

Construction revival to support soda ash consumption ahead

There has been an increase in construction activity across different parts of the globe due to improvement in the demand outlook on the back of lower interest rate and changes in tendency of people post lockdown. We believe this should aid soda ash consumption given that flat glass constitutes ~20% of the latter demand. In turn, this would narrow the demand/supply mismatch and support realisation, to an extent, in the medium term. Apart from this, we also expect better demand for container glass to aid soda ash consumptions further apart from base segment like detergent to maintain the overall demand scenario in the medium term. Since Tata Chemical holds sizable market share in the global soda ash market, we expect the core business to grow at a decent rate on the back of aforementioned factors along with low base effect in the coming year. Apart from this, better growth from soda bicarb from sub segments like Medikarb should likely support growth, going ahead. Since plans are already under way to increase the specialty business share like crop protection, HDS and nutraceutical in the overall business portfolio, we expect the company's revenue contribution to be equally tilted towards specialty and commodity in the medium to long term. In turn, this should command better valuations.

Valuation & Outlook

We value the company on SOTP basis. Earlier, we assumed Tata Son's investment portfolio at book value. However, the same has been revised to fair value at the lower end now, which was disclosed by Tata Sons in Supreme Court recently. We raise our target price to ₹ 490 from ₹ 305. We maintain **HOLD** rating on the stock.

Exhibit 1: SOTP Valuation

In ₹ Crore unless other mentioned	Revenue FY22E	EBITDA FY22E	EV/EBITDA FY22E	EV FY22E
Basic Chemical				
India	3,050	819	5.0x	4,096
ROW	5,192	734	4.0x	2,937
Speciality Products				
Rallis	2,724	347	18.5x	5,309
Other Speciality	226	34	8.0x	271
Consolidated EV				8,660
Less: Net debt				2,245
Residual business MCAP				6,415
Add: NC investment portfolio excl Tata sons inv @ 50% disc				1,342
Add: Fair value of Tata sons inv @ 50% disc				4,750
Target MCAP				12,506
No. of shares				25.5
Target price/share				490
CMP				483
Upside/downside				1%

Source: Company, ICICI Direct Research

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	7.4x	6.1x	7.4x	7.2x	8.9x	7.3x	
P/E	14.0x	9.5x	13.2x	15.3x	24.0x	15.7x	
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



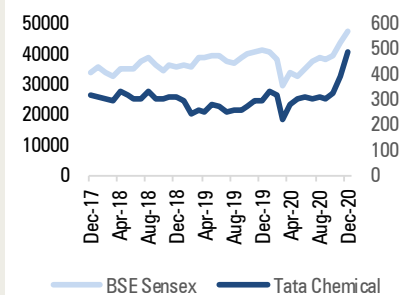
Particulars

Particular	Amount
Market cap (₹ Crore)	12,308
FY20 Total Debt (₹ Crore)	6,124
FY20 Cash & Inv (₹ Crore)	4,205
EV (₹ Crore)	14,228
52 Week H/L	527/197
Equity Capital (₹ Crore)	254.8
Face Value (₹)	10

Key risks to our call

- Increase in input prices, inability to pass on rise due to poor demand to translate into lower EBITDA/tonne
- Better than anticipated volume growth in base business along with realisations owing to strong revival in international business can lead to upside risk to our estimates

Price Performance



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Financial summary

Exhibit 2: 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 3: 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 4: 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 devel.	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 5: 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	6.1	7.4	7.2	8.9	7.3
P/E	9.5	13.2	15.3	24.0	15.7
P/B	1.1	1.0	1.0	0.9	0.9
EV/Sales	1.3	1.3	1.4	1.4	1.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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