

February 09, 2018

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Rating	BUY
Price	Rs684
Target Price	Rs835
Implied Upside	22.1%
Sensex	34,006
Nifty	10,455

(Prices as on February 09, 2018)

Trading data

Market Cap. (Rs bn)	655.3
Shares o/s (m)	958.5
3M Avg. Daily value (Rs m)	3375.1

Major shareholders

Promoters	31.43%
Foreign	15.66%
Domestic Inst.	29.67%
Public & Other	23.24%

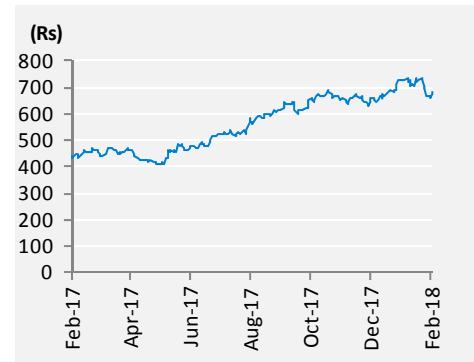
Stock Performance

(%)	1M	6M	12M
Absolute	(6.1)	19.9	57.7
Relative	(4.8)	13.0	37.7

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	77.5	68.9	12.6
2020	78.1	68.3	14.3

Price Performance (RIC: TISC.BO, BB: TATA IN)



Source: Bloomberg

Tata Steel (TATA) reported stronger than expected earnings on the back of higher margins in domestic operations. Margins in domestic operations rose to Rs14,000/t (PLe:Rs12,040) on the back of surprisingly lower RM cost. We increase our FY18e/FY19e EBITDA estimates by 6%/9% due to 8%/12% increase in EBITDA/t estimates of Indian operations. We remain extremely positive on the sector given the structural supply controls imposed by Chinese authorities and firm global demand. Positive restructuring of TATA Steel Europe (TSE) and increased focus on Indian operations with a goal to double the capacity (through organic and inorganic route) in next five years makes TATA one of the best candidate to play the strength in steel sector. We reiterate BUY with TP of Rs835, EV/EBITDA 7x FY20E.

- **Lower costs led the beat:** Volumes rose 7% QoQ (↑10% YoY) to 3.3mn (PLe:3.3mn) t. Blended realisations rose 3% QoQ/Rs1,200 to Rs46,436 (PLe:Rs46,440). Owing to steeper than expected RM cost and reduction in coke consumption, cost/t fell 6% QoQ/Rs2,000 (+8% YoY/Rs2,360) to Rs33,266 (PLe:Rs34,920). Aided by higher than expected other operating income, EBITDA rose 37%QoQ/37%YoY at Rs46.3bn (PLe:Rs39.1bn). PAT rose 57% QoQ/66% YoY to Rs20.5bn (PLe:Rs15.7bn).
- **TSE meets the estimates:** TSE volumes fell 6% QoQ (↑4% YoY) to 2.4mn (PLe:2.4mn) t. Impacted by seasonal weakness, TSE's EBITDA/t fell 11% QoQ (↓11% YoY) to US\$40 (PLe:US\$40). Partially offset by lower earnings in subsidiaries (Rs2.53bn v/s PLe:Rs5.0bn), Consol EBITDA grew by 21% QoQ (↑57% YoY) to Rs57.0bn (PLe:Rs51.7bn). Adj. PAT fell doubled QoQ to Rs20.0bn (PLe:Rs12.4bn).
- **Key highlights of con-call:** **1)** Augmenting the capacity of Kalinganagar by 5mn t at a capex of Rs235bn (US\$3.6bn) or US\$723/t including Rs55bn on 2.2mtpa Cold rolling mill **2)** 15 days of production loss at 3mtpa Kalinganagar plant in February due to unplanned shutdown **3)** Coking coal cost to increase by US\$20-22/t QoQ in India **4)** Spreads in Europe rose 16% QoQ to €273/t in Q3 and expected to remain strong in Q4 **5)** JV with ThyssenKrupp for European operations on track and expected to complete by Dec'18 **6)** Net debt reduced by 3% QoQ/Rs23.8bn to Rs759bn **7)** Spent Rs20bn (9MFY18:Rs53.2bn) in Q3 on capex out of capex guidance of Rs70bn for FY18 (FY17:Rs77bn)

Key financials (Y/e March)

	2017	2018E	2019E	2020E
Revenues (Rs m)	1,122,994	1,291,826	1,421,429	1,439,259
Growth (%)	10.1	15.0	10.0	1.3
EBITDA (Rs m)	170,078	212,632	230,150	231,747
PAT (Rs m)	39,476	67,711	84,794	85,406
EPS (Rs)	40.7	59.1	77.5	78.1
Growth (%)	(315.3)	45.3	31.1	0.7
Net DPS (Rs)	12.0	11.8	16.5	16.5

Profitability & Valuation

	2017	2018E	2019E	2020E
EBITDA margin (%)	15.1	16.5	16.2	16.1
RoE (%)	10.3	16.8	16.8	14.6
RoCE (%)	6.0	8.5	9.6	9.2
EV / sales (x)	1.3	1.1	0.9	0.9
EV / EBITDA (x)	8.4	6.6	5.7	5.6
PE (x)	16.8	11.6	8.8	8.8
P / BV (x)	1.9	1.7	1.3	1.2
Net dividend yield (%)	1.8	1.7	2.4	2.4

Source: Company Data; PL Research

Exhibit 1: Change in Estimates

	FY18E			FY19E		
	Post revision	Prior to revision	% change	Post revision	Prior to revision	% change
Consolidated earnings						
Sales (Rs mn)	1,291,826	1,279,796	0.9	1,421,429	1,329,717	6.9
EBITDA (Rs mn)	212,632	200,704	5.9	230,150	211,214	9.0
PAT (Rs mn)	65,971	55,111	19.7	83,054	63,175	31.5
EPS (Rs)	54.8	56.7	(3.5)	69.0	65.0	6.0
Indian operation						
Revenue (Rs mn)	582,172	570,142	2.1	645,164	608,052	6.1
EBITDA (Rs mn)	159,937	148,009	8.1	175,745	156,809	12.1
Volumes (mn t)	12.3	12.3	-	12.7	12.7	-
Realisation/t-Rs	47,519	46,537	2.1	50,655	47,741	6.1
EBITDA/t-Rs	13,055	12,081	8.1	13,799	12,312	12.1
TSE (US\$)						
Revenue (US\$ m)	8,446	8,446	-	9,450	8,610	9.8
EBITDA (US\$ m)	711	711	-	735	735	-
Volumes (mn t)	10.3	10.3	-	10.5	10.5	-
EBITDA/t	69.0	69.0	-	70.0	70.0	-
SEAN ops						
Revenue (US\$ m)	1,288	1,288	-	1,339	1,339	-
EBITDA (US\$ m)	50	50	-	52	52	-
Volumes (mn t)	2.5	2.5	-	2.6	2.6	-
EBITDA/t	20.0	20.0	-	20.0	20.0	-

Source: PL Research

Exhibit 2: Q3FY18 Result Overview - Consolidated (Rs m)

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Net Sales	334,466	275,896	21.2	324,641	955,680	783,051	22.0
Raw Material	131,279	93,788	40.0	142,896	384,873	268,582	43.3
<i>% of Net Sales</i>	<i>39.3</i>	<i>34.0</i>		<i>44.0</i>	<i>40.3</i>	<i>34.3</i>	
Staff Costs	44,256	41,792	5.9	42,941	130,235	130,353	(0.1)
<i>% of Net Sales</i>	<i>13.2</i>	<i>15.1</i>		<i>13.2</i>	<i>13.6</i>	<i>16.6</i>	
Other Expenses	101,962	103,958	(1.9)	91,598	286,650	284,294	0.8
<i>% of Net Sales</i>	<i>30.5</i>	<i>37.7</i>		<i>28.2</i>	<i>30.0</i>	<i>36.3</i>	
Total Expenditure	277,497	239,539	15.8	277,435	801,759	683,228	17.3
EBITDA	56,969	36,358	56.7	47,207	153,921	99,822	54.2
<i>Margin (%)</i>	<i>17.0</i>	<i>13.2</i>		<i>14.5</i>	<i>16.1</i>	<i>12.7</i>	
Depreciation	14,751	13,790	7.0	14,733	44,495	40,837	9.0
Other income	2,259	1,301	73.7	2,532	6,346	3,753	69.1
EBIT	44,477	23,868	86.3	35,006	115,772	62,738	84.5
Interest	13,273	13,874	(4.3)	13,499	40,209	38,091	5.6
PBT	31,205	9,995	212.2	21,507	75,563	24,648	206.6
Extraordinary income/(expense)	(11,156)	(286)	NA	(267)	(17,590)	(2,556)	NA
PBT (After EO)	20,049	9,709	106.5	21,240	57,973	22,091	162.4
Tax	9,508	6,984	36.1	11,380	28,293	18,021	57.0
<i>% PBT</i>	<i>47.4</i>	<i>71.9</i>		<i>53.6</i>	<i>48.8</i>	<i>81.6</i>	
Reported PAT	10,541	2,725	286.8	9,861	29,679	4,071	629.1
Minority interest	(1,505)	300	NA	120	(1,237)	638	NA
Share of profit/(loss) of associates	898	(3)	NA	198	1,155	49	NA
Net Profit attributable to shareholders	12,944	2,422	434.3	9,939	32,072	3,481	821.3
Adjusted Net Profit attributable to shareholders	20,016	2,708	639.2	10,112	43,246	6,038	616.3

Source: Company Data, PL Research

Exhibit 3: Subsidiary Performance

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Revenue							
Indian Operations (m USD)	2,410	1,872	28.7	2,212	6,647	4,806	38.3
UK Operations (m USD)	2,270	1,804	25.9	2,334	6,787	5,489	23.6
South East Asian operations (m USD)	385	294	30.9	377	1,071	890	20.4
Adjusted EBITDA							
Indian Operations (m USD)	715	501	42.8	525	1,700	1,119	52.0
UK Operations (m USD)	98	105	(6.8)	117	409	407	0.4
South East Asian operations (m USD)	28	19	51.0	21	53	57	(7.4)
Operating Metrics (Corus)							
Sales Volume	2.4	2.3	4.3	2.6	7.4	7.1	4.9
Realisation per tonne	930	771	20.7	898	912	774	17.8
EBITDA per tonne	40	45	(10.6)	45	55	57	(4.3)
Operating Metrics (South East operations)							
Sales Volume	0.6	0.7	(4.6)	0.7	1.9	2.0	(3.1)
Realisation per tonne	621	453	37.2	563	567	456	24.2
EBITDA per tonne	46	29	58.3	31	28	29	(4.5)

Source: Company Data, PL Research

Exhibit 4: Q2FY18 Result Overview - Standalone (Rs m)

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Net Sales	155,958	126,319	23.5	142,209	428,799	322,736	32.9
Raw Material	47,309	30,065	57.4	54,491	137,576	74,983	83.5
<i>% of Net Sales</i>	<i>30.3</i>	<i>23.8</i>		<i>38.3</i>	<i>32.1</i>	<i>23.2</i>	
Staff Costs	11,466	12,028	(4.7)	11,151	34,194	35,440	(3.5)
<i>% of Net Sales</i>	<i>7.4</i>	<i>9.5</i>		<i>7.8</i>	<i>8.0</i>	<i>11.0</i>	
Other Expenses	50,902	50,437	0.9	42,814	147,332	137,163	7.4
<i>% of Net Sales</i>	<i>32.6</i>	<i>39.9</i>		<i>30.1</i>	<i>34.4</i>	<i>42.5</i>	
Total Expenditure	109,677	92,530	18.5	108,457	319,102	247,585	28.9
EBITDA	46,281	33,789	37.0	33,753	109,696	75,150	46.0
<i>Margin (%)</i>	<i>29.7</i>	<i>26.7</i>		<i>23.7</i>	<i>25.6</i>	<i>23.3</i>	
Depreciation	9,139	8,694	5.1	9,124	27,927	24,841	12.4
Other income	1,822	978	86.3	2,495	5,438	3,680	47.8
EBIT	38,964	26,073	49.4	27,123	87,208	53,989	61.5
Interest	6,702	7,697	(12.9)	7,092	20,795	20,356	2.2
PBT	32,263	18,375	75.6	20,032	66,413	33,633	97.5
Extraordinary income/(expense)	(11,155)	(416)		(533)	(17,855)	(2,613)	583.3
PBT (After EO)	21,108	17,960	17.5	19,499	48,557	31,020	56.5
Tax	7,727	5,913	30.7	6,824	17,438	10,723	62.6
<i>% PBT</i>	<i>36.6</i>	<i>32.9</i>		<i>35.0</i>	<i>35.9</i>	<i>34.6</i>	
Reported PAT	13,381	12,046	11.1	12,674	31,120	20,296	53.3
Adjusted PAT	20,452	12,325	65.9	13,021	42,466	21,965	93.3

Source: Company Data, PL Research

Exhibit 5: Operating Metrics (m tonnes)

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Production	3.3	3.2	3.4	3.2	9.4	8.2	14.6
Sales	3.3	3.0	10.1	3.1	9.1	7.8	17.5
Realisation per tonne	46,436	41,742	11.2	45,237	46,205	41,213	12.1
EBITDA per tonne	14,037	11,286	24.4	10,976	12,025	9,679	24.2

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018E	2019E	2020E
Net Revenue	1,122,994	1,291,826	1,421,429	1,439,259
Raw Material Expenses	393,049	528,805	583,727	591,681
Gross Profit	729,945	763,021	837,702	847,578
Employee Cost	172,522	172,671	190,605	193,202
Other Expenses	387,345	377,718	416,948	422,629
EBITDA	170,078	212,632	230,150	231,747
Depr. & Amortization	56,729	59,316	59,406	60,033
Net Interest	50,722	48,597	40,634	38,034
Other Income	(37,968)	(40,411)	7,315	7,627
Profit before Tax	24,660	64,308	137,424	141,307
Total Tax	27,780	42,839	51,930	55,201
Profit after Tax	(3,120)	21,469	85,494	86,106
Ex-Od items / Min. Int.	(42,444)	(46,043)	900	900
Adj. PAT	39,476	67,711	84,794	85,406
Avg. Shares O/S (m)	970.2	1,145.1	1,093.9	1,093.9
EPS (Rs.)	40.7	59.1	77.5	78.1

Cash Flow Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
C/F from Operations	108,481	153,192	193,215	190,292
C/F from Investing	(90,590)	(49,634)	(100,881)	(130,569)
C/F from Financing	(25,924)	(138,727)	(103,411)	(62,012)
Inc. / Dec. in Cash	(8,034)	(35,170)	(11,076)	(2,289)
Opening Cash	61,863	49,211	14,041	2,964
Closing Cash	49,211	14,041	2,964	676
FCFF	(41,161)	98,343	99,516	99,024
FCFE	(30,885)	(66,657)	19,516	99,024

Key Financial Metrics

Y/e March	2017	2018E	2019E	2020E
Growth				
Revenue (%)	10.1	15.0	10.0	1.3
EBITDA (%)	113.4	25.0	8.2	0.7
PAT (%)	(315.3)	71.5	25.2	0.7
EPS (%)	(315.3)	45.3	31.1	0.7
Profitability				
EBITDA Margin (%)	15.1	16.5	16.2	16.1
PAT Margin (%)	3.5	5.2	6.0	5.9
RoCE (%)	6.0	8.5	9.6	9.2
RoE (%)	10.3	16.8	16.8	14.6
Balance Sheet				
Net Debt : Equity	2.1	1.4	1.0	0.9
Net Wrkng Cap. (days)	(27)	(31)	(33)	(32)
Valuation				
PER (x)	16.8	11.6	8.8	8.8
P / B (x)	1.9	1.7	1.3	1.2
EV / EBITDA (x)	8.4	6.6	5.7	5.6
EV / Sales (x)	1.3	1.1	0.9	0.9
Earnings Quality				
Eff. Tax Rate	112.7	66.6	37.8	39.1
Other Inc / PBT	7.8	5.9	5.3	5.4
Eff. Depr. Rate (%)	4.5	4.5	4.4	4.3
FCFE / PAT	(78.2)	(98.4)	23.0	115.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
Shareholder's Funds	355,443	452,002	554,941	617,290
Total Debt	852,895	687,895	607,895	607,895
Other Liabilities	119,215	129,992	142,105	154,699
Total Liabilities	1,327,554	1,269,889	1,304,941	1,379,884
Net Fixed Assets	1,049,141	1,080,075	1,124,669	1,198,636
Goodwill	34,947	34,947	34,947	34,947
Investments	77,936	39,073	39,173	39,273
Net Current Assets	146,757	97,021	87,379	88,255
<i>Cash & Equivalents</i>	<i>95,846</i>	<i>60,676</i>	<i>49,600</i>	<i>47,311</i>
<i>Other Current Assets</i>	<i>456,689</i>	<i>484,503</i>	<i>525,951</i>	<i>533,680</i>
<i>Current Liabilities</i>	<i>405,779</i>	<i>448,158</i>	<i>488,172</i>	<i>492,736</i>
Other Assets	18,773	18,773	18,773	18,773
Total Assets	1,327,554	1,269,889	1,304,941	1,379,884

Quarterly Financials (Rs m)

Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Revenue	338,960	296,573	324,641	334,466
EBITDA	70,252	49,745	47,207	56,969
<i>% of revenue</i>	<i>20.7</i>	<i>16.8</i>	<i>14.5</i>	<i>17.0</i>
Depr. & Amortization	15,892	15,011	14,733	14,751
Net Interest	12,631	13,437	13,499	13,273
Other Income	1,522	1,555	2,532	2,259
Profit before Tax	2,565	16,684	21,240	20,049
Total Tax	9,760	7,405	11,380	9,508
Profit after Tax	(7,251)	9,189	9,939	12,944
Adj. PAT	33,435	15,357	10,205	24,100

Key Operating Metrics

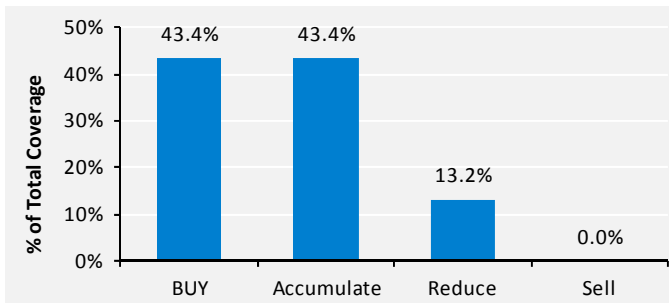
Y/e March	2017	2018E	2019E	2020E
Rev. Indian Op. (US\$ m)	7,142	8,956	9,926	10,233
Rev. Corus (US\$ m)	7,764	8,446	9,450	9,450
Rev. South East (US\$ m)	1,229	1,288	1,339	1,339
EBITDA-India (US\$ m)	1,767	2,461	2,704	2,728
EBITDA-Corus (US\$ m)	702	711	735	735
EBITDA-South East (US\$ m)	78.7	50.0	52.0	52.0
Volume (mt)-India	11.0	12.3	12.7	13.0
Real./ Tonne- India (Rs)	31,979	34,794	37,924	37,930
EBITDA/Tonne- India (Rs)	10,823	13,055	13,799	13,600
SalesVol.-Corus (mt)	9.9	10.3	10.5	10.5
Real./Tonne-Corus (US\$)	781.1	820.0	900.0	900.0
EBITDA/Tonne-Corus (US\$)	70.6	69.0	70.0	70.0
Sales Vol.-South East (mt)	2.6	2.5	2.6	2.6
Real./Tonne-SEAN (US\$)	470.9	515.0	515.0	515.0
EBITDA/Tonne-SEAN (US\$)	30.2	20.0	20.0	20.0

Source: Company Data, PL Research.

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Not Rated (NR)	:	No specific call on the stock
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