Tata Chemicals Ltd

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	900	CARE AA+ [Double A Plus]	Reaffirmed
Short-term Bank Facilities	3,050	CARE A1+ [A One Plus]	Reaffirmed
Total Facilities	**3,950**		
Non-Convertible Debenture	250	CARE AA+ [Double A Plus]	Reaffirmed

Rating Rationale

The reaffirmation of ratings continue to derive strength from the long and established track record of Tata Chemicals Limited (TCL) and its dominant position in the global soda ash industry, diversified revenue streams resulting from a varied product portfolio as well as geographically dispersed sales. The ratings also positively builds in the favourable financial risk profile with moderate gearing and adequate debt coverage indicators and high financial flexibility arising from surplus cash/liquid investments. The rating also positively builds in strategic importance of TCL within the Tata group.

The above ratings strengths are tempered by the volatility in raw material prices, cyclical nature of soda ash business with weak operating performance in certain geographies and exposure to agro-climatic conditions and relatively high regulatory risk for fertilizer business.

The ability of TCL to sustain its profit margins amidst increasing input costs and increase in gearing levels due to any debt-funded capital expenditure or acquisitions are the key rating sensitivities.

Background

Tata Chemicals Limited (TCL) is a part of the USD 103 billion Tata Group. Established in 1939, TCL is currently the second largest producer of soda ash in the world with manufacturing facilities in India, UK, Kenya and USA. It is India's leading crop nutrients player with its own manufacturing of urea and phosphatic fertilizers (namely Di Ammonium Phosphate (DAP), Nitrogen Potash and Phosphorus (NPK) and single Super Phosphate (SSP)) and a leading player in crop protection business through its subsidiary Rallis India Ltd. TCL is a pioneer and market leader in the Indian branded iodized salt segment with more than 65% market share.

Credit Risk Assessment

Established track record and leadership position

TCL, with an installed capacity of ~5.5 million tonnes, is the world's second largest producer of soda ash with manufacturing facilities across Asia, Europe, Africa and North America. The company's inorganic chemicals product range provides key ingredients to some of the world's largest manufacturers of glass, detergents and other industrial products. Furthermore, more than 70% of TCL's soda ash capacity is based on natural soda ash providing the company substantial cost advantage.

TCL is also one of the leading players in agriculture inputs, mainly fertilizer and crop protection (through Rallis Limited, one of India's leading crop protection companies in which TCL owns 50.06%). The company has a 1.3 MTPA urea plant at Babrala in Uttar Pradesh and a 1.3MTPA phosphatic fertilizer plant at Haldia in West Bengal. TCL is also India's first fertilizer company to manufacture customized fertilizers for targeted key crops of paddy, wheat, potato and sugarcane in western Uttar Pradesh. The company reaches to the farmers through its strong network of more than 957 Tata Kisan Sansar outlets.

TCL has strong backward integration by virtue of its joint venture Indo Maroc Phosphore SA (IMACID) which is one of the largest producers of rock phosphate in the world. The company sources phosphoric acid from IMACID, a key input to produce phosphatic fertilizers such as DAP, MoP and NPK. TCL holds 33.33% in IMACID, a JV with two other equal partners, Chambal Fertilizers and Chemicals Limited and Office Cherifien Des Phosphates.

Diversified revenue base

TCL's revenue stream is well diversified, as it has presence in multiple product segments. Out of the reported consolidated income of Rs.15,735 crore during FY14 (refers to the period April 1 to March 31), 40% is contributed by soda ash, 21% is

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications*

contributed by complex fertilizers, 11% is contributed by urea and 6% is contributed by vacuum salt. Geographically, Asia contributed 65%, America 18%, Europe 12% and Africa contributed 5% to the FY14 consolidated revenue. TCL's presence in diverse product segments and regions and its dominant position translates into stable operating performance depicted by stable operating margins in last few years. Going forward, TCL is increasingly focusing on consumer segments such as water purifier, pulses, non-bulk agriculture business and the Nutritional solutions.

Segment-wise performance:

Sales for the year (Rs crore)	FY12	FY13	FY14	H1FY15
Product/Division				
A. Chemicals	6,601	7,549	8,181	4,016
B. Fertilizers	5,569	5,498	5,508	3,164
C. Agri-input	1513	1696	2,024	1,308
D. Others	76	90	174	134
Less: Inter segment	103	134	138	77
Total revenue	13,655	14,318	15,735	8,545
Profitability for the year (PBIT)				
Product/Division				
Chemicals	1,243	787	(21)	630
Fertilizers	511	362	230	249
Agri-input	173	200	249	183
Others	(103)	(47)	(78)	(29)
Total PBIT	1825	1,302	380	1034
PBIT margins (%)				
Chemicals	18.8	16.9	12.8	15.8
Fertilizers	9.2	6.6	5.0	7.9
Agri-input	11.5	12.5	11.6	14.0
Total PBIT (%)	13.4	8.9	2.4	12.1

A – Audited

Strong and resourceful promoters

The company is a part of the Tata group which is one of India's oldest and largest business groups with more than 100 operating companies in several business sectors namely communications and information technology, engineering, materials, services, energy, consumer products, hospitality and chemicals. The group has operations in more than 80 countries across six continents, and its companies export products and services to 85 countries. There are 31 publicly listed Tata enterprises and they have a combined market capitalization of about USD 129.0 billion (Rs.7,50,000 crore as on June 11, 2014). Tata group had an income of Rs.5,27,047 crore in FY14 (refers to period April 1 to March 31). Tata Sons has also demonstrated its commitment towards TCL by infusing equity of Rs.363.40 crore in FY11 to fund the company's various growth projects.

Favourable financial risk profile

The financial risk profile of TCL is favourable marked by overall gearing of 1.35x as on March 31, 2014 (1.20x as on March 31, 2013) and Total debt/GCA ratio of 7.30x during FY14. Furthermore, cash and liquid investments of Rs.2,058 crore as on September 30, 2014, provides TCL ample financial flexibility. In CARE's opinion, TCL, being an important part of the Tata group, enjoys relatively easy access to capital markets which further enhances the financial flexibility.

High cyclicality, price volatility associated with Soda Ash business; UK/Kenya operational performance remains weak

Tata Chemicals Europe (TCE) is facing challenges as Soda Ash market in UK declined in size post recession in FY14. The company's revenue from Salt business stood at £142.6 million (Rs. 1,372.35 crore), 3% lower than in FY13. As part of restructuring, the company has taken various steps such as 1) ceasing operation of Soda Ash facilities at Winnington, 2) renegotiating high cost raw material contracts (Brine and powder) to lower operating costs, 3) acquisition of Combined Heat plant from EON and buying steam turbine to lower energy costs and 4) enhance product profile by adding 50,000 tonnes of Sodium bicarbonate capacity, which has better demand in UK.

In Kenya, Tata Chemicals Magadi continues to face operation issues. Tata Chemicals Magadi Ltd (TCML's) revenues stood at USD105.2 million (Rs.636.0 crores) (v/s USD105.73 million i.e. Rs.575.0 crores in FY13) in FY14. TCML incurred loss of USD77.7 million (Rs.469.6 crore) (v/s loss of USD22.3 million (Rs.121.3 crore) during FY13) caused by worsening plant efficiencies, significant decrease in Soda ash prices and increased costs of sales. High energy costs ultimately led to a downward revision of cash flow projections for the Premium Ash (PAM) plant at Magadi, thus, resulting in a provision towards impairment of assets, which also contributed to the loss for FY14. Due to high energy costs, TCML has mothballed one of its plants and plans to use it when viable options become available.

Impairment of assets/investments and restructuring costs resulted in net exceptional loss of Rs.1,420.21 crore in FY14 adversely impacting the net worth of the company.

Increasing raw material prices

The price of natural gas (key input for TCL's fertilizers business) has increased from current rate of US$4.2/mmBtu to US$5.61/ mmBtu from November 1, 2014. CARE believes that such an increase in raw material price would result in increase in under – recoveries for urea. As the whole fertiliser industry is already facing problem of piling subsidy receivables from government, which in case of TCL stood at Rs.1,794.90 crore as on March 31, 2014. Further increase in under recoveries and subsidy recoveries could put pressure on the liquidity position of the company.

Regulated nature of fertilizer industry

Urea, being the primary source of nitrogenous fertilizers is the most widely used fertilizer in India. Considering the high cost of production, it is sold under tight regulations of the Government of India through price caps. While the international prices of urea moved from US$184.00/MT in December 2004 to US$311.25/MT in November 2014, the farm gate urea price in India has moved up marginally resulting in increase in reliance on subsidy.

As the difference in the international parity price and maximum retail price at which urea is sold to the farmers is reimbursed (to the manufacturers) through subsidies, this leads to high dependency on the government for timely receipts of these subsidies. As of March 31, 2014, TCL's total outstanding subsidies were at Rs.1,794.90 crore which adversely impacts the company's operating cycle and cash flows.

Financial Performance

(Rs. Cr)

For the period ended / as at March 31,	2012 (12m, A)	2013 (12m, A)	2014 (12m, A)
Working Results			
Income from Continuing Operations	13780	14,953	15,892
PBILDT	2305	2407	1,812
Interest	513	465	580
Depreciation	509	534	471
PBT	1381	910	-522
PAT	1037	607	-811
Gross Cash Accruals	1563	1613	1207
Financial Position			
Equity Share capital	255	255	255
Net Worth	6784	6950	6221
Total Debt	7062	8399	8404
	213.1	255.9	283.1
Key Ratios			
Profitability (%)			

PBILDT/Total OI	16.73	16.09	11.40
APAT/Total OI	7.53	4.06	-5.10
ROCE	14.88	9.42	0.38
RONW	16.38	8.87	-12.31
Solvency(times)			
Debt Equity Ratio	0.97	0.99	1.11
Overall Gearing (Including Acceptances/Creditors on LC)	1.04	1.20	1.35
Interest coverage (Times)	4.51	5.19	3.13
Total Debt/GCA*	4.05	3.70	5.74
Term Debt/GCA*	5.17	5.30	6.96
Liquidity (times)			
Current ratio	1.23	1.23	1.44
Quick ratio	0.88	0.97	1.12
Avg. Collection Period (days)	53	74	80
Avg. Inventory (days)	55	59	49
Avg. Creditors (days)	69	69	58
Op. cycle (days)	39	64	71

**GCA is adjusted for restructuring costs and other extraordinary expenses and net of extra ordinary income*

Note: Mr. Vittaldas Leeladhar, Non-Executive Director on the board of Tata Global Beverages Limited (a Tata group company), is one of CARE's Rating Committee Members. To comply with the regulations, the member has not participated in the rating process and in the rating committee meeting.

Details of Rated Facilities

1.Long-term facilities (Rs. Crore)

Bank Name	Fund Based (Rs Crs)
SBI	210
Bank of Baroda	100
HDFC Bank	60
Bank of America	50
Standard Chartered	40
HSBC	50
CITI	185
DBS Bank	20
Kotak Mahindra Bank	150
Royal Bank of Scotland	35
Total Limits	**900**

2.Short term fund based facilities **(Rs. Crore)**

Bank Name	Non Fund Based (Rs Crs)
SBI	105
Bank of Baroda	15
HDFC Bank	750
ICICI Bank	200
Bank of America	104
Standard Chartered	26
HSBC	675
Deutsche Bank	180

DBS Bank	195
Kotak Mahindra Bank	50
Credit Agricole CA-CIB	250
Axis Bank	500
Total Limits	**3,050**

Total long-term and short term facilities (1+2): Rs.3,950.0 crore

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(This follows our brief rational for entity published on 21 January 2015)

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