

Retail Equity Research

Tata Chemicals Limited

Chemicals

BSE CODE: 500770

NSE CODE: TATACHEM

Bloomberg CODE: TTCH:IN

SENSEX: 49,502

HOLD

12 Months Investment period Rating as per Mid Cap
CMP Rs. 684 TARGET Rs. 735 RETURN 7% ↑
(Closing: 10-05-21)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↑

Mixed results; Outlook positive

Tata Chemicals Limited (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.

- Q4FY21 revenue grew 10.9% YoY, led by higher sales volumes seen across segments and geographies.
- EBITDA margins contracted 6.1pps YoY to 10.7% on weaker realisations and higher costs. Resultantly, adj. PAT declined 93.6% YoY. Despite impact on margins, cash generation remained strong.
- With Company's domestic operations returning to normalcy, we expect realisations to improve from hereon. At current price levels however, we see limited upside to the stock and downgrade our rating to HOLD with a revised target price of Rs. 735 based on 17x FY23E adj. EPS.

Higher volumes aid topline; Margins slip on lower realisations

Q4FY21 revenue rose 10.9% YoY to Rs. 2,636cr, aided by growth across all segments. Revenue from sales of Basic chemistry products (BCP) went up 5.6% YoY to Rs. 2,111cr, while that of Specialty products rose 37.6% YoY to Rs. 520cr. Agro science business (Rallis India) continued to see steady growth in both the topline (+38% YoY) and margins on better price realisations and improved product mix. However, overall EBITDA margin shrank 610bps YoY to 10.7% due to lower sales realisations and higher input and fixed costs owing to lockdowns in the US & elsewhere, and impact of floods in the UK. As a result, EBITDA fell 29.3% YoY to Rs. 283cr. Adj. PAT also followed suit owing to these one-offs, dropping 93.6% YoY to Rs. 12cr, further impacted by lower other income (-14.6% YoY), higher D&A (+10.2% YoY) and taxes (+164.5% YoY).

Key concall highlights

- Management expects topline growth on consolidated basis to be around 50-70% higher from current levels by FY25.
- Soda ash prices are on the rise in LATAM and SE Asia and should aid improve BCP margins in the coming quarters.
- Company served a notice to withdraw from ANSAC effective 31st December, 2022. This should help it gain much better control over soda ash sales volumes and pricing in the long-term thereby aiding margins.

PLI scheme to accelerate company's battery manufacturing plans

Company has a 127 acre site at Dholera, Gujarat for setting up of a lithium-ion battery manufacturing plant, and has recently expressed interest in government's PLI scheme as it looks to revive its plans for production of lithium-ion cells domestically. It has already setup a Battery Engineering Center in Pune, and has tie-ups with ISRO and leading global battery makers for indigenous development of actives and cells. It is also closely working with few automobile companies for their EV programmes, as well as working towards implementation of various stationary energy storage applications.

Valuation

Export volume recovery is seen in the US, while the UK volumes remain stable and its Kenya operations are showing signs of improvement. Company's domestic operations are also gradually returning back to normalcy aided by demand from soaps and detergent industry. While margins may remain under pressure in the near-term, we expect realisations to improve in the coming months. Plus, good traction is seen across product portfolio with increasing volumes offsetting impact of lower realisations. At current prices however, there is limited upside potential and we thereby downgrade our rating to HOLD with a revised TP of Rs. 735 based on 17x FY23E adj. EPS.

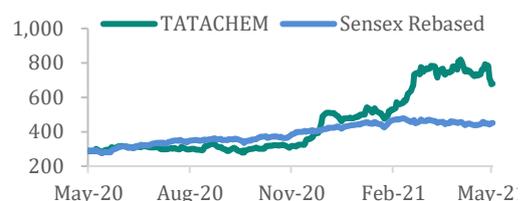
Company Data

Market Cap (cr)	Rs. 17,421
Enterprise Value (cr)	Rs. 21,668
Outstanding Shares (cr)	25.5
Free Float	62.0%
Dividend Yield	1.5%
52 week high	Rs. 834
52 week low	Rs. 274
6m average volume (lacs)	4.0
Beta	0.8
Face value	Rs. 10

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	35.5	38.0	38.0
FII's	9.1	12.3	14.0
MFs/Insti	29.2	24.7	20.8
Public	22.3	21.1	22.8
Others	4.0	4.0	4.4
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	29.5%	114.3%	137.6%
Absolute Sensex	-3.0%	17.5%	56.5%
Relative Return*	32.5%	96.8%	81.1%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	10,200	11,479	12,857
Growth (%)	(1.5)	12.5	12.0
EBITDA	1,501	2,123	2,498
EBITDA Margin (%)	14.7	18.5	19.4
Adj. PAT	256	814	1,100
Growth (%)	(68.2)	217.5	35.2
Adj. EPS	10.1	31.9	43.2
Growth (%)	(68.2)	217.5	35.2
P/E	74.7	21.3	15.7
P/B	1.3	1.2	1.1
EV/EBITDA	16.0	10.2	8.6
ROE (%)	1.8	5.5	7.0
D/E	0.4	0.3	0.3

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Revenue	2,636	2,378	10.9	2,606	1.2	10,200	10,357	(1.5)
EBITDA	283	400	(29.3)	472	(40.1)	1,501	1,949	(23.0)
EBITDA margins	10.7	16.8	(610bps)	18.1	(740bps)	14.7	18.8	(410bps)
Depreciation	192	174	10.2	185	3.3	759	666	13.9
EBIT	91	226	(59.7)	286	(68.2)	741	1,283	(42.2)
Interest	85	86	(0.6)	81	5.2	367	342	7.4
Other Income	65	76	(14.6)	43	51.1	234	311	(24.7)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	80	217	(62.9)	255	(68.4)	634	1,248	(49.2)
Tax	51	19	164.5	54	(5.0)	198	220	(10.0)
Share of profit from Associate	10	1	n.m.	6	57.0	26	(4)	n.m.
Minority Interest	17	13	36.3	40	(56.1)	180	222	(18.9)
Reported PAT	12	6,421	(99.8)	161	(92.7)	256	7,006	(96.3)
Adjustments	-	(6,237)	n.m.	-	-	-	(6,200)	n.m.
Adj. PAT	12	185	(93.6)	161	(92.7)	256	807	(68.2)
No. of shares	25.5	25.5	-	25.5	-	25.5	25.5	-
Adj. EPS (Rs.)	0.5	7.3	(93.6)	6.3	(92.7)	10.1	31.7	(68.2)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	11,114	12,282	11,479	12,857	3.3	4.7
EBITDA	2,077	2,403	2,123	2,498	2.2	4
Margins (%)	18.7	19.6	18.5	19.4	(20bps)	(20bps)
Adj. PAT	809	936	814	1,100	0.6	17.5
Adj. EPS	31.7	36.7	31.9	43.2	0.6	17.5

PROFIT & LOSS

Y.E December (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	10,337	10,357	10,200	11,479	12,857
% change	(0.1)	0.2	(1.5)	12.5	12.0
EBITDA	1,780	1,949	1,501	2,123	2,498
% change	(19.1)	9.3	(23.0)	41.5	17.7
Depreciation	569	666	759	768	801
EBIT	1,212	1,283	741	1,355	1,697
Interest	354	342	367	342	230
Other Income	579	307	260	248	237
PBT	1,437	1,248	634	1,261	1,704
% change	(11.3)	(13.2)	(49.2)	98.9	35.2
Tax	274	220	198	243	329
Tax Rate (%)	19.1	17.6	31.2	19.3	19.3
Reported PAT	1,156	7,006	256	814	1,100
Adj*	(294)	(6,200)	-	-	-
Adj PAT	862	807	256	814	1,100
% change	(29.7)	(6.4)	(68.2)	217.5	35.2
No. of shares (cr)	25.5	25.5	25.5	25.5	25.5
Adj EPS (Rs.)	33.8	31.7	10.1	31.9	43.2
% change	(29.7)	(6.4)	(68.2)	217.5	35.2
DPS (Rs.)	12.5	11.0	10.0	8.8	11.9
CEPS (Rs.)	56.2	57.8	39.9	62.1	74.6

CASH FLOW

Y.E December (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	1,727	7,673	1,016	1,582	1,901
Non-cash adj.	68	(5,763)	698	639	591
Changes in W.C	(214)	(130)	323	(94)	(70)
C.F. Operation	1,581	1,780	2,037	2,127	2,422
Capital exp.	(1,080)	(1,169)	(1,233)	(1,377)	(1,671)
Change in inv.	(1,971)	790	(100)	252	215
Other invest.CF	1,093	(1,989)	203	-	-
C.F - Investment	(1,958)	(2,368)	(1,130)	(1,126)	(1,456)
Issue of equity	-	-	-	-	-
Issue/repay debt	(571)	823	(634)	(317)	(159)
Dividends paid	(673)	(382)	(280)	(224)	(303)
Other finance.CF	(468)	(569)	(541)	(102)	(248)
C.F - Finance	(1,712)	(129)	(1,456)	(643)	(709)
Chg. in cash	(2,089)	(717)	(549)	358	257
Closing cash	1,952	2,080	1,411	1,769	2,026

BALANCE SHEET

Y.E December (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	1,952	2,080	1,411	1,769	2,026
Accounts Receivable	1,453	1,580	1,397	1,492	1,607
Inventories	1,726	1,869	1,687	1,915	2,160
Other Cur. Assets	2,968	2,334	2,151	2,249	2,351
Investments	3,390	2,705	4,307	3,977	3,680
Gross Fixed Assets	5,942	7,111	8,345	9,722	11,394
Net Fixed Assets	4,293	5,121	5,645	6,395	7,404
CWIP	736	788	1,035	1,045	1,056
Intangible Assets	9,268	10,260	9,620	9,469	9,320
Def. Tax (Net)	36	15	-	-	-
Other Assets	1,083	1,000	1,085	1,014	951
Total Assets	26,905	27,752	28,337	29,326	30,555
Current Liabilities	3,596	5,175	4,186	4,433	4,807
Provisions	1,504	1,654	1,598	1,606	1,614
Debt Funds	5,135	5,386	5,477	5,054	4,790
Other Liabilities	1,414	1,876	1,934	2,296	2,335
Equity Capital	255	255	255	255	255
Reserves & Surplus	12,086	12,643	14,035	14,625	15,423
Shareholder's Fund	12,341	12,898	14,290	14,880	15,678
Minority Interest	2,915	764	853	1,056	1,331
Total Liabilities	26,905	27,752	28,337	29,326	30,555
BVPS (Rs.)	484	506	561	584	615

RATIOS

Y.E December	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	17.2	18.8	14.7	18.5	19.4
EBIT margin (%)	11.7	12.4	7.3	11.8	13.2
Net profit mgn.(%)	8.3	7.8	2.5	7.1	8.6
ROE (%)	7.0	6.3	1.8	5.5	7.0
ROCE (%)	5.9	6.7	3.6	6.5	7.8
W.C & Liquidity					
Receivables (days)	51.3	55.7	50.0	47.5	45.6
Inventory (days)	314.6	346.6	256.8	259.2	261.0
Payables (days)	269.0	302.4	256.3	258.8	266.1
Current ratio (x)	2.1	1.1	1.5	1.6	1.6
Quick ratio (x)	1.4	0.7	1.0	1.0	1.1
Turnover & Leverage					
Gross asset T.O (x)	1.9	1.6	1.3	1.3	1.2
Total asset T.O (x)	0.4	0.4	0.4	0.4	0.4
Int. coverage ratio (x)	3.4	3.8	2.0	4.0	7.4
Adj. debt/equity (x)	0.3	0.4	0.4	0.3	0.3
Valuation					
EV/Sales (x)	2.0	0.9	2.4	1.9	1.7
EV/EBITDA (x)	11.8	5.0	16.0	10.2	8.6
P/E (x)	17.4	7.0	74.7	21.3	15.7
P/BV (x)	1.2	0.4	1.3	1.2	1.1

Recommendation Summary



Dates	Rating	Target
30-Aug-18	HOLD	321
30-Aug-19	REDUCE	223
6-Jul-20	ACCUMULATE	358
5-Nov-20	ACCUMULATE	344
1-Feb-21	ACCUMULATE	552
11-May-21	HOLD	735

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			

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: The analyst has no investment opinion on the stock.

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

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Sheen G, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities and Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose

his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities. In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Sheen G, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padiyattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

