Tata Chemicals Limited

Q2 and H1FY25 Earnings Conference Call Transcript
October 17, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q2FY25 Earnings Conference Call of Tata Chemicals Limited.

I now hand the conference over to Mr. Gavin Desa. Thank you, and over to you, sir.

Gavin Desa: Thank you, Sagar. Good day, everyone, and thank you for joining us on Tata Chemicals Q2 and H1FY25 Earnings Conference Call.

We have with us today Mr. R. Mukundan – the Managing Director & CEO, 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 discussions 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 evening, and welcome to everyone to our Q2FY25 Earnings Call. I will start the discussion with a brief overview of markets and then go on to highlights of the operations.

Overall, the demand scenario was balanced both in India and in the Middle East. In the U.S. and most of the markets, container glass demand was down, except in Southern Europe where the container glass demand did improve during the quarter due to higher exports of beverages.

In China, soda ash demand was strong right through up to August-September and there has been some moderation as we speak, and the higher demand was met largely through some imports into China, which went from U.S. to China.

In August and early September, supply was fairly stable within India. However, we had increased imports into India from Iran, Russia and Turkey. US exports also increased during the quarter, but the increased exports were mainly exports to China and Southeast Asia. There was a bit of moderation in the US exports to LATAM due to the moderation in demand for lithium carbonate markets.

Overall, the pricing remained stable. We believe the pricing has bottomed out across the markets.

In terms of the other products which TCL is in, all the other products saw robust demand and continue to maintain robust pricing and margin mechanism.

With respect to revenue, revenue was up 6% sequentially due to higher volumes, mainly coming out of U.S. Indian volumes were lower, and this was mainly impacted due to very heavy rains, which impacted our operations for almost 10 days, and this led to impact on quarter-on-quarter volumes. When you look at Q2 of ‘24 and Q2 of '25, the numbers are almost same, we were behind a bit from our plan. Also during the quarter, around the month of September, all our expansion capacities came on stream, including boiler, soda ash capacity, as well as bicarb capacity. The operation has stabilized now, and we hope from Quarter 3 onwards, you would see the throughput coming from India expansion.

As far as U.S. is concerned, it saw a robust volume, and both domestic and export markets continue to be robust as far as the TCNA operations were concerned.

UK, of course, had lower volumes, but pricing was slightly better, and we are running the operations to the best of our ability in terms of ensuring that the margin profile is maintained. The pharma salt plant just commissioned in October. It is going through the first trial. In fact, as we speak, the first salt out of the pharma salt has been produced and will be delivered to the technical market till we qualify from customers during the current quarter.

Kenya saw higher volume and higher prices. Rallis had good performance, above normal monsoon and very strong performance, double-digit growth in the domestic market.

In conclusion, we will continue to execute our long-term strategy of expanding the core and focusing on higher volumes, and servicing our clients well, and making sure we have agile and effective cost right across our operations.

One of the key important parameter for us would be to ensure the second half of the year has much steadier operation. The first half was impacted due to extreme weather in India. Hopefully, the second half will be much better.

With this, I hand it over to the moderator for Q&A.

Moderator: Thank you very much. Our first question is from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani: Two questions from me. Firstly, just on India, would it be possible to give some more color in terms of what was driving the miss? I know you mentioned that there were disruptions due to the weather, but if I look at the production and the sales numbers, the decline does not appear to be extremely stark, but the impact on EBITDA obviously seems to be much more larger. So, I just wanted to understand if you could give some more color in terms of what was going on this quarter and if things have normalized as we speak. That was the first question.

R. Mukundan: Things have normalized, and if you look at the volume numbers, broadly I would say that about 30,000 tons of soda ash could have been produced and sold more. While the sales are more or less the same when you look at Q2FY24 and Q2FY25, I would just say this weather impact has had 30,000 tons on soda ash and about 40,000 tons on salt. Most of the other products were okay.

The key issue for us has been because of the weather event, the plant was unstable and there is a cost impact almost equal to, in our estimation, around Rs.40 crore, of which Rs.25 crore was on account of unstable operation, the increased cost, and Rs.15 crore of the insurance claim, which would be accounted for in the books. All is part of the EBITDA and the variable cost.

Vivek Rajamani: This is really helpful. And I know you mentioned the insurance claim. So, would it be fair to say that the Rs.25 crore effectively becomes more normal now that the operations are stabilized?

R. Mukundan: Operations stabilized. See the way we account for insurance claim is that we take 75% of the claim as on account and 25% is actually charged off. Of course, we are hopeful that we will get the full insurance claim and that is actually credited when it comes. So, Rs.15 crore represents the charge we have taken and Rs.25 crore is also charged. So, overall, about Rs.40 odd crore is the impact in this quarter because of inefficient operations.

Vivek Rajamani: And just the second question that I had was, I know you would be getting into the contract discussions for U.S. going into 2025. I just wanted to know if you could give any sense in terms of what kind of discussions you are having for your annual contracts, that would be very helpful. And, if you could just give some color in terms of what kind of export pricing you are seeing out of the U.S. right now.

R. Mukundan: So, in terms of contracts, let them settle. But as I said, the most domestic markets are balanced and there has been, see, in terms of overall performance and long-term performance, we are very bullish about India, bullish about the markets in America, both U.S. and Mexico together and China has been robust all this while, but we do believe that we don't have the real impact of their government's initiative to continue to keep the demand up domestically.

So, in a broad sense, what I mentioned, demand is balanced and the bias is also at the balance level, neither strong nor weak. We will wait and watch how the contracting turns out. We are hopeful that the long-term trends, which we have been highlighting, continue to bear, continue to move forward.

Solar glass demand has continued to be robust. The issue remains in terms of lithium, there has been a bit of softness. The flat glass has been okay. The other chemical demand has been okay. There has been a softness in container demand, all this softness has been taken over by solar glass demand worldwide.

So, really it is, we remain watchful, and we remain hopeful that the numbers at least would either tend to be where they are, or they would bias up. But we are also in the current state of contracting, so I would not want to say anything more.

Moderator: The next question is from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Just on the standalone operations, just to understand if there was some impact of the commissioning of the expanded capacities as well, was there any cost impact because of the unabsorbed capacities and if so, could you please just quantify how much that might have been?

R. Mukundan: It won't be a big number because the depreciation will start showing a little later, but we have ramped up to full utilization of the plant. So, the additional capacity of 2.25 lakh tons of soda ash and bicarb which is about 140,000 tons and salt, we ramped up. So, we haven't faced any additional charge on the interest side. There are no major changes in the fixed cost or any other cost.

Abhijit Akella: So, when I compare quarter-on-quarter, the India business EBITDA, it is down by about, I guess, Rs.90 crore or so, of which we just kind of broke out Rs.40 crore because of the weather-related factors, I guess there is some loss of volume as well. But then what explains the rest of the decline in the EBITDA quarter-on-quarter?

R. Mukundan: In terms of quarter-on-quarter, which when you look at previous year, broadly I would say there is a 8,000 tons less. So, it is about Rs.7 crore and Rs.37 crore is on account of cost. That is what I said Rs.40 crore. Rs.44 crore is the exact number. And there is also because of this unstable plant, there was also impact coming in from other minor products which we have in Mithapur, which is about Rs. 21 odd crores, which is cement, gypsum, bromine all put together between last year and this year. But this will be made up during the year. This normally happens when there is heavy rain, there is a dip in production, and it comes back later.

Abhijit Akella: And the ramp up of these expanded capacities, do we expect it to be vertical in the second half? Can we start running them pretty much close to full utilization?

R. Mukundan: We are speaking almost in the second week of October, and it is fully ramped up as we speak. So, it is, I would not say vertical, but it is as per our expectations. These are operations we know well, and they have just gone to full utilization.

Abhijit Akella: And just one last thing from my side. Any signs of capacity rationalization in soda ash that we have seen in either Europe or China at this point? And any deferment of previously announced capacity expansions by any of the major producers worldwide?

R. Mukundan: The only shift has been that there has been a pullback of about, 100,000 odd tons in U.S. And there is probably also an addition of 100,000 odd tons by some de-bottlenecking in other parts. So, it's almost like it is neither positive nor negative. It's just balanced it out in this quarter. We are watching very carefully.

Moderator: Our next question is from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: First question on the China demand. You know, last quarter we did mention that while China demand is healthy, there is some volatility. And this quarter you again mentioned that till August or September things were good and probably October is slightly weak. Any signs there to look at and especially given the stimulus that the government is giving there? It is still early days, but any on ground feedback if you can share?

R. Mukundan: We actually haven't seen any major reduction and whatever moderation, in the lithium market has been more or less taken up by the solar glass market. However, we do believe in the second half, some of the supplies which were constrained in China may be coming on stream, which is why we are saying it probably is going to tend to more balanced situation. The U.S. exporters did end up exporting to China, to meet the shortfall. I really would say that if those new capacities in China stabilize and are available for the domestic market, there will be less room for imports into China.

Ankur Periwal: And second question on the U.S. side, now there has been an improvement in volumes as well. Is it led by the domestic market or more by exports? And secondly, on the Q-on-Q improvement on margins as well in U.S., if you can share some light there?

R. Mukundan: So, as far as the U.S. is concerned, because of operational issues and other issues in our geographies including, we did postpone our US shutdown, which would have come in the month of September to October. While that is one part of the story, they generally are producing much better than in the past, and that trend is likely to continue. There will be one shutdown in this quarter as well as next quarter. Overall, we expect to be ahead of last year in terms of overall volume. That is our plan, and we will continue to ensure that our operations run well. And as production continues to run at peak load, the effective cost of operation also comes down, which improves the margin.

Ankur Periwal: And the margins that we have seen on the U.S. export side, has that improved or we are still running at those lower margins?

R. Mukundan: Our view is that the pricing, at least going forward, has bottomed out. So, it can't get worse from here.

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

S. Ramesh: The first thought is, on the India cost increase, if you were to work backwards on the volume you have lost, it's about $30 a ton, depending on your average production per quarter. So, once you stabilize your plant, will you be able to see this sort of improvement in margins in India, of the order of $30 a ton?

R. Mukundan: Yes, more or less, out of the overall cost increase which we have incurred, which is about, you are saying $30, I am saying it is Rs. 2,000, we expect Rs.1,500 will certainly recover. The Rs 500 per tonne will stick in there as higher cost and that is at least our line of sight for the next two quarters.

S. Ramesh: And on the new capacity, sir, are you able to place the entire increase in production of 2,25,000 of soda ash and 140,000 of bicarb on a monthly or quarterly basis or will that take time in terms of placement?

R. Mukundan: We don't anticipate by the time we finish this quarter or the beginning of next quarter, we will have any issues in terms of market with this. Obviously, we are in the process of making sure we are able to place the product and market demand has not been an issue in India.

S. Ramesh: So, in UK, we still see the bottom line in the red. So, when do you think UK can turn around in terms of profits at the bottom line?

R. Mukundan: Yes, UK had a bit of a wobble this quarter mainly because of negative spark spreads. This has continued because of high wind energy. We wheeled power into the grid, and these were done at margins which were fairly challenged, and we are hopeful that by the time we finish the third quarter, we should be out of this problem.

S. Ramesh: So, one last thought. When you talk about margin stabilizing, if there is further increase in China's recently increased capacity, do you still think that based on the incremental supply within China, the prices have bottomed out or will that cause some more volatility or downside to prices?

R. Mukundan: Most people are, if they export, they are exporting at cost or below cost. So, I think we don't believe that there is any headroom for further reduction in pricing unless some people are sitting on inventory and there is a distress sale which we haven't seen. This is right about where the bottom is because the entire quarter has remained more or less steady at this pricing.

Moderator: The next question is from the line of Saurabh Jain from HSBC Securities & Capital Markets Pvt Ltd.

Saurabh Jain: My question is again on the India business. You are saying that you would be able to kind of ramp up your capacity, I mean, for you to utilize your capacity, the new capacity easily over the next two quarters. And then there is a news piece which highlights that Indian players have requested for an investigation and kind of impose an anti-dumping duty on soda ash in India. So, can you give some thoughts around that and also highlight what is the size that you are expecting? If it comes through, then what would be the benefit on the realization margins with the ADD?

R. Mukundan: See, the investigation is being done by DGTR in Ministry of Commerce. We will let that process continue. It's a quasi-judicial process. So, I would not want to make a comment on it. It has been taken up, suo-moto on the basis of surge in imports mainly coming from Iran and Russia etc. So, they will look at a fair margin and will settle at a fair margin. We will submit the data to them. It is usually a very clear mathematical process. So, that's what we will go through.

So, I do not want to hazard any piece here because we are in the process. We would make our submissions. I am pretty sure the exporters from Russia or Iran will also make their submissions and we will see what the outcome is. But we are very hopeful that the unreasonable pricing, which is usually done at cost or below cost, will be looked at by the government to make sure there are enough safeguards.

Saurabh Jain: And also, if you can also highlight how is the Mongolia capacity kind of doing, what is utilization over there? There were quality issues with that production. Any changes over there?

R. Mukundan: So, this is what I mentioned that in case that capacity is fully absorbed, and those issues stabilize, the imports will tend to moderate into China. So, we must watch for that and it's mainly that has played a big role in the increased exports into China. So, we will see how that progresses. Usually, my own estimate is when anybody starts a new plant, they should stabilize it within 90 days or so. So, it will happen at some point. For example, for us it took about 10 or 15 days to get it stabilized, but sometimes it lasts longer, but it's usually not been more than this.

Saurabh Jain: But wasn't this capacity already live in last quarter?

R. Mukundan: That's right. it is not about quantity. There are some issues about some quality parameters, which also should get sorted out in normal course. You know, this is a process which everybody undergoes. So, I would reckon that this new capacity should stabilize which is why I was highlighting that there could be a moderation in China imports because at some point this will come in.

Saurabh Jain: My next question is how would you see your silica and nutraceutical segments kind of doing over the next three years? We understand there is some kind of capacity expansion for silica, but there are any views or thoughts when you expect this business to turn EBIT positive and grow really big in size and in what timeframe?

R. Mukundan: So, that is part of the presentation. I have already highlighted that we are adding 60,000 tons of silica business at which point of time this is likely to be having the run rate of about Rs.500 odd crore in revenue. And this project will get a formal approval somewhere in this quarter and it will be three modules of 20,000 tons each. Currently we have only 10,000-ton capacity plant and we have perfectly got products which have been approved by most of the tire customers.

As you know we had a food line and a tire line of 5,000 tons each. During the quarter, in fact, we shut down the food line to convert that completely to tire line so that we cater to tire customers and going forward these 60,000 tons will be a pure tire grade silica which the execution time is in a phased manner about 24 to 36 months. The first 20,000 tons stream will come in close to 24 months and each one will come six months separated by six months so that by 36 months we should be right up to 60,000 tons.

So, it's about two to three years away, but at the end of that it will be at least Rs.500 crore and given India's potential, our view is to add at least another 150,000 tons. So, this is almost a Rs.2,000-odd crore business, but our first step is to move from the current revenue basis to at least Rs.500 crore.

Saurabh Jain: So, when will you achieve that run rate? Are you confident you will be achieving profitability in that business?

R. Mukundan: Yes, the basic point is that for our expanded capacity, see the issue is most of these are now brown field, they are not green field. So, there is not a big increase in fixed cost. So, the entire contribution with part or almost 80% of that will move into the bottom line. That's really the benefit we are seeing in all these efforts we are putting in including the one we have done in bicarb, soda ash, salt and in silica when it gets executed. The next phase of soda ash expansion also is underway which also goes for formal approval, and we will come back to you, but we have already highlighted the next phase is 0.316 MT of soda ash and another 2.3 lakh tons of salt. That's part of the presentation which we did circulate.

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

Sumant Kumar: Can you talk about the capacity expansion, what we were talking about earlier for US?

R. Mukundan: In U.S. expansion plan is to add 400,000 tons and that is pretty much on schedule. We are working our way through all the regulatory clearances. We expect to get all the clearances by March of next year and then the execution will start. In the meantime, we are also continuing with our design engineering work so that we can be ready when we can press the button. We are also tying up various other logistic capacities, the capacities needed for input materials including supplies of utility, everything. So, all that is being under-work and it will probably hit a formal go button once we get the regulatory clearances we expect somewhere around March.

Sumant Kumar: And can you talk about the Kenya capacity expansion, what we are hearing from the news?

R. Mukundan: The Kenya capacity is going to be a modular capacity because we are trying out for the first time electric calcination, which is much lower in carbon intensity. It is a green process, and that implementation is already underway. It will happen modularly. So, we are first testing it out and then the overall modular capacity expanded in about 36 months will be another 300,000 ton out of Kenya.

Sumant Kumar: So, incremental 3 lakh capacity, right?

R. Mukundan: Yes, 3 lakh capacity in Kenya and about 4 lakhs in U.S., and 3.2 lakh in India, so all put together a million ton across these three states.

Sumant Kumar: And what is the timeline? By when are we going to complete this?

R. Mukundan: Most of them would be done in approximately 30 to 36 months.

Sumant Kumar: So, in three years?

R. Mukundan: Yes.

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

Saket Kapoor: Sir, if you could just provide us some key inputs of this in soda ash conference that was during the first week, rather 9th, 10th and 11th of this month and we were one of the participants. What are the key highlights and if you could just throw some light on the same?

R. Mukundan: Yes, broadly the three key points which at least I understood:

Firstly, the long-term demand trend for the soda ash business is positive because soda ash plays into sustainability theme. While the demand is on a positive trend, the customers are going to demand a lower carbon soda ash. So, we have to pivot our electricity utilities over a period of time to renewable and also find solutions for the replacement of coke with electric calcination etc. I mentioned to you, the first place we are trying electric calcination is in Kenya and like us most soda ash companies are trying different routes.

And the second point, there is a view that while some of the sectors have seen a bit of a softness, especially in lithium, the long-term trend is positive.

Thirdly the capacity expansion now, bulk of it, opportunity would lie either in U.S. or in India because these are the places which are now most attractive for investments, U.S. in terms of natural capacity and India in terms of synthetic.

Saket Kapoor: And sir, if you could provide us with the net debt numbers and we have also found that the freight costs are higher. So, is it because of the increased tonnage or the Red Sea issue that we have higher freight costs, the freight and forwarding charges?

N. Tirumalai: So, on the net debt number, it is there on Slide #4. It is up by Rs.843 crore in the last one year's time and stands at Rs.5,190 crore as of last month ending. Rs.5190 crore.

Saket Kapoor: And what are our current maturity, sir, for this year?

N. Tirumalai: This year not much. The majority is happening in 2026, 2027.

R. Mukundan: If you look at freight and forwarding charges it is almost flat sequentially. There is not much of a change. And there is certainly an impact of what you mentioned, the freight markets rates have certainly increased, but sequentially there is no increase.

Moderator: Thank you. Ladies and gentlemen, we would take that as our last question for today. I would now like to hand the conference over to the management for closing comments.

R. Mukundan: Thank you all for attending this earnings call. And as I mentioned, we are clearly focused on delivering our commitment. And this quarter was a bit wobbly, especially coming out of the impact of heavy rains in Indian operations, as well as the negative spark spreads which we had in the UK. Hopefully, we will address these going forward in terms of delivering a much better H2, much steadier H2 in India and all parts of the world.

And in terms of our strategy, it continues to expand our core business across geographies, ensure that we focus on operational excellence and servicing our customers well. And we will also soon seed our growth in the new areas, in Silica especially. Hopefully, the turnaround in Rallis our subsidiary has also begun well and we hope to continue the positive momentum there too. Thank you all and see you in the next quarter.

Happy festive season and I just wanted to end by saying that we continue to work towards the vision and overall future approach, which our Chairman Emeritus gave us. His counsel and guidance will continue to guide this company forward. We all pay homage to him in this quarter and the best way of paying homage to him would be to deliver the outcomes which we have all spoken about. Thank you.