Tata Chemicals Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,300.00	CARE AA+; Stable	Reaffirmed
Short-term bank facilities	2,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 33% in FY23 (refers to the period April 1 to March 31) driven mainly by Basic Chemistry products which grew by 39% while Specialty segment grew by 13% which was driven by higher realization across geographies (TCNA US revenue increased by 43%, in UK by 35%, Kenya by 64% and India by 32% while volumes remained flat). EBITDA margins improved driven by higher realization and improved operating leverage given the favourable demand-supply situation. The growth was driven by improvement across the geographies. In Q1FY24, the TOI of the company has grown by 5.58% YoY on account of better realizations partly impacted by lower volumes as a result of dispatches in India impacted by cyclone Biparjoy for 10 days and due to delayed purchases by customers in anticipation of new supplies expected from Inner Mongolia. Agri sciences and nutritional sciences products are experiencing good traction while the other products are at nascent stage.

The overall gearing improved to 0.32x (PY:0.37x) and total debt/gross cash accruals (TD/GCA) improved to 2.01x (PY: 3.19x) at the end of FY23 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: Factors likely to lead to rating actions.

Positive factors

- 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

- Any 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.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach:

For arriving at the ratings, CARE Ratings Limited (CARE Ratings) has considered the audited consolidated financial statements published in the FY23 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.

Outlook: Stable

The stable outlook reflects the sustenance of the improvement in the operating and financial risk profile of the company amidst healthy cash flow generation from operations and absence of any large debt-funded capex or acquisition plans in the medium term.

Detailed description of the 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 amongst 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 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, ie, Asia, America, Europe and Africa. TCL's revenue in FY23, on a consolidated basis, from basic chemistry products contributed about 81% (PY: 78%), while specialty products contributed 19% (PY: 22%). 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 owned 50.06% as on March 31, 2023. However, TCL has acquired 97,00,000 equity shares of its subsidiary Rallis India at ₹215.05 a share representing 4.99 per cent of the paid-up share capital of Rallis by way of a block deal July 18, 2023. The acquisition, which was worth ₹208 crore, has resulted in an increase in shareholding of the TCL in Rallis to 55.04 per cent.

Substantial growth in TOI led by higher realisation; improvement in margin: TCL reported 33% improvement in the total operating income (TOI) in FY23 at the consolidated level led by improved realisations in basic chemistry products which grew by 39% YoY, mainly soda ash. The specialty chemicals reported 13% Y-o-Y sales growth in FY23 driven by to increase in sale of nutrition products. The PBILDT margin of the company at consolidated level improved to 22.93% in FY23 from 18.37% in FY22 at the consolidated level led by higher realisation in basic chemistry products though partially restrained by higher power cost across geographies. Power cost had substantially gone up in India (by 77% YoY) TCNA USA (by 56% YoY) Kenya (by 32% YoY) and UK (by 9% YoY).

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 FY23 to 0.32x (PY: 0.37x). The other debt coverage indicators like total debt/PBILDT and TD/GCA also improved in FY23 to 1.64x from 3.03x and to 2.01x from 3.19x, 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 weaknesses

Inherent risks associated with soda ash business: Soda ash business is highly dependent on the macroeconomic factors globally. There has been a correction in the soda ash prices due to delayed purchases by customers in anticipation of new supplies expected from Inner Mongolia coupled with the China net supply increase in the market which was partly driven by post-COVID-19 slowdown and lower-than-expected demand in China creating a demand-supply ease. Furthermore, with anticipated addition of another 1.5 million tonnes in China in the next year which is likely to create a surplus in the short term, though the long-term demand looks positive with growing demand from EV & Solar glass. 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 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 ₹2,248 crore as on March 31, 2023. TCL has repayment obligations to the tune of around ₹619 crore in FY24 at the consolidated level. The existing cash and liquid investments along with strong cash accruals expected to be earned in FY24 are more than adequate to meet the repayment obligations and capex funding, factoring refinancing of debt in FY24. 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 ₹1,444 crore as on March 31, 2023. The unutilised fund-based working capital limits as on August 31, 2023, were ₹512 crore. The standalone entity continues to be debt free and does not have any debt repayment obligations in FY23.

Environment, social, and governance (ESG) risks

- TCL is committed to reduce carbon footprint as 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
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

[Policy on Withdrawal of Ratings]

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 4.1 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) Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	12,622.12	16,789	4,218
PBILDT	2,318.71	3,850	1,043
PAT	1,405.13	2,434	587
Overall gearing (times)	0.37	0.32	-
Interest coverage (times)	7.66	9.48	8.48

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: 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
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 2023-2024	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
1	Fund-based - LT-Cash credit	LT	1300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (19-Jul-22)	1)CARE AA+; Stable (13-Oct-21) 2)CARE AA+; Stable (06-Jul-21)	1)CARE AA+; Stable (28-Sep-20)
2	Non-fund-based - ST-BG/LC	ST	2000.00	CARE A1+	-	1)CARE A1+ (19-Jul-22)	1)CARE A1+ (13-Oct-21) 2)CARE A1+ (06-Jul-21)	1)CARE A1+ (28-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not available

Annexure-4: Complexity level of the various instruments rated

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: Lender details

To view the lender-wise details of bank facilities please click here

Annexure-6: List of entities considered for consolidation as on March 31, 2023

Sr. No.	Name of the subsidiary	Country of Incorporation	% Holding
1	Rallis India Limited	India	50.06%
2	Tata Chemicals International Pte. Limited ('TCIPL')	Singapore	100.00%
3	Ncourage Social Enterprise Foundation	India	100.00%
4	Valley Holdings Inc.	USA	100.00%
5	Tata Chemicals North America Inc.('TCNA')	USA	100.00%
6	Tata Chemicals (Soda Ash) Partners ('TCSAP')	USA	100.00%
7	TCSAP Holdings	USA	100.00%
8	TCSAP LLC	USA	100.00%
9	Homefield Pvt UK Limited	UK	100.00%
10	TCE Group Limited	UK	100.00%
11	TC Africa Holdings Limited	Africa	100.00%
12	Natrium Holdings Limited	UK	100.00%
13	Tata Chemicals Europe Limited	UK	100.00%
14	Winnington CHP Limited	UK	100.00%
15	Brunner Mond Group Limited	UK	100.00%
16	Tata Chemicals Magadi Limited	Kenya	100.00%
17	Northwich Resource Management Limited	UK	100.00%
18	Gusiute Holdings (UK) Limited	UK	100.00%
19	British Salt Limited	UK	100.00%
20	Cheshire Salt Holdings Limited	UK	100.00%
21	Cheshire Salt Limited	UK	100.00%
22	Brinefield Storage Limited	UK	100.00%
23	Cheshire Cavity Storage 2 Limited	UK	100.00%
24	New Cheshire Salt Works Limited	UK	100.00%
25	Tata Chemicals (South Africa) Proprietary Limited	South Africa	100.00%
26	Magadi Railway Company Limited	Kenya	100.00%
27	Alcad	USA	50.00%

Sr. No.	Name of the Joint Venture	Country of incorporation	% Holding
1	Indo Maroc Phosphore S. A	Morocco	33.33%
2	Tata Industries Ltd.	India	9.13%
3	The Block Salt Company Limited	UK	50.00%
4	JOil (S) Pte. Ltd and its subsidiaries	Singapore	17.07%

Note on the 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 for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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