

BUY

Price	Rs297
Target Price	Rs337
Investment Period	12 months

Stock Info

Sector	Chemicals
Market Cap (Rs cr)	6,961
Beta	0.78
52 WK High / Low	440 / 231
Avg Daily Volume	213131
Face Value (Rs)	10
BSE Sensex	14,220
Nifty	4,253

BSE Code	500770
NSE Code	TATACHEM
Reuters Code	TTCH.BO
Bloomberg Code	TTCH IN

Shareholding Pattern (%)

Promoters	29.2
MF/Banks/Indian FIs	30.4
FII/ NRIs/ OCBs	10.8
Indian Public	29.6

Abs.	3m	1yr	3yr
Sensex (%)	(12.3)	(1.8)	98.9
Tata Chem (%)	7.8	(29.0)	54.4

Rohit Nagraj

Tel: 022 – 4040 3800 Ext: 340
 e-mail: rohit.nagraj@angeltrade.com

Performance Highlights

- Strong Soda Ash prices boost Revenues:** During 4QFY2008, Tata Chemicals' Consolidated Revenues clocked 19.9% yoy growth to Rs1,460cr (Rs1,218cr) primarily driven by strong Soda Ash prices across the globe. Standalone Revenues increased 16.4% yoy to Rs928cr (Rs797cr) owing to the strong demand and firm Soda Ash prices in the domestic market.
- Operating Performance marred by high Staff costs, step rise in input, power and fuel costs:** Tata Chemical reported a dismal Operating performance with Consolidated OPMs declining sharply by 650bp yoy to 12.2% (18.7%). Staff costs spiked by over 139% yoy to Rs160cr (Rs67cr) owing to provisioning of Rs75cr for pension liabilities of its overseas subsidiaries. Power and fuel costs also scaled higher by 50.6% yoy to Rs290cr (Rs193cr) thus further eroding OPMs. Consolidated Operating Profit hence declined 22.1% yoy to Rs177cr (Rs228cr).
- Sale of investments boosts Other Income:** During 4QFY2008, the company sold off some of its investments to part finance the GCIP acquisition, which fetched over Rs487cr. Other Income thus increased significantly to Rs498cr (Rs10cr). Depreciation was in line while Interest costs went up due to additional debt.
- Normalised PAT declines 48.4%:** Poor Operating performance impacted overall normalised Consolidated PAT (excluding Income from sale of investments), which plummeted by 48.4% yoy to Rs40.3cr (Rs78.1cr). Including the Income from sale of investments, Consolidated PAT increased substantially to Rs528cr (Rs78cr). Overall, the results were way below our expectations.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	5,804	6,023	6,887	7,636
% chg	43.9	3.8	14.3	10.9
Net Profit	508.0	964.4	568.3	684.5
% chg	18.6	89.8	(41.1)	20.4
FDEPS (Rs)	20.9	39.6	23.3	28.1
EBITDA Margin (%)	17.1	16.2	16.3	16.8
P/E (x)	14.2	7.5	12.7	10.6
RoE (%)	19.8	24.5	13.6	15.1
RoCE (%)	13.6	21.6	13.7	15.6
P/BV (x)	2.5	1.8	1.7	1.6
EV/ Sales (x)	1.4	1.3	1.1	0.9
EV/ EBITDA	8.2	8.0	6.7	5.6

Source: Company, Angel Research, Note: FY2008 normalised PAT (Excl. Income from Sale of Investments) of Rs487cr.

Segment-wise Performance

Inorganic Chemicals: Standalone Inorganic Chemicals Sales went up 17.5% yoy to Rs482cr (Rs410cr) owing to strong Soda Ash prices while EBIT Margins slipped by 230bp to 19.5% (21.7%). Domestic Soda Ash volumes jumped 6.6% yoy to 1,93,000mt (1,81,000mt). In the Edible Salts segment, the company maintained its leadership with 51% marketshare in branded salts. Consolidated Inorganic Chemicals Sales went up 19.8% yoy to Rs954cr (Rs796cr) owing to strong Soda Ash and other chemical prices while the Margins eroded significantly by 1,010bp to 5.8% (15.9%). Margins declined owing to factors like high Staff costs, rise in raw material prices, and power and fuel costs. For FY2008, Consolidated Inorganic Chemicals Sales went up 4.4% yoy to Rs3,291cr (Rs3,151cr) owing to both volume growth and increase in realisations while EBIT Margins slipped by 580bp to 11.1% (16.9%) on account of escalation in costs.

Fertilisers: Standalone Fertiliser Sales registered 15.1% yoy jump to Rs446cr (Rs387cr) following the increase in realisations while EBIT Margins slipped marginally by 70bp to 10.8% (11.5%) due to higher costs. Babrala recorded highest urea production while debottlenecking of the urea plant is progressing as per schedule and is expected to be completed by December 2008. Input costs continued to rise through the year and sulphur is quoting at around US \$800/mt while rock phosphate is quoting at US \$450/mt translating into a ten-fold and three-fold rise, respectively. Consolidated Fertiliser sales rose 20.1% yoy to Rs507cr (Rs422cr) while EBIT Margins expanded by 240bp to 14.0% (11.6%). Margin expansion was led by high realisations enjoyed by IMACID for its Phosphoric Acid Sales. During FY2008, Consolidated Fertilisers sales jumped 3.0% yoy to Rs2,732cr (Rs2,652cr) while EBIT Margins improved by 400bp to 14.3% (10.3%) on strong realisations.

Outlook and Valuation

FY2008 performance was impacted primarily due to escalation in raw material costs, staff expenses and power and fuel expenses. Since the product prices failed to track the rising input costs, Operating Margins were impacted severely. The capacity expansion at Magadi, Kenya is still facing some problems. The company integrated GCIP during March, effects of which will come in consolidated statements 1QFY2009 onwards. We remain positive over the medium-term outlook for Tata Chemicals' products. However, we believe that Margin pressure will take a toll on the overall performance of the company. Additionally, financing costs for the GCIP acquisition are also likely to further scale up owing to the rise in interest rates across the globe.

Accordingly, we have reworked our numbers and await GCIP's numbers. We believe that escalating input costs are likely to impact Tata Chemicals' performance in the near term. Based on our revised estimates, the stock is available at 10.6x FY2010 FDEPS of Rs28.1 and P/BV of 1.6x. We have not consolidated GCIP numbers in our estimates. **We maintain a Buy, with a revised Target Price of Rs337 (Rs394).**

Exhibit 1: Profit & Loss Statement (Standalone)

Y/E March (Rs cr)	4QFY2008	4QFY2007	%chg	FY2008	FY2007	%chg
Net Sales	928	797	16.4	4,076	3,985	2.3
COGS	364	309	17.8	1,928	2,008	(4.0)
Total operating expenditure	788	660	19.4	3,359	3,315	1.3
EBITDA	140.0	137.4	1.9	717.0	669.7	7.1
EBITDA Margin (%)	15.1	17.2		17.6	16.8	
Other Income	497.7	12.6		566.6	97.8	
Foreign exchange (Gain)/ Loss	(1.0)	(25.0)	(95.8)	(34.6)	(25.0)	38.5
Depreciation	38.1	38.2	(0.3)	148.8	150.4	(1.1)
Interest	7.0	0.1		12.3	8.2	49.6
PBT	593.7	136.7	334.3	1157.1	633.8	82.6
PBT Margin (%)	41.7	16.9		24.9	15.5	
Total Tax	33.7	40.6	(17.1)	204.6	184.6	10.9
% of PBT	5.7	29.7		17.7	29.1	
FBT	0.0	1.7	(100.0)	3.3	5.1	(34.7)
PAT	560.0	94.4	493.0	949.2	444.2	113.7
Exceptional items	0.0	0.0		0.0	0.0	
Adj. PAT	560.0	94.4	493.0	949.2	444.2	113.7
PAT Margin (%)	39.3	11.7		20.4	10.9	
Normalised PAT*	72.5	94.4	(23.2)	461.7	444.2	3.9

Source: Company, Angel Research, Note: Excluding Income from sale of investments

Exhibit 2: Segment-wise Break-up (Standalone)

Y/E March (Rs cr)	4QFY2008	4QFY2007	%chg	FY2008	FY2007	%chg
Inorganic Chemicals	482	410	17.5	1,586	1,519	4.4
Fertilisers	446	387	15.1	2,490	2,466	0.9
Total	928	797	16.4	4,076	3,985	2.3
Segment EBIT						
Inorganic Chemicals	94	89	5.2	347	365	(4.8)
% EBIT	19.5	21.7		21.9	24.0	
Fertilisers	48	44	8.0	329	237	38.9
% EBIT	10.8	11.5		13.2	9.6	
Total	142	134	6.2	677	602	12.4
% EBIT	15.3	16.8		16.6	15.1	
Less:						
Interest	45	(16)		12	8	49.6
Other unallocated expenditure	(497)	13		(493)	(40)	
Total	(452)	(3)		(480)	(32)	
Total PBT	594	137	334.3	1,157	634	82.6
% PBT	64.0	17.2		28.4	15.9	

Source: Company, Angel Research

Exhibit 3: Profit & Loss Statement (Consolidated)

Y/E March (Rs cr)	4QFY2008	4QFY2007	%chg	FY2008	FY2007	%chg
Net Sales	1,460	1,218	19.9	6,023	5,804	3.8
COGS	486	384	26.7	2,295	2,361	(2.8)
Total operating expenditure	1,283	990	29.5	5,048	4,810	4.9
EBITDA	177.5	227.8	(22.1)	975.2	993.6	(1.9)
<i>EBITDA Margin (%)</i>	12.2	18.7		16.2	17.1	
Other Income	497.7	10.3	4,713.5	566.7	97.8	479.8
Foreign exchange (Gain)/ Loss	0.3	(11.8)	(102.5)	(76.7)	(25.0)	206.7
Depreciation	79.3	73.8	7.5	313.8	273.9	14.6
Interest	31.5	23.5	34.0	128.9	94.4	36.5
PBT	564.1	152.6	269.6	1175.9	748.1	57.2
<i>PBT Margin (%)</i>	28.8	12.4		17.8	12.7	
Total Tax	36.4	72.9	(50.1)	208.2	235.0	(11.4)
% of PBT	6.5	47.8		17.7	31.4	
FBT	0.0	1.7	(100.0)	3.3	5.1	(34.7)
PAT	527.7	78.1	576.1	964.4	508.0	89.8
Exceptional items	0.0	0.0		0.0	0.0	
Adj. PAT	527.7	78.1	576.1	964.4	508.0	89.8
<i>PAT Margin (%)</i>	27.0	6.4		14.6	8.6	
Normalised PAT*	40.3	78.1	(48.4)	476.9	508.0	(6.1)

Source: Company, Angel Research, Note: Excluding Income from sale of investments

Exhibit 4: Segment-wise Break-up (Consolidated)

Y/E March (Rs cr)	4QFY2008	4QFY2007	%chg	FY2008	FY2007	%chg
Inorganic Chemicals	954	796	19.8	3,291	3,151	4.4
Fertilisers	507	422	20.1	2,732	2,652	3.0
Total	1,460	1,218	19.9	6,023	5,804	3.8
Segment EBIT						
Inorganic Chemicals	56	127	(56.2)	364	532	(31.6)
% EBIT	5.8	15.9		11.1	16.9	
Fertilisers	71	49	44.6	390	272	43.4
% EBIT	14.0	11.6		14.3	10.3	
Total	127	176	(28.1)	754	804	(6.3)
% EBIT	8.7	14.5		12.5	13.9	
Less:						
Interest	32	24	34.0	129	94	36.5
Other unallocated expenditure	(469)	0		(551)	(38)	
Total	(437)	24		(422)	56	
Total PBT	564	153	269.6	1,176	748	57.2
% PBT	38.6	12.5		19.5	12.9	

Source: Company, Angel Research



Angel Broking Limited

Research Team Tel: 4040 3800
E-mail: research@angeltrade.com
Website: www.angeltrade.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Broking, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Broking and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Sebi Registration No : INB 010996539

Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)