

## Tata Chemicals Limited (Revised)

June 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	1,300.00	CARE AA+; Stable	Reaffirmed
Short-term bank facilities	2,000.00	CARE A1+	Reaffirmed
Non-convertible debentures	2,000.00	CARE AA+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to Tata Chemicals Limited (TCL) continue to derive significant strength from its strong business profile marked by TCL's leadership position 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, two-third of its capacity being natural soda ash translating into cost-effective production. The ratings also derive comfort from TCL's strong financial flexibility and re-financing capability given strong parentage of the Tata Group, healthy financial risk profile characterised by healthy debt coverage indicators and liquidity. The company has proposed to raise upto ₹2,000 crore via non-convertible debentures (NCDs) which is expected to be used to deleverage international debt

The ratings also factor in the flattish performance with total operating income (TOI) recording de-growth of around 8.8% in FY24 (refers to the period April 1 to March 31) with subdued market demand in key regions, especially in Europe's container and flat glass sector. Operating margins also declined to 18.54% in FY24 led by fall in sales realisations. 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: Factors likely to lead to rating actions

#### Positive factors

- Sustainability of revenue growth and improvement in profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to 22% on a sustained basis.
- Consolidated net debt/PBILDT below 1.50x on a sustained basis.

#### Negative factors

- Large debt-funded capex/ acquisition, if any, undertaken by the company thereby deteriorating the consolidated net debt /PBILDT beyond 3.0x on a sustained basis.
- Substantial decline in profitability or substantial increase in debt leading to deterioration in interest cover below 5.0x on a sustained basis.

### Analytical approach: Consolidated

For arriving at the ratings, CARE Ratings Limited (CARE Ratings) has considered the consolidated financial statements of TCL. TCL has various subsidiaries, associates and joint ventures. These companies are fully consolidated due to strong operational and financial linkages, fungible cash flows and support provided by TCL to its various subsidiaries/associates/joint ventures among others. The list of companies that are consolidated with TCL to arrive at the ratings are given in **Annexure-6** below.

### Outlook: Stable

The stable outlook reflects the sustenance of the company's healthy operating and financial risk profile of the company in spite of weak demand on the back of its leadership position and absence of any large debt-funded capex or acquisition plans in the medium term.

<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

## Detailed description of key rating drivers:

### Key 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 4.3 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 among others. TCL's products are utilised by some of the 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. Furthermore, the ongoing soda ash capacity expansion in Inner Mongolia, may lead to a temporary surplus, but long-term demand from glass and electric vehicles is expected to remain promising. As a result, TCL is actively investing in capacity improvement through debottlenecking and salt enhancement projects to meet future demand. Their current soda ash capacity stands at 4.3 million tonnes, with plans to expand it to 5.3 million tonnes.

#### **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, Asia, America, Europe and Africa. TCL's revenue in FY24, on a consolidated basis, from basic chemistry products contributed about 82% (PY: 81%), while specialty products contributed 18% (PY: 19%). Apart from soda ash, TCL is also the fifth-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 owned 55.04% as on March 31, 2024.)

#### **Stable income coupled with decline in operating margins:**

The company's TOI for the company declined by 8.8% in FY24 due to pricing pressure across all regions and lower volumes. In Q3FY24, the company faced challenges in the US, with lower volumes due to plant shutdowns and rail car shortages. The slowdown in certain sectors, especially lithium, coincided with increased Turkish exports to Asian and South Asian markets. The PBILDT margin also declined to 18.54% in FY24 (compared to 23.50% in the previous year). This was influenced by significant reductions in soda ash prices in FY24 and subdued demand due to increased Turkish exports. Additionally, capacity expansion in Inner Mongolia impacted the operating margins in FY24.

#### **Healthy overall financial risk profile:**

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

TCL continued to have comfortable financial profile marked by overall gearing improving marginally in FY24 to 0.25x (PY: 0.32x). The debt coverage indicators such as total debt/PBILDT and total debt/gross cash accruals continued to remain comfortable though moderated marginally in FY24 to 2.05x from 1.64x and to 3.81x from 2.01x, respectively, due to dip in operating performance. Going forward, its capital structure and debt coverage indicators are expected to remain comfortable as the capex requirements are expected to be largely met through internal accruals.

### Key weakness

#### **Inherent risks associated with soda ash business:**

The soda ash industry has experienced a slowdown in demand across various regions due to factors affecting both demand and supply, resulting in a significant price correction. In Europe, the container and flat glass sectors were notably impacted which is now stable, leading to continued pressure on the soda ash market while the demand continues to be subdued. Additionally, a slowdown in sectors such as lithium, crucial for EV batteries, posed further challenges. In the US, demand has been generally stable, though there are indications of a slight decline in the container glass sector, while in Africa and the Middle East, there are areas of both strong and stable demand. In South America, despite decrease in imports, optimism is on the rise.

Concurrently, Turkish producers have increased their exports to Asian markets, particularly India, China, and Southeast Asia, creating a surplus supply. However, the Red Sea conflict has put some higher freight rates and has meant a challenge for the material to move into the Asian markets, giving a bit of cover. Despite this, overall demand for soda ash in India remained stable during the quarter, driven by rising demand from the detergent and chemical sectors, though it has been impacted by significant correction in prices. Global demand is stable, but market remains cautious due to ongoing geopolitical instabilities, pressure from Chinese real estate market, high interest rates, and situation of oversupply. CARE Ratings observes, sustainability trend is expected to drive the demand for newer applications such as solar glass and lithium, which will fuel growth in the long term.

## Liquidity: Strong TCL (Consolidated)

TCL's liquidity profile, 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 ₹1,250 crore as on March 31, 2024. TCL has repayment obligations to the tune of around ₹2300 crore in FY25 at the consolidated level. The existing cash and liquid investments, cash accruals for FY25 along and the proposed NCD to be raised are expected to be more than adequate to meet the repayment obligations and regular capex funding.

## TCL (Standalone)

TCL's liquidity profile, on a standalone basis continues to remain strong as evinced by the cash and bank balances and current investments of ₹403 crore as on March 31, 2024. The average fund-based working capital limit utilisation in May 2024 was around 25%. TCL on a standalone basis continues to be debt free.

## Environment, social, and governance (ESG) risks

- TCL is committed to reduce carbon footprint per the science-based target initiatives (SBTi) guidelines by 30% by 2030.
- It is investing in green chemistry to ensure circularity of feedstock, low energy intensity and zero solid waste to landfill.
- Waste management practices involve 100% recycling of plastic waste as per the extended producer responsibility for plastic waste management (EPR PWM), use of 100% fly ash and safe disposal of waste across locations.
- The company is undertaking efforts to improve its socio-economic standards, which includes creating livelihood opportunities, targeting health and wellbeing and encouraging education.
- It has developed a supplier sustainability code and has established process for vendor selection. About 92% of the domestic critical supplies by value (48 out of total 52 critical suppliers) has been assessed and audited by a third party for sustainable sourcing.
- Governance structure is characterised by 56% of its board comprising independent directors, dedicated investor grievance redressal system and extensive disclosures.

## Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

## About the company and industry

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & petrochemicals	Commodity chemicals

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 4.3 million tonne (MT), two-third of which is natural soda ash capacity. It is also the fifth-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) (Consolidated)	FY23 (A)	FY24 (A)
Total operating income	16,913.00	15,421.00
PBILDT	3,974.00	2,859.00
PAT	2,452.00	449.00
Overall gearing (times)	0.32	0.25
Interest coverage (times)	9.79	5.39

A: Audited Note

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

**Any other information:** Not applicable

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

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	-	NA	Proposed	Proposed	2000.00	CARE AA+; Stable
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 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash credit	LT	1300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (09-Oct-23)	1)CARE AA+; Stable (19-Jul-22)	1)CARE AA+; Stable (13-Oct-21) 2)CARE AA+; Stable (06-Jul-21)
2	Non-fund-based - ST-BG/LC	ST	2000.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (19-Jul-22)	1)CARE A1+ (13-Oct-21) 2)CARE A1+

								(06-Jul-21)
3	Debentures-Non-convertible debentures	LT	2000.00	CARE AA+; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Fund-based - LT-Cash credit	Simple
3	Non-fund-based - ST-BG/LC	Simple

**Annexure-5: Lender details**

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

**Annexure-6: List of all the entities consolidated**

Sr. No.	Name of the subsidiary	Extent of Consolidation	Rationale for consolidation
1	Rallis India Limited	Full	Associate
2	Tata Chemicals International Pte. Limited ('TCIPL')	Full	Subsidiary
3	Ncourage Social Enterprise Foundation	Full	Subsidiary
4	Valley Holdings Inc.	Full	Subsidiary
5	Tata Chemicals North America Inc.('TCNA')	Full	Subsidiary
6	Tata Chemicals (Soda Ash) Partners ('TCSAP')	Full	Subsidiary
7	TCSAP Holdings	Full	Subsidiary
8	TCSAP LLC	Full	Subsidiary
9	Homefield Pvt UK Limited	Full	Subsidiary
10	TCE Group Limited	Full	Subsidiary
11	TC Africa Holdings Limited	Full	Subsidiary
12	Natrium Holdings Limited	Full	Subsidiary
13	Tata Chemicals Europe Limited	Full	Subsidiary
14	Winnington CHP Limited	Full	Subsidiary
15	Brunner Mond Group Limited	Full	Subsidiary
16	Tata Chemicals Magadi Limited	Full	Subsidiary
17	Northwich Resource Management Limited	Full	Subsidiary
18	Gusiute Holdings (UK) Limited	Full	Subsidiary
19	British Salt Limited	Full	Subsidiary
20	Cheshire Salt Holdings Limited	Full	Subsidiary
21	Cheshire Salt Limited	Full	Subsidiary
22	Brinefield Storage Limited	Full	Subsidiary
23	Cheshire Cavity Storage two Limited	Full	Subsidiary
24	New Cheshire Salt Works Limited	Full	Subsidiary
25	Tata Chemicals (South Africa) Proprietary Limited	Full	Subsidiary
26	Magadi Railway Company Limited	Full	Subsidiary
27	Alcad	Full	Associate

**Note on complexity levels of 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.

## Contact us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>	<b>Analytical Contacts</b>  Ranjan Sharma Senior Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3453 E-mail: <a href="mailto:ranjan.sharma@careedge.in">ranjan.sharma@careedge.in</a>
<b>Relationship Contact</b>  Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3404 E-mail: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a>	Hardik Manharbhai Shah Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3591 E-mail: <a href="mailto:hardik.shah@careedge.in">hardik.shah@careedge.in</a>
	Arti Roy Associate Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3657 E-mail: <a href="mailto:arti.roy@careedge.in">arti.roy@careedge.in</a>

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