

31st May 2007**Buy**

Price	Target Price
Rs 256	Rs279
Sensex	14,544

Price Performance

(%)	1M	3M	6M	12M
Absolute	17	19	17	12
Rel. to Sensex	12	6	10	(20)

Source: Capitaline

Stock Details

Sector	Fertilisers
Reuters	TTCH.BO
Bloomberg	TTCH@IN
Equity Capital (Rs mn)	2151
Face Value (Rs)	10
52 Week H/L (Rs)	265 / 187
Market Cap (Rs bn)	55.1
Daily Avg Volume (No of shares)	301936
Daily Avg Turnover (US\$ mn)	1.7

Shareholding Pattern (%)

(31st Mar.'07)

Promoters	31.6
FII/NRI	5.4
Institutions	30.4
Private Corp.	5.0
Public	27.7

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Tata ChemicalsResult
Update**Strong results on better margins**

Tata Chemicals (TCL) Q4FY07 / FY07 results were better than our expectation led by better operating margins. Q4FY07 stand alone net sales increased by 7% YoY to Rs 8 bn while APAT increased by 47% YoY to Rs 944 mn. FY07 stand alone net sales increased by 13.5% to Rs 40 bn and APAT was up by 34% to Rs 4.3 bn. EBITDA margins for the quarter at 19.2% increased by 680 bps on account of strong margins in both the segment – fertilisers as well as chemicals. EPS (fully diluted) for the quarter and FY07 stood at Rs 3.9 and Rs 17.7, respectively. Consolidated (including BMGL and IMACID) results were in line with our expectations and TCL reported net revenues of Rs 58 bn, PAT of Rs 5 bn and EPS of Rs 20.9. We maintain our 'BUY' recommendation on the stock with a price target of Rs 279. Emkay also organized conference call with the management of TCL and management is positive about the business outlook.

Results highlights -

- Q4FY07 stand alone net revenues from fertiliser business increased by 8% to Rs 4 bn and chemicals segment registered a growth 6% to Rs 4 bn. TCL reduced fertiliser trading by 73% due to rising DAP prices in world market and hence margins in the fertiliser segment improved to 12.4% (3.2%). Chemicals segment margins also improved from 17.5% to 22.6% primarily on low base.
- In FY07 Fertiliser segment contributed 62% (Rs 25 bn) to net revenues while chemical contributed 38% (Rs 15 bn). Segment margins in fertiliser and chemicals stood at 9.8% and 24.2%, respectively.
- Accelerated DAP and phosphoric acid prices (intermediate for DAP) in the world market has prompted the company to reduce the fertiliser trading (traded fertiliser was Rs 263 mn in Q4FY07 as against Rs 964 mn) and due to low base affect margins in the fertiliser business improved.
- During the quarter methanol prices were up by approx 50%YoY (US\$ 500/ mt). However methanol prices have crashed in recent time and are hovering at US\$ 320/ mt at present.
- Soda ash volumes in the quarter were affected (9% YoY) lower to 181 thousand mt) due to maintenance shutdown while management expects soda prices to remain firm in the global market at US\$ 190-200 / mt.
- On consolidated results (including BMGL and IMACID) company reported revenues of Rs 58 bn, PAT of Rs 5 bn and EPS of Rs 20.9, which was in line with our expectation. For FY07 BMGL registered revenues of Rs 16 bn and PAT of Rs 630 mn. IMACID reported revenues of Rs 2.7 bn and PAT of Rs 240 mn.

Recommendation and valuation

We maintain our 'BUY' recommendation on the stock with a price target of Rs 279. We expect consolidated EPS of Rs 24.7 for FY08E and stock trades at 10.4x FY08E eps. TCL also recommended a dividend of Rs 8 per share for FY07.

Key Financials

Rs mn

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	ROCE (%)	EV/EBITDA	P/BV	Div Yield(%)	P/E
FY05	29826	4921	16.5	3406	15.8	17.9	9.3	2.7	2.5	16.2
FY06	35029	5797	16.5	3530	16.4	13.8	12.3	2.8	2.7	15.6
FY07	40928	6903	16.9	4137	19.2	17.3	9.6	2.5	2.9	13.3
FY08E	44686	7546	16.9	4600	21.4	17.8	8.7	2.3	2.9	12.0

Conference call highlights

Soda ash – Rupee appreciation may put pressure

Sales volumes increased marginally by 2.1% to 722 thousand mt in FY07 while production came down by 2.5% to 738 thousand mt in FY07 primarily because of maintenance shutdown of the plant. Soda ash prices in the global market was hovering around at US\$ 190-200 / mt and expected to remain firm. TCL recently took price hike of Rs 350/ mt in May'07. Rupee appreciation is likely to be a key concern and domestic soda ash prices may come under pressure.

Food Additive – maintained 47% market share

TCL maintained its domestic market share of 47% in branded salt segment. Sales volumes increased by 3% to 475 thousand mt, has been highest ever. Recently launched brand – I- Shakti has now been extended to south market also.

Cement

TCL reported 4.5% sales volume growth to 512 thousand mt in the year.

Fertiliser – debottlenecking to increase capacity by approx 40%

Sales volumes of urea increased by 6.6% to 1.02 mn mt. DAP and NPK sales volumes increased by 7.3% YoY to 0.71 mn mt. TCL has taken debottlenecking plan at Babrala unit to increase capacity of urea plant by approx 40%. The project will cost approx Rs 1.5 bn and is likely to take 18-24 months time.

Healthy performance by subsidiaries

Performance of BMGL and IMACID, 100% and 33% subsidiaries, respectively, has been strong. BMGL sold 1.57-mn mt of soda ash in Europe and Africa. The expansion at BMGL's Magadi, Kenya plant to double the capacity from 350 thousand mt to 700 thousand mt has been delayed by approx 2 quarters and now is likely to be completed by Q2FY08. Management expects – BMGL normalized EBITDA margins at 17%.

Aggressive growth plans

TCL has aggressive growth plans, which include organic as well as inorganic growth. The capex plans includes expansion in some of the new ventures like bio fuels, nano technology, biotechnology etc. Management expects capex plans of Rs 40 bn in medium term. To fund its expansion, TCL may also liquidate some of its quoted investments, the current market value of which is Rs 12 bn.

Quarterly and Full year Results – stand alone

Rs mn	Q4'FY06	Q4'FY07	% YoY	Q3FY07	% QoQ	FY06	FY07	FY08E
Net Sales	7540	8031	6.5	13073	-38.6	35029	40928	44686
Raw Material	3513	3094	-11.9	7947	-61.1	17660	20811	22702
% of Sales	46.6	38.5		60.8		50.4	63.2	61.5
Staff Cost	336	418	24.2	382	9.3	1266	1392	1531
% of Sales	4.5	5.2		2.9		3.6	5.7	5.4
Other exp	2753	2975	8.1	2979	-0.1	10305	11822	12907
% of Sales	36.5	37.0		22.8		29.4	28.9	28.9
Total Exp	6602	6486	-1.7	11308	-42.6	29231	34025	37140
EBITDA	938	1544	64.6	1765	-12.5	5797	6903	7546
EBITDA %	12.4	19.2		13.5		16.5	16.9	16.9
Other Income	51	116	126.3	85	-27.2	1069	1084	1184
Interest	14	-9	-160.8	42	-579.3	368	386	386
PBT	898	1367	52.2	1655	21.0	5109	6175	6865
Tax	254	423	66.4	487	15.2	1578	2038	2265
APAT	644	944	46.6	1168	23.6	3530	4137	4600
APAT %	8.5	11.8		8.9		10.1	10.1	10.3
EO Items	-20	0		0		-34	-320	0
RPAT	624	944		1168		3564	4457	4600
AEPS (Rs)	2.6	3.9		4.8		16.4	19.2	21.4

Segment results

Revenues								
Chemicals	3740	3950	5.6	3745	5.5	13266	15069	
Fertiliser	3791	4081	7.6	9328	-56.3	21909	24869	
Total	7531	8031	6.6	13073	-38.6	35175	39938	
EBIT								
Chemicals	654	894	36.7	929	-3.8	3214	3651	
Fertiliser	121	508	319.6	567	-10.5	2007	2434	
Total	775	1402	80.9	1496	-6.3	5220	6085	
EBIT %								
Chemicals	17.5	22.6		24.8		24.2	24.2	
Fertiliser	3.2	12.4		6.1		9.2	9.8	
Total	10.3	17.5		11.4		14.8	15.2	

TCL consolidated Rs mn

	TCL	BMGL	IMACID	TCL - Con
Net sales	39910	16480	2740	59130
EBITDA	6870	2620	580	10070
PBT	6340	1090	280	7710
PAT	4440	630	240	5310
EPS Rs (Diluted)	18.3			20.9

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