

BSE SENSEX
 36,324

S&P CNX
 10,978

CMP: INR683 TP: INR956(+40%)
Buy

TATA CHEMICALS LIMITED
Stock Info

	TTCH IN
Bloomberg	TTCH IN
Equity Shares (m)	255
M.Cap.(INRb)/(USDb)	174.1 / 2.4
52-Week Range (INR)	782 / 602
1, 6, 12 Rel. Per (%)	-2/-9/-6
12M Avg Val (INR M)	648
Free float (%)	69.4

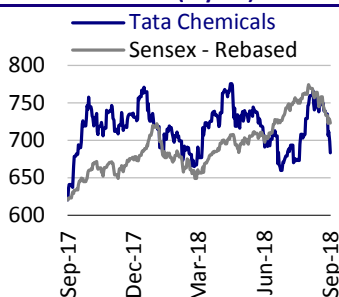
Financials Snapshot (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	102.7	114.1	125.4
EBITDA	21.9	24.9	27.7
PAT	12.3	12.5	14.8
EPS (INR)	48.2	49.0	58.1
Gr. (%)	39.7	1.7	18.5
BV/Sh (INR)	435.7	470.3	512.4
RoE (%)	24.9	10.8	11.8
RoCE (%)	9.4	8.6	9.7
P/E (x)	14.2	13.9	11.8
P/BV (x)	1.6	1.5	1.3

Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	30.6	30.8	30.8
DII	36.5	32.4	26.8
FII	10.9	11.1	16.1
Others	22.0	25.8	26.3

FII Includes depository receipts

Stock Performance (1-year)


Padding hard to scale up consumer business

Strategy in place to replicate Tata Salt's success in other products

In this report, we present key highlights from Tata Chemicals' (TTCH) analyst meet.

- TTCH has launched five products (khichdi mix, cheela mix, chutneys, etc.) over the past 8-12 months, which are sold only in Star Bazaar outlets and on e-commerce platform Amazon. Other products like Tata Salt, Tata Salt Lite, pulses, besan and spices are also available in general trade.
- The idea here is to assess the performance of the newly launched products and take them to different channels depending on their receptiveness. TTCH plans to launch 4-5 new product platforms in FY19.
- The strategy in the consumer business is to first build the base by launching products that would provide scale albeit with relatively low margins, and then foray into value-added products to pull the margins up.
- TTCH has changed the inventory policy for pulses, capping it at 45 days. Now, instead of securing raw material at the time of harvest and keeping the inventory, the company procures from the mandi (a big market) on a need-to-need basis.
- Tata Sampann (ex-salt) business is expected to turn 2x in FY19, with the company coming up with value-added products this year. The aspiration is to take the overall consumer business to INR50b over the next 4-5 years via a balanced approach (not forgoing margins for growth).
- The business is expected to be in an investment phase over the next 2-3 years, with TTCH planning to double its marketing investment, especially for new products.
- To achieve its set targets, the consumer business has a team of 95 territory managers with a rich background in FMCG. The business is headed by Ms Richa Arora who has 10+ years of FMCG experience and 30+ years of total experience.

Tata Sampann portfolio expanding well: TTCH commenced its consumer business in 2011 – pulses was the sole product platform then and sold under the brand name of 'i-Shakti'. Subsequently, the company launched spices in test markets in 2014 and at pan-India level in 2015. The brand 'Tata Sampann' was launched in 2015 with a view to include all food/consumer products under a single umbrella. 'Tata Sampann' now encompasses five product platforms (spices, pulses, besan, mixes, and chutneys) in multiple variants. The products command 10-15% price premium in market (v/s competitors like Chedda and Mangatram), leveraging the quality and brand association of Tata. TTCH plans to launch 4-5 new product platforms under this umbrella in FY19 and scale up the ones exhibiting traction.

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Leveraging Tata Salt distribution network to scale up other products: Tata Salt has a distribution network of 1.7m retail outlets, which enables the company to reach 143m households across India. TTCH's pulses, besan and spices products available in general trade are already leveraging Tata Salt's robust distribution network. According to the company, most of its products in general trade are already reaching close to an optimum number of touch points. Around 70% of TTCH's general trade products (viz. pulses, besan and spices) are now available at 40% of Tata Salt's touch points.

Consumer biz to stay in investment phase for next 2-3 years: TTCH's strategy in the consumer business is to first build the base by launching products that would provide scale albeit with relatively low margins, and then foray into value-added products to pull the margins up. In line with this, the company has scaled up pulses, is in the process of scaling up besan and is coming up with value-added products like mixes and chutneys. Given the expedited launch and scale-up of products, the business is expected to remain in an investment phase over the next 2-3 years. Notably, TTCH is doubling its marketing investment, especially for new products.

Internal target to achieve 50% product success rate: TTCH has launched five products (khichdi mix, cheela mix, chutneys, etc.) over the past 8-12 months, which are sold only in Star Bazaar outlets and on e-commerce platform Amazon. The idea here is to assess the performance of the newly launched products and take them to different channels depending on their receptiveness. TTCH has launched three product platforms, which it plans to scale up given the positive response. The typical success rate of FMCG products is 10-30%, but TTCH targets a 50% success rate for future launches. Tata Sampann (ex-salt) business is expected to turn 2x in FY19, led by new launches and scaling up of existing products. The aspiration is to take the overall consumer business to INR50b over the next 4-5 years.

Valuation and view: We maintain our estimate of 10% revenue and PAT CAGR over FY18-20. The company's cash-cow business of soda ash and sodium bicarbonate is expected to remain steady on the back of a favorable demand-supply scenario. Additionally, TTCH has shifted gears as far as product launches in the consumer segment is concerned. The HDS plant is also expected to be commissioned in FY19, followed by the nutraceuticals plant in 2HFY20.

TTCH has traded at one-year forward EV/EBITDA of 7.5x (average) for the last five years. Our SOTP-based target price is INR956 – implied EV/EBITDA of 9.6x, which is ~30% premium to its five-year average. This is justified, in our view, given the recent business transformation toward higher-RoCE segments (specialty and consumer products). Our TP implies a 40% upside. Maintain **Buy**.

Exhibit 1: Valuation Methodology

Business	Methodology	Metrics	FY20	Multiple (x)	EV/ MCAP (INR m)
Commodity (INR m)					
Inorganic Chemical India (Soda Ash & others) (Excluding Salt)	EV/EBITDA (x)	EBITDA	6,196	7	43,375
Tata Chemicals North America	EV/EBITDA (x)	EBITDA	8,752	10	87,523
Tata Chemicals Europe and Tata Chemicals Africa	EV/EBITDA (x)	EBITDA	3,715	6	22,291
Sub Total			18,664		153,189
Speicalty and Consumer (INR m)					
Consumer (Incl Salt) (INR mn)	EV/EBITDA (x)	EBITDA	4,997	17	84,953
Rallis India (Tata Chemicals hold 50%) (INR m)	20% discount to Current MCAP	Attributable Mcap	37,610	0.8	15,044
Total EV (INR m)					253,186
Less: Debt FY20 (INR m)					40,835
Less: Minority Interest (INR m)					27,172
Add: Cash & Liquid investment (INR m)					45,303
Add: Value of quoted Investment (INR m)		Market Capitalisation	16335.7	0.8	13,069
Target Mcap (INR m)					243,551
Outstanding share (m)					255
Target Price (INR)					956
CMP (INR)					683
Upside (%)					40%
Implied EV					266,254
Implied EV/EBITDA (X)					9.6

Source: Company, MOSL

Exhibit 2: Supply chain of major consumer products

	Salt	Pulses, Besan	Spices
Raw Material	Brine at Mithapur, Tuticorin, Gandhidham	Purchase from locations with strict product specifications for quality	Turmeric sourced from Salem and Chili from Guntur. 30% is sourced at harvest time
Processing and packing	Vacuum evaporation process at Mithapur plant, transit, and repacking at 28 CFAs	Processing close to source for supply chain efficiencies	Processed in facilities certified by BRC, Halal, UKAS, Sedex, Spices Board, and FSSAI
Logistics	Captive rake siding at Mithapur, strong CFA and road transport network, ~98% rail coefficient	Transit from milling locations to CFAs via road	Transit from Cochin to CFAs via road
Distribution	Reaches 17.8 lakh retail outlets through a network of 43 distributors and 3,268 stockists	Available through modern stores, e-commerce, and Nutrikart	Direct reach to ~50% of salt outlets in operational states
Consumer	Reaches over 148 million households annually	Loyal consumer base and high brand recall	Phased launch in 16 states completed across North, East, and West India

Source: Company, MOSL

Exhibit 3: TTCH's range of spices products

	Kasuri Methi SKUs – 25g, 100g		Turmeric Powder SKUs – 23g, 100g, 200g		Paneer Masala SKUs – 8g, 14g, 45g		Meat Masala SKUs – 8g, 14g, 45g
	Pav Bhaji Masala SKUs – 8g, 14g, 45g		Red Chili Powder SKUs – 23g, 100g, 200g		Punjabi Chole Masala SKUs – 8g, 14g, 45g		Kitchen King Masala SKUs – 8g, 14g, 45g
	Coriander Powder SKUs – 23g, 100g, 200g		Chicken Masala SKUs – 8g, 14g, 45g		Dal Tadka Masala SKUs – 8g, 14g, 45g		Garam Masala SKUs – 8g, 14g, 45g

Source: Company, MOSL

Exhibit 4: TTCH's range of pulses products

	Organic Chana Dal SKUs – 200g, 500g, 1kg		Organic Masoor Dal SKUs – 200g, 500g, 1kg		Urad Dal SKUs – 200g, 500g, 1kg		Toor Dal SKUs – 200g, 500g, 1kg
	Organic Urad Whole SKUs – 200g, 500g, 1kg		Organic Moong Dal SKUs – 200g, 500g, 1kg		Moong Dal SKUs – 200g, 500g, 1kg		Chana Dal SKUs – 200g, 500g, 1kg
	Organic Toor Dal SKUs – 200g, 500g, 1kg		Organic Urad Dal SKUs – 200g, 500g, 1kg		Masoor Dal SKUs – 200g, 500g, 1kg		Urad Kali Dal SKUs – 200g, 500g, 1kg

Source: Company, MOSL

Exhibit 5: TTCH's range of besan products

	<p>Fine Besan SKUs – 200g, 500g, 1kg</p>		<p>Besan SKUs – 200g, 500g, 1kg</p>
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Source: Company, MOSL

Exhibit 6: TTCH's range of mixes products

	<p>Multigrain Chilla SKUs – 180g</p>		<p>Pakoda Mix SKUs – 200g, 500g, 1kg</p>
	<p>Moong Dal Chilla SKUs – 180g</p>		<p>Multigrain Khichdi Mix SKUs – 200g</p>

Source: Company, MOSL

Exhibit 7: 2 of TTCH's chutneys in Amazon's top 5 bestsellers

Amazon Bestsellers

Our most popular products based on sales. Updated hourly.

#1



Ching's Schezwan Chutney, 250g
★★★★★ 6
₹ 63.00

#2



Tata Sampann Tamarind Date Chutney, 100g
★★★★☆ 9
₹ 52.25

#3



Ching's Secret - Schezwan Chutney, 250g Bottle
★★★★☆ 12

#4



Shelly's Mango Chutney, 250g
★★★★☆ 3

#5



Tata Sampann Tomato Chutney, 100g
★★★★☆ 4
₹ 44.00

#6



Tata Sampann Chinese Chutney, 100g (Sample)
₹ 52.00

#7



Tata Sampann Chinese Chutney, 100g
★★★★☆ 4
₹ 50.00

#8



Daadi's Chutney Powder, Mint, 100g
★★★★★ 6
₹ 42.00

Source: Amazon, MOSL

Financials and Valuations

Consolidated - Income Statement							(INR Million)	
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	150,343	162,274	175,708	152,202	103,461	102,697	114,057	125,361
Change (%)	7.0	7.9	8.3	-13.4	-32.0	-0.7	11.1	9.9
EBITDA	21,628	18,096	21,643	20,917	20,943	21,907	24,864	27,705
Margin (%)	14.4	11.2	12.3	13.7	20.2	21.3	21.8	22.1
Depreciation	5,339	4,712	4,631	5,261	5,122	5,180	5,476	5,792
EBIT	16,289	13,384	17,012	15,657	15,821	16,727	19,388	21,913
Int. and Finance Charges	4,639	5,795	4,609	5,255	2,973	3,256	2,669	2,164
Other Income	4,178	1,424	1,180	1,253	1,661	1,595	3,194	3,510
PBT bef. EO Exp.	15,828	9,013	13,582	11,655	14,510	15,066	19,914	23,260
EO Items	-6,699	-14,202	-1,997	0	0	643	0	0
PBT after EO Exp.	9,129	-5,189	11,585	11,655	14,510	15,709	19,914	23,260
Total Tax	3,025	2,888	3,511	2,484	3,460	601	5,038	5,885
Tax Rate (%)	33.1	-55.7	30.3	21.3	23.8	3.8	25.3	25.3
Minority Interest	2,100	2,243	2,109	2,207	2,254	2,202	2,378	2,568
Reported PAT - Continuing Ops.	4,004	-10,320	5,965	6,964	8,796	12,906	12,497	14,807
Adjusted PAT - Continuing Ops.	8,483	11,786	7,356	6,964	8,796	12,287	12,497	14,807
Change (%)	-10.9	38.9	-37.6	-5.3	26.3	39.7	1.7	18.5
Margin (%)	5.6	7.3	4.2	4.6	8.5	12.0	11.0	11.8
Reported PAT - Discontinuing Ops.	0	0	0	742	1,135	11,425	0	0
Reported PAT	4,004	-10,320	5,965	7,706	9,931	24,331	12,497	14,807
Adjusted PAT	8,483	11,786	7,356	7,706	9,931	23,712	12,497	14,807

Consolidated - Balance Sheet							(INR Million)	
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	2,548	2,548	2,548	2,548	2,548	2,548	2,548	2,548
Total Reserves	61,587	53,107	52,969	65,995	76,534	108,469	117,282	128,009
Net Worth	64,136	55,655	55,517	68,543	79,082	111,017	119,830	130,558
Minority Interest	5,361	6,552	6,735	25,985	26,239	27,172	27,172	27,172
Total Loans	83,840	83,931	83,788	90,904	70,483	61,028	45,713	40,835
Deferred Tax Liabilities	-56	1,910	2,062	12,348	12,381	11,916	11,916	11,916
Capital Employed	153,281	148,048	148,102	197,780	188,185	211,132	204,631	210,480
Gross Block	106,053	112,504	120,084	120,671	120,011	126,061	134,061	141,061
Less: Accum. Deprn.	65,282	69,677	76,081	5,490	10,612	15,792	21,268	27,059
Net Fixed Assets	40,771	42,827	44,003	115,181	109,400	110,269	112,793	114,002
Goodwill on Consolidation	66,287	67,243	69,586	17,619	16,984	17,319	17,319	17,319
Capital WIP	5,916	4,676	1,893	5,015	3,331	4,089	4,089	4,089
Total Investments	5,997	4,409	4,429	21,879	27,931	28,683	28,683	28,683
Curr. Assets, Loans&Adv.	81,830	81,705	88,109	83,769	78,459	98,427	94,816	104,610
Inventory	16,018	16,490	26,264	19,319	13,861	14,623	12,290	13,429
Account Receivables	34,401	32,409	34,267	35,656	20,922	13,079	14,062	15,455
Cash and Bank Balance	18,414	17,530	14,643	12,654	16,648	44,830	39,950	44,385
Loans and Advances	12,997	15,276	12,936	16,140	27,028	25,895	28,514	31,340
Curr. Liability & Prov.	47,519	52,812	59,918	45,682	47,919	47,654	53,069	58,222
Account Payables	15,572	13,992	18,891	16,818	13,182	14,786	16,565	18,100
Other Current Liabilities	14,753	17,080	16,341	7,923	14,117	14,060	15,615	17,163
Provisions	17,194	21,740	24,686	20,941	20,621	18,808	20,889	22,959
Net Current Assets	34,311	28,893	28,191	38,086	30,540	50,773	41,747	46,388
Appl. of Funds	153,281	148,048	148,102	197,780	188,185	211,132	204,631	210,480

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)								
EPS	33.3	46.3	28.9	27.3	34.5	48.2	49.0	58.1
Cash EPS	54.2	64.7	47.0	48.0	54.6	68.5	70.5	80.8
BV/Share	251.7	218.4	217.9	269.0	310.3	435.7	470.3	512.4
DPS	10.0	10.0	12.5	10.0	11.0	22.0	11.8	13.0
Payout (%)	75.7	-29.0	65.7	45.0	39.2	53.4	29.5	27.6
Valuation (x)								
P/E			23.7	25.0	19.8	14.2	13.9	11.8
Cash P/E			14.5	14.2	12.5	10.0	9.7	8.4
P/BV			3.1	2.5	2.2	1.6	1.5	1.3
EV/Sales			1.4	1.8	2.4	2.1	1.8	1.6
EV/EBITDA			11.5	13.3	12.0	9.9	8.3	7.1
Dividend Yield (%)	1.5	1.5	1.8	1.5	1.6	3.2	1.7	1.9
FCF per share	-14.3	68.4	27.8	64.6	113.3	89.3	62.7	57.4
Return Ratios (%)								
RoE	13.3	19.7	13.2	11.2	11.9	24.9	10.8	11.8
RoCE	9.7	16.0	9.1	8.9	8.6	9.4	8.6	9.7
Core RoCE	23.9	38.5	22.2	14.0	10.8	15.8	15.7	17.7
RoIC	9.4	17.0	9.5	8.6	8.1	11.8	10.9	12.3
Working Capital Ratios								
Fixed Asset Turnover (x)	1.4	1.4	1.5	1.3	0.9	0.8	0.9	0.9
Asset Turnover (x)	1.0	1.1	1.2	0.8	0.5	0.5	0.6	0.6
Inventory (Days)	101	96	137	119	244	304	230	230
Debtor (Days)	84	73	71	86	74	46	45	45
Creditor (Days)	98	82	99	103	232	307	310	310
Leverage Ratio (x)								
Current Ratio	1.7	1.5	1.5	1.8	1.6	2.1	1.8	1.8
Interest Cover Ratio	3.5	2.3	3.7	3.0	5.3	5.1	7.3	10.1
Net Debt/Equity	1.0	1.2	1.2	1.1	0.7	0.14	0.04	-0.03

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	9,130	-5,189	11,585	12,935	16,522	15,066	19,914	23,260
Depreciation	5,339	4,712	4,631	5,714	5,522	5,180	5,476	5,792
Interest & Finance Charges	4,468	5,133	4,241	5,946	4,645	1,661	-525	-1,346
Direct Taxes Paid	-3,584	-2,307	-3,612	-3,645	-4,516	-601	-5,038	-5,885
(Inc)/Dec in WC	-17,107	3,795	-11,245	-652	12,103	7,949	4,145	-206
CF from Operations	-1,755	6,144	5,600	20,298	34,276	29,255	23,971	21,615
Others	3,965	17,232	7,136	3,022	1,033	643	0	0
CF from Operating incl EO	2,210	23,376	12,736	23,319	35,309	29,898	23,971	21,615
(Inc)/Dec in FA	-5,842	-5,938	-5,649	-6,865	-6,429	-7,142	-8,000	-7,000
Free Cash Flow	-3,632	17,438	7,087	16,454	28,880	22,756	15,971	14,615
(Pur)/Sale of Investments	201	-59	-29	-90	-2,064	-752	0	0
Others	3,772	390	928	-337	588	1,595	3,194	3,510
CF from Investments	-1,869	-5,607	-4,750	-7,292	-7,905	-6,300	-4,806	-3,490
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	8,966	-9,894	-3,417	-6,098	-14,117	-9,455	-15,315	-4,878
Interest Paid	-4,641	-5,798	-4,430	-6,202	-4,456	-3,256	-2,669	-2,164
Dividend Paid	-3,033	-2,961	-3,026	-3,820	-3,056	-6,895	-3,684	-4,080
Others	0	0	0	-1,897	-1,781	24,190	-2,378	-2,568
CF from Fin. Activity	1,292	-18,653	-10,873	-18,017	-23,409	4,584	-24,045	-13,690
Inc/Dec of Cash	1,633	-883	-2,887	-1,989	3,995	28,182	-4,880	4,435
Opening Balance	16,780	18,414	17,530	14,643	12,654	16,649	44,831	39,950
Closing Balance	18,414	17,530	14,643	12,654	16,649	44,831	39,950	44,385

Explanation of Investment Rating	Expected return (over 12-month)
Investment Rating	
BUY	>=15%
SELL	< -10%
NEUTRAL	> -10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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