TATA CHEMICALS LTD (TCL)

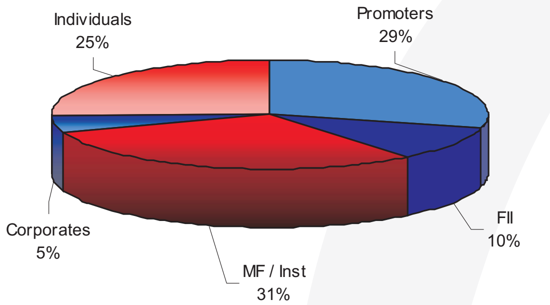
"Margins back to healthy levels"

CMP : Rs. 254 | **TARGET PRICE : 250** | **STAY INVESTED**

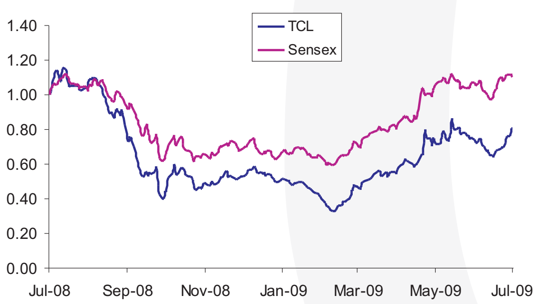
COMPANY SNAPSHOT (August 01, 2009)

Market Price	Sensex
Rs. 254	15670
52 Wk H / L	Bloomberg Code
Rs. 360 / 100	TTCH IN
Mkt Cap (mn)	Shares O/S (mn)
Rs. 59750.96	235.24
BSE CODE	NSE CODE
500770	TATACHEM

Shareholding Pattern



Price Performance Chart



Company Profile

TATA CHEMICALS LTD (TCL) operates in the inorganic chemicals as well as fertilizers segment. Recently TCL has acquired 100% stake in UK based Brunner Mond group and has become the third largest soda ash producer in the world. In India, TCL is the leading player in the fertilizer segment and predominantly manufactures urea. TCL recently has announced expansion plans for both the plants at Mithapur as well as Babrala. TCL's salt brand "TATA SALT" commands more than 50% share in the domestic market. TCL is diversifying its business model by venturing into biofuels and distribution of fresh produce segment. TCL has opened its innovation center in Pune to develop the modern technologies.

Q1 FY10 Standalone Results

Tata Chemicals Ltd (TCL) came out with its first quarter results ending 30th June 09 with a rise in net sale of 19.3% y-o-y to Rs. 14.4 bn as against Rs. 12.07 bn in Q1FY09. The growth in revenues was mainly led by the volume increase in Urea, Salt and Phosphatics. Soda ash sales were lower on y-o-y basis; however the management is confident of registering higher sales of soda ash in future. TCL continues to lead the Salt market with a market share of 58% amongst national brands. On the phosphatic front, improved availability of phosphoric acid has resulted in resumption of operations at Haldia and is evident from the sales volumes of phosphatics.

Table 1: Product wise sales volumes

	Q1FY10	Q1FY09	y-o-y %	Q4FY09	q-o-q %
Soda Ash	157000	166000	-5.4%	166000	-5.4%
Urea	272000	266000	2.3%	287000	-5.2%
Salt	131000	108000	21.3%	104000	26.0%
Phosphatics	172000	79000	117.7%	144000	19.4%

EBITDA Margins for Q1FY10 stood at 16.3% as against 22.3% in Q1FY09. During Q1FY09 the company had the benefit of low raw material costs and therefore was able to derive such high margins. However Q1FY10 margins look much better when compared to Q4FY09 margins of 2.5%, during which TCL has cleared its high cost inventory. Going forward TCL is confident of maintaining margins at current levels; however the management is also cautious about the margins in Phosphatics which might drag down the overall margins. Rock phosphoric acid prices continue to be firm, while DAP prices are weak, thereby putting pressure on the phosphatic margins.

The interest expense of Rs. 470 mn is up by 24% from Rs. 381 mn in Q1FY09, however it is much lower than the interest outgo of Rs. 730 mn in Q4FY09. TCL has repaid loan of Rs. 4.4 bn during Q1FY10 and therefore the interest expenses is likely to be lower for rest of the year. The depreciation was in line with estimates at Rs. 467 mn. TCL has received dividend of Rs. 270 mn from IMACID, which has resulted in higher other income of Rs. 397.6 mn in Q1FY10. The resultant PAT was up 31% to Rs. 943.6 mn from Rs. 586.7 mn in Q1FY09. EPS for Q1FY10 stood at Rs. 4.01.

The company has exercised the option of AS-11 as per the notification issued by the Ministry of Corporate Affairs on March 31, 2009. The amount amortized during the reported quarter is Rs. 472.45 mn.

Q1FY10 Consolidated Results

TCL's consolidated results saw an increase of 4.2% rise in net sales to Rs. 22.8 bn as against Rs. 21.9 bn in Q1FY09. The consolidated performance is affected by the slowdown across the globe. IMACID's performance (TCL has one third stake) was severely impacted by the correction in prices of DAP. However TCL feels that the DAP prices have bottomed out and are expected rise in the coming quarters. The company is closing its operations at the Netherlands facility of BMGL group and discussions are in advanced talks with the Works Council.

Table 2: Subsidiary Revenues

Rs in mn	Q1FY10	Q1FY09	y-o-y %
BMGL	4900	4960	-1.2%
IMACID	990	3640	-72.8%
GCIP	2970	3090	-3.9%
CONS	22850	21920	4.2%

EBITDA margins on a consolidated basis fell by 250 bps to 20.5% in Q1FY10 as against 23% in Q1FY09. BMGL has improved its overall capacity utilization and is currently operating at lower energy costs which has helped TCL to protect its margins. However TCL has made one time provision amounting to Rs. 873.6 mn towards restructuring of overseas operations, which impacted the bottom line. TCL's PAT for Q1FY10 declined by 60% to 425 mn as against Rs. 1.07 bn in Q1FY09.

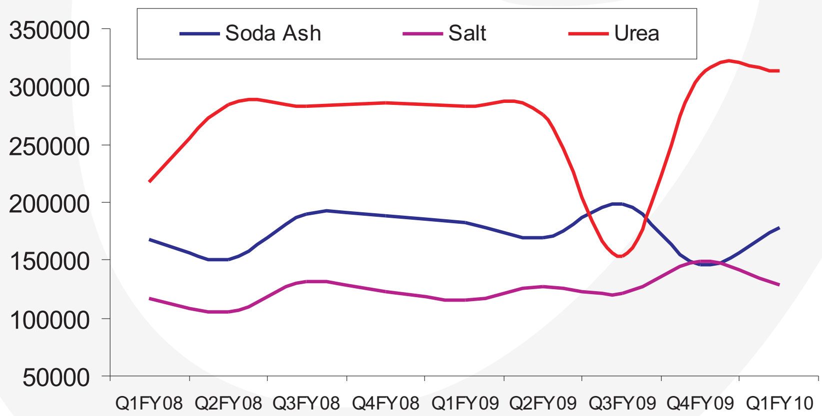
Sales Volume of Key products are steady

TCL derives majority of its revenues from the sales of Soda ash, Salt, Urea and Phosphatics. Except Soda ash all other products have registered growth during Q1FY10.

Soda ash consumption in India is more towards detergents segment than the automotive sector, where as in the US markets it is more in the favour of Automotives sectors. During Q1FY10 TCL witnessed more demand of soda ash from the detergent segment. The imposition of 20% safeguard duty has tempered Chinese imports to an extent.

TCL completed its debottlenecking process of its Urea plant at Babrala, there by expanding its capacity by over 33%. The plant is currently operating at 3500 tpd. The incremental production of urea above 9.57 lacs MT will be linked to **IIP** which would drive the revenues in the segment.

Chart 1: Product wise sales volume

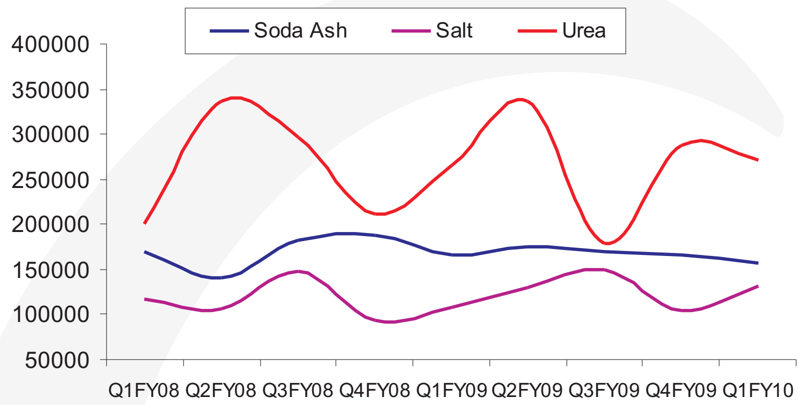


Source: Company Data, GEPL Investment Research

Rising production volumes provides healthy outlook

TCL has ramped up production of soda ash, urea and phosphatics during Q1FY10 which provides a healthy outlook. The management is confident of the off take, and is eyeing larger volumes to expand its overall operating profits.

Chart 2: Product wise production volumes

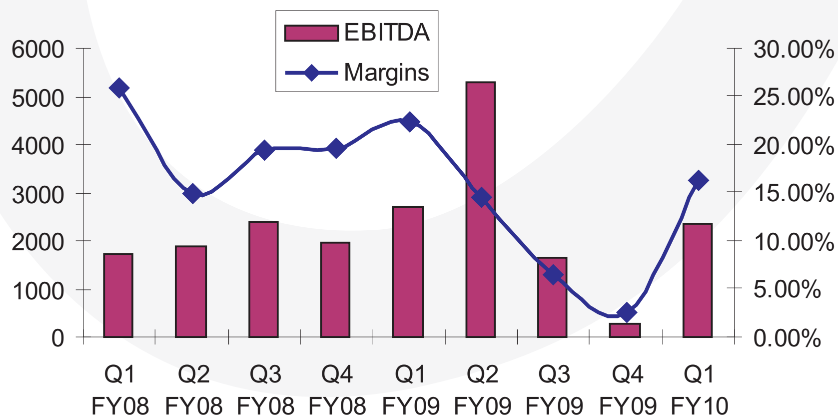


Source: Company Data, GEPL Investment Research

Margins back to healthy levels

TCL was exposed to highly volatile commodity market during FY09 which has forced it to book inventory losses to the tune of Rs. 450 mn. As a result the operating margins were impacted during the year. The operating margins were also impacted by the sale of fertilizer bonds which were issued by Government of India as a part of subsidy disbursement. Currently TCL has fertilizer bonds of Rs. 3.6 bn and total cash on the balance sheet as on June 30, 2009 is Rs. 12.5 bn. The clearing of high cost inventory during Q4FY09 has helped TCL to achieve healthy operational margins for Q1FY10. The management is confident of maintaining the margins at the current level in future as well.

Chart 3: EBITDA Margins



Source: Company Data, GEPL Investment Research

Positive Outlook by the Management

TCL's management was amongst the first in the industry to sound cautious about the macro economic scenario in Q1FY09. It has been maintaining its cautious view over the last three quarters which had forced it to resort to cost saving measures. The company has adopted programme ADAPT (cash conservation and efficiency programme) which has enabled it savings of both fixed and variable costs across manufacturing units. Savings during Q1FY10 as a result of this programme is pegged at around Rs. 500 mn. The management is now very optimistic about its business environment which provides a positive outlook.

Outlook and Valuations

The demand for soda ash is upbeat from the detergent consumers and TCL is planning to increase it overall market share in soda ash. Soda ash business fundamentals are looking much better with the imposition of 20% import duty on Chinese soda ash. Phosphatic business is currently under strain as it is carrying high cost inventory, the margins are expected to be under pressure during Q2FY10 as well. However we feel that the Fertiliser segment especially urea will continue to deliver good performance on account of completion of debottlenecking process and IPP linking of excess urea production by the Government of India. **We are closely watching the soda ash fundamentals and would review our valuation after Q2FY10 results. We therefore advise to "Stay Invested" with target price of Rs. 250.**

Table 3: Estimates

Rs in mn	FY08	FY09	FY10E	FY11E
Net Sales	40363.1	83996.4	50126.2	54003.9
Opeating Profit	6808.1	9888.2	8469.8	9196.2
PBT	11571	7525.9	5919.9	6821.7
Exceptional item	5665.7	-923.2	0	0
PAT	9491.8	4520.5	4499.1	5525.6
EPS	40.6	19.2	18.5	22.7
Equity	2340.6	2352.3	2434.6	2434.6

Source: Company Data, GEPL Investment Research

Table 4: Standalone Q1FY 10 Results

	Q1 FY10	Q1 FY09	% Change	FY09
Net Sales	13936.0	12010.8	16.0%	83627.0
Other operating income	471.7	62.9		369.4
Total	14407.7	12073.7	19.3%	83996.4
Expenditure				
Dec/(Inc) in WIP	1513.3	-8032.1	-118.8%	-955.4
% of net sales	10.5%	-66.5%		-1.1%
Consumption of RM	5984.1	6040.2	-0.9%	34741.6
% of net sales	41.5%	50.0%		41.4%
Traded Goods purchased	665.1	7476.5	-91.1%	20550.7
% of net sales	4.6%	61.9%		24.5%
Staff Cost	465.4	439.9	5.8%	1958.1
% of net sales	3.2%	3.6%		2.3%
Stores, spare parts	529.0	485.6	8.9%	2164.5
% of net sales	3.7%	4.0%		2.6%
Power n Fuel	1088.4	1405.3	-22.6%	6074.3
% of net sales	7.6%	11.6%		7.2%
Freight & Forwarding Chrg	979.8	677.3	44.7%	3332.7
% of net sales	6.8%	5.6%		4.0%
Other Expenditure	834.5	889.7	-6.2%	6241.7
Total	12059.6	9382.4	28.5%	74108.2
EBITDA	2348.1	2691.3	-12.8%	9888.2
EBITDA Margins	16.3%	22.3%		11.8%
Interest	470.9	381.5	23.4%	1912.3
PBDT (Op)	1877.2	2309.8	-18.7%	7975.9
Depreciation	467.1	384.0	21.6%	1630.3
PBT (Op)	1410.1	1925.8	-26.8%	6345.6
% of net income	9.8%	16.0%		7.6%
Other Income	397.6	351.3	13.2%	1180.3
PBT	1807.7	2277.1	-20.6%	7525.9
% of net income	12.5%	18.9%		9.0%
Exceptional Item	-472.4	-1288.7	-63.3%	-923.2
Profit from Ordinary Activities before tax	1335.3	988.4	35.1%	6602.7
% of net income	9.3%	8.2%		7.9%
Tax	391.7	401.7	-2.5%	2082.2
Tax rate	29.3%	40.6%		27.7%
PAT	943.6	586.7	60.8%	4520.5
% of net income	6.5%	4.9%		5.4%
Equity Share Capital	**2352.4**	**2340.6**	0.5%	2352.3
EPS	4.01	2.51	60.0%	19.22

Table 5: Q1FY10 Consolidated Results

	Q1 FY10	Q1 FY09	% Change	FY09
Net Sales	22480.1	21859.2	2.8%	121533.1
Other operating income	364.9	64.3		1043.5
Total	22845.0	21923.5	4.2%	122576.6
Expenditure				
Dec/(Inc) in WIP	1263.6	-7834.1	-116.1%	-318.7
% of net sales	5.5%	-35.7%		-0.3%
Consumption of RM	7579.5	7483.1	1.3%	40597.8
% of net sales	33.2%	34.1%		33.1%
Traded Goods purchased	686.9	7437.7	-90.8%	20415.3
% of net sales	3.0%	33.9%		16.7%
Staff Cost	1753.8	2092.1	-16.2%	7516.7
% of net sales	7.7%	9.5%		6.1%
Stores, spare parts	745.6	652.1	14.3%	3188.0
% of net sales	3.3%	3.0%		2.6%
Power n Fuel	2281.0	3910.0	-41.7%	13736.5
% of net sales	10.0%	17.8%		11.2%
Freight & Forwarding Chrg	1577.6	1229.9	28.3%	5718.6
% of net sales	6.9%	5.6%		4.7%
Other Expenditure	2269.8	1900.0	19.5%	11939.0
Total	18157.8	16870.8	7.6%	102793.2
EBITDA	4687.2	5052.7	-7.2%	19783.4
EBITDA Margins	20.5%	23.0%		16.1%
Interest	1076.4	843.9	27.6%	3952.6
PBDT (Op)	3610.8	4208.8	-14.2%	15830.8
Depreciation	1036.7	990.3	4.7%	4226.4
PBT (Op)	2574.1	3218.5	-20.0%	11604.4
% of net income	11.3%	14.7%		9.5%
Other Income	163.2	298.0	-45.2%	833.8
PBT	2737.3	3516.5	-22.2%	12438.2
% of net income	12.0%	16.0%		10.1%
Exceptional Item	-1346.0	-1288.7	4.4%	-3265.0
Profit from Ordinary Activities before tax	1391.3	2227.8	-37.5%	9173.2
% of net income	6.1%	10.2%		7.5%
Tax	727.9	872.7	-16.6%	1575.1
Tax rate	26.6%	24.8%		12.7%
PAT	663.4	1355.1	-51.0%	7598.1
% of net income	2.9%	6.2%		6.2%
Minority Interest	238.3	284.7	-16.3%	1117.1
Profit after Minority	**425.1**	**1070.4**	-60.3%	**6481.0**
Equity Share Capital	**2352.4**	**2347.9**		**2352.3**
EPS	1.81	4.57	-60.4%	27.59

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