

## Steady performance despite few hiccups; Maintain Buy

Tata Metaliks (TML) delivered steady performance in Q1 despite few unscheduled shutdowns and EBITDA stood at ~Rs660mn, up 33% YoY but lower than our expectations by ~8% with the miss being completely driven by shutdown impact (~Rs70mn). We continue to maintain our positive view on TML as its DI pipe business boasts of an industry leading cost structure, solid demand drivers and strong entry barriers. With expected recovery in spreads in FY19E and commissioning of PCI project by Q4FY19E coupled with several other productivity improvement initiatives, TML is expected to continue delivering steady earnings growth over FY19-20E. We see valuations attractive with reasonable scope for a re-rating and maintain Buy with a TP of Rs1050.

- **Volume performance remains solid:** Revenue stood at Rs4.7bn, up 22% YoY and 5.8% above our expectations. Pig iron volumes grew ~30% YoY and realisations were higher by ~17% YoY while DI volumes were lower by ~4% YoY and realisations were flat. Management attributed volume pressure in DI business due to delay in release of funds for infrastructure projects and seasonal factors.
- **EBITDA impacted by few unscheduled shutdowns:** EBITDA was below our expectations by ~8% at Rs660mn (Our Est: Rs717mn) and was higher by 33% YoY. Margins stood at 14.1%, up 114bps YoY. Gross margins remained subdued at 40.6% (on account of flat realisations in DI business due to lag effect and high coking coal/coke costs which continued to impact spreads). Gross profit/t stood at Rs16446/t (vs Rs17664/t YoY). TML faced few unscheduled shutdowns during Q1 led by i) MBF1 shutdown for 4 days in April in continuation from March due to volume limit on production for FY18, ii) shutdown of MBF2 due to refractory lining issues which impacted production for over a month and iii) labour issues which impacted production for 2 days. The total impact on EBITDA due to these stood at ~Rs70mn. Blended EBITDA/t stood at ~Rs5715/t, up ~17% YoY. PAT miss was accentuated by one-off increase in depreciation (~Rs20mn) and higher tax rate.
- **Outlook & earnings revision:** TML expects to grow volumes by 5-10% in FY19 despite achieving 100%+ utilisations in FY18 and this would be led by debottlenecking and increased productivity initiatives. The spreads have remained under pressure due to extreme volatility in coke/coking coal prices but TML is now getting 80-85% of its coke through conversion from coal and recent weakness in coal costs coupled with improvement in DI pipe prices are expected to pave way for spread improvements in FY19. Announcement of growth capex for DI pipes expansion remains elusive though management continues to stress that effort for the same are on. We revise our earnings estimates marginally.
- **Valuation and risks – maintain Buy:** At CMP of Rs661, stock trades at 7.4x FY20E P/E and 5.1x FY20E EV/EBITDA. We expect EBITDA/PAT CAGR of 17%/19% during FY18-20E and continue to value TML on our conservative AOCF/EV yield methodology and maintain Buy with a TP of Rs1050. Key risk is margin pressure due to raw material volatility.

Y/E Mar (Rs mn)	Q1FY19	Q1FY18	YoY(%)	Q4FY18	QoQ(%)	Q1FY19E	Var(%)
<b>Net sales</b>	<b>4,675</b>	<b>3,839</b>	<b>21.8</b>	<b>5,468</b>	<b>(14.5)</b>	<b>4,420</b>	<b>5.8</b>
Total RM consumed	2,777	2,032	36.7	3,161	(12.1)	2,431	14.2
Employee costs	273	229	19.1	256	6.6	260	5.1
Other expenses	966	1,081	(10.6)	1,171	(17.6)	1,012	(4.6)
<b>EBITDA</b>	<b>660</b>	<b>498</b>	<b>32.5</b>	<b>879</b>	<b>(25.0)</b>	<b>717</b>	<b>(8.0)</b>
<b>EBITDA margin (%)</b>	<b>14.1</b>	<b>13.0</b>	<b>114 bps</b>	<b>16.1</b>	<b>(197)bps</b>	<b>16.2</b>	<b>(211)bps</b>
Depreciation	152	116	30.8	132	14.9	135	12.5
Finance costs	106	93	13.3	177	(40.3)	95	11.3
Tax	111	85	29.9	115	(3.3)	108	2.3
<b>PAT</b>	<b>306</b>	<b>309</b>	<b>(0.9)</b>	<b>549</b>	<b>(44.2)</b>	<b>384</b>	<b>(20.2)</b>

Source: Company, Centrum Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS (Rs)	RoE (%)	RoCE (%)	PE (x)	EV/EBITDA (x)
FY16	12,983	(8.4)	2,161	16.6	1,129	1.8	44.6	259.6	29.5	2.3	3.1
FY17	13,367	3.0	2,249	16.8	1,169	3.5	46.2	76.3	19.5	7.7	6.4
FY18	18,733	40.1	2,772	14.8	1,601	37.0	63.3	56.6	23.7	10.4	8.5
FY19E	19,794	5.7	3,282	16.6	1,845	15.2	72.9	41.3	23.5	9.1	6.1
FY20E	19,310	(2.4)	3,796	19.7	2,259	22.5	89.3	35.1	23.6	7.4	5.1

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited.

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs1,050	Key Data	
CMP*	Rs661	Bloomberg Code	TML IN
Upside	58.9%	Curr Shares O/S (mn)	25.3
Previous Target	Rs1060	Diluted Shares O/S(mn)	25.3
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	16.7/243.5
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	975.5/585.3
	<b>1M 6M 1Yr</b>	5 Year H / L (Rs)	975.5/26
TML IN	(2.6) (27.7) (0.8)	Daily Vol. (3M NSE Avg.)	62627
NIFTY	5.7 1.9 12.6		

\*as on 27 July 2018; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Jun-18	Mar-18	Dec-18	Sep-17
Promoter	50.1	50.1	50.1	50.1
FII's	3.1	2.7	3.2	3.1
Dom. Inst.	12.0	11.7	10.7	8.0
Public & Others	34.8	35.6	36.0	38.8

Source: BSE, \*as on 27 July 2018

### Operational metrics

(tonne)	Q1FY19	Q1FY18	Q4FY18	YoY %	QoQ%
<b>Volumes (tonne)</b>					
Pig Iron	68,393	52,731	71,229	29.7	(4.0)
DI Pipes	47,042	49,036	64,628	(4.1)	(27.2)
<b>Realisations (Net - Rs/t)</b>					
Pig Iron	32,051	27,466	28,511	16.7	12.4
DI Pipes	48,331	48,882	46,471	(1.1)	4.0
<b>EBITDA/t (Rs)*</b>					
Pig Iron	3,218	2,331	3,100	38.1	3.8
DI Pipes	6,126	5,317	7,090	15.2	(13.6)
Blended	5,715	4,893	6,472	16.8	(11.7)

Source: Company, Centrum Research Estimates, \*derived

### Earnings Revision

Particulars (Rs mn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	19,794	19,047	3.9	19,310	18,810	2.7
EBITDA	3,282	3,387	(3.1)	3,796	3,800	(0.1)
EBITDA Margin (%)	16.6	17.8		19.7	20.2	
PAT	1,845	2,028	(9.1)	2,259	2,315	(2.4)

Source: Centrum Research Estimates

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## Valuation – Maintain Buy with a TP of Rs1050

We continue to value TML on AOCF/EV yield methodology as explained in our IC report dated 6 Feb 2017 (<https://goo.gl/p2JtSY>). We ascribe a premium of 15% to historical long-term average AOCF/EV yield of FY14-18 and arrive at a target AOCF/EV yield of 6.3%, and hence, the implied EV/AOCF multiple of 15.9x. We use average cash flows generated over four years (and hence remain conservative) during FY17-20E and apply 15.9x EV/AOCF multiple to arrive at our target EV and our TP of Rs1050/sh. Reiterate Buy. We believe that using cash flows over FY17-20E and ascribing premium of 15% over historical valuations is justified for TML as the business has entered into a new territory from FY17 onwards with an increase in the high margin DI pipe capacity and commissioning of several projects which have enhanced the company's cost positioning. At our TP of Rs1050, the stock would trade at FY19E/20E P/E of 14.4x/11.8x.

### Exhibit 1: Cash flow-based valuation

<b>Average AOCF/EV Yield - % - FY14-18</b>	<b>7.4</b>
<i>Premium assigned - %</i>	15%
<i>Target AOCF/EV Yield - %</i>	6.3
Implied EV/5 yr AOCF Multiple (x)	15.9
4 yr avg. AOCF (Rs mn) - FY17-20E	1,747
EV (Rs mn)	27,721
Add: Net Cash – FY20E	(2,288)
Add: CWIP for new DI capacity (@75%)	1,058
Fair value mkt cap	26,491
No. of shares (mn)	25.3
<b>Fair Value/share (Rs)</b>	<b>1050</b>

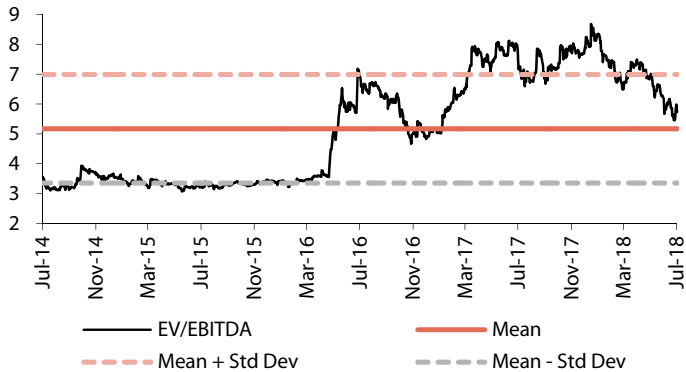
Source: Company, Centrum Research Estimates

### Exhibit 2: Sensitivity Analysis (FY19E)

1% Chg	EBITDA	PAT
<b>Pig Iron</b>		
Volumes	1.9	2.5
Realisations	1.8	2.4
<b>DI Pipes</b>		
Volumes	3.3	4.3
Realisations	2.7	3.6

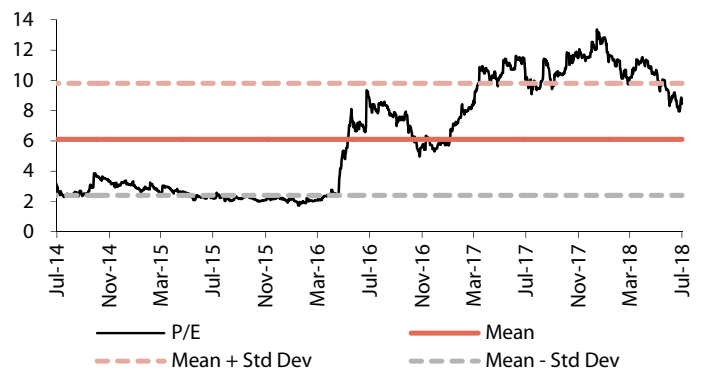
Source: Company, Centrum Research Estimates

### Exhibit 3: 1 year EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 4: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 5: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR FY18-FY20E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Tata Metaliks	16,717	1.5	17.0	18.8	14.8	16.6	19.7	10.4	9.1	7.4	8.5	6.1	5.1	56.6	41.3	35.1	0.4	0.5	0.5
Sri Kalahasthi Pipes	10,608	3.2	9.7	13.1	17.2	18.3	19.5	10.7	6.1	5.4	5.6	3.6	3.0	14.5	13.6	13.8	1.9	2.6	2.6
Jindal Saw	27,547	19.9	29.6	134.4	11.3	12.3	13.2	9.5	4.9	3.2	3.9	2.1	5.5	2.8	8.8	11.6	0.9	1.2	1.2

Source: Bloomberg, Centrum Research Estimates

## Quarterly financials, operating metrics and key performance indicators

### Exhibit 6: Quarterly Financials

Particulars (Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
<b>Net Sales</b>	<b>3,228</b>	<b>3,002</b>	<b>4,008</b>	<b>3,839</b>	<b>4,502</b>	<b>4,899</b>	<b>5,468</b>	<b>4,675</b>
Other operating income	14	15	0	0	0	0	0	0
<b>Total Income</b>	<b>3,228</b>	<b>3,002</b>	<b>4,008</b>	<b>3,839</b>	<b>4,502</b>	<b>4,899</b>	<b>5,468</b>	<b>4,675</b>
Cost of Raw Materials consumed	1,535	1,446	2,159	2,032	2,754	2,938	3,161	2,777
Staff Cost	205	206	244	229	268	249	256	273
Other Operational expenses	1,033	920	853	1,081	811	987	1,171	966
<b>Operating Profit (Core EBITDA)</b>	<b>456</b>	<b>429</b>	<b>752</b>	<b>498</b>	<b>669</b>	<b>726</b>	<b>879</b>	<b>660</b>
Depreciation	80	84	124	116	120	123	132	152
<b>EBIT</b>	<b>376</b>	<b>345</b>	<b>629</b>	<b>382</b>	<b>549</b>	<b>603</b>	<b>747</b>	<b>508</b>
Interest	84	93	115	93	100	101	177	106
Other Revenue/Income	2	2	6	106	2	1	93	15
Other Exceptional Items	0	0	0	0	0	0	0	0
<b>Profit Before Tax</b>	<b>294</b>	<b>254</b>	<b>520</b>	<b>394</b>	<b>452</b>	<b>504</b>	<b>663</b>	<b>417</b>
Tax	77	59	114	85	115	98	115	111
<i>Tax rate (%)</i>	<i>26.1</i>	<i>23.1</i>	<i>21.9</i>	<i>21.6</i>	<i>25.4</i>	<i>19.4</i>	<i>17.3</i>	<i>26.6</i>
<b>Profit After Tax</b>	<b>217</b>	<b>195</b>	<b>406</b>	<b>309</b>	<b>337</b>	<b>406</b>	<b>549</b>	<b>306</b>
<b>Growth (%)</b>								
<i>Net Sales</i>	<i>(1.5)</i>	<i>2.4</i>	<i>11.1</i>	<i>22.0</i>	<i>39.5</i>	<i>63.2</i>	<i>36.4</i>	<i>21.8</i>
<i>EBITDA</i>	<i>(2.4)</i>	<i>(8.3)</i>	<i>0.7</i>	<i>(17.7)</i>	<i>46.8</i>	<i>69.1</i>	<i>16.9</i>	<i>32.5</i>
<i>PAT</i>	<i>7.4</i>	<i>(26.2)</i>	<i>5.5</i>	<i>(10.2)</i>	<i>55.2</i>	<i>108.1</i>	<i>35.2</i>	<i>(0.9)</i>
<b>Margin (%)</b>								
<i>EBITDA</i>	<i>14.1</i>	<i>14.3</i>	<i>18.8</i>	<i>13.0</i>	<i>14.9</i>	<i>14.8</i>	<i>16.1</i>	<i>14.1</i>
<i>EBIT</i>	<i>11.6</i>	<i>11.5</i>	<i>15.7</i>	<i>9.9</i>	<i>12.2</i>	<i>12.3</i>	<i>13.7</i>	<i>10.9</i>
<i>PAT</i>	<i>6.7</i>	<i>6.5</i>	<i>10.1</i>	<i>8.0</i>	<i>7.5</i>	<i>8.3</i>	<i>10.0</i>	<i>6.5</i>
<b>Segment EBIT</b>								
Pig Iron	220	64	(84)	197	269	302	381	332
Ductile Iron Pipe	160	285	716	290	283	302	459	191
Total	380	349	632	487	552	604	841	523
<b>Sales Volumes (tonne)</b>								
Pig Iron Total (incl. captive)	1,05,334	82,027	96,451	1,01,767	1,27,526	1,35,225	1,33,502	1,15,435
DI Pipes	37,731	39,471	65,640	49,036	45,630	50,180	62,273	47,042

Source: Company, Centrum Research

### Exhibit 7: Key Performance Indicators

	FY16	FY17	FY18*	FY19E*	FY20E*
<b>Gross Revenue (Rs mn)</b>					
Pig Iron	7,277	5,599	8,732	9,600	8,845
DI Pipes	6,402	8,502	9,897	10,080	10,340
<b>Volumes (kt)</b>					
Pig Iron	292	199	291	300	305
DI Pipes	131	182	209	210	220
<b>Gross Realisations/t (Rs/t)</b>					
Pig Iron	24,930	24,794	30,017	32,000	29,000
DI Pipes	48,969	46,589	48,283	48,000	47,000
<b>EBITDA/t (Rs)</b>					
Pig Iron	2,613	1,823	2,629	3,200	3,500
DI Pipes	8,209	8,465	7,063	7,856	8,900
Blended	5,114	5,875	5,517	6,435	7,230

Source: Company, Centrum Research Estimates, \*Revenue and realisations for FY18/19E/20E are on net basis

## Financials (Consolidated)

### Exhibit 8: Income Statement

Y/E Mar(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>12,983</b>	<b>13,367</b>	<b>18,733</b>	<b>19,794</b>	<b>19,310</b>
Materials cost	6,411	6,535	10,884	10,942	9,881
% of revenues	49.4	48.9	58.1	55.3	51.2
Employee cost	720	849	1,003	1,153	1,268
% of revenues	5.5	6.3	5.4	5.8	6.6
Others	3,690	3,735	4,074	4,417	4,365
% of revenues	28.4	27.9	21.7	22.3	22.6
<b>EBITDA</b>	<b>2,161</b>	<b>2,249</b>	<b>2,772</b>	<b>3,282</b>	<b>3,796</b>
EBITDA margin (%)	16.6	16.8	14.8	16.6	19.7
Depreciation & Amortisation	330	364	491	523	575
<b>EBIT</b>	<b>1,832</b>	<b>1,885</b>	<b>2,282</b>	<b>2,758</b>	<b>3,220</b>
Interest expenses	459	375	471	383	306
<b>PBT from operations</b>	<b>1,373</b>	<b>1,510</b>	<b>1,811</b>	<b>2,376</b>	<b>2,914</b>
Other income	16	15	202	20	20
Exceptional items	-	-	-	-	-
<b>PBT</b>	<b>1,389</b>	<b>1,525</b>	<b>2,013</b>	<b>2,396</b>	<b>2,934</b>
Taxes	260	356	412	551	675
Effective tax rate (%)	19%	23%	20%	23%	23%
<b>Reported PAT</b>	<b>1,129</b>	<b>1,169</b>	<b>1,601</b>	<b>1,845</b>	<b>2,259</b>

Source: Company, Centrum Research Estimates

### Exhibit 9: Key Ratios

Y/E Mar	FY16	FY17	FY18	FY19E	FY20E
<b>Growth Ratio (%)</b>					
Revenue	(8.4)	3.0	40.1	5.7	(2.4)
EBITDA	6.8	4.1	23.2	18.4	15.7
Adjusted PAT	1.8	3.5	37.0	15.2	22.5
<b>Margin Ratios (%)</b>					
EBITDA	16.6	16.8	14.8	16.6	19.7
PBT from operations	10.6	11.3	9.7	12.0	15.1
Adjusted PAT	8.7	8.7	8.5	9.3	11.7
<b>Return Ratios (%)</b>					
ROE	259.6	76.3	56.6	41.3	35.1
ROCE	29.5	19.5	23.7	23.5	23.6
ROIC	29.3	19.4	22.1	24.6	24.5
<b>Turnover Ratios (days)</b>					
Gross block turnover ratio (x)	2.3	1.9	2.2	2.2	1.9
Debtors	48	51	42	45	45
Inventory	34	44	39	40	40
Creditors	70	47	41	45	45
Cash conversion cycle	12	48	40	40	40
<b>Solvency Ratio (x)</b>					
Net debt-equity	4.1	2.6	1.3	0.6	0.3
Debt-equity	4.1	2.6	1.3	0.7	0.4
Interest coverage ratio	0.3	0.2	0.2	0.1	0.1
Gross debt/EBITDA	1.9	2.4	1.7	1.1	0.8
Current Ratio	0.6	0.8	0.8	1.5	1.5
<b>Per share Ratios (Rs)</b>					
Adjusted EPS	44.6	46.2	63.3	72.9	89.3
BVPS	39.1	81.9	141.8	211.3	297.1
CEPS	57.7	60.6	82.7	93.6	112.1
DPS	-	2.0	3.0	3.0	3.0
Dividend payout %	0.0	4.3	4.7	4.1	3.4
<b>Valuation (x)*</b>					
P/E (adjusted)	2.3	7.7	10.4	9.1	7.4
P/BV	2.6	4.3	4.7	3.1	2.2
EV/EBITDA	3.1	6.4	8.5	6.1	5.1
Dividend yield %	0.0	0.6	0.4	0.5	0.5
5 Yr Avg AOCF/EV yield %	10.8	6.8	4.4	5.4	7.4

Source: Company, Centrum Research Estimates

### Exhibit 10: Balance Sheet

Y/E Mar(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	253	253	253	253	253
Reserves & surplus	737	1,819	3,334	5,090	7,260
Shareholders' fund	990	2,072	3,587	5,343	7,513
Total Debt	4,100	5,396	4,753	3,753	3,053
<b>Total Liabilities</b>	<b>5,090</b>	<b>7,468</b>	<b>8,339</b>	<b>9,095</b>	<b>10,566</b>
Gross Block	5,678	8,405	8,854	9,194	10,636
Less: Acc. Depreciation	(2,146)	(2,509)	(3,001)	(3,523)	(4,098)
Net Block	3,533	5,896	5,853	5,671	6,538
Capital WIP	869	336	242	752	1,410
Net Fixed Assets	4,402	6,232	6,096	6,423	7,948
Investments	0	0	100	100	100
Inventories	1,200	1,602	1,987	2,169	2,116
Sundry debtors	1,707	1,879	2,147	2,440	2,381
Cash	15	22	32	352	350
Loans & Advances	1,254	905	837	1,085	1,058
Other assets	12	16	50	50	50
Total Current Asset	4,188	4,423	5,053	6,096	5,956
Trade payables	2,487	1,706	2,082	2,440	2,381
Other current Liab.	664	1,000	656	813	794
Provisions	349	482	173	271	265
Net Current Assets	688	1,235	2,142	2,571	2,517
<b>Total Assets</b>	<b>5,090</b>	<b>7,468</b>	<b>8,339</b>	<b>9,095</b>	<b>10,566</b>

Source: Company, Centrum Research Estimates

### Exhibit 11: Cash Flow

Y/E Mar(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Operating profit before WC	1,845	2,303	2,784	3,282	3,796
Changes in working capital	(1,694)	(1,339)	(846)	(110)	53
<b>Cash flow from operations</b>	<b>648</b>	<b>770</b>	<b>1,957</b>	<b>2,621</b>	<b>3,174</b>
Adj. OCF (OCF - Interest)	189	395	1,486	2,238	2,867
Net Capex	797	1,258	603	850	2,100
Adj. FCF	(608)	(862)	883	1,388	767
<b>Cash flow from investments</b>	<b>(792)</b>	<b>(1,253)</b>	<b>(700)</b>	<b>(830)</b>	<b>(2,080)</b>
<b>Cash flow from financing</b>	<b>(131)</b>	<b>486</b>	<b>(1,250)</b>	<b>(1,472)</b>	<b>(1,095)</b>
<b>Net change in cash</b>	<b>(275)</b>	<b>4</b>	<b>7</b>	<b>320</b>	<b>(1)</b>

Source: Company, Centrum Research Estimates

## Appendix A

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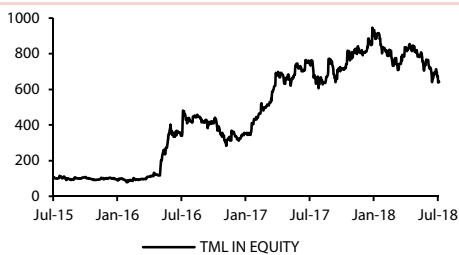
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### Tata Metaliks price chart



Source: Bloomberg, Centrum Research

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		Tata Metaliks
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