

Q1FY22 result review and  
earnings change

## Metals

Target price: Rs1,365

## Earnings revision

(%)	FY22E	FY23E
Sales	↓ 3.6	↑ 0.5
EBITDA	↓ 10.3	↑ 2.3
PAT	↓ 12.0	↑ 2.4

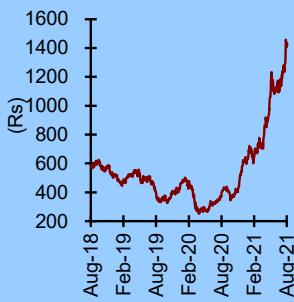
## Target price revision

Rs1,365 from Rs1,108

## Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	34.4	34.4	34.4
Institutional investors	42.7	43.7	41.2
MFs and others	10.1	11.6	11.1
FIs/Banks	0.1	0.0	0.1
Insurance Cos	15.5	13.5	7.9
FII	17.0	18.6	22.1
Others	22.9	21.9	24.4

## Price chart



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## INDIA

## Tata Steel

**HOLD**

Maintained

**Rs1,435**

## Higher working capital didn't allow deleveraging

Tata steel consolidated EBITDA was below our estimates at Rs159bn (I-Sec Rs169bn). The major miss is Europe with an EBITDA of US\$89/te – expectations were firmed up post peer results. Further, working capital buildup didn't allow deleveraging in Q1FY22, net debt was down marginally at ~Rs740bn (Rs753bn QoQ) - Rs83bn being working capital increase. Standalone operations reported a beat on the back of forex gains and better than expected raw material performance – EBITDA/te increased ~ Rs8000/te QoQ to Rs35,808/te. We maintain HOLD with a revised target of Rs1365/share (Rs1108/share earlier) at 1.1x FY23E P/B. With steel prices yet to show meaningful correction, Q1FY22 was a missed deleveraging opportunity. Management has guided for significantly lower net debt by FY22E end.

- ▶ **India reports EBITDA beat on the back of lower other expenses.** Other expenses: declined primarily due to gain on FX revaluation of loan given to T Steel Holding and lower conversion charges largely due to lower activities at FAMD. Despite increase in coal costs, RM costs per te was flat QoQ, another source of surprise. Standalone steel volumes were down 31% QoQ.
- ▶ **Europe reports a big miss in EBITDA/te.** Europe EBITDA came at US\$89/te against US\$190/te expected. Raw Material cost; increased primarily due to increase in iron ore and coal consumption cost with higher prices. Other expenses increased primarily due to unfavorable forex impact on foreign currency transactions and movement in derivatives losses/gain with higher repairs & maintenance and rent expenses; partially offset by lower provision on account of carbon emission rights.
- ▶ **Medium-term targets (across cycle).** Management has given Net Debt to EBITDA target of 2x and Interest cover target of 4x. Post recent analyst meet, it can be safely assumed that Net Debt to EBITDA will fall much lower in the interim before recovering to 2x in the medium term – that too 2x can be treated as a cap. Management is targeting 15% RoIC – with 15% RoIC. Management also guides for progressive dividend policy with a robust payout. Short term targets (FY22) includes Continued focus on capital allocation, cashflow and working capital management, US\$2bn+ gross debt reduction while prioritize off-shore debt pre-payment and a capex of Rs100-120bn (This as per last analyst meet was supposed to be India capex only – hence needs to be clarified on call whether there is a watering down of consolidated capex guidance for FY22E)
- ▶ **Maintain HOLD.** Sharp reduction in iron ore prices, is increasing the profitability of Chinese players in a weakening demand environment. Chinese production cuts may allow some support to the steel prices, but may not arrest its decline. With steel prices expected to creep down, Q1FY22 miss in deleveraging doesn't augur well adversely impacting risk reward. We maintain HOLD on Tata Steel.

Market Cap	Rs1729bn/US\$23.3bn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	TATA.BO/TATA IN	Revenue (Rs mn)	13,98,167	15,55,759	20,40,842	18,47,874
Shares Outstanding (mn)	1,202.4	Net Income (Rs mn)	64,716	88,079	3,67,360	1,93,189
52-week Range (Rs)	1459/344	EPS (Rs)	53.7	73.1	305.0	160.4
Free Float (%)	65.4	% Chg YoY	(37.8)	36.1	317.1	(47.4)
FII (%)	22.1	P/E (x)	19.9	14.6	3.5	6.7
Daily Volume (US\$/'000)	2,67,193	CEPS (Rs)	119.1	138.5	379.4	238.3
Absolute Return 3m (%)	24.5	EV/E (x)	12.6	6.5	2.6	3.8
Absolute Return 12m (%)	254.1	Dividend Yield (%)	0.8	0.8	0.8	0.8
Sensex Return 3m (%)	13.3	RoCE (%)	6.0	12.2	32.2	17.1
Sensex Return 12m (%)	44.5	RoE (%)	8.3	10.0	30.8	13.8

Please refer to important disclosures at the end of this report

**Table 1: Tata Steel consolidated Q1FY22 result review**

(Rs mn)	Q1FY22	Q1FY21	% Chg YoY	Q4FY21	% Chg QoQ
<b>Net Sales</b>	<b>533,718</b>	<b>242,885</b>	<b>119.7</b>	<b>499,774</b>	<b>6.8</b>
<b>Expenses</b>	<b>372,613</b>	<b>237,830</b>	<b>56.7</b>	<b>357,933</b>	<b>4.1</b>
Inc./Dec in stock	(32,919)	7,862		(16,421)	
Purchase of steel etc	36,939	6,085		35,218	
Raw materials	163,501	90,058		132,364	
Total Raw materials	167,521	104,005		151,161	
Staff expenses	56,626	45,456		53,912	
Purchase of Power	-	-		-	
Freight & Handling	-	-		-	
Other Expenditure	148,466	88,369		152,861	
Total Expenditure	372,613	237,830		357,933	
<b>EBITDA</b>	<b>161,106</b>	<b>5,055</b>	<b>3,087.0</b>	<b>141,841</b>	<b>13.6</b>
Margins (%)	30.2	2.1		28.4	
Other Income	1,622	1,926	(15.8)	2,722	(40.4)
Interest	18,114	19,983	(9.4)	18,663	(2.9)
Depreciation	23,245	21,108	10.1	23,924	(2.8)
<b>Operational PBT</b>	<b>121,368</b>	<b>(34,110)</b>	<b>(455.8)</b>	<b>101,976</b>	<b>19.0</b>
ExtraOrdinary	(1,823)	584		(9,911)	
<b>PBT</b>	<b>119,545</b>	<b>(33,526)</b>		<b>92,065</b>	<b>29.8</b>
Tax	23,084	12,715		21,950	
PAT	96,461	(46,242)		NM	70,115
<b>Adj.PAT</b>	<b>98,284</b>	<b>(46,825)</b>		<b>NM</b>	<b>80,026</b>
Minority Interest	8,614	2,356		5,178	
Share of Associates	1,223	150		1,504	
Adjusted PAT excluding dis. Operations	<b>90,893</b>	(49,031)		<b>NM</b>	<b>56,530</b>
Reported PAT including dis. Operations	89,070	(43,736)		NM	66,442
					34.1

Source: Company data, I-Sec research

**Table 2: Tata Steel's standalone Q1FY22 result review**

(Rs mn)	Q1FY22	Q1FY21	% Chg YoY	Q4FY21	% Chg QoQ
<b>Net Sales</b>	<b>207,983</b>	<b>93,388</b>	<b>122.7</b>	<b>212,026</b>	<b>(1.9)</b>
Other Operating Income	1,953	1,929	1.3	3,849	(49.2)
<b>Expenses</b>					
Total Raw materials	35,071	25,614	<b>36.9</b>	42,716	(17.9)
Staff expenses	13,783	13,097	<b>5.2</b>	13,526	<b>1.9</b>
Other Expenditure	57,079	42,166	<b>35.4</b>	63,907	(10.7)
Total Expenditure	105,933	80,877	<b>31.0</b>	120,148	(11.8)
<b>EBITDA</b>	<b>102,050</b>	<b>12,510</b>	<b>715.7</b>	<b>91,878</b>	<b>11.1</b>
Margin (%)	49.1	13.4		43.3	
Other Income	2,642	1,212	<b>118.1</b>	1,898	<b>39.2</b>
Interest	6,685	9,083	(26.4)	8,297	(19.4)
Depreciation	9,749	9,693	<b>0.6</b>	10,410	(6.3)
Operational PBT	88,258	(5,054)		NM	75,069
ExtraOrdinary Exp.	1,527	20,589		9,493	
Rep. PBT	89,785	15,535	<b>478.0</b>	84,561	<b>6.2</b>
Tax	21,985	3,602	<b>510.4</b>	18,626	
PAT	67,800	11,933	<b>468.2</b>	65,935	<b>2.8</b>
<b>Adj.PAT</b>	<b>66,274</b>	<b>(8,656)</b>		<b>NM</b>	<b>56,443</b>
					17.4

Source: Company data, I-Sec research

**Table 3: Tata Steel's standalone volumes, realisations and EBITDA**

Rs mn	Q1FY22	Q1FY21	YoY (%)	Q4FY21	% Chg QoQ
Net Sales	207,983	93,388	122.7	212,026	(1.9)
EBITDA	102,050	12,510	715.7	91,878	11.1
Volumes (mt)	2.87	2.1	36.0	3.31	(13.2)
Realisations (Rs/te)	68,989	43,346	59.2	62,989	9.5
EBITDA (Rs/te)	35,570	5,929	499.9	27,800	28.0

Source: Company data, I-Sec research

**Table 4: Tata Steel Europe's volumes, realisations and EBITDA**

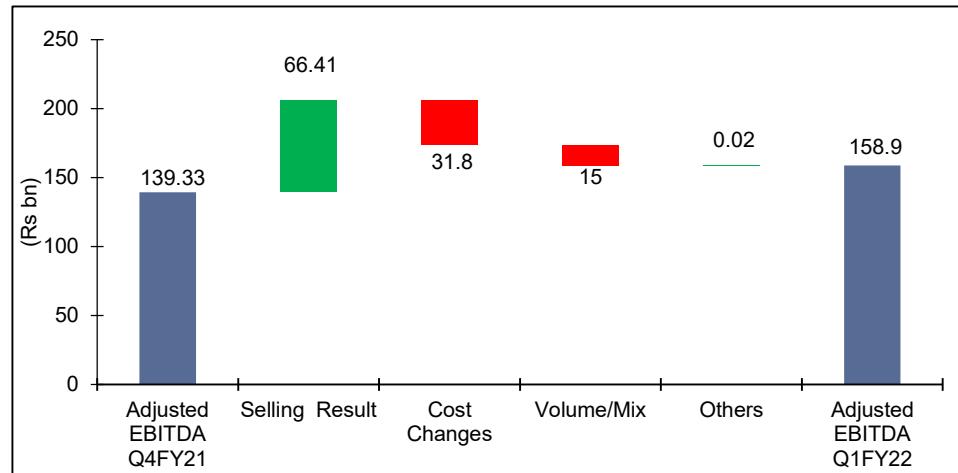
US\$ mn	Q1FY22	Q1FY21	YoY (%)	Q4FY21	% Chg QoQ
Net Sales	2,637	1,479	78.3	2,367	11.4
EBITDA	208	(82)	NM	164	27.0
Volumes (mnte)	2.3	2.0	17.7	2.5	(5.7)
Realisations (US\$/te)	1,132	747	51.5	958	18.1
EBITDA (US\$/te)	89	(42)	NM	66	NM

Source: Company data, I-Sec research

**Table 5: Consolidated QoQ variations**

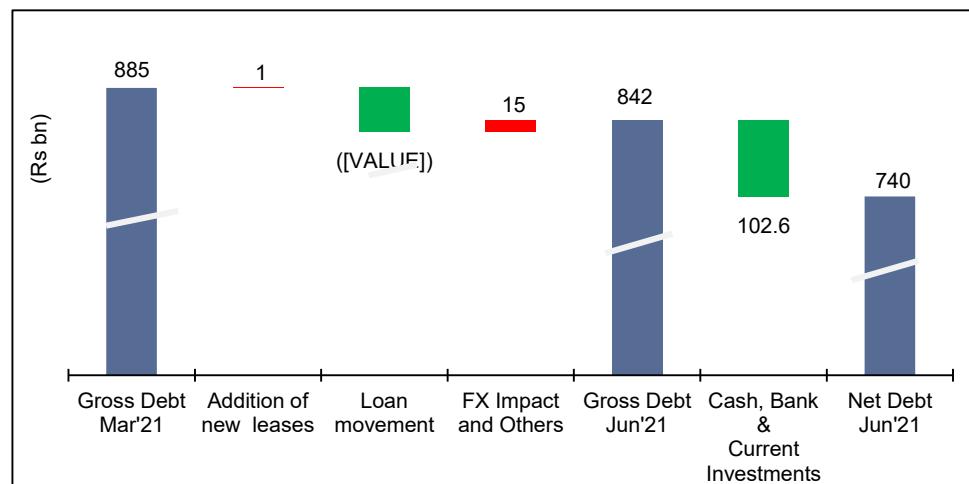
Rs mn	1QFY22	4QFY21	1QFY21	Key drivers for QoQ change
Production (mn tons) <sup>1</sup>	7.88	8.02	5.54	
Deliveries (mn tons)	7.11	7.83	5.34	
Total revenue from operations	533,720	499,770	254,750	Revenues improved across key entities (except at Tata Steel Standalone) with increase in realisation; partially offset by lower deliveries
Raw material cost	200,440	167,580	103,800	Raw Material cost: increased primarily due to increase in purchased Iron Ore and Coal consumption cost with higher prices
Change in inventories	-32,920	-16,420	7,030	
Employee benefits expenses	56,630	53,910	46,790	Change in inventories: inventory value increased with higher prices and lower deliveries
Other expenses	148,470	152,860	91,740	
EBITDA	161,850	142,900	6,300	Employee benefit expenses: increased primarily with annual increments across key entities
Adjusted EBITDA	158,920	139,330	10,710	
EBITDA per ton (Rs.)	227,790	182,530	11,810	
Other income	1,620	2,720	1,880	Other expenses: declined primarily at Tata Steel standalone; partially offset by adverse FX impact at overseas entities, and increase at Tata Steel Europe and Tata Steel Long Products
Finance cost	18,110	18,660	20,060	
Pre-exceptional PBT	122,590	103,480	-34,390	
Exceptional items (gain)/loss	1,820	9,910	-580	Exceptional item: for the quarter reflects charge on Employees Family Protection Scheme for COVID-19
Tax expenses	23,080	21,950	12,680	
Reported PAT	97,680	71,620	-46,480	
Other comprehensive income	6,150	-10,310	-49,830	

Source: Company data, I-Sec research

**Chart 1: Consolidated adjusted EBITDA movement**

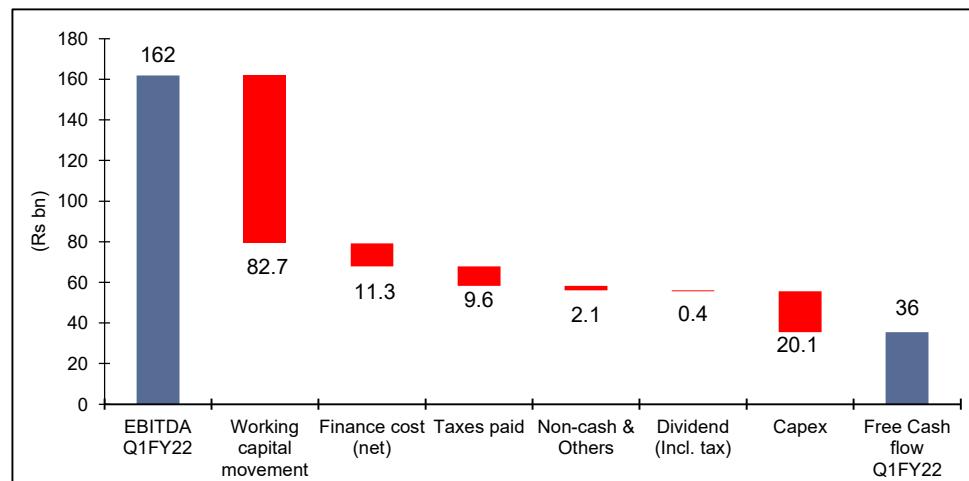
Source: Company data, I-Sec research

Chart 2: Consolidated debt movement



Source: Company data, I-Sec research

Chart 3: Consolidated FCF movement



Source: Company data, I-Sec research

## Tata Steel valuations and assumptions

We maintain HOLD with a target price of Rs1,365/share based on FY23E P/B of 1.1x. With near zero loss probability, ND/EBITDA of < 1x at FY22E end, the financials may well pivot towards a through cycle RoE of 15% (management has guided for a through cycle RoIC of 15%).

**Key risks** to our call are not earnings-linked. We would continue to emphasise the irrelevance of earnings-based analysis in the sector. Key upside risks are continued resilience of steel prices. The downside risks are lower steel prices puts a break to deleveraging, but staying high enough to lead to announcement of greenfield/brownfield capex.

## Revision of earnings

We have factored-in higher realisations and higher EBITDA in Tata Steel India business for FY22/23E.

**Table 6: Earnings change**

(Rs mn)

	FY22E			FY23E		
	New	Old	% Chg	New	Old	% Chg
Sales	2,394,791	2,485,051	(3.6)	2,027,452	2,018,153	0.5
EBITDA	786,673	876,933	(10.3)	412,893	403,594	2.3
PAT	498,470	566,164	(12.0)	224,948	219,618	2.4

Source: Company data, I-Sec research

## Financial summary

**Table 7: Profit & Loss statement**

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Income</b>	1,489,717	1,562,942	2,394,791	2,027,452
<b>Operating Expenses</b>	1,311,441	1,257,899	1,608,118	1,614,559
<b>EBITDA</b>	178,276	305,043	786,673	412,893
% margins	12.0	19.5	32.8	20.4
D&A expense	87,077	92,336	92,411	96,804
Gross Interest	75,807	76,067	42,000	30,100
Other Income	18,220	8,956	8,000	9,577
<b>Recurring PBT</b>	33,612	145,595	660,262	295,566
Add: Extraordinary	(49,296)	(10,432)	-	-
Less: Taxes	(25,529)	56,539	165,065	73,892
<b>Recurring Net Income</b>	64,861	85,334	491,474	217,952
<b>Reported Net Income</b>	11,725	81,898	498,470	224,948

Source: Company data, I-Sec research

**Table 8: Balance sheet**

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	596,691	564,227	594,249	595,023
Of which cash & cash equiv.	80,547	57,822	9,019	20,636
Total Current Liabilities	365,934	532,381	476,789	479,245
<b>Net Current Assets</b>	<b>230,758</b>	<b>31,846</b>	<b>117,460</b>	<b>115,778</b>
<b>Investments</b>	<b>62,852</b>	<b>106,819</b>	<b>106,819</b>	<b>106,819</b>
Strategic/Group	28,533	34,630	34,630	34,630
Other Marketable	34,319	72,189	72,189	72,189
<b>Net Fixed Assets</b>	<b>1,414,432</b>	<b>1,409,869</b>	<b>1,437,458</b>	<b>1,490,654</b>
Capital Work-in-Progress	194,968	190,074	227,963	257,963
Goodwill	40,545	43,447	43,447	43,447
<b>Total Assets</b>	<b>1,834,084</b>	<b>1,686,491</b>	<b>1,799,694</b>	<b>1,851,207</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>1,263,278</b>	<b>981,831</b>	<b>600,000</b>	<b>430,000</b>
Deferred Tax Liability	67,318	100,858	100,858	100,858
Minority Interest	25,866	32,697	39,693	46,688
Equity Share Capital	11,450	11,976	11,976	11,976
Face Value per share (Rs)	10	11	11	11
Reserves & Surplus	701,564	722,662	1,210,701	1,425,218
<b>Net Worth</b>	<b>713,013</b>	<b>734,638</b>	<b>1,222,677</b>	<b>1,437,194</b>
<b>Total Liabilities</b>	<b>1,834,084</b>	<b>1,686,491</b>	<b>1,799,694</b>	<b>1,851,207</b>

Source: Company data, I-Sec research

**Table 9: Cashflow statement**

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>83,918</b>	<b>172,437</b>	<b>579,607</b>	<b>308,902</b>
Working Capital				
Changes	101,120	176,187	(134,417)	13,300
Capital Commitments	(140,665)	(137,134)	(120,000)	(150,000)
<b>Free Cashflow</b>	<b>44,373</b>	<b>211,489</b>	<b>325,190</b>	<b>172,201</b>
<b>Cashflow from</b>				
<b>Investing Activities</b>	<b>(4,638)</b>	<b>(35,012)</b>	<b>8,000</b>	<b>9,577</b>
Issue of Share Capital	1,875	527	-	-
Buyback of shares	(12)	-	-	-
Inc (Dec) in Borrowings	76,073	(290,458)	(381,831)	(170,000)
Dividend paid	(18,152)	(11,459)	(10,431)	(10,431)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank balances				
	<b>39,438</b>	<b>(127,161)</b>	<b>(61,319)</b>	<b>(899)</b>

Source: Company data, I-Sec research

**Table 10: Key ratios**

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	56.6	71.3	410.4	182.0
Diluted Recurring EPS	54.2	71.3	410.4	182.0
Recurring Cash EPS	122.1	151.5	490.7	265.9
Dividend per share				
(DPS)**	12.4	9.6	8.7	8.7
Adj. BV/share (BV)*	587	577	985	1,205
<b>Growth Ratios (%)</b>				
Operating Income	(5.5)	4.9	53.2	(15.3)
EBITDA	(35.2)	71.1	157.9	(47.5)
<b>Valuation Ratios (x)</b>				
P/E	26.5	20.1	3.5	7.9
P/CEPS	11.8	9.5	2.9	5.4
P/BV	2.3	2.3	1.4	1.2
EV / EBITDA	14.3	7.4	2.4	4.2
EV / Operating Income	1.7	1.4	0.8	0.9
EV / Operating FCF	13.7	6.4	4.3	5.4
<b>Operating Ratios (%)</b>				
Raw Material/Sales	52.0	43.2	38.7	44.7
SG&A/Sales	16.0	13.5	10.7	(2.6)
Other Income / PBT	54.2	6.2	1.2	3.2
Effective tax rate	162.8	41.8	25.0	25.0
NWC / Total Assets	8.2	(1.5)	6.0	5.1
Inventory Turnover (days)	102.7	120.8	107.5	112.5
Receivables (days)	18.9	21.8	21.8	21.8
Payables (days)	101.8	154.5	148.5	144.1
D/E Ratio (x)	1.87	1.47	0.57	0.37
<b>Profitability Ratios (%)</b>				
Rec Net Income Margins	3.9	5.7	20.6	10.9
RoCE	6.1	12.6	40.3	17.8
RoNW	8.3	12.1	40.5	15.4
Dividend Payout Ratio	22.0	13.4	2.1	4.8
Dividend Yield	0.9	0.7	0.6	0.6
EBITDA Margins	12.0	19.5	32.8	20.4

Source: Company data, I-Sec research

\* Adj. for goodwill. \*\* On fully diluted no of shares

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