

Better soda ash prices support growth...

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

Q4FY22 Results: Numbers were above our estimates, led by better performance from North America and India regions. Bottomline was beat due to lower taxes.

- Reported revenue growth of 32% YoY to ₹ 3480.7 crore, led by higher growth in the basic chemical segment across four units
- Gross margins improved 80 bps YoY to ~79.8% while EBITDA margin expanded 816 bps YoY to 18.9% due to operating leverage
- EBITDA was up 133% YoY to ₹ 657.4 crore
- Adjusted PAT was at ₹ 408 crore vs. ₹ 11.8 crore in Q4FY21, led by lower taxes (8% vs. 64% in Q4FY21)

What should investors do? The stock appreciated at 55% CAGR in last three years.

- We revise our rating on the stock from HOLD to **BUY** due to better soda ash pricing environment

Target Price and Valuation: We value Tata Chemicals at SOTP valuation to arrive at a revised target price of ₹ 1155/share (earlier ₹ 1035/share).

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

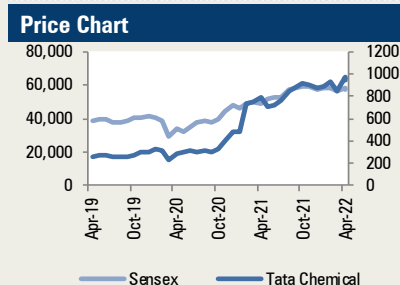
Alternate Stock Idea: Apart from Tata Chemicals, in our chemical coverage we also like Neogen Chemical.

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 2160



Particulars	Amount
Market cap (₹ Crore)	24,463
FY22 Total Debt (₹ Crore)	7,025
FY22 Cash & Inv (₹ Crore)	2,791
EV (₹ Crore)	28,697
52 Week H/L	1158/671
Equity Capital (₹ Crore)	254.8
Face Value (₹)	10

Shareholding pattern				
in %	Jun-21	Sept-21	Dec-21	Mar-22
Promoter	38.0	38.0	38.0	38.0
DII	19.7	20.0	18.3	19.9
FI	13.0	14.5	14.0	13.6
Others	29.3	27.6	29.7	28.5



Recent event & key risks	
•	Outlined a phase 2 capex of ₹ 2000 crore post FY24
•	Key Risk: (i) Fall in soda ash prices and rise in crude to impact EBITDA/tonne (ii) Suppressed demand of end user industries

Research Analyst	
Siddhant Khandekar	siddhant.khandekar@icicisecurities.com
Dhavan Shah	dhavan.shah@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	10,336.7	10,356.8	10,199.8	12,622.1	4.1%	15,100.7	16,356.7	13.8%
EBITDA	1,780.5	1,949.2	1,500.6	2,304.6	1.9%	2,888.1	3,201.9	17.9%
EBITDA Margins (%)	17.2%	18.8%	14.7%	18.3%		19.1%	19.6%	
Adj. PAT	875.0	806.6	256.4	1,211.5	6.6%	1,620.3	1,859.2	23.9%
Adj. EPS (₹)	34.3	31.7	10.1	47.5		63.6	73.0	
EV/EBITDA	14.3x	13.4x	18.9x	12.5x		9.2x	6.9x	
P/E	28.0x	30.3x	95.4x	20.2x		15.1x	13.2x	
ROE (%)	7.1	6.3	1.8	6.6		8.3	8.8	
ROCE (%)	7.1	7.7	4.1	6.6		8.4	9.0	

Key takeaways of recent quarter & conference call highlight

Q4FY22 Results: Higher soda ash realisations aid better performance

- **Basic chemical topline performance:** Revenues were up 37% YoY to ₹ 2901.8 crore. The India business reported growth of 31.8% YoY to ₹ 1062.8 crore while the same from North America, UK and Magadi was up 35.3% YoY, 50.4% YoY & 48.7% YoY to ₹ 1092 crore, ₹ 576 crore & ₹ 171 crore, respectively. The growth across geographies was largely driven by higher realisation owing to a revival in the demand of end user industry
- **Basic chemical operational performance:** EBITDA for the segment increased 137% YoY to ₹ 661.5 crore, largely on the back of better margins from North America and Magadi businesses. EBITDA/tonne for North America and Magadi remained at ₹ 4472 (+302% YoY) & ₹ 8000 (+172% YoY), respectively.

Q4FY22 Earnings Conference Call highlights

India:

- Soda ash price hike taken to the tune of ₹ 2000/tonne in April 2022
- 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

North America:

- Exports business has started witnessing rebound in the overall activity. The volumes have been improving and one can see better realisation growth, going ahead
- Volume growth for North America was up 8.7% YoY to 615,000 MT

Europe:

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

Other updates:

- The company earmarked a capex of ₹ 2000 crore post FY24. This includes an expansion of soda ash by 30%, soda bicarb by 40% and silica by 5x. This capex is for India business. The capex will be spread over five years
- Better growth from solar panel to aid demand for glass industry and thereby soda ash
- Russia-Ukraine crisis can have a limited impact for the UK business given that it sources gas from other Middle East countries
- 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 ₹ 4233 crore vs. ₹ 4120 crore as on December 2021

Financial story in charts

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

Basic chem Revenue	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
India	719	637	700	764	806	795	812	874	1,063
TCA - North America	800	619	711	742	807	837	867	891	1,092
TCE - Europe	365	316	337	374	383	407	416	551	576
TCM - Magadi	115	100	91	107	115	134	140	132	171

Source: ICICI Direct Research

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

Basic chem sales volume ('000 MT)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
TCL India	185	139	176	204	213	195	208	189	205
Soda Ash	159	118	151	178	184	167	178	156	176
Sodium Bicarbonate	26	21	25	26	29	28	30	33	29
TCA - North America	553	387	475	474	566	580	613	586	615
Soda Ash	553	387	475	474	566	580	613	586	615
TCE - Europe	101	92	94	98	96	95	93	99	100
Soda Ash	71	62	67	70	67	68	68	71	70
Sodium Bicarbonate	30	30	27	28	29	27	25	28	30
TCM - Magadi	75	57	51	56	68	83	86	73	75
Soda Ash	75	57	51	56	68	83	86	73	75

Source: ICICI Direct Research

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

Basic chem realisation/tonne	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
India	38,846	45,850	39,755	37,431	37,856	40,758	39,033	46,233	51,842
TCA - North America	14,467	15,995	14,968	15,654	14,258	14,431	14,144	15,205	17,756
TCE - Europe	36,139	34,348	35,851	38,163	39,896	42,842	44,731	55,657	57,600
TCM - Magadi	15,333	17,544	17,843	19,107	16,912	16,145	16,279	18,082	22,800

Source: ICICI Direct Research

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

Basic chem EBITDA/tonne	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
India	8,721	12,710	7,454	9,214	8,342	13,487	10,705	13,231	13,925
TCA - North America	3,689	904	2,021	3,333	1,113	2,983	3,197	2,440	4,472
TCE - Europe	5,050	3,043	4,894	4,592	1,979	3,053	-1,935	6,667	4,100
TCM - Magadi	1,467	1,754	1,176	4,643	2,941	3,012	2,674	3,425	8,000

Source: ICICI Direct Research

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

Basic chem OPM (%)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
India	22.5%	27.7%	18.8%	24.6%	22.0%	33.1%	27.4%	28.6%	26.9%
TCA - North America	25.5%	5.7%	13.5%	21.3%	7.8%	20.7%	22.6%	16.0%	25.2%
TCE - Europe	14.0%	8.9%	13.6%	12.0%	5.0%	7.1%	-4.3%	12.0%	7.1%
TCM - Magadi	9.6%	10.0%	6.6%	24.3%	17.4%	18.7%	16.4%	18.9%	35.1%

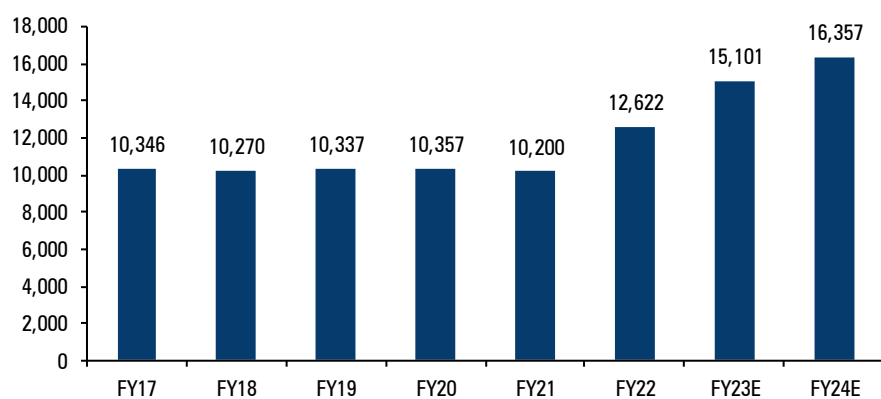
Source: ICICI Direct Research

Exhibit 6: SOTP valuation

In ₹ Crore unless other mentioned	Revenue		EBITDA		EV/EBITDA	EV
	FY23E	FY24E	FY23E	FY24E	FY24E	FY24E
Basic Chemical						
India		4,282		4,766	7.0x	8,835
ROW		7,396		7,744	6.0x	9,064
Speciality Products						
Rallis (50.09% stake and 20% holding company discount)		3,020		3,426	11.5x	1,836
Other Speciality		339		452	10.0x	513
Consolidated EV						20,248
Less: Net debt						450
Residual business MCAP						19,798
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						29,398
No. of shares						25.5
Target price/share						1,155
CMP						960
Upside/downside						20%

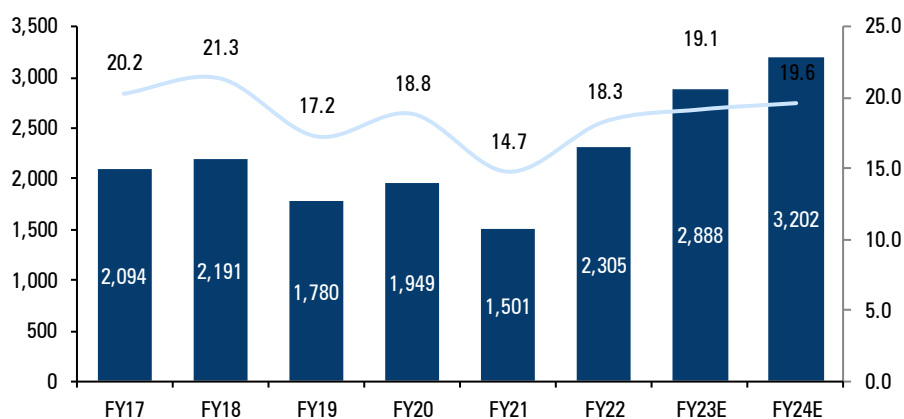
Source: ICICI Direct Research

Exhibit 7: Revenue trend (₹ crore)



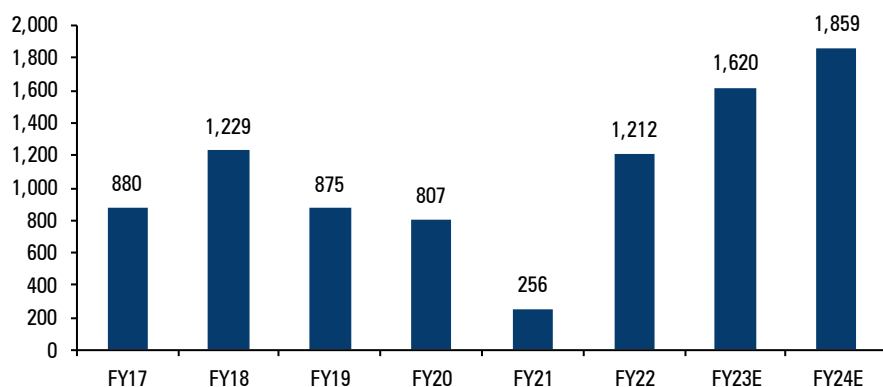
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Exhibit 9: Adjusted PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement ₹ crore

Year end March	FY20	FY21	FY22	FY23E	FY24E
Total Operating Income	10,356.8	10,199.8	12,622.1	15,100.7	16,356.7
Growth (%)	0.2	-1.5	23.7	19.6	8.3
Raw Material Expenses	1,968.4	2,396.9	2,637.3	3,020.1	3,271.3
Gross Profit	8,388.4	7,802.9	9,984.8	12,080.5	13,085.4
Employee Cost	1,375.4	1,399.7	1,540.0	1,766.8	1,864.7
Other Operating Expenses	5,063.8	4,902.5	6,140.2	7,425.7	8,018.8
EBITDA	1,949.2	1,500.6	2,304.6	2,888.1	3,201.9
Growth (%)	9.5	-23.0	53.6	25.3	10.9
Other Income	311.1	234.4	256.0	260.0	271.6
EBITDA, including OI	2,260.3	1,735.1	2,560.6	3,148.1	3,473.5
Depreciation	666.5	759.3	806.1	917.3	964.8
Net Interest Exp.	341.9	367.4	302.8	245.2	166.5
Other exceptional items	0.0	0.0	-11.0	0.0	0.0
PBT	1,251.9	608.4	1,440.6	1,985.7	2,342.2
Total Tax	219.7	197.8	266.5	445.1	516.4
Tax Rate	17.5%	32.5%	18.5%	22.4%	22.0%
PAT	1,032.3	410.6	1,174.1	1,540.5	1,825.8
Adj. PAT after Minority interest	806.6	256.4	1,211.5	1,620.3	1,859.2
Adj. EPS (₹)	31.7	10.1	47.5	63.6	73.0
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	FY22	FY23E	FY24E
PBT & Extraordinary	7,407.5	634.0	1,684.9	2,225.7	2,582.2
Depreciation	666.5	759.3	806.1	917.3	964.8
After other adjustments					
(Inc) / Dec in Working Capital	-129.9	323.3	-648.8	965.1	-63.5
Taxes	-147.8	-96.3	-263.4	-445.1	-516.4
Others	-6,016.2	417.0	65.5	245.2	166.5
CF from operating activities	1,780.1	2,037.3	1,644.3	3,908.0	3,133.5
Purchase of Fixed Assets	-1,199.4	-1,241.9	-1,276.8	-1,065.0	-1,065.0
Others	-1,168.7	111.6	440.7	625.1	-500.0
CF from investing activities	-2,368.1	-1,130.3	-836.1	-439.9	-1,565.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Borrowings (Net)	735.1	-634.1	-40.5	-2,750.0	-877.6
Others	-864.4	-821.5	-714.8	-525.5	-446.8
CF from financing activities	-129.3	-1,455.6	-755.2	-3,275.5	-1,324.4
Net cash flow	-717.3	-548.6	53.0	192.6	244.2
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	1,310.4	1,503.0
Closing Cash	2,079.5	1,411.0	1,310.4	1,503.0	1,747.2

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore

Year end March	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Share Capital	254.8	254.8	254.8	254.8	254.8
Reserves	12,642.8	14,035.2	17,998.1	19,338.0	20,916.9
Total Shareholders Funds	12,897.7	14,290.0	18,252.9	19,592.9	21,171.8
Minority Interest	763.8	852.6	904.5	1,064.7	1,271.3
Long Term Borrowings	3,473.4	5,388.1	3,860.5	1,210.5	410.5
Net Deferred Tax liability	1,437.9	1,572.1	2,036.5	2,036.5	2,036.5
Other long term liabilities	437.6	173.0	413.6	133.9	145.0
Long term provisions	1,653.5	1,598.1	1,279.3	2,601.0	2,817.3
Current Liabilities and Provisions					
Short term borrowings	1,912.9	1,544.5	3,164.1	3,064.1	2,986.5
Trade Payables	1,630.9	1,682.9	2,444.7	2,896.0	3,136.9
Other Current Liabilities	3,267.6	870.9	1,116.1	1,335.2	1,446.3
Short Term Provisions	276.9	365.1	371.2	444.1	481.0
Total Current Liabilities	7,088.4	4,463.4	7,096.0	7,739.4	8,050.7
Total Liabilities	27,752.2	28,337.2	33,843.3	34,378.8	35,903.1
Assets					
Net Block	13,073.9	12,971.3	13,758.9	15,331.2	15,431.3
Capital Work in Progress	787.8	1,034.7	1,589.6	165.0	165.0
Intangible assets under devl.	47.2	58.8	77.8	77.8	77.8
Goodwill on Consolidation	1,999.8	1,963.3	2,016.4	2,016.4	2,016.4
Non-current investments	2,683.8	4,252.3	6,357.5	6,357.5	6,357.5
Deferred tax assets	15.3	0.0	0.1	0.1	0.1
Long term loans and advances	10.0	10.7	0.0	11.7	12.7
Other Non Current Assets	1,272.1	1,400.4	1,298.1	1,017.4	1,097.5
Current Assets, Loans & Advances					
Current Investments	1,601.0	1,563.5	1,325.1	700.0	1,200.0
Inventories	1,869.2	1,686.6	2,293.5	2,771.9	3,002.5
Sundry Debtors	1,579.9	1,397.0	1,933.4	2,358.2	2,554.3
Cash and Bank	2,079.5	1,411.0	1,310.4	1,503.0	1,747.2
Loans and Advances	0.2	0.2	0.2	0.2	0.2
Other Current assets	732.5	587.5	1,882.5	2,068.6	2,240.6
Current Assets	7,862.3	6,645.7	8,745.0	9,401.9	10,744.8
Total Assets	27,752.2	28,337.2	33,843.3	34,378.8	35,903.1

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

Year end March	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adj. EPS	31.7	10.1	47.5	63.6	73.0
Adj. Cash EPS	57.8	39.9	79.2	99.6	110.8
BV	506.1	560.8	716.3	768.9	830.9
DPS	11.0	10.0	12.5	11.0	11.0
Operating Ratios (%)					
Gross Margin (%)	81.0	76.5	79.1	80.0	80.0
EBITDA Margin (%)	18.8	14.7	18.3	19.1	19.6
PAT Margin (%)	7.8	2.5	9.6	10.7	11.4
Debtor Days	56	50	56	57	57
Inventory Days	66	60	66	67	67
Creditor Days	57	60	71	70	70
Cash Conversion Cycle	64	50	52	54	54
Return Ratios (%)					
Return on Assets (%)	2.9	0.9	3.6	4.7	5.2
RoCE (%)	7.7	4.1	6.6	8.4	9.0
Core RoIC (%)	8.8	4.1	6.6	9.1	10.3
RoE (%)	6.3	1.8	6.6	8.3	8.8
Solvency Ratios					
Total Debt / Equity	0.4	0.5	0.4	0.2	0.2
Interest Coverage	4.7	2.7	5.8	9.1	15.1
Current Ratio	1.1	1.5	1.2	1.2	1.3
Quick Ratio	0.8	1.1	0.9	0.9	1.0
Valuation Ratios (x)					
EV/EBITDA	13.4	18.9	12.5	9.2	6.9
P/E	30.3	95.4	20.2	15.1	13.2
P/B	1.9	1.7	1.3	1.2	1.2
EV/Sales	2.5	2.8	2.3	1.8	1.4

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
SRF	2513	3,065	Buy	81,517	40.4	63.7	73.4	62.2	39.4	34.2	37.2	25.9	22.5	18.7	24.3	24.0	17.5	23.5	22.9
PI Industries	2848	3,375	Buy	44,358	48.6	55.4	70.1	58.6	51.4	40.7	39.3	34.4	27.6	17.2	17.2	18.8	13.8	13.8	15.0
Aarti Industries	888	1,175	Buy	35,154	14.5	37.1	35.1	61.2	23.9	25.3	39.6	19.3	18.8	10.7	17.7	16.0	15.0	22.8	18.0
Tata Chemical	960	1,155	Buy	24,463	10.1	47.5	63.6	95.4	20.2	15.1	18.9	12.5	9.2	1.8	6.6	8.3	4.1	6.6	8.4
Vinati Organics	2099	2,320	Buy	20,493	26.2	31.5	41.8	80.1	66.7	50.2	56.3	49.4	35.2	21.7	23.3	26.0	17.4	18.0	20.0
Sumitomo Chemical	429	520	Buy	21,254	6.9	8.7	10.3	62.0	49.1	41.7	41.8	33.4	28.0	29.8	30.0	28.5	22.4	22.6	21.4
Navin Fluorine	3932	4,520	Hold	20,306	45.0	53.6	76.8	87.3	73.4	51.2	60.8	51.6	34.4	21.0	19.2	23.6	13.6	14.4	17.7
Rallis India	235	235	Reduce	4,937	11.4	8.4	8.9	20.6	27.8	26.5	14.5	17.4	17.3	18.0	12.7	11.6	13.9	9.7	9.5
Sudarshan chemical	523	695	Buy	3,723	20.4	19.7	25.7	25.7	26.6	20.4	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1549	2,160	Buy	4,142	13.4	16.5	33.5	115.4	93.8	46.3	63.3	47.4	30.6	15.1	11.2	16.9	17.1	9.3	16.0
Astec Lifesciences	1829	2,120	Buy	3,544	33.2	43.1	55.0	55.1	42.5	33.3	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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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