

PITCH DECK ON TATA CHEMICALS

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COMPANY OVERVIEW

- **History:** Tata Chemicals Ltd , incorporated in the year 1939, is a Mid-Cap Company (having a **market cap of Rs.24,668.05 Cr**) operating in Chemical's sector .
- **Valuation:** The stock price has shot up more than 200% in the past year.
- **Strategy:** Main drivers for future price performance are Improvement in the soda ash pricing environment , higher share of speciality business and recycling Li-ion batteries to create ecosystem for EVs. Tata Chemicals Ltd is a global company with interests in businesses that focus on LIFE – living industrial and farming essentials .
- **Corporate Finance Transactions:** According to the last reported balance sheet, Tata Chemicals had liabilities of Rs.31.5B due within 12 months and Rs.98.3B debt due beyond 12 months.
- **Ownership:** As of June '21, Promoter holding stood at 37.98 % , FIIs at 13.02%,and DIIs at 19.66%.



Business Highlights-

Valuation & Share Performance

Enterprise Value	23,986.83Cr	EPS (FY 20)	Rs.23.49
Market Cap	24,668.05Cr	BOOK VALUE (TTM)	Rs.529.34
P/E*	43.70x	P/B*	1.62x
EV/EBITDA*	24.66x	EPS (TTM)	20.85 Rs
Cash	2974.50 Cr	Total Debt.	4.10Cr

*P/E and EV/EBITDA are based on FY21(e) for comparison

- Completed acquisition of remaining 25% stake in TCSAP from The Andover Group, Inc., a subsidiary of Owens-Illinois Inc., for \$195M
- Tata Chemicals Europe to build UK's first industrial scale carbon capture and utilization plant with £16.7m investment
- Tata Chemicals receives Responsible Care Certification from Indian Chemical Council (ICC) for use of Responsible Care logo for a period 3 years
- Launched Li-ion Battery Recycling Operations and achieved 99% purity of extracted metal salts

KEY INDUSTRY TRENDS

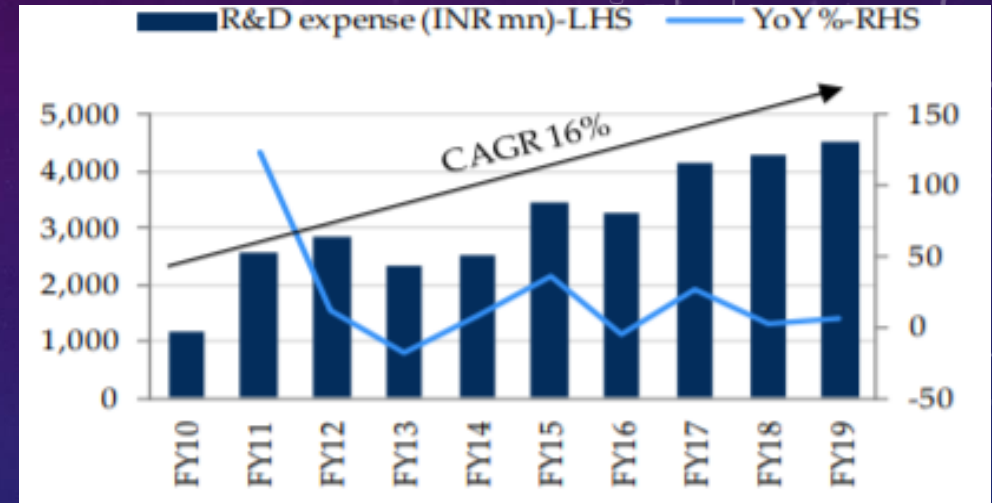
Industry Overview

Gross Margin	43.79 %
Net Margin	13.48 %
Operating Margin	18.23 %
Pre- Tax Margin	19.56 %
Debt-Equity	0.22 %
Cash-to-Debt	50.64 %
Equity-to-Asset	0.64 %
EV/EBITDA	35.52 %
P/E Ratio	59.08
Market share of top 5 players	48 %
Forecasted 5-year revenue growth	9.02%
Forecasted 10-year revenue growth	8.05%

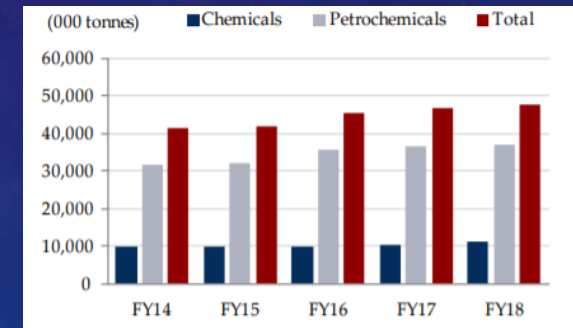
India is an attractive hub for chemical companies . This industry has been a global outperformer regarding total returns to the shareholders(TRS) , and this promises sustained and continual growth. Between 2006 to 2019 , CAGR in TRS was 15% .

The country is also working on becoming \$5 Trillion economy . Chemical companies can also benefit from rising domestic demand in chemical end-use sectors , India's attractiveness as a manufacturing destination , and improved ease of doing business.

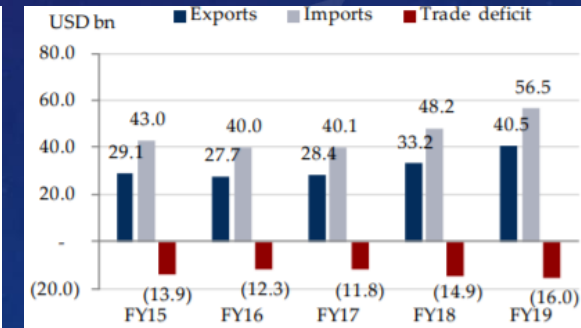
Industry Spending



R&D spending has grown at a 16% CAGR over FY10-19 in the domestic chemical industry



India's chemical and petrochemical consumption trend



India's exports, imports and trade deficit of chemicals and petrochemicals (USD bn)

COMPETITIVE ANALYSIS

Comparable Company Rationale									
COMPANY	PRICE(Rs.)	MCAP (Cr)	P/B	P/E	EPS (Rs.)	ROE %	ROCE %	P/S	EV/EBITDA
Pidilite Inds	2462.75	1,25,145.40	21.49	95.29	25.84	21.65	29.24	20.13	65.69
Aarti Inds	1111.45	40,290.51	8.29	67.77	16.40	16.27	12.80	9.33	40.06
Deepak Nitrite	2866.75	39,100.48	19.75	91.78	31.24	21.27	27.32	21.61	61.85
Atul	2866.75	32,025.47	8.28	47.80	226.46	18.61	24.47	9.12	31.60
Tata Chemicals	968.30	24,668.05	1.83	41.22	23.49	3.80	5.01	8.23	24.66
Clean Science	2311	24,547.20	11.47	123.74	18.68	44.96	60.45	47.90	86.28
Gujrat Fluorochemicals	2093.80	23,000.39	6.37	0	-13.54	-6.38	11.19	9.11	28.79
Solar Industries	2497.25	22,597.63	18.42	100.85	24.76	17.36	21.35	14.26	65.58
Vinati Organics	2082.95	21,408.99	13.18	77.02	27.05	19.08	23.80	22.44	54.76
Alkyl Amines	4008	20,468.58	23.58	63.75	62.88	44.60	55.69	16.47	43.40

INVESTMENT THESIS



The Recent Price Spurt

Amid the ongoing market rally, shares of Tata Chemicals were up 15% on 13th October. TATA Motors shares skyrocketed over 21%. The company on Tuesday announced that private equity firm TPG will be investing close to \$1 billion in its electric vehicle subsidiary at a valuation of \$9.1 billion.

Bullish Outlook on Tata Chemicals

If TATA Motors is riding the electric vehicle wave, then TATA Chemicals is sitting right next to it. The TATA Group company has its own ambitions of becoming the leader in battery manufacturing in the EV space. Shares of the company surged nearly 15% as investors view TATA Motors' acceleration in the EV space to have benefits for TATA Chemicals as it looks to become a part of the EV supply chain.

TATA Chemicals touched a fresh record high of Rs 1,144.30 before closing 14.04 percent higher at Rs 1,107.10. It was the biggest gainer intraday and ended as third highest gainer in the F&O segment.

Still more to come

We still uphold a bullish bias on this stock as we see it heading towards Rs 1,200 levels in the immediate near term and much higher levels close to Rs 1,500 are also possible if one holds it for medium to long term.

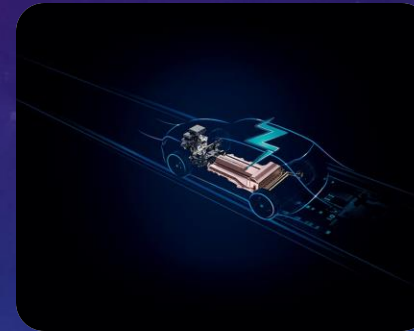
ANALYZING PROSPECTS



The EV ecosystem of TATA Franchise

Meanwhile, Tata Chemicals reported a spurt in volume by **3.20 per cent**, while Tata Power saw volume going up by 1.68 times. The action in the Tata Group shares comes on back of nearly \$1 billion deal between Tata Motors and TPG in an attempt by Indian automotive manufacturer to give a fillip to EV and electric mobility. Talking about the trigger, Zee Business Managing editor said beside other triggers, the deal between Tata Motors and TPG was one of the defining moments, and the auto share was bound to show such a swing. "It will give Tata Motors enough cash in advance. TPG has made a valuation of **9 to 10 billion dollars**, while Tata Motors' current valuation is around **19 to \$20 billion**. As per the valuations, Tata Motors is giving half valuation to the electric segment, which shows their seriousness in this segment.

With Tata Elxsi designing the software behind electronic vehicles , Tata Chemicals making the essential & expensive batteries , Tata Power providing the charging stations & Tata Motors rolling out the EV cars, the four are on their way to create the EV ecosystem and lead the EV in India .



Currently Tata Motors is the leader with **71% market share** in the relatively nascent EV cars category in India. The management is very bullish on electrification in India.

Thriving ongoing business

TATA Chemicals is addressing the cost competitiveness issue in the UK and Kenya. Although there's no immediate plan for capital investment in soda ash, they are investing in enlarging the product portfolio to include higher value-added products such as sodium bicarbonate products for use in the pharma, animal nutrition and flue gas treatment industries.

Company Financials

	Mar '21	Mar '20	Mar '19	Mar '18	Mar '17
Net Operating Profit per Share	117.72	114.63	122.52	136.05	141.58
Operating Profit Margin(%)	20.37	24.58	21.99	26.60	23.77
Profit Before Interest and Tax Margin(%)	12.85	17.60	15.51	21.73	19.24
Gross Profit Margin(%)	13.79	19.46	17.50	22.95	20.18
Cash Profit Margin(%)	21.02	25.43	21.89	20.51	18.73
Net Profit Margin(%)	15.97	234.23	27.38	50.97	19.20
Adjusted Net Profit Margin(%)	14.88	211.80	24.27	48.27	18.30
Adjusted Return on Net Worth(%)	3.61	5.60	5.10	5.51	6.54
Inventory Turnover Ratio	5.75	4.16	4.97	7.82	6.27
Investments Turnover Ratio	0.23	0.24	0.25	0.29	0.34
Fixed Assets Turnover Ratio	0.96	1.03	1.53	1.96	2.08
Total Assets Turnover Ratio	0.23	0.24	0.25	0.29	0.35
Asset Turnover Ratio	0.24	0.24	0.26	0.31	0.33
Dividend Payout Ratio Net Profit	58.48	5.53	78.45	18.66	43.54

INVESTMENT RISKS



Threat from International Market

The threat of a default by Evergrande, China's second-largest real estate company, on debt of more than **\$300 billion** has been roiling the Chinese and Hong Kong markets. It's having an impact on Indian stocks too. This poses a threat to chemical stocks like Tata Chemicals, DCW & Laxmi Organics .

Indian metals, steel, iron ore, textiles, garments, chemicals and tyres among other sectors are likely to be hit if the Chinese government isn't too keen on a timely bailout, according to analysts.

They advise investors to reduce exposure to mid- and small-cap stocks and switch to large-caps, information technology and pharmaceutical stocks.

Huge Debt

As of September 2020, Tata Chemicals had **₹69.7B of debt**, an increase of **₹36.2B, over one year**. However, it does have **₹31.7B in cash** offsetting this, leading to **net debt of about ₹38B**.

According to the last reported balance sheet, Tata Chemicals had liabilities of **₹31.5B** due within 12 months, and liabilities of **₹98.3B** due beyond 12 months. On the other hand, it had cash of **₹31.7B** and **₹13.2B** worth of receivables due within a year. So, it has liabilities totaling **₹84.8b** more than its cash and near-term receivables, combined.

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Valuation

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Team Overview

CONCLUSION



Consensus Outlook

- 2022 revenue forecast increased from ₹117.5b to ₹119.8b.
- EPS estimate increased from ₹32.72 to ₹38.47 per share.
- Net income forecast to grow 93% next year vs 17% growth forecast for Chemicals industry in India.
- Tata Chemicals are trying to set up an ecosystem of battery manufacturing and be part of the greater scheme of things with Tata Motors, Tata Power and Tata Elxsi in the EV space.
- The recent **\$1 billion deal** between Tata Motors and TPG shall give boost to the development in the EV space.
- Tata Chemicals will be able to dive into low-cost passenger, high end passenger vehicles and heavy vehicles like bus, truck sections in domestic & international markets due to in-house working with Tata Motors & Jaguar Land Rover.

So, there is much growth prospect for Tata Chemicals in EV space as well as in its ongoing business.

Though the Indian EV market is expected to grow at a CAGR of 44% during 2020-2027, with the annual sales hitting **63 lakh units by 2027**, India is still in a nascent stage of EV adoption.

