

May 18, 2017

₹ 484

Tata Steel (TATSTE)

Stellar operational performance...

- Tata Steel's sales volume from Indian operations came in at 3.2 million tonnes (MT), in line with our estimate, while sales volumes from European operations came in at 2.85 MT, lower than our estimate of 3.2 MT. After adjusting for excise duty, net operating income (consolidated) was at ₹ 33896.0 crore, up 30.6% YoY, 21.2% QoQ, lower than our estimate of ₹ 35709.5 crore
- Consolidated reported EBITDA was at ₹ 7025.2 crore (EBITDA margin of 20.7%) significantly higher than our estimate of ₹ 4807.5 crore (EBITDA margin of 13.5%). EBITDA/tonne of domestic operations came in at ₹ 13470/tonne, significantly higher than our estimate of ₹ 10500/tonne while Tata Steel Europe (TSE) reported an EBITDA/tonne of ~US\$104/tonne notably higher than our estimate of US\$50/tonne
- For the quarter, the company reported exceptional items (expenses) amounting to ₹ 4069 crore (which includes non cash pension curtailment charges of ₹ 3627 crore). Consequently, the company reported a net loss to the tune of ₹ 1168.02 crore

Healthy growth in domestic sales volume drives performance...

Tata Steel's Indian (TSI) operations registered healthy volume growth, wherein for Q4FY17, sales volumes were at 3.2 MT, up 18.5% YoY, 6.7% QoQ. For FY17, Tata Steel's domestic operations sales volume was at 10.97 MT, up 15% YoY. Tata Steel's domestic sales volume growth for FY17 at 15% is notably higher than domestic steel consumption growth of 3.0%, reflecting an increase in Tata Steel's market share in the domestic market. For FY18E, we have modelled sales volume of 12.0 MT (management guided sales volume of 12.3-12.4 MT) and 12.5 MT for FY19E.

Integrated operations, ramping up of TSK bode well in long run...

The company's has access to captive raw materials at its Jamshedpur plant (100% integration for iron ore and ~35% integration for coking coal). This enables TSL to realise superior EBITDA margins compared to its domestic peers. Furthermore, the phased commissioning of facilities is ongoing at Kalinganagar (TSK). The plant crossed 2.2 MT of hot metal production and 1.5 MT of hot rolled coil production since its commissioning in May 2016, enabling higher deliveries. As per the management, over the longer term horizon, TSK plant's productivity as well as profitability would be higher given the lower conversion cost (compared to Jamshedpur) as well as a decline in start-up cost post production stability.

Strong performance from TSI, TSE; upgrade to BUY...

Tata Steel reported a healthy set of Q4FY17 numbers driven by significantly higher EBITDA/tonne from both Indian as well as European operations. The phased manner process of de-risking the British steel pension scheme augurs well for the company. Going forward, we expect increased sales volumes from Indian operations (higher margin business) in the overall volume mix to provide a fillip to the performance of the consolidated entity. We have modelled an EBITDA/tonne of ₹ 11000/tonne for FY18E (revised from ₹ 10000/tonne earlier) and ₹ 12000/tonne for FY19E (revised from ₹ 10500/tonne earlier) for domestic operations and US\$50/tonne (revised from US\$75/tonne earlier) for FY18E and US\$75 for FY19E (maintained) for European operations. We value the domestic operations at 6.5x FY19E EV/EBITDA and overseas operations at 5x FY19E EV/EBITDA. We have arrived at a target price of ₹ 550 with a **BUY** recommendation on the stock.

Rating matrix

Rating	:	Buy
Target	:	₹ 550
Target Period	:	12 months
Potential Upside	:	14%

What's Changed?

Target	Changed from ₹ 500 to ₹ 550
EPS FY18E	Changed from ₹ 51.3 to ₹ 47.0
EPS FY19E	Changed from ₹ 59.7 to ₹ 64.2
Rating	Changed from Hold to Buy

Quarterly Performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY16	QoQ (%)
Revenue	33896.0	25955.1	30.6	27956.5	21.2
EBITDA	7025.2	2245.7	212.8	3539.1	98.5
EBITDA (%)	20.7	8.7	1207 bps	12.7	807 bps
Rep. PAT	-1168.0	-3041.9	-61.6	231.8	-603.9
Adj. PAT	-708.4	-421.3	LP	203.1	-448.8

Key Financials

(₹ Crore)	FY16	FY17E	FY18E	FY19E
Net Sales	117151.6	112299.4	129430.1	134053.3
EBITDA	7585.6	17007.8	17314.6	20639.6
Adj Net Profit	-2243.2	4092.1	4562.1	6227.3
EPS (₹)	-23.1	42.2	47.0	64.2

Valuation summary

	FY16	FY17E	FY18E	FY19E
PE (x)	NA	11.5	10.3	7.5
Target PE (x)	NA	13.0	11.7	8.6
EV/EBITDA(x)	16.9	7.4	7.2	6.0
P/BV (x)	1.5	1.2	1.4	1.2
Adj RoNW (%)	-7.3	10.8	13.8	16.2
Adj RoCE (%)	2.1	9.4	9.4	11.1

Stock data

Particular	Amount
Market Capitalization (₹ Crore)	46,960
Total Debt (FY17P) (₹ Crore)	83,014
Cash & Cash Eq. (FY17P) (₹ Crore)	17,458
EV (₹ Crore)	112,516
52 week H/L (₹)	509 / 296
Equity capital	₹ 970.2 Crore
Face value	₹ 10

Price performance (%)

Return %	1M	3M	6M	12M
JSW Steel	6.5	11.8	24.9	60.2
SAIL	2.0	4.4	25.3	52.6
Tata Steel	6.8	5.5	25.8	51.0

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Akshay Kadam
akshay.kadam@icicisecurities.com

Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY16	QoQ (%)	
Revenue	33,896.0	35,709.5	25,955.1	30.6	27,956.5	21.2	Topline came in lower than our estimate
Other Income	152.2	175.0	123.3	23.4	130.1	17.0	Other income in lower than our estimate
Employee Expense	4,216.9	4,046.7	4,523.1	-6.8	4,331.7	-2.6	
Raw Material Expense	12,447.1	13,072.7	10,290.3	21.0	9,498.2	31.0	
Other operating Expenses	10,206.7	13,782.6	8,896.0	14.7	10,587.5	-3.6	
EBITDA	7,025.2	4,807.5	2,245.7	212.8	3,539.1	98.5	EBITDA came in significantly higher than our estimate
EBITDA Margin (%)	20.7	13.5	8.7	1207 bps	12.7	807 bps	EBITDA margin came in significantly higher than our estimate
Depreciation	1,589.2	1,727.0	1,364.3	16.5	1,379.7	15.2	
Interest	1,263.1	1,458.0	987.4	27.9	1,387.4	-9.0	
Exceptional Item	4,065.8	-	2,341.6	73.6	28.8	14,017.5	The exceptional items (expenses) amounting to ₹ 4069 crore (includes non cash pension curtailment charges of ₹ 3627 crore)
PBT	259.2	1,797.5	(2,324.2)	-111.2	873.3	-603.9	
Tax Outgo	976.0	804.6	424.9	129.7	698.4	39.7	
PAT	(716.8)	993.0	(2,749.1)	-73.9	174.9	-509.8	
Profit from discontinued operations	(451.3)	-	(292.8)	54.1	56.9	-893.1	
Reported PAT for the Group	(1,168.0)	993.0	(3,041.9)	-61.6	231.8	-603.9	The company reported a net loss against our estimate of profit
Adjusted PAT for the Group	(708.4)	-	(421.3)	LP	203.1	-448.8	

Key Metrics

TSI Steel Sales (MT)	3.2	3.2	2.7	18.5	3.0	6.7	Domestic sales volume came in line with our estimate
TSE Steel Sales (MT)	2.9	3.2	3.6	-20.8	2.4	18.8	Europe steel sales came in lower than our estimate
Group Steel Sales (MT)	6.8	6.7	6.9	-1.0	6.1	12.0	Group sales volume were marginally higher than our estimate
TSI EBITDA/tonne (₹/tonne)	13,470.0	10,500.0	7,954.0	69.3	11,285.0	19.4	TSI EBITDA/tonne came in higher than our estimate
TSE EBITDA/tonne (US\$/tonne)	104.0	50.0	(15.0)	LP	38.1	173.0	TSE EBITDA/tonne came in higher than our estimate

TSI: Tata Steel India; TSE: Tata Steel Europe

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Total Operating Income (₹ crore)	128,232	129,430	0.9	132,177	134,053	1.4	Maintained for FY18E, revised upwards for FY19E
EBITDA (₹ crore)	17,741	17,315	-2.4	18,764	20,640	10.0	Revised downwards for FY18E, upwards for FY19E
EBITDA Margin (%)	13.8	13.4	-3.3	14.2	15.4	8.5	
Adj PAT (₹ crore)	4,974	4,562	-8.3	5,790	6,227	7.6	Revised downwards for FY18E, upwards for FY19E
Adj EPS (₹)	51.3	47.0	-8.3	59.7	64.2	7.5	

Source: Company, ICICIdirect.com Research

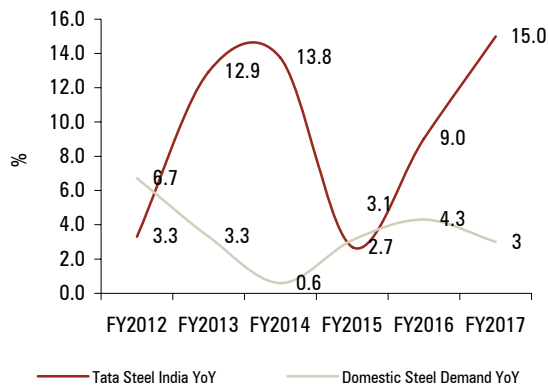
Assumptions

	Current			Earlier		Comments
	FY17E	FY18E	FY19E	FY18E	FY19E	
TSI Steel Sales (MT)	11.0	12.0	12.5	12.0	12.5	Maintained estimates
TSE Steel Sales (MT)	9.9	10.0	10.0	10.0	10.0	Maintained estimates
Group Steel Sales (MT)	23.9	26.5	27.0	26.5	26.5	Maintained estimates for FY18E, revised upwards for FY19E
TSI EBITDA/tonne (₹/tonne)	10,901.0	11,000.0	12,000	10,000.0	10,500.0	Revised upwards for both years
TSE EBITDA/tonne (US\$/tonne)	71.0	50.0	75.0	75.0	75.0	Revised downwards for FY18E, maintained for FY19E

TSI: Tata Steel India; TSE: Tata Steel Europe

Source: Company, ICICIdirect.com Research

TSL India outshines domestic demand in FY15 & FY16



Source: Company, ICICIdirect.com Research

Company Analysis

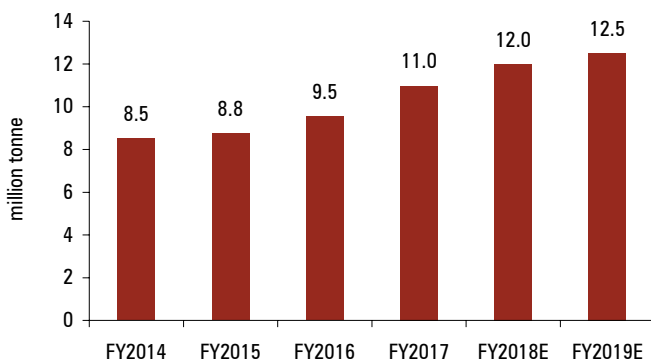
Healthy increase in domestic sales volume augurs well...

Tata Steel's Indian operations registered healthy volume growth, wherein for Q4FY17 sales volumes were at 3.2 MT, up 18.5% YoY, 6.7% QoQ. For FY17, Tata Steel's domestic operations sales volume was at 10.97 MT, up 15% YoY. Tata Steel's domestic sales volume growth for FY17 at 15% is notably higher than domestic steel consumption growth of 3.0%, which reflects an increase in Tata Steel's market share in the domestic market. For FY18E, we have modelled sales volume of 12.0 MT (management guided sales volume of 12.3-12.4 MT) and 12.5 MT for FY19E.

Integrated Jamshedpur operations bode well in long run...

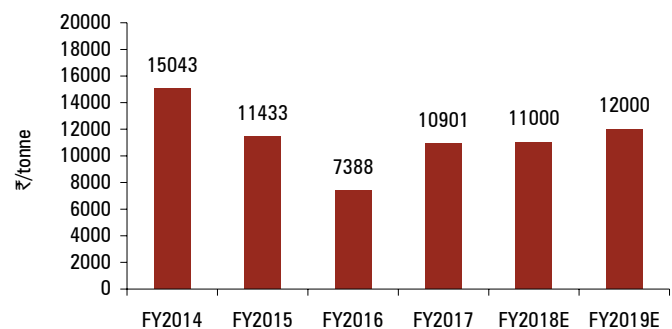
The company's has access to captive raw materials at its Jamshedpur plant (100% integration for iron ore and ~35% integration for coking coal). This enables TSL to realise superior EBITDA margins compared to its domestic peers. Going forward, over the next couple of years, we expect Indian operations to clock an EBITDA/tonne of ~₹ 11000-12000/tonne, higher than its peers.

Exhibit 1: Domestic volumes to grow at CAGR of ~8% in FY17E-19E...



Source: Company, ICICIdirect.com Research

Exhibit 2: ..domestic EBITDA/tonne likely to increase to ~₹ 11000-12000 /tonne levels over next couple of years



Source: Company, ICICIdirect.com Research

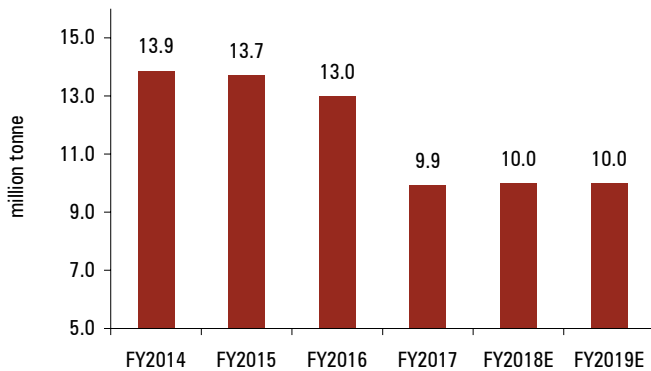
European operations witness a strong operational turnaround in FY17...

Tata Steel Europe sold the Clydebridge and Dalzell plants in March 2016 to the Liberty Group. Further in April 2016, the company sold the long products business to Greybull Capital for a nominal consideration. As a part of restructuring the UK operations, the company shut the loss making operations. It implemented several other cost saving initiatives to improve the overall competitiveness. Furthermore, the company, as a part of its continued restructuring efforts, successfully completed the sale of its speciality steel division during Q4FY17.

The restructuring initiatives undertaken resulted in profitable operations in the Q1FY17, Q2FY17 and Q3FY17 wherein the EBITDA/tonne came in at US\$50.6/tonne, US\$67/tonne and US\$38/tonne, respectively, against a negative EBITDA/tonne in the preceding quarters of the corresponding year. The EBITDA/tonne for Q4FY17 came in at ~US\$104/tonne, up 173% QoQ against the negative EBITDA/tonne of US\$15 in Q4FY16.

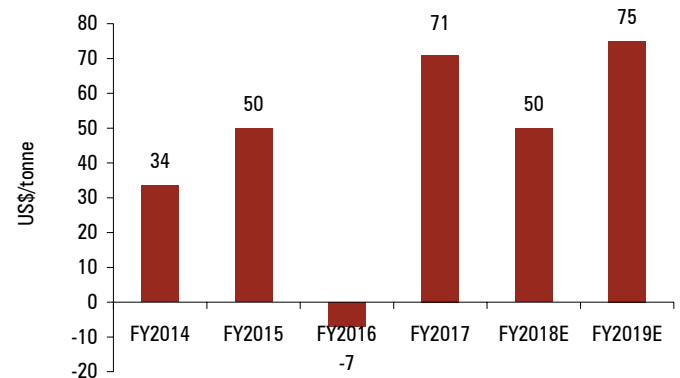
European operations for the full year FY17 clocked an EBITDA margin of 9.0% and EBITDA/tonne of ~US\$70/tonne. The Q4FY17 EBITDA of £230 million (₹ 1972 crore) is the highest quarterly EBITDA since 2008.

Exhibit 3: Trend in Tata Steel's Europe's volume...



Source: Company, ICICIdirect.com Research

Exhibit 4: ... TSE EBITDA/tonne to improve

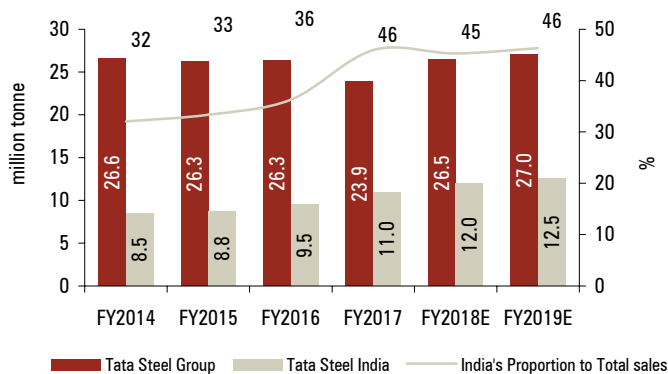


Source: Company, ICICIdirect.com Research

Kalinganagar plant continues to ramp up...

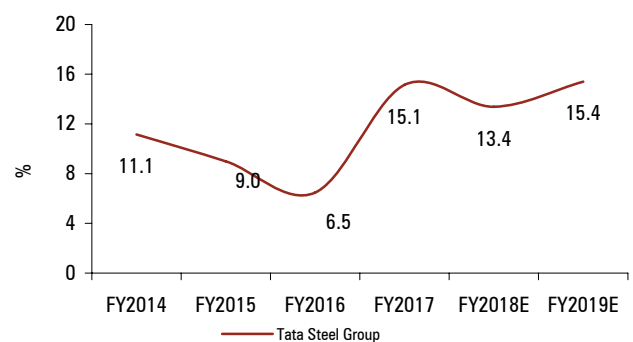
Tata Steel is currently implementing a capacity expansion plan wherein it is augmenting its domestic capacity by 3 MT from 9.7 MT currently to 12.7 MT. The new plant being set up at Kalinganagar, Odisha is within close proximity of the rich mineral belt. Expansion in the higher margin domestic business augurs well for the company as sales volumes from Indian operations would steadily increase in the overall volume mix. The phased commissioning of facilities is ongoing at TSK. Till date, the plant has crossed 2.2 MT of hot metal production and 1.5 MT of hot rolled coil production since its commissioning in May 2016 enabling higher deliveries for Tata Steel India. As per the management, post a ramp up, TSK would be a more productive and profitable facility given the lower conversion cost compared to Jamshedpur and decline in start cost post production stability.

Exhibit 5: Share of domestic sales volume in overall group sales



Source: Company, ICICIdirect.com Research

Exhibit 6: Consolidated EBITDA margin trend



Source: Company, ICICIdirect.com Research

Closure of BSPS first step in restructuring of UK pensions...

Accounting for exceptional items in consolidated financial statements includes a significant accounting treatment arising from the closure of the defined benefit section of the British Steel Pension Scheme (BSPS) to future accruals in March 2017. The completion of the consultation process by Tata Steel UK (TSUK) with employees in the UK, the BSPS has been closed to future accruals with effect from the end of March 31, 2017. The closure of the scheme meant that all active members of the scheme became deferred pensioners, which resulted into a crystallised non-cash curtailment strain of ₹ 3,627 crore. The closure also serves as the first step in the restructuring of UK pensions.

The key commercial terms of a regulated apportionment arrangement (RAA) have been agreed in principle between TSUK and the BSPS Trustee. However, the RAA is subject to detailed documentation and formal approval by TPR and non-objection from the PPF, and the formal agreement of the individual entities who would be party to the RAA. These parties are in positive discussions and are hopeful of reaching final agreement shortly. If agreement is reached and necessary approvals are obtained, the RAA will become effective once agreed conditions are satisfied, including the payment by a member of the Tata Steel group of an agreed settlement amount of £550 million to BSPS and the provision of a 33% equity stake in TSUK.

TSUK has also agreed in principle, that subsequent to an RAA, TSUK would sponsor a closed new pension scheme (the new scheme). TSUK sponsorship of a new scheme is conditional upon satisfaction of certain qualifying conditions. If those conditions are satisfied, members of the BSPS would be offered an option to transfer to the new scheme. The new scheme would have lower future annual increases for pensioners and deferred members than BSPS and, therefore, an improved funding position. Currently, there is no certainty with regard to the eventual existence, size, terms or form of the new scheme. Funding position and membership of any new scheme would be dependent on a voluntary membership transfer exercise.

Exhibit 7: Phased approach towards de-risking British Steel Pension Scheme

2015	Triennial Valuation as of March 31, 2014 completed with the then funding deficit agreed at £90 million
March-17	The first step in the restructuring of BSPS was completed, with the closure of the defined benefit section to future accruals in March 2017, following the completion of the consultation process by TSUK with employees. The closure of the scheme meant that all active members of the scheme became deferred pensioners, resulting into a crystallised noncash curtailment strain of ₹ 3600 crore
Ongoing	Key commercial terms of an RAA have been agreed in principle between TSUK and the BSPS Trustee (including the payment by a member of the Tata Steel group of an agreed settlement amount of £550 million to the BSPS and the provision of a 33% equity stake in TSUK). The RAA is subject to detailed documentation and formal approval by TPR and on-objection from PPF. All parties are in positive discussions, hopeful of reaching a final agreement shortly
Close of FY18	TSUK has also agreed in principle, that subsequent to an RAA, TSUK would sponsor a closed de-risked new pension scheme, conditional upon satisfaction of certain qualifying conditions. Such a new scheme would be offered as an option (voluntary) to existing members of BSPS, as opposed to the PPF, post-RAA. Although there is no certainty in regards to its eventual existence, size, terms or form, the new scheme would have lower future annual increases than BSPS and, therefore, an improved funding position, which would pose significantly less risk for TSUK

Source: Company, ICICIdirect.com Research

Conference call highlights & other key developments...

- Global steel demand is gaining momentum amid rising volatility. China's capacity cuts and recovery in emerging and developing countries aided the demand recovery in FY17. Inflationary expectations, cost push & restocking from lower levels supported a recovery in steel prices. The optimism is tempered by political and policy uncertainties amid rising nationalism and potential retreat from globalisation
- Rising trade barriers and revival in Chinese end demand has kept the incremental steel production from China out of the sea-borne market. Exports from the country are down 25% YoY during Q1CY17
- Sea-borne trade has been impacted by the raw material swing as well as supply reforms and environmental disruptions. Volatile exchange rates and rising sea freight are posing further challenges
- During FY17, the decline in steel imports coincided with the strong growth in exports, which jumped 107% YoY to 9.3 MT supported by improvement in international prices. Imports declined 37% YoY to 8 MT

Indian operations

- Realisations domestically were up by ~₹ 2600/tonne QoQ in Q4FY17. Realisations increased across geographies. The management indicated the realisation during Q1FY18 was up by ~₹ 700-800/tonne
- Indian deliveries grew 7% QoQ, 18% YoY contributing 47% of group deliveries
- The ramp up in Kalinganagar steel plant enabled higher deliveries domestically. The 7% increase in domestic deliveries in Q4 outpaced market production growth of 6%. TSK crossed 2.2 MT of hot metal and 1.5 MT of HRC production since commissioning in May 2016
- Automotive sales in FY17 were at 1.58 MT, up 11% YoY. The IPPE segment grew 32% YoY (inclusive of a surge in exports of 7%). The branded products portfolio now contributes 45% of sales turnover of FY17
- The performance of ferro alloys & minerals division registered sharp improvement on the back of improved market conditions. Quarterly operating profit of the division at ₹ 573 crore is higher by ₹ 271 crore compared to the previous quarter. Full year operating profit of ₹ 1,165 crore is higher by ₹ 1,040 crore compared to the previous fiscal
- Significantly higher EBITDA in the quarter was supported by higher sales realisations, improved deliveries, deferred income release on higher exports and lower employee cost on changes in actuarial assumptions. This was partly offset by cost changes impacted by higher coal prices.

European Operations

- Growth of European steel using sector remained mixed. The construction and machinery sector continued to drag while the automotive sector fared better due to increased consumer spending. In CY16, steel imports rose 9.3% (3.0 MT) while domestic deliveries increased modestly by 1.6% (1.9 MT)
- The European business focused on developing differentiated products and services, which help make customers more competitive. The sale of differentiated products increased from 32% to more than 37% as a proportion of the overall mix

- Liquid steel production in the fourth quarter of 2.62 million tonnes was flat on a sequential and YoY basis. Over the full year, production was 5% lower due to the focus on higher-value sales
- Measures to improve the competitive position of the UK operations, coupled with an improving sales mix and more favourable market conditions led to quarterly EBITDA of £230 million (₹ 1,972 crore), up by £267 million (mn) (₹ 2,327 crore) YoY and up by £144 mn (₹ 1,265 crore) sequentially. FY17 European EBITDA was £536 mn (₹ 4,705 crore), compared to the loss of £52 mn (₹ 513 crore) in FY16
- The higher-than-expected EBITDA from the Europe business was a result of improved selling result with favourable market conditions and increased production volume due to greater utilisation of downstream units. However, this was offset by cost changes impacted by higher price of coking coal in Q4
- The impact of lower coking coal cost is likely to come in with a lag and flow down in Q1FY18
- Going forward, the EU and UK economies are expected to grow 1.8% in 2017. Uncertainties following the EU referendum have led to a weaker pound benefiting UK exporters. European steel demand is expected to grow 1.3% in CY17 in line with modest economic growth. European steel mills are expected to continue to be under pressure from imports. The volatility in raw material prices, especially coking coal, is likely to keep steel prices under check
- Tata Steel UK completed the sale of its specialty steels business for a total consideration of £100 million

South East Asia operations

- The construction spend in Singapore hit its lowest level in last six years, softening of demand led to fierce competition on tender prices
- Spreads continued to be supportive during the quarter on the back of increase in long steel prices
- The Thailand economy continues to recover growing 3.2% in 2016 on supportive public investment in infrastructure & private consumption as business confidence improves on the back of political stability
- Nat Steel Holding's Q4 profitability improved on improved realisations and better spreads management. The deliveries were impacted on sluggish construction market and Chinese New Year holidays reducing by 7.5% QoQ. The exports basket increased to 60 countries upon continued focus on export driven strategy
- Tata Steel Thailand's deliveries grew 14% QoQ on the back of continued thrust by the government on infrastructure. The government's review on anti-dumping measures led to customers returning to local producers, which coupled with higher Chinese prices aided growth for the domestic industry. Strong growth witnessed in wire rod business which grew 62%YoY in FY17
- The overall outlook for the steel market remains positive on optimism on US infra spend and China supply side reforms. The recent slide in commodity prices, however, threatens to dampen the optimism
- SEA demand is expected to get support from increase in public investment projects and continued government stimulus measures in Thailand coupled with improvement in construction demand in Singapore.

Other Highlights

- The group EBITDA increased on account of higher realisation across geographies and improvement in product basket supported by the selling result. Tighter cost controls and restructuring resulted into positive cost changes at the European operations. Further favourable volume mix in India and improvement in FAMD business supported the EBITDA for FY17.
- The management guided at steel sales volume for domestic operations of 12.3-12.4 MT for FY18. Further, exports volume is likely to be around 1.2 MT
- The company incurred a capex of ~₹ 7716 crore in FY17 against guidance of ₹ 9500 crore. Tata Steel India's capex amounted to ₹ 3170 crore while capex spent on European operations amounted to ₹ 3290 crore
- Gross debt at ₹ 83014 crore as on March 31, 2017 reduced by over ₹ 1700 crore QoQ despite capex of ₹ 2092 crore in the quarter. The same increased ₹1028 crore over FY16. The net debt at ₹ 72367 crore reduced by over ₹ 4300 crore QoQ but YoY was up by ₹ 1268 crore
- Operating cash flow before working capital changes more than doubled from ₹ 6844 crore in FY16 to ₹ 17573 crore in FY17. The working capital increased on account of higher raw material prices and ramp up at TSK
- Liquidity was at ₹ 19800 crore including cash & cash equivalent and current investments and un-drawn credit lines
- Indian subsidiaries reported a better-than-expected performance supported by improved performance in Tata Metaliks, Tinplate and Tata Sponge Iron Ltd

Outlook and valuation

Tata Steel reported a healthy set of Q4FY17 numbers driven by significantly higher EBITDA/tonne from both Indian as well as European operations. The phased manner process of de-risking the British steel pension scheme augurs well for the company. Going forward, we expect increased sales volumes from Indian operations (higher margin business) in the overall volume mix to provide a fillip to the performance of the consolidated entity. We have modelled an EBITDA/tonne of ₹ 11000/tonne for FY18E (revised from ₹ 10000/tonne earlier) and ₹ 12000/tonne for FY19E (revised from ₹ 10500/tonne earlier) for domestic operations and US\$50/tonne (revised from US\$75/tonne earlier) for FY18E and US\$75 for FY19E (maintained) for European operations. We value the domestic operations at 6.5x FY19E EV/EBITDA and overseas operations at 5x FY19E EV/EBITDA. We have arrived at a target price of ₹ 550 with a **BUY** recommendation on the stock.

Exhibit 8: Target price calculation

(₹ Crore)	FY19E
Tata Steel India EBITDA FY19E (A)	15002
EV/EBITDA Multiple Assigned (B)	6.5
Tata Steel Europe & Other Subs EBITDA FY18E (C)	5639
EV/EBITDA Multiple Assigned (D)	5
Tata Steel Total EV (E = A*B + C*D)	125706
Tata Steel Gross Debt (F)	80214
Cash & Cash Eq (G)	4704
Minority Interest (H)	1492
Net Debt (I = F-G+H)	77002
Value of Invnt (30% discount) (Tata Motors Shares+ Others, J)	4633
Implied Market Cap (K = E-I+J)	53337
No of Shares (L)	97.02
Target Price (K/L)	550

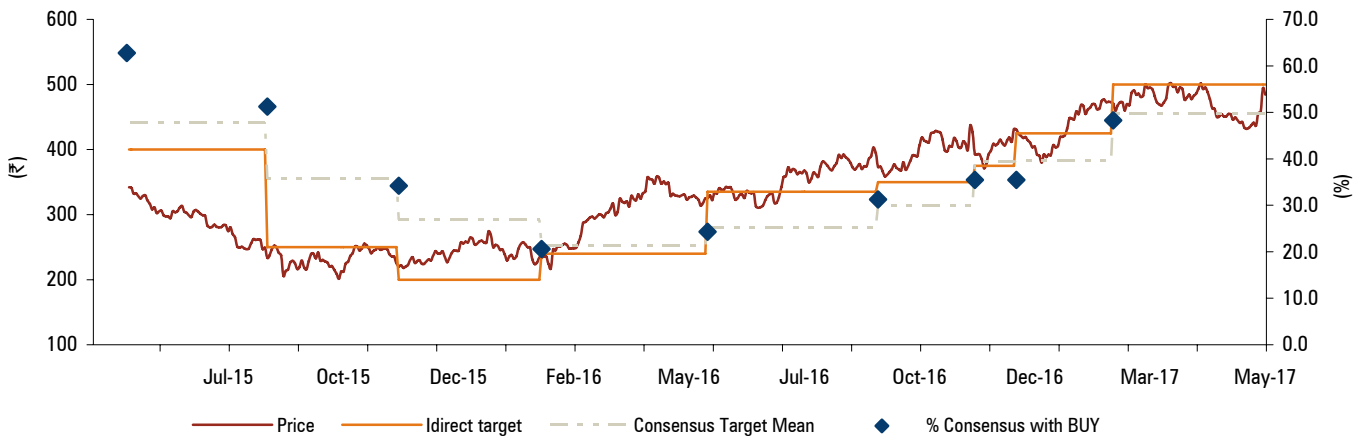
Source: Company, ICICIdirect.com Research

Exhibit 9: Valuation matrix

	Total Op. Income (₹ Crore)	Growth % YoY	EPS (₹)	Growth % YoY	PE (x)	EV/EBITDA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY15	138318.9	-6.1	NM	NM	NM	9.5	1.4	0.0	5.8
FY16	115951.7	-16.2	-23.1	NM	NA	16.9	1.5	-7.3	2.1
FY17P	111562.1	-3.8	42.2	LP	11.5	7.4	1.2	10.8	9.4
FY18E	128458.7	15.1	47.0	11.5	10.3	7.2	1.4	13.8	9.4
FY19E	133022.3	3.6	64.2	36.5	7.5	6.0	1.2	16.2	11.1

Source: Company, ICICIdirect.com Research

Recommended History vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Dec-16	Cyrus Mistry resigns as director from six listed Tata Group companies including Tata Steel
Dec-16	At the EGM of Tata Steel held on December 21, 90.8% shareholders voted in favour of the resolution to remove Nusli Wadia as the director
Dec-16	Tata Steel acquires 100% equity in Brahmani River Pellets (BRPL) for an enterprise value of ₹ 900 crore, which is likely to aid in reducing costs at its Kalinganagar steel unit in Odisha. BRPL's assets include a 4 million tonnes (MT) pellet plant in Jajpur and a 4.7 MT per annum iron ore beneficiation plant in Barbil connected with a 220-km underground slurry pipeline
Dec-16	As per media sources, Tata Steel is in discussions with foreign companies for investment in heavy industries over the next five years at the special economic zone project at Gopalpur in Odisha
Jan-17	Tata Steel executes definitive agreements to acquire a majority stake (51%) in the Creative Port Development Pvt Ltd and their promoters for the proposed development of Subarnarekha Port at Chaumukh village of Balasore district in Odisha. As per agreements, TSL will acquire a majority equity stake in CPDPL, and the port development is envisaged through a wholly-owned subsidiary, Subarnarekha Port Pvt Ltd (SPPL). The acquisition and development is subject to certain conditions precedent, detailed technical assessments and financial closure. The current outlay for the agreement is at ₹ 120 crore
Feb-17	Tata Steel UK signs definitive sale agreement to sell its speciality steel business to Liberty House Group for a consideration of £100 million. The sale agreement covers South Yorkshire based assets including electric arc, steel works and bar mill at Rotherham, the steel purifying facility at Stocksbridge and a mill in Brinsworth as well as service centres in Bolton and Wednesburg, UK and X'ian, China. The completion of the transaction remains subject to receipt of necessary regulatory approvals. Liberty Group had earlier signed an letter of intent (LoI) for the same
Mar-17	Tata Steel UK completes the consultation process with its employees to close the British Steel Pension Scheme (BSPS) to future accrual. Accordingly, it will close the BSPS to future accrual from March 31. A new and competitive defined contribution pension scheme will be introduced thereafter
May-17	India Ratings (Ind-Ra) maintains rating watch evolving (RWE) on Tata Steel's credit rating of IND AA/IND A1+. The RWE reflects the uncertainty regarding the divestments and/or formation of joint ventures (JVs) pertaining to TSL's European operations. Ind-Ra expects to resolve the rating watch by October 2017, after it gains greater clarity on the same

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Tata Group of Companies	31-Dec-16	31.1	301.8	0.0
2	Life Insurance Corporation of India	31-Dec-16	13.6	131.7	-0.5
3	HDFC Asset Management Co., Ltd.	31-Dec-16	5.0	49.0	3.8
4	Reliance Nippon Life Asset Management Limited	31-Dec-16	2.1	20.8	0.1
5	ICICI Prudential Asset Management Co. Ltd.	31-Dec-16	1.6	15.9	0.8
6	Abu Dhabi Investment Authority	31-Dec-16	1.2	11.7	11.7
7	Dimensional Fund Advisors, L.P.	28-Feb-17	1.2	11.4	0.0
8	The New India Assurance Co. Ltd.	31-Dec-16	1.1	11.1	-0.2
9	BlackRock Institutional Trust Company, N.A.	30-Apr-17	0.9	8.9	0.1
10	Norges Bank Investment Management (NBIM)	31-Dec-16	0.9	8.8	-2.9

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	31.4	31.4	31.4	31.4	31.4
FII	13.2	13.2	13.6	13.0	14.0
DII	26.7	27.2	29.2	30.8	30.7
Others	28.7	28.2	25.8	24.8	23.9

Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Abu Dhabi Investment Authority	67.1	11.7	Norges Bank Investment Management (NBIM)	-16.8	-2.9
HDFC Asset Management Co., Ltd.	22.0	3.8	Lyxor Asset Management	-8.5	-1.1
DSP BlackRock Investment Managers Pvt. Ltd.	21.5	2.9	Goldman Sachs Asset Management (US)	-6.4	-0.9
ICICI Prudential Asset Management Co. Ltd.	4.4	0.8	Life Insurance Corporation of India	-3.0	-0.5
Birla Sun Life Asset Management Company Ltd.	5.1	0.7	Goldman Sachs Asset Management International	-2.4	-0.4

Source: Reuters, ICICIdirect.com Research

Financial summary (Cons)

Profit and loss statement (₹ crore)				
(Year-end March)	FY16	FY17	FY18E	FY19E
Net Sales	115951.7	111562.1	128458.7	133022.3
Other Operating Income	1199.9	737.4	971.4	1031.0
Total Operating Income	117151.6	112299.4	129430.1	134053.3
Growth (%)	-16.2	-3.8	15.1	3.6
Raw Material Expenses	44816.1	39304.9	53339.5	52315.8
Employee Expenses	19966.8	17252.2	14972.1	16859.2
Purchase of Power	5433.6	0.0	6896.2	7082.5
Other expenses	39349.4	38734.5	36907.8	37156.2
Total Operating Expenditure	109565.9	95291.6	112115.5	113413.7
EBITDA	7585.6	17007.8	17314.6	20639.6
Growth (%)	-39.5	124.2	1.8	19.2
Depreciation	5081.8	5672.9	6606.9	7528.8
Interest	4128.6	5072.2	4374.0	4304.0
Other Income	3925.7	527.5	561.6	565.3
PBT	2300.8	6790.2	6895.4	9372.2
Exceptional Item	-3974.9	-4316.6	0.0	0.0
Total Tax	1505.0	2778.0	2275.5	3092.8
PAT	-3179.0	-304.4	4619.9	6279.4
Growth (%)	LP	-90.4	-1617.8	35.9
Minorities, Associates etc	129.7	-64.2	-57.8	-52.0
Rep PAT after Assoc., MI	-3049.3	-368.6	4562.1	6227.3
Adj PAT after Assoc., MI	-2243.2	4092.1	4562.1	6227.3
Growth (%)	NM	-282.4	11.5	36.5
Adj EPS (₹)	-23.1	42.2	47.0	64.2

Source: Company, ICICIdirect.com Research

Balance sheet (₹ crore)				
(Year-end March)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Share Capital	970.2	970.2	970.2	970.2
Hybrid Perpetual securities	2,275.0	2,275.0	2,275.0	2,275.0
Reserve and Surplus	27508.6	34574.1	29885.9	35091.5
Total Shareholders funds	30753.9	37819.3	33131.1	38336.8
Total Debt	86204.0	83014.0	81414.0	80214.0
Deferred Tax Liability	2904.9	10030.1	10030.1	10030.1
Minority Interest & Others	1674.2	1601.7	1543.9	1491.9
Total Liabilities	121537.0	132465.1	126119.1	130072.7
Assets				
Gross Block	177463.1	183767.2	193767.2	207767.2
Less: Impairment	15692.0	0.0	0.0	0.0
Less: Acc Depreciation	89582.5	95255.4	101862.2	109391.0
Net Block	72188.6	88511.8	91905.0	98376.2
CWIP	10228.8	15784.1	13784.1	4984.1
Investments	6800.6	12536.7	6536.7	10536.7
Goodwill on Consolidation	13719.4	3494.7	3494.7	3494.7
Inventory	20356.0	24803.8	32880.5	31532.8
Debtors	11701.2	11586.8	14077.7	13120.0
Loans and Advances	19688.7	7587.4	4437.4	7937.4
Other Current Assets	1829.3	2931.1	3031.1	3131.1
Cash	6715.6	4921.1	5536.0	4703.6
Total Current Assets	60290.8	51830.2	59962.7	60424.9
Current Liabilities	29197.3	18574.5	29446.1	28625.9
Provisions	12515.8	22003.9	21003.9	20003.9
Current Liabilities & Prov	41713.1	40578.4	50450.0	48629.8
Net Current Assets	18577.7	11251.8	9512.7	11795.1
others	21.9	885.9	885.9	885.9
Application of Funds	121537.0	132465.1	126119.1	130072.7

Source: Company, ICICIdirect.com Research

Cash flow statement (₹ crore)				
(Year-end March)	FY16	FY17	FY18E	FY19E
Profit after Tax	-3049.3	-368.6	4562.1	6227.3
Add: Depreciation	5081.8	5672.9	6606.9	7528.8
(Inc)/dec in Current Assets	-3635.8	6666.0	-7517.5	-1294.6
Inc/(dec) in CL and Prov.	1701.3	-1134.7	9871.6	-1820.2
Others	20.4	7125.2	0.0	0.0
CF from operating activities	118.4	17960.8	13523.1	10641.3
(Inc)/dec in Investments	-3345.6	-5736.1	6000.0	-4000.0
(Inc)/dec in Fixed Assets	-4128.3	-27551.4	-8000.0	-5200.0
Others	-49.6	-52.5	-57.8	-52.0
CF from investing activities	-7523.5	-33340.1	-2057.8	-9252.0
Issue/(Buy back) of Equity	0.0	-20.0	0.0	0.0
Inc/(dec) in loan funds	5503.0	-3190.0	-1600.0	-1200.0
Dividend paid & dividend tax	179.9	-908.1	-908.1	-1021.7
Inc/(dec) in Share Cap	0.0	8342.2	-8342.2	0.0
Others	-311.0	9360.6	0.0	0.0
CF from financing activities	5371.9	13584.7	-10850.4	-2221.7
Net Cash flow	-2033.1	-1794.6	615.0	-832.4
Opening Cash	8748.8	6715.6	4921.1	5536.0
Closing Cash	6715.6	4921.1	5536.0	4703.6

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
Adj EPS	-23.1	42.2	47.0	64.2
Cash EPS	29.3	100.6	115.1	141.8
BV	317.0	389.8	341.5	395.1
Adj BV (adj for Goodwill)	175.6	353.8	305.5	359.1
DPS	8.0	8.0	8.0	9.0
Cash Per Share	69.2	50.7	57.1	48.5
Operating Ratios (%)				
EBITDA Margin	6.5	15.1	13.4	15.4
PBT / Total Operating income	2.0	6.0	5.3	7.0
Adj PAT Margin	-1.9	3.6	3.5	4.6
Inventory days	185	210	225	220
Debtor days	39	38	40	36
Creditor days	261	199	175	205
Return Ratios (%)				
Adj RoE	-7.3	10.8	13.8	16.2
Adj RoCE	2.1	9.4	9.4	11.1
RoIC	2.3	9.8	9.8	11.5
Valuation Ratios (x)				
P/E	NA	11.5	10.3	7.5
EV / EBITDA	16.9	7.4	7.2	6.0
EV / Net Sales	1.1	1.1	1.0	0.9
Market Cap / Sales	0.4	0.4	0.4	0.4
Price to Book Value	1.5	1.2	1.4	1.2
Price to Adj Book Value	2.8	1.4	1.6	1.3
Solvency Ratios				
Debt/EBITDA	11.4	4.9	4.7	3.9
Debt / Equity	2.8	2.2	2.5	2.1
Current Ratio	1.4	1.3	1.2	1.2
Quick Ratio	1.0	0.7	0.5	0.6

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Metals & Mining)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	TP (₹)	Rating		FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Coal India	276	365	Buy	171541	16.1	19.6	22.4	18.6	15.3	13.4	9.8	8.0	6.6	36.9	51.5	62.1	36.1	48.6	56.3
Hindalco	199	180	Hold	41063	13.7	17.3	22.2	13.3	10.5	8.2	7.6	7.0	6.2	7.0	7.6	8.5	6.8	8.0	9.4
Hindustan Zinc	252	300	Buy	106491	19.7	23.9	25.5	13.8	11.3	10.6	9.3	7.3	6.1	26.9	33.2	30.3	27.0	27.0	24.3
JSW Steel	207	200	Hold	49964	15.1	17.2	19.5	12.8	11.2	9.9	7.0	6.6	5.9	13.5	14.0	15.1	15.8	15.5	15.1
SAIL	63	60	Hold	25815	-5.9	-0.6	6.2	NA	NA	10.1	62.6	13.6	6.6	-2.0	2.1	7.0	-6.5	-0.7	7.3
Vedanta	242	260	Hold	71753	15.1	30.5	34.4	9.3	16.3	15.9	4.8	4.1	3.6	12.1	14.2	14.8	9.3	16.3	15.9
Tata Steel	484	550	Buy	143506	42.2	47.0	64.2	11.5	10.3	7.5	7.4	7.2	6.0	9.4	9.4	11.1	10.8	13.8	16.2

Source: Company, ICICIdirect.com Research

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Buy: >10%/15% for large caps/midcaps, respectively;

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Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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