

BUY

Price	Rs289
Target Price	Rs394
Investment Period	12 Months

Stock Info

Sector	Chemicals
Market Cap (Rs cr)	6,228
Beta	0.81
52 Week High / Low	431/200
Avg Daily Volume	194390
Face Value (Rs)	10

BSE Sensex	15,750
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Nifty	4,754
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BSE Code	500770
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NSE Code	TATACHEM
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Reuters Code	TTCH.BO
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Bloomberg Code	TTCH IN
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Shareholding Pattern (%)

Promoters	29.9
MF / Banks / Indian FIs	31.0
FII / NRIs / OCBs	8.5
Indian Public / Others	30.6

Abs.	3m	1yr	3yr
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Sensex (%)	(23.0)	26.5	138.5
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Tata Chem (%)	(31.3)	56.5	107.4
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US foray with General Chemical acquisition

Tata Chemicals (TCL) has successfully completed acquisition of General Chemical Industrial Products Inc. (GCIP), USA for a total consideration of US \$1,005mn. With this acquisition, TCL has become the second largest soda ash player in the world after Solvay. As a result, TCL will garner larger share of the global soda ash market going ahead. The acquisition also gives TCL access to some of the fast growing markets like Latin America with low-cost natural soda ash reserves. Even as we await the financial details about GCIP, we believe that the acquisition will prove to be EPS accretive for TCL.

Key highlights

- TCL paid US \$1,005mn for acquiring GCIP's Soda Ash business.
- The acquisition was financed through US\$850mn debt, internal accruals and recently monetised investments.
- TCL has raised US \$500mn debt and US \$350mn of bridge loan through an SPV, which will be transferred to GCIP's books in six month's time. The average cost of borrowing is highly competitive at about 4.0% in Rupee terms
- GCIP's approx. revenues for CY2007 are US \$375mn with Operating Margins of 30%+.
- Over 158 customers with 60% revenues from the domestic market and 40% exports.
- GCIP has 2.6mmtpa Soda Ash capacity with production of 2.54mn tonnes in CY2007.
- Current life of the Trona deposits is about 35 years.

Impact analysis
Capitalising on favourable demand-supply scenario

TCL has become the second largest soda ash player in the world with the GCIP acquisition. TCL's capacity now stands augmented at 5.6mmtpa (marketshare of approx. 14%). Soda ash demand is primarily driven by China, India, Middle East and Latin America. TCL will also get

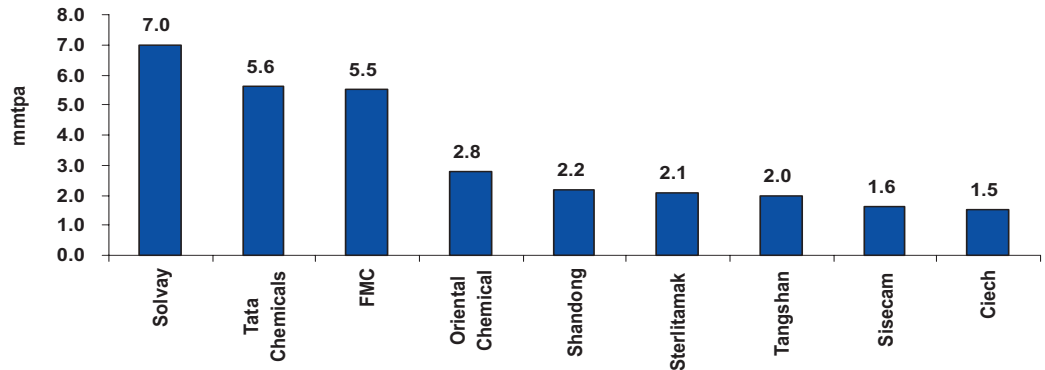
Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	5,810	6,236	7,137	7,934
% chg	44.0	7.3	14.4	11.2
Net Profit	508.0	564.8	716.9	833.6
% chg	18.6	11.2	26.9	16.3
EPS (Rs)	20.9	23.2	29.4	34.2
EBITDA Margin (%)	17.4	17.5	18.2	18.5
P/E (x)	13.9	12.5	9.8	8.5
RoE (%)	19.8	16.0	18.2	18.8
RoCE (%)	13.3	14.4	17.2	18.5
P/BV (x)	2.4	2.0	1.8	1.6
EV/ Sales (x)	1.4	1.3	1.1	0.9
EV/ EBITDA	7.9	7.4	5.9	4.9

Source: Company, Angel Research

access to the North and Latin American markets apart from certain markets in the Far East on account of the GCIP acquisition. Demand for soda ash in the global markets remains strong with the spot prices ruling at all-time highs of US \$300-350/ tonne. Going ahead, prices are expected to remain high primarily due to the robust demand and unavailability of newer capacities.

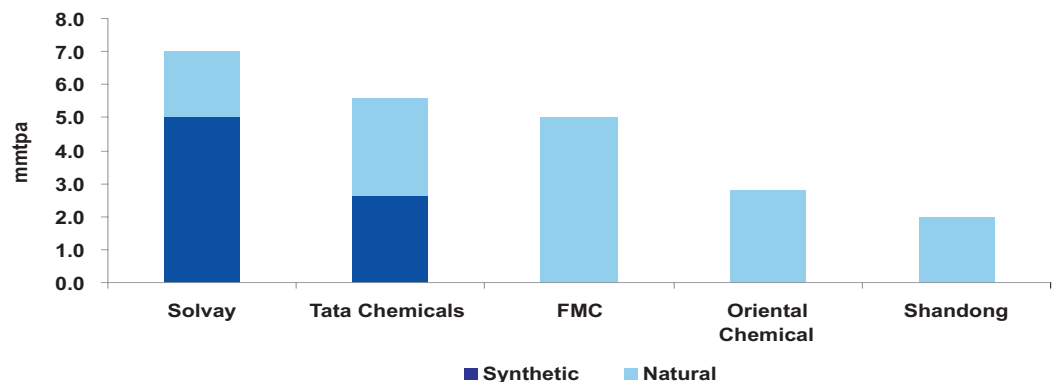
Exhibit 1: Global Soda Ash players and their capacities



Source: Solvay, Angel Research

GCIP's mining and manufacturing facilities are located at the Green River Basin in Wyoming, USA. It manufactures soda ash from the naturally occurring mineral, Trona, which makes it almost 35% more cost effective than the synthetic process. GCIP has access to the Trona reserves at this location for 35 years and over 95 years of extractable reserves are still left. With this acquisition, TCL will have over 2.95mmtpa of natural soda ash capacity. We believe a favourable demand-supply situation coupled with low-cost soda ash from GCIP will enable TCL improve its Earnings going ahead.

Exhibit 2: Synthetic and Natural Soda Ash capacities of major players



Source: Solvay, Angel Research

Competitive financing to reduce Interest burden

TCL raised over US \$500mn through term financing (ECB route), with the cost of borrowing at LIBOR +1.35%, which translates into Rupee cost of borrowing of around 4.25%. Another tranche of bridge financing of US \$350mn was raised from the US market at LIBOR+0.75% through an SPV, which will be converted to a term loan and transferred to GCIP's balance sheet over the next six months. TCL infused cash of US \$180mn through internal accruals and recently monetised investments in sister companies. During 3QFY2007, TCL also re-financed some of its high-cost debt thus reducing its future interest burden. Low-cost debt will enable TCL report better earnings for GCIP.

GCIP - Scenario analysis

GCIP is expected to report US \$375mn revenues for CY2007 with Operating Margins of 30%+. The company reportedly has an average tax rate of around 22.5%. Currently, GCIP is a debt free company. But, after six months it will have US \$350mn debt on its books. Detailed financials of GCIP are still awaited. Hence, we have done a Scenario Analysis to arrive at the cash flows generated from GCIP. TCL will consolidate GCIP's numbers 1QFY2009 onwards.

Exhibit 3: GCIP - Scenario analysis			Rs cr
Soda Ash rate US\$/ MT	150	170	190
Revenue	1,524	1,727	1,930
EBITDA	457	518	579
EBITDA Margin (%)	30	30	30
Interest @ 4.0%	136	136	136
Tax @ 22.5%	72	86	100
Cash Flow	249	296	343

Source: Company, Angel Research; Note: Considered Total Debt of US \$850mn at 4% average cost of debt, 1US\$ = 40INR

Outlook

We believe the acquisition is a positive for TCL as it will augment its global marketshare and tap the growing geographies in its soda ash business. Earlier, TCL had successfully integrated the Brunner Mond acquisition. Hence, we expect that the integration of GCIP will also be hassle free. As per our scenario analysis, we expect GCIP to positively add to TCL's consolidated cash flows. However, we are still awaiting more clarity on GCIP's financials. **We remain positive on Tata Chemicals and maintain a Buy on the stock, with a Target Price of Rs394.**

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