

**CMP: Rs 730**

**Rating: Not rated**

**Stock Info**

BSE	TATACHEM
Bloomberg	TTCH IN
Sector	Commodity Chemicals
Face Value (Rs)	10
Equity Capital (Rs Cr)	255
Market Cap (Rs Cr)	18545
52w H/L (Rs)	737 /544

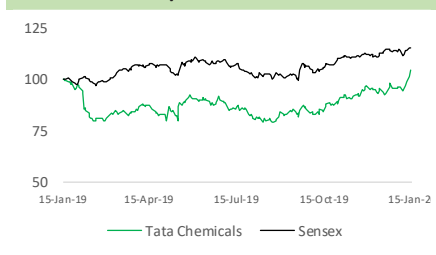
**Shareholding Pattern**

	%
<b>(As on Sept, 2019)</b>	
Promoter	30.6
DII	38.9
FII	9.4
Others	21.1

Source: ACE Equity, Arihant Research

Stock Performance (%)	3m	6m	12m
Tata Chemicals	24.1	22.8	5.0
BSE 500	8.7	7.7	15.3

**Tata Chemicals v/s SENSEX**



Source: ACE Equity, Arihant Research

**Financial Performance (Rs. Cr)**

YE March	FY18	FY19	FY20E	FY21E
Net Sales	10181	11218	12147	13290
EBITDA	2214	2113	2378	2638
PAT	1261	1045	1168	1338
EPS (Rs.)	49.5	41.0	45.0	51.5
EBITDAM (%)	21.7%	18.8%	19.6%	19.8%
P/E (x)	13.4	12.9	16.1	14.1

Source: Bloomberg

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**Tata Chemical Ltd (TCL) is the third largest producer of soda ash in the world with manufacturing facilities spread across four continents. TCL is a market leader in iodised salt segment and leading manufacturer of urea and phosphatic fertilizers. The product range of the company includes Chemical product soda ash which is used to manufacture of glass, soaps, detergent. They are also used in metal refining, textile processing, and in the manufacturing of cement Caustic soda, used for manufacturing rayon, pulp, paper, gypsum-used in pharmaceuticals, insecticides and bromine, Fertilisers, Consumer products manufactures salt, sodium bicarbonate and cooking soda. The company produces four kinds of salt – iodised salt, crystalline salt, vacuum salt and pure salt. They also produce hydrobromic acid, liquid bromine, hydrochloric acid and liquid chlorine. TCL is also in the business activities of Fertilisers, Other Agri Inputs, Inorganic Chemicals.**

- **Expected sodium bicarb demand to drive growth for the Company:** The global demand for sodium bicarb is growing steadily at 5% and in India it is growing at 8%. Under the revised emission norms, the thermal power plants needed to install dry sorbent injection (DSI) – based flue gas desulphurizer (FGD). This is likely to generate significant growth in demand for sodium bicarb. This is a high margin product and is used in various applications. TCL has already started supplying commercial grade bicarb to Tata Power and NTPC. Tata Chemical is expanding bicarb capacity at its Mithapur plant by 40% to 140kMT, which is expected to be commercialized by Sept 21.
- **Capacity expansion in niche segments improves revenue visibility:** Nutraceuticals and HDS has huge market potential hence the company is expanding nutraceuticals segment with 5,000MT of capacity which is in the last stage of commercial production. TCL plans to add capacity going forward. In silica, TCL is coming up with 10,000MT capacity, of which 60% is for highly dispersible silica (HDS – used in the tyre industry) and the balance for rubber, food and oral grade. Management expects both of the above businesses to start contributing at the PBT level from end-2020.
- **Strategic alliance for energy storage:** The company is in advanced discussion with a partner for energy storage solutions. It has acquired land for Rs 700mn for lithium ion battery project in Gujarat. Further, it is in discussion with raw material suppliers and customers. TCL will come up with a 350MW pilot plant initially, which is 20-25% of the India's market size. The demand for soda ash in EV batteries is growing at 12% globally driven by segments like EV Battery cell, EV battery and battery recycling.

**Outlook & Valuation:** We believe; Tata Chemicals revenue / earning would grow at ~9% / 13% CAGR respectively over FY19-21E. We see steady earnings visibility with 12% EPS CAGR (over FY19-FY21E). TCL's strategy to demerge its consumer business and shifting its focus only on basic and speciality chemicals coupled with the huge infra capex on EV batteries & EV ecosystem gives comfort on company's growth going ahead. We are positive on the stock at CMP of Rs 730 (with potential upside of ~20-22%), currently it is trading at 16.14x / 14.1x of FY20E / FY21E respectively.

- **Expected sodium bicarb demand to drive growth for the Company:**

The global demand for sodium bicarb is growing steadily at 5% and in India it is growing at 8%. Under the revised emission norms, the thermal power plants need to install dry sorbent injection (DSI) – based flue gas desulphurizer (FGD). This is likely to generate significant growth in demand for sodium bicarb. Considering the potential opportunity, Management intends to focus on increasing sales of sodium bicarb which is a value added product. This is a high margin product and is used in various applications. TCL has already started supplying commercial grade bicarb to Tata Power and NTPC. Tata Chemical is expanding bicarb capacity at its Mithapur plant by 40% to 140kMT which is expected to be commercialized by Sept 21. Also, in the UK, TCL plans to increase bicarb capacity gradually over the coming years.

- **Capacity expansion in niche segments improves revenue visibility**

Nutraceuticals and HDS has huge market potential hence the company is expanding nutraceuticals segment with 5,000MT of capacity which is in the last stage of commercial production. Initially the company will be selling in the domestic market while approval process from international customers is likely to commence soon. TCL plans to add capacity going forward.

In silica, the company is coming up with 10,000MT capacity, of which 60% is for highly dispersible silica (HDS – used in the tyre industry) and the balance for rubber, food and oral grade. Regulations would force customers to shift towards HDS from carbon black. Management expects both of the above businesses to start contributing at the PBT level from end-2020.

- **Mithapur expansion project**

The capex required for Mithapur expansion project is Rs. 24bn of which the company has incurred Rs.8bn and balance will be spent over the next three years. The capex will be funded by internal accruals. TCL will incur capex of Rs.2.7bn for its UK operations over three years. The company will be incurring consol. Maintenance capex of Rs 5bn, including North America (NA) operations (USD 30mn/year)

- **Strategic alliance for energy storage**

Energy storage batteries can be used in different industries like for vehicles, power plants and telecom related applications. The company is in advanced discussion with a partner for energy storage solutions. It has acquired land for Rs 700mn for lithium ion battery project in Gujarat. Further, it is in discussion with Rm suppliers and customers. TCL will come up with a 350MW pilot plant initially, which is 20-25% of the India's market size. The demand for soda ash in EV batteries is growing at 12% globally driven by EV Battery cell, EV battery and battery recycling.

- **Soda ash demand-supply situation remains favorable**

China has witnessed slowdown in auto and real estate sector due to US-China trade war. This has resulted in a subdued demand environment across the globe. This led to production cuts by auto manufacturers / real estate developers. Subsequently, this translated to a fall in demand for glass and, thereby, soda ash. ~600kMT of soda ash capacity went offline in China and 650kMT in Romania as well. Demand for soda ash is relatively stable in the mature markets. As per management, the demand-supply matrix in soda ash will remain favourable as no major capacities are likely to come in the next 12 months.

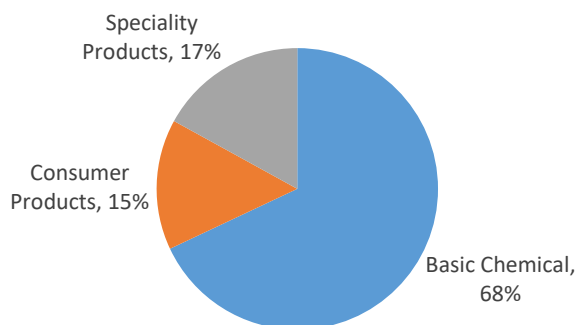
- **Improvement in EBITDA/tonne to support steady base operations**

We expect, an expansion in realization of soda bicarb owing to incremental Medikarb sales post capacity expansion and decrease in natural gas prices to contribute lower cost of production. We believe, improvement in EBITDA/tonne across all geographies due to the low base in different markets due to varied reasons. Lower input cost, change in mix towards value added products along with control on other costs can either maintain or improve its EBITDA/tonne. Further, a better mix towards Medikarb can also assist expansion in EBITDA/tonne for TCL India.

**Key risks:**

- Geopolitical issues and global slowdown in construction and automobile sales have brought subdued growth in global soda ash market. This can put pressure on realisations of the company.
- Higher input cost and weak demand could impact EBITDA/tonne of TCL.
- Change in consumer preferences from detergent to liquid detergent could hamper the product demand.

**Revenue Break up in FY19**



Source: Arihant Capital Markets

**View:**

We believe, Tata Chemical's revenue / earnings would grow at ~9% / 13% CAGR respectively over FY19-FY21E. The demerger of the consumer products segment which renamed 'Tata Consumer Products' is an incremental positive for the company. On a longer term, the demerged high growth consumer segment will help the company deploy resources to scale up its chemical portfolio towards high margin products. TCL will retain the salt manufacturing operations, which will continue to supply salt to TGBL. TCL has plans to increase its salt manufacturing capacity by 40% to 1.4MMT which is expected to reach optimum utilisation over 3-4 years.

Its cash-cow business of soda ash and sodium bicarbonate is likely to remain steady on the back of the expected balanced demand-supply scenario. Cash generated from the same would be partially deployed toward its speciality chemicals segment which commands high margin and is return accretive. TCL's strategy to demerge its consumer business and shifting its focus only on basic and speciality chemicals couple with the huge infra capex on EV batteries & EV ecosystem gives comfort on company's growth going ahead. We are positive on the stock at CMP of Rs 730 (with potential upside of ~20-22%), currently it is trading at 16.14x / 14.1x of FY20E / FY21E respectively.

**Consensus estimate**

Rs. Mn	FY19	FY20E	FY21E	FY22E
Revenue	112,179	121,468	132,904	144,400
Growth (%)	10.2%	8.3%	9.4%	8.6%
EBITDA	21,132	23,781	26,377	29,283
EBITDA Margin (%)	18.8%	19.6%	19.8%	20.3%
PAT	10,454	11,683	13,378	14,747
PAT Margin (%)	9.3%	9.6%	10.1%	10.2%
EPS	41.0	45.0	51.5	56.8

Source: Bloomberg

## Financial Performance:

## Profit and Loss Account (Rs. Mn.)

Year End March	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
<b>INCOME :</b>					
Gross Sales	175,708	175,243	152,978	144,326	119,209
Less: Excise Duty	3,663	3,473	3,349	757	
Net Sales	172,045	171,769	149,629	143,569	119,209
<b>EXPENDITURE :</b>					
Increase/Decrease in Stock	(9,082)	5,214	1,164	(1,078)	(1,048)
Raw Material Consumed	78,928	54,266	19,609	18,597	22,425
Power & Fuel Cost	20,406	12,465	11,631	12,725	14,801
Employee Cost	12,492	12,712	12,614	12,702	13,518
Other Manufacturing Expenses	15,179	35,398	56,897	49,451	20,476
General and Administration Expenses	6,948	8,254	2,319	2,228	2,385
Selling and Distribution Expenses	23,431	19,827	17,241	17,387	19,171
Miscellaneous Expenses	2,099	1,132	4,953	5,148	6,644
<b>Total Expenditure</b>	<b>150,402</b>	<b>149,268</b>	<b>126,428</b>	<b>117,160</b>	<b>98,371</b>
Operating Profit (Excl OI)	21,643	22,501	23,201	26,410	20,838
Other Income	1,180	1,253	2,958	1,778	4,287
Operating Profit	22,823	23,754	26,159	28,188	25,124
Interest	4,609	5,255	4,269	3,439	3,802
<b>PBDT</b>	<b>18,214</b>	<b>18,500</b>	<b>21,890</b>	<b>24,749</b>	<b>21,323</b>
Depreciation	4,631	5,714	5,524	5,306	5,714
Profit Before Taxation & Excep. Items	13,582	12,786	16,366	19,443	15,609
Exceptional Income / Expenses	(1,997)			12,783	703
<b>Profit Before Tax</b>	<b>11,585</b>	<b>12,786</b>	<b>16,366</b>	<b>32,226</b>	<b>16,312</b>
Provision for Tax	3,511	2,873	4,181	5,694	3,436
<b>Profit After Tax</b>	<b>8,074</b>	<b>9,913</b>	<b>12,185</b>	<b>26,533</b>	<b>12,876</b>
Equity Dividend %	125	100	110	220	125
Earnings Per Share	23	30	39	96	45
Adjusted EPS	23	30	39	96	45

Source: ACE Equity

## Balance Sheet

Year End March (Rs mn)	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
<b>EQUITY AND LIABILITIES</b>					
Share Capital	2,548	2,548	2,548	2,548	2,548
Total Reserves	52,969	65,995	76,534	108,469	120,865
<b>Shareholder's Funds</b>	<b>55,517</b>	<b>68,543</b>	<b>79,082</b>	<b>111,017</b>	<b>123,413</b>
Minority Interest	6,735	25,985	26,239	27,172	29,147
Secured Loans	34,928	30,845	26,420	27,712	29,124
Unsecured Loans	22,154	36,953	17,190	26,228	18,705
Deferred Tax Assets / Liabilities	2,062	12,348	12,144	11,707	12,609
Other Long Term Liabilities	212	1,212	917	958	1,163
Long Term Provisions	35,052	17,328	17,820	16,751	15,039
Total Non-Current Liabilities	94,409	98,685	74,492	83,356	76,641
<b>Current Liabilities</b>					
Trade Payables	26,383	16,178	13,182	14,786	14,753
Other Current Liabilities	22,412	12,580	31,684	17,478	17,043
Short Term Borrowings	12,932	17,879	7,211	1,402	3,525
Short Term Provisions	19,218	3,613	3,978	3,368	4,165
Total Current Liabilities	80,945	50,250	56,055	37,033	39,486
<b>Total Liabilities</b>	<b>237,605</b>	<b>243,463</b>	<b>235,868</b>	<b>258,578</b>	<b>268,687</b>
<b>ASSETS</b>					
Gross Block	189,670	139,845	136,323	142,427	155,886
Less: Accumulated Depreciation	76,081	5,531	9,939	14,839	20,649
<b>Net Block</b>	<b>113,589</b>	<b>134,314</b>	<b>126,384</b>	<b>127,588</b>	<b>135,238</b>
Capital Work in Progress	1,697	3,237	3,029	3,739	7,358
Intangible assets under development	196	265	302	350	380
Non Current Investments	4,374	21,785	25,726	27,765	33,901
Long Term Loans & Advances	22,944	5,060	5,802	7,556	9,917
Other Non Current Assets	418	3,016	881	1,185	909
<b>Total Non-Current Assets</b>	<b>143,219</b>	<b>167,676</b>	<b>162,123</b>	<b>168,183</b>	<b>187,704</b>
<b>Current Assets Loans &amp; Advances</b>					
Currents Investments	55	94	2,205	918	22,523
Inventories	26,264	19,319	13,861	14,623	17,256
Sundry Debtors	34,267	35,656	20,922	13,079	14,525
Cash and Bank	14,643	12,654	16,648	44,830	19,522
Other Current Assets	3,415	4,713	18,852	15,859	6,595
Short Term Loans and Advances	15,019	3,351	1,257	1,086	562
<b>Total Current Assets</b>	<b>93,662</b>	<b>75,787</b>	<b>73,745</b>	<b>90,396</b>	<b>80,983</b>
Net Current Assets	12,718	25,538	17,690	53,362	41,497
<b>Total Current Assets Exclu. Current Invest</b>	<b>93,607</b>	<b>75,693</b>	<b>71,540</b>	<b>89,477</b>	<b>58,460</b>
Miscellaneous Expenses not written off	724				
<b>Total Assets</b>	<b>237,605</b>	<b>243,463</b>	<b>235,868</b>	<b>258,578</b>	<b>268,687</b>

Source: ACE Equity

## Cash Flow (Rs.Cr.)

Year End March (Rs mn)	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Profit Before Tax	11,585	12,935	16,522	32,718	17,304
Adjustment	16,008	14,682	11,174	-3,179	5,501
Changes In working Capital	-11,245	-652	12,129	-5,691	-2,144
Cash Flow after changes in W. Capital	16,348	26,965	39,825	23,848	20,662
Interest Paid					
Tax Paid	-3,612	-3,645	-4,516	-5,147	-4,849
Other Direct Expenses paid					
Extra & Other Item					
<b>Cash From Operating Activities</b>	<b>12,736</b>	<b>23,319</b>	<b>35,309</b>	<b>18,701</b>	<b>15,813</b>
<b>Cash Flow from Investing Activities</b>	<b>-6,552</b>	<b>-4,887</b>	<b>-9,821</b>	<b>27,070</b>	<b>-19,582</b>
<b>Cash from Financing Activities</b>	<b>-10,873</b>	<b>-18,017</b>	<b>-23,414</b>	<b>-20,895</b>	<b>-17,118</b>
Net Cash Inflow / Outflow	-4,689	416	2,073	24,877	-20,887
Opening Cash & Cash Equivalents	17,360	11,791	12,467	14,515	39,459
Translation adj. on reserves / op cash balances frgn subsidiaries			-1	-10	10
Effect of Foreign Exchange Fluctuations	-81	260	-25	78	301
<b>Closing Cash &amp; Cash Equivalent</b>	<b>12,590</b>	<b>12,467</b>	<b>14,515</b>	<b>39,459</b>	<b>18,884</b>

Source: ACE Equity

## Ratios

DESCRIPTION	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
<b>Operational &amp; Financial Ratios</b>					
Earnings Per Share (Rs)	23.41	30.25	38.98	95.50	45.37
CEPS(Rs)	49.87	61.34	69.51	124.97	72.97
DPS(Rs)	12.50	10.00	11.00	22.00	12.50
Book Value (Rs)	215.07	269.05	310.42	435.77	484.42
Dividend Pay Out Ratio(%)	53.39	33.06	28.22	23.04	27.55
<b>Margin Ratios</b>					
PBIDTM (%)	12.99	13.56	17.10	19.53	21.08
EBITM (%)	9.22	10.29	13.49	24.71	16.87
PATM (%)	4.60	5.66	7.97	18.38	10.80
<b>Performance Ratios</b>					
ROA (%)	3.68	4.12	5.08	10.73	4.88
ROE (%)	14.74	16.07	16.51	27.91	10.99
ROCE (%)	11.68	12.11	13.34	22.16	11.27
<b>Efficiency Ratios</b>					
Receivable days	69.25	72.82	67.50	42.99	42.26
Inventory Days	44.41	47.47	39.58	36.02	48.80
Payable days	37.92	45.22	43.21	43.74	55.89
<b>Growth Ratio</b>					
Net Sales Growth(%)	8.30	-0.16	-12.89	-4.05	-16.97

Core EBITDA Growth(%)	16.92	4.08	10.12	7.76	-10.87
EBIT Growth(%)	2573.62	11.40	14.38	72.84	-43.60
PAT Growth(%)	199.97	22.77	22.92	117.75	-51.47
Adj. EPS Growth(%)	157.80	29.19	28.88	145.00	-52.49
<b>Financial Stability Ratios</b>					
Total Debt/Equity(x)	1.53	1.33	0.89	0.55	0.50
Current Ratio(x)	1.16	1.51	1.32	2.44	2.05
Quick Ratio(x)	0.83	1.12	1.07	2.05	1.61
Interest Cover(x)	3.51	3.43	4.83	10.37	5.29
Total Debt/Mcap(x)	0.74	0.96	0.46	0.35	0.41

Source: ACE Equity



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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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