

Retail Equity Research

Tata Steel Limited

Metals & Mining

BSE CODE: 500470

NSE CODE: TATASTEEL

Bloomberg CODE: TATA:IN

SENSEX: 44,180

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 517

TARGET Rs. 614

 RETURN 19% 

(Closing:18-11-20)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Healthy performance; Outlook positive

Tata Steel is a leader in the global steel industry with operations spanning over 26 countries with key operations in India, Netherlands and United Kingdom. Tata steel primarily caters to customers in automotive, construction, engineering, energy and power sectors.

- Q2FY21 revenue rose 7.4% YoY to Rs. 37,154cr, while EBITDA saw an uptick of 60.0% YoY with a margin expansion of 540bps YoY to 16.4%, owing to robust domestic performance and improved sales mix.
- Reported PAT stood at Rs. 1,565cr (vs. Rs. 4,880cr loss in Q1FY21) owing to lower taxes.
- Company ramped up deliveries by 15% QoQ to 2.27mt in Q2FY21, though its Europe operations and demand remains under pressure.
- Given strong performance and promising outlook for India operations, we upgrade our rating to BUY with revised TP of Rs. 614 based on SOTP.

Recovering topline - India business outshines

Consolidated revenue for Q2FY21 reverted back to pre-COVID levels rising 7.4% YoY to Rs. 37,154cr (+53.0% QoQ) on higher deliveries, improved product mix across entities, and buoyant prices. Standalone revenue went up 10.0% YoY to Rs. 16,362cr (+75.2% QoQ) as steel demand recovered with resumption of economic activities. Bannipal Steel revenue surged 21.2% YoY to Rs. 5,519cr, while Other Indian operations recorded growth of 6.1% YoY to Rs. 2,375cr. This was partially offset by an 18.5% YoY de-growth in Other Trade related operations to Rs. 6,241cr (vs. 7,663cr in Q2FY20) and European business at Rs. 13,498cr (-3.8% YoY) as pandemic impacted demand growth. Sponge Iron revenue stood at Rs. 1,186cr (+52.5% YoY). China's strong domestic steel demand continued to drive higher volumes. On the other hand, lower net exports and rising steel prices led to a slashed recovery in ROW segment.

Margins expand with increased stability

EBITDA for the quarter grew 60.0% YoY to Rs. 6,111cr, owing to strong performance in India, with EBITDA margins expanding 540bps YoY to 16.4%. Improving spreads, recovery in spot steel spreads and stable coal prices in EU aided to the stability of EBITDA in Europe. Meanwhile, staff costs fell 7.7% YoY to Rs. 4,248cr. While reported PAT recovered sequentially from losses in Q1, it was still down 59.6% YoY at Rs. 1,565cr on higher tax provisions and exceptional items reported during the period on YoY basis. Adj. PAT fell 55.7% YoY to Rs. 1,522cr.

TATA Steel announces divestment of its Netherlands assets

Company has initiated discussions with Sweden-based SSAB for sale of its Netherlands business as it looks to slowly exit its unprofitable European ventures, thereby helping in deleveraging of its balance sheet to some extent. Moreover, it continues to be in consultation with the UK Government to come up to an arrangement in order to put in place potential measures to safeguard the long-term future of Tata Steel UK, thereby making it self-sustaining without needing any financial support from the parent.

Valuation

TATA Steel's India operations are expected to improve further from hereon as steel prices are expected to remain steady supported by strong volume growth backed by recovery in steel demand and lower raw material prices. We expect government spending on infrastructure, festive season and higher rural consumption on the back of good monsoon to aid demand growth. Additionally, recent steps taken towards divestment of its non-profitable operations bodes well for the company. Expecting a strong momentum in the near-term, we upgrade our rating to a BUY on the stock with a revised target price of Rs. 614 using SOTP valuation.

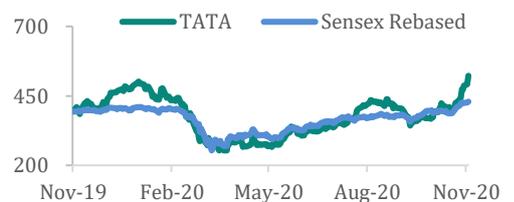
Company Data

Market Cap (cr)	Rs. 59,194
Enterprise Value (cr)	Rs. 178,893
Outstanding Shares (cr)	114.5
Free Float	66.0%
Dividend Yield	1.9%
52 week high	Rs. 536
52 week low	Rs. 251
6m average volume (lacs)	7.2
Beta	1.1
Face value	Rs. 10

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	34.4	34.4	34.4
FII's	12.4	11.8	11.5
MFs/Insti	29.9	30.0	30.1
Public	18.7	19.2	19.6
Others	4.6	4.6	4.4
Total	100.0	100.0	100.0
Promoters' pledge	3.4	3.4	3.4

Price Performance	3 Month	6 Month	1 Year
Absolute Return	18.9%	94.0%	26.0%
Absolute Sensex	14.7%	47.1%	9.7%
Relative Return*	4.2%	46.9%	16.4%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	139,817	135,035	152,561
Growth (%)	(11.3)	(3.4)	13.0
EBITDA	17,463	17,857	23,266
EBITDA Margin (%)	12.5	13.2	15.3
Adj. PAT	5,309	1,282	5,374
Growth (%)	(48.7)	(75.9)	319.3
Adj. EPS	40.5	9.8	41.0
Growth (%)	(55.1)	(75.9)	319.3
P/E	6.7	52.9	12.6
P/B	0.5	0.9	0.9
EV/EBITDA	8.2	10.0	7.7
ROE (%)	2.1	1.9	6.9
D/E	1.5	1.5	1.4

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	37,154	34,579	7.4	24,289	53.0	61,443	70,526	(12.9)
EBITDA	6,111	3,820	60.0	505	<i>n.m.</i>	6,616	9,196	(28.1)
EBITDA margins	16.4	11.0	540bps	2.1	<i>n.m.</i>	10.8	13.0	(220bps)
Depreciation	2,261	2,127	6.3	2,111	7.1	4,372	4,210	3.8
EBIT	3,850	1,692	127.5	(1,605)	<i>n.m.</i>	2,244	4,986	(55.0)
Interest	1,940	1,871	3.7	1,998	(2.9)	3,939	3,678	7.1
Other Income	296	206	43.5	208	42.4	503	509	(1.2)
Exceptional Items	43	(34)	<i>n.m.</i>	58	(26.0)	102	(18)	<i>n.m.</i>
PBT	2,248	(7)	<i>n.m.</i>	(3,338)	<i>n.m.</i>	(1,089)	1,800	<i>n.m.</i>
Tax	613	(4,050)	<i>n.m.</i>	1,272	(51.8)	1,884	(2,926)	<i>n.m.</i>
Share of profit from Associate	74	22	227.8	15	<i>n.m.</i>	89	75	18.6
Minority Interest	100	(103)	<i>n.m.</i>	(232)	<i>n.m.</i>	(132)	(93)	(41.6)
Reported PAT	1,565	3,405	(54.0)	(4,880)	<i>n.m.</i>	(3,314)	4,099	<i>n.m.</i>
Adjustments	(43)	34	<i>n.m.</i>	(58)	26.0	(102)	18	<i>n.m.</i>
Adj. PAT	1,522	3,439	(55.7)	(4,938)	<i>n.m.</i>	(3,416)	4,116	<i>n.m.</i>
No. of shares	114.5	114.5	0.0	114.5	-	114.5	114.5	0.0
Adj. EPS (Rs.)	13.3	30.0	(55.7)	(43.1)	<i>n.m.</i>	(29.8)	36.0	<i>n.m.</i>

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	132,013	147,558	135,035	152,561	2.3	3.4
EBITDA	15,213	22,871	17,857	23,266	17.4	1.7
Margins (%)	11.5	15.5	13.2	15.3	170bps	(20bps)
Adj. PAT	(418)	5,310	1,282	5,374	<i>n.m.</i>	1.2
Adj. EPS	(3.2)	40.5	9.8	41.0	<i>n.m.</i>	1.2

Sum-of-the parts Valuation

Particulars	Basis	Multiple	Year	Value (Rs. cr.)	Value/share (Rs.)
India	EV/EBITDA	8.5x	FY22E	141,476	1,236
Europe	EV/EBITDA	5x	FY22E	13,593	119
Others	EV/EBITDA	6x	FY22E	23,416	205
Enterprise Value				178,485	1,559
Net Debt				(105,622)	(923)
Minority Interest				(2,587)	(23)
Equity Value				70,276	614

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	133,016	157,669	139,817	135,035	152,561
% change	13.3	18.5	(11.3)	(3.4)	13.0
EBITDA	21,891	29,383	17,463	17,857	23,266
% change	28.7	34.2	(40.6)	2.3	30.3
Depreciation	5,962	7,342	8,441	9,000	9,177
EBIT	15,929	22,042	9,022	8,858	14,089
Interest	5,502	7,660	7,533	8,450	9,215
Other Income	10,683	1,524	(1,721)	2,492	3,285
PBT	21,110	15,906	(232)	2,900	8,159
% change	753.4	(24.7)	(101.5)	(1351.6)	181.3
Tax	3,405	6,718	(2,568)	870	2,448
Tax Rate (%)	16.1	42.2	1108.4	30.0	30.0
Reported PAT	13,434	10,218	1,557	1,383	5,374
Adj*	(9,599)	121	3,752	(102)	-
Adj PAT	3,835	10,339	5,309	1,282	5,374
% change	4496.9	169.6	(48.7)	(75.9)	319.3
No. of shares (cr)	103.6	114.6	131.2	131.2	131.2
Adj EPS (Rs.)	37.0	90.2	40.5	9.8	41.0
% change	4208.0	143.8	(55.1)	(75.9)	319.3
DPS (Rs.)	10.0	13.0	10.0	10.0	10.0
CEPS (Rs.)	94.5	156.3	106.9	78.4	110.9

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	19,396	17,798	10,264	10,383	14,551
Non-cash adj.	(9,777)	8,607	8,343	3,660	10,427
Changes in W.C	(1,595)	(1,069)	1,562	(18)	(2,264)
C.F. Operation	8,023	25,336	20,169	14,025	22,714
Capital exp.	(7,299)	(8,624)	(10,012)	(6,077)	(9,916)
Change in inv.	(5,048)	(21,620)	(4,899)	(970)	(1,056)
Other invest.CF	322	342	313	0	(0)
C.F - Investment	(12,026)	(29,902)	(14,598)	(7,047)	(10,972)
Issue of equity	9,087	(6)	188	-	-
Issue/repay debt	4,436	8,518	8,636	1,917	958
Dividends paid	(1,249)	(1,452)	(1,772)	(1,312)	(1,312)
Other finance.CF	(5,634)	(7,733)	(8,746)	(8,450)	(9,215)
C.F - Finance	6,640	(673)	(1,695)	(7,845)	(9,568)
Chg. in cash	2,638	(5,239)	3,876	(867)	2,174
Closing cash	7,938	3,341	8,055	7,188	9,361

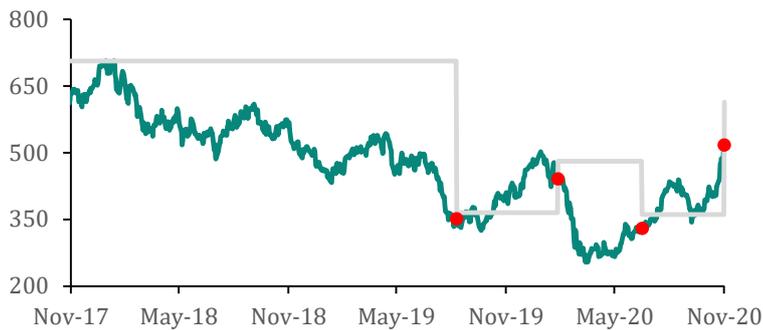
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	7,938	3,341	8,055	7,188	9,361
Accounts Receivable	12,416	11,811	7,885	7,818	9,061
Inventories	28,331	31,656	31,069	28,905	32,696
Other Cur. Assets	19,193	12,183	11,724	12,887	14,261
Investments	2,991	3,213	2,853	2,794	2,735
Gross Fixed Assets	136,401	169,002	179,014	185,091	195,007
Net Fixed Assets	90,323	118,451	119,871	124,631	124,475
CWIP	16,160	17,957	18,495	19,050	19,622
Intangible Assets	6,237	6,676	15,681	7,286	7,444
Def. Tax (Net)	2,189	2,384	2,996	540	540
Other Assets	23,982	25,911	31,790	31,948	32,113
Total Assets	209,758	233,582	250,419	243,046	252,308
Current Liabilities	39,776	50,232	42,476	39,989	43,893
Provisions	4,338	4,046	4,235	4,362	4,493
Debt Funds	88,780	91,415	113,677	115,594	116,552
Other Liabilities	15,056	16,599	13,868	6,220	6,089
Equity Capital	1,145	1,145	1,145	1,145	1,145
Reserves & Surplus	59,726	67,780	72,431	73,063	77,126
Shareholder's Fund	60,871	68,925	73,576	74,208	78,271
Minority Interest	937	2,364	2,587	2,673	3,010
Total Liabilities	209,758	233,582	250,419	243,046	252,308
BVPS (Rs.)	587	601	561	566	597

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	16.5	18.6	12.5	13.2	15.3
EBIT margin (%)	12.0	14.0	6.5	6.6	9.2
Net profit mgn.(%)	10.1	6.5	1.1	1.0	3.5
ROE (%)	22.1	14.8	2.1	1.9	6.9
ROCE (%)	10.6	13.5	4.8	4.6	7.1
W.C & Liquidity					
Receivables (days)	34.1	27.3	20.6	21.1	21.7
Inventory (days)	193.4	190.1	197.3	197.7	198.0
Payables (days)	139.3	130.4	135.8	130.8	132.7
Current ratio (x)	1.2	1.0	1.0	1.0	1.0
Quick ratio (x)	0.6	0.3	0.3	0.3	0.4
Turnover & Leverage					
Gross asset T.O (x)	1.0	1.0	0.8	0.7	0.8
Total asset T.O (x)	0.7	0.7	0.6	0.5	0.6
Int. coverage ratio (x)	2.9	2.9	1.2	1.0	1.5
Adj. debt/equity (x)	1.4	1.3	1.5	1.5	1.4
Valuation					
EV/Sales (x)	1.0	0.9	1.0	1.3	1.2
EV/EBITDA (x)	6.3	5.1	8.2	10.0	7.7
P/E (x)	14.8	5.6	6.7	52.9	12.6
P/BV (x)	0.9	0.8	0.5	0.9	0.9

Recommendation Summary



Dates	Rating	Target
21-Feb-17	REDUCE	424
9-Oct-17	HOLD	706
27-Aug-19	HOLD	365
13-Feb-20	HOLD	481
3-Jul-20	HOLD	361
19-Nov-20	BUY	614

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Antu Eapen Thomas author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publicly listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities. In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Antu Eapen Thomas, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padiyattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226