Tata Chemicals Limited

Q2 FY23 Earnings Conference Call
October 28, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY 23 Earnings Conference Call of Tata Chemicals Limited.

I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you.

Gavin Desa: Thank you, Yashshree. Good day, everyone and thank you for joining us on Tata Chemicals Q2 FY '23 Earnings Conference Call. We have with us today, Mr. R. Mukundan, Managing Director & CEO, Mr. Zarir Langrana, Executive Director and Mr. Nandakumar Tirumalai, the 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. Over to you, Mukund.

R. Mukundan: Thanks, Gavin. Good day everyone and welcome everyone to our quarterly earnings call. First of all, let me wish everyone a very happy new year and happy season. Hope all of you are safe. On today's call, I am joined by my colleagues, Zarir Langrana and Mr. Nandakumar Tirumalai. I will start the discussion with key operational highlights across businesses and geographies following which Nandu will walk you through our financial performance for the quarter. To begin with, I'd like to say that this quarter, in terms of the volumes especially of, soda ash, was impacted by certain extended plant maintenance outages in India and US. Otherwise, we have continued our growth momentum during the quarter, and overall H1, we have ended on a strong note. Also, you would've noticed during the quarter, which Nandu will talk about, our dip in the EBITDA percentage, but if you go to page number 16 of the investor presentation, it shows historically, Q2 and Q3, the percentages go down and then move up again in Q1 and Q4. Tt is keeping in trend of the past, and we will leave it at that.

I wanted to address these two points because I'm sure these would be at the top of the mind of all the people who joined the call. Overall, we've seen a good improvement in revenues and profitability on the back of favorable demand-supply dynamics, and better cost control. All our businesses across geographies have performed well in line with our plans.

Let me now move on to individual business, on soda ash the overall market remains tight. There is no softening in majority of end use markets as of now. There is a talk of recession, slow down, but this is not being seen by the customers with whom we are interacting, and it continues to be in a very balanced situation to tight situations from market to market.

In India the demand was mainly driven by glass, during monsoon the detergent market goes through a bit of softness, but on the ground, the demand continues to be strong, and we are already seeing pick up during Q3 in terms of market demand and should move to a stronger level in Q4.

Moving on to US business, other than the issue related to the volume, which I addressed already in the beginning, we also had a specific aspect of exiting from ANSAC, during this quarter. This gives us a greater flexibility in terms of servicing our customers and addressing our customers directly in several of the export markets. This is part of the transition to build one unified marketing network around the world.

UK and Kenya benefited from improved margins especially on the back of new contracts. UK in addition, benefited from increased sales volume of higher margin products and salt. There have also been business restructuring benefits which have flowed into UK and also the stability of carbon markets, crystallization of historical derivatives in hedge position, and one-off receivables from land transactions have given us one-time uptick in the numbers in UK.

In terms of salt business, it has remained stable and the bi-carb sales have also remained healthy across India and UK. The silica business continues to be at optimum level, and we are going to be scaling up capacity as I explained in the previous calls. On nutraceutical, we continue to gain customer acceptance and this will gradually scale up going forward. On Rallis, despite external challenges, the business delivered good top line growth, especially the international business, registering 67% revenue growth. Domestic business, also registered good growth, and we believe that -- going forward the company would maintain its momentum.

On CapEx, the current expansion in Mithapur is on track and planning for further capacity expansion is underway. To conclude, I would like to reiterate, the core business continues to be strong. Business outlook for all our products remains promising and our effort towards completing CapEx is on schedule and meeting customer requirements on time is well underway. With this, let me hand over the floor to Nandu.

Nandakumar Tirumalai: Thank you Mukundan, good afternoon to everyone, and Happy Diwali to you and the family. First, let me quickly walk you through the financial performance after which we can take the Q&A. Starting with financials, our revenues grew by 40% over Q2 of last year, the growth was broad-based with all the businesses and geographies performing well. EBITDA for the quarter was an Rs. 920 crore, 84% higher than last year’s Q2.

Driven in part by operating leverage and strong demand during the quarter, offsetting the rising input prices.

Moving on individual businesses with India, revenues for the quarter was 40% higher than last year's Q2. Growth was mainly contributed by higher realizations. Current quarter volumes are reflective of the strong on-ground demand, as existing segments like glass and newer segments like solar panels continue to grow. Salt and bi-carb volumes as well were steady in the quarter. Margins were stable.

Coming to UK, despite the challenging inflationary external environment, business reported profit of Rs. 99 crores for the quarter, soda ash volumes were stable. As far as Kenya is concerned Q2 witnessed a good and stable performance with volumes and profits improving. Kenya is our lowest cost manufacturing unit and benefits the most from any improvement in pricing.

Moving on nutra and silica as Mukundan mentioned earlier, Silica is operating at optimum levels and with demand and client approvals in place, we are working towards scaling up the capacities. As far Rallis is concerned Q2 saw a good revenue growth, largely driven by the strong performance of international business and domestic businesses as well, which, though was impacted by uneven monsoons, registered decent double digit growth rate. Margins for the quarter were impacted due to higher input cost.

We happy to inform that we repaid USD 92 million of our loan during the quarter and in total repaid USD 125 million in the last six months' time. Our cash portion in India comprising of cash, mutual funds and bank deposits has moved to about Rs. 1365 crore in September. Capital spending was at Rs. 220 crores for the quarter, as against one Rs. 115 crores for the previous quarter. On a consolidated levels we had Rs. 1967 crore of cash at the end of September, net debt stood that Rs. 4409 crore, and consol. CapEx of Rs. 304 crores in this quarter, as against Rs. 246 crore last year. With that, I close my comments and hand the floor back to moderator to open up for the questions. Thank you.

Moderator: We have a first question from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar: My first question is regarding the margin trajectory for UK and Kenya business. We have seen a strong margin expansion. So can you talk about how sustainable they are?

R. Mukundan: Yes, as I mentioned this quarter and coming quarters, there will be some benefits which will be coming, one-time historical derivative and hedge positions in UK especially. In Kenya also, I think the reflection is on the basis of the strong market price, which continues to exist. We expect that during the current year the margins will remain range bound within a narrow band and maybe tapering down towards the later quarters as some of these hedges will unwind. The other critical issue is that, the margin trajectory in the other businesses will move in the reverse direction, which means they will continue to improve. UK and Kenya have had the benefit of certain levels of unwinding, and they would moderate, whereas the US and India would probably accelerate.

Sumant Kumar: Okay. Can you talk about US business, the price negotiation and export realization any price increase in the coming quarter? Or has the price already stabilized at this level?

R. Mukundan: US would certainly see certain changes in the pricing levels by Q4, because the new contracts would come in. We have not got the benefit of new contracts because some of them were annual, so they would transition in the Q4 of this year. And on the export side, we continue to see improvement in pricing.

Sumant Kumar: So when we see the improvement what range for price improvement can we expect in the next two quarters, you are talking about Q4, we will see a price increase because of contact prices.

R. Mukundan: The export volumes of US are moving every quarter and the domestic volumes and pricing will change in the Q4, which is Q1 of the calendar year.

Sumant Kumar: So all the contracts will be on quarterly and half yearly basis for US?

R. Mukundan: For export volumes, the two markets - Southeast Asia and Latin America, more or less have moved to quarterly, whereas the domestic market within US has remained more or less annual.

Sumant Kumar: Okay. So just a small request, whenever there is a planned shut down or maintenance plant shutdown, we should intimate to the exchanges. So we'll get a clear picture for the earning performance of the quarter. Thank you so much, sir.

Moderator: We have a next question from the line of Vivek Rajamani, from Morgan Stanley.

Vivek Rajamani: One clarification and one question from my side. On the clarification side, the shutdown that you mentioned for India and US that was a planned shutdown or was that an unplanned shutdown?

R. Mukundan: It's a planned shutdown and we had taken a longer outage than normal, mainly because we wanted to have a very, very strong run by Q4 when new prices come in. So that was part of the approach, rather than take two short shutdowns, we have taken one longer one in the US and in India, the shutdown has been longer than planned, partly because of heavy monsoons, and nothing to do with our internal operations.

Vivek Rajamani: Just to clarify the shutdown is over and now the plants are running as for normal. Is that fair?

R. Mukundan: Yes, they have already started in the middle of the quarter, so they're all back.

Vivek Rajamani: And coming to the question, sir, obviously we've seen a lot of volatility across the energy costs for the past many quarters, and you've been highlighting that as well. I think what we've seen so far is a lot of these costs have corrected quite materially. Could you just give some color in terms of how you're seeing your costs playing out by geography over the next couple of quarters and potentially if this fallen prices will also have an impact on the pricing? Thank you so much.

R. Mukundan: Let me just break it down geography wise - as far as the Indian coal is concerned, this is usually indexed. So as the index numbers on coal comes down, the Indian energy cost would also fall, but there'll be a bit of a time lag of at least a quarter before it starts to reflect. But it does move in that direction. As far as US gas is concerned that market is more or less stable. as it did not spike or it did not go to the extent of the European gas. European gas is where the sharp increase happened. But we were covered through our own understanding of certain risk mitigation positions, which we take and we were protected in terms of ensuring that we can manage the increases. But there also, I think the prices are coming down and they're cooling off with higher visibility of the gas storage across the UK market. We are working with customers in terms of a certain margin number so that they have visibility on the gas prices and on that basis, we able to price the product. As far as Kenya is concerned, it is on HFO and again, HFO has stabilized and it will be link to crude oil. Crude oil prices did spike up, but has now stabilized. We are seeing all around stability and a bit of tapering of the increases.

Moderator: Thank you. Yes. We have a next question from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Sir, first on the shutdowns that were taken, just a few clarifications regarding that, if you could just share with us how much volumes were lost in both geographies, India and the US because of this. And, if you could also share, I mean, some estimate of the lost profit because of Yes, because of these shutdowns.

R. Mukundan: As far as the issue on the financials are concerned, we expect that they will be clawed back as we move forward because the plants are back, as this would've happened in certain quarter and at certain point of time. In terms of the volumes which we had planned to take out during the quarter, it was about broadly in the range of about 60,000 tons between both geographies put together.

Abhijit Akella: Okay. Yes. The reason I was asking this is just to get a sense for what the normalized EBITDA per ton would've been in both these geographies. So that was really the key question I was driving at.

R. Mukundan: Let me add, for example, in India during this period, because of monsoon, the consumptions and other parameters also come in the way. It is not just volume driven. That's not an issue in US, US is mostly volume. If you go to historical number, you would get a trend which sort of follows every year. If you look at the slide 16, it gives you a good picture of the way the trend plays up every year.

Abhijit Akella: Okay, but just to conclude, is it fair to conclude that despite the spike in power and fuel costs that you've seen, I presume largely in the US and UK the core EBITDA per ton would've been at least in line with what we saw last quarter in the June quarter, if not higher?

R. Mukundan: The input cost is one parameter, but the market price is a different parameter, and Margins are continuing to hold. Secondly, as we said, as far as US is concerned, the margin has not fully played out because the contracts would move quarterly upward and also the domestic market reset has not yet happened. So that will happen only in Q1 of calendar year.

Abhijit Akella: Fine. And one last thing from my side, before I get back in the queue. In the UK you spoke about some one-time hedging benefits, if it's possible to share how much that was. And number two, just the tax rate seems rather low this quarter. So what's happening there and what should we estimate for the full year.

Nandakumar Tirumalai: Regarding tax rate, Abhijit, that was mostly in Kenya because they're making profit for the first time. We recognize a deferred tax asset in the quarterly accounts. That's what came as a one-off item in the tax line in the accounts. They were making a loss every quarter, but now they made a profit and therefore we are to make a deferred tax asset, which can be recovered going forward. That is the reason for the credit and tax in the accounts.

Abhijit Akella: Any guidance for the full year you can give, sir for the tax rate.

Nandakumar Tirumalai: We can't talk about that.

Moderator: We have a next question from the line of S Ramesh from Nirmal Bang.

S Ramesh: So, if you are looking at the operations in US and India and UK and Kenya, in terms of the volume that is downward pressure, which you've explained as attributed to the shutdown. So going forward in terms of growth, if you see the issues regarding cost and pricing, which geographies do you see delivering volume growth on a YoY basis, say in the second half and say in FY '24?

R. Mukundan: In terms of volume, we should be clocking what we normally do in a quarter, because I think our capacity expansion is coming on stream in India only. And that too will be coming towards the beginning of first quarter of next fiscal year. So the volume will be based on whatever we can produce, we will sell. For this quarter taking the shutdown impact on the volume would've been about 60 odd thousand, if you add that, you'll get the volume what we should clock in the quarter.

S Ramesh: The next thought is, if you're looking at the European situation, there is report about lot of industries, you know, reducing operating rates and shutting down specially in glass, and there are reports of some pressure points in the areas of automobile. So, while in the period done so far, we may not have seen any impact of a slowdown, what are the sensor you're getting on the ground for the next two quarters this fiscal? And how do you see that shape up in terms of the (24:20 inaudible) segments for FY '24 and how are you planning your operation based on that?

R. Mukundan: As far as UK is concerned, we have not seen any customer sort of moving away or not committing to volume. In fact most customers are eager to conclude next year's volumes. And UK, as you may know, does not have for flat glass supply from us, it is mostly for container glass.

S Ramesh: Okay. So in terms of the flexibility to pass on the cost increases, do you think we'll continue to enjoy that, which is one of the key drivers for your growth EBITDA margins? Because if the customers are under pressure in terms of the similar cost structure, wouldn't there be some resistance and isn't that something which can, you know, potentially bring down margins?

R. Mukundan: Yes, the point which you mentioned is that we should be finally be very sensitive towards the customers' demand for these products. We are tracking that, and we are keeping a very close watch. We can only relay back what we are hearing from our customers. Our customers are continuing to be producing full and buying in full and are wanting to contract for next year on that margin structure business.

Moderator: We have our next question from the line of Vishal Biraia from Max Life Insurance.

Vishal Biraia: So my question pertains to the global demand supply. Could you touch upon the supply sources that you were expecting over the next few years? We have seen substantial delays in capacities in say, China and some of the regions, but if you could touch upon as to what is the status now and what do you see over the next few years?

R. Mukundan: In terms of fresh capacities coming on stream, we have already highlighted that there is about 1 -1.5 million tons, which can come in Mongolia but that is probably going to serve the internal market because of distance from port. The anticipated date is somewhere closer to '26, '27 or so. There was also announcement of capacity expansion in US of about 4 to 5 million tons. Initially, the announcement was for somewhere around '27 - '28, but now the date has moved to 2030. We are not going to see big capacities come on stream except some debottlenecking, and certain capacities getting added by players in the range of 200,000 or 300,000 tons. We don't anticipate major fresh capacity coming, at least from the announcements, which we are aware of, any time before '26 – '27 that is in inner Mongolia and closer to 2030 in US.

Vishal Biraia: Okay. I'm just touching back on demand related to the last question that you answered. So you're saying in Europe as well, you are not seeing demand curtailment as yet?

R. Mukundan: Sorry, I was not answering for Europe, I was answering for UK because we don't sell much in Europe. There will be regional differences which will play out. There are announcements by some manufacturers in continental Europe of glass about closing. But in UK, especially the customers we serve, are mostly container glass manufacturers. They continue to have continued operations and demand and we continue to serve them.

Vishal Biraia: So my last question pertains to the energy contracts in UK, could you touch upon as to what is the -- what are the sort of energy contracts that we currently have and how are we planning to manage this in future?

Nandakumar Tirumalai: We don't disclose such information, what we can say is that we have got a hedging policy in place and we go as per the policy, which is approved by the Board.

R. Mukundan: And as far as the customers are concerned, they have visibility on the market price and our contract with them is on the basis of the market price.

Vishal Biraia: Yes, what is the extent of increase in energy cost that you've seen in Europe operations? Could you give some perspective, as you compare the first half of last year to the first half of this year? What would be the increase in energy cost for the UK plant?

Nandakumar Tirumalai: It is difficult to say because we have a combination of our past hedges and the current market conditions, and what energy cost is a mix of what is open, what is covered, and therefore we really don't share such information. But what I can reiterate is that we have a hedging policy in place and we hedge as per that.

R. Mukundan: If you consider an index number of hundred, the UK natural gas prices went as high as six times that number for a brief period in September, but today they're settled at about 200. That should give you the point that the market is stabilizing. It is now twice the normal number of hundred what had seen prior to the conflict in Europe.

Moderator: Thank you. We have our next question from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: First question is on India and soda ash pricing. So I believe the last pricing that we had taken was on 1st of June. So after that, have we taken any price increases? And given that the energy costs are coming down incrementally, is there a possibility of the pricing correcting to the extent of the energy costs coming down?

R. Mukundan: The Indian domestic pricing is not just because the dollar is cooling off, it is also because the finished product is indexed in USD. If you consider the Rupee depreciation that certainly also gives the cover in terms of protection of the Rupee pricing in India. On the price increase, June was when the last increase taken.

Rohit Nagraj : Okay, and whether the benefit will be passed given that the energy prices will come down in the next 4 – 6 months?

R. Mukundan: These are not linked as the market price is a function of demand - supply and the cost structures. It is a very specific situation in UK where the energy costs had increased sharply that for visibility with the customer, we are fundamentally moving into a margin structure, but in other markets, it is fundamentally de-linked.

Rohit Nagraj : Okay and the second question is on China market. So there's been a real estate slowdown in China, so any demand related challenges from the real used in real estate glass, and whether that soda ash volume will come into the global market? Any broader sense from your head? Thank you.

R. Mukundan: The only big impact we have seen is not about the volume number, but more related to the freight costs which have brought down the landed price in some markets where the prices have corrected by about $20. Beyond that, we've not seen any major movement.

Moderator: Now we have a next question from the line of Rajesh Aynor from ITI Limited. .

Rajesh Aynor: Sir. My question is on EBITDA margin or EBITDA per ton across the geography. Now, if I look at it US, you know, which is the largest contributor to our top line from soda ash side, there are margins are now back to let's say slightly under $50 per ton. And the margin upside, which we had in this quarter was mainly from UK. Where our margins are almost at in excess of $150 per ton. Same in the case with Africa, where, you know, the margins are as high as more than $225 per ton. So my question was, you know, what is, let's say a normalized level of margin that we can see? And second is in US, although we have seen the prices, or the realizations went up from $200 to $270 our margins are actually in the similar range, you know let's say $45 to $50 per ton. So how exactly what are the margin determinants across US and India, UK I understood, you know, there are some hedging contracts which would've benefited us. And you know, going forward it may or may not be there, like I think there are some one off factors. So similarly, US and Africa, what are the margin determinants and what kinda outlook do we have on per ton margin?

R Mukundan: As far as the US and India are concerned, the quarter in which we take maintenance shutdown, there are also increases in fixed costs because we are spending on the maintenance costs. There is an element of let's say $3 million or $4 million of expenditure, which is ahead of the normalized number. Then the second element is that as far as US is concerned, we did highlight that the blended number usually is going to be up in Q3 on the back of quarterly resets in export pricing and both domestic and export prices would reset even higher for Q4. We would continue to see the margins move. As far as India is concerned, the prices are more or less stable as well as the costs are more or less stable. The additional maintenance expenditure which would have happen in Q2 would give you the margin uptake in Q3.

Rajesh Aynor: And in UK as well as in Africa, I mean, these are extraordinary margins, let's say $160 or even $200 plus dollars. So, what is, you know, let's say normalized level of margin. Because, you know, you have to really calculate in the price level, or the realizations have gone up very, very sharply in Africa, it's some store around $440 plus dollars same as the case with UK, Of course, UK is understandable because there are some specific energy costs, which is across all the products, but in Africa, what is, you know, a sustainable price level. And why are these prices almost doubled over a period of a year. So my question was about you know, Africa and UK pricing or the realizations in UK is, I will say, you know, understandable because of energy costs pushing through. But in Africa, what's the reason that prices, as well as margins are at almost super normal levels? I mean, say EBITDA of around $ 235 per ton, so what has been, you know, the specific factor here and what is the sustainability.

R. Mukundan: In Kenya it is mostly a function of the market prices, because it is low cost per metric ton, end up delivering high EBITDA as the prices move up. And as far as UK is concerned, we had already highlighted the unwinding of hedges and one time land sale income, and also certain increased numbers on account of product portfolio.

Moderator: We have our next question from the line of Ranjit Cirumalla from IIFL Securities. .

Ranjit Cirumalla: Yes, thank you, thanks for the opportunity. So in the opening remarks, you have mentioned that we are likely to expand the nutraceutical capacities by putting up two phase 25,000 each capacity. Can you provide a rough for CapEx outplay for this particular thing and if whether this would be sufficient to turn this particular segment back in green?

R. Mukundan: This was more comment about silica plant. We have a 10,000 tons silica plant which is more or less fully utilized. and we have a very good traction from customers especially the rubber and tyre customers for additional green tires where it's partly added to replace carbon black. We are putting up 50,000 ton in two streams of 25,000 ton each, and this CapEx will be funded through internal accruals. The estimated amount is about Rs. 400 crore and it'll take about 30 months to execute. We will start the execution plan shortly and it has a good return profile including return on capital. As far as nutraceuticals is concerned, we are still not operating at full utilization of the 5,000-ton plant. We are going through the process of customer approval, and we should probably be getting closer by the end this year, and we should be getting the nutraceutical plant closer to full utilization.

Ranjit Cirumalla: Okay, and the second thing of the production figures are kind of missing in the presentation, so just wanted to check if you can provide that for the standalone and the other operations. Soda ash production volumes.

Nandakumar Tirumalai: Generally, production and sales both are matching for, all the quarters.

R. Mukundan: They would be in the same range. And they track pretty close to each other because we don't hold much of inventory in our books.

Moderator: We have a next question from the line of S Ramesh from Nirmal Bang.

S Ramesh: So if you look at your capital expenditure, what is the amount you expect for the second half and what is the CapEx plan for the next two years? FY '24 and '25.

Nandakumar Tirumalai: We spent Rs. 304 crores in Q2 of the current year in CapEx.

If you refer Slide number 21 of the presentation, which talks about the future spend of the CapEx. So Rs. 1,050 crore is amount to be spent in second half up to H1 '24. In the next one year's time, Rs.1,050 to be incurred approximately.

S Ramesh: Okay. And the full impact of that will come from FY '25.

Nandakumar Tirumalai: Yes, so see the chart on top, which talks about capacity going up starting from this year, second half and next year's first half. So, the benefit of volumes will come to us next year, perhaps in second half.

S Ramesh: In terms of your working capital and the inventory days and receivable days you see that declining given the, you know, softness in prices and is that going to release some working capital. And how do you see your debt profile moving in terms of the gross and net debts in the next two years?

Nandakumar Tirumalai: Difficult to talk about next two years, but broadly working capital has, in terms of number of days have been steady over the last couple of quarters and as we generate more and more cash, idea is to pay down debt so that we will use all the excess cash to deleverage.

Moderator: We have a next question from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Just a couple of updates on the CapEx programs that have been underway. One is on the phase one CapEx at Mithapur, you know, when we announced it, there was a significant component towards energy saving investments particularly steam turbines, et cetera. So just wanted to check if that part of the CapEx has already been commissioned, and if so, has it already started to contribute to energy savings at the site?

R. Mukundan: The turbine should get commissioned by somewhere in the month of Jan which is the commissioning date. It is now going through testing procedures and it should get commissioned towards middle of Jan.

Abhijit Akella: And would we expect a meaningful decline in power and fuel costs after that sub stream?

R. Mukundan: In fact, we will turn down some of the inefficient turbines but more importantly it allows us to produce more vacuum salt because there's a headroom to push more salt volume in our factory.

Abhijit Akella: Okay, and the other one I just had was in the UK, of all the projects that have been going on there, there have been three or four of them you know, one after the other including combined heat and power plant and you know, waste to energy and then the salt and bi carb transition, et cetera. So what's the status on all of these? Are all of those done or are we still waiting for a few of these to?

R. Mukundan: The combined heat and power in the salt plant has commissioned fully. The carbon capture has been commissioned fully. The pharmaceutical grade salt project has started as the civil work has started and that should get commissioned in about 18 to 24 months. These are the announced ones, in addition to the warehouse, which is in- house warehouse stocking facility, which is also underway. These are the big projects which are there, and the biggest of these is the pharmaceutical grade salt, which should get commission in the next 24 months.

Abhijit Akella: And the rental income that we are earning from leasing out the land, I believe, for the waste to energy project that has already started to come in.

R. Mukundan: Some income has already come. And the land aspect, which was stated by me, in the opening remark was more to do with the warehouse, wherein the warehouse provider has bought the land from us, and we will be centralizing all our warehouse in UK in one location.

Moderator: We have our next question from the line of Resham Jain from DSP Investment Managers.

Resham Jain: Yes. So just one question, in the annual report you mentioned about co-creating high purity silica for battery applications. So the CapEx, which you highlighted a while back is that also related to that'?.

R. Mukundan: In Silica, currently the biggest end users are rubber and tire, but the same quality Silica grade also goes for battery operators. We are already selling them and this unit will be able to service that market also.

Resham Jain: Okay. So how much expectation is there from that particular segment in terms of application? When you look at overall silicon, the incremental capacity which you're putting up?

R. Mukundan: We will be able to sell out full 50,000, got enough market traction as it is in phases when it comes - 25,000 and 25,000, and we have customers lined up for this.

Moderator: We have a next question from the line of Saket Kapoor from Kapoor Company.

Saket Kapoor: So firstly, in terms of this freight and forwarding charges with the significant reduction in the container freight and ocean freight charges, what should that translate into going ahead? There have been a significant change. Does it materially affect us going ahead?

R. Mukundan: The effect of that is mostly in terms of the market price. In some of the markets, the price may dip by $10 to $20 because these markets do get serviced by them. In terms of container freight movement, the maximum use of containers is used by Magadi as they do an annual volume of about 300,000 tons, which is about 10% of our total volume. In the rest of the places, the delivery is by local inland freight, which is in UK as well as in India, where it goes by rail and road and in US, it is mostly by rail and they have shipping lines, which don't move in containers as they move in bulk cargos.

Saket Kapoor: So this line item of Rs. 528 crore which has gone up quarter on quarter will remain in this vicinity only the small point I was just trying to make on the same.

R. Mukundan: Magadi may get some savings and that accounts for 10% of the volume.

Saket Kapoor: About the change in prices in dollar, have we seen any correction in product prices internationally, and I missed what Zarir sir mentioned about any price revision that we have taken for the month of July.

R. Mukundan: No, we not taken any further price changes after the month of July. And the prices remain stable, and in some markets where freight has fallen, the landed prices have reduced to that extent. But the ex-factory realization has remained constant.

Saket Kapoor: As you have summed up that going ahead, US contribution would start improving and for Kenya and UK the contribution will flatten out for the coming two quarters. This understanding is correct, sir?

R. Mukundan: Yes, correct.

Saket Kapoor: And how will the Indian performance given our plant shut down, how is India going to contribute going ahead, quarter three onwards.

R. Mukundan: **It is** going to be at normal run rate without the higher maintenance cost which they had this quarter.

Saket Kapoor: Okay. And higher prices will reflect for Indian operations also ?

R. Mukundan: Indian prices are mostly flat, and after July, they have not moved up.

Saket Kapoor: Okay, sir. Thank you sir. And I'll come in the queue. Thank you.

Moderator: Thank you. I now hand the conference over to the management team for closing comments. Over to you, sir.

R. Mukundan: Thank you. I just want to close by saying that overall, if you look at the market context for all our products, the market remains balanced, and we do expect this condition to continue. We do believe that in certain pockets, especially in Europe and UK, we need to stay close to our customers, given the challenging market conditions there. But as of now, we have not seen any negative bias from any quarter. In fact, we've seen continued offtake and continued interest to conclude the agreements for next year. As far as our strategy is concerned, we remain focused on executing the expansion plan, which was announced in India, and also further capacity expansions across our operations, which are competitive, which is India, US, and Kenya. For this, the work is in progress and we'll announce and come back to you shortly. Thank you.