Tata Chemicals Limited (Revised)

January 7, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities – Fund based limits	1,897.00*	**CARE AA+; Stable [Double A Plus; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities – Non-fund based limits	2,448.00**	**CARE A1+ [A One Plus]**	Reaffirmed
Total Facilities	**4,345.00 (Rs. Four Thousand Three Hundred Forty Five crore only)**		
Non – Convertible Debentures	250.00	**CARE AA+; Stable [Double A Plus; Outlook: Stable]**	Reaffirmed

**includes unallocated limits of Rs.602 crore*
***includes unallocated limits of Rs.1,173 crore*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities/ NCD's of Tata Chemical Ltd (TCL) reflect strong business risk profile in soda ash business, diversified product portfolio and healthy overall financial risk profile led by high financial flexibility and robust liquidity post sale of its fertilizer business. The ratings also take cognizance of improved operational performance of subsidiaries and increased focus on high margin consumer business.

CARE noted that TCL has exited from the regulated business with sale of urea business for Rs.2,682 crore to Yara Fertilizers and sale of phosphatic fertilizer business for Rs.873 crore to IRC Agrochemicals Private Limited, a wholly owned subsidiary of Indorama Holdings BV.

However, the above ratings strengths are partially tempered due to impact on operating profit margins associated with volatility in international market prices in soda ash business and nascent stage of recently introduced consumer products business and vulnerability to different operating costs.

Any debt-funded capex/ merger/ acquisition or unrelated diversification adversely impacting debt coverage metrics remains key rating sensitivity. Furthermore, TCL's ability to scale up its consumer business and make meaningful profitability remains a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Strong business risk profile in soda ash business

TCL is the world's third largest producer (~6% of total market share) with annual soda ash capacity of 4.3 MMT, about 70% 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, 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.

Diversified product portfolio

TCL holds a leading position in different businesses, primarily soda ash production wherein, it is the third largest producer of soda ash in the world and also the fifth largest manufacturer of sodium bicarbonate in the world. Besides, it is a pioneer and India's market leader in the Indian branded iodized salt segment with an overall market share of 25.50% in powdered salt segment in FY18. Additionally, TCL is increasing its footprint in the consumer product business primarily through brands like Tata Salt, Tata Sampann and Tata I-Shakti. Also, it has an established market presence in agri services and crop protection business through its subsidiary Rallis India Ltd in which TCL owns 50.06%. Out of total reported consolidated operating income of Rs.10,345 crore during FY18, about 70% is contributed by Basic Chemistry Products segment, about 14% by Consumer Products segment and about 16% by Speciality products segment. TCL has successfully exited from its urea business at Babrala, Uttar Pradesh and Phosphatic fertilizer business at Haldia, West Bengal.

Healthy overall financial risk profile led by high financial flexibility

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

TCL derives strong financial flexibility being one of the strategically important and one of the large 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. post sale of urea business for Rs.2,682 crore to Yara Fertilizers and sale of phosphatic fertilizer and trading business for Rs.873 crore to IRC Agrochemicals Private Limited, a wholly owned subsidiary of Indorama Holdings BV., consequent into improved total debt/GCA to 2.07x in FY18 compared to 4.11x in FY17 (vis-à-vis 6.20x in FY16). Improved and healthy profitability also aided improvement in debt coverage metrics. Subsequently, overall gearing of the company improved to 0.44x in FY18 compared to 0.67x in FY17 (vis-à-vis 0.96x in FY16).

Robust liquidity

Liquidity comfort is derived through cash and cash equivalents of Rs.3,665 crore, against total debt of Rs.1,192 crore consequent into net cash surplus as on September 30, 2018 on standalone basis, and cash & cash equivalents of Rs.3,769 crore against total debt of Rs.1,097 crore as on March 31, 2018 on standalone basis, which resulted in low working capital limits utilisation. Besides, on consolidated basis, TCL has cash and cash equivalents of Rs.4,483 crore against total debt of Rs.6,108 crore in FY18.

Liquidity is further strengthened by the fact that TCL derives strong financial flexibility being one of the strategically important companies of the TATA group leading to its robust fund raising ability. Additionally, TCL's gross cash accruals remained strong at Rs.2,946 crore in FY18 (vis-à-vis Rs.1,720 crore FY17) consequent into healthy operating cash-flows and operating free cash-flows.

Capex updates

The company announced investments in new businesses units for Nutraceuticals (Rs.270 crore, in Nellore-5,000 TPA plant capacity), which is expected to be commissioned by the end of FY19, and Highly Dispersible Silica (HDS), with an acquisition of plant from Allied Silica in June 2018 for Rs.123 crore, the trial runs are expected to start in November 2018. The company continues to grow its consumer products business under Tata Sampann brand. In H1FY19, the company announced capex of approximately Rs.2,400 crore (approximately Rs.250 crore already spent) for capacity expansion of its Soda Ash plant, Salt plant, cement plant, specialty Sodium Bicarbonate plant and turbines upgradation at its Mithapur site in Gujarat, phased over the next 3-4 years.

Exit from low margin and highly regulated urea and fertilizer businesses

TCL has exited the fertilizer business, with the sale of its urea business (Babrala plant, U.P.) to Yara Fertilizers for a consideration of Rs.2,670 crore (subject to final working capital adjustments), the same was approved by NCLT in FY18 (December 7, 2017) and by sale of its phosphatic fertilizer business (Haldia Plant, W.B.) to Indorama B.V. for a consideration of Rs.375 crore (subject to final working capital adjustments) in Q1FY19 (June 1, 2018).

Key Rating Weaknesses

Inherent risks associated with Soda Ash business

Soda ash demand is dependent on macroeconomic factors, the global economy continued its growth momentum during FY18, and hence the uncertainty pertaining to the company's performance is marginally lower. Also, 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. Furthermore, the company hedges its forex risks by using derivatives and fixed contract with some buyers for the supply of soda ash.

Vulnerable to different operating costs

Operating profit margin of TCL are susceptible to volatility associated with the energy cost. And, TCL's agri product portfolio (through Rallis India Limited) carries the inherent risk of seasonality associated with agriculture business.

The additional soda ash capacity in Turkey that came on-stream during FY18 was optimally utilized owing to limited supply (of soda ash) from other key manufacturing geographies which kept the prices consistent during the year. TCL keeps on renegotiating the contracts with its customers, in order to pass on the increase in key input cost.

Analytical approach:

For arriving at the ratings, CARE has considered the audited consolidated financial statements published in the FY18 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 3 below.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company
Tata Chemicals Limited (TCL), established in 1939 is a part of the more than USD 100 billion Tata Group. TCL's business segments include Basic chemistry products, Consumer products and Specialty products. TCL is currently third largest producer of soda ash in the world and also the fifth largest manufacturer of sodium bicarbonate in the world. Besides, it is a pioneer and India's market leader in the Indian branded salt segment with an overall market share of 25.50% in the powdered salt segment in FY18. Also, it has an established market presence in the crop protection business through its subsidiary Rallis India Ltd. Additionally, TCL is increasing its footprint in the consumer product business primarily through brands like Tata Salt, Tata I-Shakti, and under the Tata Sampann brand, the pulses and spices business.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	10,435	10,408
PBILDT	2,189	2,336
PAT	1,234	2,702
Overall gearing (times)	0.67	0.44
Interest coverage (times)	7.36	7.17

A: Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating History for last three years: Please refer Annexure-2
Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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+
Debentures-Non Convertible Debentures	July 2009	10%	July 2019	250.00	CARE AA+; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	1897.00	CARE AA+; Stable	1)CARE AA+; Stable (05-Apr-18)	-	1)CARE AA+; Stable (07-Feb-17) 2)CARE AA+ (11-Apr-16)	1)CARE AA+ (18-Jan-16)
2.	Non-fund-based - ST-BG/LC	ST	2448.00	CARE A1+	1)CARE A1+ (05-Apr-18)	-	1)CARE A1+ (07-Feb-17) 2)CARE A1+ (11-Apr-16)	1)CARE A1+ (18-Jan-16)
3.	Debentures-Non Convertible Debentures	LT	250.00	CARE AA+; Stable	1)CARE AA+; Stable (05-Apr-18)	-	1)CARE AA+; Stable (07-Feb-17)	1)CARE AA+ (18-Jan-16)

Annexure-3: List of entities considered for consolidation as on March 31, 2018

Subsidiaries		
Sr. No.	**Name of the entity**	**%Holding**
	Direct	
1	Rallis India Limited ('Rallis')	50.06%
2	Bio Energy Venture - 1 (Mauritius) Pvt. Ltd	100.00%
3	Ncourage Social Enterprise Foundation	100.00%
	Indirect	
4	Rallis Chemistry Exports Limited	100.00%
5	Metahelix Life Sciences Limited	100.00%
6	Zero Waste Agro Organics Limited ('ZWAOL')	100.00%
7	PT Metahelix Lifesciences Indonesia ('PTLI')	65.77%
8	Valley Holdings Inc.	100.00%
9	Tata Chemicals North America Inc.('TCNA')	100.00%
10	General Chemical International Inc.	100.00%
11	NHO Canada Holdings Inc.	100.00%
12	Tata Chemicals (Soda Ash) Partners ('TCSAP')	75.00%
13	Tata Chemicals (Soda Ash) Partners Holdings ('TCSAPH')	75.00%
14	TCSAP LLC	75.00%
15	Homefield Pvt UK Limited	100.00%
16	Homefield 2 UK Limited	100.00%
17	Tata Chemicals Africa Holdings Limited	100.00%
18	Tata Chemicals Europe Holdings Limited	100.00%
19	Tata Chemicals Europe Limited	100.00%
20	Winnington CHP Limited	100.00%
21	Brunner Mond Group Limited	100.00%
22	Tata Chemicals Magadi Limited	100.00%
23	Northwich Resource Management Limited	100.00%
24	Gusiute Holdings (UK) Limited	100.00%
25	TCNA (UK) Limited	100.00%
26	British Salt Limited	100.00%
27	Cheshire Salt Holdings Limited	100.00%
28	Cheshire Salt Limited	100.00%
29	Brinefield Storage Limited	100.00%
30	Cheshire Cavity Storage 2 Limited	100.00%

31	Cheshire Compressor Limited	100.00%
32	Irish Feeds Limited	100.00%
33	New Cheshire Salt Works Limited	100.00%
34	Tata Chemicals International Pte. Limited ('TCIPL')	100.00%
35	Tata Chemicals (South Africa) Proprietary Limited	100.00%
36	Magadi Railway Company Limited	100.00%
37	Alcad	50.00%

Joint Ventures		
Sr. No.	**Name of the entity**	**%Holding**
	Direct	
1	Indo Maroc Phosphore S. A.	33.33%
	Indirect	
2	The Block Salt Company Limited (Holding by New Cheshire Salt Works Limited)	50.00%
3	JOil (S) Pte. Ltd and its subsidiaries (Holding by TCIPL)	33.78%
4	Natronx Technologies LLC (Holding by TCSAP)	33.30%

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