

# Retail Equity Research

## Tata Chemicals Limited

Chemicals

BSE CODE: 500770

NSE CODE: TATACHEM

Bloomberg CODE: TTCH:IN

SENSEX: 59,809

**BUY**

12 Months Investment Period Rating as per Mid Cap

CMP Rs. 1,007 TARGET Rs. 1,197 RETURN 19%   
(Closing: 03-03-23)

**KEY CHANGES:**

**TARGET** 

**RATING** 

**EARNINGS** 

### Soda ash drives growth; outlook positive

Tata Chemicals Ltd (TCL) is the world's third largest producer of soda ash with manufacturing facilities in Asia, Europe, Africa and North America. It also has a strong focus on consumer, agri and specialty businesses.

- In Q3FY23, its consolidated revenue was up 32.0% YoY to Rs. 4,148cr (down 2.1% QoQ) led by better soda ash realisations across all geographies and stable demand.
- EBITDA was up 69.1% YoY to Rs. 922cr and EBITDA margin 480bps YoY to 22.2% aided by better cost management. PAT increased 25.7% YoY to Rs. 391cr.
- The company posted decent earnings on account of stable demand, better realisations and cost management. The management expects soda ash demand to rise, with supply tightening in the upcoming quarters leading to better realisations. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 1,197 based on 14x FY25E adjusted EPS.

### Better realisations boost top line

TCL's consolidated revenue increased 32.0% YoY (down 2.1% QoQ) to Rs. 4,148cr in Q3FY23 on account of higher realisations and stable demand across segments and geographies. Revenue from basic chemistry products grew a solid 41.9% YoY to Rs. 3,473cr. Revenue from specialty products fell 0.4% YoY to Rs. 676cr. Geographically, India revenue grew 31% YoY to Rs. 1,218cr backed by higher realisations; US revenue 48% YoY to Rs. 1,323cr led by 4% volume growth; UK revenue 34% YoY to Rs. 738cr; and Kenya 83% YoY to Rs. 241cr.

### Key concall highlights

- Gross debt down from \$930mn to \$780mn on account of prepayment of \$144mn in the overseas units during 9MFY23.
- Despite recessionary pressure in multiple geographies, the company's orders are fully booked and expects strong market for its products, aided by expectations of the Chinese market slowly opening up.
- Seasonality of the business affected the performance of Rallis; the management focusses on improving the portfolio offerings and strengthening manufacturing.
- The US has gone back to normal production run rate after the protracted shutdown and demand for products continues to be resilient.

### Margin improves due to better realisations

EBITDA increased 69.1% YoY to Rs. 922cr, owing to better realization and cost management, which nullified input cost inflation. EBITDA margin grew 480bps YoY to 22.2%. Subsequently, PAT increased to 25.7% YoY to Rs. 391cr. However, PAT fell 37.7% QoQ due to lack of dividends and tax refunds in Q3FY23 unlike Q2FY23 and loss from Morocco joint venture.

### Valuation

TCL is focused on capacity expansions, maximum plant utilisation and improving cost efficiency. The company expects demand for soda ash to rise, aided by reopening of China and emergence of newer glass applications. Favourable demand-supply dynamics in soda ash is expected to drive performance in the near term. We remain optimistic on the stock and reiterate our BUY rating with a revised target price of Rs. 1,197 based on 14x FY25E adjusted EPS.

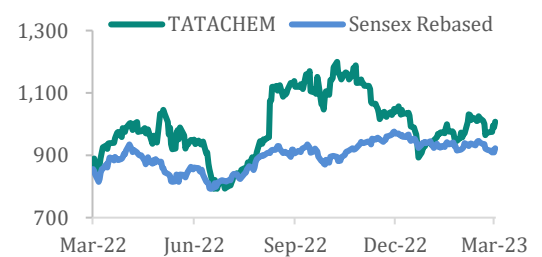
### Company Data

Market Cap (cr)	Rs. 25,664
Enterprise Value (cr)	Rs. 31,255
Outstanding Shares (cr)	25.5
Free Float	61.0%
Dividend Yield	1.2%
52 week high	Rs. 1,215
52 week low	Rs. 774
6m average volume	83,612
Beta	0.9
Face value	Rs. 10

Shareholding %	Q1FY23	Q2FY23	Q3FY23
Promoters	38.0	38.0	38.0
FII's	15.0	14.9	14.4
MFs/Insti	19.2	19.5	19.0
Public	23.8	26.2	27.2
Others	4.1	1.5	1.4
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-3.1%	-10.0%	13.2%
Absolute Sensex	-4.9%	1.7%	8.5%
Relative Return*	1.8%	-11.7%	4.7%

\*over or under performance to benchmark index



Consolidated (cr)	FY23E	FY24E	FY25E
Sales	16,314	17,259	18,120
Growth (%)	29.3	5.8	5.0
EBITDA	3,681	3,805	3,972
EBITDA Margin (%)	22.6	22.0	21.9
Adj. PAT	2,056	2,095	2,176
Growth (%)	64.0	1.9	3.9
Adj. EPS	80.7	82.3	85.4
Growth (%)	64.0	1.9	3.9
P/E	12.5	12.2	11.8
P/B	1.3	1.2	1.1
EV/EBITDA	8.5	8.0	7.5
ROE (%)	10.3	9.6	9.2
D/E	0.3	0.3	0.3

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q3FY23	Q3FY22	YoY Growth %	Q2FY23	QoQ Growth %	9MFY23	9MFY22	YoY Growth %
Revenue	4,148	3,142	32.0	4,239	(2.1)	12,382	9,141	35.4
<b>EBITDA</b>	<b>922</b>	<b>545</b>	<b>69.1</b>	<b>920</b>	<b>0.2</b>	<b>2,857</b>	<b>1,647</b>	<b>73.4</b>
EBITDA margins	22.2	17.4	480bps	21.7	50bps	23.1	18.0	510bps
Depreciation	227	203	11.6	218	4.1	658	601	9.5
<b>EBIT</b>	<b>695</b>	<b>342</b>	<b>103.4</b>	<b>702</b>	<b>(1.0)</b>	<b>2,199</b>	<b>1,046</b>	<b>110.1</b>
Interest	107	69	56.0	86	24.4	273	234	16.9
Other Income	37	39	(5.3)	60	(38.3)	143	150	(4.5)
Exceptional Items	-	-	n.m.	-	n.m.	-	(11)	n.m.
<b>PBT</b>	<b>534</b>	<b>406</b>	<b>31.5</b>	<b>723</b>	<b>(26.1)</b>	<b>2,054</b>	<b>1,154</b>	<b>78.1</b>
Tax	102	66	54.4	38	168.4	296	224	32.4
Share of profit from Associate	(91)	94	n.m.	47	n.m.	(15)	202	n.m.
Minority Interest	34	39	(12.9)	52	(34.6)	134	140	(4.5)
<b>Reported PAT</b>	<b>391</b>	<b>311</b>	<b>25.7</b>	<b>628</b>	<b>(37.7)</b>	<b>1,608</b>	<b>820</b>	<b>96.1</b>
Adjustments	-	-	n.m.	-	n.m.	-	11	n.m.
<b>Adj. PAT</b>	<b>391</b>	<b>311</b>	<b>25.7</b>	<b>628</b>	<b>(37.7)</b>	<b>1,608</b>	<b>831</b>	<b>93.5</b>
No. of shares	25.5	25.5	0.1	25.5	-	25.5	25.5	0.1
<b>Adj. EPS (Rs.)</b>	<b>15.3</b>	<b>12.2</b>	<b>25.6</b>	<b>24.6</b>	<b>(37.7)</b>	<b>63.1</b>	<b>32.6</b>	<b>93.3</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change %	
	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E
Revenue	15,298	17,565	16,314	17,259	18,120	6.6	(1.7)
EBITDA	2,945	3,401	3,681	3,805	3,972	25	11.9
Margins (%)	19.2	19.4	22.6	22.0	21.9	340bps	260bps
Adj. PAT	1,476	1,706	2,056	2,095	2,176	39.3	22.8
Adj. EPS	58.0	67.0	80.7	82.3	85.4	39.3	22.8

## PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>10,200</b>	<b>12,622</b>	<b>16,314</b>	<b>17,259</b>	<b>18,120</b>
% change	(1.5)	23.7	29.3	5.8	5.0
<b>EBITDA</b>	<b>1,501</b>	<b>2,305</b>	<b>3,681</b>	<b>3,805</b>	<b>3,972</b>
% change	(23.0)	53.6	56.3	2.9	4.4
Depreciation	759	806	892	940	982
<b>EBIT</b>	<b>741</b>	<b>1,499</b>	<b>2,790</b>	<b>2,865</b>	<b>2,990</b>
Interest	367	303	384	406	423
Other Income	260	471	354	353	353
<b>PBT</b>	<b>634</b>	<b>1,667</b>	<b>2,759</b>	<b>2,812</b>	<b>2,920</b>
% change	(49.2)	162.9	65.6	1.9	3.9
Tax	198	266	524	534	555
Tax Rate (%)	31.2	16.0	19.0	19.0	19.0
<b>Reported PAT</b>	<b>256</b>	<b>1,258</b>	<b>2,056</b>	<b>2,095</b>	<b>2,176</b>
Adj*	-	(4)	-	-	-
<b>Adj PAT</b>	<b>256</b>	<b>1,254</b>	<b>2,056</b>	<b>2,095</b>	<b>2,176</b>
% change	(68.2)	389.0	64.0	1.9	3.9
No. of shares (cr)	25.5	25.5	25.5	25.5	25.5
<b>Adj EPS (Rs.)</b>	<b>10.1</b>	<b>49.2</b>	<b>80.7</b>	<b>82.3</b>	<b>85.4</b>
% change	(68.2)	389.2	64.0	1.9	3.9
DPS (Rs.)	10.0	12.5	12.0	13.2	14.5
CEPS (Rs.)	39.9	80.9	112.7	115.4	120.0

## CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Net inc. + Depn.</b>	<b>1,016</b>	<b>2,064</b>	<b>2,870</b>	<b>2,938</b>	<b>3,056</b>
Non-cash adj.	698	229	430	506	533
Changes in W.C	323	(649)	(118)	(283)	(109)
<b>C.F. Operation</b>	<b>2,037</b>	<b>1,644</b>	<b>3,181</b>	<b>3,161</b>	<b>3,480</b>
Capital exp.	(1,233)	(1,265)	(1,387)	(1,553)	(1,631)
Change in inv.	(100)	164	(269)	(121)	(125)
Other invest.CF	203	266	-	-	-
<b>C.F - Investment</b>	<b>(1,130)</b>	<b>(836)</b>	<b>(1,656)</b>	<b>(1,674)</b>	<b>(1,755)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	(634)	(40)	(40)	(40)	(40)
Dividends paid	(280)	(255)	(306)	(335)	(370)
Other finance.CF	(541)	(460)	(349)	(425)	(405)
<b>C.F - Finance</b>	<b>(1,456)</b>	<b>(755)</b>	<b>(695)</b>	<b>(801)</b>	<b>(815)</b>
Chg. in cash	(549)	53	829	687	910
Closing cash	1,411	1,310	2,140	2,826	3,736

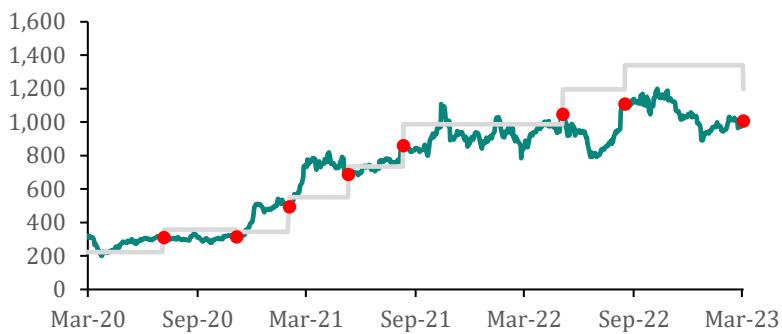
## BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	1,411	1,310	2,140	2,826	3,736
Accounts Receivable	1,397	1,933	2,284	2,589	2,718
Inventories	1,687	2,294	2,679	2,834	2,976
Other Cur. Assets	2,151	3,208	3,351	3,494	3,633
Investments	4,307	6,411	6,667	6,721	6,775
Gross Fixed Assets	8,345	9,610	10,997	12,550	14,181
Net Fixed Assets	5,645	6,200	6,680	7,296	8,189
CWIP	1,035	1,590	1,605	1,622	1,638
Intangible Assets	9,620	9,868	9,946	10,024	9,866
Def. Tax (Net)	-	0	0	0	0
Other Assets	1,085	1,029	978	934	896
<b>Total Assets</b>	<b>28,337</b>	<b>33,843</b>	<b>36,330</b>	<b>38,339</b>	<b>40,426</b>
Current Liabilities	4,186	4,019	4,782	5,019	5,237
Provisions	1,598	1,279	1,215	1,155	1,097
Debt Funds	5,477	6,803	6,653	6,504	6,355
Other Liabilities	1,934	2,585	2,593	2,632	2,713
Equity Capital	255	255	255	255	255
Reserves & Surplus	14,035	17,998	19,749	21,509	23,315
Shareholder's Fund	14,290	18,253	20,003	21,763	23,570
Minority Interest	853	905	1,083	1,265	1,455
<b>Total Liabilities</b>	<b>28,337</b>	<b>33,843</b>	<b>36,330</b>	<b>38,339</b>	<b>40,426</b>
<b>BVPS (Rs.)</b>	<b>561</b>	<b>717</b>	<b>785</b>	<b>854</b>	<b>925</b>

## RATIOS

Y.E March	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	14.7	18.3	22.6	22.0	21.9
EBIT margin (%)	7.3	11.9	17.1	16.6	16.5
Net profit mgn.(%)	2.5	9.9	12.6	12.1	12.0
ROE (%)	1.8	6.9	10.3	9.6	9.2
ROCE (%)	3.6	5.8	10.1	9.7	9.5
<b>W.C &amp; Liquidity</b>					
Receivables (days)	50.0	55.9	51.1	54.8	54.8
Inventory (days)	256.8	317.4	273.8	273.8	273.8
Payables (days)	256.3	338.3	313.0	313.0	313.0
Current ratio (x)	1.5	1.2	1.3	1.5	1.6
Quick ratio (x)	1.0	0.6	0.7	0.8	1.0
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.3	1.4	1.6	1.5	1.4
Total asset T.O (x)	0.4	0.4	0.5	0.5	0.5
Int. coverage ratio (x)	2.0	4.9	7.3	7.1	7.1
Adj. debt/equity (x)	0.4	0.4	0.3	0.3	0.3
<b>Valuation</b>					
EV/Sales (x)	2.4	2.5	1.9	1.8	1.6
EV/EBITDA (x)	16.0	13.5	8.5	8.0	7.5
P/E (x)	74.7	19.8	12.5	12.2	11.8
P/BV (x)	1.3	1.4	1.3	1.2	1.1

## Recommendation Summary (Last 3 Years)



Dates	Rating	Target
6-Jul-20	ACCUMULATE	358
5-Nov-20	ACCUMULATE	344
1-Feb-21	ACCUMULATE	552
11-May-21	HOLD	735
11-Aug-21	BUY	987
5-May-22	BUY	1,196
17-Aug-22	BUY	1,340
6-Mar-23	BUY	1,197

Source: Bloomberg, Geojit research

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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