

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.

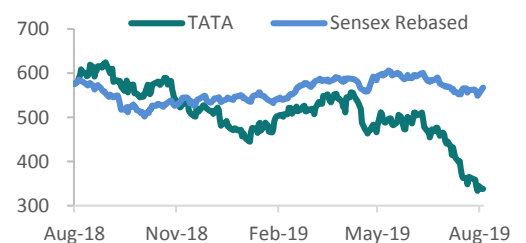
Company Data

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)
EBITDA	5,377	6,353	(15.4)	7,513	(28.4)
EBITDA margins	15.0	17.9	(290bps)	17.7	(270bps)
Depreciation	2,083	1,748	19.2	1,881	10.8
EBIT	3,294	4,605	(28.5)	5,633	(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
PBT	1,807	3,019	(40.1)	4,253	(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.
Reported PAT	693	1,951	(64.5)	2,383	(70.9)
Adjustments	(16)	329	n.m.	(11)	(45.4)
Adjusted PAT	677	2,371	(70.3)	2,280	(71.4)
No. of shares	114.5	114.5	-	114.5	-
EPS (Rs)	5.9	19.9	(70.3)	20.7	(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
Enterprise Value				132,231	1,155
Net Debt				(88,074)	(769)
Minority Interest				(2,364)	(21)
Equity Value				41,793	365

PROFIT & LOSS

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	117,420	133,016	157,669	162,157	166,397
% change	0.2	13.3	18.5	2.8	2.6
EBITDA	17,025	21,891	29,621	25,352	27,679
% change	124.4	28.6	35.3	(14.4)	9.2
Depreciation	5,690	5,962	7,579	8,345	9,103
EBIT	11,335	15,929	22,042	17,007	18,576
Interest	5,072	5,502	7,660	8,807	8,681
Other Income	(3,789)	10,683	1,524	1,246	1,143
PBT	2,474	21,110	15,906	9,446	11,038
% 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
Reported PAT	(4,241)	13,434	10,218	6,128	7,161
Adj*	4,324	(9,599)	121	(16)	-
Adj PAT	83	3,835	10,339	6,112	7,161
% 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
Adj EPS (Rs)	0.9	37.0	90.2	53.4	62.5
% 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
Net inc. + Depn.	1,450	19,396	17,798	14,473	16,263
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)
C.F. Operation	10,848	8,023	25,336	18,217	24,776
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
C.F - Investment	(9,086)	(12,026)	(29,902)	(6,578)	(8,545)
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)
C.F - Finance	(2,592)	6,640	(673)	(11,871)	(15,744)
Chg. in cash	(831)	2,638	(5,239)	(232)	487
Closing cash	4,921	7,938	3,341	3,110	3,597

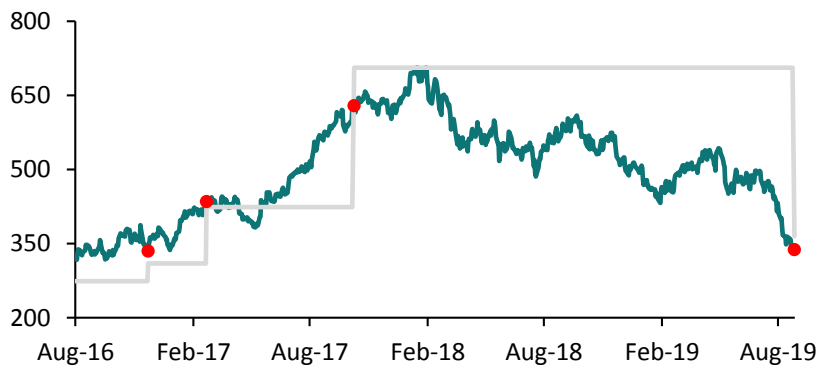
BALANCE SHEET

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
Total Assets	173,333	209,758	233,582	232,017	233,810
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
Total Liabilities	173,333	209,758	233,582	232,017	233,810
BVPS (Rs)	389	587	601	645	697

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
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
W.C & Liquidity					
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
Turnover & Leverage					
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
Valuation					
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.

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

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