



**Ajcon Global**<sup>TM</sup>  
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**Ajcon's Xpress idea: Tata Chemicals Ltd. - "BUY",**

**25<sup>th</sup> Nov., 2014**

**CMP: 420 | Target: Rs. 525 | Upside: 25% | Market Cap: Rs. 107 bn | Face Value: Rs. 10**

### **About the Company**

- a) A pioneer in the production of synthetic soda ash in India, Tata Chemicals became the second largest soda ash manufacturer in the world which accounts 40% of its total consolidated revenues.
- b) Soda ash demand continues to be robust, driven by higher demand emanating from key consumers – glass, soaps, detergents and paper.
- c) Global soda ash demand remains favourable and pricing is likely to remain firm over the next few quarters.
- d) The Company became the national leader in the branded salt category reaching over 7.5 crore households.
- e) Tata Chemicals is also a national leader in the branded pulses segment and launched the first indigenous nano tech water purifier.
- f) The Company along with its subsidiary, Rallis India Limited, has built significant presence in crop nutrition and crop protection areas and has over 2 crore farmer connect.
- g) On a macro-economic front, Financial Year (FY) 2013-14 has been a story of two halves for Inorganic chemicals segment - Indian operations; while the first half was about high pipeline inventories and volatile economic conditions, the second half was about rebounding industrial sentiment.
- h) Post a very high market growth in FY13, FY 14, the Company registered a 2.1% market growth in sodium bicarbonate. Sodium bicarbonate imports touched an all-time high of 29,000 tonnes against 20,000 tonnes in the previous year. Despite this, the Company has been able to maintain more than 50% market share on the back of higher production.
- i) During the year, the Company continued to invest in the branded offerings of sodium bicarbonate; branded volumes now account for 23% of the bicarbonate portfolio.
- j) During FY15, the final stages of the restructuring programme will be completed in Tata Chemicals Europe and growth in the high value sodium bicarbonate business is expected to increase significantly from FY 14 levels.

### **Q2FY15 Result Update**

The Company's consolidated topline was up by 10.6 percent on yoy basis to touch Rs. 48bn owing to higher fertilizer trading revenues. Fertiliser segment revenues were up by 20% on yoy basis to touch Rs. 19.8 bn whereas inorganic chemical business revenues stood at Rs. 20.2 bn. Consolidated EBITDA grew by 13.7 percent on yoy basis to touch Rs. 6.5 bn. EBITDA margins stood lower at 13.6% as against street expectations of ~15%.

### **Outlook**

We remain positive on the Company's Global Soda Ash business with no new capacities coming in the near future which would lead to a tight global demand supply environment. This would result in higher pricing power for the company yielding in better margins. In addition, the Company is focused on driving growth from the consumer and non bulk fertilizer business which would augur well for topline. The management is focused on cutting down its debt in the medium term from Rs. 81 bn to Rs. 40 bn in the next 5 years which would make the Balance Sheet healthier.

At CMP, the stock is trading at a P/E of 22x FY14 EPS. We recommend a "BUY" on the stock with a price target of Rs. 525 (15x at street estimated FY16 EPS of Rs. 35) an upside of 25%, over a period of 3 to 6 months.

#### **Stock Holding Disclosure under SEBI regulations:**

- a) Analyst holding: No**
- b) Company holding: No**
- c) Directors holding: No**
- d) Group/Associates Position: No**
- e) Relationship with management: No**

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