

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, 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 75% of overall revenue while the rest comes from speciality products

Q3FY22 Results: Topline was marginally above while bottomline beat was due to better-than-expected JV performance (Immacid) and lower taxes.

- Reported revenue growth of 21% YoY to ₹ 3141.6 crore, led by higher growth in the basic chemical segment across four units
- Gross margins expanded 153 bps YoY to ~81.1% while EBITDA margin fell 76 bps YoY to 17.4%, impacted by higher power & fuel cost (up 25% YoY)
- EBITDA was up 16% YoY to ₹ 545.1 crore
- PAT was up 87% YoY to ₹ 301 crore, led by higher JV income (₹ 93.9 crore vs. ₹ 6.2 crore in Q3FY21) and lower taxes (16% vs. 21% in Q3FY21)

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

- We revise our rating from BUY to **HOLD** on the stock

Target Price and Valuation: We value Tata Chemicals at SOTP valuation to arrive at a revised target price of ₹ 1035/share, maintained from earlier.

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 ₹ 2160



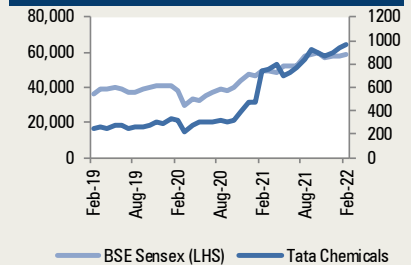
Particulars

Particular	Amount
Market cap (₹ Crore)	23,308
FY21 Total Debt (₹ Crore)	6,933
FY21 Cash & Inv (₹ Crore)	2,104
EV (₹ Crore)	28,137
52 Week H/L	1158/547
Equity Capital (₹ Crore)	254.8
Face Value (₹)	10

Shareholding pattern

in %	Mar-21	Jun-21	Sept-21	Dec-21
Promoter	38.0	38.0	38.0	38.0
DII	20.8	19.7	20.0	18.3
FII	14.0	13.0	14.5	14.0
Others	27.2	29.3	27.6	29.7

Price Chart



Recent event & key risks

- Strong rebound in Europe witnessed during the quarter
- Key Risk:** (i) Fall in soda ash prices and rise in crude to impact EBITDA/tonne (ii) Revival in demand and thereby prices

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	4 year CAGR (FY17-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Revenue	10,336.7	10,356.8	10,199.8	-0.4%	12,508.5	14,714.4	15,660.1	15.4%
EBITDA	1,780.5	1,949.2	1,500.6	-8.0%	2,245.1	2,677.9	3,019.8	26.3%
EBITDA Margins (%)	17.2%	18.8%	14.7%		17.9%	18.2%	19.3%	
Adj. PAT	875.0	806.6	256.4	-26.5%	1,071.2	1,399.7	1,592.6	83.8%
Adj. EPS (₹)	34.3	31.7	10.1		42.0	54.9	62.5	
EV/EBITDA	13.6x	12.8x	17.3x		11.4x	9.0x	7.0x	
P/E	26.6x	28.9x	90.9x		21.8x	16.7x	14.6x	
ROE (%)	7.1	6.3	1.8		7.1	8.6	9.1	
ROCE (%)	7.1	7.7	4.1		6.5	8.1	9.0	

Key takeaways of recent quarter & conference call highlight

Q3FY22 Results: Revival in soda ash volume, realisations aid better performance

- **Basic chemical topline performance:** Revenues were up 23% YoY to ₹ 2447.8 crore, led by growth across geographies. The India business reported growth of 14.4% YoY to ₹ 873.8 crore while the same from North America, UK and Magadi was up 20.1% YoY, 47.3% YoY & 23.4% YoY to ₹ 891 crore, ₹ 551 crore & ₹ 132 crore, respectively. The growth across geographies was driven by both volumes & realisation growth owing to revival in the demand of end user industry
- **Basic chemical operational performance:** EBITDA for the segment increased 16.1% YoY to ₹ 484.1 crore, largely on the back of better margins from Europe businesses. OPM for the segment was at 19.8% (down 121 bps YoY)

Q3FY22 Earnings Conference Call highlights

India:

- Soda ash price hike taken to the tune of ₹ 1500/tonne in February 2022, over and above ₹ 7000/tonne price increase over April-January 2021
- 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
- A maintenance shutdown happened last quarter. Thus, volumes were impacted

North America:

- Exports business has lower realisations and margins compared to domestic business. Going ahead, strong growth in exports along with better realisation to support growth
- The company has taken a price hike to the tune of US\$30-40/tonne for exports contract
- Volume growth for North America was up 23.6% YoY to 586,000 MT
- The company resorted to maintenance shutdown during Q3FY22. Volumes are expected to get normalised during Q4FY22

Europe:

- Better realisations led growth for Europe business. The company resorted to a price hike of ~US\$30-40/tonne. We expect realisations to sustain

Other updates:

- The management expects a soda ash shortfall of 3 million tonnes over 2025-26, which can support soda ash prices
- Demand for soda ash from China is likely to rebound post the festive season
- 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 ₹ 4120 crore

Financial story in charts

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

Basic chem Revenue	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
India	708	719	637	700	764	806	795	812	874
TCA - North America	872	800	619	711	742	807	837	867	891
TCE - Europe	348	365	316	337	374	383	407	416	551
TCM - Magadi	82	115	100	91	107	115	134	140	132

Source: ICICI Direct Research

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

Basic chem sales volume ('000 MT)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
TCL India	187	185	139	176	204	215	195	208	189
Soda Ash	158	159	118	151	178	184	167	178	156
Sodium Bicarbonate	29	26	21	25	26	31	28	30	33
TCA - North America	569	553	387	475	474	566	580	613	586
Soda Ash	569	553	387	475	474	566	580	613	586
TCE - Europe	97	101	92	94	98	96	95	93	99
Soda Ash	70	71	62	67	70	67	68	68	71
Sodium Bicarbonate	27	30	30	27	28	29	27	25	28
TCM - Magadi	40	75	57	51	56	68	83	86	73
Soda Ash	40	75	57	51	56	68	83	86	73

Source: ICICI Direct Research

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

Basic chem realisation/tonne	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
India	37,835	38,846	45,850	39,755	37,431	37,504	40,758	39,033	46,233
TCA - North America	15,325	14,467	15,995	14,968	15,654	14,258	14,431	14,144	15,205
TCE - Europe	35,876	36,139	34,348	35,851	38,163	39,896	42,842	44,731	55,657
TCM - Magadi	20,500	15,333	17,544	17,843	19,107	16,912	16,145	16,279	18,082

Source: ICICI Direct Research

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

Basic chem EBITDA/tonne	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
India	10,899	8,721	12,710	7,454	9,214	8,264	13,487	10,705	13,231
TCA - North America	3,216	3,689	904	2,021	3,333	1,113	2,983	3,197	2,440
TCE - Europe	4,433	5,050	3,043	4,894	4,592	1,979	3,053	-1,935	6,667
TCM - Magadi	-2,250	1,467	1,754	1,176	4,643	2,941	3,012	2,674	3,425

Source: ICICI Direct Research

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

Basic chem OPM (%)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
India	28.8%	22.5%	27.7%	18.8%	24.6%	22.0%	33.1%	27.4%	28.6%
TCA - North America	21.0%	25.5%	5.7%	13.5%	21.3%	7.8%	20.7%	22.6%	16.0%
TCE - Europe	12.4%	14.0%	8.9%	13.6%	12.0%	5.0%	7.1%	-4.3%	12.0%
TCM - Magadi	-11.0%	9.6%	10.0%	6.6%	24.3%	17.4%	18.7%	16.4%	18.9%

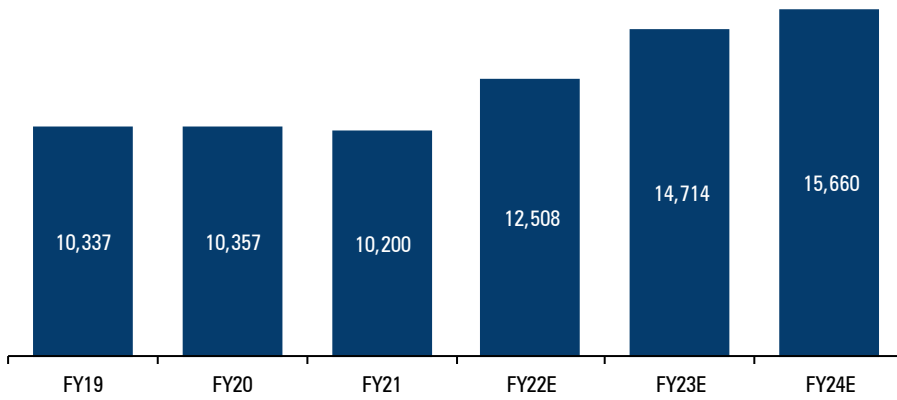
Source: ICICI Direct Research

Exhibit 6: SOTP valuation

In ₹ Crore unless other mentioned	Revenue		EBITDA		EV/EBITDA	EV
	FY23E	FY24E	FY23E	FY24E	FY24E	FY24E
Basic Chemical						
India	4,066	4,310	1,131	1,259	6.0x	7,554
ROW	7,046	7,230	1,058	1,122	5.0x	5,611
Speciality Products						
Rallis (50.09% stake and 20% holding company discount)	3,171	3,647	411	492	9.3x	2,383
Other Speciality	339	452	38	51	10.0x	513
Consolidated EV						16,061
Less: Net debt						-681
Residual business MCAP						16,742
Add: NC investment portfolio excl Tata sons inv @ 70% disc						1,600
Add: Fair value of Tata sons inv @ 70% disc						8,000
Target MCAP						26,342
No. of shares						25.5
Target price/share						1,035
CMP						915
Upside/downside						13%

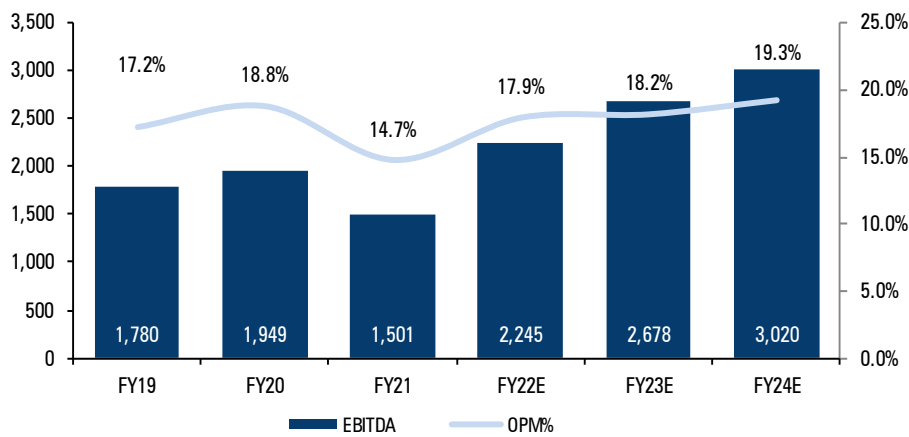
Source: ICICI Direct Research

Exhibit 7: Revenue trend (₹ crore)



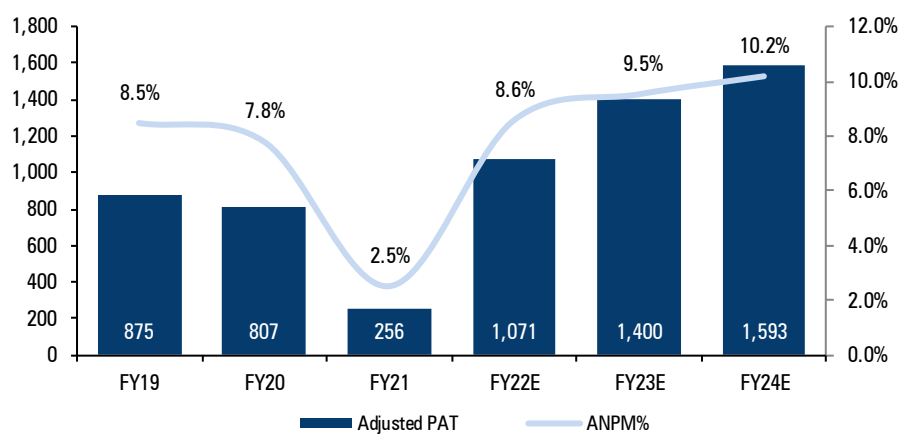
Source: Company, ICICI Direct Research

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	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	10,356.8	10,199.8	12,508.5	14,714.4	15,660.1
Growth (%)	0.2	-1.5	22.6	17.6	6.4
Raw Material Expenses	1,968.4	2,396.9	2,564.2	2,942.9	3,132.0
Gross Profit	8,388.4	7,802.9	9,944.2	11,771.5	12,528.1
Employee Cost	1,375.4	1,399.7	1,538.5	1,662.7	1,785.2
Other Operating Expenses	5,063.8	4,902.5	6,160.6	7,430.8	7,723.0
EBITDA	1,949.2	1,500.6	2,245.1	2,677.9	3,019.8
Growth (%)	9.5	-23.0	49.6	19.3	12.8
Other Income	311.1	234.4	195.1	194.1	202.2
EBITDA, including OI	2,260.3	1,735.1	2,440.2	2,872.0	3,222.0
Depreciation	666.5	759.3	808.7	911.7	960.9
Net Interest Exp.	341.9	367.4	305.8	149.1	99.1
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	1,251.9	608.4	1,325.7	1,811.2	2,162.0
Total Tax	219.7	197.8	355.4	464.5	528.4
Tax Rate	17.5%	32.5%	26.8%	25.6%	24.4%
PAT	1,032.3	410.6	970.2	1,346.7	1,633.6
Adj. PAT after Minority interest	806.6	256.4	1,071.2	1,399.7	1,592.6
Adj. EPS (₹)	31.7	10.1	42.0	54.9	62.5
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	FY20	FY21	FY22E	FY23E	FY24E
PBT & Extraordinary	7,407.5	634.0	1,615.7	2,111.2	2,402.0
Depreciation	666.5	759.3	808.7	911.7	960.9
After other adjustments					
(Inc) / Dec in Working Capital	-129.9	323.3	13.8	166.4	71.3
Taxes	-147.8	-96.3	-355.4	-464.5	-528.4
Others	-6,016.2	417.0	305.8	149.1	99.1
CF from operating activities	1,780.1	2,037.3	2,388.5	2,873.9	3,004.8
Purchase of Fixed Assets	-1,199.4	-1,241.9	-1,369.7	-1,065.0	-1,065.0
Others	-1,168.7	111.6	-236.5	1,100.0	-500.0
CF from investing activities	-2,368.1	-1,130.3	-1,606.2	35.0	-1,565.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Borrowings (Net)	735.1	-544.1	-300.0	-2,750.0	-877.6
Others	-864.4	-911.5	-586.1	-429.4	-379.4
CF from financing activities	-129.3	-1,455.7	-886.1	-3,179.4	-1,257.0
Net cash flow	-717.3	-548.7	-103.9	-270.5	182.9
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0
Opening Cash	1,952.2	2,079.5	1,411.0	1,307.1	1,036.7
Closing Cash	2,079.5	1,411.0	1,307.1	1,036.7	1,219.6

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
Liabilities					
Share Capital	254.8	254.8	254.8	254.8	254.8
Reserves	12,642.8	14,035.2	14,826.0	15,945.5	17,257.7
Total Shareholders Funds	12,897.7	14,290.0	15,080.9	16,200.3	17,512.5
Minority Interest	763.8	852.6	1,041.6	1,288.6	1,569.7
Long Term Borrowings	3,473.4	5,388.1	5,188.1	2,538.1	1,738.1
Net Deferred Tax liability	1,437.9	1,572.1	1,572.1	1,572.1	1,572.1
Other long term liabilities	437.6	173.0	110.9	130.4	138.8
Long term provisions	1,653.5	1,598.1	2,154.5	2,534.4	2,697.3
Current Liabilities and Provisions					
Short term borrowings	1,912.9	277.6	177.6	77.6	0.0
Trade Payables	1,630.9	1,682.9	1,644.9	1,935.0	2,059.4
Other Current Liabilities	3,267.6	2,137.8	2,741.6	3,225.1	3,432.3
Short Term Provisions	276.9	365.1	308.4	362.8	386.1
Total Current Liabilities	7,088.4	4,463.4	4,872.5	5,600.5	5,877.9
Total Liabilities	27,752.2	28,337.2	30,020.6	29,864.5	31,106.4
Assets					
Net Block	13,073.9	12,971.3	13,232.3	14,555.3	14,659.5
Capital Work in Progress	787.8	1,034.7	1,334.7	165.0	165.0
Intangible assets under devl.	47.2	58.8	58.8	58.8	58.8
Goodwill on Consolidation	1,999.8	1,963.3	1,963.3	1,963.3	1,963.3
Non-current investments	2,683.8	4,252.3	4,252.3	4,252.3	4,252.3
Deferred tax assets	15.3	0.0	0.0	0.0	0.0
Long term loans and advances	10.0	10.7	9.7	11.4	12.1
Other Non Current Assets	1,272.1	1,400.4	853.1	993.9	1,054.3
Current Assets, Loans & Advances					
Current Investments	1,601.0	1,563.5	1,800.0	700.0	1,200.0
Inventories	1,869.2	1,686.6	2,296.1	2,701.0	2,874.6
Sundry Debtors	1,579.9	1,397.0	1,953.4	2,297.9	2,445.5
Cash and Bank	2,079.5	1,411.0	1,307.1	1,036.7	1,219.6
Loans and Advances	0.2	0.2	0.2	0.2	0.2
Other Current assets	732.5	587.5	959.6	1,128.8	1,201.3
Current Assets	7,862.3	6,645.7	8,316.3	7,864.5	8,941.2
Total Assets	27,752.2	28,337.2	30,020.6	29,864.5	31,106.4

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					
Year end March	FY20	FY21	FY22E	FY23E	FY24E
Per share data (₹)					
Adj. EPS	31.7	10.1	42.0	54.9	62.5
Adj. Cash EPS	57.8	39.9	73.8	90.7	100.2
BV	506.1	560.8	591.8	635.8	687.3
DPS	11.0	0.0	11.0	11.0	11.0
Operating Ratios (%)					
Gross Margin (%)	81.0	76.5	79.5	80.0	80.0
EBITDA Margin (%)	18.8	14.7	17.9	18.2	19.3
PAT Margin (%)	7.8	2.5	8.6	9.5	10.2
Debtor Days	56	58	57	57	57
Inventory Days	66	70	67	67	67
Creditor Days	57	48	48	48	48
Cash Conversion Cycle	64	80	76	76	76
Return Ratios (%)					
Return on Assets (%)	2.9	0.9	3.6	4.7	5.1
RoCE (%)	7.7	4.1	6.5	8.1	9.0
Core RoIC (%)	8.8	4.4	8.3	10.3	12.2
RoE (%)	6.3	1.8	7.1	8.6	9.1
Solvency Ratios					
Total Debt / Equity	0.4	0.4	0.4	0.2	0.1
Interest Coverage	4.7	2.7	5.3	13.1	22.8
Current Ratio	1.1	1.5	1.7	1.4	1.5
Quick Ratio	0.8	1.1	1.2	0.9	1.0
Valuation Ratios (x)					
EV/EBITDA	12.8	17.3	11.4	9.0	7.0
P/E	28.9	90.9	21.8	16.7	14.6
P/B	1.8	1.6	1.5	1.4	1.3
EV/Sales	2.4	2.5	2.0	1.6	1.3

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	2570	3,375	Buy	39,064	48.6	55.4	70.1	52.9	46.4	36.7	36.5	32.0	25.7	17.2	17.2	18.8	13.8	13.8	15.0
Aarti Industries	1000	1,175	Buy	36,250	14.5	37.1	35.1	68.9	27.0	28.5	39.6	19.3	18.8	10.7	17.7	16.0	15.0	22.8	18.0
Tata Chemical	915	1,035	Hold	23,308	10.1	42.0	54.9	90.9	21.8	16.7	17.3	11.4	9.0	4.1	6.5	8.1	1.8	7.1	8.6
Vinati Organics	1948	2,320	Buy	20,022	26.2	31.5	41.8	74.3	61.9	46.6	56.3	49.4	35.2	21.7	23.3	26.0	17.4	18.0	20.0
Sumitomo Chemical	418	520	Buy	20,864	6.9	8.7	10.3	60.4	47.8	40.6	41.8	33.4	28.0	29.8	30.0	28.5	22.4	22.6	21.4
Navin Fluorine	4230	4,520	Hold	20,939	45.0	53.6	76.8	93.9	78.9	55.1	65.7	55.7	37.1	21.0	19.2	23.6	13.6	14.4	17.7
Rallis India	277	305	Hold	5,388	11.4	9.7	13.8	24.3	28.7	20.1	15.9	18.5	12.8	18.0	13.9	18.2	13.9	10.9	13.9
Sudarshan chemical	579	695	Buy	4,011	20.4	19.7	25.7	28.4	29.4	22.6	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1659	2,160	Buy	4,137	13.4	16.5	33.5	123.6	100.5	49.6	63.3	47.4	30.6	15.1	11.2	16.9	17.1	9.3	16.0
Astec Lifesciences	1730	2,120	Buy	3,389	33.2	43.1	55.0	52.1	40.2	31.5	32.0	23.9	19.3	18.9	21.6	22.4	21.0	21.6	21.9

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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