

May 29, 2009

Rating	Reduce
Price	Rs227
Target Price	Rs208
Implied Upside	(-) 8.4%
Sensex	14,296

(Prices as on May 28, 2009)

Trading Data

Market Cap. (Rs bn)	53.0
Shares o/s (m)	234.1
Free Float	70.8%
3M Avg. Daily Vol ('000)	244.6
3M Avg. Daily Value (Rs m)	38.7

Major Shareholders

Promoters	29.2%
Foreign	8.2%
Domestic Inst.	31.6%
Public & Others	31.0%

Stock Performance

(%)	1M	6M	12M
Absolute	30.6	51.7	(45.4)
Relative	1.8	(9.8)	(35.4)

Price Performance (RIC: TTCH.BO, BB: TTCH IN)



Source: Bloomberg

■ **Q4FY09 Result:** Tata Chemicals' (TCL's) consolidated net sales have indicated a growth of 29.7% YoY to Rs18.9bn (our expectation was Rs21.2bn) on the back of 29.0% and 30.3% growth in inorganic chemicals and fertilizers segment, respectively. Sales from inorganic chemicals grew due to contribution by General Chemical Industries Products (GCIP, Rs3.2bn). Fertiliser sales increased mainly on account of an increased contribution from urea, which has been partially set-off by the shut down of a phosphatic fertiliser plant for part of the quarter due to fertiliser price volatility. Urea production has shot up to 3.1lac tonnes (up 8% YoY) on account of additional production due to de-bottlenecking of the urea plant.

TCL's adjusted consolidated PAT grew by 63.4% YoY to Rs1.9bn (against expectation of Rs1.3bn) mainly due to tax refund of Rs465m taken in GCIP and further tax credits taken in other operations. EBIT de-grew by 47.5% to Rs0.7bn due to losses in the fertiliser business due to the shut down of phosphatic fertiliser business and its fallen prices.

■ **Outlook:** TCL witnessed demand destruction in the soda ash business in H2FY09. Management expects that the soda ash market could recover from the beginning of 2HFY10. Domestic soda ash prices and demand is stable now due to introduction of anti-dumping duty and stable demand from detergent market. Global slowdown in the flat glass demand affected the demand in US and Europe. We have considered a 15% decline in the soda ash price and 12% volume decline in our FY10E estimates. Urea business is expected to perform well. TCL is planning to shut down their operation of Netherland plant (Soda ash capacity of 3lac tonnes)

■ **Valuation:** Soda ash business outlook is weakening and also phosphatic fertiliser has not performed well due its fallen prices. Hence, we maintain our 'Reduce' rating on the stock.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	60,232	122,577	73,329	78,353
Growth (%)	3.8	103.5	(40.2)	6.9
EBITDA (Rs m)	6,712	17,023	11,987	13,163
PAT (Rs m)	4,664	10,378	6,072	6,798
EPS (Rs)	19.9	44.3	25.9	29.0
Growth (%)	(15.6)	122.5	(41.5)	12.0
Net DPS (Rs)	9.0	9.0	9.0	9.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	11.1	13.9	16.3	16.8
RoE (%)	14.8	26.5	14.2	14.5
RoCE (%)	7.6	15.5	10.1	10.6
EV / sales (x)	1.6	0.8	1.1	0.8
EV / EBITDA (x)	14.1	5.5	6.9	4.7
PE (x)	11.4	5.1	8.7	7.8
P / BV (x)	1.4	1.3	1.2	1.1
Net dividend yield (%)	4.0	4.0	4.0	4.0

Source: Company Data; PL Research

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Q4FY09 Result Overview

(Rs m)

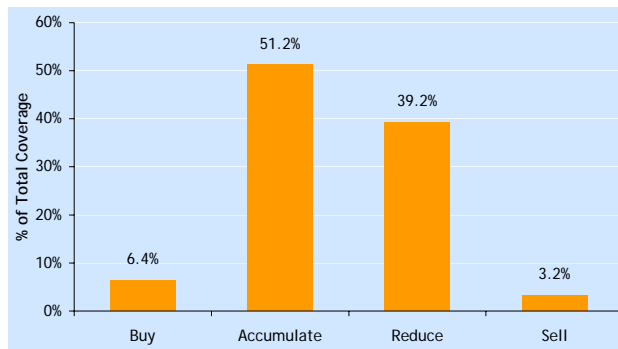
Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Segment Revenue							
Inorganic Chemicals	12,375	9,593	29.0	14,472	54,153	33,077	63.7
Fertilisers	6,603	5,068	30.3	20,987	69,115	27,321	153.0
Intersegment	(31)	(57)	(45.9)	(360)	(691)	(167)	314.0
Net Sales	18,947	14,604	29.7	35,100	122,577	60,231	103.5
Segment Results (EBIT)							
Inorganic Chemicals	1,751	556	214.9	3,228	10,089	3,640	177.2
<i>EBIT Margin (%)</i>	<i>14.2</i>	<i>5.8</i>		<i>22.3</i>	<i>18.6</i>	<i>11.0</i>	
Fertilisers	(1,086)	711	(252.8)	325	5,799	3,900	48.7
<i>EBIT Margin (%)</i>	<i>(16.4)</i>	<i>14.0</i>		<i>1.5</i>	<i>8.4</i>	<i>14.3</i>	
Total	665	1,267	(47.5)	3,553	15,887	7,540	110.7
<i>EBIT Margin (%)</i>	<i>3.5</i>	<i>8.7</i>		<i>10.1</i>	<i>13.0</i>	<i>12.5</i>	
Less: Unallocated Income/ Expenses	(1,773)	(679)	161.3	42	(1,275)	(1,389)	(8.2)
Less: Interest Expense	1,136	395	187.9	988	3,953	1,368	188.9
PBT	1,302	1,551	(16.1)	2,523	13,210	7,561	74.7
<i>PBT (%)</i>	<i>6.9</i>	<i>10.6</i>		<i>7.2</i>	<i>10.8</i>	<i>12.6</i>	
Less: Tax	(801)	364	(320.0)	472	1,575	2,115	(25.5)
<i>Tax Rate (%)</i>	<i>(61.5)</i>	<i>23.5</i>		<i>18.7</i>	<i>11.9</i>	<i>28.0</i>	
Adjusted PAT before M.I.	2,102	1,187	77.2	2,051	11,635	5,447	113.6
Minority Interest	163	-		400	1,117	-	
Adjusted PAT	1,939	1,187	63.4	1,651	10,518	5,447	93.1
Less: Ex-Od Items incl. forex Loss/ (Gain)	218	(4,091)	(105.3)	739	4,037	(4,198)	(196.2)
Reported PAT	1,722	5,277	(67.4)	912	6,481	9,645	(32.8)

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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