

November 14, 2018

Q2FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	840		780	
Sales (Rs. m)	16,13,438	17,52,042	16,05,597	16,89,189
% Chng.			0.5	3.7
EBITDA (Rs. m)	3,07,887	3,25,846	2,87,062	3,03,197
% Chng.			7.3	7.5
EPS (Rs.)	81.9	91.6	68.1	69.9
% Chng.			20.3	31.1

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	1,123	1,313	1,613	1,752
EBITDA (Rs. bn)	170	210	308	326
Margin (%)	15.1	16.0	19.1	18.6
PAT (Rs. bn)	39	29	99	110
EPS (Rs.)	40.7	25.5	81.9	91.6
Gr. (%)	(315.3)	(37.4)	221.6	11.8
DPS (Rs.)	10.0	10.0	10.0	10.0
Yield (%)	1.7	1.7	1.7	1.7
RoE (%)	9.7	5.9	13.0	11.5
RoCE (%)	9.2	11.0	13.2	12.3
EV/Sales (x)	1.2	1.0	1.0	0.9
EV/EBITDA (x)	7.6	6.5	5.3	4.9
PE (x)	14.5	23.1	7.2	6.4
P/BV (x)	1.5	1.1	0.8	0.7

Key Data

TISC.BO | TATA IN

52-W High / Low	Rs.748 / Rs.493
Sensex / Nifty	35,144 / 10,583
Market Cap	Rs.674bn/ \$ 9,281m
Shares Outstanding	1,126m
3M Avg. Daily Value	Rs.9683.11m

Shareholding Pattern (%)

Promoter's	33.12
Foreign	15.02
Domestic Institution	29.85
Public & Others	22.01
Promoter Pledge (Rs bn)	8.01

Stock Performance (%)

	1M	6M	12M
Absolute	2.2	(3.0)	(9.5)
Relative	1.0	(1.9)	(15.0)

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Beat on all counts; Remains the best play in the metal space

Tata Steel (TATA) reported Q2FY19 earnings above our estimates on the back of beat in standalone operations. Domestic operations reported 10% QoQ rise in EBITDA/t to Rs18,856/t (PLe:Rs17,325/t) due to better than expected realisations. Realisations are expected to remain stable on the back of currency depreciation and likely increase in global prices ahead of winter cuts in China. We upgrade our EBITDA estimates for FY19e/FY20e by 8%/7% to factor in higher margins in domestic operations.

Stock has been under pressure due to initiation of in-depth investigation in the proposed JV of TATA Steel Europe (TSE) with ThyssenKrupp and uncertainty on acquisition of Bhushan Power and steel (BPSL). We believe that In-depth investigation initiated by European commission (EC) is routine exercise and given the seriousness of both the partners, remedial action would be undertaken to address the concerns of authorities. With regard to BPSL's acquisition, we do not expect TATA to go aggressive since USHA Martin's acquisition has already served its objective to expand its long products basket. TATA remains our top pick in the metal space given the strong outlook on steel prices, successful turnaround of Bhushan Steel (BSL) and curtailment of exposure to Europe through JV. We reiterate BUY with TP of Rs840, EV/EBITDA 6x FY20e.

- Higher than expected realisations drove the beat in standalone ops:** Volumes rose 7% QoQ (↑3.4% YoY) to 3.18mn (PLe:3.07mn) t. Blended realisations rose 1.6% QoQ/Rs891 to Rs55,282 above our estimate of Rs53,792. Cost/t came in line with our estimate at Rs37,440 (PLe:Rs37,380); down 2.9% /Rs1,113 QoQ.. EBITDA rose 18% QoQ/78% YoY to Rs60bn (PLe:Rs53.2bn). Adj PAT rose 30% QoQ YoY to Rs32.9bn (PLe:Rs26.6bn). BSL posted EBITDA of Rs10.3bn (PLe:Rs9.5bn) with EBITDA/t at Rs10,274 (PLe:Rs9,500).
- Strong earnings in domestic ops and forex gains drove consolidated earnings:** TSE volumes fell 0.7% QoQ (↓13% YoY) to 2.3mn (PLe:2.4mn) t. Due to higher than expected spreads, TSE posted EBITDA/t above our estimates at US\$70 (PLe:US\$62), down 31% QoQ (↑55.2% YoY). Aided by forex gain of Rs2.5bn (Q1 forex loss of Rs7.2bn), consol EBITDA rose 38% QoQ to Rs89.2bn (PLe:Rs69.8bn). Adj. PAT rose 52% QoQ to Rs34.9bn (PLe:Rs16.2bn).
- Key highlights of con-call: 1) Domestic steel prices rose by Rs400-Rs500/t QoQ in Q2FY19; would be flat QoQ in Q3 2) Consolidated net debt rose marginally by 0.6% QoQ to Rs1.04tn due to currency depreciation 3) Capex guidance for FY19 at Rs80-90bn (Spent Rs21.8bn/Rs41bn in Q2FY19/H1FY19) 4) Guided to reduce debt by US\$1bn over next one year through internal accruals and other strategic initiatives on the portfolio 5) 30-40% of the gap in EBITDA/t of TATA and BSL would be bridged through processes and other improvements 6) 450kt expected production loss in TSE due to shut down of BF at Port Talbot; will reinstate by early Q4FY19 7) 2700 acres of land bank in addition to existing plant and 1.5mn tonnes of long products capacity drove the bid for BPSL 8) EC sought details on packaging steel, Electrical steel and general comments on Auto steel.**

Exhibit 1: Q2FY19 Result Overview (Rs mn)

Y/e March	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	H1FY19	H1FY18	YoY gr. (%)
Net Sales	1,79,020	1,42,209	25.9	1,64,055	3,43,075	2,72,841	25.7
Raw Material	51,960	54,491	(4.6)	42,928	94,888	90,267	5.1
<i>% of Net Sales</i>	<i>29.0</i>	<i>38.3</i>		<i>26.2</i>	<i>27.7</i>	<i>33.1</i>	
Staff Costs	13,775	11,151	23.5	12,820	26,595	22,728	17.0
<i>% of Net Sales</i>	<i>7.7</i>	<i>7.8</i>		<i>7.8</i>	<i>7.8</i>	<i>8.3</i>	
Other Expenses	53,324	42,814	24.5	57,588	1,10,912	96,430	15.0
<i>% of Net Sales</i>	<i>29.8</i>	<i>30.1</i>		<i>35.1</i>	<i>32.3</i>	<i>35.3</i>	
Total Expenditure	1,19,059	1,08,457	9.8	1,13,335	2,32,394	2,09,425	11.0
EBITDA	59,961	33,753	77.6	50,719	1,10,681	63,415	74.5
<i>Margin (%)</i>	<i>33.5</i>	<i>23.7</i>		<i>30.9</i>	<i>32.3</i>	<i>23.2</i>	
Depreciation	9,236	9,124	1.2	9,867	19,103	18,788	1.7
Other income	7,751	2,495	210.7	5,060	12,811	3,616	254.3
EBIT	58,476	27,123	115.6	45,913	1,04,389	48,243	116.4
Interest	8,038	7,092	13.4	6,834	14,873	14,093	5.5
PBT	50,438	20,032	151.8	39,079	89,516	34,150	162.1
Extraordinary income/(expense)	(282)	(267)		(3,347)	(3,629)	(6,434)	(43.6)
PBT (After EO)	50,156	19,765	153.8	35,732	85,888	27,716	209.9
Tax	17,477	6,824	156.1	12,550	30,027	9,711	209.2
<i>% PBT</i>	<i>34.8</i>	<i>34.5</i>		<i>35.1</i>	<i>35.0</i>	<i>35.0</i>	
Reported PAT	32,679	12,941	152.5	23,182	55,860	18,005	210.2
Adjusted PAT	32,862	13,115	150.6	25,353	58,215	22,109	163.3

Source: Company, PL

Exhibit 2: Key Operating Metrics

Subsidiary performance	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	H1FY19	H1FY18	YoY gr. (%)
Production	3.3	3.2	1.9	3.2	6.4	6.2	4.7
Sales	3.2	3.1	3.4	3.0	6.2	5.8	5.6
Realisation per tonne	55,282	45,096	22.6	54,392	54,852	45,951	19.4
EBITDA per tonne	18,856	10,976	71.8	17,077	17,997	10,887	65.3

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	11,22,994	13,12,951	16,13,438	17,52,042
YoY gr. (%)	10.1	16.9	22.9	8.6
Cost of Goods Sold	3,93,049	5,21,646	6,39,720	6,98,836
Gross Profit	7,29,945	7,91,306	9,73,718	10,53,206
Margin (%)	65.0	60.3	60.4	60.1
Employee Cost	1,72,522	1,76,062	2,08,888	2,28,191
Other Expenses	(7,647)	(10,009)	-	-
EBITDA	1,70,078	2,10,299	3,07,887	3,25,846
YoY gr. (%)	113.4	23.6	46.4	5.8
Margin (%)	15.1	16.0	19.1	18.6
Depreciation and Amortization	56,729	59,617	76,777	77,938
EBIT	1,13,349	1,50,683	2,31,110	2,47,909
Margin (%)	10.1	11.5	14.3	14.1
Net Interest	50,722	55,018	82,256	84,848
Other Income	5,275	9,095	13,890	14,238
Profit Before Tax	24,660	2,00,750	1,62,743	1,77,299
Margin (%)	2.2	15.3	10.1	10.1
Total Tax	27,780	34,054	63,937	66,718
Effective tax rate (%)	112.7	17.0	39.3	37.6
Profit after tax	(3,120)	1,66,696	98,807	1,10,580
Minority interest	722	43,285	800	800
Share Profit from Associate	77	1,741	2,300	2,200
Adjusted PAT	39,476	29,161	98,567	1,10,240
YoY gr. (%)	(315.3)	(26.1)	238.0	11.8
Margin (%)	3.5	2.2	6.1	6.3
Extra Ord. Income / (Exp)	(43,242)	95,991	-	-
Reported PAT	(3,766)	1,25,153	98,567	1,10,240
YoY gr. (%)	(117.5)	(3,423.1)	(21.2)	11.8
Margin (%)	(0.3)	9.5	6.1	6.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(3,766)	1,25,153	98,567	1,10,240
Equity Shares O/s (m)	970	1,145	1,203	1,203
EPS (Rs)	40.7	25.5	81.9	91.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	12,65,617	13,99,263	20,03,987	20,55,262
Tangibles	12,65,617	13,99,263	20,03,987	20,55,262
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,80,498	4,79,209	6,07,022	6,84,960
Tangibles	3,80,498	4,79,209	6,07,022	6,84,960
Intangibles	-	-	-	-
Net fixed assets	8,85,118	9,20,054	13,96,965	13,70,302
Tangibles	8,85,118	9,20,054	13,96,965	13,70,302
Intangibles	-	-	-	-
Capital Work In Progress	1,64,023	1,71,168	2,22,168	3,13,193
Goodwill	34,947	40,995	40,995	40,995
Non-Current Investments	73,258	38,249	56,449	59,699
Net Deferred tax assets	(91,442)	(95,341)	(1,43,420)	(1,56,908)
Other Non-Current Assets	57,777	2,37,984	2,47,834	2,48,184
Current Assets				
Investments	56,731	1,49,090	59,090	59,090
Inventories	2,48,038	2,83,310	3,31,528	3,60,009
Trade receivables	1,15,868	1,24,155	1,45,431	1,54,782
Cash & Bank Balance	49,211	79,379	82,711	1,01,887
Other Current Assets	22,424	31,742	37,542	43,042
Total Assets	17,33,332	20,97,579	26,42,763	27,73,779
Equity				
Equity Share Capital	9,702	11,450	12,032	12,032
Other Equity	3,68,491	5,97,257	8,98,302	9,94,090
Total Networkth	3,78,193	6,08,706	9,10,334	10,06,122
Non-Current Liabilities				
Long Term borrowings	8,30,145	9,21,471	10,60,601	10,60,601
Provisions	42,797	43,382	43,382	43,382
Other non current liabilities	49,504	44,013	44,013	44,013
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,85,745	2,04,138	2,46,241	2,65,601
Other current liabilities	1,27,744	1,58,897	1,72,340	1,73,920
Total Equity & Liabilities	17,33,332	20,97,579	26,42,763	27,73,779

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	(13,826)	2,11,682	1,62,743	1,77,299
Add. Depreciation	56,898	59,617	76,777	77,938
Add. Interest	50,722	55,018	82,256	84,848
Less Financial Other Income	5,275	9,095	13,890	14,238
Add. Other	82,020	(1,24,445)	(3,483)	(3,831)
Op. profit before WC changes	1,75,814	2,01,871	3,18,294	3,36,253
Net Changes-WC	(49,144)	(92,755)	9,257	(24,338)
Direct tax	(18,427)	(28,882)	(49,937)	(52,309)
Net cash from Op. activities	1,08,243	80,234	2,77,614	2,59,606
Capital expenditures	(85,083)	(75,202)	(92,000)	(1,42,300)
Interest / Dividend Income	2,256	3,656	3,483	3,831
Others	(7,656)	(47,857)	(97,870)	-
Net Cash from Inv. activities	(90,484)	(1,19,403)	(1,86,387)	(1,38,469)
Issue of share cap. / premium	0	90,872	35,838	-
Debt changes	28,823	42,252	(25,000)	-
Dividend paid	(9,498)	(11,800)	(13,815)	(14,452)
Interest paid	(47,328)	(51,456)	(82,256)	(84,848)
Others	2,210	(3,470)	(2,661)	(2,661)
Net cash from Fin. activities	(25,794)	66,399	(87,894)	(1,01,961)
Net change in cash	(8,034)	27,230	3,333	19,176
Free Cash Flow	31,087	5,449	1,85,614	1,17,306

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	3,34,466	3,61,323	3,78,328	4,35,441
YoY gr. (%)	21.2	6.6	27.6	34.1
Raw Material Expenses	1,31,279	1,36,772	1,39,995	1,75,418
Gross Profit	2,03,187	2,24,551	2,38,333	2,60,023
Margin (%)	60.7	62.1	63.0	59.7
EBITDA	56,969	64,989	64,677	89,195
YoY gr. (%)	20.7	14.1	(0.5)	37.9
Margin (%)	17.0	18.0	17.1	20.5
Depreciation / Depletion	14,751	15,122	18,056	19,079
EBIT	42,219	49,867	46,620	70,116
Margin (%)	12.6	13.8	12.3	16.1
Net Interest	13,273	14,809	16,701	21,531
Other Income	2,259	2,749	3,473	3,544
Profit before Tax	20,049	1,51,569	29,956	53,767
Margin (%)	6.0	41.9	7.9	12.3
Total Tax	9,508	5,761	11,037	23,264
Effective tax rate (%)	47.4	3.8	36.8	43.3
Profit after Tax	10,541	1,45,808	18,919	30,504
Minority interest	(1,505)	44,522	(173)	(4,825)
Share Profit from Associates	898	586	448	713
Adjusted PAT	20,016	35,203	22,976	34,894
YoY gr. (%)	639.2	5.3	75.1	247.2
Margin (%)	6.0	9.7	6.1	8.0
Extra Ord. Income / (Exp)	(7,072)	66,669	(3,436)	1,148
Reported PAT	12,944	1,01,872	19,540	36,042
YoY gr. (%)	434.3	(1,504.9)	112.6	269.3
Margin (%)	3.9	28.2	5.2	8.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,944	1,01,872	19,540	36,042
Avg. Shares O/s (m)	971	971	971	971
EPS (Rs)	20.6	36.2	23.7	35.9

Source: Company Data, PL Research

Key Financial Metrics

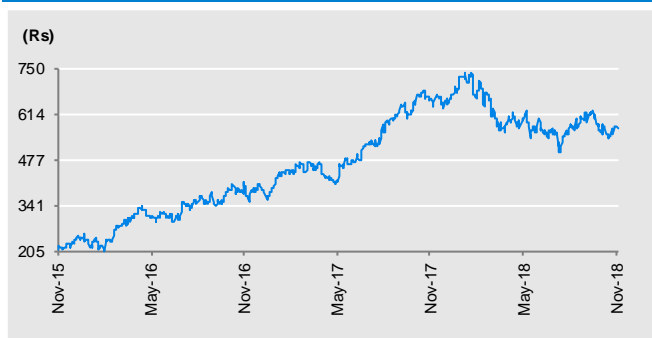
Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	40.7	25.5	81.9	91.6
CEPS	99.2	77.5	145.7	156.4
BVPS	389.8	531.6	756.6	836.2
FCF	32.0	4.8	154.3	97.5
DPS	10.0	10.0	10.0	10.0
Return Ratio(%)				
RoCE	9.2	11.0	13.2	12.3
ROIC	(1.3)	11.0	8.7	8.3
RoE	9.7	5.9	13.0	11.5
Balance Sheet				
Net Debt : Equity (x)	1.9	1.1	1.0	0.9
Net Working Capital (Days)	58	57	52	52
Valuation(x)				
PER	14.5	23.1	7.2	6.4
P/B	1.5	1.1	0.8	0.7
P/CEPS	99.2	77.5	145.7	156.4
EV/EBITDA	7.6	6.5	5.3	4.9
EV/Sales	1.2	1.0	1.0	0.9
Dividend Yield (%)	1.7	1.7	1.7	1.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Rev. Indian Op. (US\$ m)	7,157	9,249	10,003	10,299
Rev. Corus (US\$ m)	7,764	9,306	8,370	9,000
Rev. South East (US\$ m)	1,229	1,480	1,288	1,288
EBITDA-India (US\$ m)	1,771	2,448	3,147	3,188
EBITDA-Corus (US\$ m)	702	588	651	600
EBITDA-South East (US\$ m)	79	68	63	63
Volume (mt)-India	11	12	13	13
Real./ Tonne- India (Rs)	31,911	36,066	41,567	41,874
EBITDA/Tonne- India (Rs)	10,823	12,986	17,295	17,235
SalesVol.-Corus (mt)	10	10	9	10
Real./Tonne-Corus (US\$)	781	931	900	900
EBITDA/Tonne-Corus (US\$)	71	59	70	60
Sales Vol.-South East (mt)	3	3	3	3
Real./Tonne-SEAN (US\$)	471	590	515	515
EBITDA/Tonne-SEAN (US\$)	30	27	25	25

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	17-Nov-17	BUY	750	687
2	13-Dec-17	BUY	750	682
3	10-Jan-18	BUY	820	772
4	09-Feb-18	BUY	835	684
5	12-Feb-18	BUY	835	684
6	15-Mar-18	BUY	835	611
7	13-Apr-18	BUY	835	595
8	17-May-18	BUY	830	622
9	23-May-18	BUY	830	577
10	21-Jun-18	BUY	830	558

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,710	1,540
2	Ambuja Cement	Hold	210	201
3	Coal India	BUY	330	264
4	Heidelberg Cement India	BUY	200	130
5	Hindalco Industries	Accumulate	308	252
6	Hindustan Zinc	Accumulate	315	289
7	Jindal Steel & Power	BUY	290	191
8	JK Lakshmi Cement	Hold	359	298
9	JSW Steel	BUY	450	353
10	NMDC	Accumulate	138	115
11	Shree Cement	Hold	17,500	15,396
12	Steel Authority of India	Hold	81	69
13	Tata Steel	BUY	780	560
14	The Ramco Cements	Hold	640	602
15	Ultratech Cement	Hold	3,820	3,610

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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