

## One-offs impact margins; volumes back on track...

Q4FY21 revenues grew 11% YoY to ₹ 2636 crore, mainly due to 38% YoY growth (albeit on lower base) in speciality product segment to ₹ 519.6 crore. Basic chemical revenues grew 6% YoY to ₹ 2111.3 crore mainly led by 12% growth in India, while the US and Europe grew 1% and 5%, respectively. EBITDA margins declined 610 bps to 10.7% mainly due to one-offs, negative operational leverage and spillover of cost to Q4 from Q3 in US and EU. Ensuining EBITDA declined 29% YoY to ₹ 282.7 crore. PAT (excluding ₹ 6236.7 crore of profit from discontinued operation in Q4FY20) declined 94% YoY to ₹ 11.8 crore amid lower operational performance and higher tax rate.

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

There was a revival in construction along with auto demand QoQ, which led to an upsurge in demand for soda ash demand that is back to pre-Covid levels in Q4. Besides this, the inventory situation in China seems to be 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. US market volumes are also improving with export volumes recovery. 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. As the focus is now shifting towards capex to revive the economy across major geographies, demand for soda ash is likely to witness a revival on the back of it being a key input in construction activity. We expect better capacity utilisation in soda ash plants from ~80% to 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

With added focus on increasing capacity utilisation in nutraceutical segment and 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. Thus, it provides decent visibility of return ratio improvement and thereby valuations.

## Valuation & Outlook

We value the company on an SOTP basis and arrive a target price of ₹ 750 (earlier ₹ 490) including investment portfolio value. We maintain **HOLD** rating on the stock. Improvement in margins and revival in the demand scenario especially in the backdrop of second Covid-19 wave are key notable aspects, going ahead.



Particulars	
Particular	Amount
Market cap (₹ Crore)	18,049
FY21 Total Debt (₹ Crore)	6,933
FY21 Cash & Inv (₹ Crore)	2,104
EV (₹ Crore)	22,878
52 Week H/L	834/272
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 ₹ 750

### 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 earlier than our expectations could pose upside risk to our estimates

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### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Net Revenue	10,269.7	10,336.7	10,356.8	10,199.8	11,412.6	12,678.6	7.5
EBITDA	2,190.7	1,780.5	1,949.2	1,500.6	1,949.9	2,285.6	15.1
EBITDA Margins (%)	21.3%	17.2%	18.8%	14.7%	17.1%	18.0%	
	2,433.1	923.9	7,006.3	256.4	588.2	783.9	
	23.7%	8.9%	67.6%	2.5%	5.2%	6.2%	
Adj. PAT	1,290.6	931.9	806.6	256.4	588.2	783.9	45.1
Adj. EPS (₹)	50.6	36.6	31.7	10.1	23.1	30.8	
EV/EBITDA	8.8x	10.8x	10.3x	14.0x	10.8x	8.9x	

Source: Company, ICICI Direct Research

Exhibit 1: SOTP Analysis

In ₹ Crore unless other mentioned	Revenue		EBITDA		EV/EBITDA	EV
	FY22E	FY23E	FY22E	FY23E	FY23E	FY23E
Basic Chemical						
India	2,991	3,324	698	783	8.0x	6,265
ROW	5,270	5,666	811	955	6.0x	5,732
Speciality Products						
Rallis (50.09% stake and 20% holding company discount)	2,723	3,109	378	446	14.3x	2,561
Other Speciality	226	339	22	38	10.0x	385
<b>Consolidated EV</b>						<b>14,942</b>
Less: Net debt						2,669
Residual business MCAP						12,273
Add: NC investment portfolio excl Tata sons inv @ 50% disc						2,084
Add: Fair value of Tata sons inv @ 50% disc						4,750
<b>Target MCAP</b>						<b>19,107</b>
No. of shares						25.5
<b>Target price/share</b>						<b>750</b>
CMP						718
<b>Upside/downside</b>						<b>4%</b>

Source: ICICI Direct Research

## Conference Call Highlights

- Soda ash demand back to pre Covid levels in Q4 (US export market healthy recovery)
- Prices recovering underway in spot market but lags pre-Covid levels
- India salt volumes and pricing were robust in Q4
- The margins in Q4 were impacted due to
  - US – 1) ₹ 45 crore spike in energy prices due to Polar Vortex 2) ₹ 40 crore of under absorption of fixed cost 3) ₹ 30-40 crore of deferment of fixed cost from Q3 to Q4 and 4) YoY Price drop
  - Europe – 1) ₹ 16.5 core of tax asset write off 2) 7.5 crore of refinance cost & impact of floods
- Capex at Mithapur and Rallis generally on track. Moderate delays are due to current Covid situation
- The company has guided for similar ~₹ 1240 crore capex of FY21 for FY22 but FY22 majority capex could be earmarked towards domestic investments
- In Q4, India operations had good traction across product portfolio with higher sales volumes, which was partially offset by lower sales realisation. US operation showed improvement in sale volumes, despite lower realization. Despite operational challenges, TCE and Magadi (Kenya) maintained sales volumes as compared to the previous year
- Consolidated gross debt in FY21 was at ₹ 6933 crore against ₹ 7702 crore in FY20

## Financial story in charts

Exhibit 2: Basic Chemical Revenues – Geographical bifurcation (₹ crore)

Basic chem Revenue	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
India	822	671	690	708	719	637	700	764	806
TCA - North America	870	845	886	872	800	619	711	742	807
TCE - Europe	381	307	337	348	365	316	337	374	383
TCM - Magadi	141	126	139	82	115	100	91	107	115

Source: ICICI Direct Research

Exhibit 3: Basic Chemical Volumes – Geographical bifurcation (₹ crore)

Basic chem sales volume ('000 MT)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<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>	<b>215</b>
Soda Ash	182	163	154	158	159	118	151	168	184
Sodium Bicarbonate	28	27	25	29	26	21	25	30	31
<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>	<b>566</b>
Soda Ash	550	539	570	569	553	387	475	475	566
<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>	<b>96</b>
Soda Ash	76	68	77	70	71	62	67	70	67
Sodium Bicarbonate	28	24	27	27	30	30	27	28	29
<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>	<b>68</b>
Soda Ash	79	63	74	40	75	57	51	56	68

Source: ICICI Direct Research

Exhibit 4: Basic Chemical realisation/tonne– Geographical bifurcation

Basic chem realisation/tonne	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
India	39,160	35,329	38,549	37,835	38,846	45,850	39,755	38,565	37,504
TCA - North America	15,818	15,677	15,544	15,325	14,467	15,995	14,968	15,621	14,258
TCE - Europe	36,635	33,370	32,404	35,876	36,139	34,348	35,851	38,163	39,896
TCM - Magadi	17,848	20,000	18,784	20,500	15,333	17,544	17,843	19,107	16,912

Source: ICICI Direct Research

Exhibit 5: Basic Chemical EBITDA/tonne– Geographical bifurcation

Basic chem EBITDA/tonne	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
India	13,376	10,443	11,236	10,899	8,721	12,710	7,454	9,494	8,264
TCA - North America	3,727	3,506	3,263	3,216	3,689	904	2,021	3,326	1,113
TCE - Europe	2,596	1,957	4,327	4,433	5,050	3,043	4,894	4,592	1,979
TCM - Magadi	3,924	3,175	3,649	-2,250	1,467	1,754	1,176	4,643	2,941

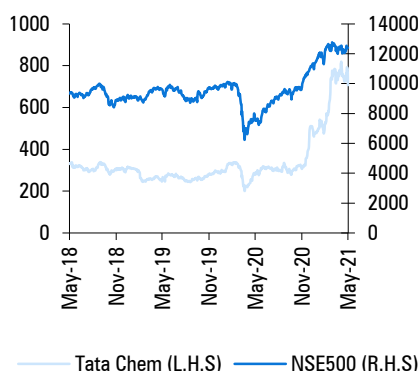
Source: ICICI Direct Research

Exhibit 6: Basic Chemical OPM %– Geographical bifurcation

Basic chem OPM (%)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
India	34.2%	29.6%	29.1%	28.8%	22.5%	27.7%	18.8%	24.6%	22.0%
TCA - North America	23.6%	22.4%	21.0%	21.0%	25.5%	5.7%	13.5%	21.3%	7.8%
TCE - Europe	7.1%	5.9%	13.4%	12.4%	14.0%	8.9%	13.6%	12.0%	5.0%
TCM - Magadi	22.0%	15.9%	19.4%	-11.0%	9.6%	10.0%	6.6%	24.3%	17.4%

Source: ICICI Direct Research

Exhibit 7: Price Performance



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
Year end March	FY20	FY21	FY22E	FY23E
<b>Total Operating Income</b>	<b>10,356.8</b>	<b>10,199.8</b>	<b>11,412.6</b>	<b>12,678.6</b>
Growth (%)	0.2	-1.5	11.9	11.1
Raw Material Expenses	1,968.4	2,396.9	2,624.9	2,789.3
<b>Gross Profit</b>	<b>8,388.4</b>	<b>7,802.9</b>	<b>8,787.7</b>	<b>9,889.3</b>
Employee Cost	1,375.4	1,399.7	1,472.2	1,546.8
Other Operating Expenses	5,063.8	4,902.5	5,365.6	6,056.9
<b>EBITDA</b>	<b>1,949.2</b>	<b>1,500.6</b>	<b>1,949.9</b>	<b>2,285.6</b>
Growth (%)	9.5	-23.0	29.9	17.2
Other Income	311.1	234.4	239.6	247.0
<b>EBITDA, including OI</b>	<b>2,260.3</b>	<b>1,735.1</b>	<b>2,189.5</b>	<b>2,532.6</b>
Depreciation	666.5	759.3	798.1	893.6
Net Interest Exp.	341.9	367.4	344.0	299.0
Other exceptional items	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>1,251.9</b>	<b>608.4</b>	<b>1,047.4</b>	<b>1,340.0</b>
Total Tax	219.7	197.8	230.4	294.8
Tax Rate	17.5%	32.5%	22.0%	22.0%
<b>PAT</b>	<b>1,032.3</b>	<b>410.6</b>	<b>817.0</b>	<b>1,045.2</b>
Adj.PAT after Minority inter	806.6	256.4	588.2	783.9
Adj. EPS (₹)	31.7	10.1	23.1	30.8

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
Year end March	FY20	FY21	FY22E	FY23E
PBT & Extraordinary	7,407.5	634.0	1,047.4	1,340.0
Depreciation	666.5	759.3	798.1	893.6
After other adjustments				
(Inc) / Dec in Working Capital	-129.9	323.3	-68.9	95.5
Taxes	-147.8	-96.3	-230.4	-294.8
Others	-6,016.2	417.0	344.0	299.0
<b>CF from operating activities</b>	<b>1,780.1</b>	<b>2,037.3</b>	<b>1,890.1</b>	<b>2,333.3</b>
Purchase of Fixed Assets	-1,199.4	-1,241.9	-1,243.6	-1,065.0
Others	-1,168.7	111.6	-236.5	0.0
<b>CF from investing activities</b>	<b>-2,368.1</b>	<b>-1,130.3</b>	<b>-1,480.1</b>	<b>-1,065.0</b>
Proceeds from issue of share	0.0	0.0	0.0	0.0
Borrowings (Net)	735.1	-739.8	-1,079.4	-600.0
Others	-864.4	-715.8	-624.3	-579.3
<b>CF from financing activities</b>	<b>-129.3</b>	<b>-1,455.7</b>	<b>-1,703.6</b>	<b>-1,179.3</b>
Net cash flow	-717.3	-548.7	-1,293.6	89.0
Effects of foreign currency tra	0.0	-16.3	0.0	0.0
Opening Cash	1,952.2	2,079.5	1,411.0	117.4
<b>Closing Cash</b>	<b>2,079.5</b>	<b>1,411.0</b>	<b>117.4</b>	<b>206.4</b>

\*calculated, Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
Year end March	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Share Capital	254.8	254.8	254.8	254.8
Reserves	12,642.8	14,035.2	14,343.1	14,846.7
<b>Total Shareholders Funds</b>	<b>12,897.7</b>	<b>14,290.0</b>	<b>14,597.9</b>	<b>15,101.5</b>
Minority Interest	763.8	852.6	1,081.4	1,342.7
Long Term Borrowings	3,473.4	5,388.1	3,073.4	2,573.4
Net Deferred Tax liability	1,437.9	1,572.1	1,572.1	1,572.1
Other long term liabilities	437.6	173.0	101.2	112.4
Long term provisions	1,653.5	1,598.1	1,965.7	2,183.8
<b>Current Liabilities and Provisions</b>				
Short term borrowings	1,912.9	277.6	1,512.9	1,412.9
Trade Payables	1,630.9	1,682.9	1,500.8	1,667.3
Other Current Liabilities	3,267.6	2,137.8	2,501.4	2,778.9
Short Term Provisions	276.9	365.1	281.4	312.6
Total Current Liabilities	7,088.4	4,463.4	5,796.6	6,171.7
<b>Total Liabilities</b>	<b>27,752.2</b>	<b>28,337.2</b>	<b>28,188.2</b>	<b>29,057.5</b>
<b>Assets</b>				
Net Block	13,073.9	12,971.3	13,251.5	14,457.9
Capital Work in Progress	787.8	1,034.7	1,200.0	165.0
Intangible assets under dev	47.2	58.8	58.8	58.8
Goodwill on Consolidation	1,999.8	1,963.3	1,963.3	1,963.3
Non-current investments	2,683.8	4,252.3	4,252.3	4,252.3
Deferred tax assets	15.3	0.0	0.0	0.0
Long term loans and advan	10.0	10.7	8.8	9.8
Other Non Current Assets	1,272.1	1,400.4	783.2	864.0
<b>Current Assets, Loans &amp; Advances</b>				
Current Investments	1,601.0	1,563.5	1,800.0	1,800.0
Inventories	1,869.2	1,686.6	2,094.9	2,327.3
Sundry Debtors	1,579.9	1,397.0	1,782.2	1,979.9
Cash and Bank	2,079.5	1,411.0	117.4	206.4
Loans and Advances	0.2	0.2	0.2	0.2
Other Current assets	732.5	587.5	875.5	972.6
Current Assets	7,862.3	6,645.7	6,670.2	7,286.4
<b>Total Assets</b>	<b>27,752.2</b>	<b>28,337.2</b>	<b>28,188.2</b>	<b>29,057.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
Year end March	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Adj. EPS	31.7	10.1	23.1	30.8
Adj. Cash EPS	57.8	39.9	54.4	65.8
BV	506.1	560.8	572.9	592.6
DPS	11.0	11.0	11.0	11.0
<b>Operating Ratios (%)</b>				
Gross Margin (%)	81.0	76.5	77.0	78.0
EBITDA Margin (%)	18.8	14.7	17.1	18.0
PAT Margin (%)	7.8	2.5	5.2	6.2
Debtor Days	56	58	57	57
Inventory Days	66	70	67	67
Creditor Days	57	48	48	48
Cash Conversion Cycle	64	80	76	76
<b>Return Ratios (%)</b>				
Return on Assets (%)	2.9	0.9	2.1	2.7
RoCE (%)	7.7	4.1	6.2	7.2
Core RoIC (%)	8.8	4.4	6.7	8.1
RoE (%)	6.3	1.8	4.0	5.2
<b>Solvency Ratios</b>				
Total Debt / Equity	0.4	0.4	0.3	0.3
Interest Coverage	4.7	2.7	4.0	5.5
Current Ratio	1.1	1.5	1.2	1.2
Quick Ratio	0.8	1.1	0.8	0.8
<b>Valuation Ratios (x)</b>				
EV/EBITDA	10.3	14.0	10.8	8.9
P/E	22.7	71.4	31.1	23.3
P/B	1.4	1.3	1.3	1.2
EV/Sales	1.9	2.1	1.8	1.6

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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