Tata Chemicals (TATCHE)

ICICI direct Research

CMP: ₹ 322 | Target: ₹ 305 (-5%) | Target Period: 12 months | **HOLD**

October 31, 2020

Result Update

Speciality business likely to aid performance ahead…

Tata Chemicals reported a fall in revenue of 5.7% YoY to ₹ 2609 crore, largely dragged by poor soda ash sales volumes from Magadi (down 31% YoY) along with North America (down 19.8% YoY). Revenue from basic chemical fell 10% YoY to ₹ 1839 crore. In terms of geographies, India business basic chemical revenue remained at ₹ 699.7 crore (up 1% YoY), while the same from North America, UK and Magadi was at ₹ 711 crore (down 20% YoY), ₹ 337 crore (flat growth) & ₹ 91 crore (down 35% YoY). Lower gross margins (down 443 bps YoY) owing to higher input cost along with higher opex dragged OPM, which contracted 546 bps YoY to 14.8% resulting in EBITDA de growth of 31% YoY to ₹ 386 crore. OPM from basic chemical segment contracted 719 bps YoY to 15.2% while the same from speciality chemical was down 29 bps YoY to 14%. PAT was down 80% YoY to ₹ 70.5 crore, impacted by subdued operational performance along with higher tax rate (30% vs. 6%) and lower other income (down 26% YoY).

Container glass demand remains decent; flat glass demand improving in export market

North America (NA) mainly caters to Latin America and South East Asia in terms of exports market. The NA region recorded export sales volume fall of 33% YoY to 197,000 MT. The management believes that subdued exports sales volumes were partly was on account of higher Covid-19 cases in Brazil, which impacted production value chain across end user industries and thereby pressurised demand for soda ash. Further, lower construction activity in southern Asian countries along with increase in supply from China depressed realisations for soda ash. Hence, this impacted the performance of the export business. Since the container glass industry has been witnessing decent demand along with a pick-up in demand for flat glass industry that would likely augur well for soda ash demand, going ahead.

HDS, nutraceuticals to boost growth in medium to long run

The management highlighted that the nutraceutical plant is operating at 75% utilisation currently. Going ahead, with an increase in product approvals from pharma as well as food grade companies, we expect the segment to grow in high teens, in the coming years. The management expects to announce capacity announcement by 5x for HDS while nutraceutical capacity can double from the present capacity. Asset turn is expected to be 1.5-2x for these business segments.

Valuation & Outlook

We value the company on an SOTP basis and arrive at a target price of ₹ 305 including the investment portfolio value. We have a **HOLD** recommendation on the stock.

TATA CHEMICALS LIMITED

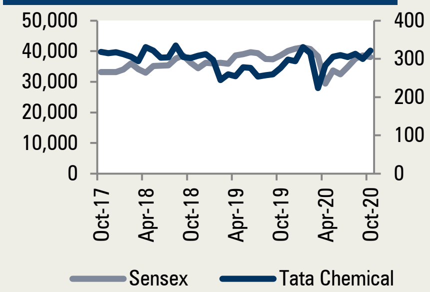
Particulars

Particular	Amount
Market cap (₹ Crore)	8,205
FY20 Total Debt (₹ Crore)	6,124
FY20 Cash & Inv (₹ Crore)	4,205
EV (₹ Crore)	10,125
52 Week H/L	346/197
Equity Capital (₹ Crore)	254.8
Face Value (₹)	10

Key Highlights

- Flat glass demand likely to improve by the end of this fiscal
- HDS, nutraceuticals to boost growth in medium to long term
- Maintain HOLD with target price of ₹ 305

Price Performance



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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Revenue	10,346.1	10,269.7	10,336.7	10,356.8	10,082.7	11,271.9	4.4
EBITDA	2,094.3	2,190.7	1,780.5	1,949.2	1,632.3	1,924.5	4.0
EBITDA Margins (%)	20.2%	21.3%	17.2%	18.8%	16.2%	17.1%	
Adj.PAT	879.6	1,290.6	931.9	806.6	513.7	784.7	(8.2)
Adj. EPS (₹)	34.5	50.6	36.6	31.7	20.2	30.8	
EV/EBITDA	5.4x	4.2x	5.1x	5.1x	6.4x	5.2x	
P/E	9.3x	6.4x	8.8x	10.2x	16.0x	10.5x	
ROE (%)	11.1	11.6	7.6	6.3	3.9	5.8	
ROCE (%)	9.7	8.3	7.1	7.7	6.0	7.1	

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 1: Basic chemical revenue across geographies (₹ crore)

Basic chem Revenue	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
India	671	690	711	719	637	700
TCA - North America	845	886	872	800	619	711
TCE - Europe	307	337	348	365	316	337
TCM - Magadi	126	139	79	115	100	91

Source: Company, ICICI Direct Research

Exhibit 2: Basic chemical sales volumes across geographies ('000 MT)

Basic chem sales volume ('000 MT)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
TCL India	**190**	**179**	**185**	**185**	**139**	**176**
Soda Ash	163	154	158	159	118	151
Sodium Bicarbonate	27	25	27	26	21	25
TCA - North America	**539**	**570**	**569**	**553**	**387**	**475**
Soda Ash	539	570	569	553	387	475
TCE - Europe	**92**	**104**	**97**	**101**	**92**	**94**
Soda Ash	68	77	70	71	62	67
Sodium Bicarbonate	24	27	27	30	30	27
TCM - Magadi	**63**	**74**	**40**	**75**	**57**	**51**
Soda Ash	63	74	40	75	57	51

Source: Company, ICICI Direct Research

Exhibit 3: Basic chemical realisation/tonne

Basic chem realization/tonne	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
India	35,329	38,549	38,406	38,846	45,850	39,755
TCA - North America	15,677	15,544	15,325	14,467	15,995	14,968
TCE - Europe	33,370	32,404	35,876	36,139	34,348	35,851
TCM - Magadi	20,000	18,784	19,750	15,333	17,544	17,843

Source: Company, ICICI Direct Research

Exhibit 4: Basic chemical EBITDA/tonne

Basic chem EBITDA/tonne	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
India	10,443	11,236	10,855	8,721	12,710	7,454
TCA - North America	3,506	3,263	3,216	3,689	904	2,021
TCE - Europe	1,957	4,327	4,742	5,050	3,043	4,894
TCM - Magadi	3,175	3,649	-2,250	1,467	1,754	1,176

Source: Company, ICICI Direct Research

Exhibit 5: Basic chemical OPM trend geographically (%)

Basic chem OPM (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
India	29.6%	29.1%	28.3%	22.5%	27.7%	18.8%
TCA - North America	22.4%	21.0%	21.0%	25.5%	5.7%	13.5%
TCE - Europe	5.9%	13.4%	13.2%	14.0%	8.9%	13.6%
TCM - Magadi	15.9%	19.4%	-11.4%	9.6%	10.0%	6.6%

Source: Company, ICICI Direct Research

Conference Call Highlights

- US domestic market (in volumes, YoY basis) remained resilient but the export market faces challenges. On the other hand, on a QoQ basis, both domestic and export markets are gaining momentum
- India business margins were impacted due to unprecedented heavy rains leading to higher production cost and one-time expenditure of ₹ 11 crore due to damages to inventory and other assets. Also, annual wage settlement pertaining to workmen has led to an increase in employee cost by ₹ 14 crore
- Speciality business revenue increased to ₹ 41 crore (up 245%), on the back of increasing volumes and better price realisation across products portfolio
- Nutritional solutions business witnessed steady growth in revenue and is consistently gaining traction in the market from customers
- The silica business continues to gain traction for its food & non-food grade silica products. Expect are expected to accelerate customer engagement having received good responses from some OEMs
- North American unit prices: domestic prices contracted. Pricing pressure at the end of the year will be minimal. Export is expected to see prices coming down
- Consolidated net debt was at ₹ 3767 crore as on H1FY21 vs. ₹ 4042 crore debt as on FY20

Financial summary

Exhibit 6: Profit and loss statement ₹ crore

Year end March	FY18	FY19	FY20	FY21E	FY22E
Total Operating Income	**10,269.7**	**10,336.7**	**10,356.8**	**10,082.7**	**11,271.9**
Growth (%)	-0.7	0.7	0.2	-2.6	11.8
Raw Material Expenses	1,755.5	2,002.0	1,968.4	2,520.7	2,705.3
Gross Profit	**8,514.2**	**8,334.7**	**8,388.4**	**7,562.0**	**8,566.6**
Employee Cost	1,270.2	1,318.5	1,375.4	1,401.5	1,487.9
Other Operating Expenses	5,053.3	5,235.8	5,063.8	4,528.2	5,154.2
EBITDA	**2,190.7**	**1,780.5**	**1,949.2**	**1,632.3**	**1,924.5**
Growth (%)	4.6	-18.7	9.5	-16.3	17.9
Other Income	159.5	409.5	311.1	286.5	293.7
EBITDA, including OI	**2,350.2**	**2,189.9**	**2,260.3**	**1,918.8**	**2,218.2**
Depreciation	518.0	568.5	666.5	687.6	717.1
Net Interest Exp.	325.6	353.7	341.9	318.0	272.4
Other exceptional items	64.3	70.3	0.0	0.0	0.0
PBT	**1,570.9**	**1,338.1**	**1,251.9**	**913.3**	**1,228.7**
Total Tax	60.1	274.4	219.7	200.9	270.3
Tax Rate	3.8%	20.5%	17.5%	22.0%	22.0%
PAT	**1,510.8**	**1,063.6**	**1,032.3**	**712.4**	**958.4**
Adj.PAT after Minority interest	1,290.6	931.9	806.6	513.7	784.7
Adj. EPS (₹)	50.6	36.6	31.7	20.2	30.8
Shares Outstanding	25.5	25.5	25.5	25.5	25.5

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore

Year end March	FY18	FY19	FY20	FY21E	FY22E
PBT & Extraordinary	3,271.8	1,730.4	7,407.5	913.3	1,228.7
Depreciation	596.0	571.4	666.5	687.6	717.1
After other adjustments					
(Inc) / Dec in Working Capital	-569.1	-214.4	-129.9	-1,174.2	200.2
Taxes	-514.7	-484.9	-147.8	-200.9	-270.3
Others	-913.9	-21.3	-6,016.2	318.0	272.4
CF from operating activities	**1,870.1**	**1,581.3**	**1,780.1**	**543.7**	**2,148.1**
Purchase of Fixed Assets	-750.3	-1,082.3	-1,199.4	-500.0	-1,200.0
Others	3,457.3	-875.9	-1,168.7	-184.0	18.0
CF from investing activities	**2,707.0**	**-1,958.2**	**-2,368.1**	**-684.0**	**-1,182.0**
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Borrowings (Net)	-1,240.6	-576.2	735.1	-500.0	-700.0
Others	-848.9	-1,135.7	-864.4	-598.3	-552.7
CF from financing activities	**-2,089.5**	**-1,711.8**	**-129.3**	**-1,098.3**	**-1,252.7**
Net cash flow	2,487.7	-2,088.7	-717.3	-1,238.6	-286.6
Effects of foreign currency translation	6.8	31.2	0.0	0.0	0.0
Opening Cash	1,664.8	4,483.0	1,952.2	2,079.5	840.9
Closing Cash	4,483.0	1,952.2	2,079.5	840.9	554.3

**calculated, Source: Company, ICICI Direct Research*

Exhibit 8: Balance sheet ₹ crore

Year end March	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Share Capital	254.8	254.8	254.8	254.8	254.8
Reserves	10,846.9	12,086.5	12,642.8	12,876.2	13,380.6
Total Shareholders Funds	**11,101.7**	**12,341.3**	**12,897.7**	**13,131.0**	**13,635.4**
Minority Interest	2,717.2	2,914.7	763.8	977.5	1,169.2
Long Term Borrowings	5,394.0	4,769.3	3,473.4	3,273.4	2,773.4
Net Deferred Tax liability	1,191.6	1,297.1	1,437.9	1,437.9	1,437.9
Other long term liabilities	95.8	129.9	437.6	89.4	99.9
Long term provisions	1,675.1	1,503.9	1,653.5	1,736.7	1,941.5
Current Liabilities and Provisions					
Short term borrowings	140.2	352.5	1,912.9	1,612.9	1,412.9
Trade Payables	1,478.6	1,475.3	1,630.9	1,325.9	1,482.3
Other Current Liabilities	1,878.8	1,840.5	3,267.6	2,209.9	2,470.6
Short Term Provisions	205.8	280.3	276.9	248.6	277.9
Total Current Liabilities	3,703.3	3,948.6	7,088.4	5,397.4	5,643.8
Total Liabilities	**25,878.6**	**26,904.8**	**27,752.2**	**26,043.3**	**26,701.1**
Assets					
Net Block	11,026.9	11,664.8	13,073.9	12,886.4	12,869.3
Capital Work in Progress	373.9	735.8	787.8	787.8	1,287.8
Intangible assets under devl.	35.0	38.0	47.2	47.2	47.2
Goodwill on Consolidation	1,731.9	1,859.0	1,999.8	1,999.8	1,999.8
Non-current investments	2,748.6	3,362.9	2,683.8	2,683.8	2,683.8
Deferred tax assets	20.8	36.2	15.3	15.3	15.3
Long term loans and advances	9.7	7.9	10.0	7.8	8.7
Other Non Current Assets	892.4	1,102.0	1,272.1	664.7	740.6
Current Assets, Loans & Advances					
Current Investments	91.8	2,252.3	1,601.0	1,800.0	1,800.0
Inventories	1,462.3	1,725.6	1,869.2	1,933.7	2,069.1
Sundry Debtors	1,307.9	1,452.5	1,579.9	1,602.2	1,760.3
Cash and Bank	4,483.0	1,952.2	2,079.5	840.9	554.3
Loans and Advances	1.6	1.3	0.2	0.2	0.2
Other Current assets	1,692.9	714.4	732.5	773.5	864.7
Current Assets	9,039.6	8,098.3	7,862.3	6,950.5	7,048.6
Total Assets	**25,878.6**	**26,904.9**	**27,752.2**	**26,043.3**	**26,701.1**

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios

Year end March	FY18	FY19	FY20	FY21E	FY22E
Per share data (₹)					
Adj. EPS	50.6	36.6	31.7	20.2	30.8
Adj. Cash EPS	71.0	58.9	57.8	47.1	58.9
BV	435.7	484.3	506.1	515.3	535.1
DPS	22.0	23.5	11.0	11.0	11.0
Operating Ratios (%)					
Gross Margin (%)	82.9	80.6	81.0	75.0	76.0
EBITDA Margin (%)	21.3	17.2	18.8	16.2	17.1
PAT Margin (%)	12.6	9.0	7.8	5.1	7.0
Debtor Days	46	51	56	58	57
Inventory Days	52	61	66	70	67
Creditor Days	53	52	57	48	48
Cash Conversion Cycle	46	60	64	80	76
Return Ratios (%)					
Return on Assets (%)	5.0	3.5	2.9	2.0	2.9
RoCE (%)	8.3	7.1	7.7	6.0	7.1
Core RoIC (%)	13.9	9.1	8.8	6.1	7.8
RoE (%)	11.6	7.6	6.3	3.9	5.8
Solvency Ratios					
Total Debt / Equity	0.5	0.4	0.4	0.4	0.3
Interest Coverage	5.6	4.6	4.7	3.9	5.5
Current Ratio	2.4	2.1	1.1	1.3	1.2
Quick Ratio	2.0	1.6	0.8	0.9	0.9
Valuation Ratios (x)					
EV/EBITDA	4.2	5.1	5.1	6.4	5.2
P/E	6.4	8.8	10.2	16.0	10.5
P/B	0.7	0.7	0.6	0.6	0.6
EV/Sales	0.9	0.9	1.0	1.0	0.9

Source: Company, ICICI Direct Research

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