

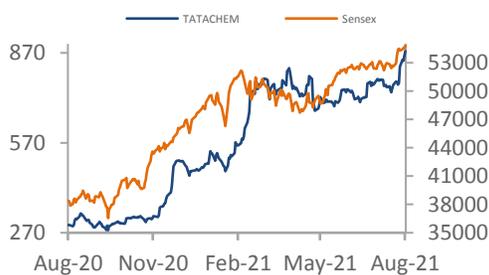
Sector	Chemicals
Recommendation	BUY
Upside	16%

Stock Data	
Sensex	54830
52 Week h/l (₹)	886/273
Market cap (` Cr)	21,906
BSE code	500770
NSE code	TATACHEM
FV (₹)	10
Div. yield (%)	1.16

Shareholding Pattern			
	Dec-20	Mar-21	Jun-21
Promoters	37.98	37.98	37.98
FII+DII	36.91	34.8	32.68
Public	25.11	27.22	29.34

Source: www.bseindia.com

Share Price Trend



Profile

Incorporated in 1939, Tata Chemicals Ltd. (TCL) operates principally in industrial, agricultural and consumer chemicals. The company is among the world's top manufacturers of soda ash with annual production capacity in excess of 4mn tons spread across four continents. More than 70% of TCL's soda ash capacity is based on low-cost natural sources, giving the company a sustainable competitive advantage relative to synthetic soda ash manufacturers. In addition, the company has a presence in India's agricultural inputs industry by virtue of its majority ownership stake in Rallis India, which manufactures agrochemicals and seeds. TCL is also the market leader in India's branded salt segment.

Investment Rationale

Global soda ash demand-supply: The global market is expected to remain tight in terms of demand-supply. Soda ash spot prices are already up, but contracted prices are still below pre-COVID levels. Pricing contracts in the US and UK markets are renewed annually and will be reset in Dec-2021; that is when the benefits of the market tightness will show up in the company's financial statements. Management expects healthy demand to be sustained globally, unless there is an outbreak of another wave of COVID. Despite higher fuel prices, management expects margins to be maintained or increased further. As volumes pick up, the ability of soda ash manufacturers to pass on higher energy costs should improve.

Nutraceuticals business gaining traction: TCL's Nutrition Sciences business reported 100% YoY revenue growth to ₹1.3bn and ran at 43% capacity utilization for the year on an installed capacity of 5ktpa in FY21. More recently, the nutraceuticals business has expanded its distribution agreement with Univar Solutions (an US\$8bn distributor) in North America, indicating building traction. Under the expanded agreement, Univar will be the exclusive distributor of TCL's prebiotic dietary fibres across the eastern and central United States, in addition to the existing distribution agreement between the two companies in Canada. The Net Promoter Score (NPS) for the product also rose to an impressive 61 from 45, pointing to improved customer experience.

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13th August, 2021

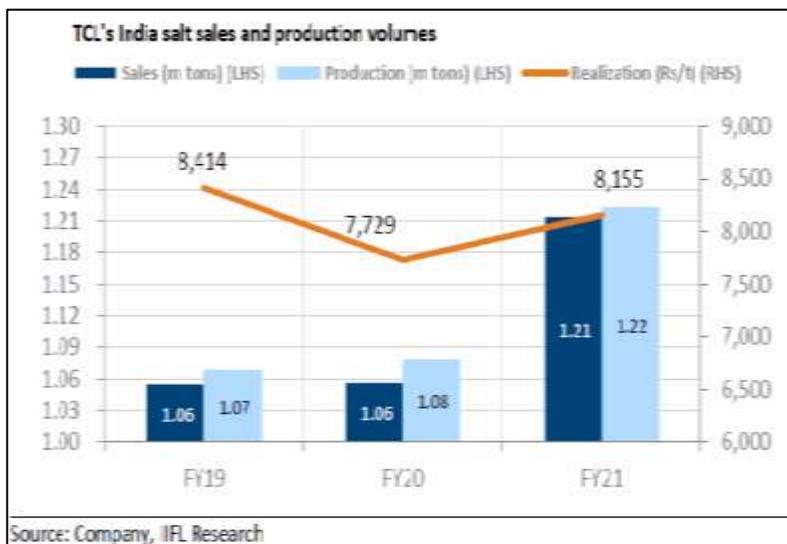
Well-defined strategy for the near term:

Tata Chemicals has a well-defined strategy for its India and International business for the near term. In India, the company would focus on increasing volume and realizations in Soda Ash after price increase in June and July 2021. The company plans to focus on the costs so as to increase its profitability. By end of FY22, Tata Chemicals plans to complete the capacity utilization of Salt to 165k MT. For their subsidiary Rallis, Tata Chemicals plans to maximize the revenue from the current active ingredients portfolio by scaling up/ debottlenecking the capacities.

Strategic priorities in the international business: In the US, TCL is focused on volume recovery back to pre-covid levels, export price maximization and targets a higher domestic realization during contract renewals. In the UK, the company would continue to focus on the cost and manage energy and carbon cost pressures. Along with these, TCL is focused on cash generation across geographies and deleveraging international debt.

Strong financial performance

TCL's total income rose almost 27% YoY, mainly driven by good performance of the subsidiaries and the higher realization and volume of the international business in UK and Kenya. The company's EBITDA has increased 67.1% YoY driven by the India basic chemical business and Rallis. Increase in soda ash realizations and higher cost efficiencies led to improved margins in the India business. The company posted a huge jump in profits, with PAT rising to ₹2,880mn in Q1FY22 compared to ₹133mn in Q1FY21.



Risks

Covid-19 third wave: If there is a third wave of pandemic in India, the company would see slowdown in production. The capacity utilizations currently stand at 50-55% in specialty products segment and the company eyes to increase it. But, a third wave can have an impact on the plans.

Outlook & Valuation:

TCL's performance in 1QFY22 was characterized by a demand pickup in soda ash and higher realization, while the Nutraceuticals business gained traction as it doubled in a year. This had a positive impact on the company's financials with the total income of the company rising 27% and EBITDA rising 67.1% YoY. The PAT rose to ₹,880mn in Q1FY22 from ₹133mn in Q1FY21.

Overall, our estimates imply a healthy 18% EPS Cagr over FY22-24ii (after a sharp recovery in FY22), versus which valuations at 18x/15x of FY22ii/23ii P/E are attractive. We see potential for a re-rating. We raise FY22-24ii EPS by 13-27% on a significant 1QFY22 earnings beat and a positive outlook for the soda ash business. Our SOTP based Sep-22 TP rises to Rs995.

Financial Summary

Consolidated (INR in mn)	FY20	FY21	FY22ii	FY23ii	FY24ii
Total Income	103,568	101,998	123,543	135,879	145,554
YoY growth (%)	-	(1.5)	21.1	10	7.1
EBITDA margin (%)	18.8	14.7	19.5	21.0	22.4
Pre-exceptional PAT	8,066	2,564	11,770	14,146	16,508
PAT growth (%)		(68.2)	359	20.2	16.7
ROE (%)	6.4	1.9	8.0	9.0	9.8
P/B (x)	1.6	1.5	1.4	1.3	1.2
EV/EBITDA (x)	14.0	18.2	11.1	9.1	7.5
Net Debt/Equity (x)	0	0	0	0	0

[Click here](#) to watch the video.

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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