

Performs well.....

Tata Metaliks reported a healthy Q4FY20 performance wherein EBITDA and PAT increased sharply both QoQ and YoY. For Q4FY20, pig iron sales volume was at ~79500 tonnes (86000 tonnes in Q4FY19) while ductile iron sales volume was at ~54000 tonnes (54000 tonnes in Q4FY19). Topline for the quarter was at ₹ 521.6 crore (up 1% QoQ but down 12% YoY). Pig iron prices were up 7% QoQ while ductile iron prices were up 3% QoQ. EBITDA was at ₹ 120.3 crore (up 49% YoY, 54% QoQ). EBITDA margin was at 23.1% (13.6% in Q4FY19, 15.1% in Q3FY20). Higher realisations QoQ along with cost control measures aided EBITDA margin. RM cost as a percentage of sales was at 51.1% (59.5% in Q3FY20, 64.2% in Q4FY19). Ensuing PAT was at ₹ 77.0 crore (up 20% YoY, 68% QoQ).

Augmenting DI capacity to cater to rising demand...

Fortunes of the DI pipes segment are closely linked to the investment in water, sanitation and irrigation projects across the country. Over the last five years, DI pipes demand has grown at ~8% CAGR. Going forward also, on the back of a significant increase in government allocation on water infrastructure, the demand for DI pipes is expected to grow at a steady pace in the next five years. Driven by notable investment planned by the government, Tata Metaliks is planning to expand its DI pipe making capacity to 4 lakh tonne from 2 lakh tonne. The DI expansion was expected to come in operation in two phases wherein the first phase was likely to get commissioned by Q4FY20. However, phase 1 commissioning is likely to be delayed by six months on account Covid-19 related concerns.

FY20 operating margin remains flatish YoY...

For FY20, Tata metaliks reported a topline of ₹ 2051 crore (down 5% YoY). Topline was lower YoY due to a decline in ductile iron (DI) pipe sales volume. DI pipe sales volume was at ~218000 tonnes (down 8% YoY) while pig iron sales volume was at ~314000 (up 11% YoY). EBITDA was at ₹ 285 crore while EBITDA margin was at 13.9% (14.3% in FY19). PAT for FY20 was at ₹ 167 crore.

Valuation & Outlook

The investment lined up in development of water infrastructure and allied projects augurs well for DI pipes demand, which is likely to grow at a steady pace in the medium term. To cater to this opportunity, Tata Metaliks has already started work on doubling its DI capacity, thereby providing healthy revenue visibility in the longer run. We value the stock at 6x FY22E EV/EBITDA and arrive at a target price of ₹ 600. Hence, we assign a BUY rating to the stock. Key risk to our call is a significant increase in raw material costs and lower-than-expected increase in demand for DI pipes.



Particulars

Particulars	Amount
Market Capitalisation (in ₹ crore)	1,393.0
Debt in ₹ crore (FY20)	302.3
Cash & Cash Eq. in ₹ crore (FY20)	110.4
EV (in ₹ crore)	1,472.9
52 Week H / L (₹)	688 / 311
Equity Capital (₹ crore)	28.1
Face Value	₹ 10

Key Highlights

- Pig iron sales volume for Q4FY20 was at 79500 tonnes (86000 tonnes in Q4FY19)
- Ductile iron sales volume for Q4FY20 was at 54000 tonnes (54000 tonnes in Q4FY19)
- Maintain BUY recommendation on stock with target price of ₹ 600

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Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E
Total Operating income	1,873.7	2,155.1	2,050.6	1,773.9	2,099.5
EBITDA	277.2	307.2	284.6	230.6	314.9
EBITDA Margin (%)	14.8	14.3	13.9	13.0	15.0
Net Profit	160.1	182.8	166.8	119.1	177.9
Diluted EPS (₹)	63.3	65.1	59.4	42.4	63.3
P/E	7.8	7.6	8.4	11.7	7.8
RoE (%)	44.6	23.8	18.1	11.6	14.9
RoCE (%)	27.5	31.0	18.0	12.3	15.9

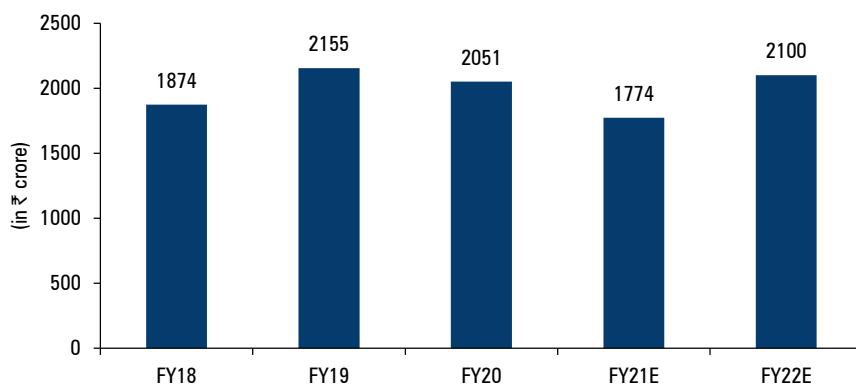
Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	521.6	593.8	-12%	518.6	1%	Topline for the quarter was higher 1% QoQ, however lower by 12% YoY
Other Income	2.7	2.8	-6%	3.1	-14%	
Raw Material Expense	266.5	381.3	-30%	308.7	-14%	RM cost as a % of sales stood at 51.1% (59.5% in Q3FY20 and 64.2% in Q4FY19)
Employee Expense	34.5	28.9	19%	31.2	11%	
Other Expenses	100.3	102.8	-2%	100.5	0%	
Total Operating Expenses	401.3	512.9	-22%	440.3	-9%	
EBITDA	120.3	80.9	49%	78.3	54%	EBITDA increased 49% YoY and 54% QoQ
EBITDA Margin (%)	23.1	13.6	945 bps	15.1	797 bps	EBITDA margin stood at 23.1% (higher by 945 bps YoY and 797 bps QoQ)
Depreciation	17.5	15.3	14%	17.0	3%	
Interest	9.0	11.5	-22%	9.1	-1%	
Exceptional Items	0.2	0.2	12%	0.2	-14%	
PBT	96.3	56.7	70%	55.0	75%	
Tax Outgo	19.3	(7.7)	-351%	9.1	112%	
PAT	77.0	64.3	20%	45.9	68%	PAT was higher by 20% YoY and 68% QoQ

Source: Company, ICICI Direct Research

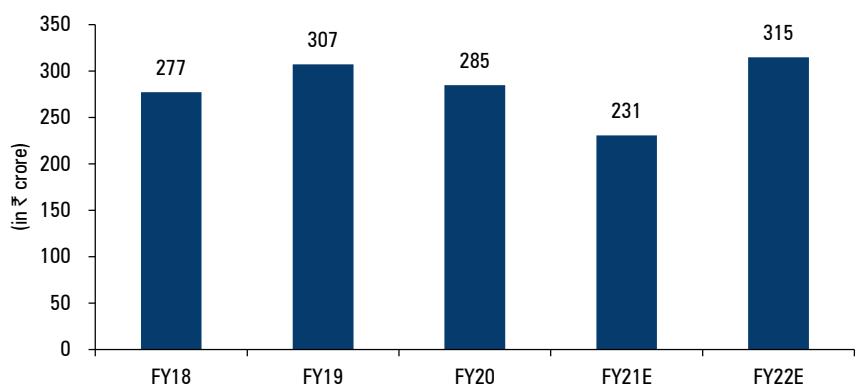
Financial story in charts

Exhibit 2: Topline trend (in ₹ crore)



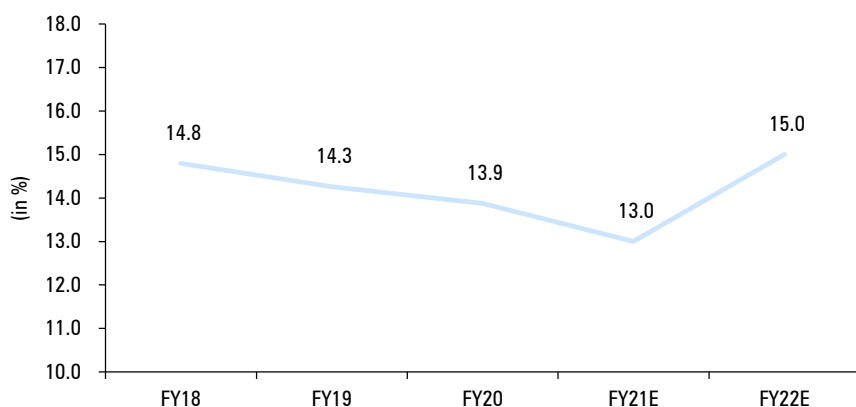
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA trend (in ₹ crore)



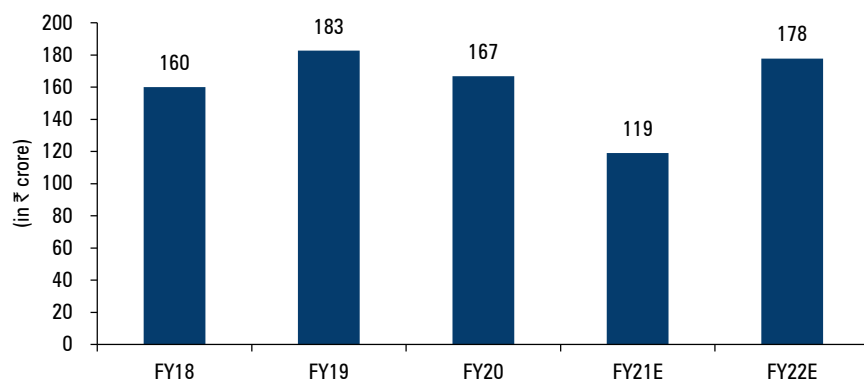
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margin trend.... (in %)



Source: Company, ICICI Direct Research

Exhibit 5: PAT margin trend (in ₹ crore)



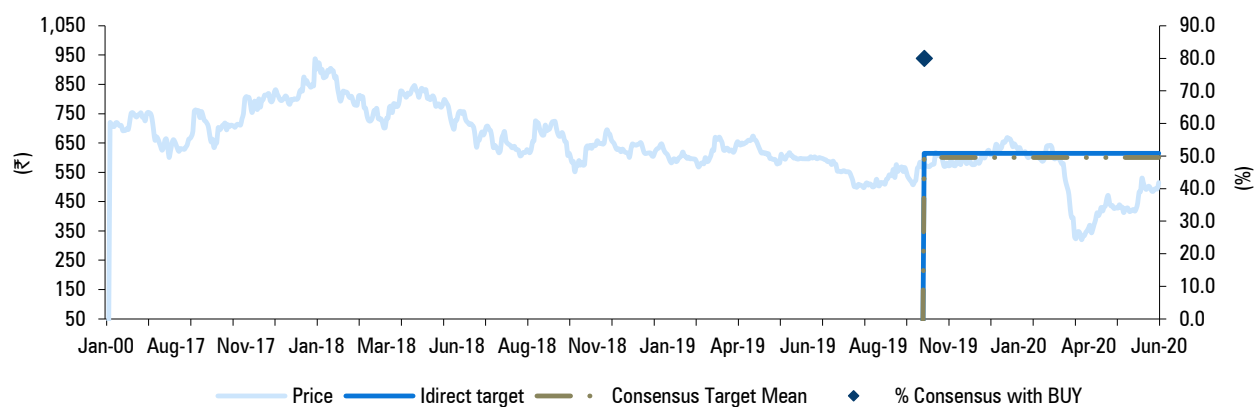
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITD A	RoNW (%)	RoCE (%)
FY19	2,155	15	65.1	14	7.6	4.6	23.8	31.0
FY20	2,051	(5)	59.4	(9)	8.4	5.6	18.1	18.0
FY21E	1,774	(13)	42.4	(29)	11.7	7.1	11.6	12.3
FY22E	2,100	18	63.3	49	7.8	5.1	14.9	15.9

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	% O/S	Position (m)	Change (m)
1	TATA STEEL LTD	31-03-2020	55.1	15.5	0.0
2	HDFC ASSET MANAGEMEN	31-05-2020	8.5	2.4	0.0
3	ADITYA BIRLA SUN LIF	31-05-2020	2.3	0.7	-0.3
4	ICICI PRUDENTIAL ASS	31-12-2019	1.9	0.5	0.5
5	SBI FUNDS MANAGEMENT	31-12-2019	1.4	0.4	0.4
6	DIMENSIONAL FUND ADV	30-04-2020	0.9	0.3	0.0
7	GOVERNMENT OF INDIA	31-03-2020	0.9	0.3	0.0
8	INVESCO INDIA ASSET	31-05-2020	0.8	0.2	0.0
9	UNION MUTUAL FUND	31-05-2020	0.7	0.2	0.0
10	ING GROEP NV	30-09-2017	0.6	0.2	0.2

Source: Reuters, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20
Promoter	55.1	55.1	55.1
Public	44.9	44.9	44.9
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	2155	2051	1774	2100
Growth (%)	15%	-5%	-13%	18%
Raw Material Expenses	1333	1204	1064	1218
Employee Expenses	112	125	106	126
Other Manufacturing Expense	403	437	373	441
Total Operating Expenditure	1848	1766	1543	1785
EBITDA	307	285	231	315
Growth (%)	11%	-7%	-19%	37%
Interest & Finance Cost	43	33	15	12
Depreciation	58	65	68	78
Other Income	7	16	12	13
PBT before Exceptional Items	213	202	159	238
Less: Exceptional Items	0	0	0	0
PBT	213	202	159	238
Total Tax	30	35	40	60
PAT	183	167	119	178
Growth (%)	14%	-9%	-29%	49%
EPS	65.1	59.4	42.4	63.3

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	183	167	119	178
Add: Dep. & Amortization	58	65	68	78
Net (Inc) / dec.in Current Ass	(191)	(115)	72	(64)
Net Inc / (dec) in Current Liab	281	(104)	(42)	102
CF from operating activities	330	13	217	294
(Inc)/dec in Investments	10	(10)	(0)	0
(Inc)/dec in Fixed Assets	(109)	(171)	(250)	(250)
Others	0	0	0	0
CF from investing activities	(99)	(181)	(250)	(250)
Inc / (Dec) in Equity Capital	3	0	0	0
Inc / (Dec) in Loans	(431)	264	0	0
Dividend & Dividend Tax	(12)	(12)	(15)	(15)
Others	234	(3)	0	5
CF from financing activities	(206)	249	(15)	(10)
Net Cash flow	26	82	(47)	34
Opening Cash	3	29	110	63
Closing Cash	29	110	63	97

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	28	28	28	28
Reserve and Surplus	739	891	996	1,164
Total Shareholders funds	767	919	1,024	1,192
Total Debt	39	302	302	302
Deferred Tax Liability (net)	0	0	0	0
Source of Funds	806	1,222	1,326	1,494
Gross Block - Fixed Assets	757	861	911	961
Accumulated Depreciation	128	193	261	339
Net Block	630	668	650	622
Capital WIP	31	98	298	498
Net Fixed Assets	661	767	949	1,121
Investments	0	10	10	10
Inventory	315	385	340	374
Cash	29	110	63	97
Debtors	278	280	243	259
Loans & Advances & Other C.	100	142	152	167
Total Current Assets	721	918	799	897
Creditors	481	390	340	431
Provisions & Other CL	96	83	91	102
Total Current Liabilities	577	473	431	533
Net Current Assets	145	445	367	363
Application of Funds	806	1,222	1,326	1,494

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	65.1	59.4	42.4	63.3
BV	273.1	327.3	364.5	424.3
DPS	3.5	3.5	4.5	4.5
Cash Per Share	10.3	39.3	22.4	34.5
Operating Ratios (%)				
EBITDA margins	14.3	13.9	13.0	15.0
PBT margins	9.9	9.9	9.0	11.3
Net Profit margins	8.5	8.1	6.7	8.5
Inventory days	53	69	70	65
Debtor days	47	50	50	45
Creditor days	81	69	70	75
Return Ratios (%)				
RoE	23.8	18.1	11.6	14.9
RoCE	31.0	18.0	12.3	15.9
RoIC	32.1	19.8	12.9	17.0
Valuation Ratios (x)				
P/E	7.6	8.4	11.7	7.8
EV / EBITDA	4.6	5.6	7.1	5.1
EV / Revenues	0.7	0.8	0.9	0.8
Market Cap / Revenues	0.6	0.7	0.8	0.7
Price to Book Value	1.8	1.5	1.4	1.2
Solvency Ratios				
Debt / Equity	0.1	0.3	0.3	0.3
Debt/EBITDA	0.1	1.1	1.3	1.0
Current Ratio	1.3	1.9	1.9	1.7
Quick Ratio	0.7	1.1	1.1	1.0

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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