

Soda ash propels growth; outlook strong...

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

Q1FY23 Results: Reported strong numbers across the board largely led by robust realisation growth across all geographies in basic chemical segment

- Reported revenue growth of 34.2% YoY to ₹ 3995 crore, led by good growth in the basic chemical segment (+41%YoY) and in speciality products (+17% YoY)
- Gross margins improved 190 bps YoY to ~80.1% while EBITDA margin expanded 520 bps YoY to 25.4%, highest till date
- EBITDA was up 69% YoY to ₹ 1015 crore
- Adjusted PAT was at ₹ 544.7 crore vs. ₹ 288 crore in Q1FY22

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

- We revise our rating from HOLD to **BUY** on the stock 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 ₹ 1370/share (earlier ₹ 1155/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 ₹ 1645



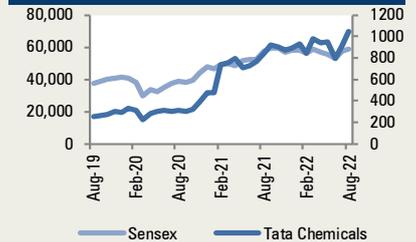
Particulars

Particular	Amount
Market cap (₹ Crore)	29,432
FY22 Total Debt (₹ Crore)	7,025
FY22 Cash & Inv (₹ Crore)	2,791
EV (₹ Crore)	33,666
52 Week H/L	1158/671
Equity Capital (₹ Crore)	254.8
Face Value (₹)	10

Shareholding pattern

in %	Sept-21	Dec-21	Mar-22	Jun-22
Promoter	38.0	38.0	38.0	38.0
DII	20.0	18.3	19.9	19.1
FII	14.5	14.0	13.6	15.0
Others	27.6	29.7	28.5	27.9

Price Chart



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) Revival in demand and thereby prices

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%	13,984.7	15,240.7	9.9%
EBITDA	1,780.5	1,949.2	1,500.6	2,304.6	1.9%	2,776.0	3,089.9	15.8%
EBITDA Margins (%)	17.2%	18.8%	14.7%	18.3%		19.9%	20.3%	
Adj. PAT	875.0	806.6	256.4	1,211.5	6.6%	1,535.2	1,774.5	21.0%
Adj. EPS (₹)	34.3	31.7	10.1	47.5		60.2	69.6	
EV/EBITDA	14.0x	13.2x	18.6x	12.3x		9.4x	7.0x	
P/E	27.4x	29.7x	93.4x	19.8x		15.6x	13.5x	
ROE (%)	7.1	6.3	1.8	6.6		7.9	8.4	
ROCE (%)	7.1	7.7	4.1	6.6		8.0	8.7	

Key takeaways of recent quarter & conference call highlight

Q1FY23 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 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

Q1FY23 Earnings Conference Call highlights

India:

- Mithapur unit operating at full capacity
- Higher soda ash and bi carb realisations on the back of strong market demand, market tightness
- EBITDA improvement due to improved realisations, which offset significant increase in raw material and energy costs

North America:

- Overall US volumes remain strong with growth in domestic and export market; overall market remains tight.
- Export prices remain strong and above pre-Covid levels
- Maintenance shutdown in one dryer leading to 10K MT production loss
- Gas prices remain at elevated levels
- Part pre-payment of \$30 million debt during the quarter

Europe:

- EBITDA improvement on account of improved realisations, which offset significant increase in raw material and energy costs
- Marginally lower volumes in Q1FY23

Kenya:

- Kenya operation maintained its steady performance with higher sales volume and higher export realisations
- Margins improved compared to past year on account of higher realisations and robust market demand
- Unit continues its focus to optimisation cost and improve efficiencies

Rallis:

- Higher revenues driven by robust growth in crop care
- Margins impacted due to cost inflation and competitive pricing
- External factors affecting costs, margins and operations are being addressed
- Crop care margins improved while seeds margin was impacted and continues to be under pressure

Soda Ash:

- Soda ash prices are expected to remain firm in the next 18-24 months
- Demand for soda ash is strong in spite of high prices. Demand is robust from detergent and glass industry
- If energy prices remain at current levels, soda ash prices will have high realisations in future

Other updates:

- Revenue in the current quarter was driven by core business of soda ash and bi-carbonate
- Capex plan is progressing well. The company expects it to get commissioned in FY24
- There is a shift in contract pattern for exports. The company has started to enter contracts on a quarterly basis
- Bi-carb business is doing well. New business has seen revenue growth
- Volumes growth can be expected from China and the US. Capacity has been announced and is likely to come on stream in FY25-16
- Better growth from solar panel to aid demand for glass industry and thereby soda ash
- Russia-Ukraine crisis can have limited impact on 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	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
India	637	700	764	806	795	812	874	1,063	1,164
TCA - North America	619	711	742	807	837	867	891	1,092	1,119
TCE - Europe	316	337	374	383	407	416	551	576	531
TCM - Magadi	100	91	107	115	134	140	132	171	246

Source: ICICI Direct Research

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

Basic chem sales volume ('000 MT)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
TCL India	139	176	204	213	195	208	189	205	199
Soda Ash	118	151	178	184	167	178	156	176	169
Sodium Bicarbonate	21	25	26	29	28	30	33	29	30
TCA - North America	387	475	474	566	578	613	586	615	568
Soda Ash	387	475	474	566	578	613	586	615	568
TCE - Europe	92	94	98	96	95	93	99	100	93
Soda Ash	62	67	70	67	68	68	71	70	65
Sodium Bicarbonate	30	27	28	29	27	25	28	30	28
TCM - Magadi	57	51	56	68	83	86	73	75	83
Soda Ash	57	51	56	68	83	86	73	75	83

Source: ICICI Direct Research

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

Basic chem realisation/tonne	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
India	45,850	39,755	37,431	37,856	40,758	39,033	46,233	51,842	58,463
TCA - North America	15,995	14,968	15,654	14,258	14,491	14,144	15,205	17,756	19,704
TCE - Europe	34,348	35,851	38,163	39,896	42,842	44,731	55,657	57,600	57,282
TCM - Magadi	17,544	17,843	19,107	16,912	16,145	16,279	18,082	22,800	29,532

Source: ICICI Direct Research

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

Basic chem EBITDA/tonne	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
India	12,710	7,454	9,214	8,342	13,487	10,705	13,231	13,925	21,265
TCA - North America	904	2,021	3,333	1,113	2,995	3,197	2,440	4,472	4,860
TCE - Europe	3,043	4,894	4,592	1,979	3,053	-1,935	6,667	4,100	10,572
TCM - Magadi	1,754	1,176	4,643	2,941	3,012	2,674	3,425	8,000	14,286

Source: ICICI Direct Research

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

Basic chem OPM (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
India	27.7%	18.8%	24.6%	22.0%	33.1%	27.4%	28.6%	26.9%	36.4%
TCA - North America	5.7%	13.5%	21.3%	7.8%	20.7%	22.6%	16.0%	25.2%	24.7%
TCE - Europe	8.9%	13.6%	12.0%	5.0%	7.1%	-4.3%	12.0%	7.1%	18.5%
TCM - Magadi	10.0%	6.6%	24.3%	17.4%	18.7%	16.4%	18.9%	35.1%	48.4%

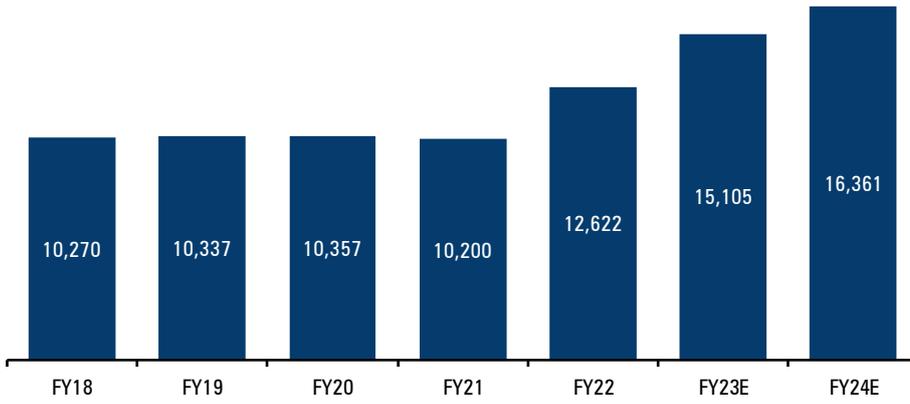
Source: ICICI Direct Research

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	1,134	1,262	9.0x	11,359
ROW	7,401	7,748	1,437	1,512	8.0x	12,094
Speciality Products						
Rallis (50.09% stake and 20% holding company discount)	3,020	3,426	293	400	11.5x	1,836
Other Speciality	339	452	38	51	10.0x	513
Consolidated EV						25,802
Less: Net debt						448
Residual business MCAP						25,354
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						34,954
No. of shares						25.5
Target price/share						1,370
CMP						1,155
Upside/downside						19%

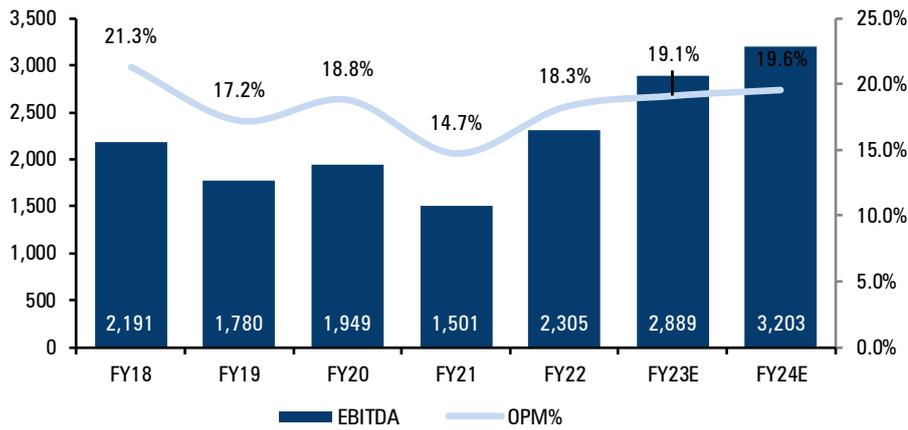
Source: ICICI Direct Research

Exhibit 7: Revenue trend (₹ crore)



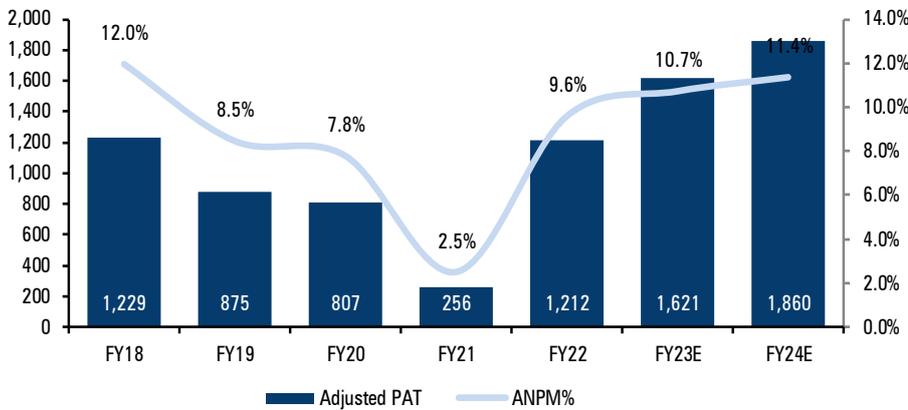
Source: Company, ICICI Direct Research

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	FY21	FY22	FY23E	FY24E
Total Operating Income	10,199.8	12,622.1	15,104.8	16,361.0
Growth (%)	-1.5	23.7	19.7	8.3
Raw Material Expenses	2,396.9	2,637.3	3,021.0	3,272.2
Gross Profit	7,802.9	9,984.8	12,083.8	13,088.8
Employee Cost	1,399.7	1,540.0	1,767.3	1,865.2
Other Operating Expenses	4,902.5	6,140.2	7,427.4	8,020.6
EBITDA	1,500.6	2,304.6	2,889.1	3,203.0
Growth (%)	-23.0	53.6	25.4	10.9
Other Income	234.4	256.0	260.1	271.6
EBITDA, including OI	1,735.1	2,560.6	3,149.2	3,474.6
Depreciation	759.3	806.1	917.3	964.8
Net Interest Exp.	367.4	302.8	245.2	166.5
Other exceptional items	0.0	-11.0	0.0	0.0
PBT	608.4	1,440.6	1,986.7	2,343.4
Total Tax	197.8	266.5	445.3	516.7
Tax Rate	32.5%	18.5%	22.4%	22.0%
PAT	410.6	1,174.1	1,541.4	1,826.7
Adj. PAT after Minority interest	256.4	1,211.5	1,621.1	1,860.0
Adj. EPS (₹)	10.1	47.5	63.6	73.0
Shares Outstanding	25.5	25.5	25.5	25.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
PBT & Extraordinary	634.0	1,684.9	2,226.7	2,583.4
Depreciation	759.3	806.1	917.3	964.8
After other adjustments				
(Inc) / Dec in Working Capital	323.3	-648.8	964.9	-63.6
Taxes	-96.3	-263.4	-445.3	-516.7
Others	417.0	65.5	245.2	166.5
CF from operating activities	2,037.3	1,644.3	3,908.7	3,134.4
Purchase of Fixed Assets	-1,241.9	-1,276.8	-1,065.0	-1,065.0
Others	111.6	440.7	625.1	-500.0
CF from investing activities	-1,130.3	-836.1	-439.9	-1,565.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0
Borrowings (Net)	-634.1	-40.5	-2,750.0	-877.6
Others	-821.5	-714.8	-525.5	-446.8
CF from financing activities	-1,455.6	-755.2	-3,275.5	-1,324.4
Net cash flow	-548.6	53.0	193.3	245.0
Effects of foreign currency translation	0.0	0.0	0.0	0.0
Opening Cash	2,079.5	1,411.0	1,310.4	1,503.7
Closing Cash	1,411.0	1,310.4	1,503.7	1,748.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
Liabilities				
Share Capital	254.8	254.8	254.8	254.8
Reserves	14,035.2	17,998.1	19,338.8	20,918.5
Total Shareholders Funds	14,290.0	18,252.9	19,593.6	21,173.4
Minority Interest	852.6	904.5	1,064.8	1,271.5
Long Term Borrowings	5,388.1	3,860.5	1,210.5	410.5
Net Deferred Tax liability	1,572.1	2,036.5	2,036.5	2,036.5
Other long term liabilities	173.0	413.6	133.9	145.0
Long term provisions	1,598.1	1,279.3	2,601.7	2,818.1
Current Liabilities and Provisions				
Short term borrowings	1,544.5	3,164.1	3,064.1	2,986.5
Trade Payables	1,682.9	2,444.7	2,896.8	3,137.7
Other Current Liabilities	870.9	1,116.1	1,335.6	1,446.7
Short Term Provisions	365.1	371.2	444.2	481.1
Total Current Liabilities	4,463.4	7,096.0	7,740.7	8,052.0
Total Liabilities	28,337.2	33,843.3	34,381.7	35,906.9
Assets				
Net Block	12,971.3	13,758.9	15,331.2	15,431.3
Capital Work in Progress	1,034.7	1,589.6	165.0	165.0
Intangible assets under devl.	58.8	77.8	77.8	77.8
Goodwill on Consolidation	1,963.3	2,016.4	2,016.4	2,016.4
Non-current investments	4,252.3	6,357.5	6,357.5	6,357.5
Deferred tax assets	0.0	0.1	0.1	0.1
Long term loans and advances	10.7	0.0	11.7	12.7
Other Non Current Assets	1,400.4	1,298.1	1,017.6	1,097.8
Current Assets, Loans & Advances				
Current Investments	1,563.5	1,325.1	700.0	1,200.0
Inventories	1,686.6	2,293.5	2,772.7	3,003.3
Sundry Debtors	1,397.0	1,933.4	2,358.8	2,555.0
Cash and Bank	1,411.0	1,310.4	1,503.7	1,748.7
Loans and Advances	0.2	0.2	0.2	0.2
Other Current assets	587.5	1,882.5	2,069.1	2,241.2
Current Assets	6,645.7	8,745.0	9,404.5	10,748.4
Total Assets	28,337.2	33,843.3	34,381.7	35,906.9

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
Year end March	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Adj. EPS	10.1	47.5	63.6	73.0
Adj. Cash EPS	39.9	79.2	99.6	110.9
BV	560.8	716.3	768.9	830.9
DPS	10.0	12.5	11.0	11.0
Operating Ratios (%)				
Gross Margin (%)	76.5	79.1	80.0	80.0
EBITDA Margin (%)	14.7	18.3	19.1	19.6
PAT Margin (%)	2.5	9.6	10.7	11.4
Debtor Days	50	56	57	57
Inventory Days	60	66	67	67
Creditor Days	60	71	70	70
Cash Conversion Cycle	50	52	54	54
Return Ratios (%)				
Return on Assets (%)	0.9	3.6	4.7	5.2
RoCE (%)	4.1	6.6	8.4	9.0
Core RoIC (%)	4.1	6.6	9.1	10.4
RoE (%)	1.8	6.6	8.3	8.8
Solvency Ratios				
Total Debt / Equity	0.5	0.4	0.2	0.2
Interest Coverage	2.7	5.8	9.1	15.1
Current Ratio	1.5	1.2	1.2	1.3
Quick Ratio	1.1	0.9	0.9	1.0
Valuation Ratios (x)				
EV/EBITDA	22.3	14.7	10.9	8.5
P/E	114.8	24.3	18.2	15.8
P/B	2.1	1.6	1.5	1.4
EV/Sales	3.3	2.7	2.1	1.7

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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2340	2,735	Buy	69,466	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	3200	3,710	Buy	48,550	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Aarti Industries	712	860	Hold	25,812	21.7	24.4	30.7	32.8	29.2	23.2	22.6	18.9	15.4	12.0	12.6	13.6	13.3	13.2	14.4
Tata Chemical	1155	1,370	Buy	29,432	47.5	63.6	73.0	24.3	18.2	15.8	14.7	10.9	8.5	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2238	2,320	Hold	23,000	33.7	40.1	51.5	56.0	47.1	36.7	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	476	565	Buy	23,809	8.5	10.9	12.5	56.1	43.5	38.0	38.9	30.4	26.1	30.2	30.4	28.2	22.0	22.6	21.0
Navin Fluorine	4200	4,450	Hold	20,812	52.3	67.4	89.0	80.3	62.3	47.2	58.4	41.8	30.6	17.8	18.7	19.6	14.0	15.8	17.9
Rallis India	208	200	Hold	3,987	8.4	8.9	12.4	24.3	23.1	16.6	13.9	14.1	10.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	455	515	Hold	3,153	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1422	1,645	Buy	3,545	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	1791	2,215	Buy	3,509	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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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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