

Tata Chemicals Limited

September 28, 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 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 three fourths of its capacity being natural soda ash translating into cost effective producer and in FY20, TCL also increased its stake in Tata Chemical (Soda Ash) Partners Holdings from 75% to 100% which is further, expected to strengthen and maintain its dominant position in Soda Ash market globally. 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.

In FY20, TCL demerged its Consumer Products Business (CPB) into Tata Consumer Products Limited (TCPL) via share swap transaction while continuing with salt manufacturing at its Mithapur plant in Gujarat. It also has a 25 year Long Term Supply Agreement (LTSA) with TCPL and can be extended further with mutual consent for supply of vacuum evaporated edible salt as a 'take or pay' arrangement.

Ratings also favorably factor in TCL's financial flexibility by being a part of Tata Group, healthy financial risk profile characterized by robust debt coverage indicators and liquidity. TCL had overall gearing of 0.56x (PY: 0.40x) at the end of FY20. The Total debt/Gross Cash Accruals (GCA) stood at 4.48x (PY: 3.19x) at the end of FY20 at the consolidated level. TCL continues to maintain robust liquidity at both Standalone and Consolidated level.

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 1.80x 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 4.3 MMT (Million Metric Tonne), about three fourths 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.

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

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 FY20 on a consolidated basis primarily included revenue from two segments namely Basic Chemistry Products and Specialty Products, which contributed about 77% and 23% respectively in FY20 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 (through Rallis India Limited, one of India's leading crop protection companies in which TCL owns 50.06%).

Stable operating performance reported for FY20; albeit Q1FY20 witnessed moderation owing to COVID - 19

TCL reported marginal de-growth in the basic chemistry products in FY20, however, it was compensated by growth in specialty chemicals. Specialty chemicals reported ~15% YoY growth in FY20. Despite weaker demand and pressure on realizations, TCL reported better operating margin in FY20 due to improved mix, improved operational efficiencies and higher focus on value added products in bicarb. EBITDA margin on a consolidated is expected to show a marginal decline of about 100 bps going forward due to sale of CPB. However, the same is expected to be more than offset by improved focus on specialty products. In Q1FY21, there was dip in Total Operating Income (TOI) mainly impacted by lower volumes in Basic Chemistry products due to COVID-19, while the Specialty products reported improvement in sales in Q1FY21.

Healthy overall financial risk profile

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 moderate debt coverage indicators. TCL's overall gearing on a consolidated basis elevated marginally in FY20 to 0.56x (PY: 0.40x). The elevation in gearing was on account of additional debt availed to fund the acquisition of soda ash plant by US subsidiary. Moreover, the net-worth of the company declined to an extent mainly on account of reduction in minority interest and due to demerger of CPB. 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**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. Export volumes from China declined and 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. The global slowdown of CY19, caused by the US-China trade war, Brexit concerns and region-specific crises in Asia and Africa, has been exacerbated by the novel coronavirus outbreak of early CY20. Almost all the developed countries are expected to post negative growth in CY20 with the expectation of reporting to positive growth by CY21. India and China are the only two countries in the world to maintain a positive growth rate in CY20, though at a much subdued level. Sectors which are dependent on economic revival are likely to suffer and hence companies will have to align production with demand. Indian soda ash business is exposed to volatility in internal prices and cheap imports.

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.2057.20 crore and unencumbered current investments (in mutual funds) to the tune of Rs.1601.02 crore as on March 31, 2020. The cash and cash equivalents and current investments stood at Rs.3,258 crore as on June 30, 2020. TCL has also undertaken re-financing to the tune of USD 375 million (~Rs.2829.38 crore) in Q1FY21 which reduces the actual repayment obligation in FY21 to a significant extent.

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.2160.21 crore as on March 31, 2020 and that of Rs.1999 crore as on June 30, 2020. The unutilized fund based working capital limits as on June 30, 2020 were Rs.318 crore. The standalone entity continues to be debt free and does not have any debt repayment obligations.

Further, TCL is one of the strategically important companies of the TATA group which gives it financial flexibility and robust fund raising ability. The strength of the liquidity profile of the company is also evinced by the fact that TCL did not avail moratorium as per RBI notification dated March 27, 2020.

Analytical approach: Consolidated

For arriving at the ratings, CARE has considered the audited consolidated financial statements published in the FY20 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 and Factoring Linkages in Ratings](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial Ratios – Financial Sector](#)

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, 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 4.3 MT (Million Tonne), three fourth 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.

Particulars (Rs. crore)	FY19 (A)	FY20 (A)	Q1FY21 (UA)
Total Operating income	10,397.21	10,393.57	2,406.82
PBILDT	1,859.04	1,985.99	418.42
PBT	1,470.38	1,248.06	109.94
PAT	1,386.85	7,228.15	74.15
Overall Gearing (x)	0.40	0.56	-
Interest Coverage (x)	5.26	5.81	3.55

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	1897.00	CARE AA+; Stable	-	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+ (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)	-

*withdrawn upon redemption of NCDs

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, 2020

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

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