



# JV CAPITAL SERVICES PVT. LTD

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Tata Chemicals

CMP: 339.95

BUY

INDUSTRY: Chemicals

RISK PROFILE: Medium

TARGET: 440.00

## Data Table

|                         |                 |
|-------------------------|-----------------|
| CMP (₹)                 | 339.95          |
| Target price(₹)         | 440.00          |
| Upside (%)              | 29.5            |
| 52 Week H/L (₹)         | 339.95 / 240.00 |
| P/E Ratio               | 18.00           |
| P/BV Ratio              | 2.07            |
| Dividend Yield %        | 2.47            |
| Market cap (₹ Cr)       | 8847.23         |
| 6m Avg volume (nos)     | 94,650          |
| No. of o/s shares (nos) | 16,39,72,170    |
| FV (₹)                  | 10              |
| NSE code                | TATACHEM        |

Tata Chemicals Limited (TCL) is a global company with interests in chemicals, crop nutrition and consumer products and serves a diverse set of customers across five continents. TCL has its manufacturing facilities across four continents. With manufacturing facilities in India, UK, Kenya and USA, TCL is the world's most geographically diversified soda ash company with almost two-thirds of capacity comprising natural soda ash giving it global competitive advantage. TCL is also the fourth largest manufacturer of sodium bicarbonate in the world.

## Key Investment Themes

### Normal monsoon a positive for fertiliser sales

The India Meteorological Department (IMD) in its latest update on the progress of monsoon has said that the monsoons in India until now have been near the long term average. With half of the monsoon season behind us there is high possibility that monsoons will be normal this year. Expectations of a normal monsoon could positively impact the fertiliser sales. Tata Chemicals is set to benefit from this as fertilisers contribute around 40% of its consolidated revenue.

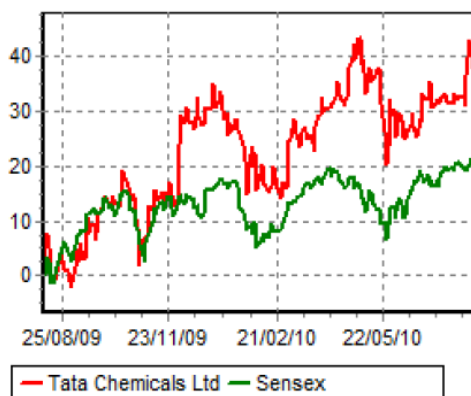
### Safeguard duty on Chinese soda ash imports re-imposed

The government has re-imposed the safeguard duty on Chinese soda ash imports till April 2011, albeit at a lower rate of 16%, down from the previous incidence of 20%. The duty had lapsed in April 2010 and in wake had hit the domestic soda ash players. Tata Chemicals has in the past sold soda ash in the domestic market at a premium to the landed cost of imports and the re-imposition of the duty puts to rest concerns relating to the domestic soda ash demand and pricing for Tata Chemicals.

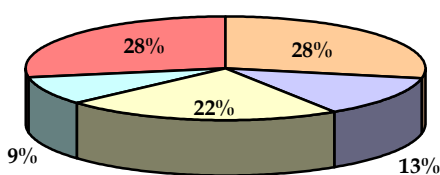
### Strong growth outlook for Rallis India

Rallis India posted a robust performance in Q1 FY11 and Q4 FY 10 with its PAT growing nearly one and a half times y-o-y on the back of around 1,000-basis-point improvement in its margins. The growth outlook also remains strong due to expectations of a normal monsoon this year. As Rallis India is a 50.06% subsidiary of Tata Chemicals, the sound growth outlook for Rallis India augurs well for the financial performance of Tata Chemicals, going ahead.

## Relative Performance Analysis



## Shareholding Pattern



■ Promoters ■ FII ■ Insurance Cos ■ MFs ■ Other

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### **Capacity expansion in fertilisers**

Spurred on by the fillip it received in the form of the Nutrient-Based Subsidy (NBS) scheme, the commissioning of 1.32 Lakh MT capacity customized fertilizer plant at Babrala is poised to proceed as per schedule and production is expected by the end of September 2010. The process of designing customized fertilizer formula was developed and validated and customized fertilizer foliar application was also successfully commercialized during the year. New Import Parity Pricing (IPP) based policy with a floor and ceiling price and gas utilization policy added impetus to undertake doubling the capacity of the Babrala plant. In year 2008-09, the proposed expansion of the plant received clearance from Ministry of Environment and Forests. Discussions are underway with various technology companies for technology selection and for selection of Engineering, Procurement, Construction management contractors. Company will carry out studies in a phased manner so that capital exposure is minimized till such time modifications are announced under the urea expansion policy of the Government. Company is also actively engaged with Government of India to secure gas supplies for the project. Gas supply arrangement is critical for the investment to fructify.

### **Leadership position in its segments of operation**

Tata Chemicals Limited (TCL) is a global company with interests in chemicals, crop nutrition and consumer products and serves a diverse set of customers across five continents. The Company today has the world's second largest capacity in soda ash and is a pioneer and market leader in the Indian branded iodized salt segment. TCL is one of India's leading producers of nitrogenous and phosphates fertilizers in the private sector and markets a range of crop nutrition offerings under Tata Paras brand. TCL has its manufacturing facilities across four continents. With manufacturing facilities in India, UK, Kenya and USA, TCL is the world's most geographically diversified soda ash company with almost two-thirds of capacity comprising natural soda ash giving it global competitive advantage. TCL is also the fourth largest manufacturer of sodium bicarbonate in the world. Our nitrogenous fertilizer plant at Babrala is the country's most energy efficient fertilizer unit. Phosphates fertilizers are manufactured at Haldia.

### **Focus on protecting its market in Soda ash business**

In the industrial chemicals business, TCL is focusing on defending share in the soda ash market with simultaneous efforts towards greater value extraction from its assets. While demand and prices have shown an upward trend in 2010, overall sentiment remains cautious and TCL continues its efforts towards improving the efficiency of its operating

sites. During FY10, TCL's North American operations competed aggressively with Chinese material while it defended its positions in the Indian and European markets.

#### **"Tata Swach" likely to be a money earner from FY12**

TCL unveiled the Tata Swach water purifier in December 2009. Tata Swach is a household water purification system that does not require electricity and uses natural materials as well as cutting edge nanotechnology. It aims to address the problem of water borne diseases like diarrhoea that are the leading cause of deaths in children across the globe. Tata Swach is one of the world's lowest cost purifiers, providing safe drinking water at 10 paise per liter (approx 0.22 cents per liter). Fourteen patents have been filed so far for the technology used by it. The product has been launched in Maharashtra and Karnataka. Initial consumer feedback suggests Tata Swach has been adopted enthusiastically by non-users, those who couldn't afford water purifiers earlier due to limited affordability. The product has shown healthy sales in the first three months of launch.

#### **New opportunities in micro nutrients business**

TCL continued its efforts of establishing itself in the new and emerging crop nutrients market while continuing to maintain its position in the core fertiliser business. The business environment was also further shored up by announcement by the Government of India of policy shift way from product based subsidy to a nutrient based one effective from April 2010. The Nutrients Based Subsidy scheme is aimed at improving agricultural productivity by encouraging balanced use of fertilizers and customization to suit crop and soil requirements. This is likely to open up big opportunity for TCL in coming years.

#### **Valuations**

Tata Chemicals is a leader in most of the segments it operates in. In recent years the company has focused on financial management and improving its productivity and margins which have begun to trickle in. We expect the company to further improve its operating metrics. Currently the stock trades at a P/E ratio of close to 18.0. We expect FY11 results to be good and the company to report an EPS of 21.92. With improvement in business environment and new opportunities base our valuation on a target P/E of 21. This gives us a price target of ₹440.

| ₹ crore                         | 2011E   | 2010     | 2009     | 2008    |
|---------------------------------|---------|----------|----------|---------|
| Net Sales                       | 6494.40 | 5412.26  | 8362.09  | 4036.31 |
| Other Operating Income          | 77.26   | 64.38    | 36.94    | 39.32   |
| Other Income                    | 241.00  | 192.83   | 126.52   | 603.15  |
| Total Income                    | 6812.66 | 5669.47  | 8525.55  | 4678.78 |
| Total Expenditure               | 5580.00 | 4688.42  | 7511.02  | 3334.90 |
| PBIDT                           | 1232.66 | 981.05   | 1014.53  | 1343.88 |
| Interest                        | 216.00  | 205.73   | 191.23   | 38.02   |
| Depreciation                    | 210.00  | 187.19   | 163.03   | 148.76  |
| Tax                             | 270.00  | 181.35   | 255.83   | 204.62  |
| Deferred Tax                    | 0.00    | (-28.00) | (-49.08) | 0.00    |
| Fringe Benefit Tax              | 0.00    | 0.00     | 1.47     | 2.30    |
| PAT (after extraordinary items) | 536.66  | 449.99   | 493.04   | 546.75  |
| EPS (adjusted) (Rs/share)       | 21.92   | 18.38    | 19.25    | 42.82   |
| Equity                          | 243.32  | 243.32   | 235.23   | 234.06  |

Source: Capitaline, JV Capital estimates

|                   |                  |                          |
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### Risk Profile

**Low Risk:** Fundamentally sound companies, with low beta. Expected market out performance is 0-10%

**Medium Risk:** Expected market out performance is 10-20%. Preferably for investors with a maximum time frame of about 6 months.

**High Risk:** High Beta Stocks, expected market out performance is more than 20%, preferably for the investors willing to take advantage of market momentum & are aggressive in nature.

### Disclaimer Appendix

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