

# Tata Steel

## BUY

Profitability at all time high; debt falls sharply

### Summary

Tata Steel reported better than expected EBITDA for Q4FY21 as its consolidated EBITDA jumped almost 2x YoY to Rs143 bn. The sharp increase in EBITDA was led by India operations where adjusted EBITDA/t increased to Rs27,828 (+38% QoQ, +221% YoY) on sharp increase in steel realizations. Tata Steel Europe EBITDA/t improved to Rs4,821 (vs. loss of Rs3,438 in Q3FY21) although it was slightly weaker than our estimate. Tata Steel's net debt fell by Rs107 bn to Rs750 bn. In FY22, it aims to lower its debt further by \$1 bn even as it ramps up capex to expand its Kalinganagar plant by 5 mtpa.

We raise our FY22 EBITDA estimate by 51% given strong beat in Q4FY21 and increase in steel prices in the past three months (we expect higher steel prices to sustain). Even our FY23 EBITDA estimates are higher by 17% as we model higher steel realizations. We raise our SOTP-based target price to Rs1,329 (earlier Rs826) as we raise our FY23 profitability estimates and cut our debt forecasts.

### Key Highlights and Investment Rationale

- Profitability strong at India operations:** Tata Steel India sales volumes increased 16% on YoY to 4.67 mn tonnes. Tata Steel's Q4FY21 profitability beat was led by its standalone operations where EBITDA/tonne jumped to Rs27,828 (+38% QoQ, +221% YoY). Standalone EBITDA surged to Rs92 bn (+152% YoY, +37% QoQ).
- Subsidiary performances also strong:** TSE sales volumes increased 17% QoQ to 2.5 mn tonnes. Importantly, TSE EBITDA improved to Rs12 bn compared to a loss of Rs7 bn in 3QFY21. Tata Steel BSL registered its highest ever quarterly EBITDA of Rs26 bn (EBITDA/t of Rs.21,648). Even Tata Steel Long Products registered its highest ever quarterly EBITDA of Rs5 bn (EBITDA/t of Rs.29,439).
- Outlook:** After a strong profitability beat in Q4FY21, we expect H1FY22 to be stronger for Tata Steel India operations as steel prices have increased further in Q1FY22 (we expect prices to remain firm). Also, we believe strong profitability/ restructuring at its European operations will lead to further fall in net debt over FY21-FY23. Hence, we maintain our BUY rating on the stock.

<b>TP</b>	<b>Rs1,329</b>	
<b>CMP</b>	<b>Rs1,101</b>	
Potential upside / downside	+21%	
Previous Rating	BUY	

### V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	179.4	138.3
Consensus	124.1	105.5
% difference	44.6	31.1

### Shareholding Pattern (%)

Promoters	34.4
FII	18.6
DII	25.1
Public	21.9

### Price Performance (%)

	-1m	-3m	-12m
Absolute	26.9	60.6	303.6
Rel to Sensex	27.3	64.1	247.9

### Key Stock Data

Bloomberg / Reuters	TATA IN / TISC.BO
Sector	Metal & Mining
Shares o/s (mn)	1,204
Market cap. (Rs mn)	1,325,194
Market cap. (US\$ mn)	17,966
3-m daily average value (Rs mn)	9,192.9
52-week high / low	Rs1,089 / 263
Sensex / Nifty	48,950 / 14,725

### Relative to Sensex (%)



### Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	15,76,690	14,89,717	15,62,942	17,23,680	16,51,578
EBITDA	2,93,833	1,78,276	3,05,043	4,47,423	3,79,436
EBITDA (%)	18.6	12.0	19.5	26.0	23.0
Adj. PAT	93,083	61,020	92,330	2,05,399	1,58,365
EPS (Rs)	81.2	53.3	80.6	179.4	138.3
EPS Growth (%)	16.9	(34.4)	51.3	122.5	(22.9)
PE (x)	13.6	20.7	13.6	6.1	8.0
Dividend Yield (%)	0.9	1.2	0.4	0.6	0.9
EV/EBITDA (x)	7.3	13.0	6.3	4.1	4.5
RoE (%)	14.3	8.6	12.5	24.4	15.6
RoCE (%)	12.4	4.7	11.1	19.7	15.1

Source: Company; IDBI Capital Research

**Exhibit 1: Quarterly Snapshot**

(Rs mn)

Financial snapshot	Q4FY21	Q3FY21	QoQ (%)	Q4FY20	YoY (%)
<b>Net Sales</b>	<b>4,99,774</b>	<b>4,19,023</b>	<b>19.3</b>	<b>3,60,094</b>	<b>38.8</b>
Total expenditure	3,57,933	3,23,341	10.7	3,12,102	14.7
<b>EBITDA</b>	<b>1,41,841</b>	<b>95,682</b>	<b>48.2</b>	<b>47,992</b>	<b>195.6</b>
<i>EBITDA margin (%)</i>	28.4	22.8	555bps	13.3	1505bps
Interest	18,663	17,860	4.5	19,338	(3.5)
Depreciation	23,924	23,415	2.2	22,885	4.5
PBT	92,065	56,584	62.7	(19,634)	(568.9)
Tax	21,950	15,823	38.7	(2,552)	(960.1)
<b>PAT</b>	<b>70,115</b>	<b>39,225</b>	<b>78.7</b>	<b>(17,082)</b>	<b>(510.5)</b>
<b>Diluted EPS</b>	<b>61.2</b>	<b>34.3</b>	<b>78.7</b>	<b>(39.0)</b>	<b>(257.0)</b>

Source: Company; IDBI Capital Research

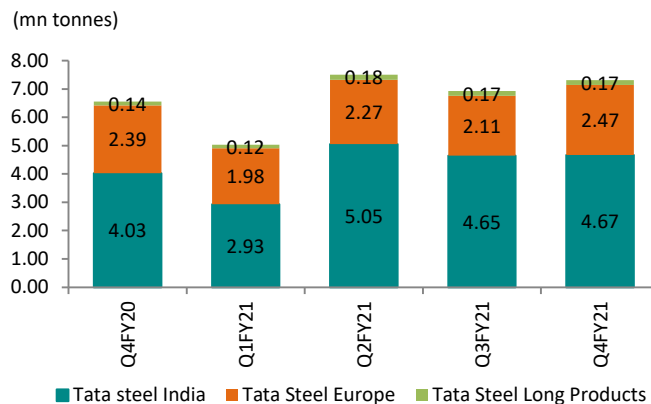
**Exhibit 2: Actual vs estimates**

(Rs mn)

	Q4FY21E	Q4FY21A	% Variance
Net sales	4,23,554	4,99,774	18.0
EBTIDA	1,20,906	1,41,841	17.3
<i>Margin (%)</i>	28.5	28.4	(16)bps
PAT	65,811	70,115	6.5
Dil. EPS	57.5	61.2	6.5

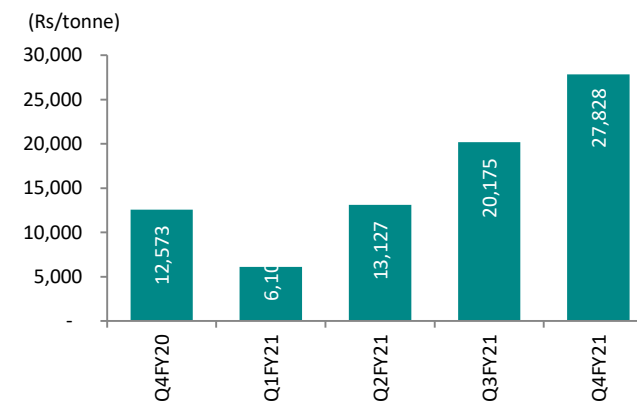
Source: Company; IDBI Capital Research

**Exhibit 3: Geographical sales mix**



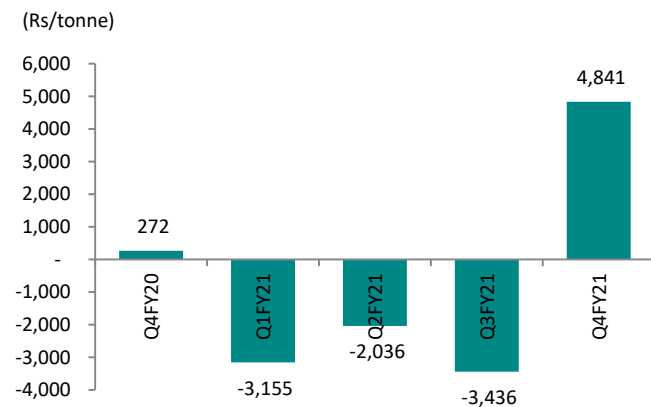
Source: Company; IDBI Capital Research

**Exhibit 4: Standalone EBIDTA/tonne improved 121% YoY**



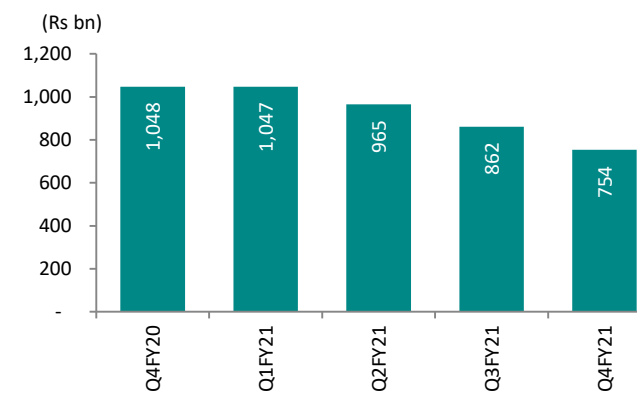
Source: Company; IDBI Capital Research

**Exhibit 5: Tata Steel Europe EBIDTA/tonne improves**



Source: Company; IDBI Capital Research

**Exhibit 6: Net debt continues to fall**



Source: Company; IDBI Capital Research

**Call highlights**

- Chinese steel demand remains robust on the back of policy support and supply remains tight due to production curtailments.
- Indian steel price are at a discount to international prices; in case demand weakens in the domestic market, the company is ready to export where realizations are even higher.
- Realizations in Q1FY22 expected to increase by Rs6,000-7,000/tonne QoQ and cost is expected to increase by Rs 2,500/tonne.
- Company made highest ever delivery volume in automotive segment and branded products in Q4FY21.
- The sales volumes in FY22 are expected to increase by a 1 mn tonnes YoY to 18 mn tonnes.
- The Kalinganagar expansion of 5 mn tonnes is expected to be complete by FY24.
- The capex for FY22 will be Rs110 bn out of which India business will be allocated Rs75 bn.
- In long term, the company targets Net Debt/EBIDTA of 2.5x.
- Company has plans to expand its iron ore capacity to 50 mn tonnes in next 2-3 years.
- Tata Steel is not looking to sell its East Asia operations as the bids received have been at prices which are lower than company's expectations.

**Exhibit 7: Change in estimates**

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	15,88,821	17,23,680	8.5	16,47,730	16,51,578	0.2
EBITDA (Rs mn)	2,97,385	4,47,423	50.5	3,25,664	3,79,436	16.5
EBITDA margin (%)	18.7	26.0	726bps	19.8	23.0	317bps
Net profit (Rs mn)	1,12,501	2,05,399	82.6	1,37,023	1,58,365	15.6
EPS (Rs)	98.3	179.4	82.5	119.7	138.3	15.6

Source: Company; IDBI Capital Research

**Exhibit 8: SOTP-based valuation**

	FY23 EBITDA	Multiple	(Rs bn)
India operations	3,11,177	5.5	17,11,475
TSE	28,500	3.5	99,750
Other operations	4,485	3.5	15,697
CWIP @ 70%			1,36,478
<b>Derived enterprise value</b>			<b>19,63,400</b>
Less: Net debt			4,42,178
Derived equity value			15,21,222
<b>Target price (Rs/share)</b>			<b>1,329</b>

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>14,89,717</b>	<b>15,62,942</b>	<b>17,23,680</b>	<b>16,51,578</b>
<i>Growth (%)</i>	<i>(5.5)</i>	<i>4.9</i>	<i>10.3</i>	<i>(4.2)</i>
Operating expenses	(13,11,441)	(12,57,899)	(12,76,257)	(12,72,142)
<b>EBITDA</b>	<b>1,78,276</b>	<b>3,05,043</b>	<b>4,47,423</b>	<b>3,79,436</b>
<i>Growth (%)</i>	<i>-39.3</i>	<i>71.1</i>	<i>46.7</i>	<i>-15.2</i>
Depreciation	(87,077)	(92,336)	(93,260)	(94,192)
<b>EBIT</b>	<b>91,199</b>	<b>2,12,706</b>	<b>3,54,163</b>	<b>2,85,244</b>
Interest paid	(75,807)	(76,067)	(74,926)	(73,802)
Other income	18,220	8,956	9,046	9,136
<b>Pre-tax profit</b>	<b>(15,684)</b>	<b>1,35,164</b>	<b>2,88,283</b>	<b>2,20,578</b>
Tax	25,529	(56,539)	(86,485)	(66,173)
<i>Effective tax rate (%)</i>	<i>162.8</i>	<i>41.8</i>	<i>30.0</i>	<i>30.0</i>
Share in associates	1,880	3,273	3,601	3,961
<b>Net profit</b>	<b>11,725</b>	<b>81,898</b>	<b>2,05,399</b>	<b>1,58,365</b>
Exceptional items	(49,296)	(10,432)	-	-
<b>Adjusted net profit</b>	<b>61,020</b>	<b>92,330</b>	<b>2,05,399</b>	<b>1,58,365</b>
<i>Growth (%)</i>	<i>(34.4)</i>	<i>51.3</i>	<i>122.5</i>	<i>(22.9)</i>
<i>Shares o/s (mn nos)</i>	<i>1,145</i>	<i>1,145</i>	<i>1,145</i>	<i>1,145</i>

### Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	(15,684)	1,35,164	2,88,283	2,20,578
Depreciation	87,077	92,336	93,260	94,192
Tax paid	(11,070)	(59,816)	(86,485)	(66,173)
Chg in working capital	(32,422)	2,45,281	(27,806)	21,175
Other operating activities	(14,724)	60,105	-	-
<b>Cash flow from operations (a)</b>	<b>13,177</b>	<b>4,73,071</b>	<b>2,67,252</b>	<b>2,69,771</b>
Capital expenditure	(1,96,720)	(99,687)	(1,20,000)	(1,20,000)
Chg in investments	23,003	6,536	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(1,73,717)</b>	<b>(93,151)</b>	<b>(1,20,000)</b>	<b>(1,20,000)</b>
Equity raised/(repaid)	-	527	-	-
Debt raised/(repaid)	2,21,446	(4,08,807)	(1,00,000)	(1,00,000)
Dividend (incl. tax)	(17,874)	(4,469)	(7,150)	(10,726)
Chg in minorities	4,101	10,104	3,601	3,961
Other financing activities	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>2,07,674</b>	<b>(4,02,645)</b>	<b>(1,03,550)</b>	<b>(1,06,765)</b>
<b>Net chg in cash (a+b+c)</b>	<b>47,134</b>	<b>(22,725)</b>	<b>43,702</b>	<b>43,007</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	15,40,475	15,47,826	15,74,566	16,00,374
Investments	41,166	34,630	34,630	34,630
Other non-curr assets	3,69,545	2,70,297	3,00,839	3,35,046
<b>Current assets</b>	<b>5,53,009</b>	<b>6,02,119</b>	<b>6,14,104</b>	<b>6,20,792</b>
Inventories	3,10,687	3,32,764	3,28,068	3,14,345
Sundry Debtors	78,849	95,398	85,003	81,448
Cash and Bank	80,547	57,822	72,123	81,910
Marketable Securities	-	-	-	-
Loans and advances	-	-	-	-
<b>Total assets</b>	<b>25,04,195</b>	<b>24,54,872</b>	<b>25,24,139</b>	<b>25,90,842</b>
<b>Shareholders' funds</b>	<b>7,35,763</b>	<b>7,42,388</b>	<b>9,40,636</b>	<b>10,88,275</b>
Share capital	11,449	11,976	11,976	11,976
Reserves & surplus	7,24,314	7,30,412	9,28,660	10,76,299
<b>Total Debt</b>	<b>11,32,895</b>	<b>7,24,088</b>	<b>6,24,088</b>	<b>5,24,088</b>
Secured loans	11,32,895	7,24,088	6,24,088	5,24,088
Unsecured loans	-	-	-	-
Other liabilities	1,84,907	2,47,028	2,60,944	2,76,111
<b>Curr Liab &amp; prov</b>	<b>4,24,764</b>	<b>7,08,671</b>	<b>6,65,775</b>	<b>6,69,671</b>
Current liabilities	4,08,128	6,61,418	6,18,521	6,22,417
Provisions	16,637	47,253	47,253	47,253
<b>Total liabilities</b>	<b>17,42,566</b>	<b>16,79,788</b>	<b>15,50,806</b>	<b>14,69,870</b>
<b>Total equity &amp; liabilities</b>	<b>25,04,194</b>	<b>24,54,872</b>	<b>25,24,139</b>	<b>25,90,842</b>
<b>Book Value (Rs)</b>	<b>643</b>	<b>648</b>	<b>822</b>	<b>951</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	53.3	80.6	179.4	138.3
Adj. EPS growth (%)	(34.4)	51.3	122.5	(22.9)
EBITDA margin (%)	12.0	19.5	26.0	23.0
Pre-tax margin (%)	(1.1)	8.6	16.7	13.4
ROE (%)	8.6	12.5	24.4	15.6
ROCE (%)	4.7	11.1	19.7	15.1
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	0.6	0.6	0.7	0.6
Leverage factor (x)	3.4	3.4	3.0	2.5
Net margin (%)	4.1	5.9	11.9	9.6
Net Debt/Equity (x)	1.4	0.9	0.6	0.4
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	76	78	69	69
Receivable days	19	22	18	18
Payable days	60	103	80	72

**Valuation**

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	20.7	13.6	6.1	8.0
Price / Book value (x)	1.7	1.7	1.3	1.2
PCE (x)	8.5	6.8	4.2	5.0
EV / Net sales (x)	1.6	1.2	1.1	1.0
EV / EBITDA (x)	13.0	6.3	4.1	4.5
Dividend Yield (%)	1.2	0.4	0.6	0.9



# Notes

Dealing

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**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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