

Tata Steel

BUY

Domestic profitability strong; debt falls sharply

Summary

Tata Steel's standalone Q3FY21 operating performance was strong; however, European operations financial performance was weak. Consolidated EBITDA jumped sharply to Rs97 bn (+171% YoY, +60% QoQ) led by strong improvement in standalone operations. However, Tata Steel Europe (TSE) reported a EBITDA loss at Rs3,436/tonne vs. loss of Rs2,036/tonne in Q2FY21. Tata Steel's net debt fell by Rs103 bn QoQ to Rs862 bn as it generated free cash flows of Rs120 bn during Q3FY21.

We raise our FY21 EBITDA estimate by 24% given strong beat in Q3FY21; also we expect higher steel prices to sustain. Even our FY22/FY23 EBITDA estimates are higher by 22%/23% as we model higher steel realization. We raise our SOTP-based target price to Rs826 (earlier Rs576) as we raise our FY23 profitability estimates.

Key Highlights and Investment Rationale

- Profitability strong at India operations:** Tata Steel's Q3FY21 profitability beat was led by its standalone operations where EBITDA/tonne jumped to Rs20,175 (+82% YoY, +52% QoQ). Standalone EBITDA surged 77% YoY to Rs.67 bn driven by improved realizations and cost efficiencies. Tata Steel is restarting capex on pellet plant and CRM complex at Kalinganagar, Odisha as cash flows are likely to remain strong in the near term.
- European operations losses continue:** TSE EBITDA loss widened to Rs3,436/tonne vs. loss of Rs2,036/tonne in Q2FY21 led by 7.0% QoQ fall in volumes to 2.1 mn tonnes, reversal of wage support from Netherlands government and higher provision for carbon emission. Nevertheless, steel spreads have improved sharply in Europe which should lead to remarkable improvement in profitability in Q4FY21.
- Outlook:** After a strong profitability beat in Q3FY21, we expect FY22 to be stronger for Tata Steel India operations as we anticipate steel 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.

TP	Rs826
CMP	Rs690
Potential upside / downside	+20%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	60.4	98.3	119.7
Consensus	42.6	85.0	83.5
% difference	41.9	15.7	43.3

Shareholding Pattern (%)

Promoters	34.4
FII	16.9
DII	25.7
Public	23.0

Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.2)	57.7	46.6
Rel to Sensex	(8.4)	37.3	21.9

Key Stock Data	
Bloomberg / Reuters	TATA IN / TISC.BO
Sector	Metal & Mining
Shares o/s (mn)	1,204
Market cap. (Rs mn)	8,31,143
Market cap. (US\$ mn)	11,410
3-m daily average value (Rs mn)	5,382.5
52-week high / low	Rs731 / 251
Sensex / Nifty	51,309 / 15,107

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	15,76,690	13,98,167	14,19,670	15,88,821	16,47,730
EBITDA	2,93,833	1,74,631	2,63,930	2,97,385	3,25,664
EBITDA (%)	18.6	12.5	18.6	18.7	19.8
Adj. PAT	93,083	60,887	69,124	1,12,501	1,37,023
EPS (Rs)	81.2	53.2	60.4	98.3	119.7
EPS Growth (%)	16.9	(34.5)	13.5	62.8	21.8
PE (x)	8.5	13.0	11.4	7.0	5.8
Dividend Yield (%)	1.4	1.9	0.6	0.9	1.4
EV/EBITDA (x)	5.7	10.6	6.2	5.4	4.7
RoE (%)	14.3	8.5	9.1	13.4	14.3
RoCE (%)	12.4	4.6	8.8	10.8	11.6

Source: Company; IDBI Capital Research

Exhibit 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q3FY21	Q2FY21	QoQ (%)	Q3FY20	YoY (%)
Net Sales	3,95,941	3,71,540	6.6	3,55,204	11.5
Total expenditure	2,98,005	3,10,132	(3.9)	3,19,007	(6.6)
EBITDA	97,936	61,408	59.5	36,197	170.6
<i>EBITDA margin (%)</i>	<i>24.7%</i>	<i>16.5%</i>	<i>821bps</i>	<i>10.2%</i>	<i>1454bps</i>
Interest	17,779	19,102	(6.9)	19,306	(7.9)
Depreciation	22,748	22,611	0.6	20,187	12.7
PBT	58,023	21,916	164.8	(6,280)	NA
Tax	15,717	6,129	156.4	6,209	153.1
PAT	42,306	16,219	160.8	(12,489)	NA
Diluted EPS	37.0	14.2	160.8	(13.4)	NA

Source: Company; IDBI Capital Research

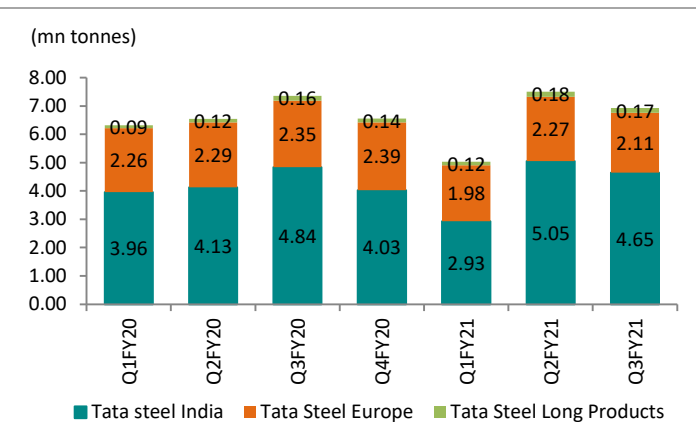
Exhibit 2: Actual vs estimates

(Rs mn)

	Q3FY21E	Q3FY21A	% Variance
Net sales	3,97,992	3,95,941	(0.5)
EBTIDA	85,632	97,936	14.4
<i>Margin (%)</i>	<i>21.5</i>	<i>24.7</i>	<i>322bps</i>
PAT	36,706	42,306	15.3
Dil. EPS	32.1	37.0	15.3

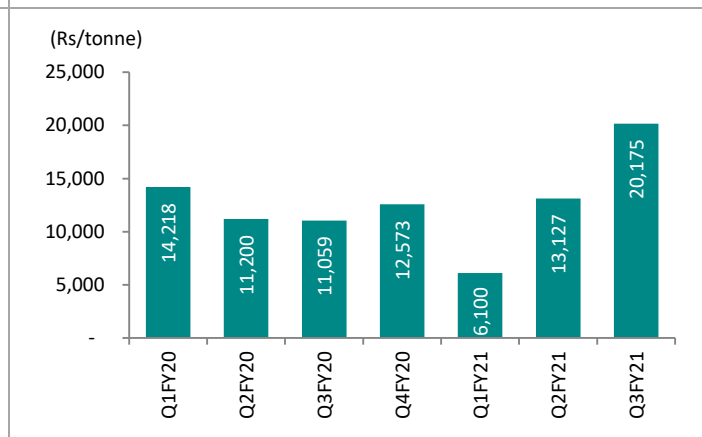
Source: Company; IDBI Capital Research

Exhibit 3: Geographical sales mix



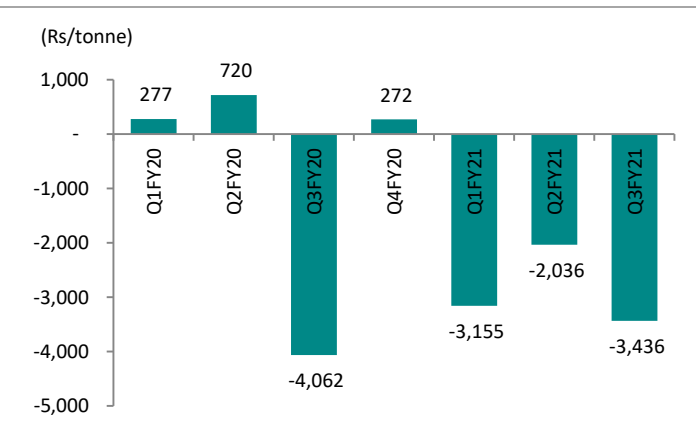
Source: Company; IDBI Capital Research

Exhibit 4: Standalone EBIDTA/tonne improved 82% YoY



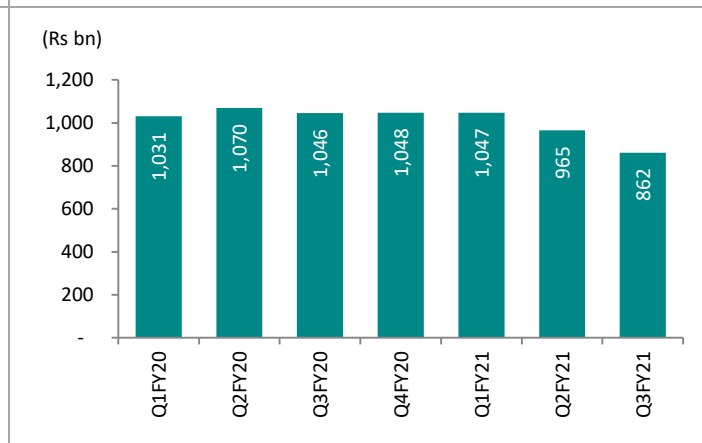
Source: Company; IDBI Capital Research

Exhibit 5: Tata Steel Europe EBIDTA/tonne weak



Source: Company; IDBI Capital Research

Exhibit 6: Net debt continues to fall



Source: Company; IDBI Capital Research

Exhibit 7: Change in estimates

	FY21E			FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	13,77,692	14,19,670	3.0	14,86,456	15,88,821	6.9	15,25,363	16,47,730	8.0
EBITDA (Rs mn)	2,12,802	2,63,930	24.0	2,44,199	2,97,385	21.8	2,63,837	3,25,664	23.4
<i>EBITDA margin (%)</i>	<i>14.7</i>	<i>18.6</i>	<i>389bps</i>	<i>16.4</i>	<i>18.7</i>	<i>232bps</i>	<i>17.3</i>	<i>19.8</i>	<i>246bps</i>
Net profit (Rs mn)	32,001	68,604	114.4	67,626	1,12,501	66.4	83,626	1,37,023	63.9
EPS (Rs)	28.2	60.4	114.4	59.1	98.3	66.3	73	119.7	63.9

Source: Company; IDBI Capital Research

Exhibit 8: SOTP-based valuation

	FY23 EBITDA	Multiple	(Rs bn)
Standalone	2,39,366	6.0	14,36,194
TSE	28,500	3.5	99,750
Other operations	4,485	3.5	15,697
CWIP @ 70%			1,36,478
Derived enterprise value			16,88,118
Less: Debt			7,49,387
Derived equity value			9,45,210
Target price (Rs/share)			826

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net sales	13,98,167	14,19,670	15,88,821	16,47,730
<i>Growth (%)</i>	<i>(11.3)</i>	<i>1.5</i>	<i>11.9</i>	<i>3.7</i>
Operating expenses	(12,23,536)	(11,55,741)	(12,91,436)	(13,22,066)
EBITDA	1,74,631	2,63,930	2,97,385	3,25,664
<i>Growth (%)</i>	<i>-40.6</i>	<i>51.1</i>	<i>12.7</i>	<i>9.5</i>
Depreciation	(84,407)	(89,442)	(90,337)	(91,240)
EBIT	90,223	1,74,488	2,07,048	2,34,424
Interest paid	(75,335)	(74,465)	(69,252)	(64,405)
Other income	18,435	8,231	8,314	8,397
Pre-tax profit	(4,197)	1,07,734	1,46,110	1,78,417
Tax	25,684	(46,739)	(36,527)	(44,604)
<i>Effective tax rate (%)</i>	<i>612.0</i>	<i>43.4</i>	<i>25.0</i>	<i>25.0</i>
Share in associates	1,880	7,608	2,918	3,210
Net profit	23,367	68,604	1,12,501	1,37,023
Exceptional items	(37,521)	(520)	-	-
Adjusted net profit	60,887	69,124	1,12,501	1,37,023
<i>Growth (%)</i>	<i>(34.6)</i>	<i>13.5</i>	<i>62.8</i>	<i>21.8</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	FY21E	FY22E	FY23E
Pre-tax profit	(4,197)	1,07,734	1,46,110	1,78,417
Depreciation	84,407	89,442	90,337	91,240
Tax paid	(10,915)	(46,739)	(36,527)	(44,604)
Chg in working capital	(32,422)	55,556	(11,926)	(3,646)
Other operating activities	(26,367)	33,129	(38,361)	(43,115)
Cash flow from operations (a)	10,508	2,39,123	1,49,632	1,78,292
Capital expenditure	(1,94,051)	(49,000)	(1,00,000)	(1,00,000)
Chg in investments	23,003	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(1,71,048)	(49,000)	(1,00,000)	(1,00,000)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	2,21,446	(2,40,000)	(40,000)	(20,000)
Dividend (incl. tax)	(17,874)	(4,469)	(7,150)	(10,726)
Chg in minorities	4,101	7,608	2,918	3,210
Other financing activities	-	-	-	-
Cash flow from financing (c)	2,07,674	(2,36,861)	(44,232)	(27,515)
Net chg in cash (a+b+c)	47,134	(46,738)	5,400	50,776

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	15,40,475	15,00,033	15,09,696	15,18,456
Investments	41,166	41,166	41,166	41,166
Other non-curr assets	3,69,545	3,33,861	3,72,399	4,15,563
Current assets	5,53,009	4,64,530	5,20,642	5,94,639
Inventories	3,10,687	2,94,369	3,29,443	3,41,657
Sundry Debtors	78,849	70,011	78,353	81,258
Cash and Bank	80,547	33,809	39,210	89,986
Marketable Securities	-	-	-	-
Loans and advances	-	-	-	-
Total assets	25,04,195	23,39,589	24,43,904	25,69,824
Shareholders' funds	7,35,763	7,89,987	8,95,337	10,21,634
Share capital	11,449	11,449	11,449	11,449
Reserves & surplus	7,24,314	7,78,538	8,83,888	10,10,185
Total Debt	11,32,895	8,92,895	8,52,895	8,32,895
Secured loans	11,32,895	8,92,895	8,52,895	8,32,895
Unsecured loans	-	-	-	-
Other liabilities	1,84,907	1,75,677	1,83,153	1,91,302
Curr Liab & prov	4,24,764	4,55,164	4,86,653	4,98,128
Current liabilities	4,08,128	4,38,528	4,70,017	4,81,491
Provisions	16,637	16,637	16,637	16,637
Total liabilities	17,42,566	15,23,736	15,22,701	15,22,324
Total equity & liabilities	25,04,195	23,39,589	24,43,904	25,69,824
Book Value (Rs)	643	690	782	892

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	53.2	60.4	98.3	119.7
Adj. EPS growth (%)	(34.5)	13.5	62.8	21.8
EBITDA margin (%)	12.5	18.6	18.7	19.8
Pre-tax margin (%)	(0.3)	7.6	9.2	10.8
ROE (%)	8.5	9.1	13.4	14.3
ROCE (%)	4.6	8.8	10.8	11.6
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.6	0.6	0.7	0.7
Leverage factor (x)	3.4	3.2	2.8	2.6
Net margin (%)	4.4	4.9	7.1	8.3
Net Debt/Equity (x)	1.4	1.1	0.9	0.7
Working Capital & Liquidity ratio				
Inventory days	81	76	76	76
Receivable days	21	18	18	18
Payable days	64	83	78	75

Valuation

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	13.0	11.4	7.0	5.8
Price / Book value (x)	1.1	1.0	0.9	0.8
PCE (x)	5.4	5.0	3.9	3.5
EV / Net sales (x)	1.3	1.2	1.0	0.9
EV / EBITDA (x)	10.6	6.2	5.4	4.7
Dividend Yield (%)	1.9	0.6	0.9	1.4



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
---------	-------------------	-------------------------

Key to Ratings Stocks:

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

IDBI Capital Markets & Securities Ltd.

Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D’souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

Disclaimer

This report has been published by IDBI Capital Markets & Securities Ltd. (hereinafter referred to as “IDBI Capital”) for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

We, Bhavesh Chauhan and Mansi Korlekar, hereby certify that the views expressed in this report accurately reflect our personal views about the subject companies and / or securities. We also certify that no part of our compensation were, are or would be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, we will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd.(hereinafter referred to as “IDBI Capital”) was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India’s leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail) , Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative’s may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.