

## Speciality business likely to aid performance ahead...

Tata Chemicals reported flat revenues to the tune of ₹ 2606 crore against our estimate of ₹ 2618 crore. The basic chemical segment revenue was down 1% YoY to ₹ 1987 crore while the same from speciality products was up 2% YoY to ₹ 618 crore. Higher growth from Magadi (up 30.5% YoY) along with India (up 7% YoY) & Europe (up 7% YoY) led growth in the basic chemical segment revenue. However, the same declined 14.9% YoY in the US market. Gross margins witnessed an improvement of 725 bps QoQ to 79.6%, leading EBITDA to beat our estimates. Further, control on other opex also helped a better operational performance. EBITDA remained flat at ₹ 472 crore against our estimate of ₹ 407 crore. PAT was up 10% YoY to ₹ 160.9 crore, assisted by lower tax rate (21% vs. 23% in Q3FY20).

## Revival in end user demand seen, likely to aid soda ash consumption ahead

There was a revival in the construction along with auto demand QoQ, which led to an upsurge in demand for soda ash. Further, the inventory situation in China has also been getting normalised, largely on the back of decent growth in the demand for float and solar glass, which should support demand/supply situation of the global soda ash market. The performance from North America unit remained subdued for the quarter. However, we expect the same to revive to pre-Covid level in the next one or two quarters on the back of demand restoration from South Eastern market. Further, we also believe since the focus has shifted towards capex to revive the economy across major geographies, demand for soda ash will witness a revival on the back of it being a key input in the construction activity. We expect since soda ash plant has been operating at around ~80% utilisation currently, such revival can lead many plants to operate at around 85-90%, going ahead, thereby narrowing the demand/supply gap, to a certain extent, and assist realisation growth.

## HDS, nutraceutical segments likely to aid performance further

Both HDS, nutraceutical are likely to touch ₹ 100 crore turnover this fiscal. Going ahead, with focus in place to expand capacity of HDS, we expect both these segments to post at least high thirties growth for the foreseeable future. This should expand speciality share in the overall basket given that crop protection has also been progressing well and, thus, provides decent visibility of return ratio improvement and thereby valuations.

## Valuation & Outlook

We introduce FY23E estimates and roll over our valuations on FY23E. We value the company on SOTP basis and arrive a target price of ₹ 520 (earlier ₹ 490) including investment portfolio value. We maintain **HOLD** rating on the stock.

### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Revenue	10,269.7	10,336.7	10,356.8	10,181.8	11,292.9	12,659.4	6.9
EBITDA	2,190.7	1,780.5	1,949.2	1,717.4	1,947.1	2,304.0	5.7
EBITDA Margins (%)	21.3%	17.2%	18.8%	16.9%	17.2%	18.2%	
Adj. PAT	1,290.6	931.9	806.6	460.9	571.5	777.4	(1.2)
Adj. EPS (₹)	50.6	36.6	31.7	18.1	22.4	30.5	
EV/EBITDA	6.0x	7.3x	7.1x	8.6x	7.5x	6.0x	
P/E	9.4x	13.0x	15.0x	26.3x	21.2x	15.6x	
ROE (%)	11.6	7.6	6.3	3.5	4.3	5.6	
ROCE (%)	8.3	7.1	7.7	5.7	6.3	7.4	

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market cap (₹ Crore)	12,104
FY20 Total Debt (₹ Crore)	7,702
FY20 Cash & Inv (₹ Crore)	3,681
EV (₹ Crore)	16,126
52 Week H/L	554/197
Equity Capital (₹ Crore)	254.8
Face Value (₹)	10

### Key Highlights

- Revival in end user demand witnessed, likely to aid soda ash consumption ahead
- HDS, nutraceutical segments likely to aid performance further
- Maintain HOLD with target price of ₹ 520

### Key Risks

- Fall in demand of soda ash and rise in crude oil prices to impact EBITDA/tonne
- Revival in export demand along with narrowing demand/supply gap of soda ash across global market ahead than our estimates could likely aid realisation and pose upside risk to our estimates

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**Exhibit 1: SOTP Analysis**

In ₹ Crore unless other mentioned	Revenue		EBITDA		EV/EBITDA	EV
	FY22E	FY23E	FY22E	FY23E	FY23E	FY23E
<b>Basic Chemical</b>						
India	2,968	3,299	701	787	5.0x	3,934
ROW	5,261	5,661	813	956	4.0x	3,824
<b>Speciality Products</b>						
Rallis	2,626	3,119	369	460	13.9x	6,381
Other Speciality	226	339	22	38	10.0x	385
<b>Consolidated EV</b>						<b>9,772</b>
Less: Net debt						2,551
Residual business MCAP						7,220
Add: NC investment portfolio excl Tata sons inv @ 50% disc						1,315
Add: Fair value of Tata sons inv @ 50% disc						4,750
<b>Target MCAP</b>						<b>13,285</b>
No. of shares						25.5
<b>Target price/share</b>						<b>520</b>
CMP						475
<b>Upside/downside</b>						<b>10%</b>

Source: Company, ICICI Direct Research

**Conference Call Highlights**

- India operations witnessed healthy volume growth across product portfolio. US had a challenging third quarter. It could see good traction coming from domestic market, partly offset by lower volumes in the export market. TCE and Magadi operations had a positive improvement with higher sales volumes in soda ash, bicarb and salt, respectively
- There was exceptional receipt to the tune of ₹ 27 crore towards insurance receipt. Thus, EBITDA seems higher for the quarter
- There was recovery in the soda ash demand for Chinese market on the back of higher growth from float glass, solar glass along with better demand in auto sector. This led Chinese inventories for soda ash to plummet to 0.8 million tonnes (MT) against 1.6 MT
- Going ahead, curb in the inventory situation from Turkey can aid realisation for soda ash
- Nutritional solutions business witnessed steady growth in revenue and is consistently gaining traction in the market from customers
- The silica business continues to gain traction for its food & non-food grade silica products. It is expected to accelerate customer engagement having received good responses from some OEMs
- Consolidated net debt was at ₹ 3743 crore as on 9MFY21 vs. ₹ 4042 crore debt as on FY20

## Financial story in charts

**Exhibit 2: Basic chemical revenue across geographies (₹ crore)**

Basic chem Revenue	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
India	822	671	690	708	719	637	700	764
TCA - North America	870	845	886	872	800	619	711	742
TCE - Europe	381	307	337	348	365	316	337	374
TCM - Magadi	141	126	139	82	115	100	91	107

Source: Company, ICICI Direct Research

**Exhibit 3: Basic chemical sales volumes across geographies ('000 MT)**

Basic chem sales volume ('000 MT)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>TCL India</b>	<b>210</b>	<b>190</b>	<b>179</b>	<b>187</b>	<b>185</b>	<b>139</b>	<b>176</b>	<b>198</b>
Soda Ash	182	163	154	158	159	118	151	168
Sodium Bicarbonate	28	27	25	29	26	21	25	30
<b>TCA - North America</b>	<b>550</b>	<b>539</b>	<b>570</b>	<b>569</b>	<b>553</b>	<b>387</b>	<b>475</b>	<b>475</b>
Soda Ash	550	539	570	569	553	387	475	475
<b>TCE - Europe</b>	<b>104</b>	<b>92</b>	<b>104</b>	<b>97</b>	<b>101</b>	<b>92</b>	<b>94</b>	<b>98</b>
Soda Ash	76	68	77	70	71	62	67	70
Sodium Bicarbonate	28	24	27	27	30	30	27	28
<b>TCM - Magadi</b>	<b>79</b>	<b>63</b>	<b>74</b>	<b>40</b>	<b>75</b>	<b>57</b>	<b>51</b>	<b>56</b>
Soda Ash	79	63	74	40	75	57	51	56

Source: Company, ICICI Direct Research

**Exhibit 4: Basic chemical realisation/tonne**

Basic chem realisation/tonne	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
India	39,160	35,329	38,549	37,835	38,846	45,850	39,755	38,565
TCA - North America	15,818	15,677	15,544	15,325	14,467	15,995	14,968	15,621
TCE - Europe	36,635	33,370	32,404	35,876	36,139	34,348	35,851	38,163
TCM - Magadi	17,848	20,000	18,784	20,500	15,333	17,544	17,843	19,107

Source: Company, ICICI Direct Research

**Exhibit 5: Basic chemical EBITDA/tonne**

Basic chem EBITDA/tonne	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
India	13,376	10,443	11,236	10,899	8,721	12,710	7,454	9,494
TCA - North America	3,727	3,506	3,263	3,216	3,689	904	2,021	3,326
TCE - Europe	2,596	1,957	4,327	4,433	5,050	3,043	4,894	4,592
TCM - Magadi	3,924	3,175	3,649	-2,250	1,467	1,754	1,176	4,643

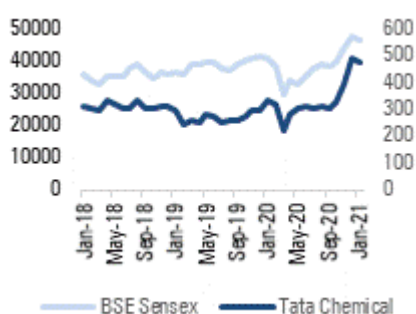
Source: Company, ICICI Direct Research

**Exhibit 6: Basic chemical OPM trend geographically (%)**

Basic chem OPM (%)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
India	34.2%	29.6%	29.1%	28.8%	22.5%	27.7%	18.8%	24.6%
TCA - North America	23.6%	22.4%	21.0%	21.0%	25.5%	5.7%	13.5%	21.3%
TCE - Europe	7.1%	5.9%	13.4%	12.4%	14.0%	8.9%	13.6%	12.0%
TCM - Magadi	22.0%	15.9%	19.4%	-11.0%	9.6%	10.0%	6.6%	24.3%

Source: Company, ICICI Direct Research

**Exhibit 7: Price Performance**



Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 8: Profit and loss statement ₹ crore

Year end March	FY19	FY20	FY21E	FY22E	FY23E
<b>Total Operating Income</b>	<b>10,336.7</b>	<b>10,356.8</b>	<b>10,181.8</b>	<b>11,292.9</b>	<b>12,659.4</b>
Growth (%)	0.7	0.2	-1.7	10.9	12.1
Raw Material Expenses	2,002.0	1,968.4	2,392.7	2,597.4	2,785.1
<b>Gross Profit</b>	<b>8,334.7</b>	<b>8,388.4</b>	<b>7,789.0</b>	<b>8,695.5</b>	<b>9,874.4</b>
Employee Cost	1,318.5	1,375.4	1,400.0	1,456.8	1,544.5
Other Operating Expenses	5,235.8	5,063.8	4,671.7	5,291.6	6,025.9
<b>EBITDA</b>	<b>1,780.5</b>	<b>1,949.2</b>	<b>1,717.4</b>	<b>1,947.1</b>	<b>2,304.0</b>
Growth (%)	-18.7	9.5	-11.9	13.4	18.3
Other Income	409.5	311.1	221.2	187.9	194.3
<b>EBITDA, including OI</b>	<b>2,189.9</b>	<b>2,260.3</b>	<b>1,938.6</b>	<b>2,135.1</b>	<b>2,498.3</b>
Depreciation	568.5	666.5	755.5	805.6	901.1
Net Interest Exp.	353.7	341.9	366.5	344.0	299.0
Other exceptional items	70.3	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>1,338.1</b>	<b>1,251.9</b>	<b>816.6</b>	<b>985.5</b>	<b>1,298.2</b>
Total Tax	274.4	219.7	179.6	216.8	285.6
Tax Rate	20.5%	17.5%	22.0%	22.0%	22.0%
<b>PAT</b>	<b>1,063.6</b>	<b>1,032.3</b>	<b>636.9</b>	<b>768.7</b>	<b>1,012.6</b>
Adj. PAT after Minority interest	931.9	806.6	460.9	571.5	777.4
Adj. EPS (₹)	36.6	31.7	18.1	22.4	30.5
Shares Outstanding	25.5	25.5	25.5	25.5	25.5

Source: Company, ICICI Direct Research

### Exhibit 9: Cash flow statement ₹ crore

Year end March	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT &amp; Extraordinary</b>	<b>1,730.4</b>	<b>7,407.5</b>	<b>816.6</b>	<b>985.5</b>	<b>1,298.2</b>
Depreciation	571.4	666.5	755.5	805.6	901.1
After other adjustments					
(Inc) / Dec in Working Capital	-214.4	-129.9	-1,167.8	195.4	103.1
Taxes	-484.9	-147.8	-179.6	-216.8	-285.6
Others	-21.3	-6,016.2	366.5	344.0	299.0
<b>CF from operating activities</b>	<b>1,581.3</b>	<b>1,780.1</b>	<b>591.1</b>	<b>2,113.6</b>	<b>2,315.8</b>
Purchase of Fixed Assets	-1,082.3	-1,199.4	-912.2	-1,400.0	-900.0
Others	-875.9	-1,168.7	-184.0	18.0	18.0
<b>CF from investing activities</b>	<b>-1,958.2</b>	<b>-2,368.1</b>	<b>-1,096.2</b>	<b>-1,382.0</b>	<b>-882.0</b>
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Borrowings (Net)	-576.2	735.1	-500.0	-300.0	-600.0
Others	-1,135.7	-864.4	-646.8	-624.3	-579.3
<b>CF from financing activities</b>	<b>-1,711.8</b>	<b>-129.3</b>	<b>-1,146.8</b>	<b>-924.3</b>	<b>-1,179.3</b>
Net cash flow	-2,088.7	-717.3	-1,651.9	-192.6	254.5
Effects of foreign currency translation	31.2	0.0	0.0	0.0	0.0
Opening Cash	4,483.0	1,952.2	2,079.5	427.7	235.0
<b>Closing Cash</b>	<b>1,952.2</b>	<b>2,079.5</b>	<b>427.7</b>	<b>235.0</b>	<b>489.5</b>

\*calculated, Source: Company, ICICI Direct Research

### Exhibit 10: Balance sheet ₹ crore

Year end March	FY19	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>					
Share Capital	254.8	254.8	254.8	254.8	254.8
Reserves	12,086.5	12,642.8	12,823.4	13,114.5	13,611.7
<b>Total Shareholders Funds</b>	<b>12,341.3</b>	<b>12,897.7</b>	<b>13,078.2</b>	<b>13,369.4</b>	<b>13,866.5</b>
Minority Interest	2,914.7	763.8	954.8	1,170.1	1,423.2
Long Term Borrowings	4,769.3	3,473.4	3,273.4	3,073.4	2,573.4
Net Deferred Tax liability	1,297.1	1,437.9	1,437.9	1,437.9	1,437.9
Other long term liabilities	129.9	437.6	90.3	100.1	112.2
Long term provisions	1,503.9	1,653.5	1,753.7	1,945.1	2,180.5
<b>Current Liabilities and Provisions</b>					
Short term borrowings	352.5	1,912.9	1,612.9	1,512.9	1,412.9
Trade Payables	1,475.3	1,630.9	1,339.0	1,485.1	1,664.8
Other Current Liabilities	1,840.5	3,267.6	2,231.6	2,475.2	2,774.7
Short Term Provisions	280.3	276.9	251.1	278.5	312.2
Total Current Liabilities	3,948.6	7,088.4	5,434.6	5,751.7	6,164.6
<b>Total Liabilities</b>	<b>26,904.8</b>	<b>27,752.2</b>	<b>26,022.9</b>	<b>26,847.6</b>	<b>27,758.3</b>
<b>Assets</b>					
Net Block	11,664.8	13,073.9	13,118.4	13,412.8	14,611.7
Capital Work in Progress	735.8	787.8	900.0	1,200.0	0.0
Intangible assets under devl.	38.0	47.2	47.2	47.2	47.2
Goodwill on Consolidation	1,859.0	1,999.8	1,999.8	1,999.8	1,999.8
Non-current investments	3,362.9	2,683.8	2,683.8	2,683.8	2,683.8
Deferred tax assets	36.2	15.3	15.3	15.3	15.3
Long term loans and advances	7.9	10.0	7.9	8.7	9.8
Other Non Current Assets	1,102.0	1,272.1	671.0	741.9	829.2
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	2,252.3	1,601.0	1,800.0	1,800.0	1,800.0
Inventories	1,725.6	1,869.2	1,952.7	2,072.9	2,323.8
Sundry Debtors	1,452.5	1,579.9	1,617.9	1,763.6	1,977.0
Cash and Bank	1,952.2	2,079.5	427.7	235.0	489.5
Loans and Advances	1.3	0.2	0.2	0.2	0.2
Other Current assets	714.4	732.5	781.1	866.3	971.1
Current Assets	8,098.3	7,862.3	6,579.6	6,738.1	7,561.6
<b>Total Assets</b>	<b>26,904.9</b>	<b>27,752.2</b>	<b>26,022.9</b>	<b>26,847.6</b>	<b>27,758.3</b>

Source: Company, ICICI Direct Research

### Exhibit 11: Key ratios

Year end March	FY19	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>					
Adj. EPS	36.6	31.7	18.1	22.4	30.5
Adj. Cash EPS	58.9	57.8	47.7	54.0	65.9
BV	484.3	506.1	513.2	524.7	544.2
DPS	23.5	11.0	11.0	11.0	11.0
<b>Operating Ratios (%)</b>					
Gross Margin (%)	80.6	81.0	76.5	77.0	78.0
EBITDA Margin (%)	17.2	18.8	16.9	17.2	18.2
PAT Margin (%)	9.0	7.8	4.5	5.1	6.1
Debtor Days	51	56	58	57	57
Inventory Days	61	66	70	67	67
Creditor Days	52	57	48	48	48
Cash Conversion Cycle	60	64	80	76	76
<b>Return Ratios (%)</b>					
Return on Assets (%)	3.5	2.9	1.8	2.1	2.8
RoCE (%)	7.1	7.7	5.7	6.3	7.4
Core RoIC (%)	9.1	8.8	6.1	7.2	9.0
RoE (%)	7.6	6.3	3.5	4.3	5.6
<b>Solvency Ratios</b>					
Total Debt / Equity	0.4	0.4	0.4	0.3	0.3
Interest Coverage	4.6	4.7	3.2	3.9	5.3
Current Ratio	2.1	1.1	1.2	1.2	1.2
Quick Ratio	1.6	0.8	0.9	0.8	0.8
<b>Valuation Ratios (x)</b>					
EV/EBITDA	7.3	7.1	8.6	7.5	6.0
P/E	13.0	15.0	26.3	21.2	15.6
P/B	1.0	0.9	0.9	0.9	0.9
EV/Sales	1.3	1.3	1.4	1.3	1.1

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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