

# Tata Chemicals

BSE SENSEX  
41,682

S&P CNX  
12,272

**CMP: INR650**

**TP: INR811 (+25%)**

**Buy**



## Stock Info

Bloomberg	TTCH IN
Equity Shares (m)	255
M.Cap.(INRb)/(USD\$b)	165.5 / 2.3
52-Week Range (INR)	726 / 544
1, 6, 12 Rel. Per (%)	-2/1/-24
12M Avg Val (INR M)	469
Free float (%)	69.4

## Financials Snapshot (INR b)

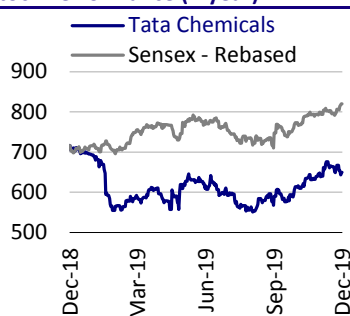
Y/E Mar	2019	2020E	2021E
Net Sales	113.0	118.9	133.6
EBITDA	21.0	23.8	27.4
PAT	10.9	11.3	13.9
EPS (INR)	42.9	44.2	54.7
Gr. (%)	-10.8	3.1	23.6
BV/Sh (INR)	484.3	512.9	552.2
RoE (%)	9.3	8.9	10.3
RoCE (%)	7.3	7.3	8.1
P/E (x)	15.1	14.7	11.9
P/BV (x)	1.3	1.3	1.2

## Shareholding pattern (%)

As On	Sep-19	Jun-19	Sep-18
Promoter	30.6	30.6	30.6
DII	38.9	37.7	36.8
FII	9.4	10.7	11.1
Others	21.1	21.0	21.5

Note: FII includes depository receipts

## Stock Performance (1-year)



## Acquires residual stake in North American soda ash biz

Valued at 7.7x FY19 EV/EBITDA

### Acquires balance 25% stake in North American business for USD195m

- Tata Chemicals (TTCH) has acquired the remaining 25% stake in TATA Chemicals Soda Ash Partners Holdings (TCSAP) from the Andover Group, Inc. for USD195m (thus, valuing 100% stake at USD780m) through its wholly-owned subsidiary, Valley Holdings Inc.
- With this acquisition, TTCH has increased its ownership in TCSAP to 100%, which is a move to simplify enterprise architecture. For FY19, TCSAP had a turnover of USD466m and EBITDA of USD101m. Thus, the deal is valued at 7.7x FY19 EV/EBITDA.

### TTCH acquired stake back in 2008

- Back in Jan'08, TTCH had acquired 75% stake in TCSAP for USD1b (INR40.4b), which was funded by utilizing USD155m of internal accruals, ECBs of USD475m and US borrowings of USD350m secured by way of non-recourse debt on the assets of the acquired company.
- TTCH currently operates a capacity of 2.5MMT of natural soda ash in North America.
- The world's largest deposits of trona – used for manufacturing natural soda ash – are found in the Green River Basin of Wyoming, North America. Production cost of natural soda ash is 25-30% lower compared to that of soda ash manufactured through Hou or Solvay process.

### Acquisition to be 5% FY21 EPS accretive

- TTCH acquired the balance 25% stake in TCSAP for USD195m; of this, USD175m will be funded through debt and balance will be funded internally.
- We estimate a 5% increase in PAT for FY21 after factoring in 5.5% interest cost and the reduced minority interest pertaining to the North American operations.

### Valuation and view

- In 2016, the company sold off its fertilizer business. In 2019, it carved out a plan to demerge its consumer business with a clear strategy to focus on basic and the specialty chemicals business.
- Additionally, TTCH is incurring capex of INR24b at its Mithapur plant for various categories, which is expected to come on stream by FY22 (in a phased manner).
- The cash-cow business (soda ash and sodium bicarbonate) of TTCH is expected to remain steady due to potential balanced demand-supply scenario; the cash generated from the same would be partially deployed toward its specialty chemicals segment, which is high margin and return accretive.
- Our SOTP-based target price of INR811 implies an upside of 25%. Maintain **Buy**.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilalosal.com/Institutional-Equities](http://www.motilalosal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Exhibit 1: Valuation**

Business	Methodology	Metrics	FY21	Multiple (x)	EV/ MCAP
<b>Commodity (INR m)</b>					
Inorganic Chemical India (Soda Ash & others) (Inc mfg Salt)	EV/EBITDA (x)	EBITDA	9,425	6.0	56,548
Tata Chemicals North America	EV/EBITDA (x)	EBITDA	8,112	7.0	56,781
Tata Chemicals Europe and Tata Chemicals Africa	EV/EBITDA (x)	EBITDA	2,966	5.0	14,832
<b>Sub Total</b>			<b>20,503</b>		<b>128,161</b>
<b>Specialty and Consumer (INR m)</b>					
Consumer (INRm) (290m shares of TGB @INR313/share)		Mcap			90,983
Rallis India Ltd (Tata Chemicals hold 50% ) (INR m)	20% discount to Current MCAP	Attributable Mcap	32,865	0.8	13,146
<b>Total EV (INR mn)</b>					<b>232,290</b>
Less: Debt FY21 (INR mn)					70,307
Less: Minority Interest (INR mn)					15,497
Add: Cash & Liquid investment (INR mn)					44,422
Add: Value of quoted Investment (INR mn)		Mcap	19,801	0.8	15,841
<b>Target Mcap (INR mn)</b>					<b>206,750</b>
Outstanding share (mn)					255
<b>Target Price (INR)</b>					<b>811</b>
<b>CMP (INR)</b>					<b>650</b>
<b>Upside (%)</b>					<b>25%</b>

Source: MOFSL

**Exhibit 2: TTCH's operations in various geographies across the globe**

Name of the company	TATA Chemicals India	TATA Chemicals North America Inc.	TATA Chemicals Europe Holdings Limited	TATA Chemicals Magadi
<b>Type of soda ash</b>	✓ Synthetic	❖ Natural	✓ Synthetic	❖ Natural
<b>Place of operations</b>	✓ India	❖ United States of America	✓ United Kingdom	❖ South Africa
<b>Raw Material</b>	✓ Limestone, coke, coal, natural gas, CO2, Ammonia	❖ Coal, Natural gas, HFO	✓ Limestone, coke, coal, natural gas, CO2, Ammonia	❖ Coal, Natural gas, HFO
<b>Logistics</b>	✓ Road, Rail and sea	❖ Road, Rail and sea	✓ Road, Rail and sea	❖ Road, Rail and sea
<b>Unique operation philosophy</b>	✓ Mithapur: It is an integrated inorganic chemicals complex, manufacturing soda ash, edible salt, sodium bicarbonate, cement, marine and caustic chemicals.	❖ Wyoming: Manufacturing facility consists of an underground trona mine and a surface refining plant that processes the ore into soda ash.	✓ Northwich: It is one of the continent's leading producers of sodium carbonate, soda ash, salt, sodium bicarbonate and other products.	❖ Magadi: It is Africa's largest soda ash manufacturer and one of Kenya's leading exporters. At the facility, soda ash is obtained by washing and calcining trona, a naturally occurring form of sodium sesquicarbonate, extracted from Lake Magadi in Kenya.

Source: Company, MOSL

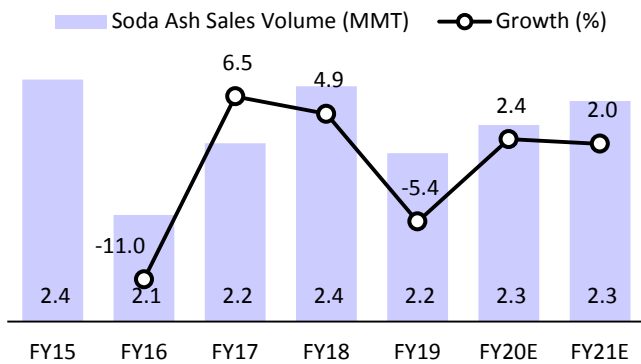
Exhibit 3: Soda ash production process and its relative cost advantage

	U.S. Trona	Solvay	Hou
<b>Process</b>	Mining and refining trona	Synthetic production	Synthetic production
<b>Raw Materials</b>	Trona	Salt (brine), Limestone, Ammonia	Salt (brine), Ammonia, Carbon Dioxide
<b>Energy Usage</b>	4 – 6 MMBtu / ton	10 – 14 MMBtu / ton	10 – 14 MMBtu / ton
<b>By-Products</b>	Deca (able to process into soda ash)	Calcium Chloride (waste product)	Ammonium Chloride (co-product)
<b>Relative Soda Ash Production Costs</b>	<p><i>1/2<sup>nd</sup>/3<sup>rd</sup>/4<sup>th</sup> cost of competing processes<sup>1</sup></i></p> <p>1.0x U.S. Trona (Natural Gas)</p> <p>1.4x European Solvay</p> <p>1.3x China Solvay</p> <p>2.0x China Hou</p>		

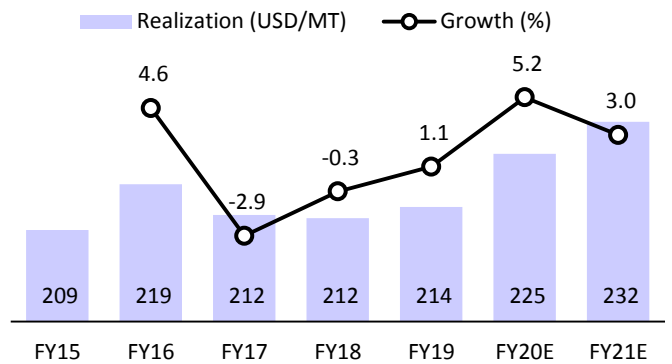
Source: Bloomberg, MOSL

## Tata Chemicals North America: Key Charts

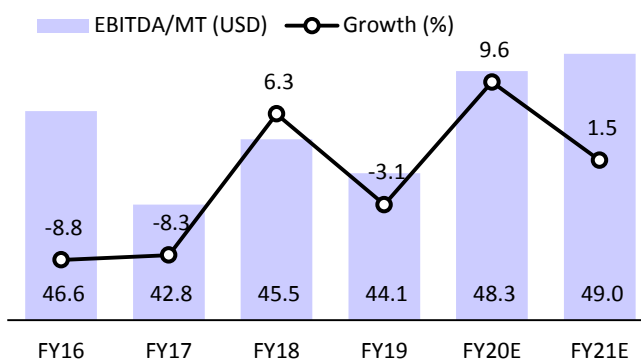
**Exhibit 4: Sales volumes trend**



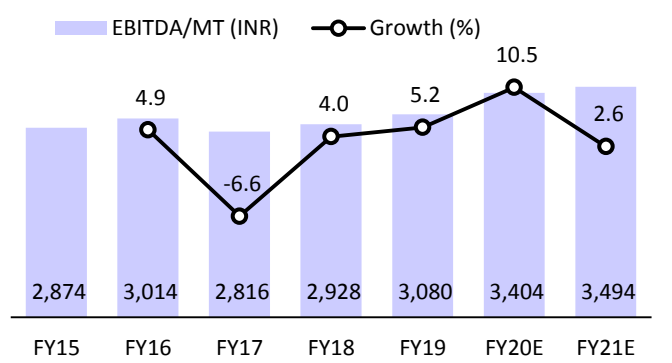
**Exhibit 5: Realization trend**



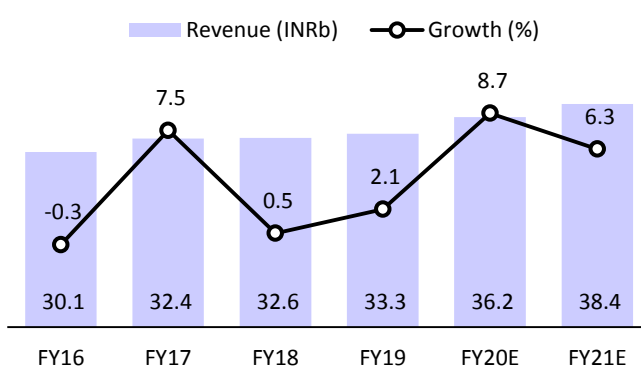
**Exhibit 6: EBITDA/MT trend (USD)**



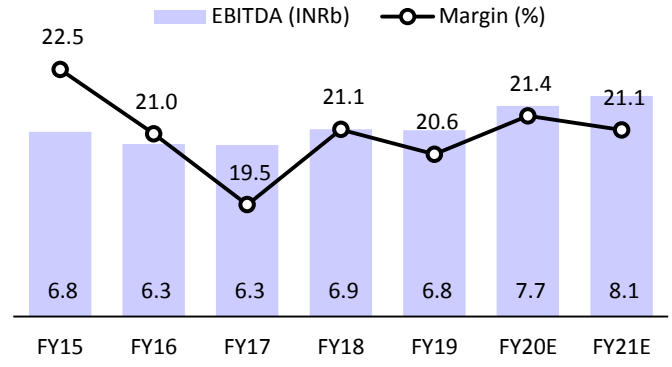
**Exhibit 7: EBITDA/MT trend (INR)**



**Exhibit 8: Revenue trend**



**Exhibit 9: EBITDA trend**



Source: Company, MOFSL

Source: Company, MOFSL

## Financials and Valuations

Consolidated - Income Statement							(INR M)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	
<b>Total Income from Operations</b>	<b>175,708</b>	<b>152,202</b>	<b>103,461</b>	<b>102,697</b>	<b>112,963</b>	<b>118,882</b>	<b>133,557</b>	
Change (%)	8.3	-13.4	-32.0	-0.7	10.0	5.2	12.3	
<b>Total Expenditure</b>	<b>154,065</b>	<b>131,285</b>	<b>82,518</b>	<b>80,790</b>	<b>92,013</b>	<b>95,126</b>	<b>106,149</b>	
<b>EBITDA</b>	<b>21,643</b>	<b>20,917</b>	<b>20,943</b>	<b>21,907</b>	<b>20,951</b>	<b>23,756</b>	<b>27,408</b>	
Margin (%)	12.3	13.7	20.2	21.3	18.5	20.0	20.5	
Depreciation	4,631	5,261	5,122	5,180	5,714	6,752	7,181	
<b>EBIT</b>	<b>17,012</b>	<b>15,657</b>	<b>15,821</b>	<b>16,727</b>	<b>15,237</b>	<b>17,004</b>	<b>20,227</b>	
Int. and Finance Charges	4,609	5,255	2,973	3,256	3,631	3,635	4,208	
Other Income	1,180	1,253	1,661	1,595	4,116	3,534	3,740	
<b>PBT bef. EO Exp.</b>	<b>13,582</b>	<b>11,655</b>	<b>14,510</b>	<b>15,066</b>	<b>15,722</b>	<b>16,903</b>	<b>19,759</b>	
EO Items	-1,997	0	0	643	703	-80	0	
<b>PBT after EO Exp.</b>	<b>11,585</b>	<b>11,655</b>	<b>14,510</b>	<b>15,709</b>	<b>16,425</b>	<b>16,823</b>	<b>19,759</b>	
Total Tax	3,511	2,484	3,460	601	3,469	3,832	4,841	
Tax Rate (%)	30.3	21.3	23.8	3.8	21.1	22.8	24.5	
Minority Interest	2,109	2,207	2,254	2,202	1,317	1,797	987	
<b>Reported PAT - Continuing Ops.</b>	<b>5,965</b>	<b>6,964</b>	<b>8,796</b>	<b>12,906</b>	<b>11,639</b>	<b>11,194</b>	<b>13,931</b>	
<b>Adjusted PAT - Continuing Ops.</b>	<b>7,962</b>	<b>6,964</b>	<b>8,796</b>	<b>12,263</b>	<b>10,936</b>	<b>11,274</b>	<b>13,931</b>	
Change (%)	-32.4	-12.5	26.3	39.4	-10.8	3.1	23.6	
Margin (%)	4.5	4.6	8.5	11.9	9.7	9.5	10.4	
Reported PAT - Discontinuing Ops.	0	742	1,135	11,425	0	0	0	
<b>Reported PAT</b>	<b>5,965</b>	<b>7,706</b>	<b>9,931</b>	<b>24,331</b>	<b>11,639</b>	<b>11,194</b>	<b>13,931</b>	
<b>Adjusted PAT</b>	<b>7,962</b>	<b>7,706</b>	<b>9,931</b>	<b>23,687</b>	<b>10,936</b>	<b>11,274</b>	<b>13,931</b>	

Consolidated - Balance Sheet							(INR M)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	
Equity Share Capital	2,548	2,548	2,548	2,548	2,548	2,548	2,548	
Total Reserves	52,969	65,995	76,534	108,469	120,865	128,141	138,154	
<b>Net Worth</b>	<b>55,517</b>	<b>68,543</b>	<b>79,082</b>	<b>111,017</b>	<b>123,413</b>	<b>130,689</b>	<b>140,702</b>	
Minority Interest	6,735	25,985	26,239	27,172	29,147	29,147	15,497	
Total Loans	83,788	90,904	70,483	64,180	61,430	60,131	70,307	
Deferred Tax Liabilities	2,062	12,348	12,381	11,916	12,972	12,972	12,972	
<b>Capital Employed</b>	<b>148,102</b>	<b>197,780</b>	<b>188,185</b>	<b>214,284</b>	<b>226,961</b>	<b>232,938</b>	<b>239,477</b>	
Gross Block	120,084	120,671	120,011	126,061	138,153	151,118	161,118	
Less: Accum. Deprn.	76,081	5,490	10,612	15,792	21,506	28,258	35,439	
<b>Net Fixed Assets</b>	<b>44,003</b>	<b>115,181</b>	<b>109,400</b>	<b>110,269</b>	<b>116,648</b>	<b>122,860</b>	<b>125,679</b>	
Goodwill on Consolidation	69,586	17,619	16,984	17,319	18,590	18,590	18,590	
Capital WIP	1,893	5,015	3,331	4,089	7,738	5,000	6,000	
<b>Total Investments</b>	<b>4,429</b>	<b>21,879</b>	<b>27,931</b>	<b>28,683</b>	<b>56,425</b>	<b>56,425</b>	<b>56,425</b>	
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>88,109</b>	<b>83,769</b>	<b>78,459</b>	<b>98,427</b>	<b>69,648</b>	<b>74,344</b>	<b>81,576</b>	
Inventory	26,264	19,319	13,861	14,623	17,256	18,894	20,423	
Account Receivables	34,267	35,656	20,922	13,079	14,525	15,634	17,564	
Cash and Bank Balance	14,643	12,654	16,648	44,830	19,522	20,510	21,899	
Loans and Advances	12,936	16,140	27,028	25,895	18,346	19,307	21,690	
<b>Curr. Liability &amp; Prov.</b>	<b>59,918</b>	<b>45,682</b>	<b>47,919</b>	<b>44,502</b>	<b>42,088</b>	<b>44,282</b>	<b>48,792</b>	
Account Payables	18,891	16,818	13,182	14,786	14,753	15,865	16,868	
Other Current Liabilities	16,341	7,923	14,117	10,908	9,492	9,990	11,223	
Provisions	24,686	20,941	20,621	18,808	17,843	18,427	20,701	
<b>Net Current Assets</b>	<b>28,191</b>	<b>38,086</b>	<b>30,540</b>	<b>53,925</b>	<b>27,560</b>	<b>30,063</b>	<b>32,784</b>	
<b>Appl. of Funds</b>	<b>148,102</b>	<b>197,780</b>	<b>188,185</b>	<b>214,284</b>	<b>226,961</b>	<b>232,938</b>	<b>239,477</b>	

## Financials and Valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>31.2</b>	<b>27.3</b>	<b>34.5</b>	<b>48.1</b>	<b>42.9</b>	<b>44.2</b>	<b>54.7</b>
Cash EPS	49.4	48.0	54.6	68.5	65.3	70.7	82.9
BV/Share	217.9	269.0	310.3	435.7	484.3	512.9	552.2
DPS	12.5	10.0	11.0	22.0	12.5	12.5	12.5
Payout (%)	65.7	45.0	39.2	53.4	33.7	35.0	28.1
<b>Valuation (x)</b>							
P/E			18.8	13.5	15.1	14.7	11.9
Cash P/E			11.9	9.5	9.9	9.2	7.8
P/BV			2.1	1.5	1.3	1.3	1.2
EV/Sales			2.4	2.1	1.9	1.8	1.6
EV/EBITDA			11.6	9.6	10.2	8.9	7.6
Dividend Yield (%)			1.7	3.4	1.9	1.9	1.9
FCF per share			113.3	76.9	19.7	31.8	40.2
<b>Return Ratios (%)</b>							
RoE	14.3	11.2	11.9	24.9	9.3	8.9	10.3
RoCE	9.1	8.9	8.6	9.3	7.3	7.3	8.1
Core RoCE	22.2	14.0	10.8	15.6	13.2	13.0	14.2
RoIC	9.5	8.6	8.1	11.6	8.6	8.9	10.0
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	1.5	1.3	0.9	0.8	0.8	0.8	0.8
Asset Turnover (x)	1.2	0.8	0.5	0.5	0.5	0.5	0.6
Inventory (Days)	137	119	244	304	295	300	305
Debtor (Days)	71	86	74	46	47	48	48
Creditor (Days)	99	103	232	307	252	252	252
<b>Leverage Ratio (x)</b>							
Current Ratio	1.5	1.8	1.6	2.2	1.7	1.7	1.7
Interest Cover Ratio	3.7	3.0	5.3	5.1	4.2	4.7	4.8
Net Debt/Equity	1.2	1.1	0.7	0.2	0.2	0.1	0.2

### Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	11,585	12,935	16,522	15,066	17,304	16,903	19,759
Depreciation	4,631	5,714	5,522	5,180	5,714	6,752	7,181
Interest & Finance Charges	4,241	5,946	4,645	1,661	3,653	101	468
Direct Taxes Paid	-3,612	-3,645	-4,516	-601	-4,849	-3,832	-4,841
(Inc)/Dec in WC	-11,245	-652	12,103	4,797	-2,144	-1,515	-1,332
<b>CF from Operations</b>	<b>5,600</b>	<b>20,298</b>	<b>34,276</b>	<b>26,103</b>	<b>19,678</b>	<b>18,409</b>	<b>21,236</b>
Others	7,136	3,022	1,033	643	-3,865	-80	0
<b>CF from Operating incl EO</b>	<b>12,736</b>	<b>23,319</b>	<b>35,309</b>	<b>26,746</b>	<b>15,813</b>	<b>18,329</b>	<b>21,236</b>
(Inc)/Dec in FA	-5,649	-6,865	-6,429	-7,142	-10,795	-10,227	-11,000
<b>Free Cash Flow</b>	<b>7,087</b>	<b>16,454</b>	<b>28,880</b>	<b>19,604</b>	<b>5,018</b>	<b>8,103</b>	<b>10,236</b>
(Pur)/Sale of Investments	-29	-90	-2,064	-752	-19,711	0	0
Others	928	-337	588	1,595	10,924	3,534	3,740
<b>CF from Investments</b>	<b>-4,750</b>	<b>-7,292</b>	<b>-7,905</b>	<b>-6,300</b>	<b>-19,582</b>	<b>-6,693</b>	<b>-7,260</b>
Inc/(Dec) in Debt	-3,417	-6,098	-14,117	-6,303	-5,714	-1,299	10,176
Interest Paid	-4,430	-6,202	-4,456	-3,256	-2,939	-3,635	-4,208
Dividend Paid	-3,026	-3,820	-3,056	-6,895	-6,725	-3,918	-3,918
Others	0	-1,897	-1,781	24,190	-6,162	-1,797	-14,637
<b>CF from Fin. Activity</b>	<b>-10,873</b>	<b>-18,017</b>	<b>-23,409</b>	<b>7,736</b>	<b>-21,540</b>	<b>-10,649</b>	<b>-12,586</b>
<b>Inc/Dec of Cash</b>	<b>-2,887</b>	<b>-1,989</b>	<b>3,995</b>	<b>28,182</b>	<b>-25,309</b>	<b>987</b>	<b>1,389</b>
Opening Balance	17,530	14,643	12,654	16,649	44,831	19,522	20,510
<b>Closing Balance</b>	<b>14,643</b>	<b>12,654</b>	<b>16,649</b>	<b>44,831</b>	<b>19,522</b>	<b>20,510</b>	<b>21,899</b>



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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