

# Retail Equity Research Tata Steel Limited

Metals & Mining

BSE CODE: 500470

NSE CODE: TATASTEEL

Bloomberg CODE: TATA:IN

SENSEX: 37,641

**HOLD**

12M Investment period

Rating as per Large Cap

CMP Rs. 351 TARGET Rs. 365 RETURN 4%

(Closing: 27-08-19)



KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↔

## Bleak outlook on global headwinds

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

- Q1FY20 consolidated revenue rose 1.3% YoY to Rs. 35,947cr, but missed street expectations by 3.6%.
- Steel production and deliveries grew 10.9% YoY to 7.2mt and 5.3% YoY to 6.3mt, respectively, supported by strong growth in domestic volumes
- EBITDA margin contracted 290bps YoY to 15.0% impacted by weaker steel pricing and higher input costs (iron ore and coking coal)
- Adj. PAT came in at Rs. 677cr (-70.3% YoY) missing the street consensus by 52.0%.
- We provide a HOLD rating on the stock with a target price of Rs. 365 based on SOTP valuation taking into account the market conditions and challenges ahead.

## Indian operations hold the fort

Consolidated revenue increased 1.3% YoY to Rs. 35,947cr in Q1FY20 primarily driven by strong performance in Bannipal Steel (+105.5% YoY; accounted for 12.0% of revenue) and Other trade related operations (+20.4% YoY; 26.6% of revenue). This is partly offset by weaker revenue from Tata Steel Europe (-11.7% YoY; 40.3% of revenue). Consolidated steel production and deliveries grew 10.9% YoY to 7.2mt and 5.3% YoY to 6.3mt, respectively, primarily helped by strong growth in India volumes (production and deliveries growing 23.6% to 4.5mt and 18.6% to 4.0mt, respectively). EBITDA declined 15.4% YoY to Rs. 5,377cr, as EBITDA margin contracted 290bps to 15.0% due to lower steel prices and higher input costs (iron ore and coking coal).

## European business remains under pressure

Shutdowns at the Netherlands and UK facilities, the compression effect of the spread, trade conflicts and uncertainty around Brexit hampered the European operations during the quarter. The capital spending for European operation expected to be reduced by 20.0-25.0%. The slowdown in the automobile industry forced the company to look for alternative options. Management believes that the instability and shutdowns are in the past and looks to a more stable second half of the year. The management also plans to simplify its group structure by reorganizing its subsidiaries in Europe and India to take advantage of operational efficiencies.

## Key highlights

- Company expects global steel demand to remain weak amidst economic slowdown and trade barriers; EU demand to decline 0.4% in CY19.
- India steel demand expected to pick up in H2FY20 with the end of monsoon, increase in the government spending and improvement in liquidity.
- Steel prices to find support from elevated input costs; India steel prices to improve gradually in 2H with improvement in market sentiments.
- Current capacity at 34mtpa; target to increase to 42mtpa by FY25.

## Valuation

The stock is currently trading at 5.0x FY20E EV/EBITDA. We roll forward by one year and recommend HOLD on the stock with a target price of Rs. 365 based on SOTP valuation methodology (based on FY21 EV/EBITDA multiples for each business) taking into account the challenging global conditions and bleak outlook for the company.

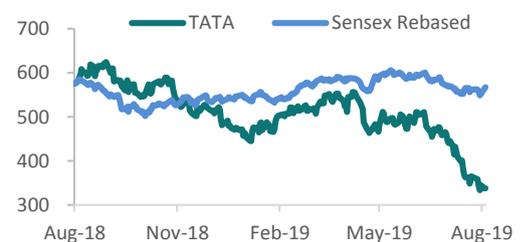
## Company Data

Market Cap (cr)	Rs. 38,688
Enterprise Value (cr)	Rs. 127,186
Outstanding Shares (cr)	114.5
Free Float	69.0%
Dividend Yield	3.8%
52 week high	Rs. 647
52 week low	Rs. 322
6m average volume (lacs)	5.8
Beta	1.1
Face value	Rs. 10

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	33.1	33.1	33.1
FII's	15.0	14.4	13.8
MFs/Insti	29.2	29.3	30.4
Public	17.9	17.8	17.8
Others	4.8	5.3	4.9
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-30.1%	-33.0%	-41.3%
Absolute Sensex	-4.9%	4.2%	-2.0%
Relative Return*	-25.2%	-37.2%	-39.3%

\*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	157,669	162,157	166,397
Growth (%)	18.5	2.8	2.6
EBITDA	29,621	25,352	27,679
EBITDA Margin (%)	18.8	15.6	16.6
Adj. PAT	10,339	6,112	7,161
Growth (%)	169.6	-40.9	17.2
Adj. EPS	90.2	53.4	62.5
Growth (%)	143.8	-40.8	17.2
P/E	5.6	6.3	5.4
P/B	0.8	0.5	0.5
EV/EBITDA	5.0	5.0	4.4
ROE (%)	14.8	8.3	9.0
D/E	1.3	1.2	1.0

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Revenue	35,947	35,494	1.3	42,424	(15.3)
<b>EBITDA</b>	<b>5,377</b>	<b>6,353</b>	(15.4)	<b>7,513</b>	(28.4)
EBITDA margins	15.0	17.9	(290bps)	17.7	(270bps)
Depreciation	2,083	1,748	19.2	1,881	10.8
<b>EBIT</b>	<b>3,294</b>	<b>4,605</b>	(28.5)	<b>5,633</b>	(41.5)
Interest	1,806	1,658	9.0	1,938	(6.8)
Share of profit from Associate	52	47	10.6	56	(7.0)
Other Income	303	400	(24.2)	546	(44.4)
Exceptional Items	16	(329)	n.m.	11	39.3
<b>PBT</b>	<b>1,807</b>	<b>3,019</b>	(40.1)	<b>4,253</b>	(57.5)
Tax	1,124	1,096	2.5	1,899	(40.8)
Profit from discontinued ops.	19	(58)	n.m.	11	72.1
Minority Interest	10	(17)	n.m.	(87)	n.m.
<b>Reported PAT</b>	<b>693</b>	<b>1,951</b>	(64.5)	<b>2,383</b>	(70.9)
Adjustments	(16)	329	n.m.	(11)	(45.4)
<b>Adjusted PAT</b>	<b>677</b>	<b>2,371</b>	(70.3)	<b>2,280</b>	(71.4)
No. of shares	114.5	114.5	-	114.5	-
<b>EPS (Rs)</b>	<b>5.9</b>	<b>19.9</b>	(70.3)	<b>20.7</b>	(71.4)

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	-	-	162,157	166,397	-	-
EBITDA	-	-	25,352	27,679	-	-
Margins (%)	-	-	15.6	16.6	-	-
Adj. PAT	-	-	6,112	7,161	-	-
EPS	-	-	53.4	62.5	-	-

### Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	Year	Value (Rs. cr.)	Value/share (Rs.)
India	EV/EBITDA	5.0x	FY21E	92,936	812
Europe	EV/EBITDA	4.5x	FY21E	26,351	230
Others	EV/EBITDA	4.0x	FY21E	12,944	113
<b>Enterprise Value</b>				<b>132,231</b>	<b>1,155</b>
Net Debt				(88,074)	(769)
Minority Interest				(2,364)	(21)
<b>Equity Value</b>				<b>41,793</b>	<b>365</b>

## PROFIT & LOSS

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Revenue</b>	<b>117,420</b>	<b>133,016</b>	<b>157,669</b>	<b>162,157</b>	<b>166,397</b>
% change	0.2	13.3	18.5	2.8	2.6
<b>EBITDA</b>	<b>17,025</b>	<b>21,891</b>	<b>29,621</b>	<b>25,352</b>	<b>27,679</b>
% change	124.4	28.6	35.3	(14.4)	9.2
Depreciation	5,690	5,962	7,579	8,345	9,103
<b>EBIT</b>	<b>11,335</b>	<b>15,929</b>	<b>22,042</b>	<b>17,007</b>	<b>18,576</b>
Interest	5,072	5,502	7,660	8,807	8,681
Other Income	(3,789)	10,683	1,524	1,246	1,143
<b>PBT</b>	<b>2,474</b>	<b>21,110</b>	<b>15,906</b>	<b>9,446</b>	<b>11,038</b>
% change	(247.8)	753.4	(24.7)	(40.6)	16.9
Tax	2,778	3,405	6,718	3,990	4,663
Tax Rate (%)	112.3	16.1	42.2	42.2	42.2
<b>Reported PAT</b>	<b>(4,241)</b>	<b>13,434</b>	<b>10,218</b>	<b>6,128</b>	<b>7,161</b>
Adj*	4,324	(9,599)	121	(16)	-
<b>Adj PAT</b>	<b>83</b>	<b>3,835</b>	<b>10,339</b>	<b>6,112</b>	<b>7,161</b>
% change	(91.0)	4496.9	169.6	(40.9)	17.2
No. of shares (cr)	97.1	103.6	114.6	114.5	114.5
<b>Adj EPS (Rs)</b>	<b>0.9</b>	<b>37.0</b>	<b>90.2</b>	<b>53.4</b>	<b>62.5</b>
% change	(91.0)	4208.0	143.8	(40.8)	17.2
DPS (Rs)	10.0	10.0	13.0	13.0	13.0
CEPS (Rs)	59.4	94.5	156.3	126.3	142.0

## CASH FLOW

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Net inc. + Depn.</b>	<b>1,450</b>	<b>19,396</b>	<b>17,798</b>	<b>14,473</b>	<b>16,263</b>
Non-cash adj.	17,642	(9,777)	8,607	4,315	9,096
Changes in W.C	(8,243)	(1,595)	(1,069)	(570)	(584)
<b>C.F. Operation</b>	<b>10,848</b>	<b>8,023</b>	<b>25,336</b>	<b>18,217</b>	<b>24,776</b>
Capital exp.	(7,427)	(7,299)	(8,624)	(5,432)	(6,656)
Change in inv.	(1,735)	(5,048)	(21,620)	(1,467)	(2,287)
Other invest.CF	75	322	342	321	398
<b>C.F - Investment</b>	<b>(9,086)</b>	<b>(12,026)</b>	<b>(29,902)</b>	<b>(6,578)</b>	<b>(8,545)</b>
Issue of equity	652	9,087	(6)	-	-
Issue/repay debt	3,090	4,436	8,518	(1,500)	(5,500)
Dividends paid	(1,057)	(1,249)	(1,452)	(1,564)	(1,564)
Other finance.CF	(5,277)	(5,634)	(7,733)	(8,807)	(8,681)
<b>C.F - Finance</b>	<b>(2,592)</b>	<b>6,640</b>	<b>(673)</b>	<b>(11,871)</b>	<b>(15,744)</b>
Chg. in cash	(831)	2,638	(5,239)	(232)	487
Closing cash	4,921	7,938	3,341	3,110	3,597

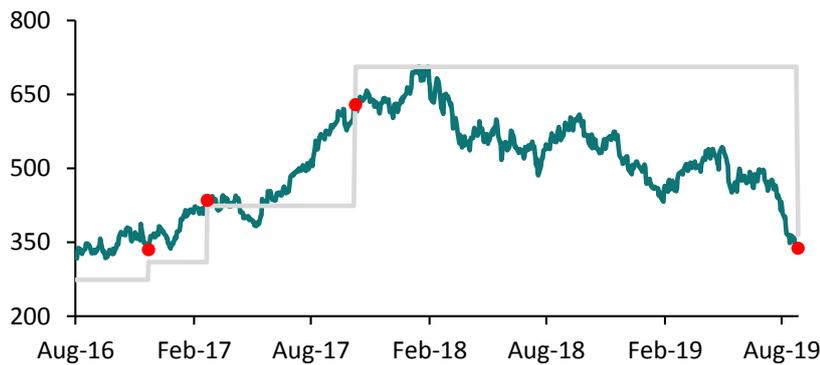
## BALANCE SHEET

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	4,921	7,938	3,341	3,110	3,597
Accounts Receivable	11,587	12,416	11,811	12,147	12,465
Inventories	24,804	28,331	31,656	32,402	33,249
Other Cur. Assets	9,610	19,193	12,183	13,620	15,942
Investments	6,864	2,991	3,213	3,241	3,268
Gross Fixed Assets	123,394	136,401	169,002	174,434	181,090
Net Fixed Assets	86,881	90,323	118,451	114,627	111,238
CWIP	15,514	16,160	17,957	18,495	19,050
Intangible Assets	5,396	6,237	6,676	6,815	6,959
Def. Tax (Net)	1,867	2,189	2,384	1,416	1,654
Other Assets	5,890	23,482	25,911	26,144	26,388
<b>Total Assets</b>	<b>173,333</b>	<b>209,758</b>	<b>233,582</b>	<b>232,017</b>	<b>233,810</b>
Current Liabilities	32,013	39,776	50,232	51,014	51,850
Provisions	4,280	4,338	4,046	4,168	4,293
Debt Funds	82,639	88,780	91,415	89,915	84,415
Other Liabilities	14,980	15,056	16,599	11,417	12,540
Equity Capital	970	1,145	1,145	1,145	1,145
Reserves & Surplus	36,849	59,726	67,780	72,665	78,660
Shareholder's Fund	37,819	60,871	68,925	73,810	79,805
Minority Interest	1,602	937	2,364	1,693	908
<b>Total Liabilities</b>	<b>173,333</b>	<b>209,758</b>	<b>233,582</b>	<b>232,017</b>	<b>233,810</b>
<b>BVPS (Rs)</b>	<b>389</b>	<b>587</b>	<b>601</b>	<b>645</b>	<b>697</b>

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	14.5	16.5	18.8	15.6	16.6
EBIT margin (%)	9.7	12.0	14.0	10.5	11.2
Net profit mgn. (%)	(3.6)	10.1	6.5	3.8	4.3
ROE (%)	(11.2)	22.1	14.8	8.3	9.0
ROCE (%)	9.3	10.6	13.5	10.3	11.2
<b>W.C &amp; Liquidity</b>					
Receivables (days)	36.0	34.1	27.3	27.3	27.3
Inventory (days)	203.8	193.4	190.1	190.1	190.1
Payables (days)	152.6	139.3	130.4	130.4	130.4
Current ratio (x)	1.0	1.2	1.0	1.0	1.0
Quick ratio (x)	0.4	0.6	0.3	0.3	0.4
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.9	1.0	1.0	0.9	0.9
Total asset T.O (x)	0.7	0.7	0.7	0.7	0.7
Int. covge. ratio (x)	2.2	2.9	2.9	1.9	2.1
Adj. debt/equity (x)	2.1	1.4	1.3	1.2	1.0
<b>Valuation</b>					
EV/Sales (x)	1.0	1.0	0.9	0.8	0.7
EV/EBITDA (x)	7.1	6.3	5.0	5.0	4.4
P/E (x)	n.m.	14.8	5.6	6.3	5.4
P/BV (x)	1.1	0.9	0.8	0.5	0.5

## Recommendation Summary



Dates	Rating	Target
24-Feb-14	HOLD	400
19-May-14	HOLD	440
8-Sep-14	REDUCE	375
21-Jan-15	REDUCE	330
9-Feb-15	REDUCE	275
30-Apr-15	REDUCE	286
25-Jun-15	REDUCE	190
11-Sep-15	REDUCE	180
3-Feb-16	REDUCE	180
31-May-16	REDUCE	274
22-Nov-16	REDUCE	310
21-Feb-17	REDUCE	424
9-Oct-17	HOLD	706
27-Aug-19	HOLD	365

## Investment Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

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.

Neutral- The analyst has no investment opinion on the stock under review

## 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 publically 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 no 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, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: [www.geojit.com](http://www.geojit.com). For investor queries: [customercare@geojit.com](mailto:customercare@geojit.com), For grievances: [grievances@geojit.com](mailto:grievances@geojit.com), For compliance officer: [compliance@geojit.com](mailto: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

