

## Tata Steel

13 August 2021

## RESULT UPDATE

Sector: Metals	Rating: BUY
CMP: Rs 1,433	Target Price: Rs 1,628

## Stock Info

Sensex/Nifty	54,843/ 16,364
Bloomberg	TATA IN
Equity shares (mn)	1,130
52-wk High/Low	Rs 1,481/342
Face value	Rs 10
M-Cap	Rs 1,737bn/USD 23bn
3-m Avg volume	USD 284.7mn

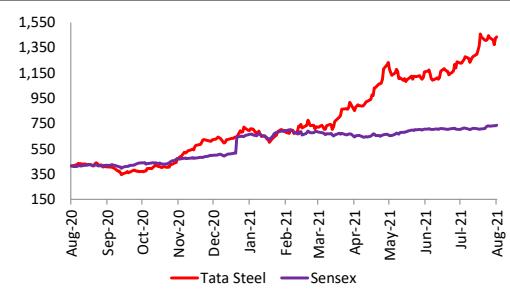
## Financial Snapshot (Rs bn)

Y/E Mar	FY21	FY22E	FY23E
Sales	1,563	2,146	1,982
EBITDA	305	724	520
PAT	92	470	301
EPS (Rs)	77	393	251
PE (x)	14	3	4
EV/EBITDA (x)	7	3	3
RoE (%)	12	42	22
RoCE (%)	13	32	20
Dividend yield (%)	1	2	2

## Shareholding Pattern (%)

	Jun'21	Mar'21	Dec'20
Promoter	34.5	34.4	34.4
-Pledged	0.5	0.5	1.2
FII	21.9	18.6	16.9
DII	19.3	25.2	25.8
Others	24.3	21.8	23.0

## Stock Performance (1-year)



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## Results in line with estimates; profit surge to continue in the near-term

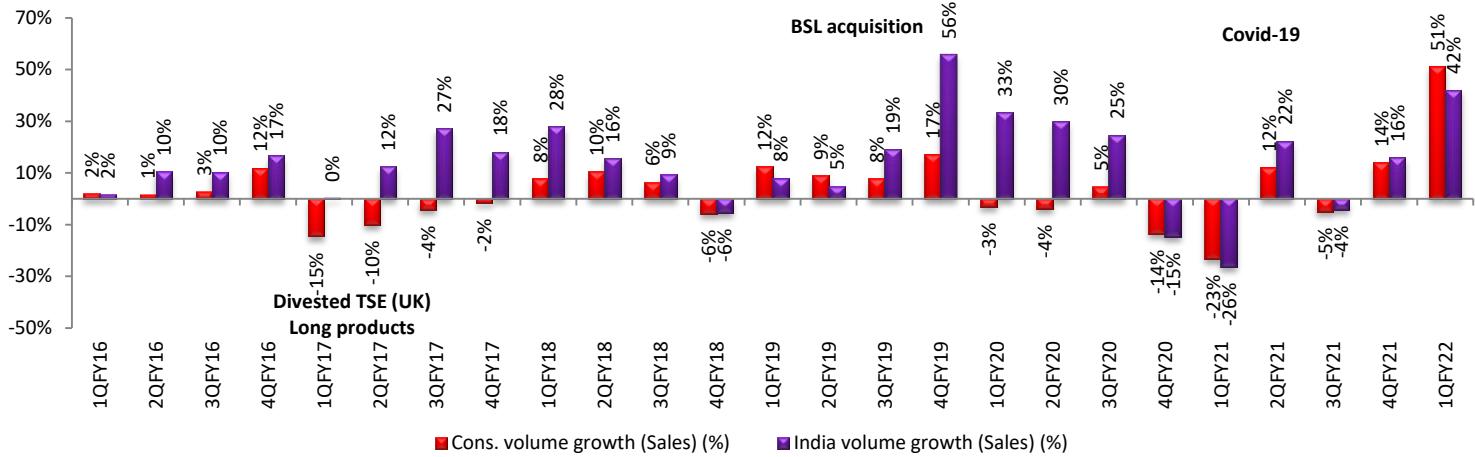
Tata Steel (TATA)'s 1QFY22 consolidated EBITDA of Rs 159bn (+1384% YoY and +14% QoQ) was in-line with our estimates. Performance of its three key divisions: 1) Standalone operations EBITDA was Rs 103bn (+696% YoY and +12% QoQ), 2) BSL EBITDA (reported earlier) was Rs 31bn (vs. Rs 2bn YoY and +21% QoQ) and 3) TSE EBITDA was Rs 15bn (+28% QoQ). Earnings were largely driven by a sharp 42% YoY and 8% QoQ surge in realisations. As a result, EBITDA margins surged to USD 523/t (highest since 1QFY12). We expect the strong earnings momentum to flow through in 1HFY22 aided by a return to profitability at the European operations. Debt reduction has accelerated sharply in the wake of the staggered 5mt Kalinganagar, OD expansion project, which has now been restarted. We maintain our FY22E/23E EBITDA as we keep our steel price assumptions unchanged. We continue to value TATA at 5x FY23E and retain our target price of Rs 1,628.

## Key takeaways from 1QFY22 results

- Tata Steel standalone's realisations at Rs 77k (+66% YoY and 14% QoQ) were the highest-ever. EBITDA/t at USD 523 was the highest since 1HFY09 just before the Global Financial Crisis (GFC). Sales volumes at 2.7mt (+34% YoY and -14% QoQ) were below estimates.
- Tata Steel BSL has reported robust margins at USD 380/t (1,141% YoY and 28% QoQ; highest-ever).
- Tata Steel Europe reported realizations at USD 1,128/t (+46% YoY and +21% QoQ). Pricing buoyancy remains strong in the US and EU, implying more upsides. EBITDA/t at USD 89 has significantly improved vs. EBITDA loss of USD 49/t YoY and +34% QoQ. TSE is all set to report its best operating performance in the coming quarters since 1HFY09. TSE has never fully recovered since the GFC more than a decade ago.
- Tata Steel reduced its net debt by Rs 13bn during the quarter. The debt reduction would have been higher, but for adverse working capital movement of Rs 83bn. Capex during the quarter was Rs 20bn vs. full-year guidance of Rs 100-120bn. The 6mt pellet plant and cold rolling mill (CRM) complex are being accelerated and are set to commission by 1HFY22.

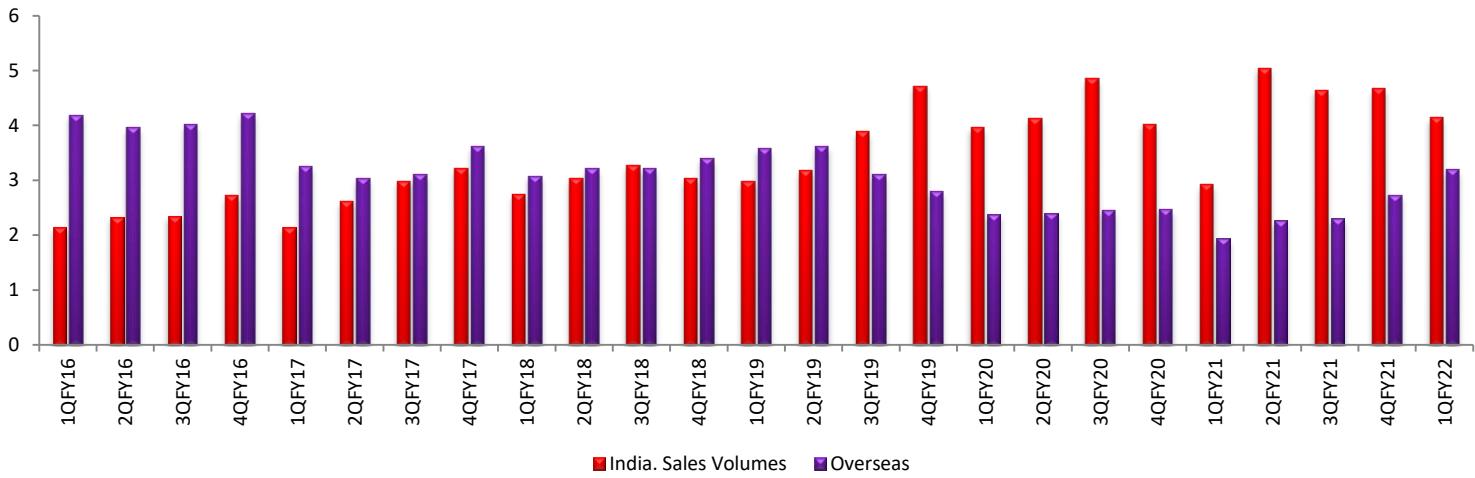
**Maintain BUY:** We maintain our FY22E/23E EBITDA at Rs 724bn/Rs 520bn as we keep our price assumptions unchanged. We retain our target price of Rs 1,628/share. TATA's low-cost raw material advantage is likely to be maintained till 2030 after which its iron ore mines will go for auctions. We assign a multiple of 5x EV/EBITDA and apply a 20% discount to its CWIP. We note that global peer group companies trade at 5-6x EV/EBITDA multiples. The management has guided for annual debt reduction of more than USD 1bn, which is conservative in our view. Given the current steel pricing scenario and benign raw material costs, the debt reduction targets would be easily met, and TATA could become net cash positive by the end of FY24E. **Key risks:** Global macro events such as an unexpected slowdown in China; spillover of the effects of COVID-led slowdown to newer geographies.

## Exhibit 1: TATA - quarterly volume growth



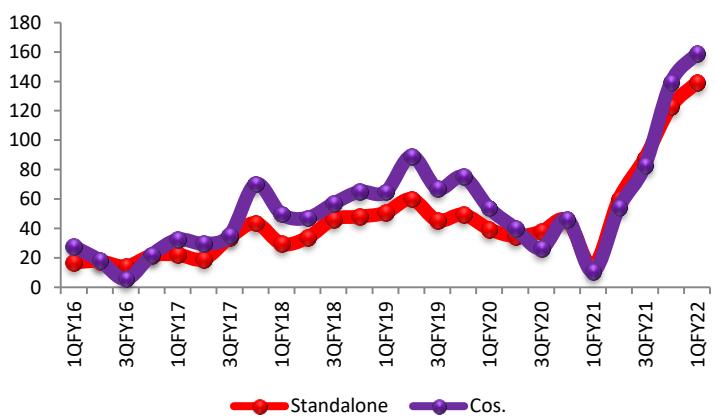
Source: Company data, Systematix Research

## Exhibit 2: Gradual shift towards high margin India business (mt)



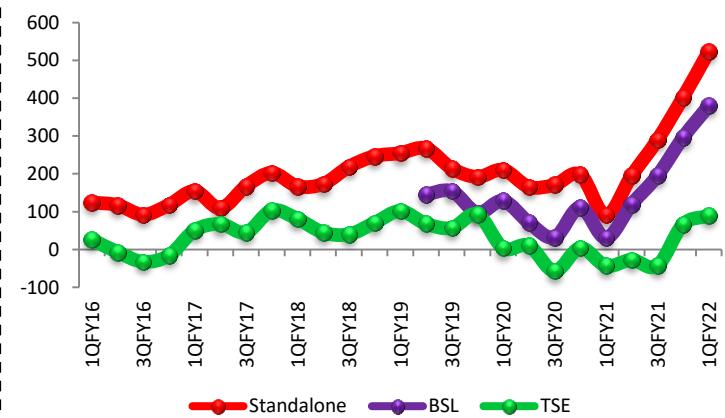
Source: Company data, Systematix Research

## Exhibit 3: TATA standalone and cons. quarterly EBIDTA (Rs bn)



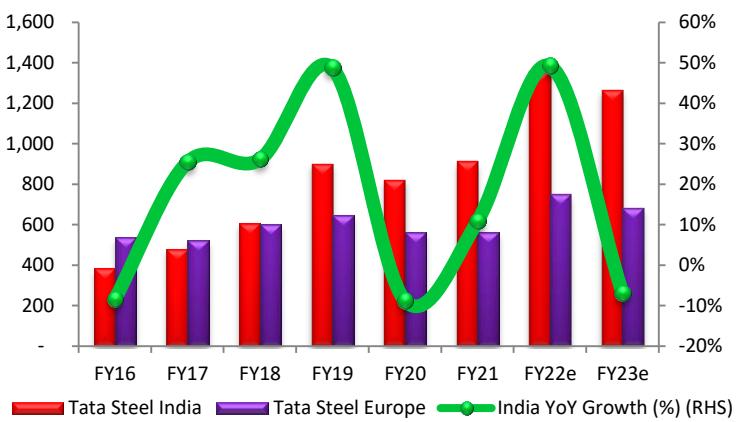
Source: Company, Systematix Institutional Research

## Exhibit 4: TATA standalone and key sub. quarterly EBIDTA/ton (USD)



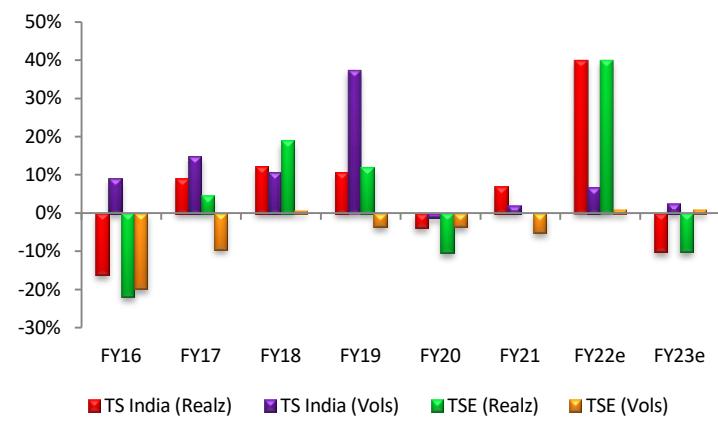
Source: Company, Systematix Institutional Research

## Exhibit 5: Strong ASP to drive revenue growth (Rs bn)



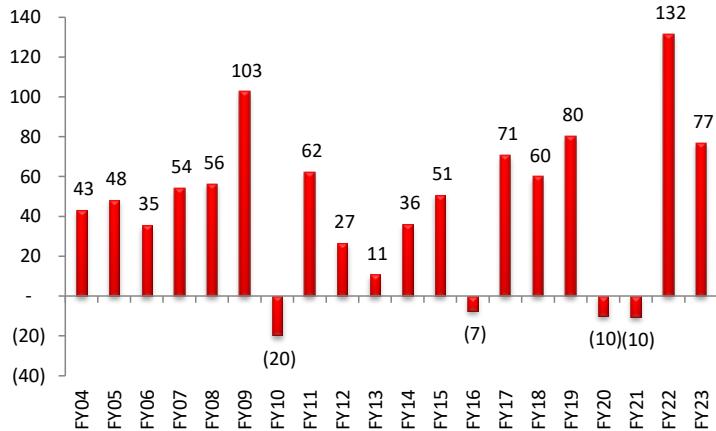
Source: Company, Systematix Institutional Research

## Exhibit 6: Realization boost hinges on cyclical factors (YoY % change)



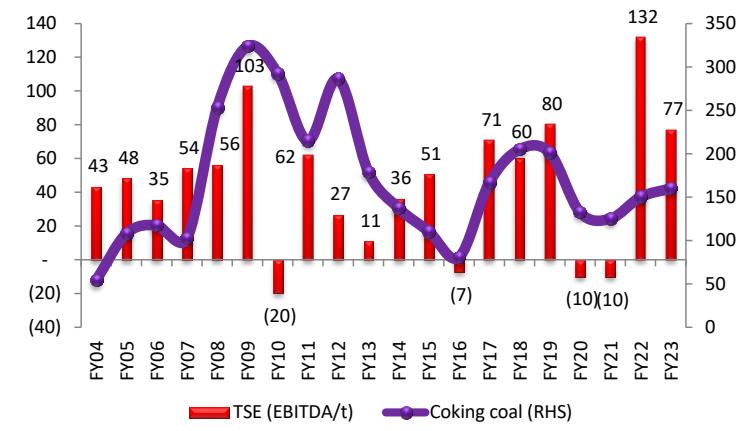
Source: Company, Systematix Institutional Research

## Exhibit 7: TSE could achieve EBITDA/t of USD 132 in FY22E...



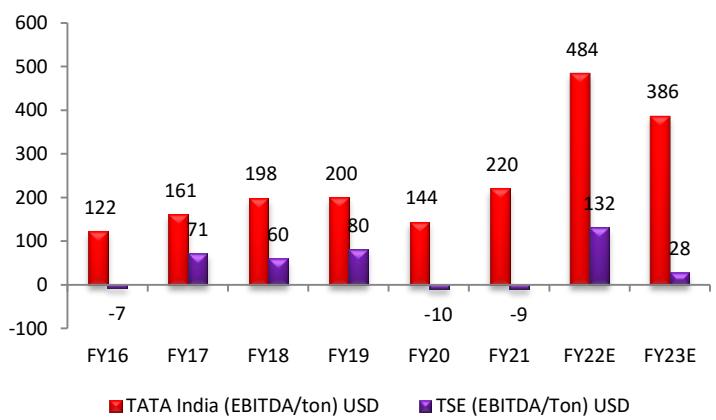
Source: Company, Systematix Institutional Research

## Exhibit 8: ...led by benign coal costs



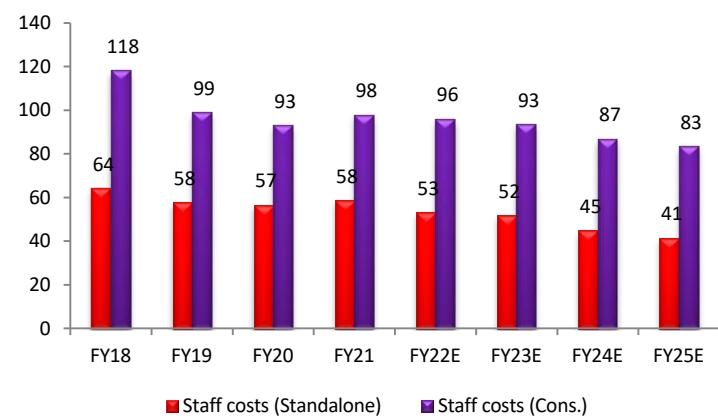
Source: Company, Systematix Institutional Research

## Exhibit 9: TATA's India margins to remain resilient and gradually improve as domestic volumes pick-up in 2HFY22

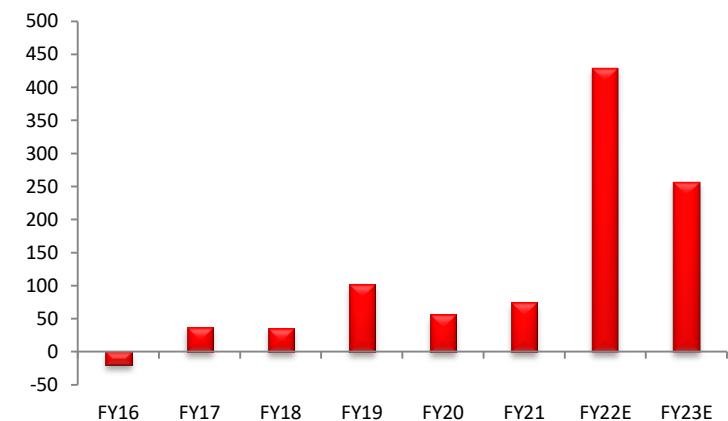


Source: Company, Systematix Institutional Research

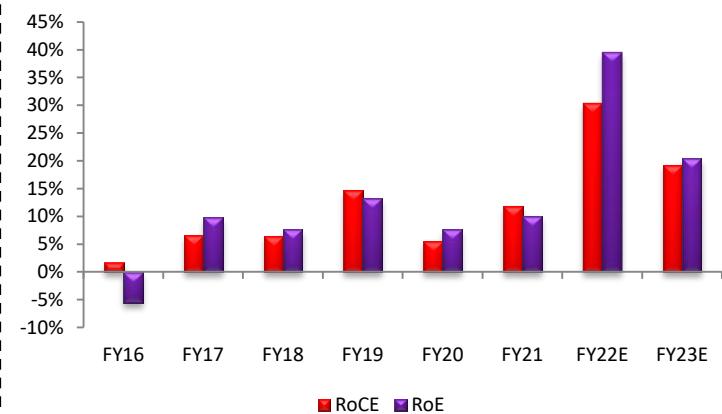
## Exhibit 10: Staff costs (USD/ton) to gradually trend lower (still very high compared to JSW Steel)



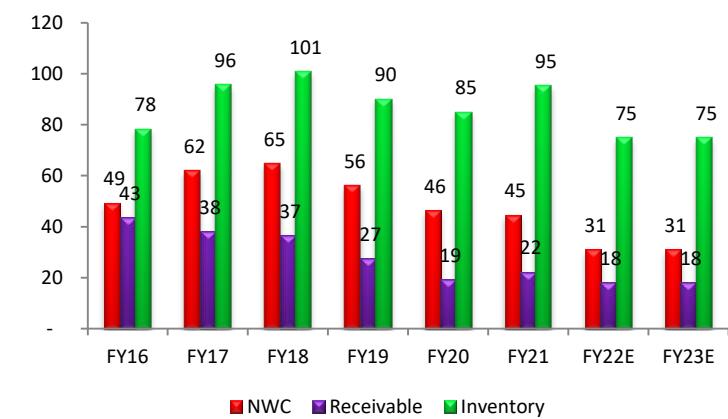
Source: Company, Systematix Institutional Research

**Exhibit 11: Cons. PAT to grow led by gradual demand recovery**

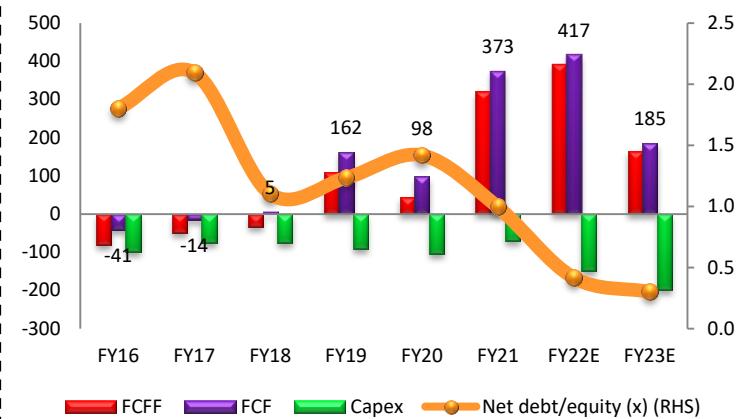
Source: Company, Systematix Institutional Research

**Exhibit 12: Consolidated return ratios to improve**

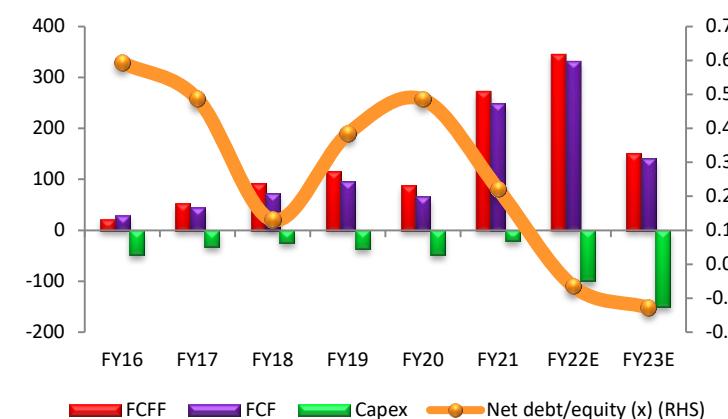
Source: Company, Systematix Institutional Research

**Exhibit 13: Net-working capital (consolidated)**

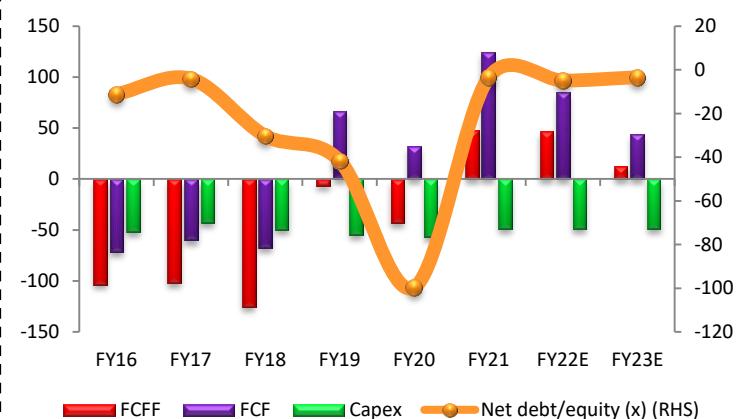
Source: Company, Systematix Institutional Research

**Exhibit 14: Net debt (consolidated) to equity trend**

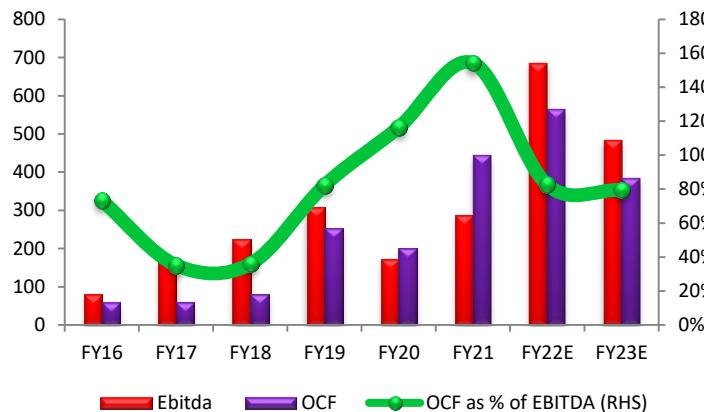
Source: Company, Systematix Institutional Research

**Exhibit 15: Net debt (standalone) to equity trend**

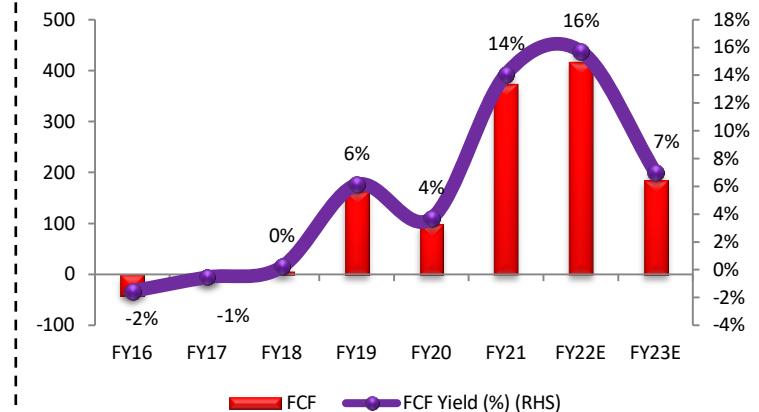
Source: Company, Systematix Institutional Research

**Exhibit 16: Net debt (subsidiary) to equity trend**

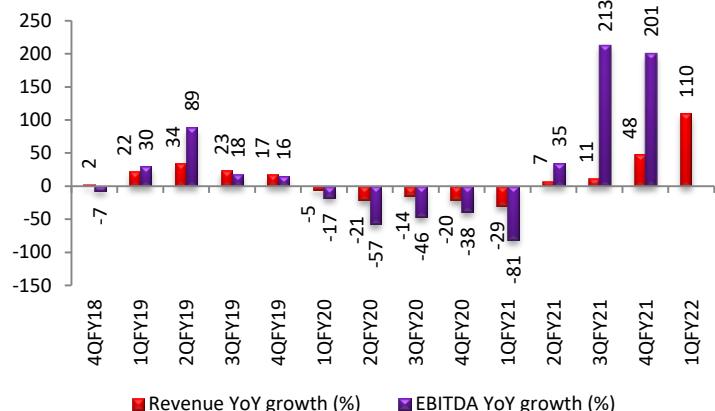
Source: Company, Systematix Institutional Research

**Exhibit 17: EBIDTA (consolidated) to OCF conversion**

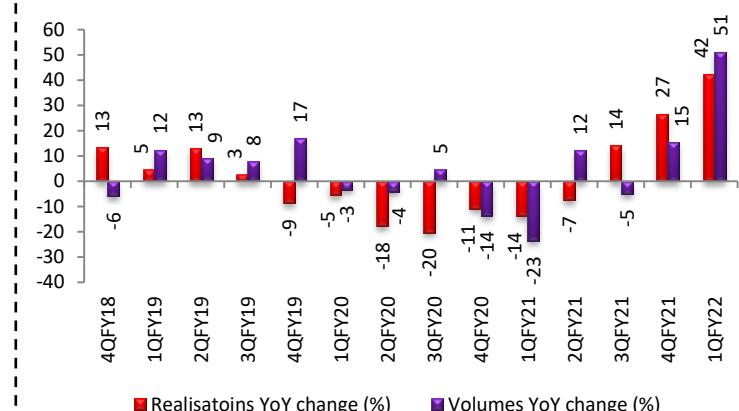
Source: Company, Systematix Institutional Research

**Exhibit 18: Consolidated FCF to EV to show steady improvement**

Source: Company, Systematix Institutional Research

**Exhibit 19: Revenue and PAT growth**

Source: Company, Systematix Institutional Research

**Exhibit 20: Driven by high volatility in realisations and volumes**

Source: Company, Systematix Institutional Research

**Exhibit 21: Key assumptions**

Key assumptions (Cons)	FY21	FY22E	FY23E
Production (mt)	26.0	27.6	28.2
% change YoY	(9)	6	2
Sales (mt)	26.3	27.6	28.2
% change YoY	1.1	5.1	2.1
Realisations (USD/t)	793	1,022	913
% change YoY	3	29	(11)
EBITDA/ton (USD)	147	345	240
% change YoY	66	135	(31)

Source: Company, Systematix Institutional Research

**Exhibit 22: Quarterly snapshot**

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
<b>Net revenues</b>	<b>242,885</b>	<b>371,540</b>	<b>419,023</b>	<b>499,774</b>	<b>533,718</b>
YoY change (%)					119.7
QoQ change (%)					6.8
<b>EBITDA</b>	<b>5,055</b>	<b>61,108</b>	<b>151,886</b>	<b>141,841</b>	<b>161,106</b>
YoY change (%)					3087.0
QoQ change (%)					13.6
EBITDA Margin (%)	2.1	16.4	36.2	28.4	30.2
<b>Net earnings (adjusted)</b>	<b>-43,736</b>	<b>15,031</b>	<b>94,590</b>	<b>81,530</b>	<b>99,507</b>
YoY change (%)					LP
QoQ change (%)					22.0

Source: Systematix Institutional Research

**Exhibit 23: TATA valuation: EV/EBITDA Method, FY23E**

	EBITDA	Multiple	Enterprise Value	Per Share
	(Rs bn)	(x)	(Rs bn)	(Rs)
Consolidated EBITDA	519.9	5.0	2,599	2,144
Less: net debt / (cash)			771	636
Add: CWIP			145	120
Equity value			1,973	1,628
<b>Target price per share</b>			<b>1,628</b>	

Source: Company, Systematix Institutional Research

Target price of Rs 1,628/share based on FY23E EV/EBITDA of 5x (global peer average).

## FINANCIALS (CONSOLIDATED)

### Profit & Loss Statement

YE: Mar (Rs bn)	FY19	FY20	FY21	FY22E	FY23E
<b>Net revenues</b>	<b>1,591</b>	<b>1,490</b>	<b>1,563</b>	<b>2,146</b>	<b>1,982</b>
Expenditure	1,283	1,311	1,258	1,422	1,462
<b>EBITDA</b>	<b>308</b>	<b>178</b>	<b>305</b>	<b>724</b>	<b>520</b>
Depreciation	73	87	92	95	95
<b>EBIT</b>	<b>235</b>	<b>91</b>	<b>213</b>	<b>629</b>	<b>425</b>
Interest cost	77	76	76	30	20
Exceptionals	-	-	-	-	-
<b>PBT</b>	<b>158</b>	<b>16</b>	<b>137</b>	<b>599</b>	<b>405</b>
Taxes	(67)	26	(57)	(129)	(104)
<b>PAT</b>	<b>91</b>	<b>41</b>	<b>80</b>	<b>470</b>	<b>301</b>
<b>Adjusted PAT</b>	<b>91</b>	<b>41</b>	<b>80</b>	<b>470</b>	<b>301</b>
No of Shares ( mn)	1.2	1.2	1.2	1.2	1.2
<b>Adj. EPS (Rs/share)</b>	<b>76</b>	<b>34</b>	<b>67</b>	<b>393</b>	<b>251</b>

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs bn)	FY19	FY20	FY21	FY22E	FY23E
Share capital	34	34	20	20	20
Reserves and surplus	655	702	723	1,109	1,328
Minority Interest	24	26	33	33	33
<b>Net worth</b>	<b>713</b>	<b>762</b>	<b>775</b>	<b>1,161</b>	<b>1,381</b>
Total Debt	911	1,133	819	669	569
Non-Current liabilities	209	185	247	247	247
<b>Current liabilities</b>	<b>502</b>	<b>425</b>	<b>614</b>	<b>600</b>	<b>607</b>
<b>Total Sources</b>	<b>2,336</b>	<b>2,504</b>	<b>2,455</b>	<b>2,678</b>	<b>2,804</b>
Net block	1,251	1,352	1,367	1,400	1,483
CWIP	180	189	181	181	181
Non current investments	315	376	305	305	305
<b>Total Non current assets</b>	<b>1,746</b>	<b>1,917</b>	<b>1,853</b>	<b>1,886</b>	<b>1,969</b>
Cash	33	81	58	278	320
Inventories	317	311	333	292	300
Receivables	118	79	95	106	98
Other current assets	122	117	116	116	116
<b>Current Assets</b>	<b>590</b>	<b>587</b>	<b>602</b>	<b>792</b>	<b>834</b>
<b>Total Assets</b>	<b>2,336</b>	<b>2,504</b>	<b>2,455</b>	<b>2,678</b>	<b>2,803</b>

Source: Company, Systematix Institutional Research

### Cash Flow

YE: Mar (Rs bn)	FY19	FY20	FY21	FY22E	FY23E
<b>PBT</b>	<b>158</b>	<b>(14)</b>	<b>138</b>	<b>599</b>	<b>405</b>
Add: Depreciation	76	87	92	95	95
Add: Interest	77	76	76	30	20
Taxes paid	(51)	(21)	(7)	(129)	(104)
Add: other adjustments	(33)	32	(21)	(5)	(5)
WC changes	26	42	165	17	7
<b>Total OCF</b>	<b>253</b>	<b>202</b>	<b>443</b>	<b>607</b>	<b>418</b>
OCF w/o WC changes	227	160	278	590	411
Capital expenditure	(86)	(100)	(65)	(128)	(178)
Change in investments	(209)	(49)	(32)	(35)	(35)
Interest/Dividend Recd.	3	3	4	-	-
<b>Total ICF</b>	<b>(292)</b>	<b>(146)</b>	<b>(93)</b>	<b>(164)</b>	<b>(214)</b>
Free Cash Flows	167	102	378	479	239
Share issuances	(0)	2	32	-	-
Change in borrowings	80	76	(307)	(163)	(113)
Dividends	(14)	(18)	(12)	(30)	(30)
Interest payment	(69)	(74)	(68)	(30)	(20)
Others	(3)	(3)	(2)	1	1
<b>Total Financing CF</b>	<b>(7)</b>	<b>(17)</b>	<b>(356)</b>	<b>(222)</b>	<b>(162)</b>
Net change in cash	(45)	39	(6)	221	42
Opening cash & CE	82	37	75	55	276
<b>Closing cash &amp; CE</b>	<b>36</b>	<b>75</b>	<b>70</b>	<b>276</b>	<b>318</b>

Source: Company, Systematix Institutional Research

### Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
YoY growth in Revenue	27%	-6%	5%	37%	-8%
YoY growth in EBITDA	38%	-42%	71%	137%	-28%
YoY growth in NI	17%	-33%	51%	409%	-36%
ROCE	13%	6%	13%	32%	20%
ROE	13%	8%	12%	42%	22%
<b>Per Share Numbers (Rs):</b>					
Reported earnings	76	34	67	393	251
Book value	595	636	647	970	1,153
CPS	137	124	154	472	331
<b>Valuations (x)</b>					
P/E	14.1	31.1	16.0	2.7	4.3
EV/EBITDA	7.5	14.2	7.3	2.5	3.3
EV to sales	1.5	1.7	1.4	0.9	0.9
P/BV	1.8	1.7	1.7	1.1	0.9

Source: Company, Systematix Institutional Research

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## DISCLOSURES/APPENDIX

## I. ANALYST CERTIFICATION

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