

Realisation driven growth; US to be key for future...

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 chemicals, TCL offers soda ash, sodium bicarbonate, cement, salt, marine chemicals and crushed refined soda. Speciality chemical consists of solution towards agro chemical through Rallis and other speciality solutions such as nutritional products and HDS
- Basic chemical forms 81% of overall revenues in FY23 while the rest comes from speciality products

Q4FY23 Results: Reported strong numbers across board largely led by robust realisation growth across all geographies in the basic chemical segment.

- Reported revenue growth of 26.6% YoY to ₹ 4407 crore, led by good growth in the basic chemicals segment, up 32% YoY to ₹ 3822 crore and in speciality products up 4% YoY to ₹ 589 crore
- Gross margins increased YoY by 64 bps to ~80.5% while EBITDA margin expanded 301 bps YoY to 21.9%
- EBITDA was up 47% YoY to ₹ 965 crore. Energy cost improved 13% YoY to ₹ 734 crore while other expenses increased 40% YoY to ₹ 804 crore
- Adjusted PAT was at ₹ 692 crore in Q4FY23 vs. ₹ 408 crore in Q4FY22

What should investors do? The stock appreciated at 50% CAGR in last three years.

- We maintain **BUY** on the back of 1) Tighter global soda ash supply scenario against sustained demand, 2) upbeat management commentary regarding demand (despite impending new global capacities).

Target Price and Valuation: We value Tata Chemicals at SOTP valuation to arrive at a revised target price of ₹ 1130/share (earlier ₹ 1170/share).

Key triggers for future price performance:

- Strong demand for soda ash from container glass segment along with new applications like solar glass and lithium carbonate
- Sustainability of soda ash prices or moderation on expected lines
- Revival in export demand for North America unit, reopening of China's real estate demand and few glasses line channels to sustain group performance

Alternate Stock Idea: Besides Tata Chemicals, in our chemical coverage, we also like SRF.

- Trigger for SRF future revenue growth would be increasing speciality chemical business
- BUY with a target price of ₹ 2550



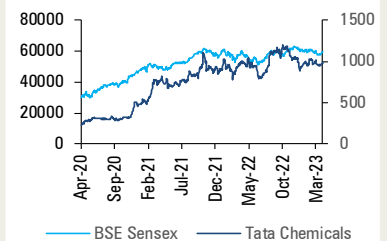
Particulars

Particular	Amount
Market cap (₹ Crore)	25,114
FY23 Total Debt (₹ Crore)	6,296
FY23 Cash & Inv (₹ Crore)	1,935
EV (₹ Crore)	29,475
52 Week H/L	1215/773
Equity Capital (₹ Crore)	254.8
Face Value (₹)	10

Shareholding pattern

in %	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	38.0	38.0	38.0	38.0
DII	19.1	19.4	19.0	19.8
FII	15.0	14.9	14.4	14.6
Others	27.9	27.7	28.6	27.7

Price Chart



Recent event & key risks

- Price correction in soda ash prices by 4% in India.
- Key Risk:** (i) Higher than expected new soda ash capacities addition (ii) sharper than expected fall in soda ash prices

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Revenue	10,336.7	10,356.8	10,199.8	12,622.1	16,789.0	10.3%	18,352.2	20,338.2	17.2%
EBITDA	1,780.5	1,949.2	1,500.6	2,304.6	3,822.0	11.8%	4,337.0	4,862.9	28.3%
EBITDA Margins (%)	17.2%	18.8%	14.7%	18.3%	22.8%		23.6%	23.9%	
Adj.PAT	875.0	806.6	256.4	1,211.5	2,281.3	13.2%	2,786.5	3,270.3	39.2%
Adj. EPS (₹)	34.3	31.7	10.1	47.5	89.5		109.3	128.2	
EV/EBITDA	14.5x	13.7x	19.2x	12.7x	7.7x		5.2x	5.1x	
P/E	28.5x	30.9x	97.2x	20.6x	10.9x		8.9x	7.6x	
ROE (%)	7.1	6.3	1.8	6.6	11.6		12.5	13.0	
ROCE (%)	7.1	7.7	4.1	6.6	10.4		10.8	11.7	

Key takeaways of recent quarter & conference call highlight

Q4FY23 Results: Strong growth led by basic segment

- Basic chemical topline performance:** Revenues were up 32% YoY to ₹ 3822 crore. The India business reported growth of 18.3% YoY to ₹ 1257 crore while the same from North America, UK and Kenya was up 51.1% YoY, 22.7% YoY & 21.6% YoY to ₹ 1650 crore, ₹ 707 crore & ₹ 208 crore, respectively. The growth across geographies was largely driven by higher realisation owing to revival in the demand of end user industry
- Basic chemical operational performance:** EBITDA for the segment increased 57% YoY to ₹ 1038.2 crore, largely on the back of better margins from North America, Europe and Kenya businesses. EBITDA/tonne for North America and Kenya remained at ₹ 5362 (+36% YoY) & ₹ 19683 (+341% YoY) respectively

Tata Chem-ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	44.6	53.1	53.1
Social	46.7	28.3	26.7
Governance	87.4	87.4	87.4
Overall ESG Score	52.91	56.29	55.77

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Q4FY23 Earnings Conference Call highlights

- China – Strong re-opening of China has led to tightening of dense soda ash within China and inventory remains low in dense ash because of high demand from container glass
- US – Continues to register strong demand across all parts of the world. Further, the US will continue to lead margins and volume in forthcoming quarters. Next year onwards US to lead the margins and not India
- UK – Fixed margins from Q1FY24 can be expected
- Kenya – Flat margins are expected in H1FY24
- India – Price correction during the current quarter was made mainly to avoid discounting and align with pricing going in market. Cost will start to moderate in India. Beyond H1FY24, margins will go back to beyond normal levels
- On broader view, the management believes demand to be good and prices to remain stable except where there is occasional inventory event in India
- Soda ash requirement in solar industry – 100 GW of solar capacity requires 1 MT and every tonne of lithium carbonate requires 2 tonnes of soda ash
- Mongolia effects – While the capacity will come in, the key point is that it is expected to serve the China domestic market largely. With expected closure of a few synthetic soda ash plants in China, the incremental supply is likely to get absorbed
- The world requires ~1.5-2 MT capacity every year. Till FY26-27, no large capacity is likely to come up
- Capacity additions- US- ~400 KTPA, which is likely to come up within 24-28 months. India- 100 KTPA within the next 12 months
- One off – Tax refund of ₹ 50 crore from UK
- The management aims to repay debt by ~\$200-250 million in FY24

Financial story in charts

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

Basic chem Revenue	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
India	806	795	812	874	1,063	1,164	1,324	1,170	1,257
TCA - North America	807	837	867	891	1,092	1,119	1,179	1,323	1,650
TCE - Europe	383	407	416	551	576	531	488	739	707
TCM - Magadi	115	134	140	132	171	246	251	241	208

Source: ICICI Direct Research

Exhibit 2: Basic chemical volumes – Geographical break-up ('000 MT)

Basic chem sales volume ('000 MT)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
TCL India	213	195	208	189	205	199	182	185	199
Soda Ash	184	167	178	156	176	169	154	156	166
Sodium Bicarbonate	29	28	30	33	29	30	28	29	33
TCA - North America	566	578	613	586	615	568	561	610	608
Soda Ash	566	578	613	586	615	568	561	610	608
TCE - Europe	96	95	93	99	100	93	99	87	83
Soda Ash	67	68	68	71	70	65	69	63	60
Sodium Bicarbonate	29	27	25	28	30	28	30	24	23
TCM - Magadi	68	83	86	73	75	83	73	69	63
Soda Ash	68	83	86	73	75	83	73	69	63

Source: ICICI Direct Research

Exhibit 3: Basic chemical realisation/tonne– Geographical break-up

Basic chem realisation/tonne	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
India	37,856	40,758	39,033	46,233	51,842	58,463	72,731	63,243	63,166
TCA - North America	14,258	14,491	14,144	15,205	17,756	19,704	21,016	21,689	27,138
TCE - Europe	39,896	42,842	44,731	55,657	57,600	57,282	49,323	84,943	85,181
TCM - Magadi	16,912	16,145	16,279	18,082	22,800	29,532	34,384	34,928	33,016

Source: ICICI Direct Research

Exhibit 4: Basic chemical EBITDA/tonne– Geographical break-up

Basic chem EBITDA/tonne	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
India	8,342	13,487	10,224	13,231	13,925	21,265	19,420	17,474	23,907
TCA - North America	1,113	2,995	3,197	2,440	4,472	4,860	3,761	5,344	5,362
TCE - Europe	1,979	3,053	-1,935	6,667	4,100	10,572	10,758	12,931	13,554
TCM - Magadi	2,941	3,012	3,837	3,425	8,000	14,286	18,356	17,971	19,683

Source: ICICI Direct Research

Exhibit 5: Basic chemical OPM %– Geographical break-up

Basic chem OPM (%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
India	22.0%	33.1%	26.2%	28.6%	26.9%	36.4%	26.7%	27.6%	37.8%
TCA - North America	7.8%	20.7%	22.6%	16.0%	25.2%	24.7%	17.9%	24.6%	19.8%
TCE - Europe	5.0%	7.1%	-4.3%	12.0%	7.1%	18.5%	21.8%	15.2%	15.9%
TCM - Magadi	17.4%	18.7%	23.6%	18.9%	35.1%	48.4%	53.4%	51.5%	59.6%

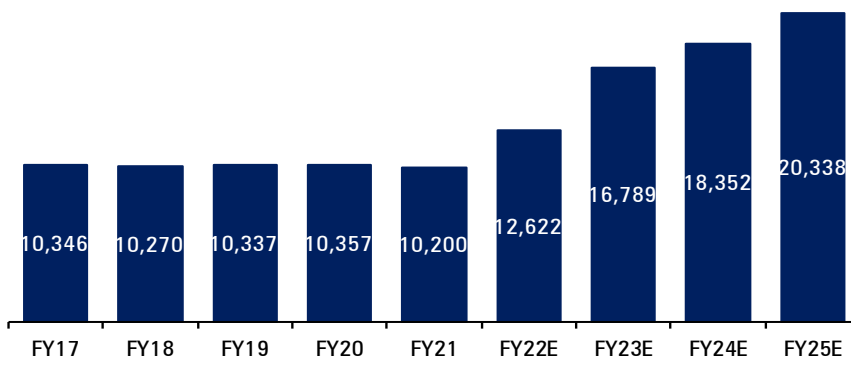
Source: ICICI Direct Research

Exhibit 6: SOTP valuation

In ₹ Crore unless other mentioned	Revenue			EBITDA			EV/EBITDA		EV
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY25E	FY25E	
Basic Chemical									
India	4,752	4,685	5,512	1,303	1,244	1,539	4.0x	6,155	
ROW	8,845	10,350	11,077	2,352	2,714	2,873	5.0x	14,363	
Speciality Products									
Rallis (50.09% stake and 20% holding company discount)	2,967	2,884	3,173	218	385	447	10.3x	2,110	
Other Speciality	0	452	597	0	51	65	11.0x	712	
Consolidated EV								23,340	
Less: Net debt								-1,202	
Residual business MCAP								24,542	
Add: NC investment portfolio @ 80%								4,235	
Target MCAP								28,777	
No. of shares								25.5	
Target price/share								1,130	
CMP								978	
Upside/downside								16%	

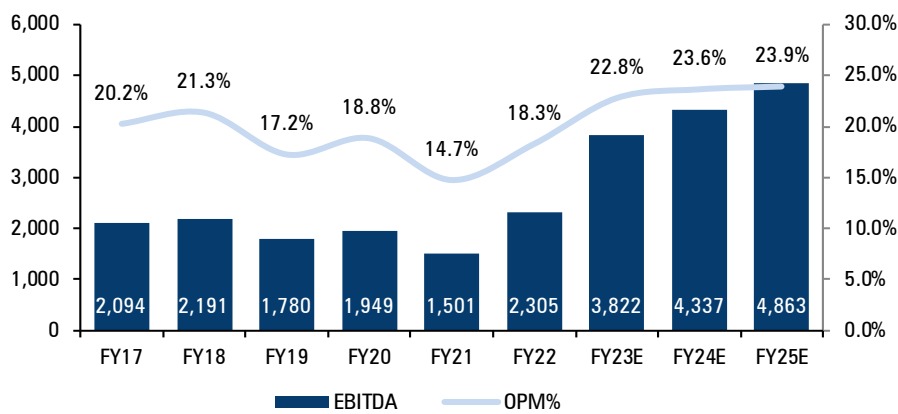
Source: ICICI Direct Research

Exhibit 7: Revenue trend (₹ crore)



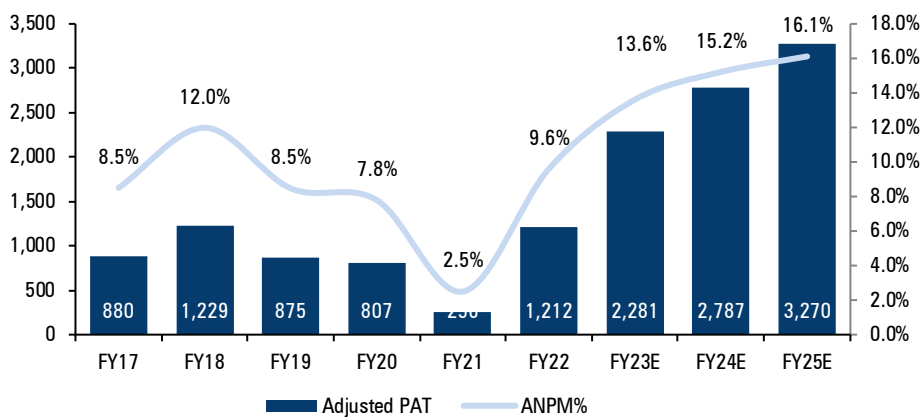
Source: Company, ICICI Direct Research

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



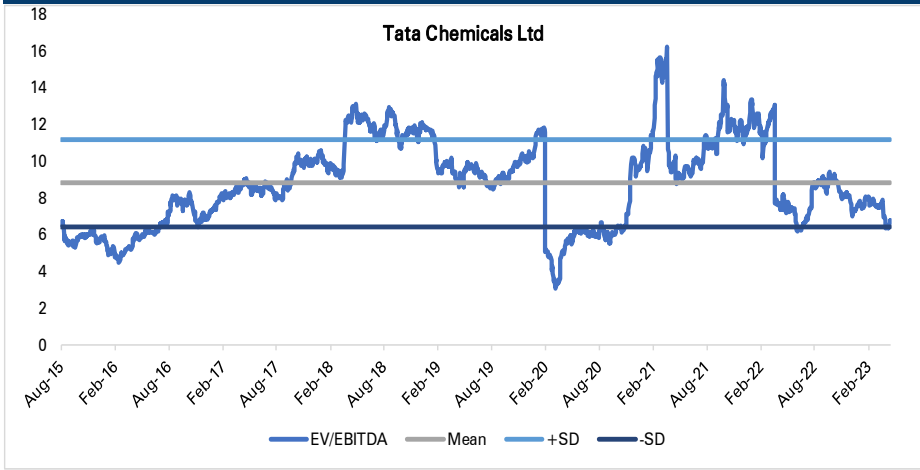
Source: Company, ICICI Direct Research

Exhibit 9: Adjusted PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: EV/EBITDA band



Source: ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore

Year end March	FY21	FY22	FY23	FY24E	FY25E
Total Operating Income	10,199.8	12,622.1	16,789.0	18,352.2	20,338.2
Growth (%)	-1.5	23.7	33.0	9.3	10.8
Raw Material Expenses	2,396.9	2,637.3	3,283.0	3,578.7	3,864.3
Gross Profit	7,802.9	9,984.8	13,506.0	14,773.5	16,473.9
Employee Cost	1,399.7	1,540.0	1,691.0	2,202.3	2,440.6
Other Operating Expenses	4,902.5	6,140.2	7,993.0	8,234.2	9,170.5
EBITDA	1,500.6	2,304.6	3,822.0	4,337.0	4,862.9
Growth (%)	-23.0	53.6	65.8	13.5	12.1
Other Income	234.4	256.0	218.0	240.0	260.0
EBITDA, including OI	1,735.1	2,560.6	4,040.0	4,577.0	5,122.9
Depreciation	759.3	806.1	892.0	1,032.0	1,083.8
Net Interest Exp.	367.4	302.8	406.0	325.1	218.7
Other exceptional items	0.0	-11.0	0.0	0.0	0.0
PBT	608.4	1,440.6	2,742.0	3,219.8	3,820.4
Total Tax	197.8	266.5	288.0	363.7	426.8
Tax Rate	32.5%	18.5%	10.5%	11.3%	11.2%
PAT	410.6	1,174.1	2,454.0	2,856.2	3,393.6
Adj.PAT after Minority interest	256.4	1,211.5	2,281.3	2,786.5	3,270.3
Adj. EPS (₹)	10.1	47.5	89.5	109.3	128.2
Shares Outstanding	25.5	25.5	25.5	25.5	25.5

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

Year end March	FY21	FY22	FY23	FY24E	FY25E
PBT & Extraordinary	634.0	1,684.9	2,722.0	3,459.8	4,060.4
Depreciation	759.3	806.1	892.0	1,032.0	1,083.8
After other adjustments					
(Inc) / Dec in Working Capital	323.3	-648.8	-679.0	-456.7	-134.8
Taxes	-96.3	-263.4	-407.0	-363.7	-426.8
Others	417.0	65.5	443.0	325.1	218.7
CF from operating activities	2,037.3	1,644.3	2,971.0	3,996.6	4,801.3
Purchase of Fixed Assets	-1,241.9	-1,276.8	-1,578.0	-965.0	-1,165.0
Others	111.6	440.7	392.0	70.0	0.0
CF from investing activities	-1,130.3	-836.1	-1,186.0	-895.0	-1,165.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Borrowings (Net)	-634.1	-40.5	-1,195.0	-1,570.0	-2,040.0
Others	-821.5	-714.8	-881.0	-605.6	-499.2
CF from financing activities	-1,455.6	-755.2	-2,076.0	-2,175.6	-2,539.2
Net cash flow	-548.6	53.0	-291.0	926.0	1,097.1
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0
Opening Cash	2,079.5	1,411.0	1,310.4	665.0	1,591.0
Closing Cash	1,411.0	1,310.4	665.0	1,591.0	2,688.1

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore

Year end March	FY21	FY22	FY23	FY24E	FY25E
Liabilities					
Share Capital	254.8	254.8	255.0	255.0	255.0
Reserves	14,035.2	17,998.1	19,466.0	21,972.0	24,961.8
Total Shareholders Funds	14,290.0	18,252.9	19,721.0	22,227.0	25,216.8
Minority Interest	852.6	904.5	921.0	1,230.6	1,594.0
Long Term Borrowings	5,388.1	3,860.5	5,677.0	4,177.0	2,177.0
Net Deferred Tax liability	1,572.1	2,036.5	1,935.0	1,935.0	1,935.0
Other long term liabilities	173.0	413.6	472.0	162.7	180.3
Long term provisions	1,598.1	1,279.3	1,454.0	3,161.0	3,503.1
Current Liabilities and Provisions					
Short term borrowings	1,544.5	3,164.1	619.0	549.0	509.0
Trade Payables	1,682.9	2,444.7	2,597.0	3,519.6	3,900.5
Other Current Liabilities	870.9	1,116.1	1,336.0	1,460.4	1,618.4
Short Term Provisions	365.1	371.2	352.0	384.8	426.4
Total Current Liabilities	4,463.4	7,096.0	4,904.0	5,913.8	6,454.3
Total Liabilities	28,337.2	33,843.3	35,084.0	38,807.1	41,060.5
Assets					
Net Block	12,971.3	13,974.1	14,885.0	17,004.0	17,085.2
Capital Work in Progress	1,034.7	1,589.6	2,351.0	165.0	165.0
Intangible assets under devl.	58.8	77.8	59.0	59.0	59.0
Goodwill on Consolidation	1,963.3	2,016.4	2,155.0	2,155.0	2,155.0
Non-current investments	4,252.3	6,357.5	6,178.0	6,178.0	6,178.0
Deferred tax assets	0.0	0.1	144.0	144.0	144.0
Long term loans and advances	10.7	0.0	0.0	14.2	15.7
Other Non Current Assets	1,400.4	1,082.9	1,148.0	1,223.2	1,350.0
Current Assets, Loans & Advances					
Current Investments	1,563.5	1,325.1	1,270.0	1,200.0	1,200.0
Inventories	1,686.6	2,293.5	2,532.0	3,368.8	3,733.3
Sundry Debtors	1,397.0	1,933.4	2,627.0	2,866.0	3,176.1
Cash and Bank	1,411.0	1,310.4	665.0	1,591.0	2,688.1
Loans and Advances	0.2	0.2	325.0	325.0	325.0
Other Current assets	587.5	1,882.5	745.0	2,514.0	2,786.1
Current Assets	6,645.7	8,745.0	8,164.0	11,864.7	13,908.6
Total Assets	28,337.2	33,843.3	35,084.0	38,807.1	41,060.5

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

Year end March	FY21	FY22	FY23	FY24E	FY25E
Per share data (₹)					
Adj. EPS	10.1	47.5	89.5	109.3	128.2
Adj. Cash EPS	39.9	79.2	124.4	149.7	170.7
BV	560.8	716.3	773.4	871.6	988.9
DPS	10.0	12.5	17.5	11.0	11.0
Operating Ratios (%)					
Gross Margin (%)	76.5	79.1	80.4	80.5	81.0
EBITDA Margin (%)	14.7	18.3	22.8	23.6	23.9
PAT Margin (%)	2.5	9.6	13.6	15.2	16.1
Debtor Days	50	56	57	57	57
Inventory Days	60	66	55	67	67
Creditor Days	60	71	56	70	70
Cash Conversion Cycle	50	52	56	54	54
Return Ratios (%)					
Return on Assets (%)	0.9	3.6	6.5	7.2	8.0
RoCE (%)	4.1	6.6	10.4	10.8	11.7
Core RoIC (%)	4.1	6.6	12.2	13.7	15.7
RoE (%)	1.8	6.6	11.6	12.5	13.0
Solvency Ratios					
Total Debt / Equity	0.5	0.4	0.3	0.2	0.1
Interest Coverage	2.7	5.8	7.8	10.9	18.5
Current Ratio	1.5	1.2	1.7	2.0	2.2
Quick Ratio	1.1	0.9	1.1	1.4	1.6
Valuation Ratios (x)					
EV/EBITDA	19.2	12.7	7.7	5.2	5.1
P/E	97.2	20.6	10.9	8.9	7.6
P/B	1.7	1.4	1.3	1.1	1.0
EV/Sales	2.8	2.3	1.7	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2182	2,550	Buy	64,894	63.5	58.3	73.6	34.4	37.4	29.7	21.3	22.4	17.9	23.8	18.9	21.0	22.1	17.7	19.0
PI Industries	3333	3,710	Buy	50,572	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Tata Chemical	965	1,170	Buy	24,642	93.0	97.3	110.6	10.4	9.9	8.7	6.6	5.5	5.4	11.8	11.3	11.7	11.6	11.0	11.2
Vinati Organics	2032	2,320	Hold	20,890	33.7	40.1	51.5	56.0	47.1	36.7	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	485	565	Buy	24,216	8.5	10.9	12.5	56.1	43.5	38.0	38.9	30.4	26.1	30.2	30.4	28.2	22.0	22.6	21.0
Navin Fluorine	3963	4,450	Hold	19,635	52.3	67.4	89.0	80.3	62.3	47.2	58.4	41.8	30.6	17.8	18.7	19.6	14.0	15.8	17.9
Rallis India	224	223	Hold	4,353	8.4	8.7	11.8	26.5	25.7	18.9	15.2	15.5	11.4	12.7	11.4	14.7	9.7	9.4	11.6
Sudarshan chemical	379	515	Hold	2,621	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1245	1,645	Buy	3,109	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	1710	2,215	Buy	3,356	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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