

Higher specialty share to unlock valuations ahead...

Tata Chemicals (TCL) is ex consumer now. The present business includes soda ash, soda bicarb, newly started specialty business such as nutraceutical, HDS and Rallis. Further, the company would also record salt manufacturing revenues under the group. We believe lower crude prices along with gas prices could benefit the operational performance of its basic chemical segment given the former accounts for ~40% of the overall cost. Further, incremental revenues from nutraceutical and HDS should improve OPM given that these assets generate RoCE of 18-20%. Apart from this, the company would also manufacture salt and supply to Tata Consumer Products, which would also recognise manufacturing margins. All these should translate into better bottomline growth ahead.

Lower input cost to maintain EBITDA/tonne for basic chemical

Although Covid-19 resulted in a fall in construction activity along with sluggish auto sales in China, we believe the same should have led to lower soda ash production in the same period given that majority of the domestic manufactured soda ash goes toward domestic consumption with less being exported. Thus, there is less probability of oversupply in the global market, going ahead. However, imminent tension globally on growth slowdown due to Covid-19 can result in softening in soda ash prices and, hence, the realisations of the company in the short-term. However, we do not expect the same to impact the EBITDA/tonne negatively given that crude oil & natural gas prices are also down considerably. Power & freight costs constitute ~40% of the overall cost for the company. We believe this can provide some respite to the operational performance, going ahead.

Newer businesses to improve business valuations, going ahead

The company ventured into the silica and nutraceutical business with a capex of around ₹ 500 crore. The same is anticipated to generate asset turn of 1.5-2x and RoCE of around 15-20%. We expect it to improve the return ratio profile of the overall group in the medium to long run. Apart from this, strong growth visibility from cathode active material and TCL's position in the entire chemistry are expected to place the company favourably in the long run. In turn, all this should translate into better business valuations, going ahead.

Valuation & Outlook

We value the domestic soda ash business at 5x FY21E EV/EBITDA and overseas at 4x EV/EBITDA. We arrive at a target price of ₹ 360, excluding investment portfolio value, providing an upside of 14% over CMP of ₹ 316. We have a **HOLD** rating on the stock.



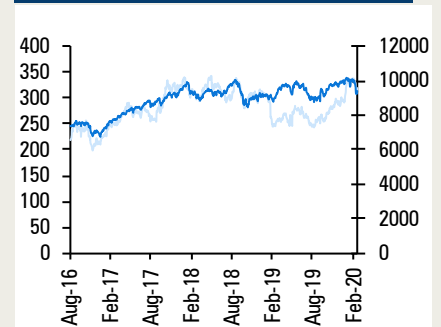
Particulars

Particular	Amount
Market cap (₹ Crore)	8,052
FY19 Total Debt (₹ Crore)	6,138
FY19 Cash & Inv (₹ Crore)	4,205
EV (₹ Crore)	9,986
52 Week H/L	340/233
Equity Capital (₹ Crore)	254.8
Face Value (₹)	10

Key Highlights

- Lower input cost to maintain EBITDA/tonne for basic chemical
- Newer businesses to improve business valuations, going ahead
- Maintain HOLD rating on stock with a target price of ₹ 360

Price Performance



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Key Financial Summary

(₹ Crore)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	CAGR FY19-22E
Net Revenue	14,872.9	10,346.1	10,269.7	11,296.3	10,638.7	11,294.6	12,137.6	2.4
EBITDA	2,091.7	2,094.3	2,190.7	2,095.1	2,167.5	2,374.8	2,622.4	7.8
EBITDA Margins (%)	14.1%	20.2%	21.3%	18.5%	20.4%	21.0%	21.6%	
Adj. PAT	696.4	879.6	1,290.6	1,163.9	1,080.9	1,224.1	1,375.0	5.7
Adj. EPS (₹)	27.3	34.5	50.6	45.7	42.4	48.0	54.0	
EV/EBITDA	7.3x	5.4x	4.1x	4.3x	4.4x	4.1x	3.2x	
P/E	11.6x	9.2x	6.2x	6.9x	7.4x	6.6x	5.9x	
ROE (%)	10.2	11.1	11.6	9.4	8.4	9.1	9.6	
ROCE (%)	8.7	9.7	8.3	8.4	8.1	8.8	9.3	

Exhibit 1: SOTP valuation

In ₹ Crore unless other mentioned	Revenue			EBITDA			EV/EBITDA	EV
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY21E	FY21E
Basic Chemical								
India	2,831	3,064	3,420	823	891	1,004	5.0x	4,456
ROW	5,327	5,560	5,781	982	1,034	1,086	4.0x	4,135
Speciality Products								
Rallis	2,276	2,564	2,877	283	328	386	14.4x	4,739
Other Speciality	70	283	396	15	56	78	13.0x	726
Consolidated EV								10,906
Less: Net debt								1,740
Target MCAP								9,166
No. of shares								25.5
Target price/share								360
CMP								316
Upside/downside								14%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

Year end March	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	10,269.7	11,296.3	10,638.7	11,294.6	12,137.6
Growth (%)	-0.7	10.0	-5.8	6.2	7.5
Raw Material Expenses	1,755.5	2,137.7	2,212.8	2,371.9	2,548.9
Gross Profit	8,514.2	9,158.7	8,425.8	8,922.7	9,588.7
Employee Cost	1,270.2	1,351.8	1,276.6	1,321.5	1,395.8
Other Operating Expenses	5,053.3	5,711.8	4,981.7	5,226.4	5,570.5
EBITDA	2,190.7	2,095.1	2,167.5	2,374.8	2,622.4
Growth (%)	4.6	-4.4	3.5	9.6	10.4
Other Income	159.5	411.6	371.4	373.4	383.3
EBITDA, including OI	2,350.2	2,506.7	2,538.9	2,748.2	3,005.7
Depreciation	518.0	571.4	622.8	685.2	764.3
Net Interest Exp.	325.6	363.1	335.9	267.9	220.2
Other exceptional items	64.3	70.3	0.0	0.0	0.0
PBT	1,570.9	1,642.5	1,580.1	1,795.1	2,021.1
Total Tax	60.1	346.9	395.0	448.8	505.3
Tax Rate	3.8%	21.1%	25.0%	25.0%	25.0%
PAT	1,510.8	1,295.6	1,185.1	1,346.4	1,515.8
Adj. PAT after Minority interest	1,290.6	1,163.9	1,080.9	1,224.1	1,375.0
Adj. EPS (₹)	50.6	45.7	42.4	48.0	54.0
Shares Outstanding	25.5	25.5	25.5	25.5	25.5

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

Year end March	FY18	FY19	FY20E	FY21E	FY22E
PBT & Extraordinary	3,271.8	1,730.4	1,580.1	1,795.1	2,021.1
Depreciation	596.0	571.4	622.8	685.2	764.3
After other adjustments					
(Inc) / Dec in Working Capital	-569.1	-214.4	-313.5	-4.4	-5.7
Taxes	-514.7	-484.9	-395.0	-448.8	-505.3
Others	-913.9	-21.3	335.9	267.9	220.2
CF from operating activities	1,870.1	1,581.3	1,830.3	2,295.0	2,494.7
Purchase of Fixed Assets	-750.3	-1,082.3	-1,500.0	-1,900.0	-500.0
Others	3,457.3	-875.9	361.5	320.0	132.0
CF from investing activities	2,707.0	-1,958.2	-1,138.5	-1,580.0	-368.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Borrowings (Net)	-1,240.6	-576.2	-200.0	-1,000.0	-700.0
Others	-848.9	-1,135.7	-909.3	-853.9	-806.3
CF from financing activities	-2,089.5	-1,711.8	-1,109.3	-1,853.9	-1,506.3
Net cash flow	2,487.7	-2,088.7	-417.5	-1,138.9	620.4
Effects of foreign currency translation	6.8	31.2	0.0	0.0	0.0
Opening Cash	1,664.8	4,483.0	1,952.2	1,534.7	395.8
Closing Cash	4,483.0	1,952.2	1,534.7	395.8	1,016.3

*calculated, Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

Year end March	FY18	FY19	FY20E	FY21E	FY22E
Liabilities					
Share Capital	254.8	254.8	254.8	254.8	254.8
Reserves	10,846.9	12,086.5	12,594.0	13,232.0	14,020.9
Total Shareholders Funds	11,101.7	12,341.3	12,848.8	13,486.8	14,275.8
Minority Interest	2,717.2	2,914.7	3,128.0	3,370.3	3,643.2
Long Term Borrowings	5,394.0	4,782.9	4,382.9	3,182.9	2,682.9
Net Deferred Tax liability	1,191.6	1,297.1	1,297.1	1,297.1	1,297.1
Other long term liabilities	95.8	116.4	94.3	100.1	107.6
Long term provisions	1,675.1	1,503.9	1,832.4	1,945.4	2,090.6
Current Liabilities and Provisions					
Short term borrowings	140.2	352.5	552.5	752.5	552.5
Trade Payables	1,478.6	1,475.3	1,399.1	1,485.3	1,596.2
Other Current Liabilities	1,878.8	1,840.5	728.7	773.6	831.3
Short Term Provisions	205.8	280.3	262.3	278.5	299.3
Total Current Liabilities	3,703.3	3,948.6	2,942.5	3,289.9	3,279.3
Total Liabilities	25,878.6	26,904.9	26,526.1	26,672.5	27,376.4
Assets					
Net Block	11,026.9	11,664.8	12,277.8	13,092.5	14,228.2
Capital Work in Progress	373.9	735.8	1,000.0	1,400.0	0.0
Intangible assets under devel.	35.0	38.0	38.0	38.0	38.0
Goodwill on Consolidation	1,731.9	1,859.0	1,859.0	1,859.0	1,859.0
Non-current investments	2,748.6	3,362.9	3,362.9	3,362.9	3,362.9
Deferred tax assets	20.8	36.2	36.2	36.2	36.2
Long term loans and advances	9.7	7.9	8.2	8.7	9.4
Other Non Current Assets	892.4	1,102.0	706.2	748.0	801.8
Current Assets, Loans & Advances					
Current Investments	91.8	2,252.3	2,000.0	1,800.0	1,800.0
Inventories	1,462.3	1,725.6	1,632.2	1,732.9	1,862.2
Sundry Debtors	1,307.9	1,452.5	1,399.1	1,485.3	1,596.2
Cash and Bank	4,483.0	1,952.2	1,534.7	395.8	1,016.3
Loans and Advances	1.6	1.3	1.3	1.3	1.3
Other Current assets	1,692.9	714.4	670.4	711.7	764.8
Current Assets	9,039.6	8,098.3	7,237.7	6,127.1	7,040.8
Total Assets	25,878.6	26,904.9	26,526.1	26,672.5	27,376.4

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

Year end March	FY18	FY19	FY20E	FY21E	FY22E
Per share data (₹)					
Adj. EPS	50.6	45.7	42.4	48.0	54.0
Adj. Cash EPS	71.0	68.1	66.9	74.9	84.0
BV	435.7	484.3	504.2	529.3	560.2
DPS	22.0	23.5	22.5	23.0	23.0
Operating Ratios (%)					
Gross Margin (%)	82.9	81.1	79.2	79.0	79.0
EBITDA Margin (%)	21.3	18.5	20.4	21.0	21.6
PAT Margin (%)	12.6	10.3	10.2	10.8	11.3
Debtor Days	46	47	48	48	48
Inventory Days	52	56	56	56	56
Creditor Days	53	48	48	48	48
Cash Conversion Cycle	46	55	56	56	56
Return Ratios (%)					
Return on Assets (%)	5.0	4.3	4.1	4.6	5.0
RoCE (%)	8.3	8.4	8.1	8.8	9.3
Core RoIC (%)	13.9	11.5	10.8	11.1	12.6
RoE (%)	11.6	9.4	8.4	9.1	9.6
Solvency Ratios					
Total Debt / Equity	0.5	0.4	0.4	0.3	0.2
Interest Coverage	5.6	5.3	5.7	7.7	10.2
Current Ratio	2.4	2.1	2.5	1.9	2.1
Quick Ratio	2.0	1.6	1.9	1.3	1.6
Valuation Ratios (x)					
EV/EBITDA	4.1	4.3	4.4	4.1	3.2
P/E	6.2	6.9	7.4	6.6	5.9
P/B	0.7	0.7	0.6	0.6	0.6
EV/Sales	0.9	0.8	0.9	0.9	0.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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