

# [Tomco-hll merger](https://assignbuster.com/tomco-hll-merger/)

Mumbai: Tata Chemicals, a Tata group company, and Hindustan Lever’s (HLL) Hind Lever Chemicals (HLCL) are merging together to form what would be the second-largest fertiliser company in India. This is the third time that the Tatas and HLL are coming together and this time it is in the fertilisers and chemicals businesses. Previously the two came together in the Hindustan Lever-Tomco deal in 1993 and Lakme-Lever in 1998. The Tatas hold 30 per cent and financial institutions hold 26 per cent stakes in Tata Chemicals.

HLL holds 50-per cent stake in HLCL and the institutional holding is at over 9 per cent as on 31 December 2002. The boards of the two companies are meeting separately on 24 January 2003 to ratify the merger and the share-swap ratio. Sources close to the deal reveal that the valuation of Tata Chemicals is much higher than HLCL’s, hence the latter’s shareholders will be issued shares of the Tata group company. Analysts estimate the share-swap ratio will be in the range of 2. 5 to 3: 1 — that is, 2. 5 to three shares of Tata Chemicals for every share of HLCL held.

The analysts say the merger between the two companies makes good business sense given its complementary qualities. The Rs 1, 516-crore Tata Chemicals manufactures soda ash, salt and fertiliser. Its fertiliser production primarily comprises urea. The Rs 1, 285-crore HLCL’s fertiliser business covers di-ammonium phosphate (DAP) complex NPK fertilisers and single super phosphate (SSP). With this merger Tata Chemicals will be present in all fertiliser product categories such as urea-ammonia, NPK and DAP and will also assume aleadershipposition in soda ash, salt and fine chemicals.

Post-merger, Tata Chemicals will have an estimated turnover of about Rs 2, 750 crore, profits of over Rs 170 crore and reserves of over Rs 1, 600 crore. Sources say HLL, which holds a 50-per cent stake in HLCL, will see its holding dip to under 10 per cent while that of the Tatas in Tata Chemicals may go down to around 20 per cent from their present holding of around 30 per cent. HLL is also likely to keep some representation on the Tata Chemicals board to ensure a continued arrangement for sourcing the chemical STTP, a key ingredient for its detergents business.

HLCL produces 80 per cent of India’s STTP output, of which HLL consumes 90 per cent. At present in India there are only two players in STPP, which makes it likely that the business of manufacture of the bulk chemical can turn into a cartel. Therefore, outsourcing the ingredient is not advisable. Moreover, the Haldia facility of HLCL is well integrated with STPP, DAP and sulphuric acid, among others. STPP also goes into DAP, fertiliser and soda ash, which will fit well into Tata Chemical’s business plan.

HLL’s move in moving out of the chemicals and fertiliser business is in line with its corporate strategy to exit from its non-core activities, and in the past few years the company has been looking for a buyer for this business. Also HLL will move out of a non-core business at a time when its power-brand strategy is at a critical trajectory of growth. Some analysts feel that its important for HLL to retain a presence in the fertiliser business as HLCL’s fertiliser network provides a good backbone for its large-scale operations in the rural areas. HLL gets about 50 per cent of its revenues from the rural markets.

Others say that in the long run it does not make good business sense for HLL to continue with its fertiliser business, which has achieved 100-per cent capacity expansion, and for which there is need for consolidation. In the era of size and scale, it makes sense to merge HLCL with a company that can provide the needed focus and thrust. Financially, both HLCL and Tata Chemicals are cash-rich. However, an unclear government policy on fertilisers, over-capacity in the soda-ash market and increasing competition in the branded salt market has led Tata Chemicals to look at future avenues of growth.

This merger will give Tata Chemicals a borrowing power of Rs 300-400 crore at a crucial time when National Fertilisers (NFL) is coming up for divestment. Tata Chemicals, understood to have put in an expression of interest for two state-owned fertiliser companies, NFL and Madras Fertilisers, was said to be in talks with a number of fertiliser companies for a suitable ally. Talks of a possible merger with Tata group company Rallis India was put off after the latter severed the marketing arrangement with Tata Chemicals. There were also talks of a possible tie-up with an AV Birla group company, Indo Gulf Fertiliser, to jointly bid for NFL.

Reacting to the merger announcement, the Tata Chemicals scrip jumped 9. 81 per cent to close at Rs 66. 60 on the Bombay Stock Exchange on 22 January 2003, while the HLCL scrip closed at Rs 187, up Rs 17 over its previous day’s close. The Rs 1, 433-crore Tata Chemicals posted profits of Rs 126 crore last year and had reserves of Rs 1, 370 crore. The debt-free HLCL, on the other hand, posted a profit of Rs 47 crore on a turnover of Rs 1, 284 crore the previous year. Moreover, Tata Chemicals reported an increase of 8. 3 per cent in net profit to Rs 47 crore n the second quarter ended September 2002, and a 13-per cent increase in sales to Rs 439 crore. Urea, which contributes 45. 9 per cent to the company’s total revenues, is under government control and a lack of clarity in the fertiliser policy has been a contributing factor to the ambiguity. HLCL reported a 47-per cent rise in net profit to Rs 7. 40 crore in the second quarter ended September 2002, mainly due to higher topline growth and a sharp reduction in interest expenses. Total sales during the quarter rose by 11 per cent to Rs 300. 59 crore