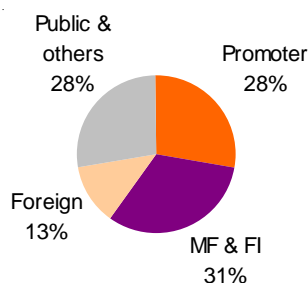
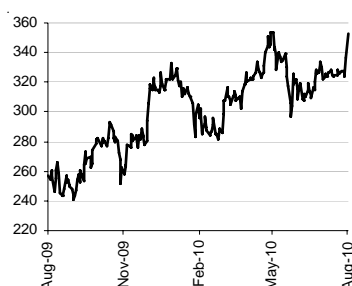


# Tata Chemicals

**Vulture's Pick**
**Stock Update**
**Price target revised to Rs371**
**Hold; CMP: Rs352**
**Company details**

Price target:	Rs371
Market cap:	Rs8,563 cr
52 week high/low:	Rs367/240
NSE volume: (No of shares)	4.4 lakh
BSE code:	500770
NSE code:	TATACHEM
Sharekhan code:	TATACHEM
Free float: (No of shares)	17.5 cr

**Shareholding pattern**

**Price chart**

**Price performance**

(%)	1m	3m	6m	12m
Absolute	3.6	-2.2	16.6	36.2
Relative to Sensex	2.5	-4.6	5.7	17.8

**Result highlights**

- ◆ **Results above expectations:** Tata Chemicals reported a profit after tax (PAT) of Rs216 crore for Q1FY2011 vs Rs42.5 crore for Q1FY2010. The PAT was above our expectations. However, adjusting for the one-offs (the restructuring cost of overseas operations, the foreign exchange [forex] losses) and excluding the performance of Rallis India (Rallis), the PAT grew by 28% yoy.
- ◆ **Total income expands by 5.6% yoy:** For Q1FY2011, the consolidated total income from the operations expanded by 5.6% yoy to Rs2,477.1 crore. However, the current quarter's numbers include the contribution from Rallis, which has now become a subsidiary of Tata Chemicals.
  - **Fertilisers:** The fertiliser division's revenue stood flat yoy at Rs982 crore while on a sequential basis, the growth was strong at 22.3%, led by a robust volume growth in the urea (up 11.3% quarter on quarter [qoq]) and phosphatic (up 28.3% qoq) segments.
  - **Chemicals:** The revenues from the chemical business contracted by 6% yoy despite a healthy volume growth of around 16% yoy in the soda ash business. The European soda ash operations faced pricing pressures during the quarter which affected both revenues and margins of the segment. Additionally, higher coke and coal prices too exerted downward pressure on the segmental margins. Meanwhile, the branded salt segment continued to perform well and the company maintained its market share of 60% during the quarter.

**Results table**

Rs (cr)

Particulars	Q1FY11	Q1FY10	% yoy	% qoq
Net sales/Income from operations	2477.1	2344.7	6	10
Other operating Income	43.6	39.8	9	180
<b>Total income</b>	<b>2520.7</b>	<b>2384.5</b>	<b>6</b>	<b>11</b>
Total expenditure	2003.0	1919.7	4	8
<b>Operating profit</b>	<b>517.7</b>	<b>464.8</b>	<b>11</b>	<b>26</b>
Other income	19.8	20.3	-3	-128
PBIDTA	537.5	485.0	11	59
Less: Depreciation	109.1	103.7	5	-13
PBIT	428.4	381.4	12	101
Less: Interest	88.9	107.6	-17	-5
Extraordinary (Forex (gain) / loss)	17.7	134.6	-87	-141
PBT	321.8	139.1	131	97
Less: Taxes	67.3	72.8	-8	
Profit after tax	254.5	66.3	284	55
Less: Minority Interest	38.5	23.8	62	-23
Reported PAT	216.0	42.5	408	69
<b>Adj. PAT</b>	<b>226.3</b>	<b>177.1</b>	<b>28</b>	<b>32</b>

- **Agri inputs:** The acquisition of Rallis, in which Tata Chemicals now owns a 50.06% stake, has proved to be accretive for the company. Rallis recorded a PAT of Rs15 crore for Q1FY2011. The profitability of Rallis improved on account of a better portfolio mix and improved quality of operations.
- ◆ **Fertiliser segment boosts profitability:** Due to the improved profitability of the fertiliser segment, the operating profit margin (OPM) of Tata Chemicals improved by around 104 basis points to 20.5%. However, the profitability of the fertiliser segment was positively affected due to the low-cost inventory of phosphoric acid which had a positive impact of around Rs20 crore on the operating profit of the company.
- ◆ **Lower tax rate aids bottom line growth:** The profit before tax (PBT) for the quarter came in at Rs321.8 crore vs Rs139.1 crore in the year-ago quarter. A lower tax rate of 20.9% during the quarter helped boost the bottom line of the company.
- ◆ **Maintain Hold with a revised price target of Rs371:** Tata Chemicals displayed a strong performance during the quarter under review due to the stabilisation of its raw material cost, a higher fertiliser margin and a healthy volume growth in the chemical segment. Additionally, during the quarter the bottom line growth was further aided by several one-off occurrences. Looking ahead, however, the soda ash margin and the utilisation level for fertilisers are expected to remain constrained in the quarters ahead. As a result, we maintain our neutral stand on the stock. We have fine-tuned our estimates for the stock to factor in the company's Q1FY2011 performance and our revised earnings per share (EPS) estimates now stand at Rs30.7 for FY2011 and Rs37.1 for FY2012. At the current market price of Rs352 the stock trades at 9.5x its FY2012E EPS and 1.4x its FY2012E book value (BV). We maintain our Hold recommendation on the stock with a revised price target of Rs371.

### Fertiliser business

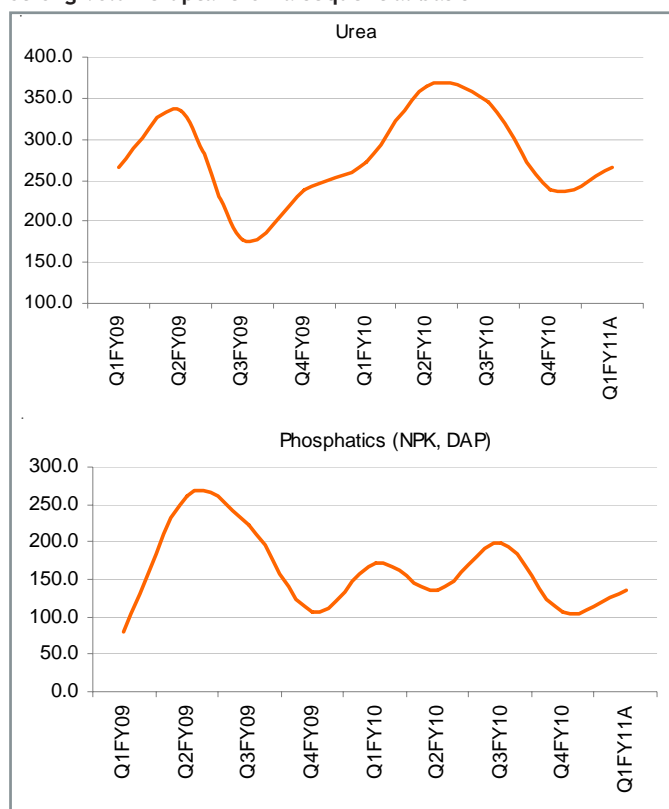
The fertiliser division's revenue stood flat on a year-on-year (y-o-y) basis at Rs982 crore while on a sequential basis the growth was strong at 22.3%, led by a robust volume growth in the urea (up 11.3% qoq) and phosphatic (up 28.3% qoq) segments.

- ◆ **Urea:** The demand for urea remains robust. The urea division's sales volumes for the quarter expanded by 11.3% on a sequential basis but declined by 2.2% on a y-o-y basis. The decline in the sales volume on a y-o-

y basis was due to the breakdown of a converter which resulted in a lower production for the quarter (the production volumes were down 19.4% yoy). Further, again in Q2FY2011, the production is likely to be muted on account of a 15-day shutdown of the plant to hook up the converter.

- ◆ The phosphatic volumes for the quarter contracted by 20.3% on a y-o-y basis while on a quarter-on-quarter (q-o-q) basis the volume growth was robust at 28.3%. The Haldia plant averaged capacity utilisation at 70-80% during the quarter. The management believes that the problems relating to the non-availability of rock phosphate and phosphoric acid (the key raw materials) are now behind them and the phosphatic plant is expected to function at a normalised capacity going ahead.
- ◆ With the nutrient based subsidy (NBS) coming into play from April 1, 2010, the fertiliser realisation increased by 10% on a y-o-y basis and by 5% on a sequential basis (as during the quarter, the overall prices for NPK fertilisers including DAP increased by Rs600-800 per tonne on an average).

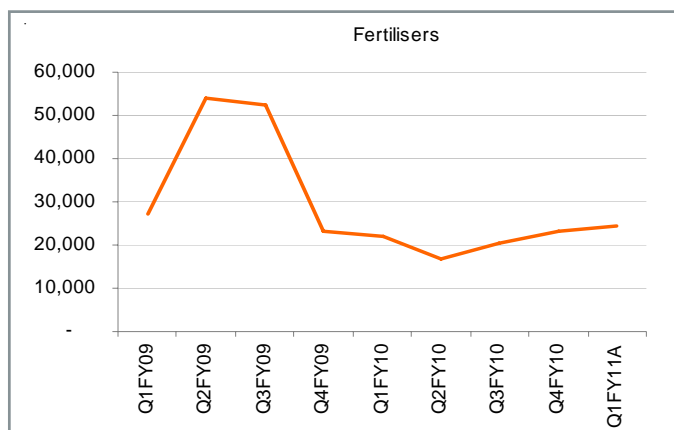
Strong volume uptake on a sequential basis



### Improving realisation: Result of NBS policy and international prices

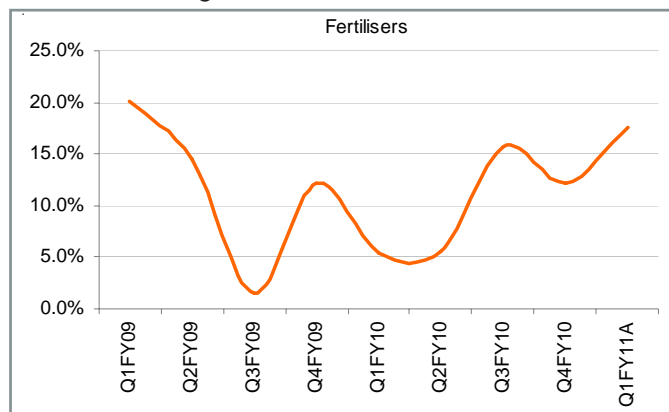
- During the quarter, the fertiliser business showed immense improvement in the profitability on both y-o-y and sequential bases. The PBIT for the quarter came in at Rs172 crore, showing an over two-fold increase yoy and a strong 75% sequential increase. Consequently, the earnings before interest and tax (EBIT) margin for the quarter at 17.5% showed a strong 1,200-basis-point y-o-y expansion and a 530-basis-point sequential expansion. The management attributed the supernormal performance of the quarter to the improved demand and a stable pricing scenario along with a low-cost inventory carried forward from Q4FY2010 (the benefit of a low-cost inventory for the quarter was around Rs20 crore). During the quarter, Indo Maroc Phosphore S.A. (IMACID) showed a turnaround in its operations by posting a profit of Rs17 crore for the quarter as against the loss of Rs12 crore in Q1FY2010. Though the management sounded upbeat on the demand and profitability aspects of the business, it does not expect the current level of margins to sustain and expects the margins to soften going forward.
- Other agri-inputs (including Rallis):** Rallis, in which Tata Chemicals now has a 50.06% stake, has proved to be earnings accretive for the company. The subsidiary contributed Rs196 crore to the total revenues during Q1FY2011, with an earnings before interest, tax, depreciation and amortisation (EBITDA) margin of about 12.4%. Further, with the commencement of its new plant at Dahej (which is likely to come on stream in Q2FY2011), Rallis' exports are expected to witness a strong uptick. We remain bullish on this business.
- In view of the lack of clarity with regard to the gas commitment for its new urea plant, the company is focusing its investment on specialty fertilisers. Tata Chemicals is looking to set up a customised fertiliser

#### Trend in realisation



capacity of 130,000 tonne which is expected to be operational by Q2FY2011. It has also identified locations for ten customised plants across the country and expects to execute the same in conjunction with its subsidiary, Rallis.

#### Trend in PBIT margins



#### Chemical business

The revenues from the chemical business contracted by 6% yoy to Rs1,299.3 crore. However, on the profitability front, the PBIT margin improved by around 37 basis points yoy to 18.7%. Despite an improvement in the margins, due to the top line contraction, the PBIT of the segment contracted by 3.7% yoy to Rs243.6 crore.

- Soda ash:** The total soda ash volumes expanded by a healthy 16% yoy on the back of a strong growth in the US demand (US soda ash volumes grew by 35% yoy) as well as in the domestic markets. Despite a healthy volume growth the segmental revenues dipped by 6% yoy due to the pricing pressures in the European region. The pricing pressures coupled with the higher coke and coal prices weighed on the soda ash margin during the quarter. The pressure on the company's soda ash margin is expected to persist in the coming quarters.
- Consumer products:** The volume growth for the branded salt segment was at a healthy 9.2% yoy. Tata Chemicals continues to lead the salt market with a market share of 60% amongst the national brands. It is further looking to expand its salt production capacity.

#### Segmental results

Particulars	Rs (cr)		
	Q1FY11	Q1FY10	% yoy
<b>Revenues</b>			
Inorganic Chemicals	1299.3	1376.5	-6
Fertilisers	982.2	985.3	0
Other Agri Inpiuts (Rallis)	246.7	27.0	815
Unallocated / Intersegmental	7.5	4.3	74
<b>Net Sales / Income from Ops</b>	<b>2520.7</b>	<b>2384.5</b>	<b>6</b>

Segmental results		Rs (cr)	
Particulars	Q1FY11	Q1FY10	% yoy
<b>PBIT</b>			
Inorganic Chemicals	243.6	253.0	-3.7
Fertilisers	171.9	54.1	217.8
Other Agri	20.6	0.9	
Others	-3.2	-0.8	
<b>PBIT margins (%)</b>			
Inorganic Chemicals	18.7	18.4	
Fertilisers	17.5	5.5	
Other Agri	8.4	3.3	

### Performance of subsidiaries

During the quarter the international operations of the company showed a revival in demand on a y-o-y basis with the volumes increasing by 17% yoy on the back of a strong uptick in the US operations. However, the pricing pressure in the European region led to a contraction in the top line as well as the operating profit of the chemical segment. Further, the increase in the prices of coke and coal added to the pressure on the margin during the quarter.

**BMGL:** Brunner Mond Group Ltd (BMGL)'s revenues for the quarter came in at Rs371 crore vs Rs490 crore in Q1FY2010. The contraction in the revenues was due to a contraction in the volumes coupled with the pricing pressure in the European region as around 1 million tonne of Turkish soda ash made its way into the market during the quarter. In the same period, the operating profit of the subsidiary contracted significantly, falling to Rs 1 crore from Rs91 crore in the year-ago quarter. As a result, the subsidiary reported a loss after tax of Rs7 crore during the quarter.

**IMACID:** During Q1FY2011, IMACID reported a PAT of Rs17 crore as compared with a loss of Rs12 crore reported in the corresponding quarter of the previous year. The turnaround in IMACID was a result of stable raw material prices.

### Subsidiaries' performance

Particulars	TCL		BMGL		IMACID		GCIP		Rallis		Consolidated	
	Q1FY11	Q1FY10	Q1FY11	Q1FY10	Q1FY11	Q1FY10	Q1FY11	Q1FY10	Q1FY11	Q1FY10	Q1FY11	Q1FY10
Sales	1425	1394	371	490	119	99	439	394	196	-	2477	2345
Operating profit	245	184	1	91	20	-11	123	94	20	-	409	361
OPM (%)	17.2	13.2	0.3	18.6	16.8	-11.1	28.0	23.9	-	-	16.5	15.4
PBT	200	134	-14	-19	20	-11	105	65	21	-	322	139
PAT (after MI)	151	94	-7	-40	17	-12	58	30	14	-	216	43
PATM (%)	10.6	6.7	-1.9	-8.2	14.3	-12.1	13.2	7.6	7.1	-	8.7	1.8

**GCIP:** General Chemical Industrial Products Inc (GCIP) reported a top line of Rs439 crore during the quarter, indicating a healthy growth of 11.4% yoy. The growth was achieved on the back of a strong volume growth. The OPM improved by a strong 410 basis points yoy to 28%.

**Rallis:** Rallis (a 50.06% subsidiary of Tata Chemicals) recorded a PAT of Rs14.8 crore for Q1FY2011. The profitability of Rallis improved on account of a better portfolio mix and improved quality of operations. Going ahead, the expansion at the Dahej facility is expected to drive the revenue growth of the subsidiary.

### Other highlights

- ♦ The balance sheet of the company remained fairly liquid with the cash and cash equivalents amounting to Rs1,295 crore, including Rs677.5 crore in mutual funds.
- ♦ As on June 30, 2010 the consolidated net debt stood at Rs5,046 crore, resulting in a net debt-to-equity ratio of 0.70.
- ♦ Tata Swatch, which was launched in the previous quarter, has been well received in the market. Two new variants of the product have recently been unveiled and the product is now available in Maharashtra, Karnataka, Delhi and the other north Indian markets.

### Valuation and outlook

Tata Chemicals displayed a strong performance during the quarter due to the stabilisation of its raw material cost, a higher fertiliser margin and a healthy volume growth in the chemical segment. Additionally, during the quarter the bottom line growth was further aided by several one-off occurrences. Looking ahead, however, the soda ash margin and the utilisation level for fertilisers are expected to remain constrained in the quarters ahead.

As a result, we maintain our neutral stand on the stock. We have fine-tuned our estimates for the stock to factor in the company's Q1FY2011 performance and our revised EPS estimates now stand at Rs30.7 for FY2011 and Rs37.1 for FY2012. At the current market price of Rs352 the stock trades at 9.5x its FY2012E EPS and 1.4x its FY2012E BV. We maintain our Hold recommendation on the stock with a revised price target of Rs371.

#### Valuation table

Particulars	FY08	FY09	FY10	FY11E	FY12E
Net sales (Rs cr)	6023.1	12772.6	9544.0	10118.4	11508.3
Adj net profit (Rs cr)	964.4	997.0	751.2	782.4	945.4
Rep net profit (Rs cr)	476.9	648.1	605.5	782.4	945.4
No of shares (cr)	25.5	25.5	25.5	25.5	25.5
Fully diluted EPS (Rs)	18.7	25.4	23.7	30.7	37.1
<i>% y-o-y change</i>	-6	36	-7	29	21
PER (x)	18.8	13.9	14.8	11.5	9.5
Price/BV (x)	2.4	1.9	1.9	1.6	1.4
EV/EBIDTA(x)	11.0	6.5	6.7	6.1	5.1
RoCE (%)	9.2	14.9	14.9	13.9	15.4
RoNW (%)	12.8	13.6	12.8	13.9	15.0

The author doesn't hold any investment in any of the companies mentioned in the article.

## Sharekhan Stock Ideas

### Evergreen

Housing Development Finance Corporation  
HDFC Bank  
Infosys Technologies  
Larsen & Toubro  
Reliance Industries  
Tata Consultancy Services

### Apple Green

Aditya Birla Nuvo  
Apollo Tyres  
Bajaj Auto  
Bajaj Finserv  
Bajaj Holdings & Investment  
Bank of Baroda  
Bank of India  
Bharat Electronics  
Bharat Heavy Electricals  
Bharti Airtel  
Corporation Bank  
Crompton Greaves  
Glenmark Pharmaceuticals  
Godrej Consumer Products  
Grasim Industries  
HCL Technologies  
Hindustan Unilever  
ICICI Bank  
Indian Hotels Company  
ITC  
Mahindra & Mahindra  
Marico  
Maruti Suzuki India  
Lupin  
Piramal Healthcare (Nicholas Piramal India)  
Punj Lloyd  
Sintex Industries  
State Bank of India  
Tata Global Beverages (Tata Tea)  
Wipro

### Cannonball

Allahabad Bank  
Andhra Bank  
IDBI Bank  
Madras Cements  
Phillips Carbon Black  
Shree Cement  
Tourism Finance Corporation of India

### Emerging Star

3i Infotech  
Allied Digital Services  
Axis Bank (UTI Bank)  
Cadila Healthcare  
Emco  
Greaves Cotton  
Max India  
Opto Circuits India  
Patels Airtemp India  
Thermax  
Zydus Wellness

### Ugly Duckling

BASF India  
Deepak Fertilisers & Petrochemicals Corporation  
Federal Bank  
Gayatri Projects  
Genus Power Infrastructures  
India Cements  
Ipca Laboratories  
ISMT  
Jaiprakash Associates  
JB Chemicals & Pharmaceuticals  
Orbit Corporation  
Pratibha Industries  
Provogue India  
Punjab National Bank  
Ratnamani Metals and Tubes  
Selan Exploration Technology  
Shiv-Vani Oil & Gas Exploration Services  
Subros  
Sun Pharmaceutical Industries  
Sunil Hitech Engineers  
Torrent Pharmaceuticals  
UltraTech Cement  
Union Bank of India  
United Phosphorus  
Zensar Technologies

### Vulture's Pick

Mahindra Lifespace Developers  
Orient Paper and Industries  
Tata Chemicals  
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