

## Better soda ash prices to support growth ahead...

**About the stock:** Commencing operations in 1944, Tata Chemicals has come a long way to become one of the top five players in the global soda ash market.

- Under basic chemical, TCL offers soda ash, soda bicarbonate, cement, salt, marine chemicals and crushed refined soda, while speciality chemical consists solution towards agro chemical through Rallis and other speciality solutions such as nutritional products and HDS
- Basic chemical forms 75% of overall revenue while the rest comes from speciality products

**Q2FY22 Results:** Lower growth from India and operational loss from Europe dragged operational growth below our expectations.

- Reported revenue growth of 16% YoY to ₹ 3022.6 crore, led by higher growth in the basic chemical segment across four units
- Gross margins expanded 470 bps YoY to ~77.1% while EBITDA margin improved 177 bps YoY to 16.6%, impacted by higher power & fuel cost (up 49% YoY)
- EBITDA was up 30% YoY to ₹ 500.9 crore
- Adjusting exceptional expenses to the tune of ₹ 11 crore, adjusted PAT was up 197% YoY to ₹ 209.3 crore

**What should investors do?** The stock appreciated at 79% CAGR in last two years

- We revise our rating from **HOLD to BUY** on the back of better soda ash realisation visibility on the back of favourable demand outlook

**Target Price and Valuation:** We value Tata Chemicals at SOTP valuation to arrive at a revised target price of ₹ 1035/share (earlier ₹ 925/share).

**Key triggers for future price performance:**

- Improvement in the soda ash pricing environment bodes well for future growth outlook
- Revival in export demand for North America unit to sustain group performance
- Higher share of speciality business to command better valuations for the overall group

**Alternate Stock Idea:** Apart from Tata Chemicals, in our chemical coverage we also like Neogen Chemical

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 1515



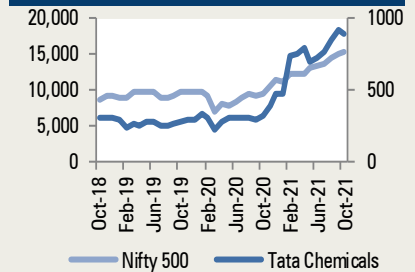
### Particulars

Particular	Amount
Market cap (₹ Crore)	22,679
FY21 Total Debt (₹ Crore)	6,933
FY21 Cash & Inv (₹ Crore)	2,104
EV (₹ Crore)	27,508
52 Week H/L	1158/303
Equity Capital (₹ Crore)	254.8
Face Value (₹)	10

### Shareholding pattern

in %	Dec-20	Mar-21	Jun-21	Sept-21
Promoter	38.0	38.0	38.0	38.0
DII	24.6	20.8	19.7	20.0
FII	12.3	14.0	13.0	14.5
Others	25.1	27.2	29.3	27.6

### Price Chart



### Recent event & key risks

- Soda ash prices witnessed uptrend
- Key Risk:** (i) Fall in soda ash prices and rise in crude to impact EBITDA/tonne (ii) Revival in the demand and thereby prices to pose upside risk to our estimates

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	4 year CAGR (FY17-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Revenue	10,336.7	10,356.8	10,199.8	-0.4%	11,829.1	13,347.2	14.4%
EBITDA	1,780.5	1,949.2	1,500.6	-8.0%	2,229.0	2,668.0	33.3%
EBITDA Margins (%)	17.2%	18.8%	14.7%		18.8%	20.0%	
Adj. PAT	931.9	806.6	256.4	-26.5%	1,017.2	1,257.1	121.4%
Adj. EPS (₹)	36.6	31.7	10.1		39.9	49.3	
EV/EBITDA	13.3x	12.5x	16.9x		11.2x	8.9x	
P/E	24.3x	28.1x	88.5x		22.3x	18.0x	
ROE (%)	7.6	6.3	1.8		6.8	7.9	
ROCE (%)	7.1	7.7	4.1		6.6	7.7	

## Key takeaways of recent quarter & conference call highlight

### Q2FY22 Results: Revival in soda ash volume, realisations aid better performance

- **Basic chemical topline performance:** Revenues were up 22% YoY to ₹ 2234.9 crore, led by growth across geographies. The India business reported a surge of 16% YoY to ₹ 811.9 crore while the same from North America, UK and Magadi remained higher by 21.9% YoY, 23.4% YoY & 53.8% YoY to ₹ 867 crore, ₹ 416 crore & ₹ 140 crore, respectively. The growth across geographies was primarily driven by volume growth owing to revival in the demand of end user industry
- **Basic chemical operational performance:** Adjusted EBITDA for the segment increased 52% YoY to ₹ 423.7 crore, largely on the back of better margins from North America businesses. OPM for the segment was at 19% (up 377 bps YoY)

### Q2FY22 Earnings Conference Call highlights

#### India:

- Price hike taken to the tune of ₹ 3000/tonne over April-September 2021 while it had taken another ₹ 4000/tonne price hike in October'21
- Around 15-20% of the sales are on annual contracts while rest are on quarterly basis
- Mithapur plant expansion is moving as per schedule. Total ₹ 2700 crore worth of capex is ongoing to expand capacity across soda ash, bicarb, salt businesses. The capex is expected to be commissioned by March 2024
- The maintenance shutdown will happen during Q3FY22

#### North America:

- Exports business has witnessed strong growth during the quarter while domestic business remained steady
- There has been loan refinancing at a lower rate, which could save finance cost to the tune of ₹ 50 crore annually
- Volume growth for North America was up 29% YoY to 613,000 MT
- The company will resort to maintenance shutdown during Q3FY22. Shutdown can happen for a week to 10 days

#### Europe:

- Higher carbon prices impacting the operational performance. The company requires around 5.5 lakh tonnes of carbon annually of which 3 lakh tonnes are free carbon credit. The company is exposed to around 2 lakh tonnes of carbon of which it can pass on cost increase of around 1 lakh tonnes of carbon and rest 1 lakh tonnes are hedged
- Carbon credit cost increased from £25-30/tonne to £75/tonne

#### Other updates:

- Silica business continues to gain traction for its rubber and food grade silica products with new customers added
- Net debt for the quarter was at ₹ 4158 crore

## Financial story in charts

### Exhibit 1: Basic chemical revenues – Geographical bifurcation (₹ crore)

Basic chem Revenue	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
India	690	708	719	637	700	764	806	795	812
TCA - North America	886	872	800	619	711	742	807	837	867
TCE - Europe	337	348	365	316	337	374	383	407	416
TCM - Magadi	139	82	115	100	91	107	115	134	140

Source: ICICI Direct Research

### Exhibit 2: Basic chemical volumes – Geographical bifurcation ('000 MT)

Basic chem sales volume ('000 MT)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>TCL India</b>	<b>179</b>	<b>187</b>	<b>185</b>	<b>139</b>	<b>176</b>	<b>198</b>	<b>215</b>	<b>195</b>	<b>208</b>
Soda Ash	154	158	159	118	151	168	184	167	178
Sodium Bicarbonate	25	29	26	21	25	30	31	28	30
<b>TCA - North America</b>	<b>570</b>	<b>569</b>	<b>553</b>	<b>387</b>	<b>475</b>	<b>475</b>	<b>566</b>	<b>580</b>	<b>613</b>
Soda Ash	570	569	553	387	475	475	566	580	613
<b>TCE - Europe</b>	<b>104</b>	<b>97</b>	<b>101</b>	<b>92</b>	<b>94</b>	<b>98</b>	<b>96</b>	<b>95</b>	<b>93</b>
Soda Ash	77	70	71	62	67	70	67	68	68
Sodium Bicarbonate	27	27	30	30	27	28	29	27	25
<b>TCM - Magadi</b>	<b>74</b>	<b>40</b>	<b>75</b>	<b>57</b>	<b>51</b>	<b>56</b>	<b>68</b>	<b>83</b>	<b>86</b>
Soda Ash	74	40	75	57	51	56	68	83	86

Source: ICICI Direct Research

### Exhibit 3: Basic chemical realisation/tonne– Geographical bifurcation

Basic chem realisation/tonne	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
India	38,549	37,835	38,846	45,850	39,755	38,565	37,504	40,758	39,033
TCA - North America	15,544	15,325	14,467	15,995	14,968	15,621	14,258	14,431	14,144
TCE - Europe	32,404	35,876	36,139	34,348	35,851	38,163	39,896	42,842	44,731
TCM - Magadi	18,784	20,500	15,333	17,544	17,843	19,107	16,912	16,145	16,279

Source: ICICI Direct Research

### Exhibit 4: Basic chemical EBITDA/tonne– Geographical bifurcation

Basic chem EBITDA/tonne	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
India	11,236	10,899	8,721	12,710	7,454	9,494	8,264	13,487	10,705
TCA - North America	3,263	3,216	3,689	904	2,021	3,326	1,113	2,983	3,197
TCE - Europe	4,327	4,433	5,050	3,043	4,894	4,592	1,979	3,053	-1,935
TCM - Magadi	3,649	-2,250	1,467	1,754	1,176	4,643	2,941	3,012	2,674

Source: ICICI Direct Research

### Exhibit 5: Basic chemical OPM %– Geographical bifurcation

Basic chem OPM (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
India	29.1%	28.8%	22.5%	27.7%	18.8%	24.6%	22.0%	33.1%	27.4%
TCA - North America	21.0%	21.0%	25.5%	5.7%	13.5%	21.3%	7.8%	20.7%	22.6%
TCE - Europe	13.4%	12.4%	14.0%	8.9%	13.6%	12.0%	5.0%	7.1%	-4.3%
TCM - Magadi	19.4%	-11.0%	9.6%	10.0%	6.6%	24.3%	17.4%	18.7%	16.4%

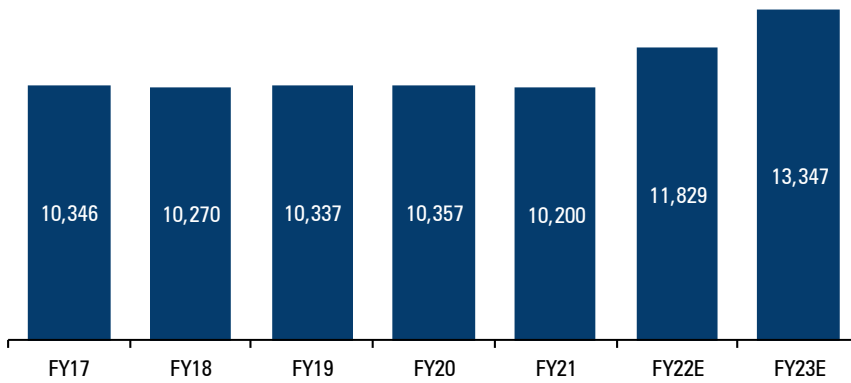
Source: ICICI Direct Research

### Exhibit 6: SOTP valuation

In ₹ Crore unless other mentioned	Revenue		EBITDA		EV/EBITDA	EV
	FY22E	FY23E	FY22E	FY23E	FY23E	FY23E
<b>Basic Chemical</b>						
India		3,274		3,502	8.0x	8,722
ROW		5,593		6,110	6.0x	6,479
<b>Speciality Products</b>						
Rallis (50.09% stake and 20% holding company discount)		2,690		3,201	15.4x	2,383
Other Speciality		226		339	10.0x	385
<b>Consolidated EV</b>						<b>17,968</b>
Less: Net debt						1,146
Residual business MCAP						16,822
Add: NC investment portfolio excl Tata sons inv @ 70% disc						1,600
Add: Fair value of Tata sons inv @ 70% disc						8,000
<b>Target MCAP</b>						<b>26,422</b>
No. of shares						25.5
<b>Target price/share</b>						<b>1,035</b>
CMP						890
<b>Upside/downside</b>						<b>16%</b>

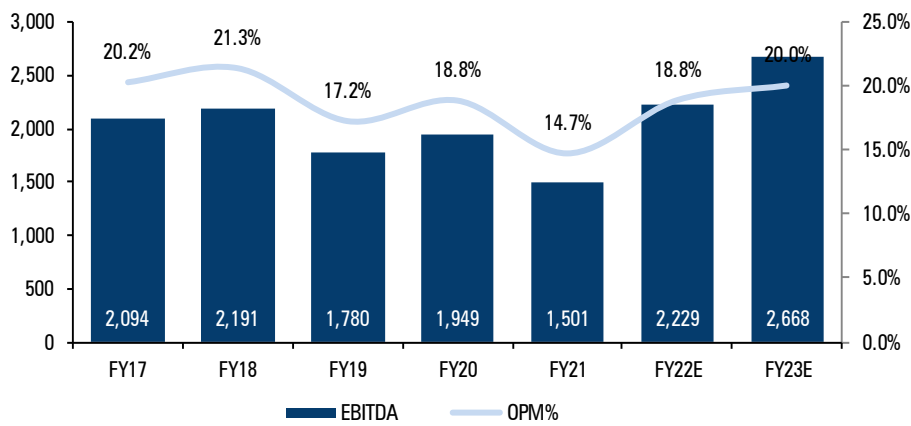
Source: ICICI Direct Research

Exhibit 7: Revenue trend (₹ crore)



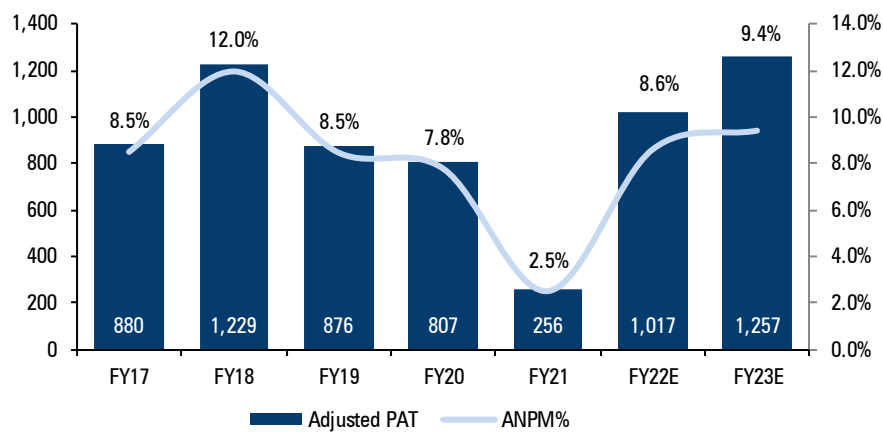
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 10: Profit and loss statement ₹ crore

Year end March	FY19	FY20	FY21	FY22E	FY23E
<b>Total Operating Income</b>	<b>10,336.7</b>	<b>10,356.8</b>	<b>10,199.8</b>	<b>11,829.1</b>	<b>13,347.2</b>
Growth (%)	0.7	0.2	-1.5	16.0	12.8
Raw Material Expenses	2,002.0	1,968.4	2,396.9	2,602.4	2,669.4
<b>Gross Profit</b>	<b>8,334.7</b>	<b>8,388.4</b>	<b>7,802.9</b>	<b>9,226.7</b>	<b>10,677.8</b>
Employee Cost	1,318.5	1,375.4	1,399.7	1,526.0	1,735.1
Other Operating Expenses	5,235.8	5,063.8	4,902.5	5,471.8	6,274.6
<b>EBITDA</b>	<b>1,780.5</b>	<b>1,949.2</b>	<b>1,500.6</b>	<b>2,229.0</b>	<b>2,668.0</b>
Growth (%)	-18.7	9.5	-23.0	48.5	19.7
Other Income	409.5	311.1	234.4	222.0	233.2
<b>EBITDA, including OI</b>	<b>2,189.9</b>	<b>2,260.3</b>	<b>1,735.1</b>	<b>2,451.0</b>	<b>2,901.2</b>
Depreciation	568.5	666.5	759.3	808.7	911.7
Net Interest Exp.	353.7	341.9	367.4	332.7	295.5
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>608.4</b>	<b>1,309.6</b>	<b>1,694.0</b>
Total Tax	274.4	219.7	197.8	288.1	372.7
Tax Rate	20.5%	17.5%	32.5%	22.0%	22.0%
<b>PAT</b>	<b>1,063.6</b>	<b>1,032.3</b>	<b>410.6</b>	<b>1,021.5</b>	<b>1,321.3</b>
Adj. PAT after Minority interest	876.0	806.6	256.4	1,017.2	1,257.1
Adj. EPS (₹)	34.4	31.7	10.1	39.9	49.3
Shares Outstanding	25.5	25.5	25.5	25.5	25.5

Source: Company, ICICI Direct Research

### Exhibit 11: Cash flow statement ₹ crore

Year end March	FY19	FY20	FY21	FY22E	FY23E
PBT & Extraordinary	1,730.4	7,407.5	634.0	1,309.6	1,694.0
Depreciation	571.4	666.5	759.3	808.7	911.7
After other adjustments					
(Inc) / Dec in Working Capital	-214.4	-129.9	323.3	-37.5	114.5
Taxes	-484.9	-147.8	-96.3	-288.1	-372.7
Others	-21.3	-6,016.2	417.0	332.7	295.5
<b>CF from operating activities</b>	<b>1,581.3</b>	<b>1,780.1</b>	<b>2,037.3</b>	<b>2,125.4</b>	<b>2,643.0</b>
Purchase of Fixed Assets	-1,082.3	-1,199.4	-1,241.9	-1,369.7	-1,065.0
Others	-875.9	-1,168.7	111.6	-36.5	200.0
<b>CF from investing activities</b>	<b>-1,958.2</b>	<b>-2,368.1</b>	<b>-1,130.3</b>	<b>-1,406.2</b>	<b>-865.0</b>
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Borrowings (Net)	-576.2	735.1	-544.1	-300.0	-600.0
Others	-1,135.7	-864.4	-911.5	-613.0	-575.8
<b>CF from financing activities</b>	<b>-1,711.8</b>	<b>-129.3</b>	<b>-1,455.7</b>	<b>-913.0</b>	<b>-1,175.8</b>
Net cash flow	-2,088.7	-717.3	-548.7	-193.8	602.2
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	1,411.0	1,217.2
<b>Closing Cash</b>	<b>1,952.2</b>	<b>2,079.5</b>	<b>1,411.0</b>	<b>1,217.2</b>	<b>1,819.4</b>

Source: Company, ICICI Direct Research

### Exhibit 12: Balance sheet ₹ crore

Year end March	FY19	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>					
Share Capital	254.8	254.8	254.8	254.8	254.8
Reserves	12,086.5	12,642.8	14,035.2	14,772.1	15,748.8
<b>Total Shareholders Funds</b>	<b>12,341.3</b>	<b>12,897.7</b>	<b>14,290.0</b>	<b>15,026.9</b>	<b>16,003.6</b>
Minority Interest	2,914.7	763.8	852.6	1,056.9	1,321.2
Long Term Borrowings	4,769.3	3,473.4	5,388.1	5,188.1	4,688.1
Net Deferred Tax liability	1,297.1	1,437.9	1,572.1	1,572.1	1,572.1
Other long term liabilities	129.9	437.6	173.0	104.9	118.3
Long term provisions	1,503.9	1,653.5	1,598.1	2,037.5	2,299.0
<b>Current Liabilities and Provisions</b>					
Short term borrowings	352.5	1,912.9	277.6	177.6	77.6
Trade Payables	1,475.3	1,630.9	1,682.9	1,555.6	1,755.3
Other Current Liabilities	1,840.5	3,267.6	2,137.8	2,592.7	2,925.4
Short Term Provisions	280.3	276.9	365.1	291.7	329.1
Total Current Liabilities	3,948.6	7,088.4	4,463.4	4,617.5	5,087.4
<b>Total Liabilities</b>	<b>26,904.8</b>	<b>27,752.2</b>	<b>28,337.2</b>	<b>29,603.8</b>	<b>31,089.6</b>
<b>Assets</b>					
Net Block	11,664.8	13,073.9	12,971.3	13,232.3	14,555.3
Capital Work in Progress	735.8	787.8	1,034.7	1,334.7	165.0
Intangible assets under devl.	38.0	47.2	58.8	58.8	58.8
Goodwill on Consolidation	1,859.0	1,999.8	1,963.3	1,963.3	1,963.3
Non-current investments	3,362.9	2,683.8	4,252.3	4,252.3	4,252.3
Deferred tax assets	36.2	15.3	0.0	0.0	0.0
Long term loans and advances	7.9	10.0	10.7	9.2	10.3
Other Non Current Assets	1,102.0	1,272.1	1,400.4	809.8	906.7
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	2,252.3	1,601.0	1,563.5	1,800.0	1,800.0
Inventories	1,725.6	1,869.2	1,686.6	2,171.4	2,450.0
Sundry Debtors	1,452.5	1,579.9	1,397.0	1,847.3	2,084.4
Cash and Bank	1,952.2	2,079.5	1,411.0	1,217.2	1,819.4
Loans and Advances	1.3	0.2	0.2	0.2	0.2
Other Current assets	714.4	732.5	587.5	907.4	1,023.9
Current Assets	8,098.3	7,862.3	6,645.7	7,943.4	9,177.9
<b>Total Assets</b>	<b>26,904.9</b>	<b>27,752.2</b>	<b>28,337.2</b>	<b>29,603.8</b>	<b>31,089.6</b>

Source: Company, ICICI Direct Research

### Exhibit 13: Key ratios

Year end March	FY19	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>					
Adj. EPS	34.4	31.7	10.1	39.9	49.3
Adj. Cash EPS	56.7	57.8	39.9	71.7	85.1
BV	484.3	506.1	560.8	589.7	628.0
DPS	23.5	11.0	0.0	11.0	11.0
<b>Operating Ratios (%)</b>					
Gross Margin (%)	80.6	81.0	76.5	78.0	80.0
EBITDA Margin (%)	17.2	18.8	14.7	18.8	20.0
PAT Margin (%)	8.5	7.8	2.5	8.6	9.4
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 (%)	3.3	2.9	0.9	3.4	4.0
RoCE (%)	7.1	7.7	4.1	6.6	7.7
Core RoIC (%)	9.1	8.8	4.4	8.2	10.2
RoE (%)	7.1	6.3	1.8	6.8	7.9
<b>Solvency Ratios</b>					
Total Debt / Equity	0.4	0.4	0.4	0.4	0.3
Interest Coverage	4.6	4.7	2.7	4.9	6.7
Current Ratio	2.1	1.1	1.5	1.7	1.8
Quick Ratio	1.6	0.8	1.1	1.3	1.3
<b>Valuation Ratios (x)</b>					
EV/EBITDA	13.3	12.5	16.9	11.2	8.9
P/E	25.9	28.1	88.5	22.3	18.0
P/B	1.8	1.8	1.6	1.5	1.4
EV/Sales	2.3	2.4	2.5	2.1	1.8

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct coverage universe (Chemicals)**

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
PI Industries	2963	3,855	Buy	44,961	48.6	59.2	77.1	68.3	56.0	43.0	47.8	39.2	30.1	17.2	18.6	20.4	13.8	14.6	16.1
Aarti Industries	1013	1,085	Buy	36,728	14.5	32.8	31.1	63.7	28.1	29.7	36.8	28.2	19.5	10.7	12.2	16.8	15.0	14.9	20.1
Tata Chemical	890	1,035	Buy	22,679	10.1	39.9	49.3	88.5	22.3	18.0	16.9	11.2	8.9	4.1	6.6	7.7	1.8	6.8	7.9
Vinati Organics	1970	2,300	Buy	20,252	26.2	40.2	44.3	74.6	48.6	44.1	56.4	36.2	32.3	21.7	29.4	27.1	17.4	22.1	20.4
Sumitomo Chemical	395	505	Buy	19,694	6.9	8.5	10.1	62.3	50.6	42.6	43.1	35.1	29.0	29.8	29.3	28.1	22.4	22.1	21.2
Navin Fluorine	3397	3,710	Hold	16,829	45.0	53.0	73.1	77.8	66.0	47.9	54.0	46.7	31.9	21.0	19.0	22.6	13.6	14.2	17.0
Rallis India	265	305	Hold	5,161	11.4	9.7	14.0	24.8	29.0	20.2	16.2	18.7	12.9	18.0	14.0	18.4	13.9	11.0	14.0
Sudarshan chemical	599	825	Buy	4,147	20.4	26.5	33.0	34.7	26.7	21.4	18.8	14.9	12.1	15.2	18.4	20.3	19.0	20.8	21.8
Neogen Chemicals	1211	1,515	Buy	2,827	13.4	18.8	28.8	89.7	64.0	41.8	46.8	35.0	25.4	15.1	16.5	20.1	17.1	19.8	23.7
Astec Lifesciences	1200	1,575	Buy	2,351	33.2	39.6	51.3	36.1	30.3	23.4	22.7	19.0	14.9	18.9	19.7	21.0	21.0	20.3	21.0

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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