

Tata Chemicals Ltd.

Challenges faced by the company

- **Magadi:** The Company had invested in a Premium Ash Magadi (PAM) plant, however the plant could not reach its product specifications due to technical challenges and raw material issues. Further, volatility in energy prices and anticipated increases in royalty due to new mining regulations added to the woes of the Magadi operations.
- **UK Operations:** As part of the Magadi acquisition, the European company Brunner Monde had also been acquired with plants in UK – however these had high costs of production, particularly high energy costs and low productivity.
- **Haldia:** Depending on the product mix, this had regulatory influences on price and the traditional product mix was skewed towards low and regulated margins. Further, profits had migrated upstream in the value chain to the rock acid raw material. To capture a part of this profit, the Company had also acquired part stake in IMACID, however this was a poor hedge to phosphoric acid volatility and also introduced currency exposure. The plant continues to lose money due to these structural issues.
- **New Businesses:** The Company had taken a number of decisions in new business areas that turned out to be challenged, and we needed to confront reality. These included the Biofuels operations in Nanded, JOil in Singapore and Grown Energy Zambeze in Mozambique. In addition, the low cost water purifiers (Swach) had been bleeding since inception.

Strategic Interventions

- Development of a Board-guided, management-led strategic plan for the whole company, which focussed on transition from the traditional asset-intensive, commodity chemicals and regulated fertilizers play **to building a more knowledge intensive and brand led consumer and Specialty Chemicals Company – leveraging the strong cash flows of the globally leading soda ash business.**

The company continues to seek avenues to unravel its crossholding in group companies and exit strategically from unrelated businesses

Status of Revival Plan

1. The restructuring plan for the company envisaged mothballing the PAM plant and offering VRS to excess manpower. These actions also led to a large write-off. The operations are now profitable from being significantly negative a few years ago. Employee engagement is also now higher than in the past 3 years.
2. The turnaround plan for UK involved commissioning a steam turbine to reduce energy costs, closing the Winnington plant, refining the hedging policy and exploring sale of excess land assets. All of this also necessitated a large write off. In the long term, a structural solution needs to be explored.
3. In fertilizers, the Board looked at many alternative scenarios including expansion, but felt that due to the structural nature of the business, the regulatory environment and the continuing reduction in Return on Capital Employed, it was appropriate for this business be parented by somebody else. Hence, after a global process the Company entered into a sale agreement for the Urea business with Yara fertilizers, a globally reputed company.
4. In the consumer business, a key requirement was to bring clear leadership and relevant expertise. This was done by recruiting a suitable head for the business, and inducting experts into the Board and steering committee for the business.

The consumer business now organically targets an asset-light, profitable business in nourishing foods fortified by new products developed in our Innovation Centre, under the Tata Sampann brand. Tata Swach is now being piloted with a social business model, with a path to achieving break even. The Salt business which was facing pressures on price and market share, was rejuvenated with fresh branding efforts and in the last three years, it has increased market share, margins and brand ranking.

5. The Innovation Centre (IC) has been built with a strong team, with investments in the new Pune facility and a pilot plant in Chennai which was instrumental in launching new products in the Nutraceuticals sector. The Innovation Centre has delivered – both in terms of support to the Consumer business by fortifying its products and also by developing multiple specialty chemicals with proven applications and customer engagements in a wide range of industries.

I continue to be amazed by the breadth and depth of knowledge of our IC team working behind the scenes, and supporting the company's efforts to differentiate itself. Some of the products being developed are potential disruptors to the marketplace and at an inflection point of commercialization.

At a consolidated level for Tata Chemicals, these efforts resulted in strengthening of the balance sheet with an improved ROCE (without the divested fertilizer business). While many of the initiatives taken up will continue to show results into the future, there has already been improvement in the stock performance, which during the period 22nd Oct 2012 – 21st Oct 2016 fared better than the BSE Sensex.

