

US, Magadi drag soda ash revenues...

Tata Chemicals (TCL) reported a fall in revenue of 9% YoY to ₹ 2348 crore, largely dragged by poor soda ash sales volumes from US & Magadi regions. Basic chemical revenue from the US fell 26.7% YoY to ₹ 619 crore while the same from Magadi remained at ₹ 100 crore (-20.6% YoY). Revenue from India fell 5.1% YoY to ₹ 637.3 crore, largely assisted by a change in the product mix towards high value products. The realisation growth from India business was at 29.8% YoY to ₹ 45,850/tonne. The basic chemical revenue from the Europe region was up 2.9% YoY to ₹ 316 crore. Lower gross margins (-771 bps YoY) dragged OPM, which contracted 461 bps YoY to 15.3% leading to EBITDA de growth of 30% YoY to ₹ 360 crore. In terms of geography wise OPM break up in the basic chemical segment, OPM for India fell 184 bps YoY to 27.7% while North America & Magadi fell 1671 bps YoY & 587 bps YoY to 5.7% & 10%, respectively. On the other hand, Europe margins rose 300 bps YoY to 8.9%. PAT was down 91% YoY to ₹ 13.3 crore, impacted by subdued operational performance and lower other income (-32% YoY), higher finance cost (+25% YoY) & depreciation (+17% YoY).

Flat glass demand likely to improve by end of this fiscal

Due to lockdown, there was a slowdown in construction activity primarily due to labour/demand related issues. Further, there was a slowdown in auto activity also, impacting demand for flat glass and, thereby, soda ash consumption. Flat glass is estimated to comprise ~50% of soda ash demand. The management believes flat glass demand would improve by end of this fiscal and can support better demand growth from next year. Further, majority of the new capacity from China, North America has been delayed by 18-24 months. Hence, we do not expect a huge demand-supply mismatch. This should support realisation, to a certain extent, going ahead.

Better specialty share likely to improve OPM ahead

The company is likely to complete value added capex such as soda bicarb, agro science and salt as per original timeline, while there was a delay of 12-18 months in soda ash and cement capacity. We believe the company's focus remains on the specialty portfolio, which should likely inch up in the years to come, resulting in an improvement in operating margins.

Valuation & Outlook

We value the company on an SOTP basis and arrive at a target price of ₹ 285 including the investment portfolio value. We have a **HOLD** recommendation on the stock.



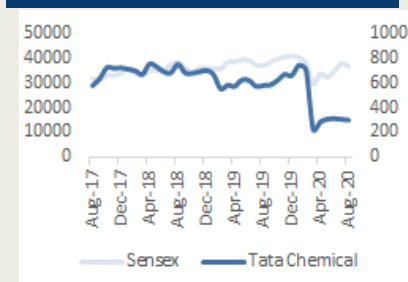
Particulars

Particular	Amount
Market cap (₹ Crore)	7,594
FY20 Total Debt (₹ Crore)	6,124
FY20 Cash & Inv (₹ Crore)	4,205
EV (₹ Crore)	9,513
52 Week H/L	340/197
Equity Capital (₹ Crore)	254.8
Face Value (₹)	10

Key Highlights

- Flat glass demand likely to improve by the end of this fiscal
- Better specialty share likely to improve OPM ahead
- Maintain HOLD with target price of ₹ 285

Price Performance



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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20	FY21E	FY22E	CAGR FY19-22E
Net Revenue	10,346.1	10,269.7	10,336.7	10,356.8	9,978.6	11,013.1	2.1
EBITDA	2,094.3	2,190.7	1,780.5	1,949.2	1,735.9	2,024.2	4.4
EBITDA Margins (%)	20.2%	21.3%	17.2%	18.8%	17.4%	18.4%	
Adj. PAT	879.6	1,290.6	931.9	806.6	622.4	813.7	(4.4)
Adj. EPS (₹)	34.5	50.6	36.6	31.7	24.4	31.9	
EV/EBITDA	5.2x	3.9x	4.8x	4.8x	5.6x	4.6x	
P/E	8.6x	5.9x	8.1x	9.4x	12.2x	9.3x	
ROE (%)	11.1	11.6	7.6	6.3	4.7	5.9	
ROCE (%)	9.7	8.3	7.1	7.7	6.5	7.6	

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 1: Basic chemical revenue across geographies (₹ crore)

Basic chem Revenue	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
India	671	690	711	719	637
TCA - North America	845	886	872	800	619
TCE - Europe	307	337	348	365	316
TCM - Magadi	126	139	79	115	100

Source: Company, ICICI Direct Research

Exhibit 2: Basic chemical sales volumes across geographies ('000 MT)

Basic chem sales volume ('000 MT)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
TCL India	190	179	185	185	139
Soda Ash	163	154	158	159	118
Sodium Bicarbonate	27	25	27	26	21
TCA - North America	539	570	569	553	387
Soda Ash	539	570	569	553	387
TCE - Europe	92	104	97	101	92
Soda Ash	68	77	70	71	62
Sodium Bicarbonate	24	27	27	30	30
TCM - Magadi	63	74	40	75	57
Soda Ash	63	74	40	75	57

Source: Company, ICICI Direct Research

Exhibit 3: Basic chemical realisation/tonne

Basic chem realization/tonne	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
India	35,329	38,549	38,406	38,846	45,850
TCA - North America	15,677	15,544	15,325	14,467	15,995
TCE - Europe	33,370	32,404	35,876	36,139	34,348
TCM - Magadi	20,000	18,784	19,750	15,333	17,544

Source: Company, ICICI Direct Research

Exhibit 4: Basic chemical EBITDA/tonne

Basic chem EBITDA/tonne	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
India	10,443	11,236	10,855	8,721	12,710
TCA - North America	3,506	3,263	3,216	3,689	904
TCE - Europe	1,957	4,327	4,742	5,050	3,043
TCM - Magadi	3,175	3,649	-2,250	1,467	1,754

Source: Company, ICICI Direct Research

Exhibit 5: Basic chemical OPM trend geographically (%)

Basic chem OPM (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
India	29.6%	29.1%	28.3%	22.5%	27.7%
TCA - North America	22.4%	21.0%	21.0%	25.5%	5.7%
TCE - Europe	5.9%	13.4%	13.2%	14.0%	8.9%
TCM - Magadi	15.9%	19.4%	-11.4%	9.6%	10.0%

Source: Company, ICICI Direct Research

Conference Call Highlights

- The soda ash business performed based on industry growth. Flat glass and auto factories are opening slowly so demand would pick up slowly ahead
- UK and Kenya has limited exposure to flat glass. Some disturbances due to logistics affected performance. In Magadi, more soda ash is going to container glass
- South America is facing a difficult time. South East Asia should see a better turnaround than South America. South East Asia prices are reaching almost bottom
- US: Total 50% production goes to flat glass so growth was impacted during the quarter
- North American unit prices: domestic prices contracted. Pricing pressure at the end of the year will be minimal, Export would see prices coming down
- Inventory of soda ash in India 150000-200000 tonnes. The inventory across China Europe, Turkey, North America and India is at 0.9-1 MMT
- Salt did well due to consumer demand and higher stocking due to lockdown
- Out of the ₹ 2400 crore, ₹ 600 crore capex spent and about ₹ 1800 crore yet to be spent in 2.5 years (FY22-23). Capex plans in FY21: ₹ 150-200 crore shortfall in the capex
- China capacity closure is expected to be around 2-5 MMT. Planned capacity expansion in North America and China is expected to be delayed by at least 15-24 months

Financial summary

Exhibit 6: Profit and loss statement ₹ crore

Year end March	FY18	FY19	FY20	FY21E	FY22E
Total Operating Income	10,269.7	10,336.7	10,356.8	9,978.6	11,013.1
Growth (%)	-0.7	0.7	0.2	-3.7	10.4
Raw Material Expenses	1,755.5	2,002.0	1,968.4	1,995.7	1,982.4
Gross Profit	8,514.2	8,334.7	8,388.4	7,982.9	9,030.8
Employee Cost	1,270.2	1,318.5	1,375.4	1,387.0	1,453.7
Other Operating Expenses	5,053.3	5,235.8	5,063.8	4,860.0	5,552.9
EBITDA	2,190.7	1,780.5	1,949.2	1,735.9	2,024.2
Growth (%)	4.6	-18.7	9.5	-10.9	16.6
Other Income	159.5	409.5	311.1	286.5	293.4
EBITDA, including OI	2,350.2	2,189.9	2,260.3	2,022.4	2,317.6
Depreciation	518.0	568.5	666.5	687.6	717.1
Net Interest Exp.	325.6	353.7	341.9	318.0	272.4
Other exceptional items	64.3	70.3	0.0	0.0	0.0
PBT	1,570.9	1,338.1	1,251.9	1,016.9	1,328.1
Total Tax	60.1	274.4	219.7	223.7	292.2
Tax Rate	3.8%	20.5%	17.5%	22.0%	22.0%
PAT	1,510.8	1,063.6	1,032.3	793.2	1,035.9
Adj. PAT after Minority interest	1,290.6	931.9	806.6	622.4	813.7
Adj. EPS (₹)	50.6	36.6	31.7	24.4	31.9
Shares Outstanding	25.5	25.5	25.5	25.5	25.5

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore

Year end March	FY18	FY19	FY20	FY21E	FY22E
PBT & Extraordinary	3,271.8	1,730.4	7,407.5	1,016.9	1,328.1
Depreciation	596.0	571.4	666.5	687.6	717.1
After other adjustments					
(Inc) / Dec in Working Capital	-569.1	-214.4	-129.9	-1,180.9	187.4
Taxes	-514.7	-484.9	-147.8	-223.7	-292.2
Others	-913.9	-21.3	-6,016.2	318.0	272.4
CF from operating activities	1,870.1	1,581.3	1,780.1	617.8	2,212.8
Purchase of Fixed Assets	-750.3	-1,082.3	-1,199.4	-500.0	-1,200.0
Others	3,457.3	-875.9	-1,168.7	-203.2	-4.7
CF from investing activities	2,707.0	-1,958.2	-2,368.1	-703.2	-1,204.7
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Borrowings (Net)	-1,240.6	-576.2	735.1	-500.0	-700.0
Others	-848.9	-1,135.7	-864.4	-598.3	-552.7
CF from financing activities	-2,089.5	-1,711.8	-129.3	-1,098.3	-1,252.7
Net cash flow	2,487.7	-2,088.7	-717.3	-1,183.7	-244.6
Effects of foreign currency translation	6.8	31.2	0.0	0.0	0.0
Opening Cash	1,664.8	4,483.0	1,952.2	2,079.5	895.8
Closing Cash	4,483.0	1,952.2	2,079.5	895.8	651.1

*calculated, Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet ₹ crore

Year end March	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Share Capital	254.8	254.8	254.8	254.8	254.8
Reserves	10,846.9	12,086.5	12,642.8	12,984.9	13,518.3
Total Shareholders Funds	11,101.7	12,341.3	12,897.7	13,239.7	13,773.1
Minority Interest	2,717.2	2,914.7	763.8	930.3	1,147.9
Long Term Borrowings	5,394.0	4,769.3	3,473.4	3,273.4	2,773.4
Net Deferred Tax liability	1,191.6	1,297.1	1,437.9	1,437.9	1,437.9
Other long term liabilities	95.8	129.9	437.6	88.5	97.6
Long term provisions	1,675.1	1,503.9	1,653.5	1,718.7	1,896.9
Current Liabilities and Provisions					
Short term borrowings	140.2	352.5	1,912.9	1,612.9	1,412.9
Trade Payables	1,478.6	1,475.3	1,630.9	1,312.3	1,448.3
Other Current Liabilities	1,878.8	1,840.5	3,267.6	2,187.1	2,413.8
Short Term Provisions	205.8	280.3	276.9	246.0	271.6
Total Current Liabilities	3,703.3	3,948.6	7,088.4	5,358.3	5,546.6
Total Liabilities	25,878.6	26,904.8	27,752.2	26,046.9	26,673.5
Assets					
Net Block	11,026.9	11,664.8	13,073.9	12,886.4	12,869.3
Capital Work in Progress	373.9	735.8	787.8	787.8	1,287.8
Intangible assets under devt.	35.0	38.0	47.2	47.2	47.2
Goodwill on Consolidation	1,731.9	1,859.0	1,999.8	1,999.8	1,999.8
Non-current investments	2,748.6	3,362.9	2,683.8	2,683.8	2,683.8
Deferred tax assets	20.8	36.2	15.3	15.3	15.3
Long term loans and advances	9.7	7.9	10.0	7.7	8.5
Other Non Current Assets	892.4	1,102.0	1,272.1	658.1	724.1
Current Assets, Loans & Advances					
Current Investments	91.8	2,252.3	1,601.0	1,800.0	1,800.0
Inventories	1,462.3	1,725.6	1,869.2	1,913.7	2,021.6
Sundry Debtors	1,307.9	1,452.5	1,579.9	1,585.6	1,719.9
Cash and Bank	4,483.0	1,952.2	2,079.5	895.8	651.1
Loans and Advances	1.6	1.3	0.2	0.2	0.2
Other Current assets	1,692.9	714.4	732.5	765.5	844.8
Current Assets	9,039.6	8,098.3	7,862.3	6,960.9	7,037.7
Total Assets	25,878.6	26,904.9	27,752.2	26,046.9	26,673.5

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios

Year end March	FY18	FY19	FY20	FY21E	FY22E
Per share data (₹)					
Adj. EPS	50.6	36.6	31.7	24.4	31.9
Adj. Cash EPS	71.0	58.9	57.8	51.4	60.1
BV	435.7	484.3	506.1	519.6	540.5
DPS	22.0	23.5	11.0	11.0	11.0
Operating Ratios (%)					
Gross Margin (%)	82.9	80.6	81.0	80.0	82.0
EBITDA Margin (%)	21.3	17.2	18.8	17.4	18.4
PAT Margin (%)	12.6	9.0	7.8	6.2	7.4
Debtor Days	46	51	56	58	57
Inventory Days	52	61	66	70	67
Creditor Days	53	52	57	48	48
Cash Conversion Cycle	46	60	64	80	76
Return Ratios (%)					
Return on Assets (%)	5.0	3.5	2.9	2.4	3.1
RoCE (%)	8.3	7.1	7.7	6.5	7.6
Core RoIC (%)	13.9	9.1	8.8	6.8	8.4
RoE (%)	11.6	7.6	6.3	4.7	5.9
Solvency Ratios					
Total Debt / Equity	0.5	0.4	0.4	0.4	0.3
Interest Coverage	5.6	4.6	4.7	4.2	5.9
Current Ratio	2.4	2.1	1.1	1.3	1.3
Quick Ratio	2.0	1.6	0.8	0.9	0.9
Valuation Ratios (x)					
EV/EBITDA	3.9	4.8	4.8	5.6	4.6
P/E	5.9	8.1	9.4	12.2	9.3
P/B	0.7	0.6	0.6	0.6	0.6
EV/Sales	0.8	0.8	0.9	1.0	0.8

Source: Company, ICICI Direct Research

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