

Tata Steel (TATSTE)

₹ 583

Strong operational performance...

- Tata Steel reported a healthy Q4FY18 performance primarily on the back of higher realisations. The Indian operations posted sales volume of 3.03 million tonnes (MT) while European operations reported steel sales of 2.55 MT. The consolidated topline came in at ₹ 36132 crore, up 7% YoY, 8% QoQ
- Domestic operations' (TSI) EBITDA/tonne increased QoQ to ₹ 15872/tonne (vs. Q3FY18: ₹ 14025/tonne and Q4FY17: ₹ 13586/tonne). European operations (TSE) reported a healthy EBITDA/tonne of ~US\$70/tonne (vs. Q3FY18: US\$39.8/tonne, Q4FY17: US\$104/tonne). Consolidated reported EBITDA was at ₹ 6498.9 crore (up 14% QoQ). Corresponding EBITDA margin was at 18% (vs. Q3FY18: 17% and Q4FY17: 20.7%)
- Pre-exceptional PBT from continuing operations increased 19.6% QoQ to ₹ 3,839 crore. The company recognised exceptional gain of ₹ 11,376 crore inclusive of non-cash gain of ₹ 14,077 crore due to restructuring of UK pension scheme in the quarter. Ensuing reported consolidated PAT was at ₹ 14688 crore while adjusted PAT was at ~₹ 3263.3 crore

Indian operations drive overall performance for quarter, full year...

Domestic operations reported a strong sequential increase in EBITDA/tonne during the quarter marked by higher realisations and lower cost (primarily due to integrated operations). For the full year FY18, Indian operations reported steel sales growth of 10.7% YoY to 12.15 MT, higher than domestic finished steel consumption growth of 7.9% YoY during FY18, pointing to an increase in domestic market share of the company. While TSI EBITDA during the year increased 32.9% YoY to ₹ 15779 crore (EBITDA margin of 30.4% vs. 24.8% in FY17), corresponding EBITDA/tonne increased ~19% to ₹ 12987/tonne from ₹ 10901/tonne in FY17. European operations also reported an EBITDA/tonne of ~US\$58/tonne for FY18 (vs. ~US\$73/tonne in FY17). Going forward, for Indian operations, we model EBITDA/tonne of ₹ 13250/tonne for FY19E and ₹ 14000/tonne for FY20E while for European operations EBITDA/tonne was US\$75/tonne for both FY19E and FY20E.

Strategic developments augur well in long term...

During FY18, at its European operations, Tata Steel successfully separated pension liabilities with respect to British Steel Pension Scheme, introducing a new surplus pension scheme with ~69% members. The company also entered into a joint venture (JV) with ThyssenKrupp for their respective flat steel businesses. The JV is expected to benefit from cost synergies in the range of ~€400-600 million realised through integration. Also, at Indian operations, the company announced further expansion of 5 MT at its Kalinganagar facility entailing a capex of ₹ 23500 crore, taking total capacity at the location to 8 MT. Post expansion, the capacity of Indian operations will be 18 MT. Furthermore, Tata Steel has bagged the assets of Bhushan Steel through the resolution process under Indian Bankruptcy Code 2016, which is likely to create downstream synergies in the long term.

TSI reports strong EBITDA/tonne, outlook positive; maintain BUY...

We remain positive on the domestic steel consumption story driven by increased government expenditure/policies and supportive macros. We like Tata Steel given the integrated nature of domestic operations, which enables it to report higher EBITDA/tonne vis-à-vis its domestic peers. We value the stock on SOTP basis and arrive at a target price of ₹ 700. We maintain our **BUY** recommendation on Tata Steel.

Rating matrix		
Rating	:	Buy
Target	:	₹ 700
Target Period	:	12 months
Potential Upside	:	20%

What's Changed?		
Target	Changed from ₹ 785 to ₹ 700	
EPS FY19E	Changed from ₹ 70.3 to ₹ 71.3	
EPS FY20E	Introduced at ₹ 79.2	
Rating	Unchanged	

Quarterly Performance					
	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Revenue	36,132	33,896	6.6	33,447	8.0
EBITDA	6,499	7,025	(7.5)	5,697	14.1
EBITDA (%)	18.0	20.7	-274 bps	17.0	95 bps
Rep. PAT	14,688	(1,168)	LP	1,136	1,193
Adj. PAT	3,312	(708)	LP	1,136	191.6

Key Financials				
(₹ Crore)	FY17	FY18E	FY19E	FY20E
Net Sales	112,299	131,700	134,790	137,131
EBITDA	17,008	21,891	22,202	23,497
Adj Net Profit	4,092	8,164	8,161	9,063
EPS (₹)	42.2	71.3	71.3	79.2

Valuation summary				
	FY17	FY18E	FY19E	FY20E
PE (x)	14.0	8.3	8.3	7.5
Target PE (x)	16.6	9.8	9.8	8.8
EV/EBITDA(x)	8.1	6.8	7.0	6.4
P/BV (x)	1.5	1.1	1.0	0.9
Adj RoNW (%)	10.8	13.4	11.8	11.7
Adj RoCE (%)	9.4	10.7	10.1	10.5

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	56,565
Total Debt (FY18) (₹ Crore)	88,674
Cash & Cash Eq. (FY18) (₹ Crore)	25,837
EV (₹ Crore)	119,402
52 week H/L (₹)	748 / 490
Equity capital	₹ 970.2 Crore
Face value	₹ 10

Price performance (%)				
Return %	1M	3M	6M	12M
JSW Steel	3.1	2.3	19.8	66.9
Tata Steel	-1.7	-14.3	-6.6	34.7

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Variance analysis

	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Revenue	36,132.3	33,896.0	6.6	33,446.6	8.0
Other Income	333.5	152.2	119.1	315.7	5.6
Employee Expense	4,582.7	4,216.9	8.7	4,425.6	3.5
Raw Material Expense	13,677.2	12,447.1	9.9	13,128	4.2
Other operating Expenses	11,373.5	10,206.7	11.4	10,196.2	11.5
EBITDA	6,498.9	7,025.3	-7.5	5,696.9	14.1
EBITDA Margin (%)	18.0	20.7	-274 bps	17.0	95 bps
Depreciation	1,512.2	1,589.2	-4.8	1,475.1	2.5
Interest	1,480.9	1,263.1	17.2	1,327.3	11.6
Exceptional Item	(11,376)	4,065.8	-379.8	1,116	-1,119.8
PBT	15,215.5	259.4	5,765.6	2,094.7	1,193.1
Tax Outgo	576.1	976.0	-41.0	950.8	-39.4
PAT	14,639.4	(716.6)	-2,142.9	1,143.9	1,179.8
Profit from discontinued operations	48.6	(451.3)	-110.8	(8.0)	-710.7
Reported PAT for the Group	14,688.0	(1,167.9)	LP	1,135.9	1,193.1
Adjusted PAT for the Group	3,311.9	(708)	LP	1,135.9	191.6
Key Metrics					
TSI Steel Sales (MT)	3.0	3.2	-5.3	3.3	-8.2
TSE Steel Sales (MT)	2.6	2.9	-12.1	2.4	4.5
Group Steel Sales (MT)	6.7	6.8	-1.2	6.6	2.4
TSI EBITDA/tonne (₹/tonne)	15,872	13,586	16.8	14,025	13.2
TSE EBITDA/tonne (US\$/tonne)	70.0	104.0	-32.7	39.8	75.7

TSI: Tata Steel India; TSE: Tata Steel Europe

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E		Comments
	Old	New	% Change	Introduced	% Change	
Total Operating Income (₹ crore)	134,790	134,790	0.0	137,131	-	Introduce FY20E on all parameters
EBITDA (₹ crore)	22,202	22,202	(0.0)	23,497	-	
EBITDA Margin (%)	16.5	16.5	(0.0)	17.1	-	
Adj PAT (₹ crore)	6,818	8,161	19.7	9,063	-	PAT estimates revised upwards for FY19E
Adj EPS (₹)	70.3	71.3	1.4	79.2	-	

Source: Company, ICICI Direct Research

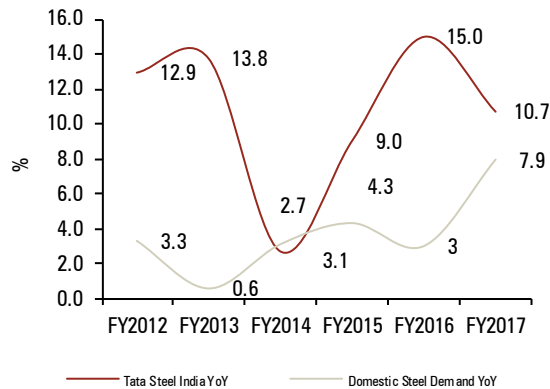
Assumptions

	Current FY18	FY19E	Introduced FY20E	Earlier FY19E	Comments
TSI Steel Sales (MT)	12.2	12.5	12.8	12.5	Introduced FY20E
TSE Steel Sales (MT)	10.0	10.0	10.0	10.0	Introduced FY20E
Group Steel Sales (MT)	25.5	27.0	27.3	26.5	Upward revised for FY19E, introduced FY20E
TSI EBITDA/tonne (₹/tonne)	12,987	13,250	14,000	13,500	Upward revised for FY19E, introduced FY20E
TSE EBITDA/tonne (US\$/tonne)	58.0	75.0	75.0	75.0	Introduced FY20E

TSI: Tata Steel India; TSE: Tata Steel Europe

Source: Company, ICICI Direct Research

TSL India outshines domestic demand...



Source: Company, ICICI Direct Research

Company Analysis

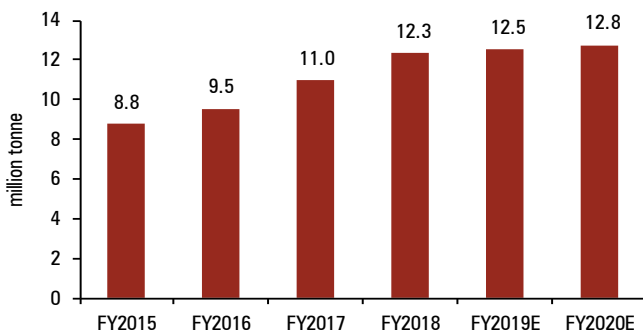
Healthy increase in domestic sales volume augurs well...

Tata Steel's Indian operations continued to register healthy sales volume growth of 10.7% YoY during FY18. The sales volume growth was higher compared to domestic steel consumption growth of 7.9% YoY during the same period reflecting an increase in Tata Steel's market share domestically. We maintain domestic sales volume estimate for FY19E at 12.5 MT and introduce FY20E at 12.8 MT.

Integrated Jamshedpur operations bode well in long run...

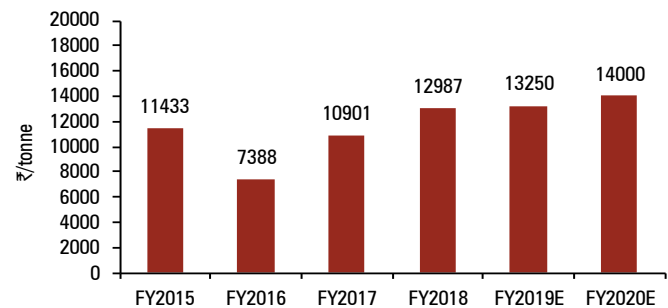
The company's Jamshedpur plant has access to captive raw materials (100% integration for iron ore and ~35% integration for coking coal). This enables TSL to realise superior EBITDA margins compared to its domestic peers. Going forward, over the next couple of years, we expect Indian operations to clock an EBITDA/tonne of ~₹ 13250-14000/tonne, higher than its domestic peers.

Exhibit 1: Domestic volumes to grow at CAGR of ~1.8% in FY18-20E...



Source: Company, ICICI Direct Research

Exhibit 2: ...domestic EBITDA/tonne likely to augment further...

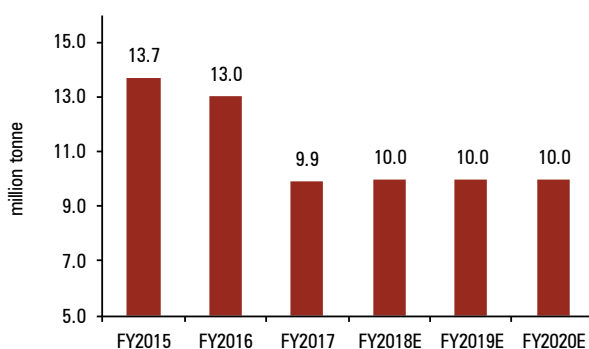


Source: Company, ICICI Direct Research

European operations report a healthy EBITDA for Q4FY18...

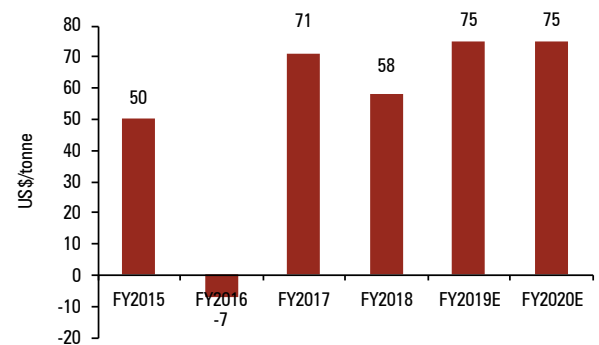
The European operations reported a healthy EBITDA/tonne of US\$39/tonne for the quarter. The improvement in EBITDA/tonne was marked by higher volumes QoQ, healthy realisations and improved product mix, partly offset by higher raw material cost. For the full year FY18, the EBITDA/tonne was at ~US\$58/tonne vs. ~US\$73/tonne in FY17. Going forward, we model an EBITDA/tonne of US\$75/tonne for both FY19E and FY20E.

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

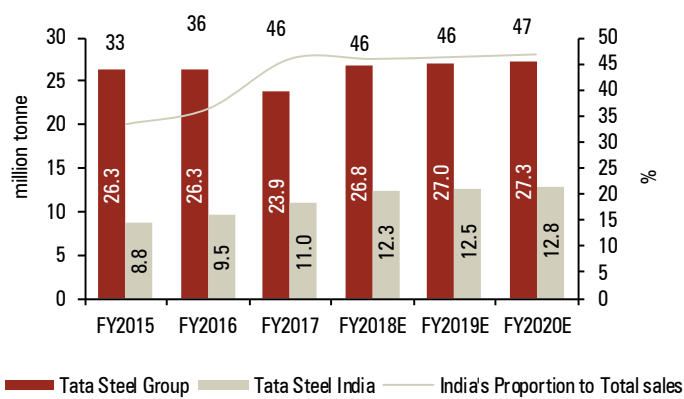


Source: Company, ICICI Direct Research

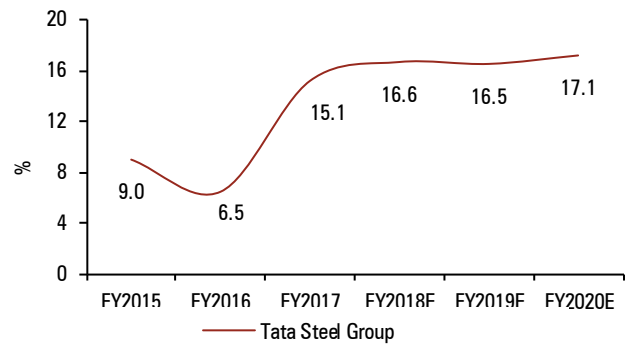
Exhibit 4: ... TSE EBITDA/tonne to improve



Source: Company, ICICI Direct Research

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


Source: Company, ICICI Direct Research

Exhibit 6: Consolidated EBITDA margin trend


Source: Company, ICICI Direct Research

Bhushan Steel Acquisition

Tata Steel's wholly owned subsidiary Bamnival Steel (BNPL) has successfully completed the acquisition of controlling stake of 72.65% in Bhushan Steel (BSL) in accordance with the approved Resolution Plan under the Corporate Insolvency Resolution Process (CIRP) of the Insolvency and Bankruptcy Code 2016 (IBC). Further, settlement of the amounts equivalent to ₹ 35200 crore towards financial creditors of BSL is being undertaken as per the terms of the resolution plan and corresponding transaction documents. The company will pay ₹ 1200 crore to the operational creditors of BSL over 12 months as per their admitted claims as per the terms of the approved Resolution Plan.

Tata Steel indicated that investment in BSL through BNPL has been done through combination of equity of ₹ 158.89 crore and inter-corporate loan of ₹ 34973.69 crore. Additionally, ₹ 100 crore has been paid by BNPL to the financial creditors of BSL as consideration for novation of the balance financial debt.

The acquisition is being financed through combination of external bridge loan of ₹ 16500 crore availed by BNPL and balance through investment of Tata Steel in BNPL. The bridge loan availed by BNPL is expected to be replaced by debt raised at BSL over time.

Pursuant to the acquisition, the nominees of BNPL have been appointed on the board of BSL while existing directors of BSL are deemed to have resigned from its board as per the terms of the approved resolution plan. As per the resolution plan approved by NCLT, BNPL shall be classified as the promoter of BSL while the existing promoters/promoter group shall be reclassified to public shareholders for the purposes of Sebi Regulations 2015.

We factor in a negative value of ₹ 49/share for Bhushan Steel in our valuation. While the limited near term earnings and higher acquisition debt will weigh in the short term, on a longer term horizon, the strong product profile and established client base of Bhushan Steel will complement Tata Steel's product offerings. Going forward, in the longer term, once Bhushan Steel's capacity is fully ramped up, it will have a positive rub off on the earnings of Tata Steel.

Bhushan Steel financials FY15-17				
Standalone - ₹ crore	FY15	FY16	FY17	
Revenue	10,646	11,803	13,706	
EBITDA	2,174	2,061	2,922	
EBITDA Margin (%)	20.4	17.5	21.3	
PAT	(1,254)	(3,329)	(3,502)	
Networth	5,587	2,258	(1,244)	
Debt	44,958	47,234	46,262	
Debt to Equity (x)	8.0	20.9	NA	
Consolidated - ₹ crore	FY15	FY16	FY17	
Revenue from Operations	10,646	11,803	13,706	
EBITDA	2,172	2,061	2,921	
EBITDA Margin (%)	20.4	17.5	21.3	
PAT	(1,257)	(3,441)	(3,615)	
Networth	5,559	2,890	(1,484)	
Debt	44,959	47,235	46,263	
Debt to Equity (x)	8.1	16.3	NA	

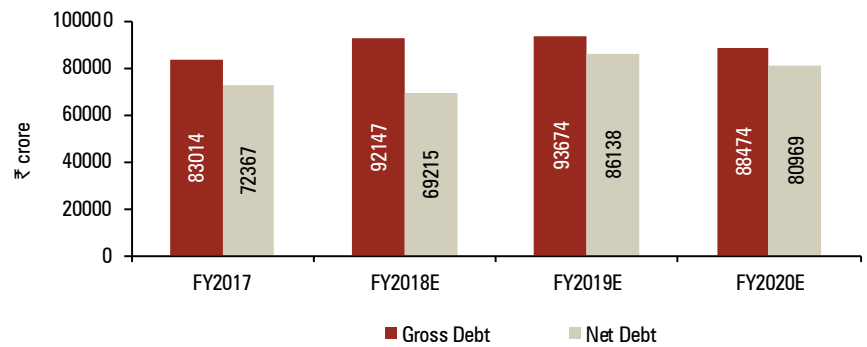
Source: Company, ICICI Direct Research

Debt levels to increase from current levels on account of Capex...

The net debt during the quarter declined by ₹ 6706 crore QoQ to ₹ 69215 crore (vs. ₹ 75921 crore in Q3FY18).

The gross debt of ₹ 83014 crore as on March 31 2017 increased by ₹ 9133 crore on a YoY basis. The net debt at ₹ 72367 crore declined by ₹ 3152 crore YoY. However, the same is likely to increase on account of capex undertaken during FY19E and FY20E.

Exhibit 7: Net debt to increase from current levels during FY19-20E



Source: Company, ICICI Direct Research, net debt is gross debt minus cash

Conference call highlights...

Global Scenario

- The global economic growth outlook further strengthened despite headwinds of rising protectionism and trade war concerns, geopolitical issues and rising interest rates
- CY18 global steel demand is expected to grow by ~29 million tonnes (MT). Chinese steel demand is expected to remain flat as China gradually transitions to slower economic growth
- Chinese steel production grew 5% YoY in Q4FY18. Utilisation levels remain elevated with capacity closure. Chinese steel exports dropped ~27% YoY with demand recovery after a slow start post the Chinese New Year
- Global steel prices remain buoyant. Steel spreads improved with favourable demand-supply balance and recent softness in raw material prices

Indian steel scenario

- Economic activities accelerated during Q4FY18
- Steel demand grew ~8.2% YoY on the back of the government's continued focus on infrastructure spending, strong growth in automotive, capital goods and consumer durables segment
- Crude steel production increased ~3.7% YoY
- Domestic steel prices also increased with improved demand, which was further supported by favourable regional price sentiments

European & South East Asia Scenario

- The eurozone economy grew 0.4% QoQ during Q1CY18
- EU steel demand grew ~1.6% YoY in Q1CY18, supported by growth across the main steel using sectors
- The share of imported steel remained higher
- The SE Asian Rebar spreads declined amid sluggish demand. Long steel demand remained weak. Construction sector continued to remain sluggish both in Singapore as well as Thailand
- South East Asia Rebar spread declined due to a sharp increase in scrap prices and weaker demand

Operational Performance

- During FY18, steel production at Indian operations (TSI) increased ~6.8% to 12.48 million tonne with a ramp up at Kalinganagar
- Domestic operations reported increase in deliveries of 10.7% to 12.15 million tonne vs. 7.9% growth in Indian finished steel consumption
- At the European operations (TSE), FY19 deliveries increased marginally. Saleable steel volumes for the year came in at 9.99 MT (vs. 9.93 MT in FY17). The Q4FY18 deliveries were up 4.2% QoQ after the planned outages in Q3FY18
- At TSE, the company launched 23 new products for customers in FY18, including 10 in Q4FY18. New products included a nickel plated steel for batteries used in electric vehicles
- The South East Asian (SEA) operations maintained volumes despite a weaker market. The full year sales volume was at 2.51 MT (vs. 2.61 MT in FY17). The Q4FY18 deliveries of 0.62 MT were flat QoQ. NatSteel Singapore deliveries were down 5.0% QoQ due to weaker construction demand, accentuated by New Year holidays. Tata Steel Thailand deliveries improved 4.7% QoQ amid lower exports by China

Business Outlook

Steel demand

- Indian steel demand is expected to grow ~6% in FY19 (5.5% in 2018 as per World Steel estimate)

- The management expects healthy growth in segments like auto, railway, engineering, construction, LPG, tubers and galvanisers
- Imports may rise as US tariffs on steel have created uncertainty around global steel trade flow
- European steel demand is expected to grow 2.3% in 2018 in line with economic growth. However, pressure from imports is likely to continue
- Steel demand in SEA is expected to remain sluggish in 2018 with weaker private and public construction investments

Steel prices

- The management indicated that steel prices in India are likely to remain range bound during the upcoming monsoon season
- Steel prices in Europe are likely to remain stable given China has announced additional production curbs post winter curbs

Raw material prices

- Iron ore prices in India are likely to remain below US\$70/tonne in the long run given the market remains well supplied
- Coking coal prices have moderated post resolution of seasonal supply disruptions. The same is expected to remain range bound

Other key developments

Kalinganagar 5 MT expansion

- The engineering work is progressing as per plan. The construction work for steel making plant has also commenced
- The expansion includes investments in upstream facilities, 2.2 MT cold rolling mill and raw material facilities
- The project cost is estimated at ₹ 23500 crore, of which ₹ 16500 crore are for HRC stage and balance on raw material facilities and the cold rolling mill
- The project is slated to be commissioned in 48 months from zero date

Update on UK Pension

- The entire process of UK pension restructuring is now complete with the new British Steel Pension Scheme (new scheme) having been set up in March 2018. Total 69% of the members have transferred to the new scheme
- The new scheme has a non-cash £2.2 billion accounting surplus under IAS19: the surplus will continue to support the pension scheme allowing it to run its required low risk investment strategy

Acquisition of Bhushan Steel

- Tata Steel received approval from the Competition Commission of India for acquisition of Bhushan Steel
- Tata Steel will pay ₹ 35200 crore for ~73% equity stake. However, Tatas will have 100% economic interest in the company
- The current outstanding debt on the books of Bhushan Steel is ₹ 56000 crore, against which Tata Steel will pay ₹ 35200 crore. For this the company will be arranging its fund through inter-corporate loans through a subsidiary amounting to ₹ 18000 crore and a debt of ₹ 16500 crore
- The debt of ₹ 16500 crore will be reflected in the books of Bhushan Steel towards Tata Steel. The debt amount is being sold to Tata Steel for a consideration of ₹ 100 crore, making the company a new lender to Tata Steel. Bhushan Steel will continue to serve the debt through its cash flow
- The management indicated that Bhushan's asset could be sweated up to 5 MT. The management further indicated that Bhushan has enough

land to expand the capacity to 8 MT. Tata Steel is eyeing synergies with Bhushan's downstream facilities

Other Highlights

- The management indicated the average steel prices increased by ~₹ 2000/tonne in Q4FY18. Steel realisations further increased by ₹ 2000/crore by the end of Q4FY18
- Average coking coal cost for Q4FY18 was at US\$157/tonne and is likely to increase to US\$175/tonne in Q1FY19 given a lag impact of high cost inventory
- The management expects the Q1FY19 performance to be better than Q4FY18
- The management for Indian operations guided for steel sales of 12.5 MT for FY19
- Tata Steel spent ~₹ 7400 crore towards capex in FY18. In FY19, the company expects the capex to be ~₹ 9000 crore on account of Kalinganagar phase II expansion. The large part of the capex will be incurred in two years upon equipment sourcing
- The company declared a dividend of ₹ 10/share for FY18

Outlook and valuation

We remain positive on the domestic steel consumption story driven by increased government expenditure/policies and supportive macros. We like Tata Steel given the integrated nature of domestic operations, which enables it to report higher EBITDA/tonne vis-à-vis its domestic peers. Going forward, we model sales volume of 12.5 MT in FY19E and 12.8 MT in FY20E with an EBITDA/tonne estimate for Indian operations of ₹ 13250/tonne for FY19E and ₹ 14000/tonne for FY20E. The EBITDA/tonne of European operations is estimated at US\$75/tonne for both years FY19E and FY20E.

We value the stock on SOTP basis and arrive at a target price of ₹ 700. We maintain our **BUY** rating.

Exhibit 8: Target price calculation

	₹ crore
Tata Steel India EBITDA FY20E (A)	17,859.7
EV/EBITDA Multiple Assigned (B)	7.0
Other Subs EBITDA FY20E (C)	764.0
EV/EBITDA Multiple Assigned (D)	5.0
Tata Steel Total EV (E = A*B + C*D)	128,838.0
Tata Steel Gross Debt + Minority Interest	70,110.5
Cash & Cash Eq (G)	10,689.8
Net Debt (I = F-G)	59,420.7
Add: 50% stake valuation in potential European steel JV (J)	16,380.8
Value of Bhushan Steel	(5,650.0)
Arrived Market Capitalisation (L = E-I+J+K)	80,148.0
No. of Shares	114.5
Target Price (₹)	700

Source: Company, ICICI Direct Research

Exhibit 9: Tata Steel – Thyssenkrupp JV (Synergy value based on JV assumptions)

Volume (MT)	21.0
EBITDA/tonne (₹/tonne)	6500.0
EBITDA (₹ crore)	13650.0
Multiple (x)	6.0
EV (₹ crore)	81900.0
Debt (₹ crore)	49138.4
Mcap (₹ crore)	32761.6
Tata Share (50%) (₹ crore)	16380.8

Source: Company, ICICI Direct Research

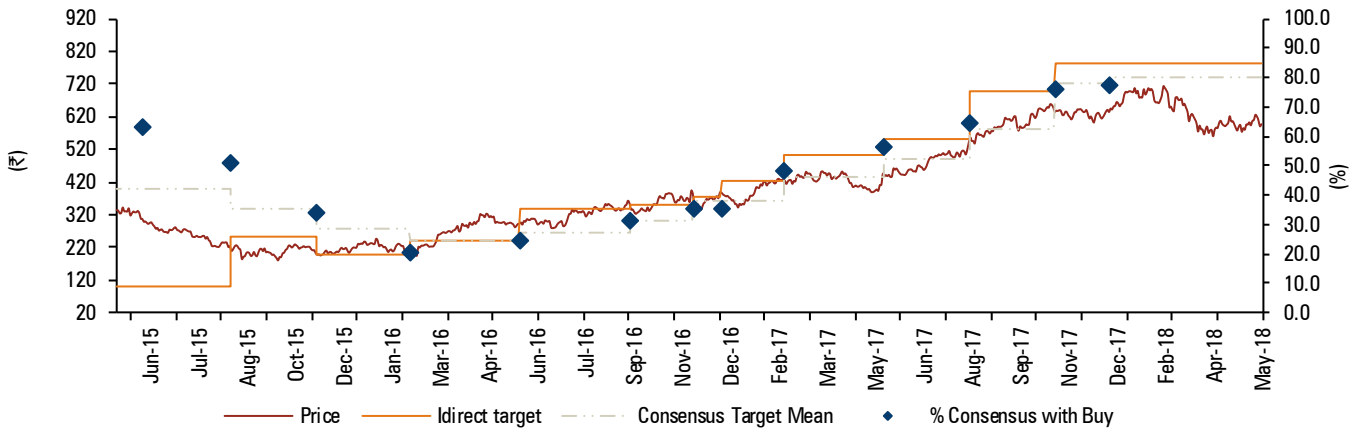
Exhibit 10: Valuation Matrix

	Total Op. Income (₹ Crore)	Growth % YoY	EPS (₹)	Growth % YoY	PE (x)	EV/EBITDA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY16	115,952	(16.2)	(23.1)	NM	NA	17.7	1.8	(7.3)	2.1
FY17	111,562	(3.8)	42.2	LP	13.8	8.0	1.5	10.8	9.4
FY18E	130,425	16.9	71.3	99.5	8.2	6.8	1.1	13.4	10.7
FY19E	133,750	2.5	71.3	(0.0)	8.2	6.9	1.0	11.8	10.1
FY20E	136,060	1.7	79.2	11.1	7.4	6.3	0.9	11.7	10.5

Source: Company, ICICI Direct Research

We factor in a negative value of ₹ 49/share for Bhushan Steel in our valuation. While the limited near term earnings and higher acquisition debt will weigh in the short term, on a longer term horizon, the strong product profile and established client base of Bhushan Steel will complement Tata Steel's product offerings. Going forward, in the longer term, once Bhushan Steel's capacity is fully ramped up, it will have a positive rub off on the earnings of Tata Steel.

Recommended History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Aug-17	Tata Steel signs agreement on segregating the company's UK business from its pension scheme that will potentially free it up to pursue strategic options for the unit. As part of the arrangement, Tata Steel UK will make a payment of £550 million to the British Steel Pension Scheme (BSPS) while 33% of Tata Steel UK's equity will be issued to the scheme's trustee
Sep-17	Tata Steel UK receives confirmation from The Pensions Regulator regarding approval of Regulated Apportionment Arrangement (RAA) with respect to the British Steel Pension Scheme (BSPS). As part of RAA, Tata Steel UK makes payment of £ 550 million and issued shares equivalent to a 33% stake in the company to the BSPS Trustee under the terms of a shareholder's agreement
Sep-17	Tata Steel, Thyssenkrupp AG sign an MoU to combine their respective flat steel businesses in Europe and for the steel mill services. The proposed JV would be named Thyssenkrupp Tata Steel which will have annual shipments of ~21 million tonne (MT) and is likely to have a proforma turnover of ~€15 billion per annum (₹115000 crore). The JV would be formed through a non cash transaction framework, based on fair valuation where both shareholders would contribute debt and liabilities to achieve equal shareholding in the venture. The company intends to sign definitive agreement by March 2018 and is looking to close the deal by December 2018 or March 2019
Oct-17	Tata Steel acquires Rio Tinto's smelter technology and intellectual property rights required to operate Hisarna process. The technology removes a number of pre-processing steps, resulting in significant efficiency gains and 20% reduction in energy use and carbon dioxide emissions as well as reducing steelmaking costs through lower priced raw materials (up to half of which could be recycled scrap steel)
May-18	Tata Steel Europe recently conducted a detailed portfolio review of all its businesses to assess the strategic fit and its future potential. Based on the above review, Tata Steel Europe has begun a process of seeking buyers for business units which supply products to niche markets, allowing the company to continue to strengthen its focus on strategic strip products and markets
May-18	Bamnipal Steel (wholly owned subsidiary of Tata Steel) successfully completes acquisition of controlling stake of 72.65% in Bhushan Steel (BSL) in accordance with the Resolution Plan under the Corporate Insolvency Resolution Process of the Insolvency and Bankruptcy Code 2016. Further settlement of the amounts equivalent to ₹35200 crore towards financial creditors of BSL is being undertaken as per the terms of resolution plan and corresponding transaction documents. The company will pay ₹1200 crore to the operational creditors of BSL over a period of 12 months as per their claims admitted and as per the terms of approved Resolution Plan

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Tata Group of Companies	31-Mar-18	29.7	358.1	56.3
2	Life Insurance Corporation of India	31-Mar-18	9.0	108.4	5.3
3	HDFC Asset Management Co., Ltd.	31-Dec-16	4.1	49.0	3.8
4	Reliance Nippon Life Asset Management Limited	31-Mar-18	3.0	36.1	10.5
5	ICICI Prudential Asset Management Co. Ltd.	30-Jun-17	2.4	28.7	4.6
6	Aditya Birla Sun Life AMC Limited	31-Mar-18	1.3	16.2	5.0
7	DSP BlackRock Investment Managers Pvt. Ltd.	31-Mar-18	1.1	13.0	0.7
8	Dimensional Fund Advisors, L.P.	31-Mar-18	0.9	11.2	0.1
9	BlackRock Institutional Trust Company, N.A.	30-Apr-18	0.9	11.2	0.0
10	The Vanguard Group, Inc.	30-Apr-18	0.8	9.8	0.1

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	31.4	31.4	31.4	31.4	33.2
FII	14.0	13.7	15.7	17.1	18.5
DII	30.7	30.3	29.7	28.5	26.8
Others	23.9	24.7	23.3	23.1	21.5

Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Tata Group of Companies	493.8	56.3	Kotak Mahindra Asset Management Company Ltd.	-7.1	-0.8
Reliance Nippon Life Asset Management Limited	92.4	10.5	Sundaram Asset Management Company Limited	-6.6	-0.8
Life Insurance Corporation of India	46.5	5.3	First Trust Advisors L.P.	-5.5	-0.6
Aditya Birla Sun Life AMC Limited	44.2	5.0	UTI Asset Management Co. Ltd.	-4.8	-0.5
Principal Global Investors (Equity)	7.5	0.9	Caisse de Depot et Placement du Quebec	-5.7	-0.5

Source: Reuters, ICICI Direct Research

Financial summary (Consolidated)

Profit and loss statement (₹ crore)				
(Year-end March)	FY17	FY18	FY19E	FY20E
Net Sales	111562.1	130425.5	133749.7	136060.5
Other Operating Income	737.4	1274.9	1040.5	1070.6
Total Operating Income	112299.4	131700.3	134790.1	137131.1
Growth (%)	-3.8	16.9	2.5	1.7
Raw Material Expenses	39304.9	52164.6	51643.6	52044.4
Employee Expenses	17252.2	17606.2	19162.0	19397.1
Purchase of Power	0.0	0.0	0.0	7175.7
Other expenses	38734.5	40039.0	41782.4	35016.5
Total Operating Expenditure	95291.6	109809.8	112588.1	113633.7
EBITDA	17007.8	21890.5	22202.1	23497.5
Growth (%)	124.2	28.7	1.4	5.8
Depreciation	5672.9	5961.7	5900.3	6080.3
Interest	5072.2	5501.8	5733.7	5955.4
Other Income	527.5	1083.6	661.3	811.4
PBT	6790.2	11510.6	11229.4	12273.1
Exceptional Item	-4316.6	9599.1	0.0	0.0
Total Tax	2778.0	3405.4	3120.6	3257.2
PAT	-304.4	17704.4	8108.8	9015.9
Growth (%)	-90.4	-5916.5	-54.2	11.2
Minorities, Associates etc	-64.2	58.5	52.6	47.3
Rep PAT after Assoc., MI	-368.6	17762.8	8161.4	9063.3
Adj PAT after Assoc., MI	4092.1	8163.7	8161.4	9063.3
Growth (%)	-282.4	99.5	0.0	11.1
EPS (₹)	42.2	71.3	71.3	79.2

Source: Company, ICICI Direct Research

Balance sheet (₹ crore)				
(Year-end March)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Share Capital	970.2	1,145.0	1,145.0	1,145.0
Hybrid Perpetual securities	2,275.0	2,275.0	2,275.0	2,275.0
Reserve and Surplus	34574.1	57450.7	65701.3	74326.9
Total Shareholders funds	37819.3	60870.6	69121.2	77746.8
Total Debt	83014.0	88674.1	93674.1	88474.1
Deferred Tax Liability	10030.1	10569.9	10569.9	10569.9
Minority Interest & Others	1601.7	9866.9	12919.5	15966.9
Total Liabilities	132465.1	169981.5	186284.7	192757.7
Assets				
Gross Block	183767.2	193677.1	199677.1	205677.1
Less: Impairment	0.0	0.0	0.0	0.0
Less: Acc Depreciation	95255.4	101217.0	107117.4	113197.7
Net Block	88511.8	92460.1	92559.7	92479.4
CWIP	15784.1	16159.8	19159.8	26159.8
Investments	12536.7	17899.5	20899.5	24549.5
Goodwill on Consolidation	3494.7	4099.5	4099.5	4099.5
Inventory	24803.8	28331.0	28297.9	28517.5
Debtors	11586.8	12415.5	13191.7	13419.7
Loans and Advances	7587.4	26142.3	23142.3	19842.3
Other Current Assets	2931.1	3276.6	3376.6	3476.6
Cash	4921.1	7937.9	7536.2	7505.3
Total Current Assets	51830.2	78103.4	75544.8	72761.4
Current Liabilities	18574.5	38506.8	24744.7	25058.1
Provisions	22003.9	1269.6	2269.6	3269.6
Current Liabilities & Prov	40578.4	39776.4	27014.4	28327.7
Net Current Assets	11251.8	38326.9	48530.5	44433.7
others	885.9	1035.8	1035.8	1035.8
Application of Funds	132465.1	169981.5	186284.7	192757.7

Source: Company, ICICI Direct Research

Cash flow statement (₹ crore)				
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	-368.6	17762.8	8161.4	9063.3
Add: Depreciation	5672.9	5961.7	5900.3	6080.3
(Inc)/dec in Current Assets	6666.0	-23256.4	2157.0	2752.5
Inc/(dec) in CL and Prov.	-1134.7	-801.9	-12762.1	1313.3
Others	7125.2	9470.2	3000.0	3000.0
CF from operating activities	17960.8	9136.3	6456.6	22209.4
(Inc)/dec in Investments	-5736.1	-5362.8	-3000.0	-3650.0
(Inc)/dec in Fixed Assets	-31020.6	-10285.6	-9000.0	-13000.0
Others	-52.5	-665.2	52.6	47.3
CF from investing activities	-36809.2	-16313.5	-11947.4	-16602.7
Issue/(Buy back) of Equity	-20.0	174.7	0.0	0.0
Inc/(dec) in loan funds	-3190.0	5660.1	5000.0	-5200.0
Dividend paid & dividend tax	-908.1	-1339.6	-1339.6	-1339.6
Inc/(dec) in Share Cap	8342.2	6453.4	1428.8	901.9
Others	9360.6	-754.7	0.0	0.0
CF from financing activities	13584.7	10193.9	5089.2	-5637.7
Net Cash flow	-5263.7	3016.8	-401.6	-30.9
Opening Cash	10184.8	4921.1	7937.9	7536.2
Closing Cash	4921.1	7937.9	7536.2	7505.3

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
Adj EPS	42.2	71.3	71.3	79.2
Cash EPS	100.6	123.4	122.8	132.3
BV	389.8	531.6	603.7	679.0
Adj BV (adj for Goodwill)	353.8	495.8	567.9	643.2
DPS	8.0	10.0	10.0	10.0
Cash Per Share	50.7	69.3	65.8	65.6
Operating Ratios (%)				
EBITDA Margin	15.1	16.6	16.5	17.1
PBT / Total Operating income	6.0	8.7	8.3	8.9
Adj PAT Margin	3.6	6.2	6.1	6.6
Inventory days	210	186	200	200
Debtor days	38	34	36	36
Creditor days	199	187	175	175
Return Ratios (%)				
Adj RoE	10.8	13.4	11.8	11.7
Adj RoCE	9.4	10.7	10.1	10.5
RoIC	9.8	11.2	10.5	11.0
Valuation Ratios (x)				
P/E	14.0	8.3	8.3	7.5
EV / EBITDA	8.1	6.8	7.0	6.4
EV / Net Sales	1.2	1.1	1.2	1.1
Market Cap / Sales	0.5	0.4	0.5	0.5
Price to Book Value	1.5	1.1	1.0	0.9
Price to Adj Book Value	1.7	1.2	1.0	0.9
Solvency Ratios				
Debt/EBITDA	4.9	4.1	4.2	3.8
Debt / Equity	2.2	1.5	1.4	1.1
Current Ratio	1.3	2.0	2.8	2.6
Quick Ratio	0.7	1.3	1.7	1.6

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Metals & Mining)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	TP (₹)	Rating		FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Coal India	267	325	Hold	165613	15.1	19.1	21.8	19.5	15.4	13.5	10.0	7.8	6.7	38.3	48.4	59.6	36.8	42.9	50.8
Hindalco	232	275	Buy	51666	19.9	24.8	29.2	11.7	9.3	8.0	6.3	6.1	5.3	9.4	10.4	11.1	8.1	9.6	10.0
Hindustan Zinc	308	350	Buy	130130	22.0	23.8	28.6	14.0	12.9	10.8	8.8	7.7	5.9	34.0	31.5	32.3	25.8	23.6	23.9
JSW Steel	332	375	Buy	80251	25.3	29.0	31.8	13.1	11.5	10.5	7.9	6.9	6.7	17.9	19.5	17.5	21.8	23.2	20.7
NMDC	115	145	Buy	36323	12.7	13.4	14.3	10.6	10.1	9.5	6.1	5.7	6.1	20.5	21.0	21.4	15.7	15.0	15.2
Vedanta	285	350	Buy	84503	20.0	35.2	42.6	14.3	8.1	6.7	4.9	3.9	3.2	17.6	19.2	21.7	11.7	17.6	18.0
Tata Steel	583	700	Buy	53677	71.3	71.3	79.2	8.2	8.2	7.4	6.8	6.9	6.3	10.7	10.1	10.5	13.4	11.8	11.7

Source: Company, ICICI Direct Research

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