature that went to negative 50 degrees, the engineers who had to get the equipment installed in such severe weather conditions, they took longer than what we had planned for, it is normal that installation of new equipment, in tougher conditions, is going to be an issue, we did not anticipate this kind of severe weather, so it took a couple of days more than what would have been necessary. So it is part of the plan which we had in terms of producing to full for the first three quarters to stock up the material so that we supply to the market in the last quarter, out of the stocks which we have. So that is really what happened.

**Abhijeet Dey:** What was the expenditure towards maintenance?

**R. Mukundan:** Broadly in terms of the environment related investment in the current year would have been close to, we had advanced data, I think \$6 million or \$7 million, we will come back with a number, some of them are non-recurring, I understand the part of your question.

**John Mulhall:** Abhijeet, that would be CAPEX, so it is not part of that. We are down 65,000 tonnes of production against this period last year.

**Abhijeet Dey:** No, I am sure you would have written off some maintenance expenses in the P&L itself because that is the reason I think why the profit is lower?

**John Mulhall:** That is volume-related, that is why we have down 65,000 tonnes.



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

**Abhijit Akella:** First, just a clarification; the consolidated debt figures you gave, does that include the discontinued operations of the debt related to urea?

**John Mulhall:** Yes, there is no debt in urea operation, debt is held centrally.

**Abhijit Akella:** Second is the timeline for closure of the sale process. If you could give us an indication of that and any color in terms of the proceeds you expect to get and how much of debt can we expect to be repaid in FY'18 from that?

**R. Mukundan:** As far as the closure is concerned, I think we have already filed our document with NCLT last Friday. So we expect it is around 60-days because we do anticipate that that is a usual timeline for them to give an approval and us to proceed further. So that is the only approvals we are waiting for in terms of closure of the deal. In terms of the part of the proceeds which come will be on working capital, which will straightaway be extinguishing some of the working capital in the business so that would go towards reducing the interest cost which we currently have. The other proceeds I think the board will review and it will be a combination of using it for future growth as well as sharing the part of the proceeds with the shareholders.

**Abhijit Akella:** Is there any tax payable on the gain on sale?

**R. Mukundan:** Long-term capital gain tax is certainly payable.

**Abhijit Akella:** Your UK has performed positively surprise well this quarter. So is this sustainable going forward do you think on QoQ basis? Also, if you could just comment on Turkey and whether the products have started from your competition there and does that have an impact on the UK's performance?

**R. Mukundan:** UK performance, as we had said would be range-bound between £25 million to £27 million for the full year which is the number we had committed, and it will remain in that range for a long-term except if we come back to you with some investment plan for changing the product. As of now, I think the run rate you should assume is anywhere between £25 million to £27 million depending on how much the Energy business earns and the Energy business earnings are largely dependent on spark spreads which depends on how severe is the gap for need for power in the UK grid.

As far as the Turkish capacity is concerned, during the year, part of the capacity will come on stream and next year we expect close to 0.5 mt coming on stream but our own view of the market is that the growth which we used to see in China is completely stopped in terms of capacity additions, in fact, the capacities are going through shutdown due to tightening of environment norms and that positive surprise from China has helped the world market remained in a balance condition, in fact, currently the market is very tight.

**Moderator:** Thank you. The next question is from Saket Kapoor from Kapoor & Company. Please go ahead.

**Saket Kapoor:** As I rightly heard you say to the last speaker you are factoring in this Turkish expansion of 0.5 mt coming into the market, not affecting the prices adversely as the China imbalances is now over, correct on my part?



- R. Mukundan:** So as I said, whatever impact comes in will be minor, it is not going to be major, in the sense that it is not going to collapse the price structure in the market, it probably may move in some markets the needle by \$2, some markets in \$5. But these are addressable numbers for managers to address through cost improvement to maintain the margins.
- Saket Kapoor:** What have been the price trends if you could give it for the quarter as a whole from Jan-to-March?
- R. Mukundan:** Not much of a major movement, in fact, the spot prices are up.
- Saket Kapoor:** In dollar terms, can you give idea sir?
- R. Mukundan:** In dollar terms, spot prices are up in Southeast Asia, but most of our business is on contract, so as far as we are concerned, most of the prices would have been stable because we have contracted at the beginning of this year.
- Saket Kapoor:** Up to when have we booked?
- R. Mukundan:** Some of our businesses have locked in fairly long-term, the UK businesses locked in prices at least some of the businesses in UK have been locked in for two-to-three year contract because we have done it ahead of the curve, so that we do not have any dislocation in that business because that business has a slightly weaker balance sheet. As far as some domestic customers are concerned, that is mostly on a six months cycle or a three months cycle and in North America is a mostly annual contract.
- Saket Kapoor:** Sir, domestically, your nearest competitor I think GHCL has added a new capacity of 1 lakh tonnes this year and have also guided for 1 lakh tonnes going forward into '19-20. So what is the current market share between you and your nearest competitor?
- R. Mukundan:** Our market share remains steady at about 33%. Whatever material we need, we bring it from outside India. So we hold on to our market share. I do not want to speak about our competition. We have got terrific investment avenues in newer chemicals which have much higher margin. We do actively look at Soda Ash investments in India. If there is a business case for it, we will look at it.
- Saket Kapoor:** As of now, sir, we do not have any additional Brownfield expansion?
- R. Mukundan:** If I did have cash with me at this present point of time, I would rather invest it in Specialty business. If I have lots of cash and very good position as far as leverage is concerned, then I would look at some part of the commodity business. So our priority is very clear Focus on Knowledge and Brand led businesses and if there is a major underleverage which we achieve, which means we get to very net debt-free company, then we can look at commodity business. We are going to hold absolutely steady to our philosophy of investment.
- Moderator:** Thank you. The next question is from the line of Biju Somnath, individual investor. Please go ahead.

- Biju Somnath:** Sir, as on March '17, our gross debt is around Rs.7,400 crore. Out of that entire gross debt amount, how much is the impact due to FOREX movement year-on-year or as on the reporting date of 31<sup>st</sup> March in dollar terms?
- R. Mukundan:** Not a major movement on that account, we will give that exact figure, it is not a big figure.
- Biju Somnath:** Then in our consolidated balance sheet, Under the sub-head financial liabilities under current liabilities head, there is an increase to the tune of nearly Rs.1,380 crore. Is it due to the current maturities which is going to happen, current maturities which is to be liquidated during current financial year?
- John Mulhall:** We have a facility in Singapore that will be refinanced shortly. That has just moved into short-term from long-term debt.
- Biju Somnath:** Sir, regarding the way our financials are turning out, what we can assess is that most of our investments other than the Specialty Chemicals are over, so asset switching is going to happen and regarding the way we are reviving the shareholders, our dividend payout vis-à-vis our earnings per share if you see that it is quite lower. Any plans for enhancing that at least to the tune of 50% our dividend payout because we do not have much of capital investment?
- R. Mukundan:** That is the Board decision. There is a shareholder dividend policy in the annual balance sheet. Please read it. If any clarification required, you can always raise it during the AGM.
- Biju Somnath:** Sir, regarding stability in our operations, TCNA, I believe some three quarters before also we met the same issues when the freezing temperatures we are going down, at that time some bearings related issues were there...
- R. Mukundan:** Those are all behind us. I explained what the issue was this time. It has already been explained to you on phone right now.
- Moderator:** Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.
- Tushar Sarda:** I want to know in next three to five years, which will be the business which will drive growth for the company?
- R. Mukundan:** We maintain that our business growth is going to come from both Specialty and Consumer; Specialty business growth is being driven off three legs as of now -- the growth in Rallis, the growth in Silica business, which we are beginning the investment, and growth in Nutraceuticals. As far as the other growth is concerned it is in Consumer business. So these are largely our key business growth areas.
- Tushar Sarda:** Consumer meaning Pulses and the Salt?
- R. Mukundan:** And Spices and other products which may come in the future.
- Moderator:** Thank you. That was the last question. I now hand the conference over to the management for their closing comments.



**John Mulhall:** I just like to thank everyone for attending the call. If you do have any other questions on the results, please send it to CDR, and they will respond as quickly as possible.

**R. Mukundan:** Thank you, everyone.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Tata Chemicals Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.