

November 14, 2011

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Rating	Accumulate
Price	Rs336
Target Price	Rs405
Implied Upside	20.5%
Sensex	17,119

(Prices as on November 14, 2011)

### Trading data

Market Cap. (Rs bn)	85.5
Shares o/s (m)	254.8
3M Avg. Daily value (Rs m)	127.1

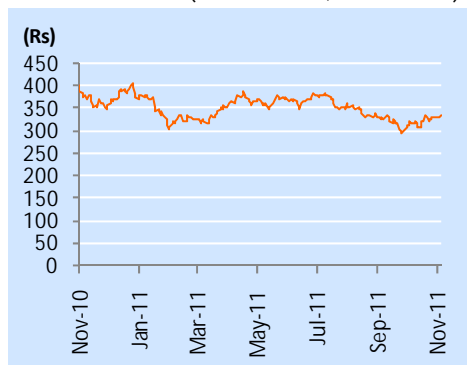
### Major shareholders

Promoters	31.07%
Foreign	13.39%
Domestic Inst.	30.82%
Public & Other	24.72%

### Stock Performance

(%)	1M	6M	12M
Absolute	5.5	(10.3)	(14.2)
Relative	5.3	(2.6)	0.9

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



Source: Bloomberg

- Better-than-expected Q2FY12 result:** Tata Chemical's (TCL's) net sales grew by 19.7% YoY to Rs35.7bn (PLe: Rs31.3bn), primarily led by better volumes and realization in both, the businesses i.e. inorganic chemical and fertilizers. EBITDA grew by 57.3% YoY to Rs6.7bn (PLe: Rs6.1bn). PAT grew by 134.3% YoY to Rs2.9bn (PLe: Rs2bn).

Inorganic chemical's sales grew by 27.2% YoY to Rs16.4bn, primarily on account of better volume (soda ash volume up by 4.2% YoY and 3.2% QoQ) growth and realization across the geographies. Fertilizer sales grew by 13.7% YoY to Rs14.2bn on account of higher volume (urea volume up by 16.3% YoY despite having shut down of plant for 15 days) during the quarter and higher farm-gate prices of non-urea fertilizers. EBIT margin of inorganic chemicals and fertilizer stood at 21.4% and 10.9%, respectively. Company has received subsidy related to earlier years during Q2FY12. Hence, fertiliser calculated EBIT stood at 9.1%. Company has provided MTM forex loss on its loan of Rs472.7m and has profit on sale of investment of Rs305.1m (considered as exceptional item). Hence, reported PAT stood at Rs2.8bn.

- Key Highlights for the quarter:** During Q1FY12, company has not recognized subsidy income of Rs14cr (H1FY12: Rs45cr) on opening stock of raw materials for non-urea fertilizers according to DoF. Company has increased strategic stake in EPM Mining Ventures Inc. to 30.6% to secure supplies and access low cost sulphate of potash. TCL has formed joint venture with FMC Corporation and Church & Dwight to set up a 4.5Lac TPA manufacturing facility to produce Trona sorbents with an investment of US\$60m.

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Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	92,026	108,946	121,717	127,429
Growth (%)	(28.0)	18.4	11.7	4.7
EBITDA (Rs m)	17,921	19,303	23,960	25,480
PAT (Rs m)	6,059	6,534	8,951	9,901
EPS (Rs)	24.9	25.6	35.1	38.9
Growth (%)	(9.6)	3.0	37.0	10.6
Net DPS (Rs)	9.0	10.0	9.0	9.0

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	19.5	17.7	19.7	20.0
RoE (%)	13.1	12.9	15.5	15.4
RoCE (%)	9.0	8.1	9.9	10.4
EV / sales (x)	1.3	1.2	1.0	0.8
EV / EBITDA (x)	6.7	6.7	4.9	4.0
PE (x)	13.5	13.1	9.6	8.6
P / BV (x)	1.7	1.6	1.4	1.3
Net dividend yield (%)	2.7	3.0	2.7	2.7

Source: Company Data; PL Research

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- Maintain 'Accumulate':** Post several weak quarters, TCL has reported strong performance during Q2FY12. We are cautious and believe that Soda Ash business could face challenge on account of rising input cost and slow down in Europe/US primarily in Auto/Infrastructure sector, going forward. Further, we expect that company's agri input business would perform better in short/medium term, primarily on account of better Rabi crop prospect in India. At present, stock is trading at one year forward P/E of 8.6x v/s 5year band of 7x-11x. We maintain our '**Accumulate**' rating on the stock, with the target price of Rs405. (i.e. 10.5x FY13E EPS).

**Exhibit 1: Q2FY12 Result Overview (Rs m)**

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
<b>Net Sales</b>	<b>35,710</b>	<b>29,835</b>	<b>19.7</b>	<b>29,540</b>	<b>65,249</b>	<b>55,069</b>	<b>18.5</b>
Total Expenditure	28,969	25,551	13.4	24,272	53,241	45,609	16.7
<b>PBIDT</b>	<b>6,740</b>	<b>4,284</b>	<b>57.3</b>	<b>5,268</b>	<b>12,008</b>	<b>9,461</b>	<b>26.9</b>
<i>Margin (%)</i>	<i>18.9</i>	<i>14.4</i>		<i>17.8</i>	<i>18.4</i>	<i>17.2</i>	
Depreciation	1,250	1,095	14.2	1,249	2,499	2,185	14.4
<b>PBIT</b>	<b>5,490</b>	<b>3,189</b>	<b>72.1</b>	<b>4,019</b>	<b>9,509</b>	<b>7,276</b>	<b>30.7</b>
Interest	1,016	988	2.8	935	1,951	1,877	3.9
Other Income	513	279	83.5	179	691	477	44.9
<b>PBT</b>	<b>4,987</b>	<b>2,480</b>	<b>101.1</b>	<b>3,262</b>	<b>8,249</b>	<b>5,875</b>	<b>40.4</b>
<i>Margin (%)</i>	<i>14.0</i>	<i>8.3</i>		<i>11.0</i>	<i>12.6</i>	<i>10.7</i>	
Tax	1,357	655	107.3	635	1,992	1,328	50.0
<i>Tax As % of PBT</i>	<i>27.2</i>	<i>26.4</i>		<i>19.5</i>	<i>24.1</i>	<i>22.6</i>	
<b>PAT before MI and Ex-items</b>	<b>3,630</b>	<b>1,826</b>	<b>98.8</b>	<b>2,627</b>	<b>6,258</b>	<b>4,548</b>	<b>37.6</b>
Minority Interest	698	575	21.5	562	1,260	960	31.3
<b>Adjusted PAT</b>	<b>2,932</b>	<b>1,251</b>	<b>134.3</b>	<b>2,065</b>	<b>4,997</b>	<b>3,588</b>	<b>39.3</b>
<i>Margin (%)</i>	<i>8.2</i>	<i>4.2</i>		<i>7.0</i>	<i>7.7</i>	<i>6.5</i>	
Exceptional Items	178	(20)	NA	67	244	157	55.4
<b>PAT After Minority Interest</b>	<b>2,754</b>	<b>1,271</b>	<b>116.7</b>	<b>1,999</b>	<b>4,753</b>	<b>3,431</b>	<b>38.5</b>

Source: Company Data, PL Research

**Exhibit 2: Segmental Break-up (Rs m)**

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
<b>Revenue</b>							
Inorganic Chemicals	16,382	12,876	27.2	15,185	31,567	25,809	22.3
Fertilisers	14,160	12,450	13.7	10,469	24,629	22,008	11.9
Agri Inputs	4,935	3,878	27.3	3,654	8,589	6,192	38.7
Others	202	138	46.4	149	351	207	69.6
Intersegment	(281)	(67)	319.4	(221)	(501)	(142)	252.8
<b>Net Sales</b>	<b>35,398</b>	<b>29,275</b>	<b>20.9</b>	<b>29,236</b>	<b>64,635</b>	<b>54,074</b>	<b>19.5</b>
<b>EBIT</b>							
Inorganic Chemicals	3,511	1,887	86.1	3,110	6,621	4,325	53.1
<i>Margin (%)</i>	<i>21.4</i>	<i>14.7</i>		<i>20.5</i>	<i>21.0</i>	<i>16.8</i>	
Fertilisers	1,543	634	143.4	894	2,438	2,334	4.5
<i>Margin (%)</i>	<i>10.9</i>	<i>5.1</i>		<i>8.5</i>	<i>9.9</i>	<i>10.6</i>	
Agri Inputs	945	879	7.5	454	1,399	1,092	28.1
<i>Margin (%)</i>	<i>19.1</i>	<i>22.7</i>		<i>12.4</i>	<i>16.3</i>	<i>17.6</i>	
Others	(170)	(72)		(132)	(301.0)	(112.0)	168.8
<b>Total</b>	<b>5,829</b>	<b>3,328</b>	<b>75.2</b>	<b>4,326</b>	<b>10,157</b>	<b>7,639</b>	<b>33.0</b>
<i>Margin (%)</i>	<i>16.5</i>	<i>11.4</i>		<i>14.8</i>	<i>15.7</i>	<i>14.1</i>	

Source: Company Data, PL Research

**Exhibit 3: Sales Volume Break-up (MT)**

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Soda Ash - India	160,000	150,000	6.7	171,000	331,000	322,000	2.8
Soda Ash - Brunner Mond	349,000	346,000	0.9	309,000	658,000	668,000	(1.5)
Soda Ash - General Chemical	625,000	592,000	5.6	619,000	1,244,000	1,207,000	3.1
<b>Total</b>	<b>1,134,000</b>	<b>1,088,000</b>	<b>4.2</b>	<b>1,099,000</b>	<b>2,233,000</b>	<b>2,197,000</b>	<b>1.6</b>
Urea	279,000	240,000	16.3	285,000	564,000	506,000	11.5
DAP and NPK	170,000	169,000	0.6	140,000	310,000	305,000	1.6

Source: Company Data, PL Research

## Key Highlights of the Analyst Meet

- During Q2FY12, company has witnessed strong volume as well as realization in General Chemical (GCIP). TCL's recently acquired business British salt has seen ~50% EBITDA margin during the quarter. Company has seen firm demand and stable pricing in major product category across the geographies.
- Company has shut down its Urea plant (Babrara, UP) for 15 days for maintenance activities during Q2FY12.
- Company will shut down its GCIP soda ash plant for 30 days during Q3FY12 to expand its capacity by 1Lac MT. Hence, management has guided that company will have lower volumes in GCIP during Q3FY12, while, volume will be pick up in Q4FY12.
- Management has indicated that company' margin could be under pressure during Q3FY12, primarily on account of higher input cost/shut down of its US plant. Company's long-term contract will be re-negotiated w.e.f. January 2012 onward. Hence, it will partially take care of the rising input cost in Q4FY12.
- Company will have 15K/35K/100K MT of sales in I-shakti Pulses during FY12/13/14, with the EBITDA margin of 4-7% (Average: 6%).
- TCL is going for de-bottlenecking of its salt plant by 2Lac MT with capex of Rs180cr. It is expected to get commissioned by March 2012.
- Further, de-bottlenecking of Haldia SSP plant by 0.5Lac MT is expected to be completed by Q4FY12 with the capex of Rs11cr.



**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
<b>Net Revenue</b>	<b>92,026</b>	<b>108,946</b>	<b>121,717</b>	<b>127,429</b>
Raw Material Expenses	—	—	—	—
Gross Profit	—	—	—	—
Employee Cost	—	—	—	—
Other Expenses	74,105	89,644	97,757	101,949
<b>EBITDA</b>	<b>17,921</b>	<b>19,303</b>	<b>23,960</b>	<b>25,480</b>
Depr. & Amortization	4,468	4,511	5,303	5,448
Net Interest	3,932	3,508	4,000	3,440
Other Income	785	126	—	—
<b>Profit before Tax</b>	<b>10,306</b>	<b>11,410</b>	<b>14,657</b>	<b>16,592</b>
Total Tax	3,026	4,675	5,706	6,692
<b>Profit after Tax</b>	<b>7,279</b>	<b>6,735</b>	<b>8,951</b>	<b>9,901</b>
Ex-Od items / Min. Int.	1,220	201	—	—
<b>Adj. PAT</b>	<b>6,059</b>	<b>6,534</b>	<b>8,951</b>	<b>9,901</b>
<b>Avg. Shares O/S (m)</b>	<b>243.3</b>	<b>254.8</b>	<b>254.8</b>	<b>254.8</b>
<b>EPS (Rs.)</b>	<b>24.9</b>	<b>25.6</b>	<b>35.1</b>	<b>38.9</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
C/F from Operations	15,965	6,563	16,434	18,855
C/F from Investing	979	(13,085)	(1,100)	(2,410)
C/F from Financing	(15,297)	8,427	(9,682)	(9,682)
Inc. / Dec. in Cash	1,647	1,905	5,652	6,763
Opening Cash	9,899	11,546	13,450	19,102
Closing Cash	11,546	13,450	19,102	25,866
FCFF	11,439	(5,998)	15,334	16,445
FCFE	(1,462)	1,063	8,334	9,445

**Key Financial Metrics**

Y/e March	2010	2011	2012E	2013E
<b>Growth</b>				
Revenue (%)	(28.0)	18.4	11.7	4.7
EBITDA (%)	(10.9)	7.7	24.1	6.3
PAT (%)	(6.5)	7.8	37.0	10.6
EPS (%)	(9.6)	3.0	37.0	10.6
<b>Profitability</b>				
EBITDA Margin (%)	19.5	17.7	19.7	20.0
PAT Margin (%)	6.6	6.0	7.4	7.8
RoCE (%)	9.0	8.1	9.9	10.4
RoE (%)	13.1	12.9	15.5	15.4
<b>Balance Sheet</b>				
Net Debt : Equity	0.8	0.8	0.5	0.3
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	13.5	13.1	9.6	8.6
P / B (x)	1.7	1.6	1.4	1.3
EV / EBITDA (x)	6.7	6.7	4.9	4.0
EV / Sales (x)	1.3	1.2	1.0	0.8
<b>Earnings Quality</b>				
Eff. Tax Rate	29.4	41.0	38.9	40.3
Other Inc / PBT	7.6	1.1	—	—
Eff. Depr. Rate (%)	6.0	5.2	6.0	6.0
FCFE / PAT	(24.1)	16.3	93.1	95.4

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	47,085	54,517	60,785	68,004
Total Debt	49,937	56,997	49,997	42,997
Other Liabilities	3,639	4,109	4,109	4,108
<b>Total Liabilities</b>	<b>100,662</b>	<b>115,623</b>	<b>114,891</b>	<b>115,110</b>
Net Fixed Assets	38,310	44,905	40,702	37,664
Goodwill	53,247	56,324	56,324	56,324
Investments	5,577	4,479	4,479	4,479
Net Current Assets	3,529	9,915	13,386	16,642
<i>Cash &amp; Equivalents</i>	<i>11,546</i>	<i>13,450</i>	<i>19,102</i>	<i>25,866</i>
<i>Other Current Assets</i>	<i>26,071</i>	<i>32,929</i>	<i>35,872</i>	<i>37,189</i>
<i>Current Liabilities</i>	<i>34,089</i>	<i>36,464</i>	<i>41,588</i>	<i>46,412</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>100,662</b>	<b>115,623</b>	<b>114,891</b>	<b>115,110</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
<b>Net Revenue</b>	<b>29,057</b>	<b>26,644</b>	<b>29,718</b>	<b>36,222</b>
<b>EBITDA</b>	<b>4,562</b>	<b>4,930</b>	<b>5,446</b>	<b>7,253</b>
<i>% of revenue</i>	<i>15.7</i>	<i>18.5</i>	<i>18.3</i>	<i>20.0</i>
Depr. & Amortization	1,115	1,210	1,249	1,250
Net Interest	802	829	935	1,016
Other Income	—	—	—	—
<b>Profit before Tax</b>	<b>2,645</b>	<b>2,890</b>	<b>3,262</b>	<b>4,987</b>
Total Tax	788	634	635	1,357
<b>Profit after Tax</b>	<b>1,417</b>	<b>1,731</b>	<b>2,065</b>	<b>2,932</b>
<b>Adj. PAT</b>	<b>1,646</b>	<b>1,458</b>	<b>1,999</b>	<b>2,754</b>

**Key Operating Metrics**

Y/e March	2010	2011	2012E	2013E
Inorganic Chem. Sales (Rs m)	54,351	54,195	63,071	64,064
Fertiliser Sales (Rs m)	37,846	55,199	58,646	63,365
Inorganic Chem. EBIT (%)	17.8	16.4	19.4	19.5
Fertiliser EBIT (%)	9.9	10.7	10.9	11.9

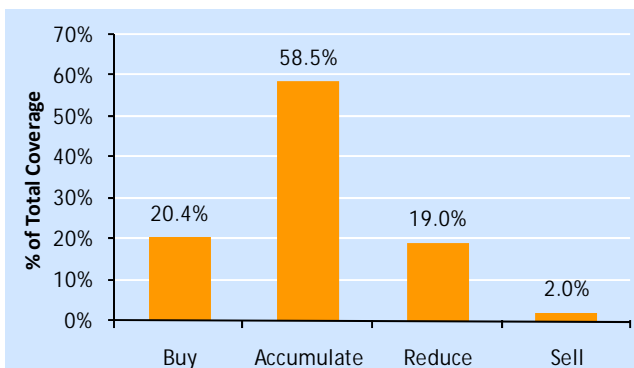
Source: Company Data, PL Research.

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

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