

Tata Chemicals Limited

March 11, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	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 Chemical Limited (TCL) continues to factor in the TCL's leadership position in global Soda Ash industry, it is third largest Soda Ash producer globally, with over 2/3rd of its capacity being natural soda ash translating in to cost effective producer. Ratings also favorably factor in the diversified product portfolio into basis chemistry products and specialty products.

The rating also factors in the demerger of its consumer business into Tata Consumer Products Limited (Rated CARE A1+) via share swap transaction. CARE also takes, cognizance of the acquisition of the remaining 25% partnership interest from The Andover Group, USA (balance stake held in Tata Chemical (Soda Ash) Partners Holdings for a consideration of US \$ 195 mn (Rs.1372.31 crore), thereby increasing its stake in the company to 100% from existing 75%.

The above strengths are tempered by inherent risk associated 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 Total Debt (Gross Debt) / PBILDT below 1.80x on sustained basis

Negative Factors:

- Any large debt funded capex/ acquisition thereby deteriorating the Consolidated Total Debt (Gross Debt) /PBILDT below beyond 3 x on sustained basis.
- Consolidated PBILDT interest cover declining below 7.00x on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Holds leadership position in global soda ash industry

TCL is the world's third largest producer (~6% of total market share) with annual soda ash capacity of 4.3 MMT (Million Metric Tonne), about 2/3rd 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's business is well diversified with its leadership position across various products and diverse geographical presence. TCL's revenue in FY19 on a consolidated basis primarily included revenue from three segments namely Basic Chemistry Products, Consumer Products and Specialty Products, which contributed about 74%, 16% and 18% respectively in FY19 on a consolidated basis. However, with de-merger of its consumer products, the company will now have two segments namely the Basic Chemistry Products and Specialty Products. However, TCL will continue to manufacture salt within the Basic Chemistry Products business. 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 (through Rallis Limited, one of India's leading crop protection companies in which TCL owns 50.06%). Furthermore, geographically, TCL is present in four continents

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

and their contribution to total income is Asia 55.10% (of which India contributes 46.92%), America 29.54%, Europe 12.41% and Africa 2.75% in FY19.

Demerger of consumer product business and acquisition of remaining 25% stake in Tata Chemical (Soda Ash) Partner Holding

TCL vide its exchange publication May 15, 2019, had announced demerger of its consumer products business from TCL and merge the same with Tata Global Beverages Ltd.(TGBL) with appointed date as April 01, 2019. The scheme was approved by NCLT (National Company Law Tribunal) on January 08, 2020 and the Mumbai Bench of NCLT on January 10, 2020. Further, in its board meeting held on February 14, 2020, has fixed the record date for the afore said transaction as March 05, 2020. Given the higher margin business of its consumer products (branded), the EBITDA margin on a consolidated is expected to show a marginal decline of about 100 bps. However, the same is expected to be more than offset by improved focus on specialty products.

Further in Q3FY20, TCL has acquired the remaining 25% partnership interest from The Andover Group, USA (balance stake held in Tata Chemical (Soda Ash) Partner Holding for a consideration of US \$ 195 mn (Rs.1372.31 crore), thereby increasing its stake in the company to 100%. The same is funded by external loan of US \$ 175 million and balance from internal accruals. The difference between the consideration paid and the book value of Non-controlling interest amounting to Rs.707.68 crore has been credited to the retained earnings as at December 31, 2019. This is further, expected to strengthen and maintain its leadership position in Soda Ash.

Healthy overall financial risk profile led by high financial flexibility

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. Tata chemicals continued to have comfortable financial profile marked by low gearing and comfortable TDGCA. TCL's overall gearing on a consolidated basis improved to 0.40x as on March 3, 2019 as against 0.44x as on March 31, 2018, Led by accretion to profits as a result of stable operations despite head winds. Although, the total debt to gross cash accruals (TDGCA), was at 3.19x as on March 31, 2019 as compared to 2.07x as on March 31, 2018, the same is not comparable as it included profit from discontinued operations of Rs.1142 crore in FY18 and loss from discontinued operations of Rs.7.98 crore in FY19. On a like to like to basis the TDGCA improved to 3.39x as on March 31, 2018 to 3.18x as on March 31, 2019. TCL continued to report strong cash flow from operating activities on the back of stable operating performance, which remained at Rs.1581.29 crore in FY19 as compared to Rs.1,870 crore in FY18 on a consolidated basis.

Import continues to account for 25% of demand providing opportunities for domestic manufacturers of Soda Ash:

In terms of soda ash production break up between domestic players, Nirma leads with 27% market share followed by GHCL (25%) and Tata Chemical (20%). About 24% of demand continued to be met by imports (In 9MFY20), thus providing opportunities for the domestic manufacturers, hence, the planned capacity addition by TCL in next 2-3 years is beneficial for the company, and in the meantime any capacity addition from competitors is not expected to affect the company as TCL imports Soda Ash from its Magadi plant in Kenya, which despite the additional transportation cost remains cost effective. As the Indian market is expected to grow at slightly higher rate of mid-single digit, the company remains in favorable position to match the increased demand and derive accretive benefits.

Capex to result in volume growth going ahead

TCL is presently implementing capex involving approximately about Rs.3,600 crore to be spent over 3 years towards capacity expansion and future growth plans which is proposed to be funded fully from internal accruals. The capex primarily includes about Rs. 2,500 crore towards capacity expansion for all products at Mithapur plant, a capex of about Rs. 800 crore approved by the Board of Rallis towards expanding formulation capacity to service growing global demand and build technical and associated intermediary products manufacturing capacity for backward integration. During the H1FY20 the company has incurred a total of Rs.620 crore towards capex including the afore said expansions.

Key Rating Weaknesses

Tight market situation persists despite capacity addition in domestic market

Soda ash is largely used in segments like flat glass, container glass, detergent, pulp & paper, alumina, metals/mining, etc. Bulk of the consumption (~42% of total) is by glass and detergent. World Soda Ash Capacity in 2019 was about 70.6 million tonnes. Net capacity addition in 2018 was 2.9 million tonnes with major contribution coming from Turkey, consequently, reducing the utilization rates 85% in FY19 as compared to 88% witnessed in FY18, indicating a consumption growth of less than 1%. With Turkey's full plant capacity coming on stream in 2019, there was significant jump in its export volumes from 1.9 million tonnes in 2017 to 3.2 million tonnes in 2018. Export volumes from China declined and were 1.4 million tonnes in 2018. Lower Chinese volumes in Asia were adequately supplemented by exports from Turkey and the US. Turkey's maximum

volume was directed to Europe, replacing US volumes. Domestic prices in China remained firm on lower availability of material and lower operating rates. Overall demand buoyancy in Europe, Indian sub-continent, South America largely has absorbed the increased supplies from Turkey thereby keeping the prices stable.

Inherent risks associated with Soda Ash business

Soda ash business is highly dependent on macroeconomic factors globally. As per the World Bank Estimates, Global growth which decelerated to 2.4% in 2019, is projected to show a growth of 2.5 percent in 2020, just above the post-crisis low registered last year. The demand for Soda Ash continued its strong growth in emerging economies of South America, South East Asia and Indian Sub-Continent, however, the demand in China remained weak due to restriction on polluting industries and frequent government interventions to improve the environment. In view of this the demand for Soda Ash globally is estimated to grow gradually in the lower single digit in the near term. 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.

Liquidity: Strong

Liquidity comfort is derived through cash and cash equivalents of ~Rs.1,952.19 crore and investment in liquid mutual funds was at Rs.2253.03 crore as on March 31, 2019. Further, as on September 30, 2019 the cash and cash equivalent on a consolidated basis was at Rs.1692.54 crore as on September 30, 2019 and investment in Mutual Fund on a consolidated basis Rs.2,323.55 crore as on September 30, 2019. Consequent to improved cash flow from operations and strong liquidity, TCL continued to have lower working capital utilisation. Fund based utilisation (Standalone) stood at 3.59% and non-fund based utilisation stood at 2.36% during past 12 months ended December 31, 2019. The cash flow from operating activities was at Rs.1,150.70 crore in H1FY20 as against Rs.758.63 crore in H1FY20.

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.

Analytical approach: Consolidated

For arriving at the ratings, CARE has considered the audited consolidated financial statements published in the FY19 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 and Credit Watch to Credit Ratings](#)
- [CARE'S Policy on consolidation and factoring linkages](#)
- [CARE's Policy on Default Recognition](#)
- [Criteria for Short Term Instruments](#)
- [Rating Methodology-Manufacturing Companies](#)
- [Financial ratios – Non-Financial Sector](#)

About the Company

Tata Chemicals Limited (TCL), established in 1939 is a part of the over USD 110 billion Tata Group. Post demerger of its consumer product business with appointed date as April 01, 2019; TCL's business segments include Basic Chemistry Products including salt making facility and Specialty Products. TCL with a total consolidated Soda Ash capacity of 4.3 million metric tonnes per annum, continue to be third largest producer of soda ash in the world with presence across the globe. Further, with over 2/3rd of which being natural soda ash capacity leading to efficient operations in terms of lower operating costs. It is also the sixth largest manufacturer (Source; Annual Report 2019) of sodium bicarbonate in the world. TCL has an established market presence in the crop protection business through its subsidiary Rallis.

Particulars (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (UA)
Total Operating income	10407.74	11573.07	8209.64
PBILDT	2335.69	2382.25	1787.35
PBT	1620.13	1774.87	1028.75
PAT	2702.49	1386.85	*1037.54
Overall Gearing (x)	0.44	0.40	-
Interest Coverage (x)	7.17	6.56	7.05

A: Audited, UA=Un-Audited; *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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	1897.00	CARE AA+; Stable	-	1)CARE AA+; Stable (07-Jan-19) 2)CARE AA+; Stable (05-Apr-18)	-	1)CARE AA+; Stable (07-Feb-17) 2)CARE AA+ (11-Apr-16)
2.	Non-fund-based - ST-BG/LC	ST	2448.00	CARE A1+	-	1)CARE A1+ (07-Jan-19) 2)CARE A1+ (05-Apr-18)	-	1)CARE A1+ (07-Feb-17) 2)CARE A1+ (11-Apr-16)
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)	-	1)CARE AA+; Stable (07-Feb-17)

Annexure-3: List of entities considered for consolidation as on March 31, 2019

Annexure 3: List of subsidiaries

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 (merged into Rallis effective 1 Feb 2020)	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	TCE Group Limited (Formerly Homefield 2 UK Limited	100.00%
17	Tata Chemicals Africa Holdings Limited	100.00%
18	Natrium Holdings (formerly 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	***
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%

*** Brunner Mond Generation company Limited and Brunner Mond Limited, subsidiaries in United Kingdom, have been dissolved during the year ended March 31, 2018.*During Q3FY20, the stake has been increased to 100%.

Joint Ventures		
Sr. No.	Name of the entity	%Holding
	Direct	
1	Indo Maroc Phosphore S. A.	33.33%
2	Tata Industries	9.13%
	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%

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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