

Higher volumes drive consolidated performance

Driven by better-than-expected consolidated sales volumes, Tata Steel's consolidated adjusted EBITDA came in higher than our estimate. Standalone operations reported sales volume of 3.58 million tonnes (MT), higher than our estimate of 3.2 MT. European operations reported steel sales of 2.57 MT, higher than our estimate of 2.3 MT. The consolidated topline came in at ₹ 42423.9 crore. Consolidated adjusted EBITDA came in at ~₹ 7314 crore (our estimate: ₹ 6508 crore). Domestic operations reported adjusted EBITDA/tonne of ₹ 13619/tonne while European operations reported adjusted EBITDA/tonne of US\$67/tonne. Going forward, we model EBITDA/tonne of ₹ 14000/tonne for FY20E and ₹ 14310/tonne for FY21E. For European operations, we model EBITDA/tonne of US\$40/tonne for both FY20E and FY21E. We value the stock on an SoTP basis and arrive at a target price of ₹ 635, with a **BUY** rating on the stock.

Domestic operations end FY19 on strong note...

Tata Steel's Indian operations ended FY19 on a strong note wherein it reported healthy production and sales volume for Q4FY19. Indian operations (including erstwhile Bhushan Steel) achieved the highest ever crude steel production in Q4FY19 driven by better plant availability across locations including ramp-up at Tata Steel BSL. Tata Steel Indian operation (Tata Steel standalone + Tata Steel BSL) reported crude steel production volume of 4.48 million tonnes (MT) (up 2% QoQ). The sales volume for the quarter was at 4.72 MT, up 21% QoQ. For FY19, Tata Steel Indian operations (Tata Steel standalone + Tata Steel BSL) reported a crude steel production volume of 16.81 MT and sales volume 16.26 MT. Going forward, we expect Tata Steel's domestic operations (Tata Steel Standalone + Bhushan Steel) to report sales volume of 17.3 MT in FY20E and 17.5 MT in FY21E.

EBITDA/tonne of standalone operations to remain firm

For standalone operations, adjusted EBITDA/tonne was at ₹ 13619/tonne for Q4FY19 and ₹ 16428/tonne for FY19. Going forward, we expect steel prices to remain firm. We model EBITDA/tonne of ₹ 14000/tonne for FY20E and ₹ 14310/tonne in FY21E.

Valuation & Outlook

For Q4FY19, while domestic prices declined QoQ, on an absolute EBITDA basis, Tata Steel's standalone operations reported a decent performance driven by a healthy volume push. Since February 2019, domestic steel prices have inched upwards, auguring well for the company. We continue to value the company on an SOTP basis and arrive at a target price of ₹ 635. We maintain our **BUY** recommendation on the stock.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	64,550
Total Debt (FY19) (₹ Crore)	100,816
Cash & Cash Eq. (FY19) (₹ Crore)	5,937
EV (₹ Crore)	159,429
52 week H/L (₹)	647 / 442
Equity capital	₹ 1145 Crore

Key Highlights

- Ends FY19 on a strong note wherein Indian operations sales volume for Q4FY19 were at 4.72 MT, up 21% QoQ
- European operations surprised positively wherein adjusted EBITDA/tonne was at US\$67/tonne, higher than our estimate of US\$40/tonne
- Upgraded target prices to ₹ 635 from ₹ 625, maintaining our BUY recommendation on stock

Research Analyst

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	112,299	131,700	157,669	165,346	168,176
EBITDA	17,008	21,891	29,383	28,096	28,927
Adj PAT	4,092	8,164	8,995	7,701	8,723
EPS (₹)	42.2	71.3	78.6	63.9	72.4
EV/EBITDA (x)	7.7	6.5	5.5	5.6	5.0
RoCE (%)	9.7	11.0	13.4	11.8	12.1
RoE (%)	10.8	13.4	13.0	10.4	10.7

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q3FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	
Revenue	42,423.9	42,209.2	33,705.1	25.9	38,853.9	9.2	Topline came in broadly in line with our estimate
Other Income	489.9	232.7	278.7	75.8	217.4	125.4	
Employee Expense	4,651.0	5,276.1	4,415.7	5.3	4,613.2	0.8	
Raw Material Expense	17,774.9	17,727.9	12,065.5	47.3	14,860	19.6	
Other operating Expenses	12,484.7	12,696.5	10,824.7	15.3	12,664.5	-1.4	
EBITDA	7,513.3	6,508.7	6,399.3	17.4	6,715.8	11.9	
Adjusted EBITDA	7,314.0	6,508.7	5,857.0	24.9	7,217.0	1.3	Adjusted EBITDA came in higher than our estimate
EBITDA Margin (%)	17.2	15.4	17.4	-14 bps	18.6	-133 bps	
Depreciation	1,880.5	1,973.6	1,461.9	28.6	1,866.3	0.8	
Interest	1,937.8	1,978.7	1,469.6	31.9	1,926.0	0.6	
Exceptional Item	67.6	-	11440.0	-99.4	82.4	-17.9	
PBT	4,252.5	2,789.0	15,186.5	-72.0	3,223.2	30.9	
Tax Outgo	1,899.1	1,173.3	584.0	225.2	1,406.7	35.0	
PAT	2,353.4	1,615.7	14,602.5	-83.9	1,816.6	29.6	
Profit from discontinued operations	(58.2)	1.9	85.5	-168.1	(63.6)	-8.5	
Reported PAT for the Group	2,295.3	1,617.6	14,688.0	-84.4	1,753.0	30.9	
Adjusted PAT for the Group	2,227.6	1,617.6	3,248.0	-31.4	1,670.6	33.3	PAT came in higher than our estimate

Key Metrics

TSI Steel Sales (MT)	3.6	3.2	3.0	19.3	3.0	19.3	Sales volume of standalone operations came in higher than estimate
TSE Steel Sales (MT)	2.6	2.3	2.6	-1.2	2.3	11.7	European operations sales volume came in higher than estimate
Group Steel Sales (MT)	7.5	7.4	6.7	12.2	6.8	10.6	Group sales volume came in higher than estimate
Adjusted TSI EBITDA/tonne (₹/tonne)	13,619	14,500	15,872	-14.2	16,404	-17.0	Indian operations EBITDA/tonne came in lower than our estimate

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Total Operating Income (₹ crore)	164,273	165,346	0.7	167,067	168,176	0.7	Broadly maintain estimates for FY20E and FY21E
EBITDA (₹ crore)	28,096	28,096	0.0	28,927	28,927	-	
EBITDA Margin (%)	17.1	17.0	10 bps	17.3	17.2	10 bps	
Adj PAT (₹ crore)	7,642	7,701	0.8	8,561	8,723	1.9	
Adj EPS (₹)	63.5	63.9	0.8	71.1	72.4	1.9	

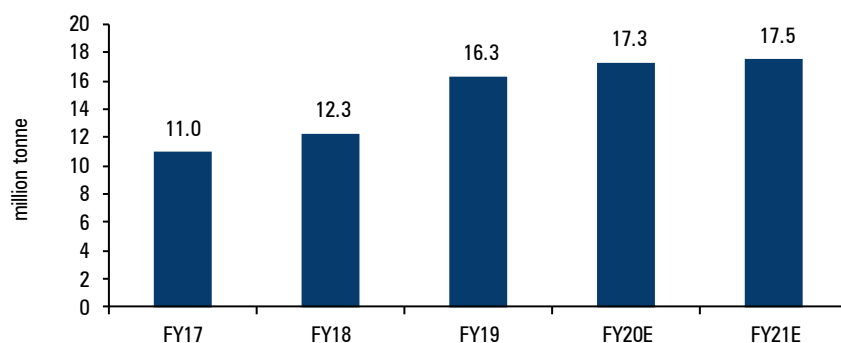
Source: Company, ICICI Direct Research

Conference Call Highlights

- For FY20, sales volumes of domestic operations are expected to increase by 1 MT in FY20E from FY19. Incremental volumes would be contributed by Bhushan Steel and Usha Martin's acquired steel business. Bhushan Steel's exit rate by the end of FY20 should touch the 5 MT mark
- In Q1FY20E, coking coal costs are expected to be lower by ~US\$6-7 per tonne, compared to Q4FY19
- For Q4FY19, domestic steel prices were lower by ~₹ 3500/tonne compared to Q3FY19
- The company has guided a capex of ~₹ 8000 crore (excluding Europe) for FY20. Out of this, KPO Phase 2 capex will be ~₹ 4000 crore
- The Board of Directors of Tata Steel and Tata Steel BSL have proposed a merger of both companies. The board has recommended a merger ratio of 15 shares of Tata Steel BSL for every share of Tata Steel. The merger is subject to shareholders and other regulatory approvals. As per the management, the earlier plan of converting the debt into equity of Tata BSL has been done away with considering merging a more viable option. Operational synergies are expected out of the same
- With respect to the Tata Steel – ThyssenKrupp JV, a remedy has been provided by the company to the European commission. A reply is awaited. The decision of the European Commission is expected by June 17, 2019
- As compared to Q4FY19 average, current steel prices are higher by ~₹ 1500/tonne
- Gross debt declined by ₹ 8781 crore during Q4FY19. The company plans to reduce gross debt by further US\$ 1 billion in FY20E
- The Board of Directors have recommended a dividend of ₹ 13 per fully paid equity share and ₹ 3.25 per partly paid equity share

Financial story in charts

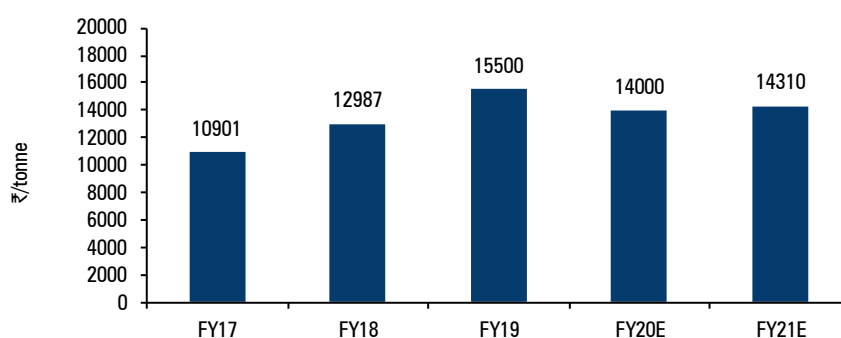
Exhibit 3: Tata Steel + Bhushan Steel volume trend, going forward



Source: Company, ICICI Direct Research

With respect to the domestic operations, Tata Steel standalone operation + Bhushan Steel + Usha Martin steel business, is expected grow from 16.3 MT in FY19 to 17.3 MT in FY20E and further to 17.5 MT in FY21E

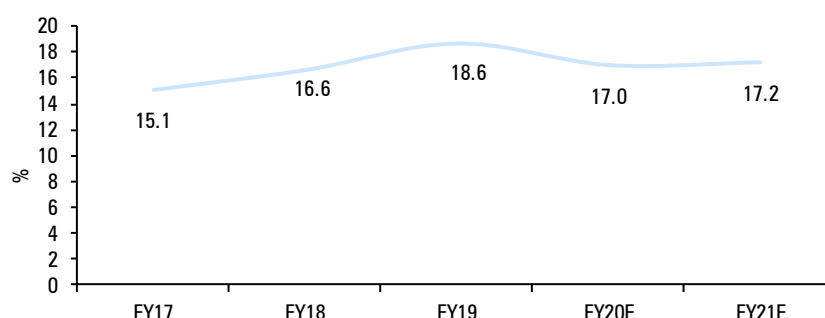
Exhibit 4: Tata Steel standalone operation EBITDA...



Source: Company, ICICI Direct Research

We expect standalone operations to report an EBITDA/tonne of ₹ 14000/tonne in FY20E and ₹ 14310/tonne in FY21E

Exhibit 5: Consolidated EBITDA margins trend....



Source: Company, ICICI Direct Research

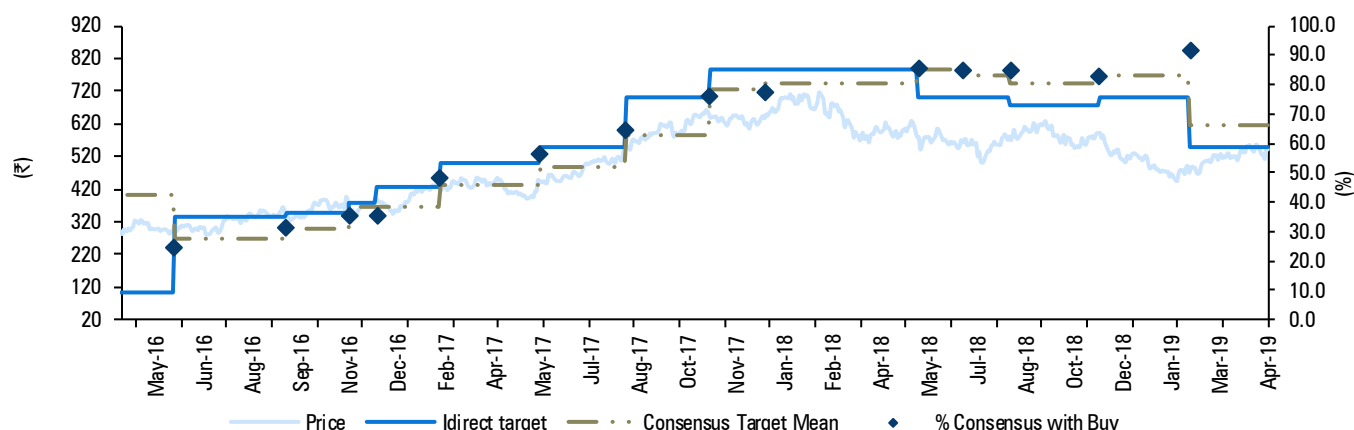
Consolidated EBITDA margins are expected to hover at ~17-17.2% mark over the next couple of years

Exhibit 6: Valuation

	Total Op. Income	Growth	EPS	Growth	PE	EV/EBIDTA	P/ BV	RoNW	RoCE
	(₹ Crore)	% YoY	(₹)	% YoY	(x)	(x)	(x)	(%)	(%)
FY17	112,299	(3.8)	42.2	LP	12.7	7.7	1.4	10.8	9.7
FY18	131,700	17.3	71.3	69.1	7.5	6.5	1.0	13.4	11.0
FY19E	157,669	19.7	78.6	10.2	6.8	5.5	0.9	13.0	13.4
FY20E	165,346	4.9	63.9	(18.6)	8.4	5.6	0.9	10.4	11.8
FY21E	168,176	1.7	72.4	13.3	7.4	5.0	5.0	10.7	12.1

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Tata Group of Companies	31-Dec-18	29.7	358.1	2.1
2	Life Insurance Corporation of India	31-Dec-18	9.0	108.4	0.0
3	HDFC Asset Management Co., Ltd.	31-Mar-19	4.0	48.5	0.2
4	Reliance Nippon Life Asset Management Limited	31-Mar-19	3.3	40.1	-1.2
5	Aditya Birla Sun Life AMC Limited	31-Dec-18	2.1	24.8	-0.1
6	ICICI Prudential Asset Management Co. Ltd.	31-Mar-19	1.4	17.3	0.9
7	SBI Funds Management Pvt. Ltd.	31-Mar-19	1.1	13.1	-1.7
8	BlackRock Institutional Trust Company, N.A.	31-Mar-19	0.9	11.1	0.0
9	The Vanguard Group, Inc.	31-Mar-19	0.9	10.6	0.0
10	Norges Bank Investment Management (NBIM)	31-Dec-18	0.8	10.1	-0.7

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Nuveen LLC	15.4	2.2	Capital Research Global Investors	-31.5	-4.2
Tata Group of Companies	15.6	2.1	Capital International Investors	-27.0	-3.6
Causeway Capital Management LLC	15.4	2.1	SBI Funds Management Pvt. Ltd.	-13.2	-1.7
ICICI Prudential Asset Management Co. Ltd.	6.5	0.9	Reliance Nippon Life Asset Management Limited	-9.1	-1.2
DSP Investment Managers Pvt. Ltd.	4.1	0.5	Mirae Asset Global Investments (India) Pvt. Ltd.	-8.6	-1.1

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19
Promoter	33.1	33.1	33.1
Others	66.9	66.9	66.9
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total Operating Income	131700.3	157669.0	165346.5	168176.1
Growth (%)	16.9	18.6	-11.6	1.1
EBITDA	21890.5	29383.3	28096.2	28926.9
Growth (%)	28.7	34.2	-4.4	3.0
Depreciation	5961.7	7341.8	8286.8	8693.9
Interest	5501.8	7660.1	8088.5	7528.5
Other Income	1083.6	1420.6	1168.5	1245.8
PBT	11510.6	15802.0	12889.4	13950.3
Exceptional Item	9599.1	103.7	0.0	0.0
Total Tax	3405.4	6718.4	5235.7	5269.9
PAT	17704.4	9187.3	7653.6	8680.4
Growth (%)	-5916.5	-48.1	-16.7	13.4
Minorities, Associates, etc	58.5	-89.0	47.3	42.6
Rep PAT after Assoc. MI	17762.8	9098.3	7701.0	8723.0
Adj PAT after Assoc. MI	8163.7	8994.6	7701.0	8723.0
Growth (%)	99.5	10.2	-14.4	13.3
EPS (₹)	71.3	78.6	63.9	72.4

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	17762.8	9098.3	7701.0	8723.0
Add: Depreciation	5961.7	7341.8	8286.8	8693.9
(Inc)/dec in Current Assets	-23256.4	-10445.3	5478.0	-1855.2
Inc/(dec) in CL and Prov.	-801.9	9240.5	-12255.7	6470.7
Others	9470.2	-7040.4	3000.0	3000.0
CF from operating activities	9136.3	8195.0	12210.1	25032.5
(Inc)/dec in Investments	-5362.8	12161.3	-1000.0	-500.0
(Inc)/dec in Fixed Assets	-10285.6	-37808.5	-8000.0	-11693.9
Others	-665.2	1427.9	106.6	42.6
CF from investing activities	-16313.5	-24219.3	-8893.4	-12151.3
Issue/(Buy back) of Equity	174.7	0.0	0.0	0.0
Inc/(dec) in loan funds	5660.1	12141.9	-6000.0	-8000.0
Dividend paid & dividend tax	-1339.6	-1339.6	-1607.5	-2009.4
Inc/(dec) in Share Cap	6453.4	295.7	-1293.6	1022.1
Others	-754.7	329.7	3996.6	0.0
CF from financing activities	10193.9	11427.7	-4904.5	-8987.3
Net Cash flow	3016.8	-4596.5	-1587.8	3893.9
Opening Cash	4921.1	7937.9	3341.3	1753.5
Closing Cash	7937.9	3341.3	1753.5	5647.4

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
Liabilities				
Equity Share Capital	1,145.0	1,145.0	1,204.3	1,204.3
Hybrid Perpetual securities	2,275.0	2,275.0	2,275.0	2,275.0
Reserve and Surplus	57450.7	65505.1	70305.0	78040.7
Total Shareholders funds	60870.6	68925.1	73784.2	81519.9
Total Debt	88674.1	100816.0	94816.0	86816.0
Deferred Tax Liability	10569.9	12459.9	12459.9	12459.9
Minority Interest & Others	9866.9	2364.5	5411.8	8454.4
Total Liabilities	169981.5	184565.4	186471.9	189250.2
Assets				
Gross Block	193677.1	229688.9	230688.9	245688.9
Less: Impairment	0.0	0.0	0.0	0.0
Less: Acc Depreciation	101217.0	108558.9	116845.7	116845.7
Net Block	92460.1	121130.0	113843.2	128843.2
CWIP	16159.8	17956.5	24956.5	12956.5
Investments	17899.5	5738.2	6738.2	7238.2
Inventory	28331.0	31656.1	25996.9	26875.7
Debtors	12415.5	11811.0	10492.2	11368.5
Loans and Advances	26142.3	27486.0	28486.0	29586.0
Other Current Assets	3276.6	9657.7	10157.7	9157.7
Cash	7937.9	3341.3	1753.5	5647.4
Total Current Assets	78103.4	83952.1	76886.3	82635.3
Current Liabilities	38506.8	44197.1	30941.4	36412.1
Provisions	1269.6	4819.8	5819.8	6819.8
Current Liabilities & Prov	39776.4	49017.0	36761.3	43232.0
Net Current Assets	38326.9	34935.2	40125.0	39403.4
others	5135.3	4805.6	809.0	809.0
Application of Funds	169981.5	184565.4	186471.9	189250.2

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Adj EPS	71.3	78.6	63.9	72.4
Cash EPS	123.4	142.7	132.8	144.6
BV	531.6	602.0	612.7	676.9
Adj BV (adj for Goodwill)	495.8	567.1	612.7	676.9
DPS	10.0	10.0	12.0	15.0
Cash Per Share	69.3	29.2	14.6	46.9
Operating Ratios (%)				
EBITDA Margin	16.6	18.6	17.0	17.2
PBT / Total Operating income	8.7	10.0	7.8	8.3
Adj PAT Margin	6.2	5.7	4.7	5.2
Inventory days	186	180	180	180
Debtor days	34	29	28	30
Creditor days	187	235	240	240
Return Ratios (%)				
Adj RoE	13.4	13.0	10.4	10.7
Adj RoCE	11.0	13.4	11.8	12.1
RoIC	11.2	13.2	11.9	12.4
Valuation Ratios (x)				
P/E	7.5	6.8	8.4	7.4
EV / EBITDA	6.5	5.5	5.6	5.0
EV / Net Sales	1.1	1.0	1.0	0.9
Market Cap / Sales	0.4	0.4	0.4	0.4
Price to Book Value	1.0	0.9	0.9	0.8
Price to Adj Book Value	1.1	0.9	0.9	0.8
Solvency Ratios				
Debt/EBITDA	4.1	3.4	3.4	3.0
Debt / Equity	1.5	1.5	1.3	1.1
Current Ratio	2.0	1.7	2.1	1.9
Quick Ratio	1.3	1.1	1.4	1.3

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Metals and Mining)

Exhibit 10: Total Direct coverage universe (metals and mining)																			
	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	TP (₹)	Rating	(₹ Cr)	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Coal India	215	225	Hold	133459	11.3	25.3	23.9	19.0	8.5	9.0	8.1	4.2	5.2	29.9	67.9	71.3	35.4	57.5	61.9
Hindalco	200	212	Buy	44540	19.9	24.8	22.5	10.1	8.1	8.9	5.8	5.6	5.6	9.4	10.4	9.5	8.1	9.6	7.9
Hindustan Zinc	255	260	Hold	107738	22.0	20.2	23.0	11.7	12.7	11.2	7.0	7.8	6.4	34.0	32.8	31.8	25.8	24.8	23.8
JSW Steel	272	315	Buy	65748	25.3	32.7	31.6	10.8	8.3	8.6	6.9	5.9	6.1	17.9	20.2	16.5	21.8	25.4	20.1
Vedanta	163	145	Sell	60424	20.0	18.4	22.4	8.1	8.9	7.3	3.8	4.0	3.7	15.4	13.2	13.8	11.7	10.9	12.2
Tata Steel	536	635	Buy	64550	78.6	63.9	72.4	6.8	8.4	7.4	5.5	5.6	5.0	13.4	11.8	12.1	13.0	10.4	10.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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