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Tata Chemicals – Long term buy

Vijay L Bhambwani

Tel –

91 - 22 - 23438482

E-mail –

vijay@Bsplindia.com

Url –

www.Bsplindia.com

Snail mail –

**Bhambwani
Securities (P) Ltd**

5 Kala Niketan
47-C Warden Road
Mumbai 400 026
India

Fair disclosure – I, my family members and corporate investment vehicle own shares in Tata Chemicals Ltd and are therefore beneficiaries of this buy report. We have a direct vested interest in the Company's share price appreciating and suggest you conduct your due diligence before initiating trades on this counter.

Type of investment – growth cum value

Tenure – long term (24 month and longer)

Returns expected – sizable long term capital appreciation (tax free) and negligible dividend yield

Beta – low

Relative strength vis-à-vis Nifty – rising / potential market out-performer

What we like – from a soda ash / fertilizers company, the management plans to re-orient the business focus of the Company full circle. The minor businesses of the company – iodised branded salt and non-powered water purifiers (Tata Swach) will receive higher focus. From a paltry 50,000 pieces sales of the water purifier, the Co targets a sales figure of 1 million pieces in 2010 – 2011, a humungous leap in revenues from this segment. Tata Salt is a market leader in it's segment and needs no introduction in the grocery shops.

The Company plans to spear head India Inc's entry into the food security issues by procuring long term contracts for pulses, grams and staples from contracted farms in Australia, New Zealand, Canada and possibly Africa. The Company has announced it's thrust to fill the protein vaccum by this initiative code named "I-shakti". The Company's group Co Rallis India has started a seed initiative in Tamil Nadu. Punjab and Haryana to supply superior pest resistant, high yielding seed varieties to the farmers to enable them to earn upto Rs 5000 / acre higher than normal seed varieties. The management task force has created a "daal map" of the Country determining which part of the Country utilizes which particular variety of pulses (from curries to dosas, the variety is a broad spectrum) and plans to market the highest selling variety in each region.

The Company has also announced it's intent to foray into the high tech sphere of nutraceuticals – foods that have medicinal properties and provide nourishment coupled with fortified vitamins, minerals and healing agents. This segment is likely to be the equivalent of the bio-technology stocks in the last decade and we feel this is an interesting but slightly higher risk game plan of the Company. If there is a business house that can be entrusted with a high technology, capital intensive, long gestation and high risk business strategy, it is the Tata group. We are absolutely impressed with this foray in the depleting food security arena and feel the discounting of the stock is likely to undergo a sea change in the quarters to come.

Another area of interest for a long term investor will be the Company's announcement of its initiative "khet se" (from the farms), wherein the management intends to tie up with farmers and manage the supply chain of the agricultural produce right upto the wholesaler point of sale. A tie up with the Total group has been announced. Total is a world leader in agricultural produce supply chain management.

Fundamental details – we prefer to skip through the detailed fundamental analysis of the Company and suggest investors visit the official website of the Company where comprehensive coverage is available in the public domain. http://tatachemicals.com/investors/investors_centre.htm

With a trailing twelve month EPS of 20.3, the stock is being given the valuations of a fertilizer company (which it is not) and should receive a 25 – 35 % improvement in discounting in the coming quarter as the management vision is mapped out to the media / investing fraternity. The EPS itself is likely to go up in the fiscal 2010 – 11 as the last quarter witnessed a temporary glitch in the core operations of the business that is likely to be non-recurring in nature. Coupled with the higher sales of water purifiers and food forays, the Company is shifting gears to forge ahead at high speeds on the bourses in the coming 24 – 30 months.

Investor care / Corporate governance – the Company belongs to a business group that has a long history of investor friendly policies and highest standards of corporate governance. We foresee no issues of management / investors being at logger heads over the focus shift in the business policies of the Company in the coming years.

Additional increments – Mr Ratan Tata's guidance that the Tata group would tighten its grip on the group Companies by way of enhanced stakes in the listed Companies is witnessing a positive reaction from the investing populace. Any future acquisition of stock from the open market, block deals and restructuring of cross holdings etc will be a positive development as the management stake going up imbibes confidence.

Competition, threat perception – we foresee no significant threat perception to the Company's business plan, barring competitive pricing by fellow business players. Fertilisers are a tightly regulated market as the agricultural ministry aims to protect the interest of the farmers. Margin expansion is likely to be a painfully slow process as total and absolute decontrol is not likely in this segment. The salt and water purifier business will also be highly competitive as the consumers tend to be price sensitive. It is the food foray that will be the game changer for the Company. Looking at the urgency of the protein shortage problem and the near failure of the authorities to address the same convincingly, the Company's business strategy will be a potential money spinner-cum-corporate social responsibility initiative rolled in one.

We do not foresee any substantial political, business or financial risk in the new strategy of the Company as this model is being followed by other corporate houses and is accepted by the authorities and end users / consumers alike.

Dividends – the Company last paid out a 90 % dividend per share on a face value of Rs 10 per share. At current values, the dividend yield is approximately 2 %.

Technicals – the weekly NSE chart of Tata Chem shows a breakout from a pincer formation and that is a sign of strength. The oscillators confirm the uptrend and the stock is a potential sizable market out performer as long as the bulls manage to defend the 370 levels in case of declines. The trader interest is rising on the counter through 2009 – 2010 calendar years. We feel it is a matter of time before the life high of the stock at 440 is overcome convincingly, thereby indicating blue sky territory ahead. Once the 440 hurdle is overcome on a sustained closing basis, we foresee a price of 525 + levels in the coming 24 months. The target price is likely to be achieved interspersed by routine corrective phases when traders take profits. We suggest buying into dips as the stock presents an opportunity to garner sizable capital appreciation in the long term. Buying maybe initiated even at current levels with room for averaging in pyramid fashion on all declines of Rs 10 till the 375 levels – if at all required.



We may issue updates from time to time.

Vijay L Bhambwani
 (Ceo - BSPLindia.com)

The analyst is the author of the book "A Traders Guide to Indian Commodity Markets" and invites feedback at vijay@BSPLindia.com.