

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 a 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

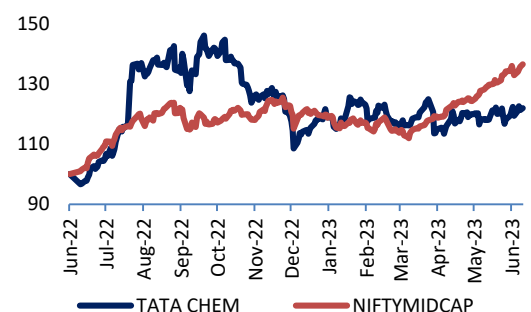
\*During FY20, TATACHEM transferred consumer business to Tata Consumer Products.

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)

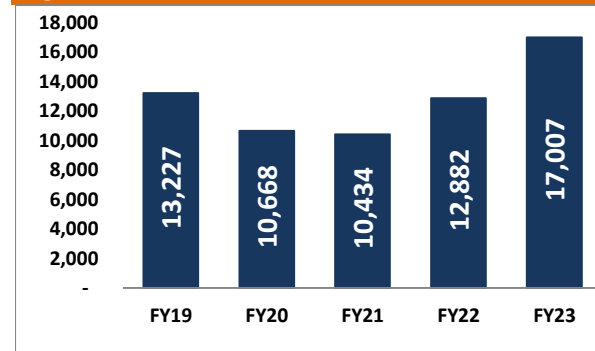


Figure 2: EBITDA & EBITDA Margin Trend

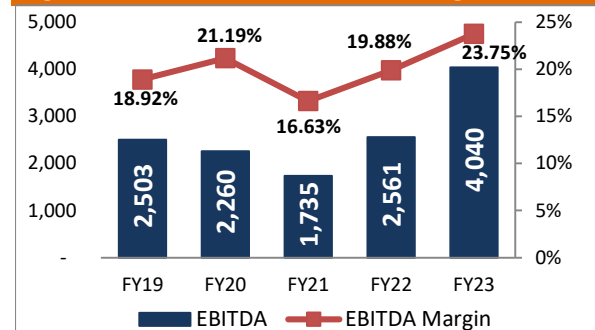


Figure 3: Region-wise Revenue (FY23)

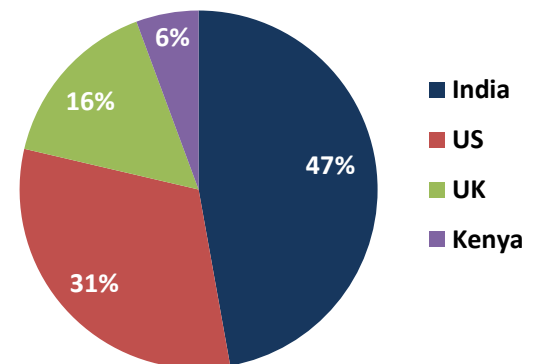
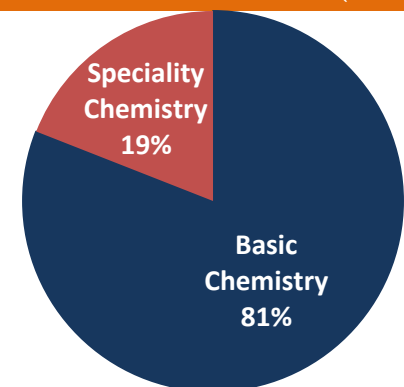


Figure 4: Vertical-wise Revenue (FY23)



**Name**  
**Omkar Kamtekar**

**Designation**  
**Research Analyst**

**Disclosure:** M/s. Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. M/s. Bonanza Portfolio Ltd has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. The Analysts engaged in preparation of this Report or his/her relative: - (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report. The Analysts engaged in preparation of this Report:- (a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

M/s. Bonanza Portfolio Ltd is a registered Research Analyst under the regulation of SEBI, the year 2014. The Regn No. INH100001666 and research analyst engaged in preparing reports is qualified as per the regulation's provision.

**Disclaimer:** This research report has been published by M/s. Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently send or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of M/s. Bonanza portfolio Ltd shall be liable. Research report may differ between M/s. Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the Subject Company or third party in connection with the research report.

M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063  
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

BSE /NSE/MCX : | CASH | DERIVATIVE | CURRENCY DERIVATIVE | COMMODITY SEGMENT |

| CDSL: | 120 33500 | NSDL: | IN 301477 | | PMS: INP 000000985 | AMFI: ARN -0186