Tata Chemicals Limited

Q2 and H1 FY17 Earnings Conference Call Transcript

November 11, 2016

Moderator Ladies and gentlemen, good day and welcome to the Tata Chemicals Limited Q2 and H1 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. 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 welcome to the Tata Chemicals Q2 and H1 FY17 Earnings Call. We have with us today, Mr. R. Mukundan – Managing Director and Mr. John Mulhall – Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking statements in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation. I now invite Mr. Mukundan to begin proceedings of the call.

R. Mukundan Thank you, Gavin. Good morning, everyone. Thank you for taking time out to join our Q2 & H1 FY17 Earnings Call. Before I begin the discussion on key operational highlights, let me introduce my colleague John Mulhall who would run you through the financial performance for the period in review. After which we will be happy to respond to your queries.

Let me start by discussing the key operational highlights for the business. The performance of the Company on standalone basis continues to remain steady on the back of continued good performance in the chemical business and consumer portfolio. Domestic soda ash business delivered yet another quarter of steady performance.

Our European business, which reported margin expansion during first quarter of the fiscal, continues to perform well, aided primarily by improved product mix and contribution from energy business.

Kenya operations continue to improve, albeit a gradual pace. Our focus for these business, as indicated, has been to improve operational efficiencies for the year. TCNA has performed well on the back of better utilization level and steady prices.

Performance of consumer business remains steady and our effort to build a product mix, which is focused more on science and innovation, has started to yield results. As the performance of our Besan with its low-fat absorption quality is being appreciated and accepted in the market. As you know, in July 2017 the government, as a part of endeavor to give consumers relief against rising prices of pulses, imposed a cap on price of dal. This sudden decision, however, forced us to take a hit on the inventory we had built, anticipating a strong consumer demand. Going forward, we will take this as learning and we will look to be more fleet footed and manage inventories more efficiently.

Apart from this, our consumer portfolio continues to strengthen and maintain the leadership position in branded edible salts. Our plan to introduce spices in eastern and north eastern markets is also progressing well. Additionally, we are working towards strengthening brand visibility and customer connect.

Moving on to the farm business, a quick update on the sale of urea business to Yara Fertilizers India Private Limited (Yara India) is on track; we are in the process of completing all the requisite formalities and are presently awaiting approvals from Competition Commission.

On the DAP side, the production was suspended due to high input cost. Sale of non-subsidy based products delivered strong performance on account of good rural demand on back of normal monsoon. We do believe, going forward, the DAP production is back at full stream and we believe that the performance with this will certainly improve.

To conclude, I would like to say that all our initiatives will continue to be in line with our stated strategy, which is reducing the presence in regulated space, increasingly becoming more customer / consumer facing. The sale of urea business is reflective of that stated strategy. Specialty chemicals along with consumer products will be our key focus are of growth. In addition, we look to maintain, if not expand our share in soda ash market.

In summary, I would like to again reiterate, the Company's overall approach remains same in terms of making sure that all our metrics that are financial and market metrics continue to improve. I now request John to give some insights for the financial performance.

John Mulhall Thanks, Mukundan. Before I get into the financials of the quarter two and half year FY17, I just want to point out that results do reflect the reclassification of the urea business and customized fertilizer business due to the sale to Yara in August this year.

The operating performance of TCL has been in-line with the expectations, notably with Tata Chemicals North America, recovering from production issues encountered last year and it has reported improved production and sales volumes. In UK, both the soda ash, bicarbonate and energy business, that is the “old” Brunner Mond business as well as the British salt operations reported profits in the quarter and alongside with improved operational performance.

At Magadi the improvement of product quality and plant utilization continues to be the areas of focus. Rallis has reported improved operating performance given that the country has witnessed normal monsoon.

On a standalone basis, the overall revenue is lower in quarter two FY16 by Rs. 791 crore, the overall gross margins have improved substantially. This is really in line with our stated decision to reduce our exposure to low margin business as well as also due to lower sales of complex fertilizer.

The chemicals operation at Mithapur continues to report healthy performance on the back of stable volumes and low energy input costs for soda ash and salt businesses. The capping of pulse prices did results in lower margins for the pulses portfolio and necessitated the recognition of contractual losses of Rs. 24 crore adversely impacting performance of consumer products portfolio. In addition, we have continued to invest in the Tata Sampann brand through the year.

In the fertilizers business, while urea reported stable performance in terms of volumes and profits, production for phosphatic fertilizers at Haldia was temporarily stalled due to high input costs. Performance of other agri inputs businesses has been in-line with our business plan.

Lower other income comprised of dividend or income from surplus cash and any currency gains also contributed to the dip in overall profits. As we mentioned in the earlier calls that the company continues to focus on reducing working capital and debt levels which is reflected in numbers reported. The net debt on a standalone basis was Rs. 1,972 crore against Rs. 2,724 crore at March, a reduction of Rs. 752 crore. On a consolidated basis, our net debt stood at Rs. 6,584 crore, against Rs. 7,597 crore in March 2016.

That brings me to the end of my commentary and I would open the telephone lines for any questions.

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

Prakash Goel Thank you sir, I have few questions, firstly, with respect to branded salt volume during the quarter, what is the specific reason for lower volume YoY? And any impact from Patanjali?

R. Mukundan No, there is no impact from Patanjali; it is just a sequential issue in terms of the market reach and some of the freight movement. But I think it will correct going forward.

Prakash Goel Second with respect to volume going up in US, how things are panning out?

R. Mukundan I think the US plant is probably running at its steadiest as we have seen. We traditionally had some types of issues in the severe winter, but we have done several works in the plant in terms of capital investment, upgrading the electrical, which should tide over this issue which besets our operations from time to time. So we are actually very hopeful that this is going to be a good quarter.

Prakash Goel And lastly sir, your views on the global soda ash market in terms of how you are seeing the price movement changes?

R. Mukundan So it is a very mixed situation, I can only tell you that the recent increase in coal and coke prices has led to an increase in the market price. So there is a bit of hardness coming on because of input cost. We also are seeing demand being steady but soft in some markets. So it is a bit of a mixed bag. So, my assessment is demand / supply is fairly balanced, but if you do pickup any increase in price I would not attribute it to expansion in margin but I would say just the margins getting maintained.

Moderator Thank you. We have the next question from the line of Abhijeet Dev from BNP Paribas. Please go ahead.

Abhijeet Dey what is the kind of inventory losses you booked for your pulses business?

R. Mukundan Broadly, Rs. 24 crore.

Abhijeet Dey Ok and is the price cap still remains as we speak today?

R. Mukundan Yes, we have fairly good understanding of where it will end up and I think the issue is that we are hopeful that this remains at Rs. 24 crore, if there is a movement, I think the movement maybe that of Rs 1 crore or Rs 2 crore may get added. But I really think this should be sufficient. We would be liquidating our inventory by December in any case, so I think in third quarter we will report if anything further needs to be done. But if at all, it is going to be very minor.

Abhijeet Dey But this quarter can we expect the slowdown in pulses sales in terms of revenues?

R. Mukundan I would not want to comment on that, let us check the data and give the inputs to you on that. We are liquidating our stocks so I do not want to speak without data.

Moderator Thank you. We have the next question from the line of Ankur Shah from IIFL. Please go ahead.

Ankur Shah I just have one question sir, from this quarter you started reporting urea as discontinued operations.

R. Mukundan Yes, that’s correct.

Ankur Shah so, just wondered it would be great if you can provide the urea EBITDA for FY16, full year.

John Mulhall What we have reported is adequate in terms of disclosure. We reported separately because the sale was consummated in August.

Moderator Thank you. We have the next question from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

Ritesh Gandhi Sir, could you just comment on the pricing of soda ash in the Indian market and also any impact that you expect to see from the anti-dumping going away?

R. Mukundan I think the market price is steady; anti-dumping is being contested in the court, so I really do not know whether there is any change in the market place. The basic point of contention is that, freight is not taken into account in the dumping calculation. We will come back to you by next quarter exactly where it stands. If, at all, there is an impact on price it is because of input cost as I said before. So I think you should continue to look at it as a same margin business, I do not see the expansion or reduction in that. If at all, the movement will be very minor.

Ritesh Gandhi In the event that anti-dumping does go away, any expectations around how much of an impact you see on prices or because the global demand and supply is in balance you would not see any large fluctuations in terms of prices?

R. Mukundan The main supply into the global market is coming in 2018, and we are yet to make a determination of what number it may have in terms of the pricing and which market will see the pricing impact, because it also depends on the location of the plant, there is expansion happening in Turkey. So we will have a better determination maybe in the Jan-March quarter.. As far as the overall situation is concerned for next year if, let's say, the anti-dumping does go away, whatever the variation is, whatever dumping-duty is, we expect the settlement to be somewhere in the middle. So, whatever we import from Magadi and US will gain by that number and whatever we produce in India will lose by that number, that is broadly the sort of thing.

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

Alok Deshpande Couple of questions sir, firstly on salt pricing, have you taken any price hikes this year in salt, how is the pricing scenario looking in the domestic market?

R. Mukundan Fairly flat. We will have to assess the impact of GST once it emerges and then we will make the determination of that. Right now there is no other pressure point on salt.

Alok Deshpande ok so pricing is pretty much same what was in Q3 or Q4 of last year?

R. Mukundan Yes

Alok Deshpande And second question was on US soda ash, so last year in Q3 like you said there was some impact because of the weather. So as far as the utilizations are concerned, are we better equipped this year to sort of still have 85% - 90% utilizations if the weather is what it was last year?

R. Mukundan Yes, I think so. We have spent substantial amount of time and effort, as I said, upgrading the electrical circuitry there so we are better prepared and we are hopeful of better performance. Let us hope that it happens.

Alok Deshpande And also the margins that we saw this quarter, so utilizations were very good at 91% - 92% and the margins were lot more than $50. So is this the new margin profile that we can see if every time we cross utilizations of 90% plus, is this something which is doable sustainably?

John Mulhall What you are seeing is the effect of overhead recovery on additional volume. . With a factory of that size, there is a lot of fixed overhead. So it is important for us to keep our operating rates up in the 90% or higher range.

Alok Deshpande And on Magadi, so are we still maintaining the annualized EBITDA guidance of $15 million for that or is there any cut in that?

John Mulhall We don't give forecast, so won't comment on that.

Moderator Thank you. We have the next question from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor Sir, you told that energy prices are now moving up, what would be the impact on our inorganic chemical, especially domestically? What is the impact we are viewing and it will be a pass on effect or are we going to absorb the cost?

R. Mukundan Effectively I think China is passing that through, it all depends on what China does; if China absorbs we will have to absorb. As of now we see China passing it to the customer, so there has been a bit of spurt in price and that is why I said it is more driven by… but let me also give you our view on coal. Coal and coke, I think it is not sustainable, that is a view we are getting from many places beyond six months. So this is mainly driven by Chinese government restrictions on number of days you can run a mine. And those restrictions are already off. So we do believe this will cool down, even though prices may not come back to the old level it is going to cool down from here.

Saket Kapoor Sir, how have the prices moved up in the soda ash segment?

R. Mukundan I think marginally increase to account for absorption of the coke.

Saket Kapoor Sir, when we look at your TCL India margins, they are down, what could be the reason? Page number 8 of your presentation, TCL India I think so it is only the inorganic chemical that is being classified under net income.

R. Mukundan So there is about Rs. 94 crore movements which have happened this quarter of which Rs. 15 crore is additional investment we have put in marketing budget for the consumer business compared to last year. Other than that, the balance is on account of Rs. 24 crore worth of the one-time provisioning we have made for the pulse business because of government intervention. Then the balance amount is, more or less, split 50-50 between additional provisioning and as a result of the subdued performance of Haldia.

John Mulhall As well as that, there was a mixt of reduced dividend this year compared to that of last year, a reduction in interest income, due to the rate reduction in the last few months, compared to the money we have on deposit same quarter last year. Mukundan highlighted the major pieces which has continued in our consumer business, additional cost of running Haldia phosphatic manufacturing facility, given our decision to hold back on the volume to protect ourselves from the low margin business.

Moderator Thank you. We have the next question from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel Sir, this is with respect to European operations. When we had taken up the turnaround we had guided a GBP25 million kind of profitability out there. How are we progressing in that?

R. Mukundan GBP 25 million was EBITDA number.

Prakash Goel yes, right.

R. Mukundan I think we are pretty much moving in the same direction, so I think we will continue to maintain that number because that is the number we had, when the business is going steady.

Prakash Goel Just for clarification, this includes British Salt?

R. Mukundan Yes, 25 million was including British salt.

Prakash Goel would you be able to provide the British salt number separately for FY16 or any specific year?

John Mulhall Well, you can actually get British salt numbers from the accounts.

R. Mukundan So if it is interesting, from next time we will start the process.

Prakash Goel Ok and the process with respect to divestment of non-core assets or fertilizer assets should continue, right?

R. Mukundan We do not call it non-core, These are excellent assets which we have built with lot of effort and we believe they are profitable. And for us it is just that we do not want to be in regulated business and that strategy is pretty much on track. As I said, we are awaiting competition commission clearance to move to the next stage, all other angles of that deal closure are on track.

Moderator Thank you. We have the next question from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta Sir, question on NPK fertilizer, we have reported losses in the current quarter because of some production disruption and the market dynamic not so good. Sir in our last meeting with the CFO you have mentioned that this NPK fertilizer you will wait and watch for some time, if the losses in that business continue then there would be probably a very tough decision to be taken on that business segment also. What is your thought process on that business as of now?

R. Mukundan So what I said is that we will continue to review. The plant has actually done very well in terms of focusing the operations to markets which are close by, also focusing the entire operation much more tightly. And Q3 would see better numbers coming through.

John Mulhall Also it is very clear it is a continuation of process, we are not making product just for going for revenue, we have to be able to deliver profits and that is what we continue to do, that is what we will always do going forward. You saw that the reduction in volumes of Rs. 800 crore, we also saw the improvement in our debt position and a significant improvement in our working capital position. This is what we are focusing on as well.

Rohan Gupta And sir, as discussed earlier, the scale of NPK fertilizer business also, is it also on cards right now or there has been some delays?

R. Mukundan No, I think we have made a statement, I think that statement tells as much as it can tell, that is, we are focused on reducing our exposure to the regulated business. We cannot give forward-looking statements on these issues, beyond this.

Moderator Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to the management for closing comments. Thank you and over to you.

R. Mukundan Thank you, everyone. As I said in the opening remarks, the Company remains focused on delivering a strategy of improved metrics across all parameters whether it is the customer, financial or market metrics and we remain focused on our strategy which is going to make this company extremely robust. And we will change our reporting as it has been presented in some of the items which you wanted for next quarters. Thank you all for your attention during the call. Thank you.