

## Tata Chemicals Limited (Revised)

July 19, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,300.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2,000.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Bank Facilities</b>	<b>3,300.00</b> <b>(₹ Three Thousand Three Hundred Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Tata Chemicals Limited (TCL) continue to factor strong business profile marked by TCL's market share in the 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 ratings also derive comfort from TCL's financial flexibility and re-financing given strong parentage of the Tata Group, healthy financial risk profile characterised by robust debt coverage indicators and liquidity. The ratings also favourably factor in the improvement in the total operating income (TOI) of the company by 23.7% in FY22 (refers to the period April 1 to March 31) driven mainly by volume growth in the basic chemistry products and improvement in the operating margin to 18.37% (PY: 14.77%) led by positive operating leverage and higher realisations. Agri sciences and nutritional sciences products are experiencing good traction while the other products are at nascent stage.

The overall gearing improved to 0.37x (PY: 0.46x) and total debt/gross cash accruals (TD/GCA) improved to 3.19x (PY: 5.94x) at the end of FY22 at the consolidated level. Despite the refinancing of debt in FY23, capital structure and debt coverage metrics are expected to remain comfortable. TCL continues to maintain robust liquidity at both standalone and consolidated level.

The above strengths are tempered by the inherent risks associated with soda ash business, as the end-user industries are dependent on economic growth, susceptibility to price volatility in soda ash, foreign exchange fluctuations, and competition from import landed prices.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustainability of revenue growth and improvement in PBILDT margin to 22% on a sustained basis.
- Consolidated net debt/PBILDT below 1.50x on a sustained basis.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Any large debt-funded capex/ acquisition thereby deteriorating the consolidated net debt /PBILDT beyond 3.0x on a 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 Million Metric Tonne (MMT), about two-thirds of which is natural soda ash capacity leading to efficient operations in terms of lower operating costs. Soda ash operations consist of natural soda ash (low-cost) plants in North America and Kenya, and a synthetic soda ash plant at Mithapur, Gujarat amongst others. TCL's products are utilised by some of the

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

world's largest manufacturers of glass, detergents and other industrial products. The manufacturing facilities are spread over the four continents, viz, 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, ie, Asia, America, Europe and Africa. TCL's revenue in FY22, on a consolidated basis, from basic chemistry products contributed about 78% (PY: 75%), while specialty products contributed 22% (PY: 25%). Apart from soda ash, TCL is also the sixth-largest producer of sodium bicarbonate in the world, and one of the leading agri-services and crop protection chemical companies in India (through Rallis India Limited, one of India's leading crop protection companies in which TCL owns 50.06%).

**Substantial growth in TOI led by increase in volume and higher realisation; improvement in margin:** TCL reported 23.7% improvement in the total operating income (TOI) in FY22 at the consolidated level led by volume growth and increase in the realisations in basic chemistry products, mainly soda ash. The specialty chemicals reported 9.5% Y-o-Y sales growth in FY22 driven by increase in volume for prebiotics and formulations segment. The PBILDT margin improved in FY22, at the consolidated level, as compared with the previous year despite increase in power cost and material cost (other than in Tata Chemicals North America [TCNA] and Tata Chemicals Magadi Limited [TCML]) led by positive operating leverage. The power cost increased substantially in UK (91% Y-o-Y) and in India (37% YoY) in FY22 due to increase in the fuel prices and import costs.

**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.

TCL continued to have comfortable financial profile marked by moderate debt coverage indicators. TCL's overall gearing on a consolidated basis improved marginally in FY22 to 0.37x (PY: 0.46x). The other debt coverage indicators like total debt/PBILDT and TD/GCA also improved in FY22 to 3.03x from 4.60x and to 3.19x from 5.94x, respectively, due to better operating performance. Going forward, these ratios are expected to remain stable despite partial re-financing of debt repayments as the capex requirements are expected to be met through internal accruals.

#### **Key rating weaknesses**

**Inherent risks associated with soda ash business:** Soda ash business is highly dependent on the 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 gross domestic product (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. Nevertheless, 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 and unencumbered current investments (in mutual funds) to the tune of ₹2,641.51 crore as on March 31, 2022. TCL has repayment obligations to the tune of around ₹2,925 crore in FY23 at the consolidated level. The existing cash and liquid investments along with strong cash accruals expected to be earned in FY23 are more than adequate to meet the repayment obligations and capex funding, factoring refinancing of debt in FY23. 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 the cash and bank balances and current investments of ₹1,593.66 crore as on March 31, 2022. The unutilised fund-based working capital limits (fully unutilised) as on June 30, 2022, were ₹358 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 ₹3.25 crore in FY23.

#### **Analytical approach: Consolidated**

For arriving at the ratings, CARE Ratings Limited (CARE Ratings) has considered the audited consolidated financial statements published in the FY22 annual report. TCL has various subsidiaries, 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. The list of companies that are consolidated to arrive at the ratings are given in Annexure-6 below.

### Applicable criteria

[Criteria on assigning 'outlook' or 'credit watch' to Credit Ratings](#)

[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 the third-largest producer of soda ash in the world with presence across the globe. TCL has total annual soda ash capacity of 4.1 million tonne (MT), 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 the leading vacuum-evaporated iodised salt producer in India. It also has an established market presence in the agri science and crop protection business through its subsidiary, Rallis India Limited.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	10,199.80	12,622.12	NA
PBILDT	1,506.43	2,318.71	NA
PAT	436.22	1,405.13	NA
Overall gearing (times)	0.46	0.37	NA
Interest coverage (times)	4.10	7.66	NA

A: Audited; NA: Not available

Note: Q1FY23 (UA) results have not been published yet

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	1300.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	2000.00	CARE A1+

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	1300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (13-Oct-21) 2)CARE AA+; Stable (06-Jul-21)	1)CARE AA+; Stable (28-Sep-20)	1)CARE AA+; Stable (11-Mar-20)
2	Non-fund-based - ST-BG/LC	ST	2000.00	CARE A1+	-	1)CARE A1+ (13-Oct-21) 2)CARE A1+ (06-Jul-21)	1)CARE A1+ (28-Sep-20)	1)CARE A1+ (11-Mar-20)
3	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (25-Jul-19)

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

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

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

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Annexure-6: List of entities considered for consolidation as on March 31, 2022**

Sr. No.	Name of the subsidiary	% Holding
1	Rallis India Limited	50.06%
2	Tata Chemicals International Pte. Limited ('TCIPL')	100.00%
3	Ncourage Social Enterprise Foundation	100.00%
4	Valley Holdings Inc.	100.00%
5	Tata Chemicals North America Inc.('TCNA')	100.00%
6	Tata Chemicals (Soda Ash) Partners ('TCSAP')	100.00%
7	TCSAP Holdings	100.00%
8	TCSAP LLC	100.00%
9	Homefield Pvt UK Limited	100.00%
10	TCE Group Limited	100.00%
11	TC Africa Holdings Limited	100.00%
12	Natrium Holdings Limited	100.00%
13	Tata Chemicals Europe Limited	100.00%
14	Winnington CHP Limited	100.00%
15	Brunner Mond Group Limited	100.00%
16	Tata Chemicals Magadi Limited	100.00%
17	Northwich Resource Management Limited	100.00%
18	Gusiute Holdings (UK) Limited	100.00%
19	British Salt Limited	100.00%
20	Cheshire Salt Holdings Limited	100.00%
21	Cheshire Salt Limited	100.00%
22	Brinefield Storage Limited	100.00%

Sr. No.	Name of the subsidiary	% Holding
23	Cheshire Cavity Storage 2 Limited	100.00%
24	Cheshire Compressor Limited	100.00%
25	New Cheshire Salt Works Limited	100.00%
26	Tata Chemicals (South Africa) Proprietary Limited	100.00%
27	Magadi Railway Company Limited	100.00%
28	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%
3	The Block Salt Company Limited	50.00%
4	JOil (S) Pte. Ltd and its subsidiaries	17.07%

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About us:

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