

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.

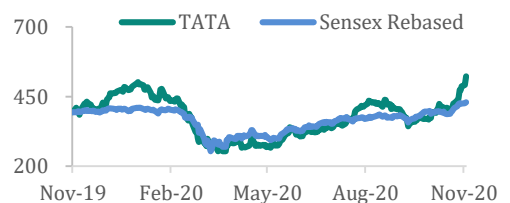
Company Data

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

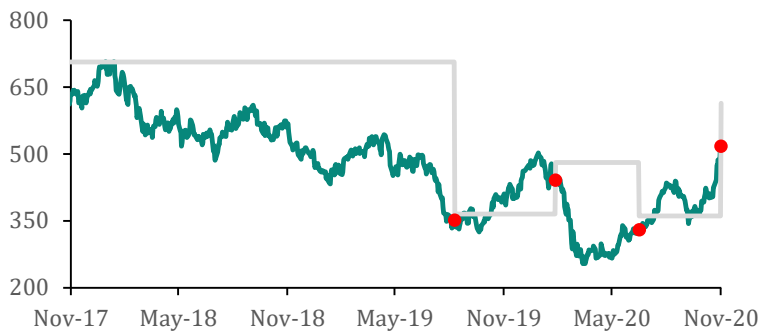
BALANCE SHEET

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.

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