

Tata Chemicals

BSE SENSEX

38,129

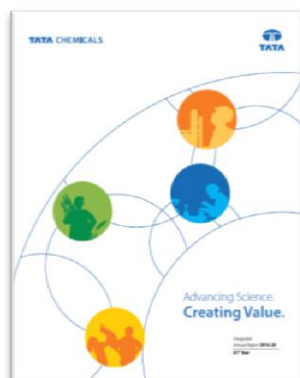
S&P CNX

11,194

CMP: INR302

TP: INR404 (+34%)

Buy



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Stock Info

Bloomberg	TTCH IN
Equity Shares (m)	255
M.Cap.(INRb)/(USD\$b)	78 / 1
52-Week Range (INR)	344 / 197
1, 6, 12 Rel. Per (%)	-10/3/20
12M Avg Val (INR M)	561
Free float (%)	65.4

Financials Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	103.6	104.5	117.8
EBITDA	19.5	19.5	22.7
Adj. PAT	8.1	7.3	9.7
EBITDA Margin (%)	18.8	18.7	19.3
Cons. Adj. EPS (INR)	31.7	28.6	38.0
EPS Gr. (%)	(6.4)	(9.5)	32.5
BV/Sh. (INR)	506	521	544

Ratios

Net D:E	0.3	0.3	0.3
RoE (%)	6.4	5.6	7.1
RoCE (%)	6.7	5.6	6.6
Payout (%)	42.7	47.2	40.5

Valuations

P/E (x)	9.5	10.5	8.0
EV/EBITDA (x)	6.4	6.3	5.4
Div. Yield (%)	3.6	3.6	4.1
FCF Yield (%)	(5.4)	9.6	8.2

Strong operational performance, barring Africa

Chinese firms increasing global supply

Tata Chemicals' (TTCH) FY20 Annual Report highlights its performance across key product categories and geographies. FY20 was a year of restructuring for TTCH as its Consumer Products division was demerged and merged with Tata Consumer Products (TCPL) with an equity swap ratio of 1:14. TTCH's revenue/EBITDA in FY20 grew 0.2%/9.5% to ~INR103b/INR19.5b. Key insights highlighted below:

Soda Ash sales muted in FY20

- TTCH India Soda Ash business reported revenue decline of 10% to INR14.8b, primarily due to significant 9% drop in volumes (to 634kMT) and 1% decline in realizations. This was due to an oversupplied market (incl. increased imports) and decline in Soda Ash prices.
- Tata Chemicals North America (TCNA) revenues declined marginally by 0.3% YoY to USD480m in FY20, mainly due to 1% drop in realizations (to USD215/MT). However, this was offset by marginal 0.6% increase in sales volume (to 2.23MMT). TCNA revenue (in INR terms) inched up 1% YoY to INR34b while EBITDA increased 8.5% YoY to INR7.4b.
- Its Europe operations' reported ~5% YoY revenue decline to GBP150m in FY20, which was mainly due to the 11% YoY fall in Soda Ash volumes (to 0.29MMT). However, this was partially offset by 1% YoY increase in Bicarbonate volumes (to 0.1MMT). The decline in sales volume was mainly due to the planned reduction in sales of low margin products, imported Soda Ash and lower electricity prices sold to the national grid. Tata Chemicals Europe (TCE) revenue (in INR terms) declined ~8% YoY to INR13.4b. However, EBITDA increased 44% YoY to ~INR2b.
- Tata Chemicals Magadi (TCML) production/sales volumes declined 9%/12% to 0.26/0.25 MMT. Revenue for the year declined 8% YoY to USD67.9m, due to significant drop in sales volumes. TCML's revenue (in INR terms) declined 9.7% YoY to INR4.6b while EBITDA declined 14% YoY to INR0.6b.
- Overall, Soda Ash/Bicarbonate revenues across regions reported revenue decline/growth of 2%/2% to INR58b/INR4.4b. This was largely due to an oversupplied market post lifting of the imposed restrictions on production in China. Bicarbonate resisted the downfall as it is a versatile product with applications across food additives, animal feed, pharmaceuticals, dyes, textiles and air pollution control.

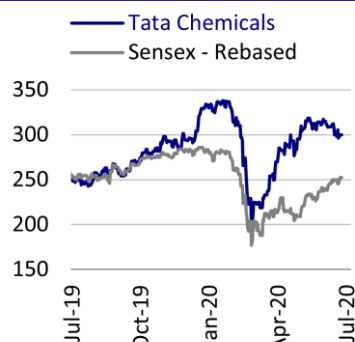
Operating profit across geographies grow, except for TCML

- Consol. EBITDA margin expanded by 160bp to 18.8%, mainly on account of strong operating performance in North America and the UK. Also, EBITDA in the S/A business expanded 260bp to 25%. S/A EBITDA grew 4.6% YoY to INR7.2b in FY20.

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	34.6	34.6	30.6
DII	32.0	34.2	37.7
FII	11.2	9.3	10.7
Others	22.2	21.9	21.0

FII Includes depository receipts

Stock Performance (1-year)

- Despite stagnant sales volume growth in FY20, TCNA EBITDA increased sharply by 7% YoY to USD105m, mainly due to improved production and reduced SG&A expenses. EBITDA margin expanded by 150bp to 21.8% while EBITDA per ton increased by 6% to USD46.9/MT.
- EBITDA for the Europe operations surged 48% YoY to GBP21.4m in FY20, majorly due to the lower base and 4% increase in realizations to GBP381/MT. EBITDA margin expanded by 510bp to 14.2%.
- TCML's EBITDA declined 16% YoY to USD8.3m, due to lower sales volumes and higher rail haulage charges; however, fixed cost was lower (v/s FY19).

Demerger of India Food business to streamline processes

- India Salt business' revenue declined 8% YoY (to INR8.1b) in FY20. However, the company saw record-high Salt production of 1.08MMT (v/s previous high of 1.07MMT in FY19), on the back of steady demand in the Indian market.
- Post-demerger of the Consumer Products division, the Salt business (branded) and *Tata Sampann* (Pulses, Spices, etc.) were transferred to TCPL (swap ratio of 1:14).
- In FY20, TTCH entered into a Long-Term Supply Agreement (LTSA) with TCPL for the supply of vacuum-evaporated edible Salt as a 'take or pay' arrangement for an initial period of 25 years.
- Expansion of capacity from 1MMT to 1.4MMT at the Mithapur facility in a phased manner should support volume growth.

Borrowings increase, CFO declines, WC stressed

- Borrowings increased sharply by 25% to INR77b (v/s INR61b in FY19), primarily due to the steep increase in short-term borrowings to finance the bridge loan and working capital requirements.
- Post demerger, while CFO declined 10% YoY to INR17.8b, FCF reduced to negative INR4.1b. This was due to an increase in the cash conversion cycle (CCC) from 97 days in FY19 to 100 days in FY20, which can be mainly attributed to increase in inventory/creditor days by 32/33 days (to 347/302 days).
- RoCE/ RoE declined by 40bp/ 100bp to 6.7%/ 6.4%, due to an increase in debt and lower profitability. However, RoIC increased marginally by 15bp to 7%.

Valuation and view

- We expect TTCH to deliver revenue/EBITDA at CARG of 7%/8% over FY20-22E.
- Soda Ash plants are operational across geographies, although at lower utilization levels (excluding the UK which is running at optimum utilization). This is likely to weigh down the company's performance in the near term. On the other hand, lower energy prices should aid operating performance.
- TTCH is incurring capex of INR24b at its Mithapur plant for various categories, which should come on-stream in a phased manner. The cash-cow business of TTCH – Soda Ash and Sodium Bicarbonate – is expected to remain steady (over the medium-to-long term). Cash generated from these businesses would be partially deployed toward the Specialty Chemicals segment.
- The company is trading at an implied EV/EBITDA of 5.8x/4.9x FY21/FY22E (adjusted for the market cap of Rallis India and quoted investments of TTCH).
- We value the stock on SOTP basis to arrive at a target price of **INR404**. Maintain **Buy**.

Exhibit 1: Valuation table

Business	Methodology	Metrics	FY22	Multiple (x)	EV/ MCAP (INR m)
Commodity (INR m)					
Inorganic Chemical India (Soda Ash & others) (Inc. mfg. Salt)	EV/EBITDA (x)	EBITDA	8,201	7.0	57,407
Tata Chemicals North America	EV/EBITDA (x)	EBITDA	7,789	7.0	54,520
Tata Chemicals Europe and Tata Chemicals Africa	EV/EBITDA (x)	EBITDA	2,857	5.0	14,286
Sub Total					1,26,213
Specialty and Consumer (INR m)					
Rallis India Ltd (Tata Chemicals hold 50%) (INR m)	20% discount to Current MCAP	Attributable Mcap	59,896	0.8	23,959
Total EV (INR m)					1,50,172
Less: Debt (INR m)					74,579
Less: Minority Interest (INR m)					7,638
Less: Pension Liability (INR m)					14,665
Add: Cash & Liquid investment (INR m)					36,239
Add: Value of quoted Investment (INR m)		Mcap	16,921	0.8	13,537
Target Mcap (INR m)					103,065
Outstanding share (m)					255
Target Price (INR)					404
CMP (INR)					302
Upside (%)					34%

Source: Company, MOFSL

Exhibit 2: Reverse valuation

INRm	FY21	FY22
EBITDA Calculation		
Consol EBITDA	19,531	22,722
Less: Rallis EBITDA	3,367	3,875
Balance EBITDA (Residual Biz.)	16,164	18,847
EV Calculation		
Current Mcap	76,956	76,956
Less: Rallis (Mcap adj for 20% disc)	23,959	23,959
Less: Other investments (Mcap with 20% hold co disc)	13,537	13,537
Add: Pension Liability	14,665	14,665
Add: Minority Interest (excluding Rallis MI)	593	593
Add: Net Debt	38,592	38,340
EV for Balance Business	93,311	93,058
EV/EBITDA (x) for residual biz	5.8	4.9

Source: Company, MOFSL

Exhibit 3: Revenue mix from various products (INR m) – Consolidated

Revenue from major products	FY19	FY20	Gr. YoY
Basic chemistry products			
Soda Ash	59,902	58,439	-2%
Salt	12,572	11,676	-7%
Bicarb	4,293	4,374	2%
Others	6,166	5,548	-10%
Specialty products			
Crop Protection (includes Fungicides, Herbicides and Insecticides)	14,815	17,235	16%
Seeds	3,112	3,643	17%
Others	2,336	2,411	3%
Unallocated	171	242	41%
	1,03,367	1,03,568	0.2%

Source: Company, MOFSL

Exhibit 4: Revenue mix from various products (INR m) – Standalone

	FY19	FY20	Growth YoY
Basic chemistry products			
Soda Ash	16,453	14,853	-10%
Salt	8,877	8,162	-8%
Bicarb	2,442	2,487	2%
Others	2,948	2,867	-3%
Speciality products	423	744	76%
Unallocated	70	90	28%
	31,213	29,203	-6%

Source: Company, MOFSL

Exhibit 5: Geographical segment revenue

Geographical Segment revenue	FY20				FY19			
	Basic chemistry products	Specialty products	Unallocated	Total	Basic chemistry products	Specialty products	Unallocated	Total
India	27,468	18,235	242	45,946	29,505	13,745	171	43,422
Asia (other than India)	3,537	1,875	-	5,412	5,481	3,745	-	9,226
Europe	13,057	167	-	13,224	14,015	4	-	14,018
Africa	3,092	293	-	3,385	2,807	304	-	3,112
America	32,783	2,710	-	35,493	31,016	2,356	-	33,372
Others	100	8	-	107	109	109	-	218
	80,037	23,289	242	1,03,568	82,933	20,263	171	1,03,367

Source: Company, MOFSL

Operational/Strategic milestones achieved in FY20

- Capex is ongoing for capacity expansion and debottlenecking at Mithapur with implementation in a phased manner. The focus is to rapidly expand essential products and align it with the company's new strategic initiatives due to the COVID-19 pandemic.
- Completed demerger of Consumer Products division with smooth transition of employees in order to become a focused science-driven chemistry company.
- Acquired balance 25% stake in Tata Chemicals (Soda Ash) Partners Holdings in North America from the Andover Group for USD195m to increase ownership to 100%.
- Operationalized and commenced trial production of 5,000MT green-field biotechnology (Fructo-Oligosaccharides) manufacturing unit at Nellore (Andhra Pradesh). Products are under global approval process.
- Commenced commercial production of non-rubber and rubber grade Silica at 900TPM Silica plant in Cuddalore (Tamil Nadu).
- Commenced commercial production of the first phase expansion (500MT) of Metribuzin plant. Second phase expansion (500MT) is underway.
- Secured land in Dholera (Gujarat) with support of the Gujarat government to set up a green-field manufacturing facility for the 'Energy Sciences' vertical.

Exhibit 6: Capex schedule across business segments

Planned Schedule (MT)					
Products	Soda Ash	Bicarb	Salt	Caustic	Cement
Existing	0.8 MMT	0.1MMT	1.0 MMT	9KMT	0.5 MMT
Dec19					
Mar20			140k		
Jun20	20k				
Sept20				9k	
Dec20					
Mar21			20k		300k
Jun21	25k				
Sept21		35k			
Dec21					
Mar22	155k		240k		
Planned	1.0 MMT	0.14 MMT	1.4 MMT	18 KMT	0.8 MMT

*3QFY20 Investor Presentation Source: Company, MOFSL

MD & CEO's message

- Achieved significant progress during the year in becoming a sharply focused science and chemistry-led organization.
- The company's key strategy is to build scale and value in businesses such as:
 - Performance Materials (Soda Ash, marine chemicals, silica and nano products),
 - Nutritional Sciences (food and pharma-grade Salt and bicarb, ingredients and formulations, prebiotics, probiotics and natural extracts),
 - Agri-Sciences (crop care, seeds – through its subsidiary Rallis), and
 - Energy Sciences (battery recycling, actives and battery storage).
- TTCH has acquired balance 25% stake in Tata Chemicals (Soda Ash) Partners in North America for USD195m, resulting in a simpler organization structure and greater degree of strategic freedom.
- Plants in India and the UK have managed to keep up with demand for salt. Aim is to accelerate capex to support growth in these markets. Expansion and investments in food and pharma-grade Bicarbonate is progressing on schedule in the UK and India.
- Aim is to continue to drive value through innovation, digitalization and sustainability across five business units. The company will continue to invest in R&D labs in Pune and Bengaluru to bring new products and offerings to customers.
- While the company expects market conditions to remain challenging, TTCH is well positioned to emerge stronger by leveraging its global supply chain.

Energy Services

- In a bid to venture into the Energy business, TTCH aims to capitalize on the emerging opportunities in electric vehicles (EVs) and stationary applications. TTCH aims to focus on active materials manufacturing, cell and battery manufacturing and recycling critical materials from used batteries.
- The company has collaborated with leading global battery makers for contemporary and next generation chemistries and Indian Research Institutes (ISRO, CSIR-CECRI, etc.). TTCH has also partnered with Tata Technologies to establish its own Battery Engineering Centre in Pune.
- TTCH's investment into the segment (EV battery) is in sync with the pace of transition to EVs in the auto sector. It has begun operations of its Battery Recycling unit.
- In FY20, TTCH commenced pilot scale Lithium-ion battery recycling operations and commercial sale of recovered, metal Salts.
- By CY21, the company aims to build a <1GW cell line with technology partnership/collaboration with a global leader.

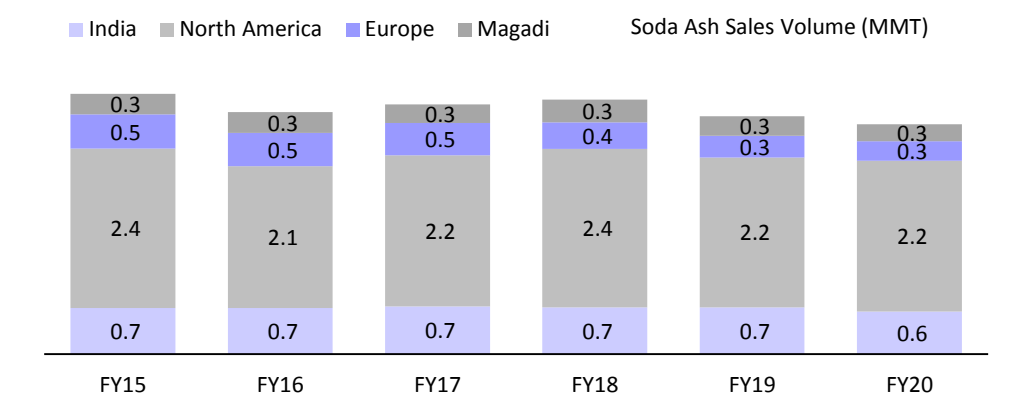
Industry and segment performance – Soda Ash

Global Soda Ash – China's re-entry to increase supply

- Global Soda Ash demand is estimated to have increased 4% YoY to 62.5MMT in FY20 (v/s demand of ~60MMT in FY19).
- China saw sharp domestic demand resurgence in FY20 (up 8% YoY), which led to ~2.5MMT increase in annual global consumption. China's demand in FY19 was muted due to imposition of restrictions on polluting industries.
- Having overcome environmental inspections and hurdles, production in China started to normalize in FY20. Yearly domestic demand bounced up 8%, despite the early onslaught of COVID-19 and the associated disruptions. Further, China's exports too returned to growth at 14.4lac tons.
- Turkey also saw sharp increase in exports due to plants working at full capacities. Turkey registered 23% increase in FY20 exports, which added an additional 7MMT to global material availability.
- World Soda Ash capacities stood at 70MMT (same as in FY19). However, global markets were oversupplied despite any significant addition of new capacity, due to higher operating rates in India, China and Turkey.

Soda Ash business

- Overall Soda Ash (Tata Chemicals) declined 2% YoY to INR58.4b due to increased supply across geographies.
- North America continues to dominate the soda ash business with 5-year average contribution of 62%. Contribution of North America in FY20 stood at 66%.

Exhibit 7: North America dominating the Soda Ash business of TTCH

Source: Company, MOFSL

Exhibit 8: Soda Ash production and utilization trend

Soda Ash Production (In 000' MT)	FY15	FY16	FY17	FY18	FY19	FY20
India	798	810	816	817	817	791
Utilization (%)	87.0	88.3	88.9	89.0	89.0	86.2
NA	2,316	2,122	2,216	2,367	2,194	2,269
Utilization (%)	92.6	84.9	88.6	94.7	87.8	90.8
Europe	511	361	370	350	333	348
Utilization (%)	121.7	86.0	88.1	83.3	79.3	82.9
Magadi	372	311	300	324	289	262
Utilization (%)	51.6	88.9	85.7	92.6	82.6	74.9

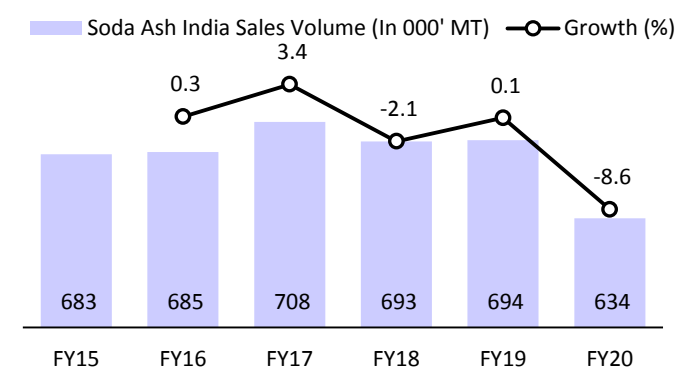
Source: Company, MOFSL

India soda ash – Oversupply, decline in prices impacts realizations

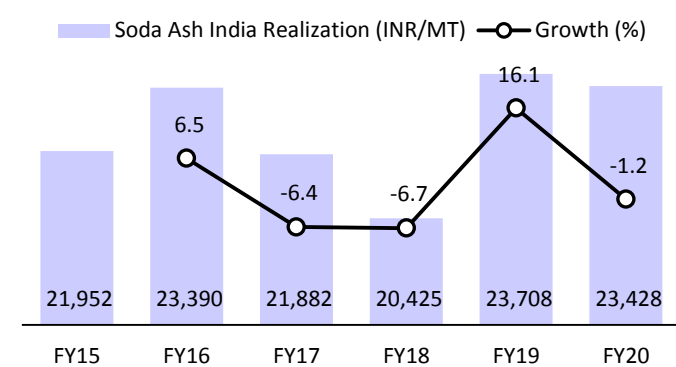
- Indian Soda Ash market remained flat in FY20 (v/s growth of ~3% in FY19) and was oversupplied, largely during the latter part of FY20. This was primarily due to operationalization of new capacities (added in FY19) and increase in imports.
- Oversupply coupled with slow consumption led to inventory accumulation. Also, the oversupply globally led to softening of international and domestic prices, which resulted in lower unit price realization.

TTCH India – Weaker Soda Ash sales lead to subdued market conditions

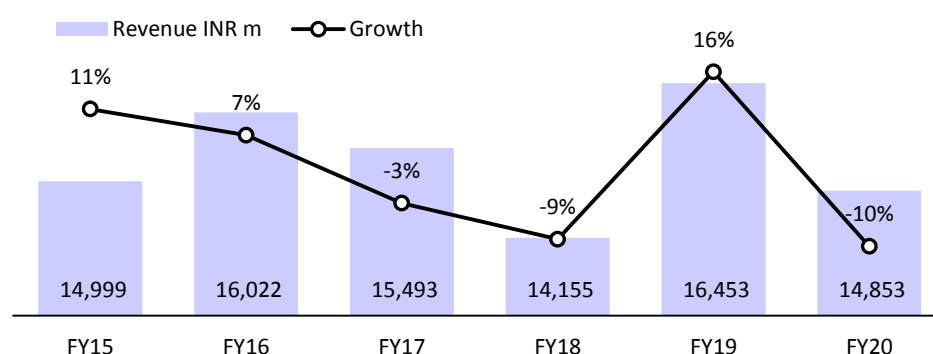
- Production volumes of soda ash at Mithapur plant declined 3% YoY (to 0.8MMT), while sales volumes saw bigger fall of 9% YoY (to 0.63MMT) in FY20.
- Amidst oversupplied market conditions, the company increased availability of the product to customers through imports from its subsidiaries viz. TCNA Inc. and Tata Chemicals Magadi to meet requirements of the domestic market.
- Soda Ash India sales declined 10% to INR14.8b, primarily due to drop in sales volume and reduction in average realization by 1% to INR23,428MT.

Exhibit 9: Soda Ash sales volume declines 9% YoY

Source: Company, MOFSL

Exhibit 10: Realizations dip 1% YoY (in INR)

Source: Company, MOFSL

Exhibit 11: India Soda Ash revenue declines 10% YoY (in INR)

Source: Company, MOFSL

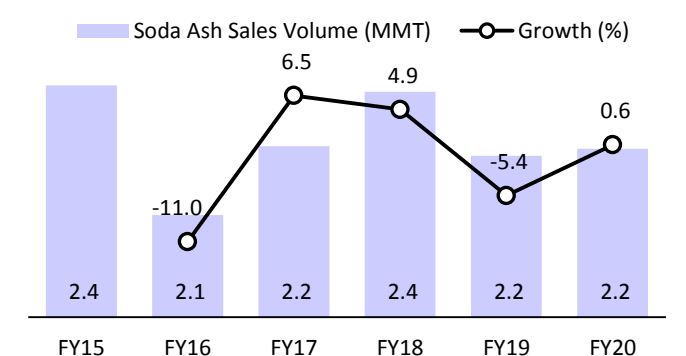
North America – Lower domestic consumption, but marginally high exports

- Domestic demand in the US reduced 2.4% YoY; on the contrary, exports marginally jumped 0.8% in FY20.
- US exports to North-East Asia (NEA), Africa, the Middle East, South America and Western Europe were lower, which was offset by increase in exports to South-East Asia, North America and the Indian subcontinent.

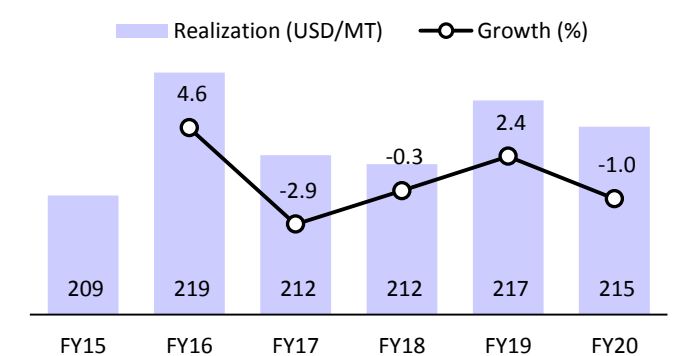
Tata Chemicals North America – Subdued revenue growth offset by strong operating performance

- TCNA's production volumes saw 3.4% YoY growth in FY20 on account of improved efficiency in the plant. However, this was offset by short-term oversupply of Soda Ash in the global market, coupled with demand reduction in the latter part of the year due to the COVID-19 pandemic.
- Reduced production volumes in the latter part of the fiscal year were able to match the sales volume demand of FY20. However, the company believes sales demand to be lower by 10-20% in FY21, largely due to GDP regression in the market. Hence, there are plans to reduce production volumes accordingly in FY21.
- Overall sales volumes were flat in FY20 (up 0.6% YoY). Despite increased production, temporary oversupply along with COVID-19 has led to lower sales volumes.

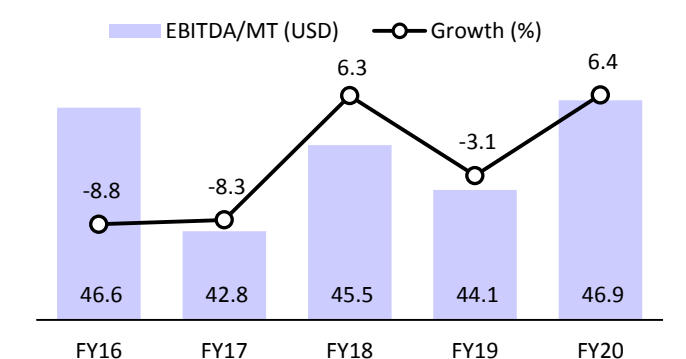
- TCNA's revenue declined marginally by 0.3% YoY to USD480m in FY20, mainly due to 1% decline in realizations (to USD215/MT). However, this was offset by a marginal 0.6% increase in sales volume (to 2.23MMT).
- EBITDA saw sharp increase of 7% YoY to USD105m, even after stagnant sales volume growth in FY20. This was due to improved production and reduced SG&A expenses. Also, the company realized full-year benefit of relocating its corporate offices and adopting the new US GAAP accounting standard (which changed accounting for operating leases, treating those costs as depreciation as against operating expenses in prior years). EBITDA per ton increased by 6% to USD46.9/MT.
- TCNA's revenue (in INR terms) inched up 1% YoY to INR34b. EBITDA increased 8.5% YoY to INR7.4b. EBITDA margin increased by 150bp to 21.8%.
- In FY20, TTCH acquired the balance 25% stake in Tata Chemicals (Soda Ash) Partners Holding in North America for USD195m. It is now a fully-owned subsidiary, resulting in a simpler organization structure and greater degree of strategic freedom.

Exhibit 12: Soda Ash sales volumes increased marginally

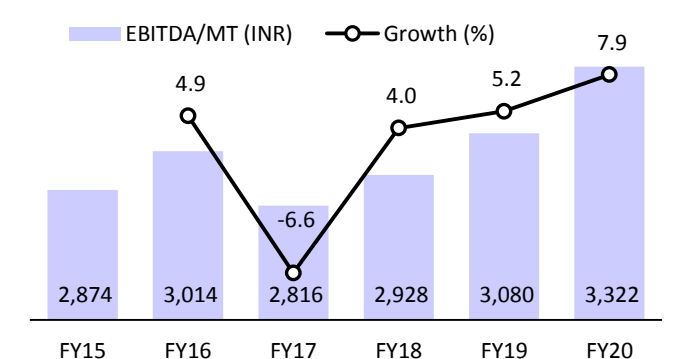
Source: Company, MOFSL

Exhibit 13: Realizations decline 1% YoY (in USD)

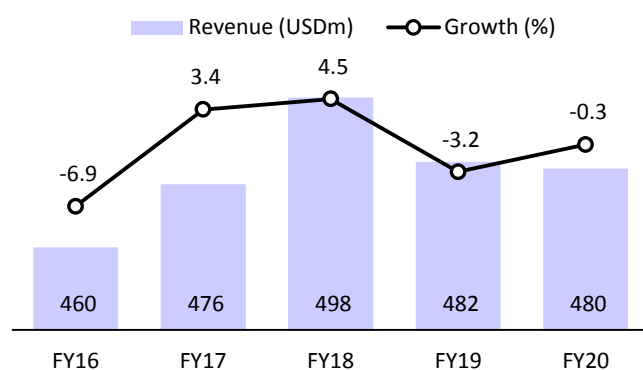
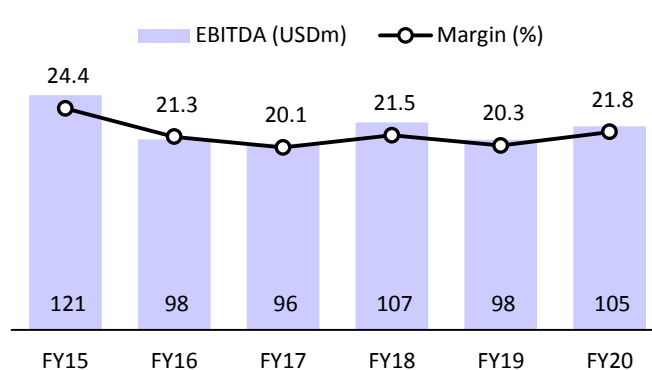
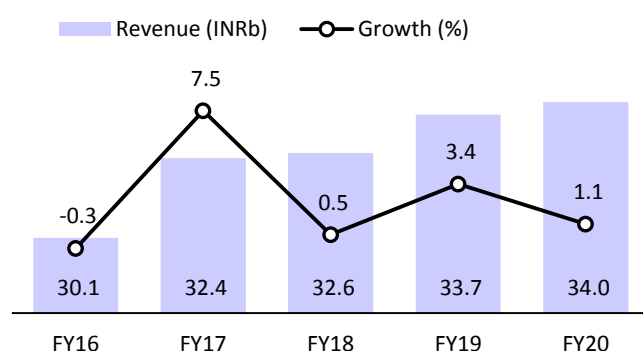
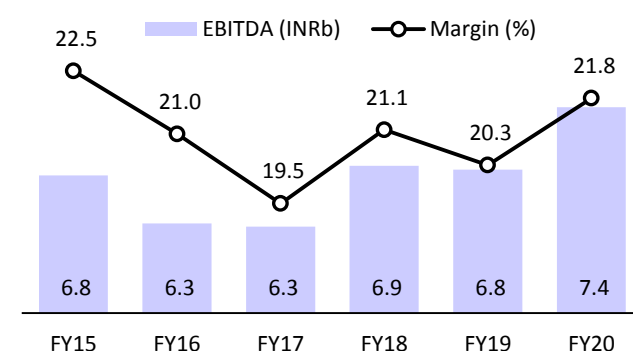
Source: Company, MOFSL

Exhibit 14: EBITDA/MT increase 6.4% YoY (in USD)

Source: Company, MOFSL

Exhibit 15: EBITDA/MT increase sharply by ~8% YoY (in INR)

Source: Company, MOFSL

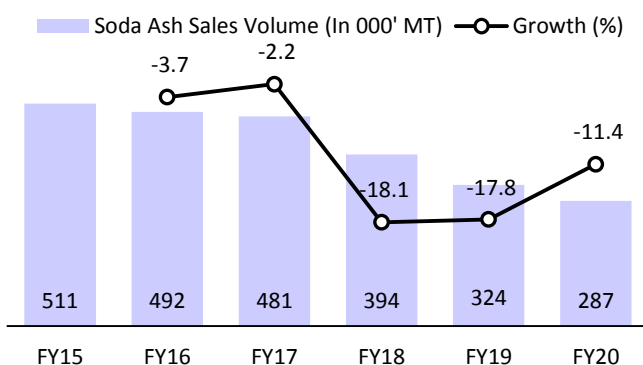
Exhibit 16: Revenue declines marginally YoY (in USD)**Exhibit 17: EBITDA margin expands by 150bp (in USD)****Exhibit 18: Revenue was up 1.1% YoY (in INR)****Exhibit 19: EBITDA margin expanded by 150bp (in INR)**

Source: Company, MOFSL

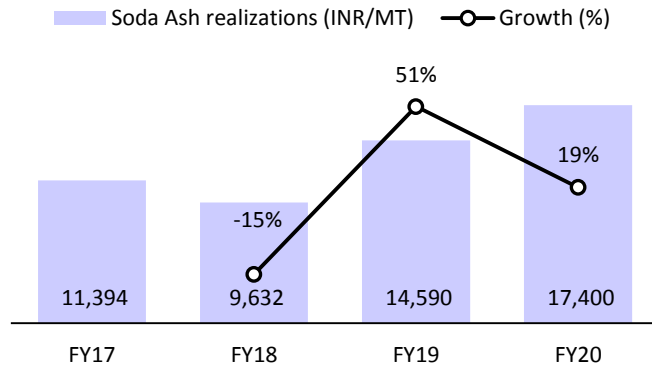
Source: Company, MOFSL

Tata Chemicals Europe – Increasing focus toward higher margin products

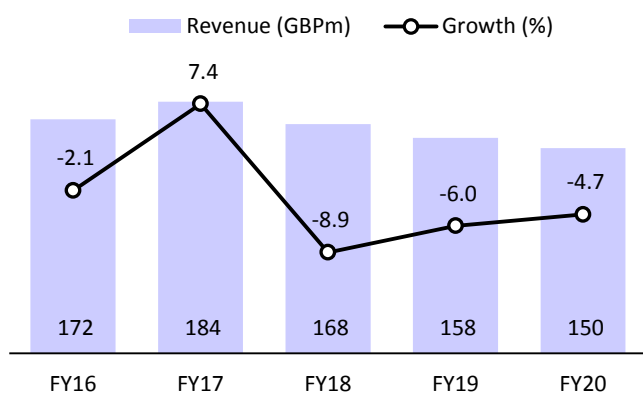
- UK operations' revenue declined ~5% YoY to GBP150m in FY20, primarily due to 11.4% YoY drop in Soda Ash volumes (to 0.29MMT). However, this was partially offset by the marginal 1% YoY increase in Bicarbonate sales volumes (to 0.1MMT). Soda Ash revenue increased ~6% YoY to INR5b.
- Decline in sales volume was mainly due to the planned reduction in sales of low margin products, imported Soda Ash and reduction in electricity prices sold to the national grid.
- EBITDA for UK operations increased significantly by 48% YoY to GBP21.4m in FY20, due to change in the sales mix and lower natural gas prices
- TCE's revenue (in INR terms) declined ~8% YoY to INR13.4b. However, EBITDA increased 44% YoY to ~INR2b. EBITDA margin increased by 510bp to 14%.

Exhibit 20: Soda Ash sales volume declines 11% YoY

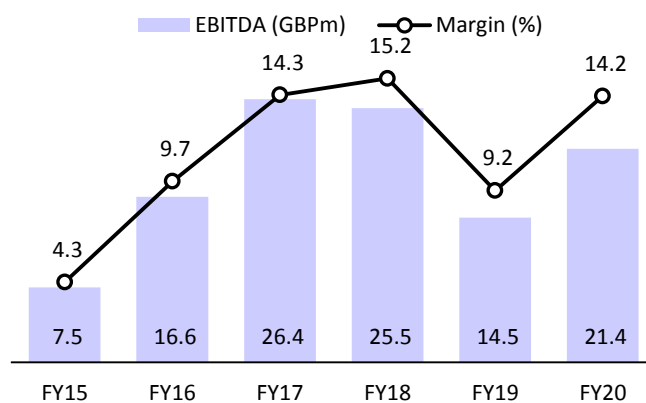
Source: Company, MOFSL

Exhibit 21: Soda Ash realizations improve 19% YoY (in GBP)

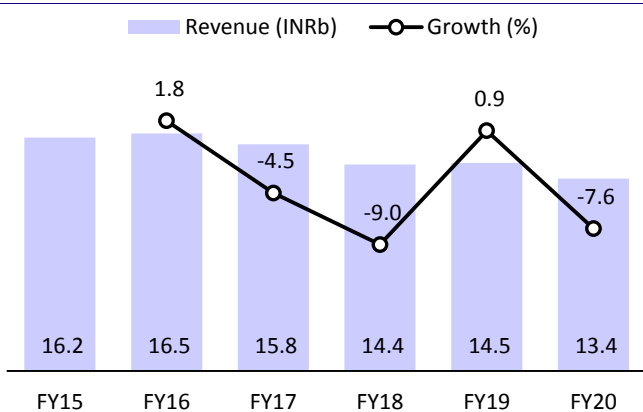
Source: Company, MOFSL

Exhibit 22: Revenue declines ~5% YoY (in GBP)

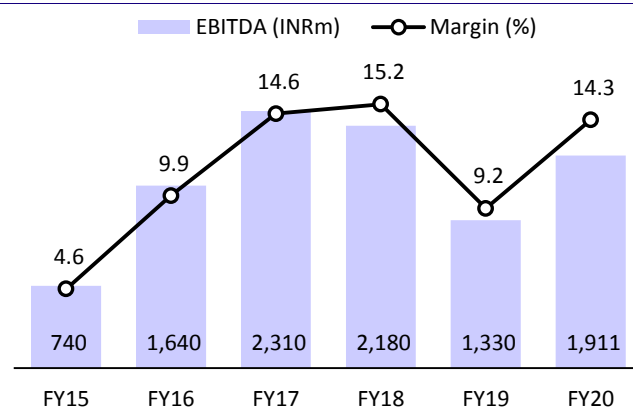
Source: Company, MOFSL

Exhibit 23: EBITDA margin expands by 240bp (in GBP)

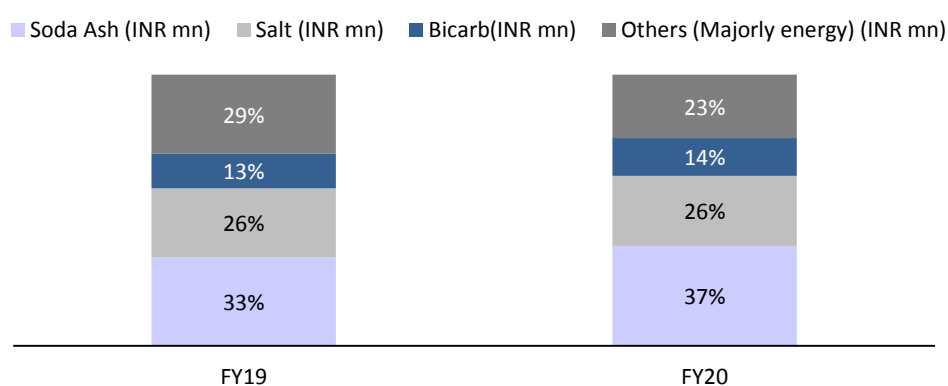
Source: Company, MOFSL

Exhibit 24: Revenue declines ~8% YoY (in INR)

Source: Company, MOFSL

Exhibit 25: EBITDA margins expand by 510bp (in INR)

Source: Company, MOFSL

Exhibit 26: TCE's revenue mix

Source: Company, MOFSL

Tata Chemicals Magadi – higher haulage charges dent operating performance

- In FY20, production/sales volumes reduced 9%/12% to 0.26/0.25 MMT. Revenue for the year reduced 8% YoY to USD67.9m, due to significant drop in sales volumes.
- EBITDA declined 16% YoY to USD8.3m, due to lower sales volumes and higher rail haulage charges. However, fixed costs were lower v/s previous year.
- In FY19, the Kenyan government issued a demand during the year for an arbitrary increase in land rates, which was subsequently struck down by the local court. Further, TCML filed an appeal for reconsideration of the other issues raised in the petition. TCML is open to work with the appropriate national authorities and the country's government to arrive at a fair, transparent and appropriate resolution through legal means.
- TCML's revenue (in INR terms) declined ~10% YoY to INR4.6b. EBITDA declined 14% YoY to INR0.6b while EBITDA margin decreased by 70bp to 12.9% YoY.

Exhibit 27: Sales volume declines 12% YoY

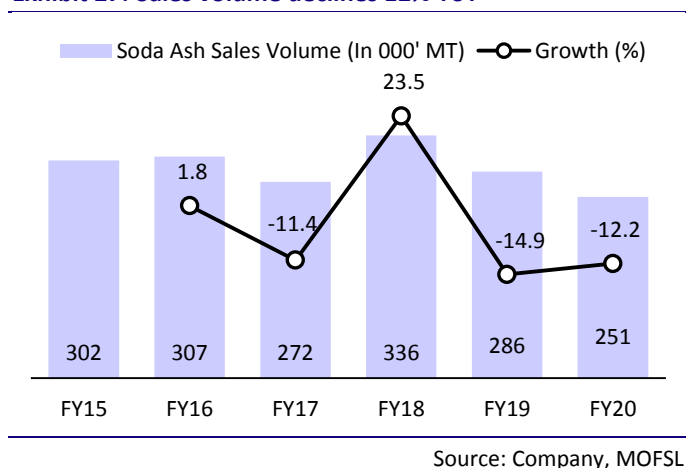


Exhibit 28: Realization improves 2.5% YoY (in USD)

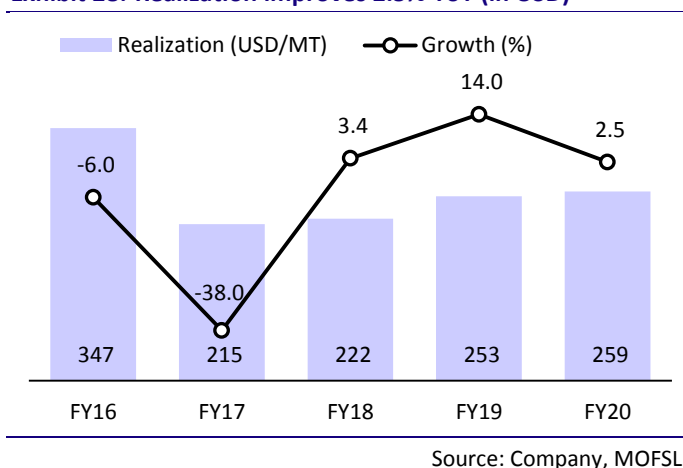


Exhibit 29: EBITDA/MT declines 6% YoY (in USD)

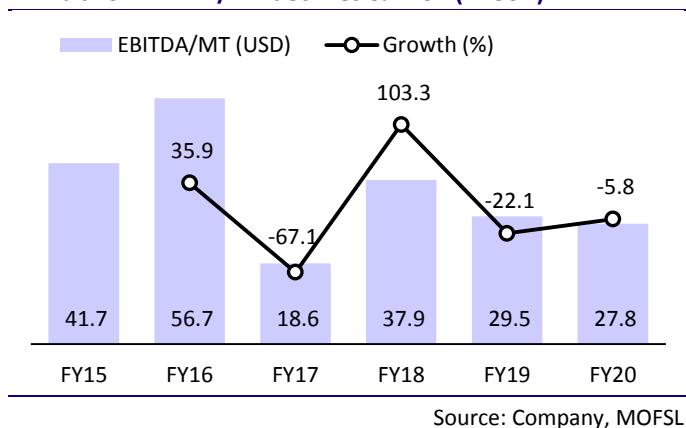


Exhibit 30: EBITDA/MT declines 5% YoY (in INR)

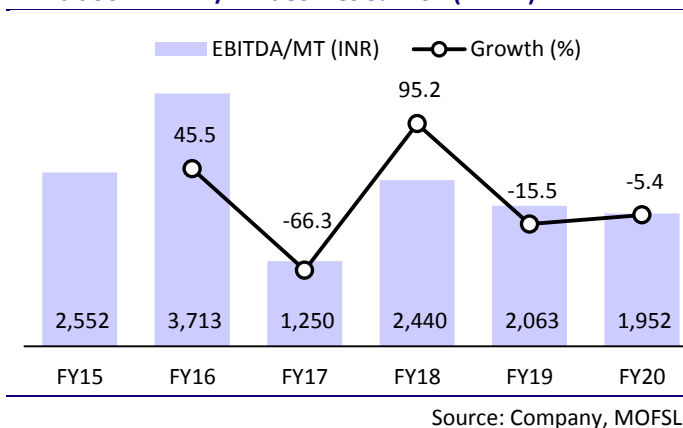
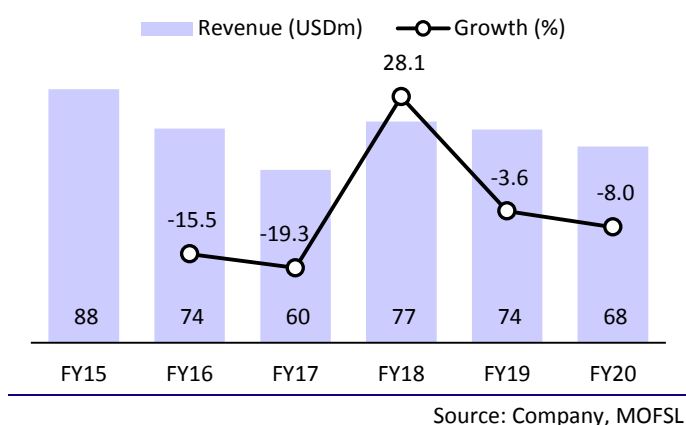
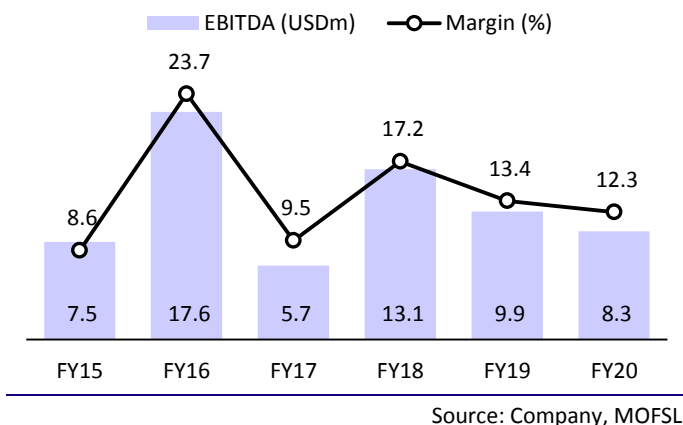
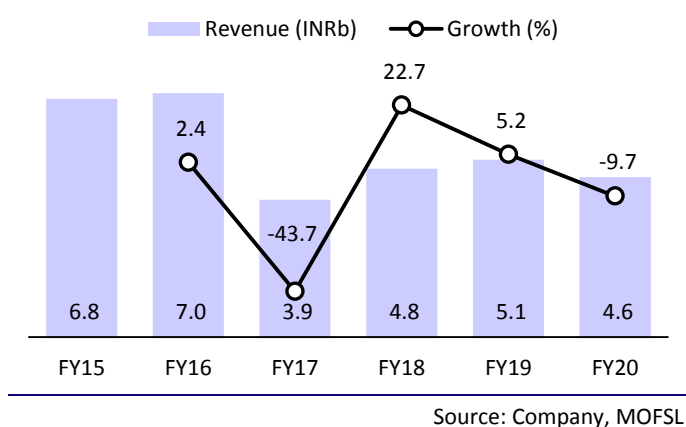
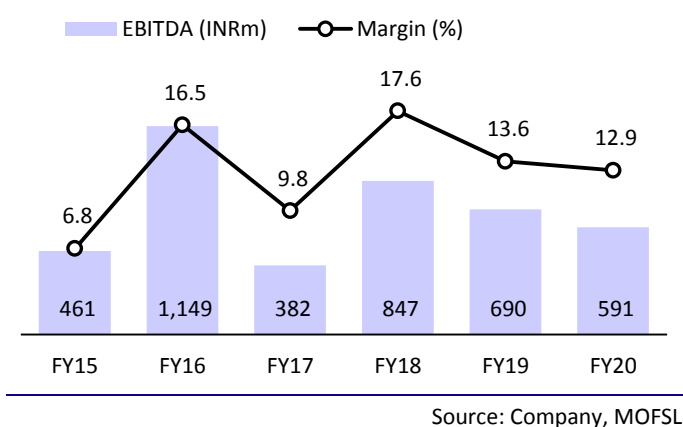


Exhibit 31: Revenue declines 8% YoY (in USD)**Exhibit 32: EBITDA margin contracts by 110bp (in USD)****Exhibit 33: Revenue declines 10% YoY (in INR)****Exhibit 34: EBITDA margin contracts by 70bp (in INR)**

Industry and segment performance – Sodium Bicarbonate

Global Sodium Bicarbonate market

- Sodium Bicarbonate (Bicarb) is a versatile product, which finds applications in an array of products including food additives, animal feed, pharmaceuticals, dyes, textiles and air pollution control.
- Due to its wide range of applications coupled with newer applications, the company believes that Bicarb volume growth should be above normal GDP growth.
- TTCH is the sixth largest producer of Bicarb globally with a total annual capacity of 0.23MMT in India and the UK.

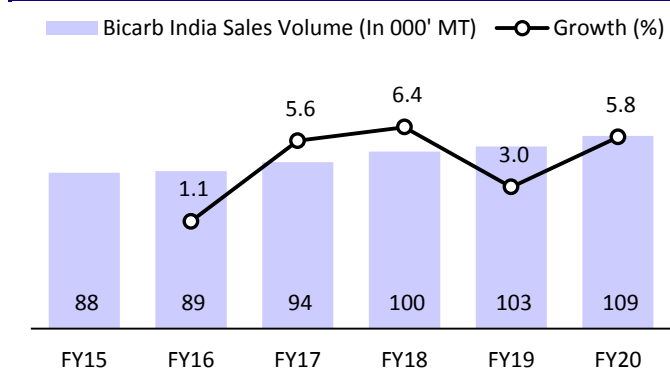
India Sodium Bicarb market

- India Bicarb market grew ~7% in FY20 (in-line with FY19's growth rate of 6%).
- Domestic demand for Bicarb was balanced throughout the year. Imports in FY20 stood at similar level of previous year's 35,000MT.
- Increase in supply along with softening of global prices led to 8% decline in prices.

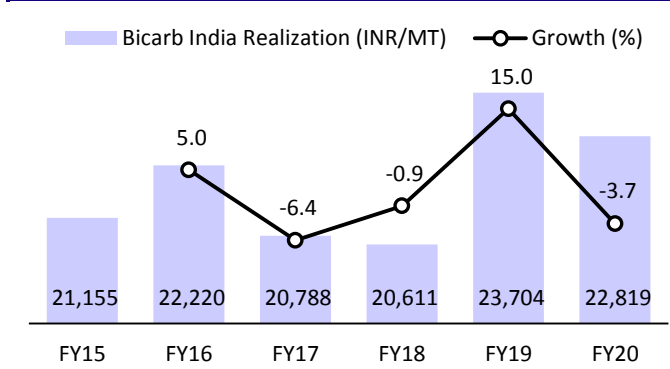
Tata Chemicals India – Robust volume and realizations growth

- TTCH's Sodium Bicarbonate production volumes grew 7% YoY (to 0.11MMT) in FY20. Demand was supported by adequate domestic supply.

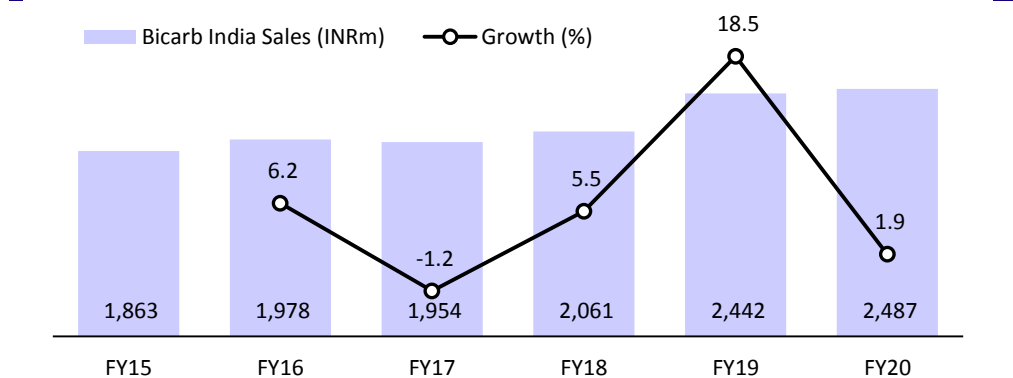
- Domestic business' sales volumes/revenue recorded 6%/2% growth to 0.1MMT/INR2.4b. However, it was offset by 4% realization decline to INR22,819/MT.
- Going forward, its key strategy remains focusing on (a) value proposition through differentiation, and (b) Bicarb brands that are customized and targeted toward consuming sectors.
- Sodium Bicarbonate's branded products registered sales volume growth of 23% in FY20. With support from food and feed segments, TTCH's *Sodakarb* and *Alkakarb* brands gained further traction. The pharma-grade Sodium Bicarbonate brand *Medikarb* is also picking up with increased penetration.

Exhibit 35: Sales volume increases 6% YoY

Source: Company, MOFSL

Exhibit 36: Realization drops ~4% YoY

Source: Company, MOFSL

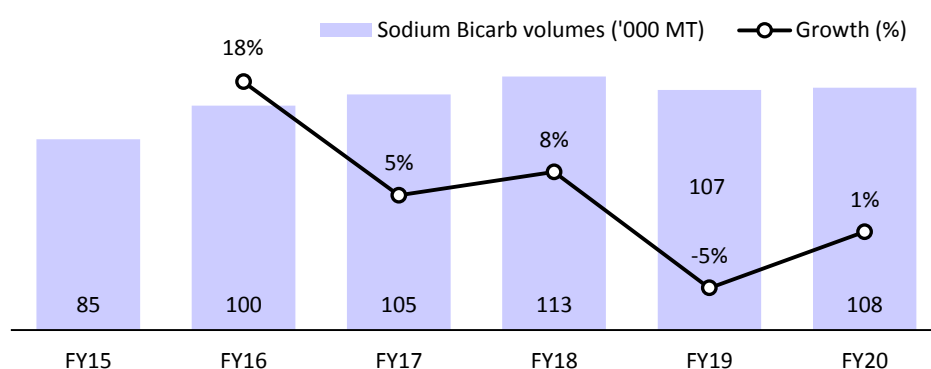
Exhibit 37: India Bicarb sales increases 2% YoY

Source: Company, MOFSL

Tata Chemicals Europe – strong domestic and exports demand

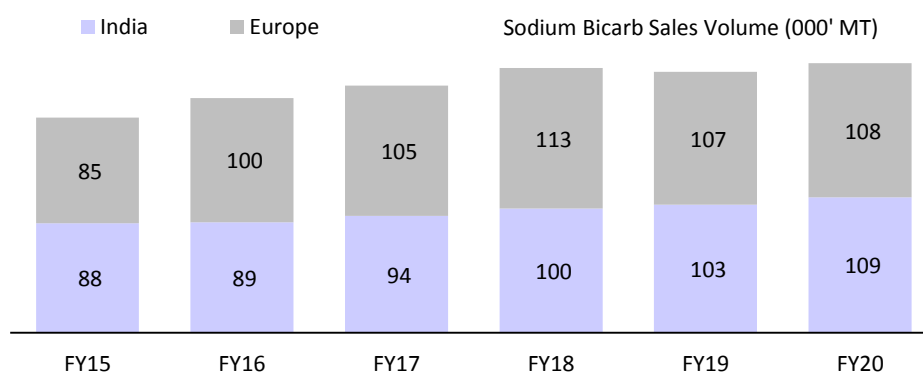
- Sodium Bicarbonate sales were strong during the year, namely from the Winnington plant.
- Domestic demand also surged in the UK. Strong demand was reported from the export markets, especially Europe.
- Sales volumes increased a marginal 1% YoY to 108kMT, whereas Sodium Bicarbonate revenue increased 2% to INR1.8b.
- Sodium Bicarb production volumes increased by 1% YoY to 109kMT, with capacity utilization of 99%.

Exhibit 38: Sodium Bicarb sales volume trend



Source: Company, MOFSL

Exhibit 39: Sodium Bicarb sales volume trend



Source: Company, MOFSL

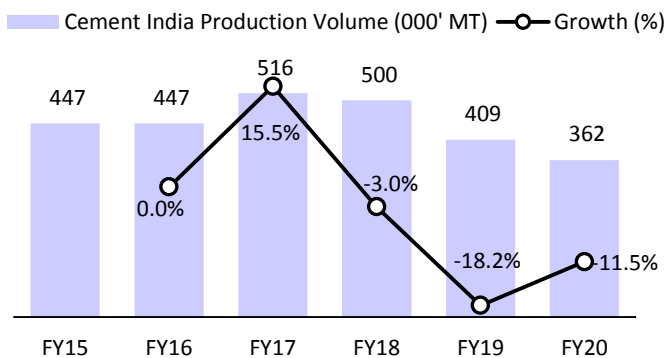
TTCH Cement India – Production/sales volume drop 11%/2%

- In FY20, cement and clinker production volumes declined 11% YoY (to 0.36MMT), however, sales volume declined marginally by 2% YoY (to 3.95kMT).
- This was due to higher acceptability and increased penetration of newly launched Ordinary Portland Cement (OPC). Also, volume stabilization of Portland Pozzolana Cement (PPC) helped improve cement realizations.

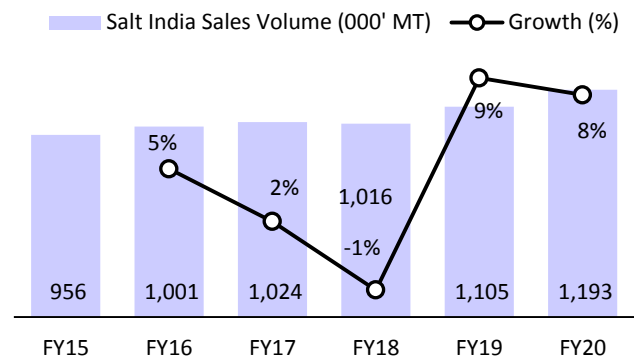
TTCH Salt – Streamlining operations post demerger

- Demand for Salt remains robust as it is an essential product. TTCH's Long-Term Supply Agreement (LTSA) with TCPL should support the company's growth and investment plans for capacity-building.

- India Salt production stood at 1.08MMT (v/s previous record-high of 1.07MMT in FY19). Further, the company is aiming to increase existing production capacity to meet growing demand of the Indian market. Expansion of capacity from 1MMT to 1.4MMT at the Mithapur facility in a phased manner should support volume growth.
- Overall production has inched up 1% YoY to 1.07MMT with capacity utilization at 127%.
- India Salt business declined 8% YoY (to INR8.1b) in FY20.

Exhibit 40: Cement production declines 11% YoY

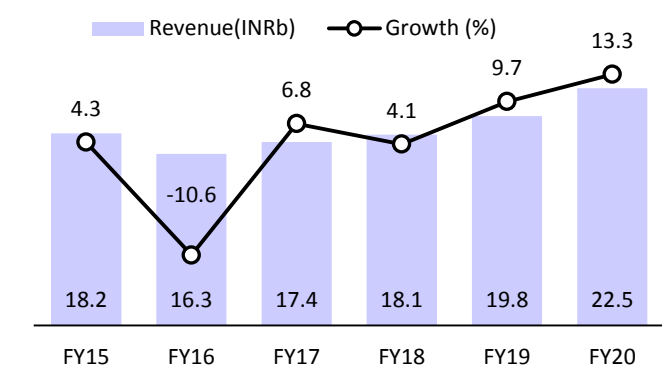
Source: Company, MOFSL

Exhibit 41: India salt sales volumes up 8% YoY

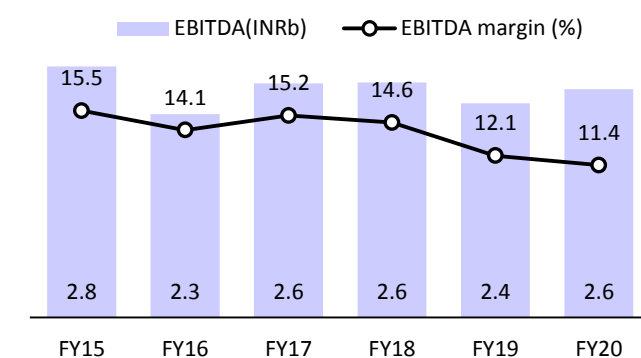
Source: Company, MOFSL

Rallis India

- In FY20, Rallis India achieved revenue growth of 13.5% YoY (to INR22.5b). Domestic business achieved topline growth of 17% YoY (to INR11.6b), on the back of higher traction from insecticides sales, as its market reported 8% growth in FY20. Also, higher use of insecticides (contributes 50% to total crop protection) compared to fungicides/herbicides (contributes 20%/18% to crop protection), is expected to further support Rallis India's sales volume growth.
- Further, Rallis India's international business reported 11% revenue growth (to INR7.2b). Growth was due to higher demand from North America and LATAM, namely, Brazil and the USA.
- The company also gained six new registrations in the overseas markets which are expected to drive demand going forward.
- EBITDA margins contracted by 70bp to 11.4% in FY20; however, EBITDA stood at INR2.5b, up 7% YoY.

Exhibit 42: Revenue CAGR of 4% over FY15-20

Source: Company, MOFSL

Exhibit 43: EBITDA margin contracted by 70bp

Source: Company, MOFSL

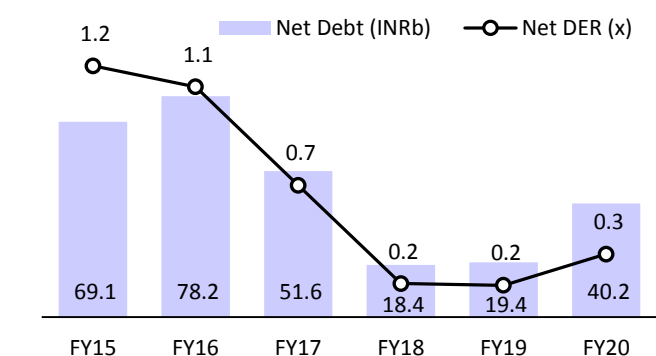
Tata NQ

- *Tata NQ* is a brand under the Nutritional Science division, under which the company offers nature-inspired and science-backed ingredient and formulation solutions catering to human and animal health. The flagship product lines – *Tata NQ FOSSENCE* and *Tata NQ GOSSENCE* – are prebiotic dietary fibers that promote growth of gut micro-biome and improve digestive and immune health.
- FY20 was a phenomenal year for this division as the state-of-the-art green-field Nellore plant (Andhra Pradesh) was operationalized. The new capacity is expected to substantially increase capacity in order to serve customers globally.
- In FY20, *Tata NQ*'s revenue grew 58% to INR650m with customer base increasing to 250+.

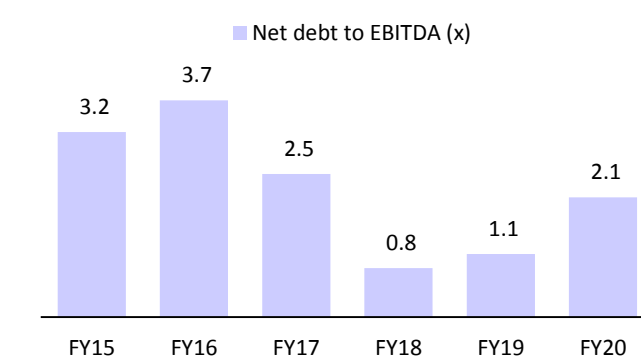
Financials

Rise in debt to fund WC requirements

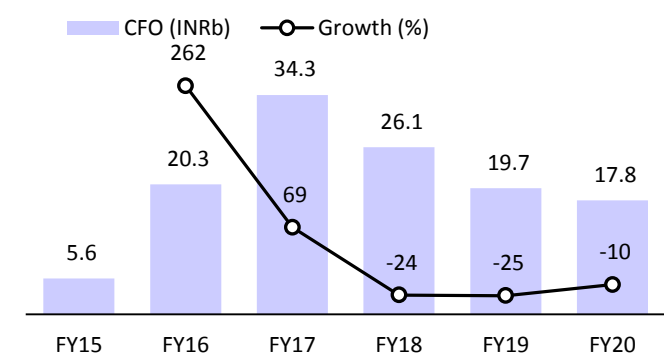
- Total borrowings increased sharply by 25% to INR77b in FY20 (v/s INR61b in FY19). This was primarily due to the sharp increase in short-term borrowings to finance bridge loan and working capital requirements. Net debt-to-equity increased from 0.2x in FY19 to 0.3x in FY20.
- Cash flow from operations declined 10% YoY to INR17.8b due to increase in cash conversion cycle (CCC) from 97 days in FY19 to 100 days in FY20. The increase in CCC can be attributed to rise in inventory/creditors days by 32/33 days.

Exhibit 44: Net debt-to-equity

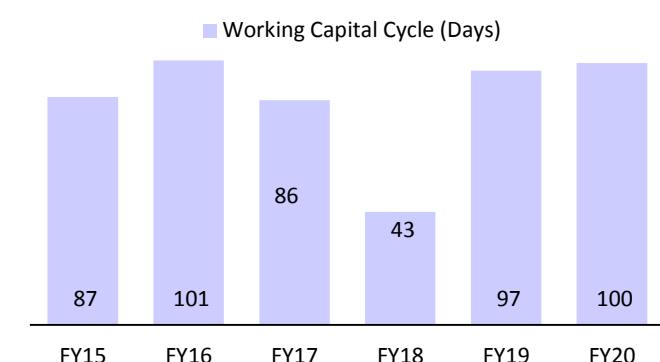
Source: Company, MOFSL

Exhibit 45: Net debt-to-EBITDA

Source: Company, MOFSL

Exhibit 46: Cash flow from operations

Source: Company, MOFSL

Exhibit 47: Working capital cycle

Source: Company, MOFSL

Exhibit 48: Cash conversion cycle

Working Capital Ratios	FY19	FY20
Inventory (days)	315	347
Receivables (days)	51	56
Payables (days)	269	302
Cash conversion cycle	97	100

Source: Company, MOFSL

Exhibit 49: TTCH recognized gain of INR62b on disposal of the Consumer Products division

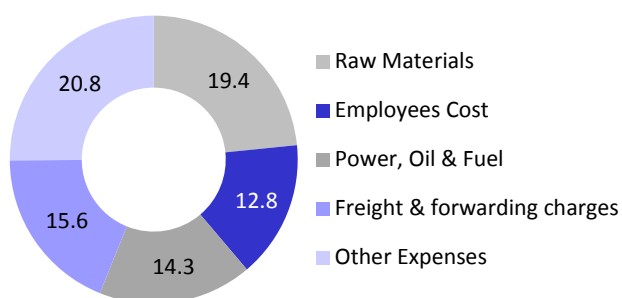
INRm	Consumer products business
Cash consideration received (net of cost to sell)	-
Consideration (deemed dividend to shareholders)	63,080
Transaction costs (demerger expenses)	-330
Other adjustments	226
Net assets transferred	-774
Gain on disposal	62,202

Source: Company, MOFSL

Cost Structure

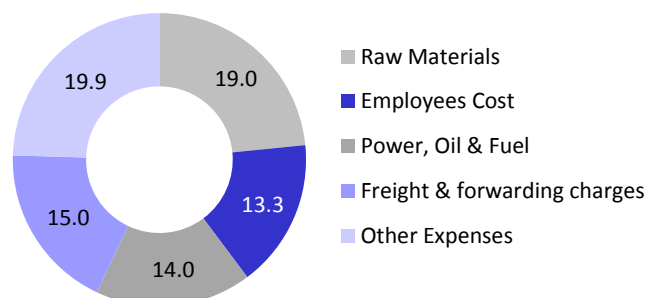
- EBITDA margins post-demerger improved by 160bp to 18.8% with absolute EBITDA at ~INR19.5b.
- RM cost reduced by 40bp to 19% (as % of sales). Except for employee cost, all other operating expenses' line items reported a decline (as % of sales).
- Employee cost increased by 50bp to 13.3% (as % of sales).
- Improvement in margins can be attributed to de-merger of the India Food business, in order to be a focused science-driven chemistry company.

Exhibit 50: Cost structure in FY19



Source: Company, MOFSL

Exhibit 51: Cost structure in FY20 (post-demerger)

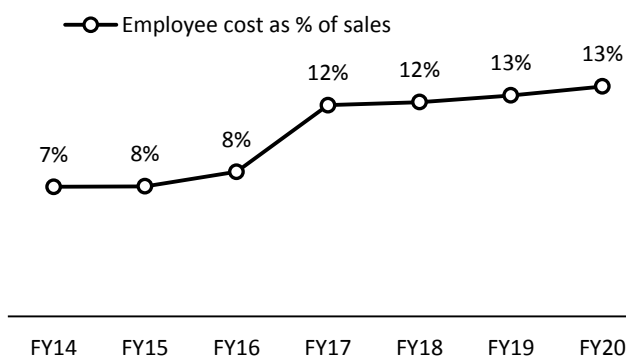


Source: Company, MOFSL

Employee cost and salaries

- Post-demerger, employee cost as percentage of sales increased marginally by 50bp to 13.3% (v/s 12.8% in FY19).
- Average percentage increase made in salaries of employees other than managerial employees in FY20 was 4.4% (v/s 6.8% in FY19). Increase in managerial remuneration for FY20 stood at 2.73% (v/s 12.8% in FY19).
- The percentage increase in median remuneration was 14.7% for FY20 (v/s 6.45% in FY19).
- Number of employees on rolls stood at 1,820 for FY20 (v/s 1,989 in FY19). The reduction was due to the shift of employees from the India Food business to TCPL.

Exhibit 52: Employee cost as % of sales



Source: Company, MOFSL

Exhibit 53: Employee headcount across TTCH

Entities	No. of employees
Tata Chemicals Limited, India	1,820
Rallis India Limited	1,610
Ncourage Social Enterprise Foundation	19
Tata Chemicals Europe	407
Tata Chemicals North America Inc.	573
Tata Chemicals Magadi Limited	221
Tata Chemicals International Pte. Ltd.	4
Tata Chemicals South Africa (Pty.) Limited	24
Total	4,678

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	1,52,202	1,03,461	1,02,697	1,03,367	1,03,568	1,04,478	1,17,784
Change (%)	-13.4	-32.0	-0.7	0.7	0.2	0.9	12.7
Total Expenditure	1,31,285	82,518	80,790	85,563	84,076	84,946	95,062
EBITDA	20,917	20,943	21,907	17,805	19,492	19,531	22,722
Margin (%)	13.7	20.2	21.3	17.2	18.8	18.7	19.3
Depreciation	5,261	5,122	5,180	5,685	6,665	7,005	7,286
EBIT	15,657	15,821	16,727	12,120	12,827	12,526	15,436
Int. and Finance Charges	5,255	2,973	3,256	3,537	3,419	3,575	3,627
Other Income	1,253	1,661	1,595	4,095	3,111	2,932	3,062
PBT bef. EO Exp.	11,655	14,510	15,066	12,677	12,519	11,883	14,871
EO Items	0	0	643	703	0	0	0
PBT after EO Exp.	11,655	14,510	15,709	13,381	12,519	11,883	14,871
Total Tax	2,484	3,460	601	2,744	2,197	2,911	3,643
Tax Rate (%)	21.3	23.8	3.8	20.5	17.5	24.5	24.5
Minority Interest	2,207	2,254	2,202	1,317	2,257	1,673	1,554
Reported PAT - Continuing Ops.	6,964	8,796	12,906	9,319	8,066	7,299	9,674
Adjusted PAT - Continuing Ops.	6,964	8,796	12,263	8,615	8,066	7,299	9,674
Change (%)	-12.5	26.3	39.4	-29.7	-6.4	-9.5	32.5
Margin (%)	4.6	8.5	11.9	8.3	7.8	7.0	8.2
Reported PAT - Discontinuing Ops.	742	1,135	11,425	2,240	61,997	0	0
Reported PAT	7,706	9,931	24,331	11,559	70,063	7,299	9,674
Adjusted PAT	7,706	9,931	23,687	10,856	70,063	7,299	9,674

Consolidated - Balance Sheet

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	2,548	2,548	2,548	2,548	2,548	2,548	2,548
Total Reserves	65,995	76,534	1,08,469	1,20,865	1,26,428	1,30,279	1,36,035
Net Worth	68,543	79,082	1,11,017	1,23,413	1,28,977	1,32,828	1,38,583
Minority Interest	25,985	26,239	27,172	29,147	7,638	7,638	7,638
Total Loans	90,904	70,483	64,180	61,430	77,020	76,540	74,579
Lease liability	0	0	0	0	1,880	1,880	1,880
Deferred Tax Liabilities	12,348	12,381	11,916	12,972	14,379	14,379	14,379
Capital Employed	1,97,780	1,88,185	2,14,284	2,26,961	2,29,894	2,33,264	2,37,059
Gross Block	1,20,671	1,20,011	1,26,061	1,38,124	1,61,488	1,68,488	1,78,488
Less: Accum. Deprn.	5,490	10,612	15,792	21,477	28,141	35,146	42,433
Net Fixed Assets	1,15,181	1,09,400	1,10,269	1,16,648	1,33,346	1,33,341	1,36,055
Goodwill on Consolidation	17,619	16,984	17,319	18,590	19,542	19,542	19,542
Capital WIP	5,015	3,331	4,089	7,738	8,350	8,500	8,500
Current Investments	94	2,205	918	22,523	16,010	16,010	16,010
Total Investments	21,879	27,931	28,683	56,425	43,060	43,060	43,060
Curr. Assets, Loans&Adv.	83,769	78,459	98,427	69,648	73,223	75,089	79,460
Inventory	19,319	13,861	14,623	17,256	18,692	18,316	21,459
Account Receivables	35,656	20,922	13,079	14,525	15,799	16,029	17,748
Cash and Bank Balance	12,654	16,648	44,830	19,522	20,795	21,937	20,229
Loans and Advances	16,140	27,028	25,895	18,346	17,937	18,806	20,023
Curr. Liability & Prov.	45,682	47,919	44,502	42,088	47,628	46,268	49,558
Account Payables	16,818	13,182	14,786	14,753	16,309	14,780	17,167
Other Current Liabilities	7,923	14,117	10,908	9,492	12,015	12,015	13,545
Provisions	20,941	20,621	18,808	17,843	19,304	19,474	18,845
Net Current Assets	38,086	30,540	53,925	27,560	25,595	28,820	29,902
Appl. of Funds	1,97,780	1,88,185	2,14,284	2,26,961	2,29,894	2,33,264	2,37,059

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)							
EPS	27.3	34.5	48.1	33.8	31.7	28.6	38.0
Cash EPS	48.0	54.6	68.5	56.1	57.8	56.1	66.6
BV/Share	269.0	310.3	435.7	484.3	506.1	521.3	543.8
DPS	10.0	11.0	22.0	12.5	11.0	11.0	12.5
Payout (%)	45.0	39.2	53.4	42.0	42.7	47.2	40.5
Valuation (x)							
P/E		8.7	6.3	8.9	9.5	10.5	8.0
Cash P/E		5.5	4.4	5.4	5.2	5.4	4.5
P/BV		1.0	0.7	0.6	0.6	0.6	0.6
EV/Sales		1.5	1.2	1.2	1.2	1.2	1.0
EV/EBITDA		7.4	5.6	7.0	6.4	6.3	5.4
Dividend Yield (%)		3.6	7.3	4.1	3.6	3.6	4.1
FCF per share		113.3	76.9	19.7	-16.3	29.0	24.7
Return Ratios (%)							
RoE	11.2	11.9	12.9	7.4	6.4	5.6	7.1
RoCE	8.9	8.6	10.9	7.2	6.7	5.6	6.6
Core RoCE	14.0	10.8	15.6	11.2	10.5	8.9	10.3
RoIC	8.6	8.1	11.6	6.9	7.0	6.0	7.2
Working Capital Ratios							
Fixed Asset Turnover (x)	1.3	0.9	0.8	0.7	0.6	0.6	0.7
Asset Turnover (x)	0.8	0.5	0.5	0.5	0.5	0.4	0.5
Inventory (Days)	119	244	304	315	347	347	350
Debtor (Days)	86	74	46	51	56	56	55
Creditor (Days)	103	232	307	269	302	280	280
Leverage Ratio (x)							
Current Ratio	1.8	1.6	2.2	1.7	1.5	1.6	1.6
Interest Cover Ratio	3.0	5.3	5.1	3.4	3.8	3.5	4.3
Net Debt/Equity	1.1	0.7	0.2	0.2	0.3	0.3	0.3

Consolidated - Cash Flow Statement

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	12,935	16,522	15,066	17,304	12,519	11,883	14,871
Depreciation	5,714	5,522	5,180	5,714	6,665	7,005	7,286
Interest & Finance Charges	5,946	4,645	1,661	3,653	308	643	564
Direct Taxes Paid	-3,645	-4,516	-601	-4,849	-2,197	-2,911	-3,643
(Inc)/Dec in WC	-652	12,103	4,797	-2,144	506	-2,084	-2,790
CF from Operations	20,298	34,276	26,103	19,678	17,801	14,536	16,289
Others	3,022	1,033	643	-3,865	0	0	0
CF from Operating incl EO	23,319	35,309	26,746	15,813	17,801	14,536	16,289
(Inc)/Dec in FA	-6,865	-6,429	-7,142	-10,795	-21,962	-7,150	-10,000
Free Cash Flow	16,454	28,880	19,604	5,018	-4,161	7,386	6,289
(Pur)/Sale of Investments	-90	-2,064	-752	-19,711	13,364	0	0
Others	-337	588	1,595	10,924	-15,085	2,932	3,062
CF from Investments	-7,292	-7,905	-6,300	-19,582	-23,682	-4,218	-6,938
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-6,098	-14,117	-6,303	-5,714	12,625	-480	-1,961
Interest Paid	-6,202	-4,456	-3,256	-2,939	-3,419	-3,575	-3,627
Dividend Paid	-3,820	-3,056	-6,895	-6,725	-3,448	-3,448	-3,918
Others	-1,897	-1,781	24,190	-6,162	1,396	-1,673	-1,554
CF from Fin. Activity	-18,017	-23,409	7,736	-21,540	7,154	-9,176	-11,060
Inc/Dec of Cash	-1,989	3,995	28,182	-25,309	1,273	1,142	-1,708
Opening Balance	14,643	12,654	16,649	44,831	19,522	20,795	21,937
Closing Balance	12,654	16,649	44,831	19,522	20,795	21,937	20,229

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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

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