Tata Chemicals Limited

July 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	1,897.00	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	2,448.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**4,345.00 (Rs. Four Thousand Three Hundred Forty Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Tata Chemicals Limited (TCL) continue to factor in strong parentage of the Tata Group, TCL's market share in global Soda Ash industry, geographical diversification with presence in India, North America, Europe and Africa and diversified product profile divided into Basic chemistry products and Specialty products segments. TCL is third largest Soda Ash producer globally, with over two third of its capacity being natural soda ash translating into cost effective production. The Specialty products segment includes agri sciences (hosted under Rallis India Limited), nutritional sciences, material sciences and energy sciences. Agri sciences and nutritional sciences segment are experiencing good traction while the other segments are at nascent stage.

Ratings also favorably factor in TCL's financial flexibility and re-financing capacity by being a part of Tata Group, healthy financial risk profile characterized by robust debt coverage indicators and liquidity. TCL had overall gearing of 0.46x (PY: 0.56x) at the end of FY21. The Total Debt/Gross Cash Accruals (GCA) stood at 5.94x (PY: 4.48x) at the end of FY21 at the consolidated level. TCL continues to maintain robust liquidity at both Standalone and Consolidated level. The ratings also factor in the recovery in volumes and realizations being witnessed in the global soda ash market in the current year after subdued demand in the first half of FY21 and the expected improvement in the PBILDT margins going forward.

The above strengths are tempered by inherent risks associated with soda ash business as the end user industries are dependent on economic growth, domestic soda ash pricing dynamics which are driven by capacity additions in domestic market, foreign exchange fluctuations, and competition from import landed prices.

Rating Sensitivities

Positive Factors

- *Improvement in ROCE over 16% on a sustained basis.*
- *Consolidated Net Debt / PBILDT below 1.50x on sustained basis*

Negative Factors

- *Any large debt funded capex/ acquisition thereby deteriorating the Consolidated Net Debt /PBILDT beyond 3.0x on sustained basis.*
- *Deterioration in interest cover below 5.0x on a sustained basis*

Detailed description of the key rating drivers

Key Rating Strengths

Established presence in global Soda Ash industry

TCL is the world's third largest producer of soda ash with annual soda ash capacity of 4.1 MMT (Million Metric Tonne), about two thirds of which is natural soda ash capacity leading to efficient operations in terms of lower operating costs. Soda ash operations consists of natural soda ash (low-cost) plant in North America and Kenya and synthetic soda ash plant at Mithapur, Gujarat which is one of the lowest-cost producers, amongst others. TCL's products are consumed by some of the world's largest manufacturers of glass, detergents and other industrial products. The manufacturing facilities spread over four continents of Asia, Europe, Africa and North America.

Geographically diversified operations with presence in both basic and specialty chemicals

TCL's business is well diversified with its leadership position across various products and diverse geographical presence across four continents, that is Asia, America, Europe and Africa. TCL's revenue in FY21 on a consolidated basis primarily included revenue from two segments namely Basic Chemistry Products and Specialty Products, which contributed about 75% (PY:77%) and 25% (PY:23%) respectively in FY21 on a consolidated basis. Apart from Soda Ash, TCL is also sixth largest producer of sodium bi-carbonate in the world. TCL is also one of the leading agri-services and crop protection chemicals companies in India (through Rallis India Limited, one of India's leading crop protection companies in which TCL owns 50.06%).

Stable operating performance reported for FY21; albeit compression in margins due to lower realizations

TCL reported marginal de-growth in the Total Operating Income (TOI) in FY21 at the consolidated level due to lower volumes and realizations of the soda ash business; however, salt and specialty chemicals reported decent volume growth in FY21. Specialty chemicals reported ~10% YoY sales growth in FY21. The sales volumes of soda ash were impacted due to lower demand, although the sales volumes started improving in the second half of FY21. The PBILDT margin witnessed compression due to lower volumes coupled with certain one-off items like higher fuel prices in the US due to arctic blast, flooding in UK etc. PBILDT margin on a consolidated basis is expected to show improvement going forward with improvement in volumes and realizations (as spot prices have already started improving) of soda ash which constitutes more than half of the consolidated TOI.

Healthy overall financial risk profile

TCL derives strong financial flexibility and re-financing ability being one of the strategically important as well as being among the larger companies of the TATA group which is one of India's oldest and largest business groups with more than 100 operating companies in several business segments like communications and information technology, automobiles, energy, consumer products, etc.

Tata chemicals continued to have comfortable financial profile marked by moderate debt coverage indicators. TCL's overall gearing on a consolidated basis improved marginally in FY21 to 0.46x (PY: 0.56x). The other debt coverage indicators like Total Debt/PBILDT and Total Debt/GCA deteriorated marginally in FY21 to 4.17x from 3.72x and to 5.94x from 4.48x due to subdued operating performance. However, going forward in the medium term, these ratios are expected to normalize with increasing profits due to capacity expansion and economic revival globally.

Key Rating Weaknesses

Inherent risks associated with Soda Ash business

Soda ash business is highly dependent on macroeconomic factors globally. The global slowdown of CY19 was further exacerbated by the novel coronavirus outbreak in early CY20. However, in CY21, almost all the developed as well as developing economies are expected to post positive GDP growth. Soda ash business which constitutes more than half to the overall TOI remains exposed to the vagaries of economic cycles. Furthermore, the domestic soda ash business is exposed to the volatility in the international market linked prices, and cheap imports that further add an element of uncertainty; although the large scale of operations and operations in different geographies offsets the impact on the company.

Liquidity: Strong

TCL Consolidated

The liquidity profile of TCL on a consolidated basis continues to remain strong as evinced by cash and bank balances of Rs.1,411.01 crore and unencumbered current investments (in mutual funds) to the tune of Rs.1,563.49 crore as on March 31, 2021. TCL has repayment obligations to the tune of Rs.1,544 crore in FY22 and lease liability obligation of Rs.91.98 crore at the consolidated level. The existing cash and liquid investments along with strong cash accruals expected to be earned in FY22 are more than adequate to meet the repayment obligations. Moreover, being a part of the Tata Group gives immense financial flexibility and re-financing capability to the company.

TCL (Standalone)

The liquidity profile of TCL on a standalone basis continues to remain strong as evinced by cash and bank balances and current investments of Rs. Rs.1967.39 crore as on March 31, 2021. The unutilized fund based working capital limits (fully unutilized) as on June 30, 2020 were Rs.343 crore The standalone entity continues to be debt free and does not have any debt repayment obligations except for lease liability payments to the tune of Rs.4.10 crore in FY22.

Analytical approach: Consolidated

For arriving at the ratings, CARE has considered the audited consolidated financial statements published in the FY21 annual report. TCL has various subsidiaries, and associates and joint ventures. These companies are fully consolidated due to operational and financial linkages, fungible cash-flows and support provided by TCL to various subsidiaries/ associates/etc. List of companies that are consolidated to arrive at the ratings are given in Annexure 5 below.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Tata Chemicals Limited (TCL), established in 1939 is a part of the Tata Group. TCL's business segments include basic chemistry products, salt making facility and specialty products (Post demerger of its consumer product business with appointed date of April 01, 2019). TCL is currently third largest producer of soda ash in the world with presence across the globe. TCL has total annual soda ash capacity of 4.1 MT (Million Tonne), two thirds of which is natural soda ash capacity leading to efficient operations in terms of lower operating costs. It is also the sixth largest manufacturer of sodium bicarbonate in the world. TCL is a pioneer and India's leading vacuum evaporated iodized producer. It also has an established market presence in the agri science & crop protection business through its subsidiary Rallis India Limited.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	10,476.84	10,354.24
PBILDT	2,069.26	1,660.87
PAT	1,248.06	633.99
Overall gearing (times)	7,228.15*	436.22
Adjusted Overall gearing (times)	0.56	0.46
Interest coverage (times)	6.05	4.52

A: Audited, UA=Un-Audited;
**PAT includes PAT from continuing & discontinued operations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	1897.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	2448.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	1897.00	CARE AA+; Stable	-	1)CARE AA+; Stable (28-Sep-20)	1)CARE AA+; Stable (11-Mar-20)	1)CARE AA+; Stable (07-Jan-19) 2)CARE AA+; Stable (05-Apr-18)
2.	Non-fund-based - ST-BG/LC	ST	2448.00	CARE A1+	-	1)CARE A1+ (28-Sep-20)	1)CARE A1+ (11-Mar-20)	1)CARE A1+ (07-Jan-19) 2)CARE A1+ (05-Apr-18)
3.	Debentures-Non Convertible Debentures*	LT	-	-	-	-	1)Withdrawn (25-Jul-19)	1)CARE AA+; Stable (07-Jan-19) 2)CARE AA+; Stable (05-Apr-18)

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not available

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Annexure-5: List of entities considered for consolidation as on March 31, 2021

Sr. No.	Name of the subsidiary	% Holding
1	Rallis India Limited ('Rallis')	50.06%
2	Tata Chemicals International Pte. Limited ('TCIPL')	100.00%
3	Ncourage Social Enterprise Foundation	100.00%
4	PT Metahelix Lifesciences Indonesia ('PTLI')	65.77%
5	Valley Holdings Inc.	100.00%
6	Tata Chemicals North America Inc.('TCNA')	100.00%
7	General Chemical International Inc.	100.00%
8	NHO Canada Holdings Inc.	100.00%
9	Tata Chemicals (Soda Ash) Partners ('TCSAP')	100.00%
10	Tata Chemicals (Soda Ash) Partners Holdings ('TCSAPH')	100.00%
11	TCSAP LLC	100.00%
12	Homefield Pvt UK Limited	100.00%
13	TCE Group Limited (Formerly Homefield 2 UK Limited)	100.00%
14	Tata Chemicals Africa Holdings Limited	100.00%
15	Natrium Holdings (formerly Tata Chemicals Europe Holdings Limited)	100.00%
16	Tata Chemicals Europe Limited	100.00%
17	Winnington CHP Limited	100.00%
18	Brunner Mond Group Limited	100.00%
19	Tata Chemicals Magadi Limited	100.00%
20	Northwich Resource Management Limited	100.00%
21	Gusiute Holdings (UK) Limited	100.00%
22	Tata Chemicals North America (UK) Limited	100.00%
23	British Salt Limited	100.00%
24	Cheshire Salt Holdings Limited	100.00%
25	Cheshire Salt Limited	100.00%
26	Brinefield Storage Limited	100.00%
27	Cheshire Cavity Storage 2 Limited	100.00%
28	Cheshire Compressor Limited	100.00%
29	Irish Feeds Limited	100.00%
30	New Cheshire Salt Works Limited	100.00%
31	Tata Chemicals (South Africa) Proprietary Limited	100.00%
32	Magadi Railway Company Limited	100.00%
33	Alcad	50.00%

Sr. No.	Name of the Joint Venture	% Holding
1	Indo Maroc Phosphore S. A	33.33%
2	Tata Industries Ltd.	9.13%
1	The Block Salt Company Limited	50.00%
2	JOil (S) Pte. Ltd and its subsidiaries	33.78%

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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