

BSE SENSEX  
40,324

S&P CNX  
11,908



**TATA CHEMICALS LIMITED**

### Stock Info

	TTCH IN
Bloomberg	TTCH IN
Equity Shares (m)	255
M.Cap.(INRb)/(USD\$b)	160.8 / 2.3
52-Week Range (INR)	726 / 544
1, 6, 12 Rel. Per (%)	2/-1/-24
12M Avg Val (INR M)	478
Free float (%)	69.4

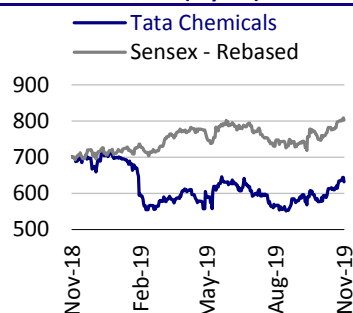
### Financials Snapshot (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	113.0	120.0	134.7
EBITDA	21.0	24.5	27.8
PAT	10.9	11.5	13.3
EPS (INR)	42.9	45.3	52.2
Gr. (%)	-10.8	5.5	15.3
BV/Sh (INR)	484.3	513.9	550.7
RoE (%)	9.3	9.1	9.8
RoCE (%)	7.3	7.5	8.1
P/E (x)	14.7	13.9	12.1
P/BV (x)	1.3	1.2	1.1

### Shareholding pattern (%)

As On	Sep-19	Jun-19	Sep-18
Promoter	30.6	30.6	30.6
DII	38.9	37.7	36.8
FII	9.4	10.7	11.1
Others	21.1	21.0	21.5

### Stock Performance (1-year)



**CMP: INR631**

**TP: INR758 (+20%)**

**Buy**

## Residual biz (post consumer demerger) available at attractive valuation

### Re-iterating Buy

#### Value unlocking through demerger of Consumer business

- In May'19, the board of Tata Chemicals (TTCH) had approved the demerger of its Consumer products business and the transfer it to Tata Global Beverages (TGBL) in an all-equity transaction. It was also announced that TTCH would retain salt manufacturing with itself post the deal.
- The existing shareholders of TTCH will receive 1.14 shares of TGBL for every 1 share held in TTCH.
- At the time of the announcement, the deal valued the Consumer business at ~18x FY19 EBITDA, implying an EV of INR57.6b (INR226/share). However, since then, the share price of TGBL has rallied by ~50% and of TTCH by 14%. As a result, the value/share of the consumer business being transferred to TGBL stands at INR342/share. Against this backdrop, we attempt to analyze the valuation at which the residual business is available.

#### Residual business available at reasonable valuation...

- We back calculated the valuations at which the residual business is available factoring in the current market prices.
- According to our calculations, the enterprise value post demerger adjusts for the value of Rallis, quoted investments and value of TGBL's shares to be received by the shareholders of TTCH. We also adjusted EBITDA post the demerger of the Consumer business and Rallis (we have excluded Rallis' EBITDA as we have done the same in our EV calculation).
- Thus, the residual business is available at 4.4x/3.7x FY20/21E EV/EBITDA.

#### ...at discount to global peers...

- TTCH has 68% of its soda ash capacity in the natural trona form, and thus Ciner and Solvay – which are amongst leading natural soda ash manufacturers – can be looked at as key comparables from the valuations perspective.
- Ciner has traded at 5.5x one-year forward EV/EBITDA (avg.) over the last six years and at 5.9x EV/EBITDA on the trailing 12-month basis over the last 10 years. Separately, Solvay has traded at 6.4x one-year forward EV/EBITDA (avg.) over the last 10 years.
- Thus, on an average basis, Ciner and Solvay have traded at ~6x one-year EV/EBITDA basis.
- TTCH's residual business thus is available at a 27%/38% discount (FY20/21) to its global peers, which, in our view, provides a favorable risk-reward.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilalosal.com/Institutional-Equities](http://www.motilalosal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**...and inhibits value; valuation gap will thus narrow**

- Although the value at which the residual business is available is cheap, it is important to look at it from the perspective of the underlying value being offered.
- TTCH is the third largest soda ash manufacturer in the world with 68% of its capacity in natural soda ash which has lower manufacturing cost compared to synthetic soda ash.
- Over the next five years, the company targets to increase the share of the specialty chemistry business (which mainly comprises of Rallis) from 20% (post demerger) to 50% (material sciences –5%, energy sciences –10%, nutrition sciences – 10% and agro sciences – 25%). This business not only yields higher margins but also is return accretive.
- TTCH is also entering into segments that use soda ash as input RM. For instance, it plans to manufacture lithium ion batteries that use soda ash.
- We thus remain confident that the valuation gap with global peers will narrow going forward.

**Valuation and view**

- In 2016, the company sold off its fertilizer business, and then in 2019 carved out a plan to demerge its consumer business with a clear strategy to focus on basic and specialty chemicals.
- TTCH is also incurring a capex of INR24b at its Mithapur plant for various categories (soda ash, sodium bicarbonate, salt manufacturing and cement), which is likely to come on stream by FY22 in a phased manner.
- The company's cash-cow businesses (soda ash and sodium bicarbonate) are likely to remain steady given the prospects of a balanced demand-supply scenario. Cash generated from the same would be partially deployed toward its specialty chemicals segment which earns high margins and RoCE.
- We thus reiterate our Buy rating on the stock as the residual business is available at a 27%/38% (FY20/21) discount (on EV/EBITDA) to its global peers.
- Based on our scenario analysis, if we value TTCH's residual business EBITDA at 6x (in line with global peers), the potential upside in CMP is 30%.
- We derive an SOTP-based target price of INR758 – implied EV/EBITDA of 8.5x. Our TP implies an upside of 20%.

**Exhibit 1: Current value of TTCH's residual business (INR m)**

	FY20	FY21
<b>EBITDA Calculation</b>		
Consol EBITDA	24,477	27,750
Less: Rallis EBITDA	2,511	3,083
Less: Consumer Branded EBITDA	3,070	3,622
<b>Balance EBITDA (Residual Biz.)</b>	<b>18,897</b>	<b>21,045</b>
<b>EV Calculation</b>		
Current Mcap	1,60,791	1,60,791
Rallis (Mcap adj for 20% disc)	12,696	12,696
Other investments (Mcap with 20% hold co disc)	17,242	17,242
Value of TGB Shares (@ CMP of INR300)	87,148	87,148
Minority Interest (excluding Rallis MI)	22,282	22,282
Net Debt	16,787	12,698
<b>EV for Residual Business</b>	<b>82,774</b>	<b>78,685</b>
<b>EV/EBITDA (x)</b>	<b>4.4</b>	<b>3.7</b>

Source: MOFSL

**Exhibit 2: Valuation Methodology – SOTP**

Business	Methodology	Metrics	FY21	Multiple (x)	EV/ MCAP (INR mn)
<b>Commodity (INR m)</b>					
Inorganic Chemical India (Soda Ash & others) (Inc mfg Salt)	EV/EBITDA (x)	EBITDA	9,462	6	56,771
Tata Chemicals North America	EV/EBITDA (x)	EBITDA	8,091	7	56,636
Tata Chemicals Europe and Tata Chemicals Africa	EV/EBITDA (x)	EBITDA	3,021	5	15,103
<b>Sub Total</b>			<b>20,573</b>		<b>128,510</b>
<b>Specialty and Consumer (INR m)</b>					
Consumer (Incl Salt) (INR mn) – Branded	EV/EBITDA (x)	EBITDA	3,622	21	76,069
Rallis India Ltd (Tata Chemicals hold 50%) (INR m)	20% discount to Current MCAP	Attributable Mcap	32,680	0.8	13,072
<b>Total EV (INR mn)</b>					<b>217,651</b>
Less: Debt FY21 (INR mn)					58,120
Less: Minority Interest (INR mn)					29,147
Add: Cash & Liquid investment (INR mn)					45,422
Add: Value of quoted Investment (INR mn)		Market Capitalization	21,552	0.8	17,242
Target Mcap (INR mn)					193,048
Outstanding share (mn)					255
<b>Target Price (INR)</b>					<b>758</b>
CMP (INR)					631
Upside (%)					20%
Implied EV					234,893
Implied EV/EBITDA (X)					8.5

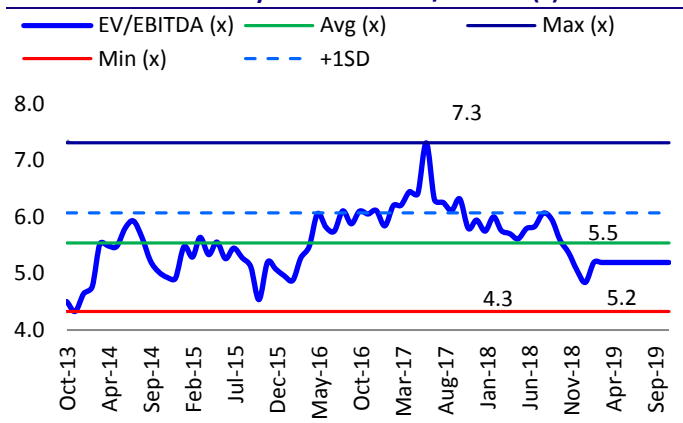
Source: MOFSL

**Exhibit 3: Scenario Analysis – Valuing residual EBITDA of TTCH**

Particulars		Case 1	Case 2	Case 3
Balance EBITDA (Residual Biz.) - FY21	INR m	21,045	21,045	21,045
<b>EV/EBITDA (x)</b>	<b>X</b>	<b>5.5</b>	<b>6</b>	<b>6.5</b>
<b>EV</b>	<b>INR m</b>	<b>1,15,745</b>	<b>1,26,268</b>	<b>1,36,790</b>
Rallis (Mcap adj for 20% disc)	INR m	12,696	12,696	12,696
Other investments (Mcap with 20% hold co disc)	INR m	17,242	17,242	17,242
Value of TGB Shares (@ CMP of INR300)	INR m	87,148	87,148	87,148
Minority Interest (excluding Rallis MI)	INR m	22,282	22,282	22,282
Net Debt	INR m	12,698	12,698	12,698
<b>Target Mcap</b>	<b>INR m</b>	<b>1,97,852</b>	<b>2,08,374</b>	<b>2,18,896</b>
No. of shares - TTCH	INR m	255	255	255
<b>Target Price</b>	<b>INR/share</b>	<b>776</b>	<b>818</b>	<b>859</b>
<b>CMP</b>	<b>INR/share</b>	<b>631</b>	<b>631</b>	<b>631</b>
<b>Potential Upside</b>	<b>%</b>	<b>23%</b>	<b>30%</b>	<b>36%</b>

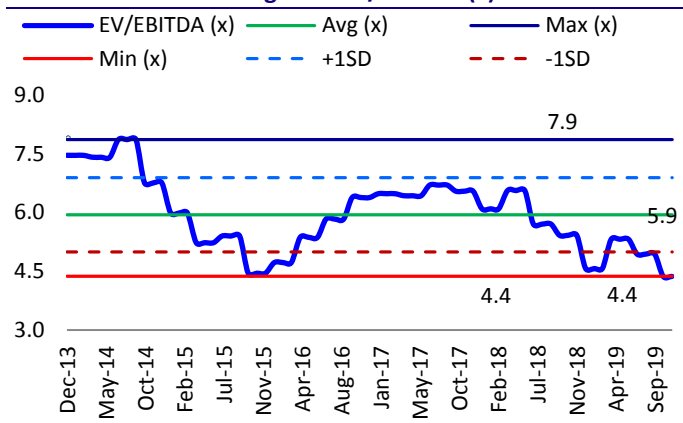
Source: MOFSL

**Exhibit 4: Ciner – one-year forward EV/EBITDA (x)**



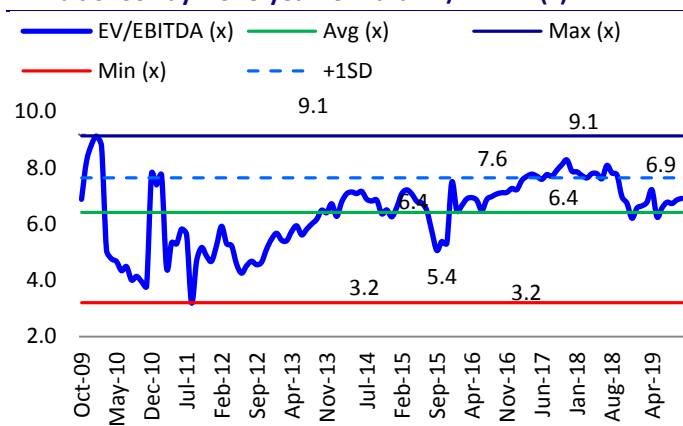
Source: Bloomberg, MOFSL

**Exhibit 5: Ciner - trailing 12M EV/EBITDA (x)**



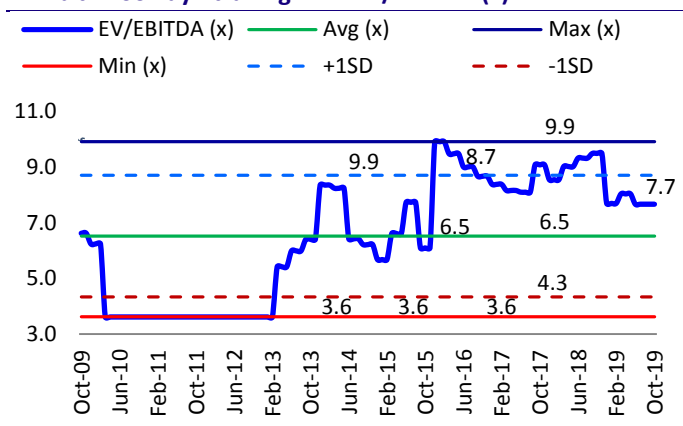
Source: Bloomberg, MOFSL

**Exhibit 6: Solvay – one-year forward EV/EBITDA(x)**

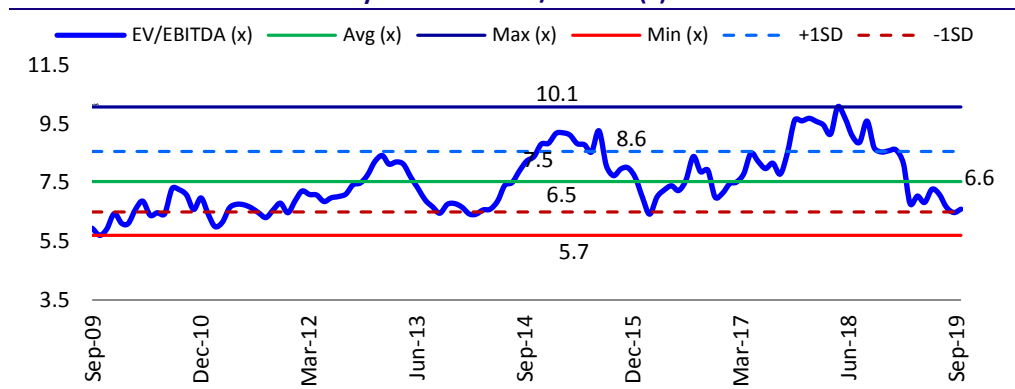


Source: Bloomberg, MOFSL

**Exhibit 7: Solvay - trailing 12M EV/EBITDA (x)**



Source: Bloomberg, MOFSL

**Exhibit 8: Tata Chemicals – one-year forward EV/EBITDA (x)**

Source: Bloomberg, Company

**Exhibit 9: Peer set comparison**

Company Name	P/E(x)			EV/EBITDA (x)			ROE (%)		
	CY19	CY19E	CY20E	CY19	CY19E	CY20E	CY19	CY19E	CY20E
GHCL Ltd *	6.2	4.7	4.4	4.1	3.6	3.3	18.5	19.7	18.0
Solvay	11.6	11.7	10.6	7.0	6.8	6.4	8.3	8.8	9.4
FMC Corp	16.5	14.5	12.9	13.1	12.1	11.2	27.3	27.6	29.6

\*Based on financial year

Source: Company

## Financials and Valuations

Consolidated - Income Statement							(INR M)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	
<b>Total Income from Operations</b>	<b>175,708</b>	<b>152,202</b>	<b>103,461</b>	<b>102,697</b>	<b>112,963</b>	<b>120,038</b>	<b>134,709</b>	
Change (%)	8.3	-13.4	-32.0	-0.7	10.0	6.3	12.2	
<b>Total Expenditure</b>	<b>154,065</b>	<b>131,285</b>	<b>82,518</b>	<b>80,790</b>	<b>92,013</b>	<b>95,561</b>	<b>106,959</b>	
<b>EBITDA</b>	<b>21,643</b>	<b>20,917</b>	<b>20,943</b>	<b>21,907</b>	<b>20,951</b>	<b>24,477</b>	<b>27,750</b>	
Margin (%)	12.3	13.7	20.2	21.3	18.5	20.4	20.6	
Depreciation	4,631	5,261	5,122	5,180	5,714	6,752	7,181	
<b>EBIT</b>	<b>17,012</b>	<b>15,657</b>	<b>15,821</b>	<b>16,727</b>	<b>15,237</b>	<b>17,725</b>	<b>20,569</b>	
Int. and Finance Charges	4,609	5,255	2,973	3,256	3,631	3,637	3,538	
Other Income	1,180	1,253	1,661	1,595	4,116	3,504	3,637	
<b>PBT bef. EO Exp.</b>	<b>13,582</b>	<b>11,655</b>	<b>14,510</b>	<b>15,066</b>	<b>15,722</b>	<b>17,592</b>	<b>20,668</b>	
EO Items	-1,997	0	0	643	703	-80	0	
<b>PBT after EO Exp.</b>	<b>11,585</b>	<b>11,655</b>	<b>14,510</b>	<b>15,709</b>	<b>16,425</b>	<b>17,512</b>	<b>20,668</b>	
Total Tax	3,511	2,484	3,460	601	3,469	4,016	5,167	
Tax Rate (%)	30.3	21.3	23.8	3.8	21.1	22.9	25.0	
Minority Interest	2,109	2,207	2,254	2,202	1,317	2,039	2,202	
<b>Reported PAT - Continuing Ops.</b>	<b>5,965</b>	<b>6,964</b>	<b>8,796</b>	<b>12,906</b>	<b>11,639</b>	<b>11,457</b>	<b>13,299</b>	
<b>Adjusted PAT - Continuing Ops.</b>	<b>7,962</b>	<b>6,964</b>	<b>8,796</b>	<b>12,263</b>	<b>10,936</b>	<b>11,537</b>	<b>13,299</b>	
Change (%)	-32.4	-12.5	26.3	39.4	-10.8	5.5	15.3	
Margin (%)	4.5	4.6	8.5	11.9	9.7	9.6	9.9	
Reported PAT - Discontinuing Ops.	0	742	1,135	11,425	0	0	0	
<b>Reported PAT</b>	<b>5,965</b>	<b>7,706</b>	<b>9,931</b>	<b>24,331</b>	<b>11,639</b>	<b>11,457</b>	<b>13,299</b>	
<b>Adjusted PAT</b>	<b>7,962</b>	<b>7,706</b>	<b>9,931</b>	<b>23,687</b>	<b>10,936</b>	<b>11,537</b>	<b>13,299</b>	

Consolidated - Balance Sheet							(INR M)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	
Equity Share Capital	2,548	2,548	2,548	2,548	2,548	2,548	2,548	
Total Reserves	52,969	65,995	76,534	108,469	120,865	128,403	137,784	
<b>Net Worth</b>	<b>55,517</b>	<b>68,543</b>	<b>79,082</b>	<b>111,017</b>	<b>123,413</b>	<b>130,951</b>	<b>140,332</b>	
Minority Interest	6,735	25,985	26,239	27,172	29,147	29,147	29,147	
Total Loans	83,788	90,904	70,483	64,180	61,430	60,194	58,120	
Deferred Tax Liabilities	2,062	12,348	12,381	11,916	12,972	12,972	12,972	
<b>Capital Employed</b>	<b>148,102</b>	<b>197,780</b>	<b>188,185</b>	<b>214,284</b>	<b>226,961</b>	<b>233,264</b>	<b>240,571</b>	
Gross Block	120,084	120,671	120,011	126,061	138,153	151,118	161,118	
Less: Accum. Deprn.	76,081	5,490	10,612	15,792	21,506	28,258	35,439	
<b>Net Fixed Assets</b>	<b>44,003</b>	<b>115,181</b>	<b>109,400</b>	<b>110,269</b>	<b>116,648</b>	<b>122,860</b>	<b>125,679</b>	
Goodwill on Consolidation	69,586	17,619	16,984	17,319	18,590	18,590	18,590	
Capital WIP	1,893	5,015	3,331	4,089	7,738	5,000	6,000	
<b>Total Investments</b>	<b>4,429</b>	<b>21,879</b>	<b>27,931</b>	<b>28,683</b>	<b>56,425</b>	<b>56,425</b>	<b>56,425</b>	
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>88,109</b>	<b>83,769</b>	<b>78,459</b>	<b>98,427</b>	<b>69,648</b>	<b>74,361</b>	<b>83,090</b>	
Inventory	26,264	19,319	13,861	14,623	17,256	18,197	20,599	
Account Receivables	34,267	35,656	20,922	13,079	14,525	15,786	17,715	
Cash and Bank Balance	14,643	12,654	16,648	44,830	19,522	20,884	22,898	
Loans and Advances	12,936	16,140	27,028	25,895	18,346	19,495	21,877	
<b>Curr. Liability &amp; Prov.</b>	<b>59,918</b>	<b>45,682</b>	<b>47,919</b>	<b>44,502</b>	<b>42,088</b>	<b>43,972</b>	<b>49,213</b>	
Account Payables	18,891	16,818	13,182	14,786	14,753	15,280	17,013	
Other Current Liabilities	16,341	7,923	14,117	10,908	9,492	10,087	11,319	
Provisions	24,686	20,941	20,621	18,808	17,843	18,606	20,880	
<b>Net Current Assets</b>	<b>28,191</b>	<b>38,086</b>	<b>30,540</b>	<b>53,925</b>	<b>27,560</b>	<b>30,389</b>	<b>33,877</b>	
<b>Appl. of Funds</b>	<b>148,102</b>	<b>197,780</b>	<b>188,185</b>	<b>214,284</b>	<b>226,961</b>	<b>233,264</b>	<b>240,571</b>	

## Financials and Valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>31.2</b>	<b>27.3</b>	<b>34.5</b>	<b>48.1</b>	<b>42.9</b>	<b>45.3</b>	<b>52.2</b>
Cash EPS	49.4	48.0	54.6	68.5	65.3	71.8	80.4
BV/Share	217.9	269.0	310.3	435.7	484.3	513.9	550.7
DPS	12.5	10.0	11.0	22.0	12.5	12.5	12.5
Payout (%)	65.7	45.0	39.2	53.4	33.7	34.2	29.5
<b>Valuation (x)</b>							
P/E			18.3	13.1	14.7	13.9	12.1
Cash P/E			11.6	9.2	9.7	8.8	7.9
P/BV			2.0	1.4	1.3	1.2	1.1
EV/Sales			2.3	2.0	1.9	1.7	1.5
EV/EBITDA			11.4	9.4	10.0	8.4	7.3
Dividend Yield (%)			1.7	3.5	2.0	2.0	2.0
FCF per share			113.3	76.9	19.7	34.1	39.7
<b>Return Ratios (%)</b>							
RoE	14.3	11.2	11.9	24.9	9.3	9.1	9.8
RoCE	9.1	8.9	8.6	9.3	7.3	7.5	8.1
Core RoCE	22.2	14.0	10.8	15.6	13.2	13.4	14.3
RoIC	9.5	8.6	8.1	11.6	8.6	9.3	10.1
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	1.5	1.3	0.9	0.8	0.8	0.8	0.8
Asset Turnover (x)	1.2	0.8	0.5	0.5	0.5	0.5	0.6
Inventory (Days)	137	119	244	304	295	300	305
Debtor (Days)	71	86	74	46	47	48	48
Creditor (Days)	99	103	232	307	252	252	252
<b>Leverage Ratio (x)</b>							
Current Ratio	1.5	1.8	1.6	2.2	1.7	1.7	1.7
Interest Cover Ratio	3.7	3.0	5.3	5.1	4.2	4.9	5.8
Net Debt/Equity	1.2	1.1	0.7	0.2	0.2	0.1	0.1

### Consolidated - Cash Flow Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	11,585	12,935	16,522	15,066	17,304	17,592	20,668
Depreciation	4,631	5,714	5,522	5,180	5,714	6,752	7,181
Interest & Finance Charges	4,241	5,946	4,645	1,661	3,653	133	-100
Direct Taxes Paid	-3,612	-3,645	-4,516	-601	-4,849	-4,016	-5,167
(Inc)/Dec in WC	-11,245	-652	12,103	4,797	-2,144	-1,467	-1,474
<b>CF from Operations</b>	<b>5,600</b>	<b>20,298</b>	<b>34,276</b>	<b>26,103</b>	<b>19,678</b>	<b>18,994</b>	<b>21,109</b>
Others	7,136	3,022	1,033	643	-3,865	-80	0
<b>CF from Operating incl EO</b>	<b>12,736</b>	<b>23,319</b>	<b>35,309</b>	<b>26,746</b>	<b>15,813</b>	<b>18,914</b>	<b>21,109</b>
(Inc)/Dec in FA	-5,649	-6,865	-6,429	-7,142	-10,795	-10,227	-11,000
<b>Free Cash Flow</b>	<b>7,087</b>	<b>16,454</b>	<b>28,880</b>	<b>19,604</b>	<b>5,018</b>	<b>8,688</b>	<b>10,109</b>
(Pur)/Sale of Investments	-29	-90	-2,064	-752	-19,711	0	0
Others	928	-337	588	1,595	10,924	3,504	3,637
<b>CF from Investments</b>	<b>-4,750</b>	<b>-7,292</b>	<b>-7,905</b>	<b>-6,300</b>	<b>-19,582</b>	<b>-6,723</b>	<b>-7,363</b>
Inc/(Dec) in Debt	-3,417	-6,098	-14,117	-6,303	-5,714	-1,236	-2,074
Interest Paid	-4,430	-6,202	-4,456	-3,256	-2,939	-3,637	-3,538
Dividend Paid	-3,026	-3,820	-3,056	-6,895	-6,725	-3,918	-3,918
Others	0	-1,897	-1,781	24,190	-6,162	-2,039	-2,202
<b>CF from Fin. Activity</b>	<b>-10,873</b>	<b>-18,017</b>	<b>-23,409</b>	<b>7,736</b>	<b>-21,540</b>	<b>-10,830</b>	<b>-11,732</b>
<b>Inc/Dec of Cash</b>	<b>-2,887</b>	<b>-1,989</b>	<b>3,995</b>	<b>28,182</b>	<b>-25,309</b>	<b>1,362</b>	<b>2,014</b>
Opening Balance	17,530	14,643	12,654	16,649	44,831	19,522	20,884
<b>Closing Balance</b>	<b>14,643</b>	<b>12,654</b>	<b>16,649</b>	<b>44,831</b>	<b>19,522</b>	<b>20,884</b>	<b>22,898</b>

**NOTES**



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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