

Tata Steel | BUY

Balance sheet discipline to determine stock performance

Tata Steel reported consolidated EBITDA of INR 64.7bn, in-line with JMfe. Indian operations delivered a multi quarter high EBITDA per ton of INR 17k driven by higher realisations. Corus performance improved significantly, driven by higher realisation and better operational efficiency. Strong performance in standalone and European operations were significantly offset by an adverse forex movement of c.INR 11bn at financing entities. Bhushan Steel reported an EBITDA of 46bn in 1QFY19 implying an EBITDA/t of INR 9.7k/ton. We continue to remain positive on the steel cycle and factor in normalized spreads for Indian and European businesses for FY19/20E. Management's firm commitment to a sustainable net debt/EBITDA in light of further inorganic opportunities is likely to be the key determinant of stock performance going forward. Maintain BUY.

- **Robust performance at Indian operations:** Tata Steel India reported a revenue growth of c.26.5% YoY, driven by **a)** 8% YoY increase in volumes and **b)** c.17.1% YoY increase in realisations. Domestic deliveries increased 13.7% YoY, higher than 9.2% YoY overall steel demand growth in India. EBITDA came in at INR 50.7bn (+71% YoY), vs. JMfe of INR 53.3. Blended EBITDA/t increased from INR 10.8k/t in 1QFY18 to INR 17.1k/t in 1QFY19. Exceptional charge of INR 3.3bn primarily included provision for additional interest on differential royalty on coal.
- **European out-performance driven by record spreads:** Corus EBITDA per ton came in higher at USD 102/ton in 1Q as against JMfe expectation of USD 61/ton driven by higher realisation. EBITDA increased 28% YoY to USD 249mn driven by higher realisations and better operational performance.
- **South East Asia operations benefit from NatSteel performance:** South East Asian operations reported a muted revenue growth of 1% QoQ, driven by lower deliveries partially offset by better realisation in Singapore. EBITDA increased 15.3% QoQ to INR 1.1bn in 1Q driven by improved realisations and deliveries at NatSteel, partially offset by increase in input metallic cost.
- **Bhushan steel's margin expands significantly:** Bhushan steel earlier reported a revenue growth of c.22.2% YoY to INR 46bn in 1QFY19, driven by 23.6% increase in realisation. 1Q volume of crude steel remained flat YoY at 0.85mn tons. EBITDA more than tripled YoY to INR 8.3bn. EBITDA/t increased from INR 3k/t in 1QFY18 to INR 9.7k/t in 1QFY19. Exceptional charge of INR 29bn includes INR 24.3bn of gain arising out of redemption of preference share pursuant to the resolution plan.
- **TSE – thyssen JV on track:** In Jun'18, Tata Steel and thyssenkrupp AG signed definitive agreements to form a 50:50 JV in Europe. The expansion plan of 5mn tons of capacity at Kalinganagar is on track with estimated project cost of INR 235bn, including INR 160bn up to HRC stage.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	745
Upside/(Downside)	31.0%
Previous Price Target	780
Change	-4.5%

Key Data – TATA IN

Current Market Price	INR569
Market cap (bn)	INR651.0/US\$9.5
Free Float	60%
Shares in issue (mn)	1,203.1
Diluted share (mn)	1,203.1
3-mon avg daily val (mn)	INR4,921.0/US\$71.6
52-week range	748/493
Sensex/Nifty	38,024/11,471
INR/US\$	68.7

Price Performance

%	1M	6M	12M
Absolute	1.8	-20.2	1.1
Relative*	-1.2	-27.3	-16.1

* To the BSE Sensex

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Financial Summary

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	1,019,647	1,122,994	1,321,557	1,578,242	1,616,998
Sales Growth (%)	-26.9	10.1	17.7	19.4	2.5
EBITDA	79,683	170,078	218,905	259,160	268,504
EBITDA Margin (%)	7.8	15.1	16.6	16.4	16.6
Adjusted Net Profit	-18,333	39,476	66,778	78,822	82,580
Diluted EPS (INR)	-15.2	32.8	55.5	65.5	68.6
Diluted EPS Growth (%)	0.0	0.0	69.2	18.0	4.8
ROIC (%)	3.8	5.9	9.1	7.6	7.1
ROE (%)	-4.2	10.3	14.2	12.1	10.9
P/E (x)	-37.3	17.3	10.3	8.7	8.3
P/B (x)	1.7	1.9	1.2	1.0	0.9
EV/EBITDA (x)	19.2	9.2	7.4	7.0	6.6
Dividend Yield (%)	1.1	1.1	1.7	1.1	1.1

Source: Company data, JM Financial. Note: Valuations as of 13/Aug/2018

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At the end of this

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Exhibit 1. Quarterly performance (consolidated)**(INR mn)**

	1QFY19	1QFY19E	Var%	1QFY18	YoY %	4QFY18	QoQ %
Net Sales	378,328	373,950	1.2	295,568	28.0	361,323	4.7
EBITDA	64,677	66,889	-3.3	49,740	30.0	64,989	-0.5
PAT- Adjusted	21,945	31,911		13,465		22,239	

Source: Company, JM Financial

Exhibit 2. Quarterly performance (standalone)**(INR mn)**

	1QFY19	1QFY19E	Var%	1QFY18	YoY %	4QFY18	QoQ %
Net Sales	164,055	171,848	-4.5	129,706	26.5	162,809	0.8
Volumes (mn tons)	2.97	3.05	-2.6	2.75	8.0	3.03	-2.0
Realisation (INR/ton)	55,237	56,344	-2.0	47,166	17.1	53,732	2.8
Expenditure	113,335	118,536	-4.4	100,043	13.3	114,716	-1.2
EBITDA	50,719	53,312	-4.9	29,663	71.0	48,093	5.5
EBITDA (%)	30.9	31.0		22.9		29.5	
Blended EBITDA/ton	17,077	17,479	-2.3	10,786	58.3	15,872	7.6
Other Income	5,060	1,800		1,121		2,199	
Depreciation	9,867	9,350	5.5	9,664		9,348	
EBIT	45,913	45,762	0.3	21,120	117.4	40,944	12.1
Interest	6,834	7,000	-2.4	7,001		7,311	
PBT	39,079	38,762	0.8	14,119	176.8	33,633	16.2
Tax	12,550	10,853		2,886		7,249	
Eff. Tax Rate (%)	32.1	28.0		20.4		21.6	
XO Items	-3,347	0		-6,168		-16,074	
PAT- Reported	23,182	27,909	-16.9	5,064	357.7	10,309	124.9
PAT- Adjusted	25,424	27,909	-8.9	9,197	176.4	21,079	20.6
EPS (INR)	21.1	23.2		7.6		17.5	

Source: Company, JM Financial

Exhibit 3. Quarterly performance – Corus**(USD mn)**

	1QFY19	1QFY19E	% Var	1QFY18	YoY %	4QFY18	QoQ %
Net Sales	2,452	2,345	4.6	2,183	12.3	2,518	-2.6
Deliveries (mn tons)	2.4	2.4		2.4	1%	2.6	-5%
Realisations (USD/ton)	1,009	977	3.3	910	10.9	988	2.2
EBITDA	249	146	70.4	194	28.0	179	38.7
EBITDA/ton (USD/ton)	102	61		81		70	

Source: Company, JM Financial

Exhibit 4. Quarterly performance - Bhushan Steel**(INR mn)**

	1QFY19	1QFY18	YoY %	4QFY18	QoQ %
Net Sales (Incl. other inc. from ops.)	46,236	37,840	22.2	44,960	2.8
Crude steel volumes (mn tons)	0.85	0.86	-1.2	0.93	-8.6
Realization (INR/ton) (est.)	54,395	44,000	23.6	48,344	12.5
Total expenditure	37,953	35,245	7.7	37,327	1.7
EBITDA	8,283	2,595	219.2	7,633	8.5
EBITDA (%)	17.9	6.9		17.0	
Blended EBITDA/ton (est.)	9,745	3,017	223.0	8,207	18.7
Other income	226	200		691	
Depreciation	3,607	4,198		5,183	
EBIT	4,902	-1,403		3,140	
Interest	13,232	14,625		17,261	
PBT	-8,330	-16,028		-14,120	
Tax	0	-1,166		-31,506	
Eff. Tax rate (%)	0.0	7.3		223.1	
XO items	29,373	0		-229,915	
PAT- Reported	21,043	-14,861		-212,529	
PAT- Adjusted	-8,330	-14,861		17,386	
EPS (Rs)	-7.6	-13.6		14.5	

Source: Company, JM Financial

Exhibit 5. TATA steel standalone – key assumptions

	FY19E	FY20E
Net sales (INR bn)	618	633
Sales volume (mn ton)	12.6	12.8
EBITDA (INR bn)	157	160
EBITDA (INR/ton)	12,478	12,512

Source: JM Financial

Exhibit 6. TATA Steel Europe – key assumptions

	FY19E	FY20E
Net sales (USD bn)	9.4	9.4
Sales volume (mn ton)	10.0	10.0
EBITDA (USD bn)	0.6	0.6
EBITDA (USD/ton)	60	60

Source: JM Financial

Exhibit 7. Bhushan steel – key assumptions

	FY19E	FY20E
Net sales (INR bn)	212	236
Sales volume (mn ton)	4.3	4.8
EBITDA (INR bn)	38	44
EBITDA (INR/ton)	8,811	9,121

Source: JM Financial

Exhibit 8. SOTP valuation of INR 745/share; BUY

			(INR bn)
Companies	FY20 EBITDA (INR bn)	Multiple (x)	Target EV
India business (incl. Bhushan Steel)	204.3	7	1,430
NAT Steel + Tata steel Thailand	6.3	5	31.7
Total EV			1,462
Total Net debt (excl. USD3bn debt of TSE)			831
Target MCap (excl. Thyssen-TSE JV)			631
Dilutive no. of shares (mn)			1,203
Value INR/share (excl. Thyssen-TSE JV)			525
Value from TSE-Thyssen JV (50:50)			211
Investments (INR/share)			9
Target Price (INR/share)			745

Source: JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	1,019,647	1,122,994	1,321,557	1,578,242	1,616,998
Sales Growth	-26.9%	10.1%	17.7%	19.4%	2.5%
Other Operating Income	0	0	0	0	0
Total Revenue	1,019,647	1,122,994	1,321,557	1,578,242	1,616,998
Cost of Goods Sold/Op. Exp	406,215	393,049	521,646	648,709	653,924
Personnel Cost	175,876	172,522	176,062	173,252	175,769
Other Expenses	357,873	387,345	404,945	497,120	518,801
EBITDA	79,683	170,078	218,905	259,160	268,504
EBITDA Margin	7.8%	15.1%	16.6%	16.4%	16.6%
EBITDA Growth	-36.4%	113.4%	28.7%	18.4%	3.6%
Depn. & Amort.	53,064	56,729	59,617	82,516	84,638
EBIT	26,620	113,349	159,288	176,644	183,865
Other Income	4,122	5,275	9,095	7,608	4,848
Finance Cost	42,214	50,722	55,018	71,676	72,131
PBT before Excep. & Forex	-11,472	67,902	113,365	112,576	116,583
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	-11,472	67,902	113,365	112,576	116,583
Taxes	6,900	27,780	34,054	37,213	36,781
Extraordinary Inc./Loss(-)	14,505	-81,884	96,576	0	0
Assoc. Profit/Min. Int.(-)	-39	646	41,544	-3,459	-2,779
Reported Net Profit	-3,828	-42,408	134,343	78,822	82,580
Adjusted Net Profit	-18,333	39,476	66,778	78,822	82,580
Net Margin	-1.8%	3.5%	5.1%	5.0%	5.1%
Diluted Share Cap. (mn)	1,203.1	1,203.1	1,203.1	1,203.1	1,203.1
Diluted EPS (INR)	-15.2	32.8	55.5	65.5	68.6
Diluted EPS Growth	0.0%	0.0%	69.2%	18.0%	4.8%
Total Dividend + Tax	9,263	9,247	13,815	9,437	9,437
Dividend Per Share (INR)	6.5	6.5	9.5	6.5	6.5

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profit before Tax	-11,433	67,256	71,821	116,035	119,361
Depn. & Amort.	53,064	56,729	59,617	82,516	84,638
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	1,085	42,695	-190,507	-14,819	-16,058
Others	14,505	-81,884	96,576	0	0
Taxes Paid	-6,900	-27,780	-34,054	-37,213	-36,781
Operating Cash Flow	50,320	57,016	3,452	146,518	151,161
Capex	-133,409	22,298	-141,949	-110,333	-107,878
Free Cash Flow	-83,089	79,314	-138,497	36,185	43,283
Inc (-) / Dec in Investments	33,793	-17,434	-54,424	99,989	0
Others	-7,816	-73,527	47,790	7,444	-1,038
Investing Cash Flow	-107,432	-68,664	-148,583	-2,900	-108,916
Inc / Dec (-) in Capital	-12	0	1,747	582	0
Dividend + Tax thereon	-9,263	-9,247	-13,815	-9,437	-9,437
Inc / Dec (-) in Loans	45,765	8,242	97,970	-150,055	36,000
Others	0	0	89,396	35,208	0
Financing Cash Flow	36,491	-1,005	175,298	-123,703	26,563
Inc / Dec (-) in Cash	-20,622	-12,653	30,168	19,915	68,808
Opening Cash Balance	82,485	61,863	49,211	79,379	99,294
Closing Cash Balance	61,863	49,211	79,379	99,294	168,102

Source: Company, JM Financial; Note: Significant increase in FY18 WCap. Is driven by increase in retirement benefit asset from INR 17.5bn in FY17 to INR 205.7bn in FY18.

Balance Sheet					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shareholders' Fund	414,576	355,443	585,956	718,995	792,138
Share Capital	9,702	9,702	11,450	12,031	12,031
Reserves & Surplus	404,873	345,741	574,507	706,963	780,107
Preference Share Capital	0	0	0	0	0
Minority Interest	7,809	16,017	9,365	7,633	6,596
Total Loans	902,254	910,497	1,008,467	1,210,412	1,246,412
Def. Tax Liab. / Assets (-)	118,340	119,057	121,610	121,610	121,610
Total - Equity & Liab.	1,442,979	1,401,014	1,725,398	2,058,650	2,166,756
Net Fixed Assets	1,081,959	1,077,907	1,127,193	1,470,423	1,493,663
Gross Fixed Assets	1,085,795	1,265,617	1,399,263	1,823,220	1,881,098
Intangible Assets	40,676	34,947	40,995	40,995	40,995
Less: Depn. & Amort.	404,473	380,498	479,209	613,732	698,370
Capital WIP	359,961	157,841	166,144	219,941	269,941
Investments	107,137	124,571	178,995	79,006	79,006
Current Assets	579,744	521,996	781,034	910,988	998,697
Inventories	200,133	248,038	283,310	324,299	339,865
Sundry Debtors	120,662	115,868	124,155	159,518	162,854
Cash & Bank Balances	61,863	49,211	79,379	99,294	168,102
Loans & Advances	197,085	108,879	294,190	327,877	327,877
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	325,861	323,460	361,823	401,766	404,610
Current Liabilities	266,237	270,789	305,744	342,291	341,329
Provisions & Others	59,623	52,671	56,079	59,475	63,281
Net Current Assets	253,884	198,536	419,211	509,221	594,087
Total - Assets	1,442,979	1,401,014	1,725,398	2,058,650	2,166,756

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Margin	-1.8%	3.5%	5.1%	5.0%	5.1%
Asset Turnover (x)	0.8	0.9	0.9	0.9	0.8
Leverage Factor (x)	3.1	3.4	3.1	2.7	2.6
RoE	-4.2%	10.3%	14.2%	12.1%	10.9%

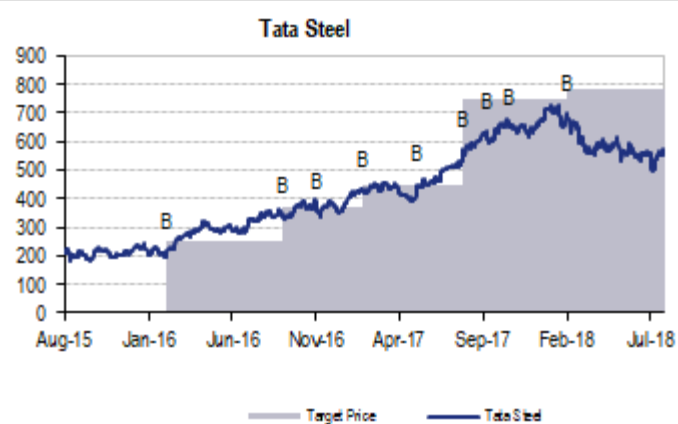
Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
BV/Share (INR)	344.6	295.4	487.0	597.6	658.4
ROIC	3.8%	5.9%	9.1%	7.6%	7.1%
ROE	-4.2%	10.3%	14.2%	12.1%	10.9%
Net Debt/Equity (x)	2.0	2.4	1.6	1.5	1.4
P/E (x)	-37.3	17.3	10.3	8.7	8.3
P/B (x)	1.7	1.9	1.2	1.0	0.9
EV/EBITDA (x)	19.2	9.2	7.4	7.0	6.6
EV/Sales (x)	1.5	1.4	1.2	1.1	1.1
Debtor days	43	38	34	37	37
Inventory days	72	81	78	75	77
Creditor days	103	104	101	95	92

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
16-Feb-16	Buy	250	
14-Sep-16	Buy	370	48.0
16-Nov-16	Buy	370	0.0
8-Feb-17	Buy	450	21.6
17-May-17	Buy	450	0.0
8-Aug-17	Buy	750	66.7
21-Sep-17	Buy	750	0.0
31-Oct-17	Buy	750	0.0
12-Feb-18	Buy	780	4.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

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Rating	Meaning
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