

# TATA STEEL

## Steel the thunder!

India Equity Research | Metals and Mining

Tata Steel's Q4FY17 EBITDA at INR70bn (highest since Q2FY09) surpassed consensus owing to strong EBITDA at domestic operations (INR13,586/t) and turnaround in European operations. Though we estimate quarterly EBITDA run rate over FY18-19 to improve to INR40-50bn (from INR30-40bn), Q4FY17 EBITDA number is unlikely in the near term as international steel prices are under pressure. We remain upbeat on the stock as: 1) consolidated EBITDA/t likely to sustain at INR7,000-8,000 on higher share of domestic shipments; 2) high probability of de-risking of UK pension scheme; and 3) INR25-30bn free cash flow accretion over FY18-19. Factoring in Q4FY17 performance, we revise up FY18E/FY19E EBITDA 1%/7%. Maintain 'BUY' with revised SoTP-based TP of INR650 (INR637 earlier), implying an exit multiple of 6.4x FY19E—at a discount to peers' 7.0x average.

### All round EBITDA spurt fuels stellar performance

Tata Steel's consolidated EBITDA at INR70bn surpassed consensus by 54%. The outperformance was primarily due to: (a) healthy INR13,586/t (highest in past 10 quarters) EBITDA at domestic operations; (b) sharp improvement in Tata Steel Europe (TSE) with INR6,919 (INR1,247 loss in Q4FY16) EBITDA/t; and (c) turnaround in subsidiaries leading to INR5.4bn EBITDA (INR5.8bn loss in Q3FY17). Going forward, while we expect EBITDA/t to temper as impact of higher coking coal cost reflects in P&L (particularly at TSE), consolidated EBITDA is likely to settle at USD7,000-8,000/t due to higher share of more profitable Indian operations.

### De-risking of pension liabilities and deleveraging: Positives

We perceive higher probability of significant de-risking of UK pension scheme at an additional cost of GBP550mn and BPS trusts gaining 33% stake in Tata Steel UK. Further, we estimate free cash flow accretion of INR25-30bn (~7% of current market cap) and net debt to dip 12-15% over FY18-19 on higher EBITDA.

### Outlook and valuations: Sweeteners ahead; maintain 'BUY'

We are upbeat on the likely improvement in quarterly EBITDA run rate and key concerns on UK pensions & deleveraging being allayed to a significant extent. The stock is trading at 5.4x FY19E EBITDA. We maintain 'BUY/SO' with INR650 target price, implying exit multiple of 6.4x.

#### Financials

(INR mn)

Year to March	Q4FY17	Q4FY16	% Chg	Q3FY17	% Chg	FY17	FY18E	FY19E
Net revenues	353,049	295,076	19.6	290,247	21.6	1,174,199	1,257,166	1,252,761
EBITDA	70,252	22,052	218.6	36,362	93.2	170,078	176,563	204,382
Adjusted Profit	20,008	(12,990)	NA	2,617	664.4	(7,793)	40,820	56,309
Adjusted Diluted EPS	20.6	(13.4)	NA	2.7	664.4	(8.0)	42.0	57.9
Diluted P/E (x)						16.4	10.7	7.7
EV/EBITDA (x)						7.1	6.6	5.4
ROAE (%)						6.9	11.2	13.9

#### EDELWEISS 4D RATINGS

<b>Absolute Rating</b>	<b>BUY</b>
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

#### MARKET DATA (R: TISC.BO, B: TATA IN)

CMP	: INR 457
Target Price	: INR 650
52-week range (INR)	: 509 / 296
Share in issue (mn)	: 971.2
M cap (INR bn/USD mn)	: 443 / 6,922
Avg. Daily Vol.BSE/NSE('000)	: 6,715.4

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY17	Q2FY17
Promoters *	31.4	31.4	31.4
MF's, FI's & BK's	30.7	30.8	29.3
FII's	14.0	13.0	12.8
Others	23.9	24.8	26.5
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	(1.3)	4.1	0.2
3 months	(2.5)	7.8	(3.0)
12 months	39.6	20.5	49.0

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May 16, 2017

### Standalone: EBITDA/t jumped 67% YoY to INR13,586

Standalone EBITDA/t jumped 67% YoY to INR13,586 driven by higher ferro-alloy realisation and operating leverage from volume ramp up. Blended realisation also rose 24% YoY due to focus on value-added products, particularly in the auto segment.

Q4FY17 shipments jumped 18% YoY to 3.2mt. For FY17, shipments from Kalinganagar plant stood at 1.6mt. This helped Tata Steel not only ramp up volumes, but also reap benefits of operating leverage. However, in ensuing quarters, we estimate EBITDA/t to settle between INR10,000 and INR11,000/t as domestic steel prices in Q1FY18 are down INR700/t compared to Q4FY17 and ferro-chrome realisation is also down.

**Table 1: Higher volumes spur standalone operations**

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Shipments (mn tonnes)	3.2	2.7	18.1	3.0	7.2
Revenue (INR mn)	171,131	117,360	45.8	141,060	21.3
Realisation (INR/t)	53,312	43,179	23.5	47,114	13.2
EBITDA (INR mn)	43,610	22,067	97.6	33,789	29.1
EBITDA/t (INR)	13,586	8,119	67.3	11,285	20.4

Source: Company, Edelweiss research

### European operations: Refined product mix spurs EBITDA/t

Realisation for European operations was up 26% YoY (17% QoQ) at INR53,488/t. This was largely on account of renegotiation of 80% of contracts (accounting for 55% of sales) at USD100/t higher price on an average. Going ahead, we expect spreads to temper a bit as adverse impact of coking coal cost (expected at USD30/t) flows through in H1FY18. Additionally, we estimate iron ore cost to jump USD20-30/t due to utilization of higher cost inventory for production. In the medium term, however, cost is expected to remain fairly benign as iron ore and coking coal prices are down from peaks.

**Table 2: EBITDA improvement at European operations**

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Shipments (mn tonnes)	2.9	2.9	0.0	2.3	21.8
Revenue (INR mn)	152,440	129,820	17.4	121,700	25.3
Realisation (INR/t)	53,488	42,518	25.8	45,866	16.6
EBITDA (INR mn)	19,720	(3,550)	NM	7,070	178.9
EBITDA/t (INR)	6,919	(1,246)	NM	3,021	129.0

Source: Company, Edelweiss research

### South-East Asian operations: Higher spreads boost EBITDA

EBITDA/t from South East Asian operations grew 2x to INR2,197 (up 12% YoY) due to increase in downstream spreads in Singapore and stable international wire rod prices. Compared to Q3FY17, rebar-scrap spread on an average grew USD20/t to USD150/t in Q4FY17.

**Table 3: Stable performance by South-East Asia**

	Q4FY17	Q4FY16	YoY (%)	Q2FY17	QoQ (%)
Shipments (mn tonnes)	0.7	0.7	(1.5)	0.7	1.5
Revenue (INR mn)	22,750	18,030	26.2	19,850	14.6
Realisation (INR/t)	34,470	26,910	28.1	30,538	12.9
EBITDA (INR mn)	1,450	670	116.4	1,270	14.2
EBITDA/t (INR)	2,197	1,000	119.7	1,954	12.4

Source: Company, Edelweiss research

### Higher probability of UK pension scheme being significantly de-risked

We are upbeat on the recent developments in the UK pension scheme as this will not only de-risk the existing arrangement significantly, but also now there are certainties with respect to the cost associated with the same.

As a first step, post completion of consultation process in UK, the scheme has been closed to future accruals, resulting in non-cash curtailment charge of INR36bn.

Furthermore, after discussions with various interested parties comprising British Steel Pension Scheme (BSPS) trustees, the Pensions Regulator (TPR) and Pension Protection Fund (PPF), the key commercial terms of a Regulated Apportion Arrangement (RAA) have been agreed upon in principle between Tata Steel UK (TSUK) and BSPS trustees. Pursuant to obtaining the required approvals and satisfying all the conditions precedent, the RAA will become effective, resulting in payment of GBP550mn to the BSPS and provision of 33% equity stake in TSUK.

Subsequent to the above, TSUK will sponsor a new scheme with lower future annual increments for pensioners and deferred members than the BSPS. This will result in an improved funding position, which will start with significant surplus and de-risk the entire UK pension scheme significantly.

### We value Tata Steel at INR650/share on SoTP basis

On the basis of SoTP methodology, we value Tata Steel at INR650/share (earlier INR637), implying an exit multiple of 6.4x FY19E, which is at a discount to Far East/Asian peers and at the lower end of the company's historic trading range since acquisition of Corus.

**Table 4: We value Tata Steel at INR 650/share on SoTP methodology**

Particulars	Present TP	FY19E
EBITDA- India	128,026	149,306
Multiple (x)	8.3x	7.0x
Enterprise value (INR)- Domestic	1,056,290	1,046,666
Net debt (INR)	272,832	234,509
Value per share (INR)	807	836
EBITDA- TSE	43,104	49,642
Multiple (x)	6.6x	5.6x
EBITDA- SEA	4,614	4,614
Multiple (x)	6.6x	5.6x
Enterprise value (INR)- International	314,959	304,275
Net debt (INR)	477,938	480,761
Value per share (INR)	(168)	(182)
Investments @30% discount	38	38
Value per share (INR)	677	692
Discount factor (@ 15%)	1	1
Value per share (INR)	677	624
Fair value per share (INR)	650	

Source: Company, Edelweiss research

## Q4FY17 Conference call: Key highlights

### Macro industry fundamentals

- Management mentioned that demand is gaining momentum globally, though volatility in raw material prices still persists.
- Management stated that currently manufacturing and steel PMIs are trending upwards with EU confidence indicators at a multi-year peak.
- In domestic market, automotive segment growth remained healthy with PV segment registering highest-ever production growth at 9% YoY in FY17.

### Consolidated performance

- Consolidated EBITDA was up 3x YoY (up 93% QoQ) to INR70.2bn, primarily due to improved performance of European operations (+INR 12bn QoQ) and other subsidiaries (+INR11.5bn QoQ).
- Consolidated EBITDA/t was up 3x YoY at INR10,286 driven by higher proportion of domestic sales volume, EBITDA/t improvement at Corus and positive EBITDA by subsidiaries.

### Pension liabilities

- Management mentioned that British Steel Pension Scheme (BSPS) has been closed for future accruals from end of March 31, 2017, and all active members have been deferred resulting in a non-cash curtailment charge of INR36bn.
- As a second step, after a detailed discussion with BSPS trustees, The Pensions Regulator (TPR) and the Pension Protection Fund (PPF), the key commercial terms of a Regulated Apportionment Arrangement (RAA) have been agreed in principle between Tata Steel (UK) and BSPS subject to detailed documentation and formal approvals. If an agreement is reached and the necessary approvals are obtained, RAA is likely to

become effective upon payment of GBP550mn to the BSPS and provision of a 33% equity stake in Tata Steel UK (TSUK).

- Subject to an RAA, TSUK would sponsor a closed new pension scheme upon fulfillment of certain conditions. The new scheme is likely to have significantly less risks for TSUK operations including lower future annual increases for pensioners and deferred members. The new scheme would be designed in such a manner that funding position improves significantly and remains in surplus.
- As a result of above, the current pension scheme with GBP16bn in assets and corresponding liability will be closed.

#### Indian operations

- Sales volume grew 18% YoY to ~3.2mt. This was aided by incremental volume of 0.6mt in Q4FY17 from Kalinganagar operations. Total incremental volume for the year from Kalinganagar operations was 1.6mt in FY17.
- Standalone realisation was up 37% YoY (6% QoQ) to INR53,312 led by price hike of almost INR2,600/t taken during Q4FY17 and higher realisations from ferro alloy division.
- EBITDA/t stood at INR13,586 versus INR7,959 in Q4FY16 and INR11,285 in Q1FY17.
- Management mentioned that export volume for Q4FY17 stood at 450kt. For FY18, management expects exports volume to be 1.2mt. Currently, export realisation is at a discount of ~INR3,000/t to domestic realisation.
- Management stated that Kalinganagar operations will progressively have better profitability as compared to Jamshedpur plant.
- Management mentioned that realisation in Q1FY18 has fallen ~INR500-700/t compared to Q4FY17.

#### European operations

- European operations reported EBITDA/t of INR6,847/t against loss of INR1,247/t in Q4FY16.
- Management mentioned that ~80% of the contracts have been re-negotiated in Europe at ~USD100/t higher versus last year. Long/medium term contracts comprise 55% of total sales volume.
- Profitability of European operations was boosted by an enriched sales mix of differentiated value-added products (37% overall). Management mentioned that the company has introduced 20 new products for auto segment including high strength, light weight steel.

#### SEA operations

- EBITDA/t of SEA operations improved to INR2,189 compared to INR1,952 in Q4FY16 (INR997 in Q3FY17). This was primarily due to higher rebar-scrap spread in Q4FY17, up USD15-20/t sequentially.

#### Coking coal

- Management mentioned that full impact of high cost coking coal was absorbed in domestic operations in Q4FY17.

- Management stated coking coal cost for European operations was at USD138/t. However, bulk of higher cost coking coal (spot price during Q4FY17) would be seen in H1FY18.

### Capex plans

- Management mentioned that the company has obtained environmental clearance for 1mt expansion at the Jamshedpur plant. However, this will be done through de-bottlenecking at minimal additional capital expenditure.
- Management stated that Kalinganagar Phase 2 will only start after 3-4 years when the existing capacity has stabilised.

### Debt and capital expenditure

- Current gross debt stands at INR830bn compared to INR847bn at Q3FY17 end. Net debt at INR723bn is down by INR43bn as compared to previous quarter.
- Management mentioned there is no major debt repayment due in FY18 and FY19.
- Management stated that against capital expenditure guidance of INR950bn, INR770bn was incurred in FY17. It expects total FY18 capex to be broadly in this range.

## Q3FY17 Conference call: Key highlights

### Macro industry fundamentals

- Management mentioned that international market has started looking promising for steel industry with better than expected consumption in China, emission norms and capacity constraints expected to keep demand-supply balance fairly tight.
- In domestic market, growth in automotive segment remained healthy. Management expressed hope that demand growth is likely to be almost 5%.
- Management mentioned that global steel prices have gone up to USD 500/t driven by recent spurt in coking coal prices.
- The benefits of incremental demand growth in EU was lapped up by imports due to inadequate level of anti-dumping duties.
- In South-East Asia, Thailand witnessed relatively stable demand. Singapore market was however, affected by imposition of 13.9% duty on wire-rods imports from Singapore by Malaysia and continued influx of imports from China, however, the market has adequate export opportunities due to imposition of various protectionist measures on China.

### Consolidated performance

- Consolidated EBITDA was up 322% YoY (up 19% QoQ) to INR 35.5bn primarily due to improved performance of domestic operations.
- Standalone EBITDA/t was up 63% YoY to INR 11,228 due to higher realization by INR 3500/t, surge in FAMD profitability and operating leverage.

### Indian operations

- Sales volume was up 27.5% YoY at ~3.0mt. This was aided by incremental volume of 0.6mt in Q3FY17 from Kalinganagar operations.

- Standalone realization was up 9% YoY (6% QoQ) to INR 47,114 due to price hike of almost INR 3,500/t taken during Q3FY17.
- EBITDA/t stood at INR11,228 versus INR8,304 in Q2FY16 and INR10,380 in Q1FY17.

#### European operations

- European operations reported EBITDA/t of INR 2,570/t against loss of INR 757/t in Q3FY16.
- European operations profitability was boosted by an enriched sales mix of differentiated value-added products (up 14% YoY). Management mentioned that the company has introduced 6 new products for auto segment including high strength, light weight steel.

#### SEA operations

- EBITDA/t of SEA operations improved to INR 1,952 as compared to INR 822 in Q3FY16. (Q2FY17- INR 1,071). This was primarily due to higher rebar-scrap spread in Q3FY17, up USD 20-25/t sequentially.

#### Coking coal

- Management mentioned that coking coal cost for domestic operations was at USD 205/t as compared to USD 130/t in Q2FY17. Management expects it to go up further by USD 40-45/t in Q4FY17.
- Management mentioned that the coking coal price impact will only be felt with a lag as the company maintains an inventory of 4-5 months.
- For European operations, coking coal cost was USD 89/t in Q3FY17, however, purchase cost was USD 155/t. Hence, in the ensuing quarters, the cost is likely to be closer to USD 155/t.

#### Kalinganagar operations

- Management mentioned that sales volume from Kalinganagar operations was at 570kt in Q3FY17 as compared to 380kt in Q2FY17.
- Management mentioned that the plant is likely to achieve the run-rate of 250kt/month by FY17 end. Hence, the total incremental domestic volume is likely to increase to 1.5mt compared to the earlier guidance of 1.3mt.
- Management mentioned that Kalinganagar is dependent on imported coking coal hence volume ramp up is likely to come at an increased cost of production which would be partially offset by improved techno economic parameters of the Plant.

#### Debt and capital expenditure

- Current gross debt stands at INR847bn as compared to INR843bn as on September 2016. Gross debt has remained flat despite capital expenditure of INR 112bn in Q3FY17.
- Management mentioned that there is no major debt repayment due in FY17 and FY18.
- Management mentioned that as against the guidance of INR 950bn in capital expenditure, INR 560bn has already been incurred YTD FY17. Management expects total capex for the year to be slightly lower than the guidance.

## Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net revenues	353,049	295,076	19.6	290,247	21.6	1,174,199	1,257,166	1,252,761
Dec/(inc) in stock	(2,953)	19,027	NA	(15,660)	NA	(45,381)	-	-
Raw material	99,576	70,574	41.1	80,113	24.3	324,181	375,063	337,560
Freight and handling	-	19,810	(100.0)	-	-	-	-	-
Staff costs	42,169	51,160	(17.6)	41,792	0.9	172,522	155,964	157,362
Purchase of goods	27,848	25,077	11.0	29,331	(5.1)	114,249	125,152	120,524
Power purchase	-	12,890	(100.0)	-	-	-	-	-
Other expenses	116,156	74,485	55.9	118,309	(1.8)	438,550	424,425	432,933
Total expenditure	282,797	273,023	3.6	253,885	11.4	1,004,121	1,080,603	1,048,379
EBITDA	70,252	22,052	218.6	36,362	93.2	170,078	176,563	204,382
Depreciation	15,892	12,319	29.0	13,790	15.2	56,729	61,871	64,888
EBIT	54,360	9,734	458.5	22,572	140.8	113,349	114,692	139,494
Other income	1,522	1,291	17.8	1,301	17.0	5,275	7,926	11,424
Interest	12,631	10,178	24.1	13,874	(9.0)	50,722	52,288	53,854
Add: Exceptional items	(40,686)	(28,578)	NA	(286)	NA	(43,242)	-	-
Profit before tax	2,564	(27,731)	(109.2)	9,713	(73.6)	24,660	70,330	97,064
Provision for taxes	9,760	5,060	92.9	6,984	39.7	27,780	31,649	43,679
Reported net profit	(6,826)	(32,138)	NA	3,024	NA	(40,963)	40,820	56,309
Adjusted Profit	20,008	(12,990)	(254.0)	2,617	664.4	(7,793)	40,820	56,309
Diluted shares (mn)	970	970	-	970	-	971	971	972
Adjusted Diluted EPS	20.6	(13.4)	(254.0)	2.7	664.4	(8.0)	42.0	57.9
Diluted P/E (x)	-	-	-	-	-	16.4	10.7	7.7
EV/EBITDA (x)	-	-	-	-	-	7.1	6.6	5.4
ROAE (%)	-	-	-	-	-	6.9	11.2	13.9

## As % of net revenues

Raw material	27.4	30.4	-	22.2	-	23.7	29.8	26.9
Employee cost	11.9	17.3	-	14.4	-	14.7	12.4	12.6
Purchase of power	-	4.4	-	-	-	-	-	-
Freight & handling	-	6.7	-	-	-	-	-	-
Other expenses	32.9	25.2	-	40.8	-	37.3	33.8	34.6
EBITDA	19.9	7.5	-	12.5	-	14.5	14.0	16.3
Reported net profit	(1.9)	(10.9)	-	1.0	-	(3.5)	3.2	4.5

## Change in Estimates

	FY18E			FY19E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	1,257,166	1,262,622	(0.4)	1,252,761	1,257,391	(0.4)	Estimates changed pursuant to Q4FY17 results and management's guidance
EBITDA	176,563	174,587	1.1	204,382	191,440	6.8	
EBITDA Margin	14.0	13.8	-	16.3	15.2	-	
Adjusted Profit After Tax	40,820	38,929	4.9	56,309	48,320	16.5	
Net Profit Margin	3.4	3.0	-	4.7	3.7	-	
Capex	67,000	69,000	(2.9)	55,200	55,200	0.0	



## Company Description

Established 100 years ago in 1907, Tata Steel is Asia's first and India's second largest private sector steel company. With the take over of Corus Steel (Europe's second largest steel producer), Tata Steel is now the sixth largest steel company in the world with over 30mtpa of steel capacity. Tata Steel India has one of the lowest-cost steel-making facilities in the world comprising the 9.7mtpa steel facility at Jamshedpur in Jharkhand and the recently commissioned 3.0mtpa Kalinganagar unit in Odisha.

## Investment Theme

The outlook for the global steel industry is improving primarily on capacity cuts being implemented in China. We expect Tata Steel's domestic operations to deliver a consistent EBITDA of INR 10,000-11,000/t on average due to better spreads and ramp up of Kalinganagar operations. In case of European operations, there is a higher probability that Pension liabilities will be sorted out and restructuring efforts will bear fruits. Tata Steel is trading at 5.4x FY19E EBITDA which is at discount to major global players.

## Key Risks

- Sharp fall in global steel prices/ spreads
- Demand contraction in India/World
- Supply cuts being undermined in China

## Financial Statements

### Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.0	5.8	5.8
USD/INR (Avg)	65.0	67.5	67.0	67.0
<b>Sector</b>				
HRC price-Europe (USD/t)	450	498	518	504
HRC price-India(INR k/t)	29	34	35	34
Hard coking coal (USD/t)	85	148	169	135
Soft coking coal (USD/t)	72	125	143	114
India steel demand (%)	5	5	5	5
<b>Company</b>				
Shipments (mn tonnes)	26	24	25	25
India	9.5	11.0	12.3	12.7
Europe	13.6	10.1	10.1	10.1
SEA	2.7	2.6	2.6	2.6
<b>Blended (INR/t)</b>				
India	40,053	47,744	48,097	48,062
Europe	49,524	54,804	55,017	51,885
SEA	29,078	33,750	34,170	34,237
<b>Key costs/t of steel</b>				
<b>India (INR/t)</b>				
Iron ore (cost/t)	2,930	2,988	2,988	2,988
Coking coal (cost/t)	10,658	11,079	11,229	9,529
Power (cost/t)	2,872	2,872	2,872	2,872
Europe (USD)	-	-	1	-
Iron ore (cost/t)	80	80	56	78
Coking coal (cost/t)	74	123	139	114
Staff Cost (GBP mn)	2,646	1,479	1,453	1,453
Avg. Interest rate (%)	5.2	6.2	6.3	6.5
Depreciation rate (%)	8.0	6.5	6.8	6.9
Tax rate (%)	24.3	112.7	45.0	45.0
Dividend payout (%)	43.2	(309.5)	31.8	23.0
EBITDA (USD/tonne)	-	-	1	-
India	116.3	142.1	155.4	175.5
Europe	(8)	67	64	74
SEA	12.5	34.9	35.5	35.5
Net borrowings (INR mn)	743,103	750,770	715,270	650,834
Capex (INR mn)	114,859	77,000	67,000	55,200
Debtor days	44	37	37	37
Inventory days	274	293	263	299
Payable days	229	243	220	258
Cash conversion cycle	89	87	80	78

### Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	1,063,399	1,174,199	1,257,166	1,252,761
Materials costs	281,149	324,181	375,063	337,560
Accretion to stock	19,252	(45,381)	-	-
Purchase of goods	105,814	114,249	125,152	120,524
Employee costs	175,876	172,522	155,964	157,362
Total SG&A expenses	401,625	438,550	424,425	432,933
Total operating expenses	983,716	1,004,121	1,080,603	1,048,379
EBITDA	79,683	170,078	176,563	204,382
Depreciation	53,064	56,729	61,871	64,888
EBIT	26,620	113,349	114,692	139,494
Add: Other income	4,122.2	5,274.7	7,926.37	11,424.12
Less: Interest Expense	42,214	50,722	52,288	53,854
Add: Exceptional items	39,904	(43,242)	-	-
Profit Before Tax	28,432	24,660	70,330	97,064
Less: Provision for Tax	6,900	27,780	31,649	43,679
Less: Minority Interest	(1,143)	722	2,060	2,843
Associate profit share	(1,104)	77	79	81
Profit- Discontinued Ops	-	(38,642)	-	-
Profit- Discontinued Ops	-	(38,642)	-	-
Reported Profit	21,571	(40,963)	40,820	56,309
Exceptional Items	26,736	(28,972)	-	-
Adjusted Profit	(5,165)	26,651	40,820	56,309
Shares o /s (mn)	971	971	971	971
Adjusted Basic EPS	(5.3)	27.4	42.0	58.0
Diluted shares o/s (mn)	971	971	971	971
Adjusted Diluted EPS	(5.3)	27.4	42.0	58.0
Adjusted Cash EPS	48.7	90.4	105.7	124.8
Dividend per share (DPS)	8.0	10.0	10.0	10.0
Dividend Payout Ratio(%)	43.2	(309.5)	31.8	23.0

### Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	92.5	85.5	86.0	83.7
Depreciation	5.0	4.8	4.9	5.2
Interest Expense	4.0	4.3	4.2	4.3
EBITDA margins	7.5	14.5	14.0	16.3
Net Profit margins	(0.6)	2.3	3.4	4.7

### Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	(23.8)	10.4	7.1	(0.4)
EBITDA	(36.4)	113.4	3.8	15.8
PBT	(304.8)	(13.3)	185.2	38.0
Adjusted Profit	(60.1)	(616.0)	53.2	37.9
EPS	(60.1)	(616.0)	53.2	37.9

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	9,702	9,702	9,702	9,702	
Reserves & Surplus	404,873	345,741	369,674	423,131	
Shareholders' funds	414,576	355,443	379,376	432,834	
Minority Interest	7,809	16,017	18,077	20,920	
Short term borrowings	179,877	183,281	183,281	183,281	
Long term borrowings	671,478	662,973	662,973	662,973	
Total Borrowings	851,355	846,254	846,254	846,254	
Def. Tax Liability (net)	94,209	100,301	100,301	100,301	
<b>Sources of funds</b>	<b>1,475,452</b>	<b>1,413,203</b>	<b>1,439,196</b>	<b>1,495,496</b>	
Tangible assets	665,692	868,806	906,935	942,047	
Intangible Assets	359,961	157,841	124,841	80,041	
CWIP (incl. intangible)	15,630	16,312	16,312	16,312	
Total net fixed assets	1,041,283	1,042,960	1,048,088	1,038,401	
Non current investments	275,912	181,152	181,231	181,312	
Cash and Equivalents	108,252	95,484	130,984	195,420	
Inventories	200,133	248,038	291,565	262,342	
Trade receivables	120,662	115,868	137,375	114,981	
Loans & Advances	8,594	27,887	27,887	27,887	
Other Current Assets	20,279	21,944	21,944	21,944	
Current Assets (ex cash)	349,668	413,737	478,770	427,153	
Trade payable	185,567	185,745	265,492	212,405	
Other Current Liab	114,096	134,385	134,385	134,385	
Net Curr Assets-ex cash	50,006	93,607	78,893	80,364	
<b>Uses of funds</b>	<b>1,475,452</b>	<b>1,413,203</b>	<b>1,439,196</b>	<b>1,495,496</b>	
BVPS (INR)	426.8	365.9	390.5	445.6	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	21,571	(40,963)	40,820	56,309	
Add: Depreciation	53,064	56,729	61,871	64,888	
Interest (Net of Tax)	31,970	(6,418)	28,758	29,620	
Others	267,799	(77,440)	54,172	64,715	
Less: Changes in WC	254,772	(62,249)	25,993	56,300	
Operating cash flow	119,632	(5,844)	159,629	159,232	
Less: Capex	114,859	77,000	67,000	55,200	
<b>Free Cash Flow</b>	<b>4,773</b>	<b>(82,844)</b>	<b>92,629</b>	<b>104,032</b>	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		119,632	(5,844)	159,629	159,232
Investing cash flow		(104,242)	23,833	(57,014)	(40,933)
Financing cash flow		(39,484)	(77,107)	(63,945)	(65,511)
Net cash Flow		(24,094)	(59,118)	38,670	52,788
Capex		(114,859)	(77,000)	(67,000)	(55,200)
Dividend paid		(9,325)	(11,657)	(11,657)	(11,657)

Profitability and efficiency ratios		FY16	FY17	FY18E	FY19E
Year to March					
ROAE (%)		(1.7)	6.9	11.2	13.9
ROACE (%)		2.6	9.5	10.0	11.9
Inventory Days		274	293	263	299
Debtors Days		44	37	37	37
Payable Days		229	243	220	258
Cash Conversion Cycle		89	87	80	78
Current Ratio		1.5	1.6	1.5	1.8
Gross Debt/EBITDA		1,068.4	497.6	479.3	414.1
Gross Debt/Equity		201.6	227.8	212.9	186.5
Adjusted Debt/Equity		201.6	227.8	212.9	186.5
Net Debt/Equity		175.9	202.1	180.0	143.4
Interest Coverage Ratio		63.1	223.5	219.3	259.0

Operating ratios		FY16	FY17	FY18E	FY19E
Year to March					
Total Asset Turnover		0.8	0.8	0.9	0.9
Fixed Asset Turnover		1.7	1.5	1.4	1.3
Equity Turnover		2.8	3.0	3.3	2.9

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)		(5.3)	27.4	42.0	58.0
Y-o-Y growth (%)		(60.1)	(616.0)	53.2	37.9
Adjusted Cash EPS (INR)		48.7	90.4	105.7	124.8
EV / EBITDA (x)		14.9	7.1	6.6	5.4
Market cap/Sales (x)		1.1	1.0	0.9	0.9

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Tata Steel	6,922	-	-	4.2	3.3	11.2	13.9
Jindal Steel & Power	1,630	(19.3)	10.9	8.1	5.6	(3.6)	5.3
JSW Steel	7,609	12.6	8.2	6.4	4.9	16.9	21.7
Steel Authority of India	3,965	-	-	8.7	5.1	(1.2)	3.4
Median	-	-	4.1	7.3	5.0	5.0	9.6
AVERAGE	-	(1.7)	4.8	6.8	4.7	5.8	11.1

Source: Edelweiss research

## Additional Data

### Directors Data

B Muthuraman	Vice Chairman	Ishaat Hussain	Director
Subodh Bhargava	Director	Andrew Robb	Director
Karl Ulrich Koehler	Director	Mallika Srinivasan	Additional Director
Koushik Chatterjee	Whole-time Director	O P Bhatt	Additional Director
D. K. Mehrotra	Independent, Non-Executive Director	T. V. Narendran	Managing Director - India and South East Asia
N. Chandrasekaran	Chairman	Peter Blauwhoff	Additional (Independent) Director

Auditors - Deloitte Haskins & Sells

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Tata sons ltd	29.75	Life insurance corp	13.56
Hdfc asset managemen	3.73	Icici prudential ass	2.79
Reliance capital tru	2.53	Abu dhabi investment	1.2
New india assurance	1.15	Blackrock	1.15
Dimensional fund adv	1.14	Norges bank	0.9

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Coal India	BUY	SO	M	Hindalco Industries	BUY	SO	M
Hindustan Zinc	BUY	SO	L	Jindal Steel & Power	BUY	SO	M
JSW Steel	REDUCE	SP	H	NMDC	HOLD	SP	M
Steel Authority of India	REDUCE	SU	M	Tata Steel	BUY	SU	M
Vedanta	BUY	SO	M				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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## Coverage group(s) of stocks by primary analyst(s): Metals and Mining

Coal India, Hindalco Industries, Hindustan Zinc, Jindal Steel & Power, JSW Steel, NMDC, Steel Authority of India, Tata Steel, Vedanta

### Recent Research

Date	Company	Title	Price (INR)	Recos
15-May-17	<b>Vedanta</b>	Strong EBITDA growth; <i>Result Update</i>	241	Buy
12-May-17	<b>Metals &amp; Mining</b>	Anti-dumping duty: Marginally positive; <i>EdelFlash</i>		
12-May-17	<b>Metals &amp; Mining</b>	European steel results bode well for Corus' Q4FY17 ; <i>Sector Update</i>		

### Distribution of Ratings / Market Cap

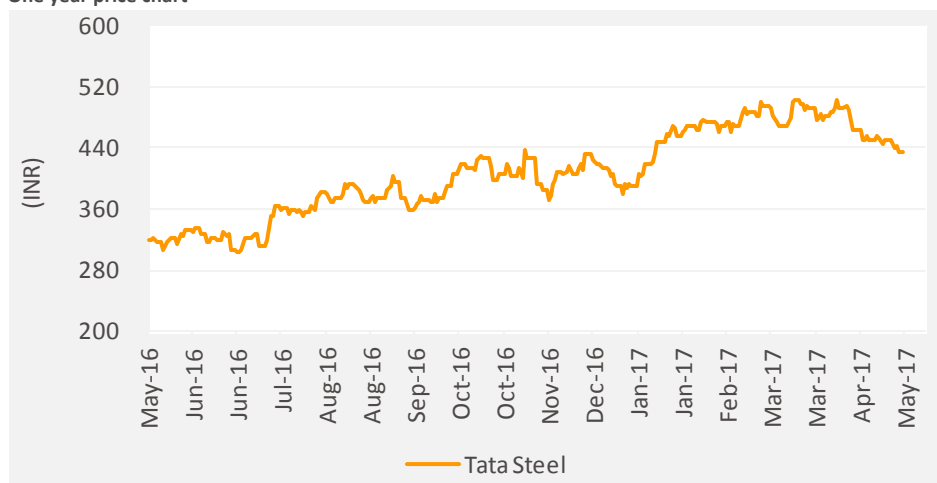
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart



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