

04th Jul, 2023

Tata Chemicals Ltd. – BUY

CMP : Rs. 1,024
Target Price : Rs. 1,248
Upside : 21%+
Stop Loss : Rs. 920 (Closing basis)

Investment Thesis

- The soda ash business of Tata Chemicals Ltd. (TATACHEM) has delivered good growth in the international markets, especially United States which outperformed all regions. Further the management is upbeat on the global volume growth and pricing scenario due to 1) Tight soda ash supply 2) Reopening of China, which will drive demand higher and 3) The pricing power of TATACHEM to pass on cost inflation through price hikes.
- Cost inflation and softness in market caused margins contraction in domestic business and volumes were flat during FY23. Management of TATACHEM has, however, guided that these conditions are transitional in nature and the market conditions should improve H1FY24.
- With a view to improve the topline, TATACHEM management outlined capacity expansion plan in FY23 for both the segments. Wherein Soda Ash / Bicarb / Salt / Silica capacities would increase by ~25% / ~66% / ~28% / 400% by H1FY24.
- De-leveraging the business has also been a key priority of the management with the gross debt down to Rs. 6,296 crs in FY23 (Rs. 7,024 crs in FY22). The net debt has reduced by Rs. 334 crs only to Rs. 3898 crs in FY23 from Rs. 4,232 crs in FY22 mainly on account of adverse impact of foreign exchange of Rs. 458 crs. Kenya business has become debt-free ahead of the schedule.
- TATACHEM has also forayed into the Energy Science vertical, with a greenfield expansion in Dholera, Gujarat. This would enable it to capitalize on the excess demand created by new applications of soda ash in products like EV batteries, solar glass, etc. It is expected that these new applications would lead to increase in the demand of the global soda ash by 3-4% p.a. Recently, Tata Group announced that it signed a deal with the Gujarat government to invest Rs. 13,000 crs to build an lithium-ion cell factory in Gujarat with an initial capacity 20 GWh.

Financials

- TATACHEM has delivered a strong topline growth during FY23 on account of higher selling prices and stable demand. The Revenue has grown at a CAGR of ~12% since FY20.

Particulars	FY20 *	FY21	FY22	FY23	FY24E
Revenue (Rs in Crs)	10,668	10,434	12,882	17,007	17,857
EBITDA (Rs in Crs)	2,260	1,735	2,561	4,040	3,929
Adj. PAT (Rs in Crs)	7,201	410	1,400	2,452	2,357
Adj. EPS (Rs.)	275.02	10.06	49.33	90.86	92.44
PE Multiple (x)	0.81	74.65	19.75	10.70	13.50
RoE (%)	57.06	3.02	8.06	12.91	5.96

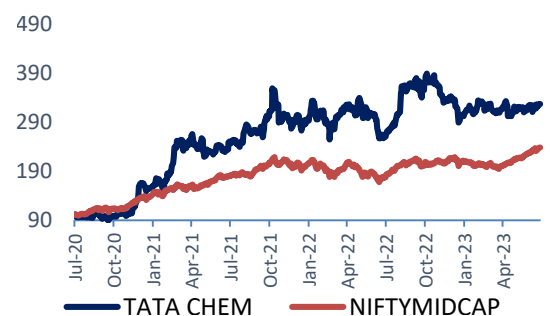
*During FY20, TATACHEM transferred consumer business to Tata Consumer Products.

Stock Data	
Market Cap (Rs. Crs)	26,100
Market Cap (\$ Mn)	3,170
Shares O/S (in Mn)	254.8
Avg. Volume (3 month)	12,68,410
52-Week Range (Rs.)	1,215 / 773

Shareholding Pattern	
Promoters	37.98 %
FIIIs	14.59 %
Institutions	19.80 %
Others (incl. body corporate)	27.63 %

Key Ratios	
Div Yield (%)	1.75
TTM PE (x)	10.90
RoE (%)	12.91
TTM EPS (Rs.)	90.86

Stock Performance			
Performance (%)	1M	6M	1YR
Absolute	3.2	6.9	26.2
Relative	(2.7)	(6.6)	(8.9)



- EBITDA margin for FY23 saw an expansion of 387 bps as tight supply and stable demand drove prices upward.
- Soda Ash volumes saw a marginal dip which was due to maintenance shutdown in the US.
- Management of TATACHEM expect that Kenya and US will drive volumes higher in FY24. Management also expects margin expansion in India and Kenya from Q2FY24.

Key Business Highlights

- TATACHEM is a dominant player in the chemicals sector and operates in two segments a) Basic Chemistry, b) Speciality Chemistry with a focus on soda ash segment (Basic Chemistry). Basic chemistry contributes ~78% / ~71% of revenues and volumes, respectively.
- TATACHEM is the largest saltworks in Asia, third largest soda ash manufacturer and the sixth largest sodium bicarbonate manufacturer in the world.
- The management of TATACHEM has increased their exposure to Special Chemistry via entering the Energy Sciences verticals, scaling up the Nutraceutical business and expanding the Silicia business.
- In FY24, TATACHEM will commence production of a Pharmaceutical salt in Europe. This is a margin accretive product.
- In FY19, TATACHEM started Li-ion battery recycling operations and set up a greenfield manufacturing facility in Gujarat for the Energy Sciences Vertical. This division is working on multiple battery cell chemistry and design along with understanding related manufacturing technologies.
- In FY20, TATACHEM transferred the consumer products division (Tata Sampam, Tata Salt etc) to Tata Consumer Products.

Valuation

Post FY23 results, TATACHEM is currently trading at Rs. 1,014, which is at PE / EBITDA Multiple of 11.2x / 7.9x against the 5 year median PE / EBITDA Multiple of 10.8x / 7.5x. The management is confident about the future demand scenario aided by the emergence of new applications such as solar glass and lithium-ion batteries. Further, EBITDA margin is expected to improve or stay elevated in FY24.

Therefore, we ascribe a **BUY** rating to **TATACHEM** with a **target price** of **Rs. 1,248**, translating to an **upside** of **21%+**

Risk & Concern

- Fall in Soda Ash prices would lead to adverse impact on the EBITDA/tonne realization
- Lower than expected recovery in the global demand would lead to moderation in the prices
- Delays in capacity expansion plan

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

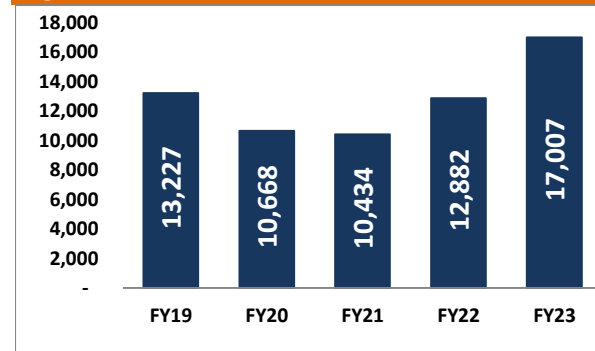


Figure 2: EBITDA & EBITDA Margin Trend

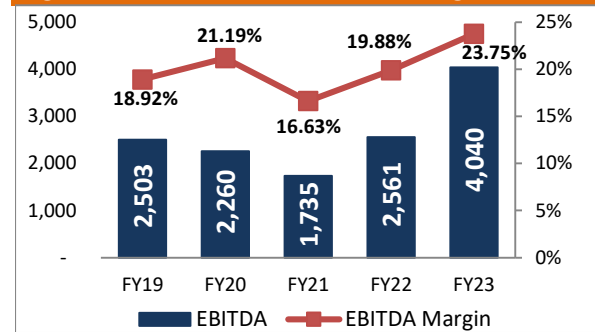


Figure 3: Region-wise Revenue (FY23)

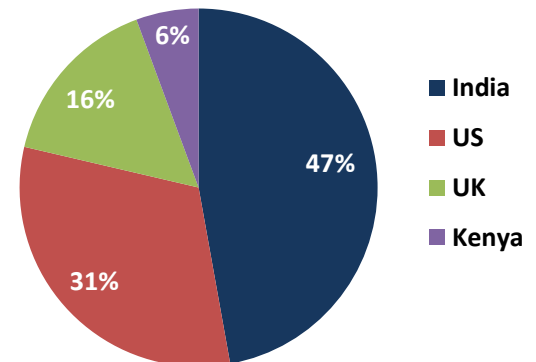
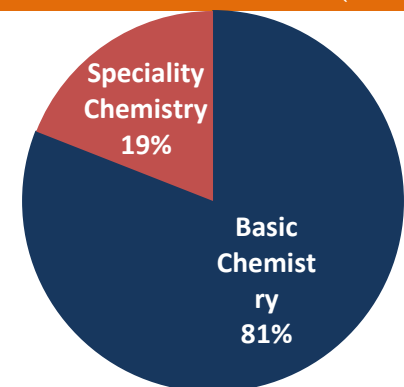


Figure 4: Vertical-wise Revenue (FY23)



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