

European operations surprise positively...

Tata Steel reported healthy operational numbers wherein EBITDA came in higher than our estimate while European operations surprised positively by reporting positive EBITDA/tonne. However bottomline was impacted by exceptional expenses that led to a net loss for the quarter. Standalone operations reported sales volume of ~3.0 million tonnes (MT), marginally lower than our estimate of 3.1 MT. European operations reported steel sales of 2.4 MT, higher than our estimate of 2.3 MT. Bhushan Steel reported sales volume of 0.98 MT (lower than our estimate of 1.25 MT). The consolidated topline came in at ₹ 33770.0 crore (down 20.4% YoY, 4.9% QoQ), largely in line with our estimate of ₹ 34622.3 crore. Consolidated EBITDA came in at ₹ 4646.9 crore (down 38.2% YoY, up 28.4% QoQ), higher than our estimate of ₹ 3500.8 crore. For the quarter, the company reported exceptional expense (net) to the tune of ₹ 3405.9 crore. Exceptional expense was primarily due to impairment at Tata Steel Europe, Tata Steel Mineral Canada, Tata Steel SEZ (cumulatively ₹ 3029 crore) and notional loss on fair valuation of preference shares held in TRF (₹ 272 crore). Subsequently, on a consolidated basis, the company reported a net loss of ₹ 1236 crore.

Domestic operation in FY20 comprises 64% of total sales volume

In India, Tata Steel has operations in Jamshedpur (10 MT), Kalinganagar (3 MT), Tata Steel BSL (5.6 MT) and Tata Long products (1 MT), aggregating to 19.6 MT. Indian operations' key assets viz. Jamshedpur, Kalinganagar, Angul have globally cost competitive position, aiding overall EBITDA margins. In FY20, the higher margin domestic operations accounted for ~64% of overall sales volumes. In FY20, Tata Steel's consolidated sales volume was 26.7 MT of which Indian operations contributed 16.97 MT (~57% in FY19).

Capex curtailed on account of uncertain business environment

Given the uncertain business environment, capex is being curtailed and is restricted to safety and sustenance projects. For FY21E, the company has chalked out a capex plan of ~₹ 4000-5000 crore (equally distributed between Indian and European operations), sharply lowered compared to capex of ~₹ 10400 crore incurred in FY20. The capex plans will be revisited in H2FY21 or when business conditions improve.

Valuation & Outlook

In April 2020, Tata Steel's Indian operations operated at ~50% capacity utilisation. With the phased removal of lockdown restrictions in India, Tata Steel's upstream steelmaking operations have been ramped up and are currently operating at about 80% utilisation levels. Downstream units have reopened and are steadily ramping up. In Europe, Tata Steel Europe continues to operate at about 70% utilisation. After a muted Q1FY21 (on account of Covid-19 related concerns), the management expects to return to normal capacity utilisation levels by Q2FY21. We continue to value the company on an SOTP basis and arrive at a target price of ₹ 350. We maintain our **HOLD** rating on the stock.

Key Financial Summary

| (₹ Crore) | FY18 | FY19 | FY20E | FY21E | FY22E |
|---------------|----------|----------|----------|----------|----------|
| Net Sales | 1,31,700 | 1,57,669 | 1,39,817 | 1,25,321 | 1,66,563 |
| EBITDA | 21,891 | 29,383 | 17,463 | 13,321 | 25,168 |
| Adj PAT | 8,164 | 8,995 | 4,737 | -1,869 | 5,367 |
| EPS (₹) | 71.3 | 78.6 | 41.4 | (16.3) | 46.9 |
| EV/EBITDA (x) | 5.8 | 4.3 | 8.5 | 12.0 | 5.7 |
| RoCE (%) | 12.3 | 14.2 | 5.0 | 2.4 | 8.2 |
| RoE (%) | 17.7 | 13.0 | 6.4 | -2.6 | 6.6 |

Source: Company, ICICI Direct Research



Particulars

| Particular | Amount |
|----------------------------------|------------|
| Market Capitalization (₹ Crore) | 37,431 |
| Total Debt (FY20) (₹ Crore) | 1,13,289 |
| Cash & Cash Eq. (FY20) (₹ Crore) | 8,055 |
| EV (₹ Crore) | 1,42,665 |
| 52 week H/L (₹) | 515 / 251 |
| Equity capital | ₹ 1145 Cr. |
| Face value | ₹ 10 |

Key Highlights

- Standalone Indian operations reported EBITDA/tonne of ₹ 12531/tonne (₹ 10123/tonne in Q3FY20 and ₹ 13619/tonne in Q4FY19), higher than our estimate of ₹ 11000/tonne.
- For Q4FY20, Tata Steel European operations reported a positive EBITDA/tonne of ~US\$4/tonne as against our expectation of a negative EBITDA/tonne of US\$ 30/tonne.
- Maintain **HOLD** recommendation with target price of ₹350.

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Exhibit 1: Variance Analysis (Consolidated Performance)

| | Q4FY20 | Q4FY20E | Q4FY19 | YoY (%) | Q3FY20 | QoQ (%) | Comments |
|---|-----------|----------|----------|----------|-----------|---------|--|
| Revenue | 33,770.0 | 34,622.3 | 42,423.9 | -20% | 35,520.4 | -5% | Topline largely in line with our estimate |
| Other Income | 1,315.9 | 140.9 | 489.9 | 169% | 92.9 | 1316% | |
| Employee Expense | 4,735.0 | 4,750.0 | 4,651.0 | 2% | 4,294.4 | 10% | |
| Raw Material Expense | 11,755.2 | 14,750.0 | 17,774.8 | -34% | 17,109.8 | -31% | |
| Other operating Expenses | 12,632.9 | 31,121.5 | 12,484.7 | 1% | 10,496.5 | 20% | |
| EBITDA | 4,646.9 | 3,500.8 | 7,513.4 | -38% | 3,619.7 | 28% | |
| EBITDA Margin (%) | 13.8 | 10.1 | 17.7 | -395 bps | 10.2 | 357 bps | |
| Depreciation | 2,224.1 | 2,214.2 | 1,880.5 | 18% | 2,018.7 | 10% | |
| Interest | 1,925.1 | 1,939.5 | 1,937.8 | -1% | 1,930.6 | 0% | |
| Exceptional Item and Share of associates | (3,313.0) | - | 67.6 | - | (308.1) | | Exceptional expense primarily due to impairment at Tata Steel Europe, Tata Steel Mineral Canada and Tata Steel Special Economic Zone and loss on fair valuation of preference shares held in TRF |
| PBT | (1,499.5) | (512.0) | 4,252.6 | | (544.7) | | |
| Tax Outgo | (263.3) | (58.0) | 1,899.1 | -114% | 621.0 | -142% | |
| PAT | (1,236.2) | (570.0) | 2,353.5 | -153% | (1,165.7) | 6% | PAT impacted by exceptional item expenses, which resulted in a net loss for the quarter |
| Key Metrics | | | | | | | |
| TSI Steel Sales (MT) (Standalone operations) | 3.0 | 3.1 | 3.6 | -17% | 3.4 | -12% | Standalone sales lower than our estimate |
| TSE Steel Sales (MT) | 2.4 | 2.3 | 2.3 | 2% | 2.4 | 0% | |
| Adjusted TSI EBITDA/tonne (₹/tonne) | 12,531 | 11,000 | 13,619 | -8% | 10,123 | 24% | EBITDA/tonne came in higher than our estimate |
| TSI: Tata Steel India; TSE: Tata Steel Europe | | | | | | | |

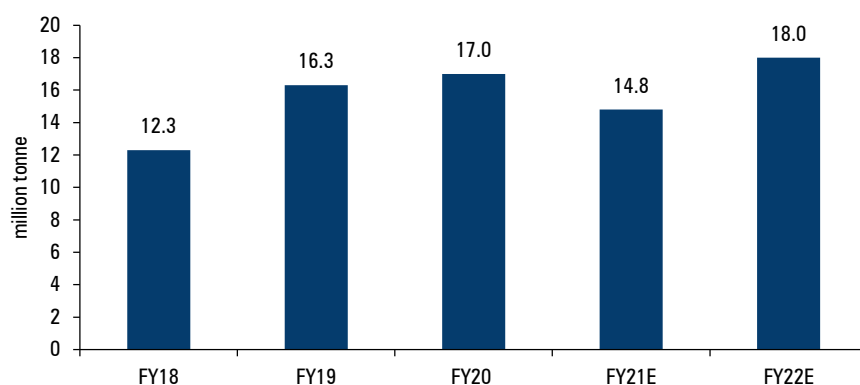
Source: Company, ICICI Direct Research

Conference Call Highlights

- With respect to the India operations, the management expects FY21 volumes to be similar to FY20 volumes
- Given the uncertain business environment, capex is being curtailed and is restricted to safety and sustenance projects. For FY21E, the company has chalked out a capex plan of ~₹ 4000-5000 crore (equally distributed between Indian and European operations). The capex plans will be revisited in H2FY21 or when business conditions improve
- Tata Steel and Tata Steel BSL's proposed merger is likely to be completed in FY21
- The company does not have any material repayment obligation over the next couple of year. Long term group debt maturity is under US\$250 million each year over the next two years (FY21 and FY22)
- For Q1FY21E, Tata Steel's capacity utilisation is expected to be ~60%. Exports are likely to contribute to ~50% of overall Q1FY21 volume. South East Asia and China were major export destinations. Exports as a percentage of total volumes is likely to drop to 30% in Q2FY20. While exports are profitable, there is likely to be margin compression
- As domestic demand gets restored to its normal levels, exports are likely to contribute 15-20% of overall volumes
- Efforts have been undertaken to reduce cost and improve process efficiencies in Europe. Over six months, employee costs in Europe have been reduced by £60 million
- Tata Steel Europe has launched a transformation programme to generate savings across multiple initiatives
- Europe operations have also received state support from both Netherlands and UK government in terms of reimbursement of staff costs in Q1FY21
- With respect to European operations, higher iron ore prices will flow through in Tata Steel Europe financials with a lag of three to four months

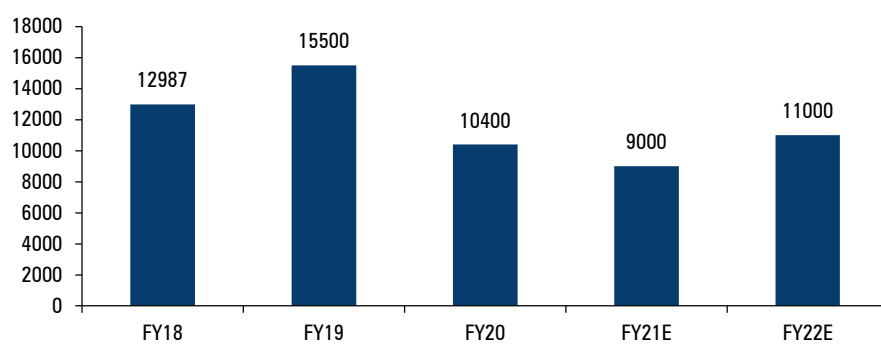
Financial story in charts

Exhibit 2: Tata Steel + Bhushan Steel volume trend, going forward



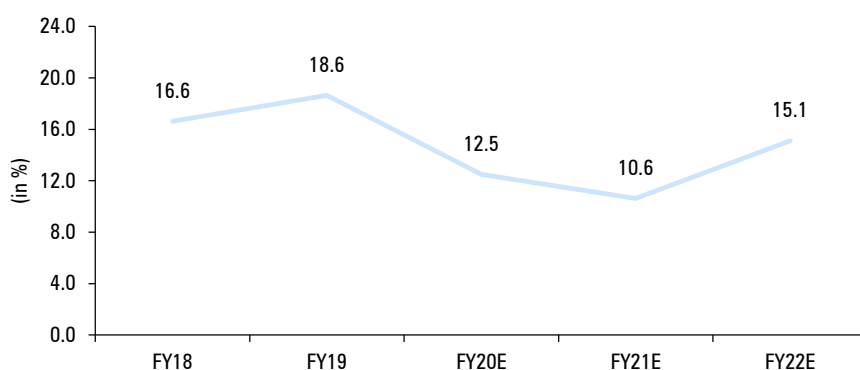
Source: Company, ICICI Direct Research

Exhibit 3: Tata Steel standalone operation EBITDA... (in ₹/tonne)



Source: Company, ICICI Direct Research

Exhibit 4: Consolidated EBITDA margins trend....(in %)

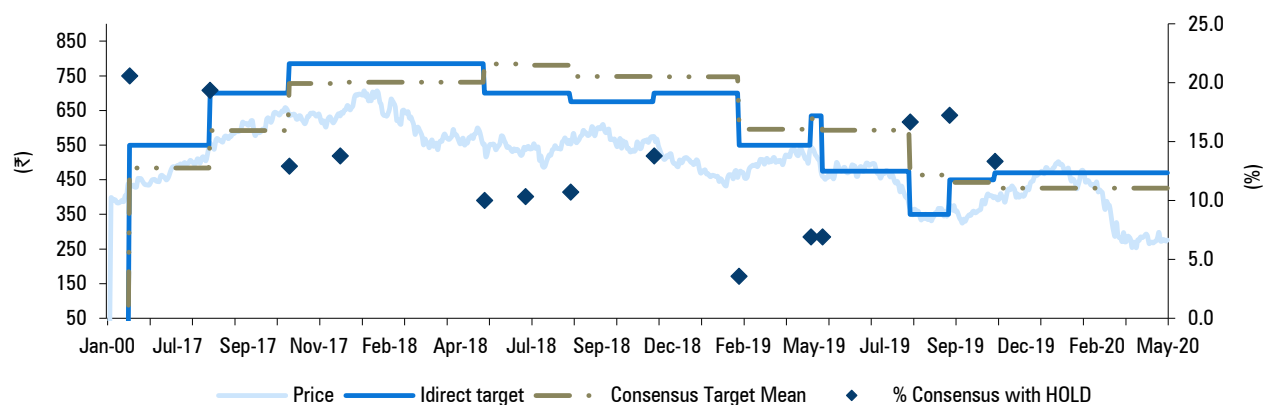


Source: Company, ICICI Direct Research

Exhibit 5: Valuation

| | Total Op. Income | Growth | EPS | Growth | PE | EV/EBIDTA | P/ BV | RoNW | RoCE |
|-------|------------------|--------|--------|---------|-----|-----------|-------|-------|------|
| | (₹ Crore) | % YoY | (₹) | % YoY | (x) | (x) | (x) | (%) | (%) |
| FY18 | 1,31,700 | 17.3 | 71.3 | 69.1 | 4.6 | 5.8 | 0.8 | 17.7 | 12.3 |
| FY19 | 1,57,669 | 19.7 | 78.6 | 10.2 | 4.2 | 4.3 | 0.5 | 13.0 | 14.2 |
| FY20 | 1,39,817 | (11.3) | 41.4 | (47.3) | 7.9 | 8.5 | 0.5 | 6.4 | 5.0 |
| FY21E | 1,25,321 | (10.4) | (16.3) | (139.5) | NA | 12.0 | 0.5 | (2.6) | 2.4 |
| FY22E | 1,66,563 | 32.9 | 46.9 | (387.2) | 7.0 | 5.7 | 0.5 | 6.6 | 8.2 |

Source: Company, ICICI Direct Research

Exhibit 6: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Top 10 Shareholders

| Rank | Name | Latest Filing | % O/S | Position (m) | Change (m) |
|------|----------------------|---------------|-------|--------------|------------|
| 1 | TATA SONS LTD | 13-03-2020 | 31.8 | 358.7 | 0.0 |
| 2 | LIFE INSURANCE CORP | 31-12-2019 | 9.0 | 101.4 | -7.0 |
| 3 | HDFC ASSET MANAGEMEN | 31-12-2019 | 5.2 | 58.4 | 10.1 |
| 4 | RELIANCE CAPITAL TRU | 31-12-2019 | 3.1 | 34.4 | -3.1 |
| 5 | ICICI PRUDENTIAL ASS | 31-03-2020 | 2.4 | 26.5 | 7.7 |
| 6 | ICICI PRUDENTIAL LIF | 31-12-2019 | 1.8 | 20.3 | -4.6 |
| 7 | SBI FUNDS MANAGEMENT | 31-03-2020 | 1.7 | 18.8 | 1.0 |
| 8 | ABU DHABI GOVERNMENT | 31-12-2019 | 1.3 | 14.2 | 14.2 |
| 9 | PRUDENTIAL PLC | 29-11-2019 | 1.1 | 12.5 | 3.5 |
| 10 | NORGES BANK | 31-12-2019 | 1.0 | 11.6 | 0.0 |

Source: Bloomberg, ICICI Direct Research

Exhibit 8: Shareholding Pattern

| (in %) | Sep-19 | Dec-19 | Mar-20 |
|----------|--------|--------|--------|
| Promoter | 33.1 | 33.1 | 34.4 |
| Others | 66.9 | 66.9 | 66.6 |
| Total | 100.0 | 100.0 | 101.0 |

Source: Company, ICICI Direct Research

Financial summary

| Exhibit 9: Profit and loss statement ₹ crore | | | | |
|--|---------------|---------------|---------------|---------------|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Total Operating Income | 157669 | 139817 | 125321 | 166563 |
| Growth (%) | 19 | -11 | -36 | 38 |
| Total Operating Expend. | 128286 | 122354 | 112001 | 141395 |
| EBITDA | 29383 | 17463 | 13321 | 25168 |
| Growth (%) | 34 | -41 | -24 | 89 |
| Depreciation | 7342 | 8441 | 8797 | 9735 |
| Interest | 7660 | 7533 | 7920 | 8509 |
| Other Income | 1421 | 1843 | 996 | 1202 |
| PBT | 15802 | 3332 | -2400 | 8126 |
| Exceptional Item | 104 | -3564 | 0 | 0 |
| Total Tax | 6718 | -2568 | -488 | 2797 |
| PAT | 9187 | 2337 | -1911 | 5329 |
| Growth (%) | -48 | -75 | -182 | -379 |
| Minorities, Associates, etc | -89 | -1164 | 43 | 38 |
| Rep PAT after Assoc. MI | 9098 | 1172 | -1869 | 5367 |
| Adj PAT after Assoc. MI | 8995 | 4737 | -1869 | 5367 |
| Growth (%) | 10.2 | -47.3 | -139.5 | -387.2 |
| EPS (₹) | 78.6 | 41.4 | -16.3 | 46.9 |

Source: Company, ICICI Direct Research

| Exhibit 10: Cash flow statement ₹ crore | | | | |
|---|---------------|---------------|--------------|---------------|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Profit after Tax | 9098 | 1172 | -1869 | 5367 |
| Add: Depreciation | 7342 | 8441 | 8797 | 9735 |
| (Inc)/dec in Current Assets | -10455 | -141 | 12690 | -16381 |
| Inc/(dec) in CL and Prov. | 10456 | -7756 | -30183 | 23080 |
| Others | 1416 | -2425 | 3000 | 3000 |
| CF from operating activities | 17856 | -708 | -7566 | 24802 |
| (Inc)/dec in Investments | 12161 | -547 | 700 | -2300 |
| (Inc)/dec in Fixed Assets | -37808 | -10347 | -5917 | -9617 |
| Others | -7502 | -867 | 43 | 38 |
| CF from investing activities | -33150 | -11761 | -5174 | -11879 |
| Issue/(Buy back) of Equity | 0 | 0 | 0 | 0 |
| Inc/(dec) in loan funds | 2471 | 22145 | 9000 | -9000 |
| Dividend paid & dividend tax | -1340 | -1340 | -1145 | -1145 |
| Inc/(dec) in Share Cap | 15091 | -4182 | 1777 | 4000 |
| Others | 330 | 570 | 256 | 0 |
| CF from financing activities | 16552 | 17193 | 9889 | -6145 |
| Net Cash flow | 1259 | 4724 | -2852 | 6778 |
| Opening Cash | 2073 | 3331 | 8055 | 5204 |
| Closing Cash | 3331 | 8055 | 5204 | 11981 |

Source: Company, ICICI Direct Research

| Exhibit 11: Balance sheet ₹ crore | | | | |
|-----------------------------------|---------------|---------------|---------------|---------------|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Liabilities | | | | |
| Equity Share Capital | 1145 | 1145 | 1145 | 1145 |
| Hybrid Perpetual securitie | 2275 | 2275 | 2275 | 2275 |
| Reserve and Surplus | 65505 | 70156 | 69118 | 77341 |
| Total Shareholders funds | 68925 | 73576 | 72538 | 80760 |
| Total Debt | 91145 | 113289 | 122289 | 113289 |
| Deferred Tax Liability | 12460 | 9261 | 9261 | 9261 |
| Minority Interest & Other: | 10821 | 11816 | 14859 | 17897 |
| Total Liabilities | 183350 | 207943 | 218948 | 221208 |
| Assets | | | | |
| Gross Block | 229689 | 248131 | 254548 | 264665 |
| Less: Impairment | 0 | 0 | 0 | 0 |
| Less: Acc Depreciation | 108559 | 117000 | 125796 | 135532 |
| Net Block | 121130 | 131131 | 128751 | 129133 |
| CWIP | 17957 | 18862 | 18362 | 17862 |
| Investments | 5738 | 6285 | 5585 | 7885 |
| Inventory | 31656 | 31069 | 15522 | 21882 |
| Debtors | 11811 | 7885 | 6020 | 8318 |
| Loans and Advances | 29343 | 35663 | 41385 | 50107 |
| Other Current Assets | 7810 | 6144 | 5144 | 4144 |
| Cash | 3331 | 8055 | 5204 | 11981 |
| Total Current Assets | 83952 | 88816 | 73275 | 96434 |
| Current Liabilities | 48983 | 40813 | 9629 | 31709 |
| Provisions | 1249 | 1664 | 2664 | 3664 |
| Current Liabilities & Prov | 50232 | 42476 | 12293 | 35373 |
| Net Current Assets | 33720 | 46340 | 60982 | 61061 |
| others | 4806 | 5325 | 5267 | 5267 |
| Application of Funds | 183350 | 207943 | 218948 | 221208 |

Source: Company, ICICI Direct Research

| Exhibit 12: Key ratios ₹ crore | | | | |
|--------------------------------|-------|-------|-------|-------|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Per share data (₹) | | | | |
| Adj EPS | 78.6 | 41.4 | -16.3 | 46.9 |
| Cash EPS | 142.7 | 115.1 | 60.5 | 131.9 |
| BV | 602.0 | 642.6 | 633.5 | 705.4 |
| Adj BV (adj for Goodwill) | 567.1 | 607.2 | 598.6 | 670.5 |
| DPS | 10.0 | 10.0 | 10.0 | 10.0 |
| Cash Per Share | 29.1 | 70.4 | 45.4 | 104.6 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 18.6 | 12.5 | 10.6 | 15.1 |
| PBT / Total Operating income | 10.0 | 2.4 | -1.9 | 4.9 |
| Adj PAT Margin | 5.7 | 3.4 | -1.5 | 3.2 |
| Inventory days | 180 | 199 | 200 | 200 |
| Debtor days | 29 | 26 | 25 | 25 |
| Creditor days | 249 | 288 | 275 | 250 |
| Return Ratios (%) | | | | |
| Adj RoE | 13.0 | 6.4 | -2.6 | 6.6 |
| Adj RoCE | 14.2 | 5.0 | 2.4 | 8.2 |
| Valuation Ratios (x) | | | | |
| P/E | 4.2 | 7.9 | NA | 7.0 |
| EV / EBITDA | 4.3 | 8.5 | 12.0 | 5.7 |
| EV / Net Sales | 0.8 | 1.1 | 1.4 | 0.9 |
| Market Cap / Sales | 0.2 | 0.3 | 0.4 | 0.3 |
| Price to Book Value | 0.5 | 0.5 | 0.5 | 0.5 |
| Price to Adj Book Value | 0.6 | 0.5 | 0.5 | 0.5 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 3.1 | 6.5 | 9.2 | 4.5 |
| Debt / Equity | 1.3 | 1.5 | 1.7 | 1.4 |
| Current Ratio | 1.7 | 2.1 | 6.0 | 2.7 |
| Quick Ratio | 1.0 | 1.4 | 4.7 | 2.1 |

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Metals and Mining)

| | CMP | TP | | M Cap | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | ROCE(%) | | | ROE(%) | | |
|------------|------------|-----------|--------|--------------|----------------|-------|-------|----------------|-------|-------|----------------------|-------|-------|----------------|-------|-------|---------------|-------|-------|
| | (₹) | (₹) | Rating | (₹ Cr) | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E |
| Coal India | 133 | 150 | Hold | 82465 | 28.3 | 27.1 | 22.2 | 4.7 | 4.9 | 6.0 | 2.2 | 2.8 | 4.4 | 86.3 | 55.5 | 40.2 | 66.0 | 51.9 | 39.0 |
| Hindalco | 146 | 160 | Hold | 32559 | 24.7 | 18.2 | 8.5 | 5.9 | 8.0 | 17.2 | 4.4 | 4.9 | 6.9 | 10.3 | 7.8 | 4.8 | 9.6 | 7.0 | 3.0 |
| Hind Zinc | 195 | 200 | Buy | 82542 | 18.8 | 16.1 | 12.9 | 8.9 | 10.4 | 12.9 | 5.0 | 5.5 | 6.3 | 29.2 | 20.8 | 19.4 | 23.7 | 16.9 | 15.0 |
| JSW Steel | 189 | 190 | Hold | 45770 | 20.0 | 1.0 | 20.0 | 9.5 | 189.4 | 9.5 | 4.7 | 8.3 | 12.1 | 17.6 | 7.2 | 3.7 | 21.7 | 12.7 | 0.4 |
| NMDC | 81 | 90 | Hold | 24679 | 15.2 | 15.6 | 14.5 | 5.3 | 5.2 | 5.6 | 4.5 | 5.1 | 5.7 | 25.3 | 19.2 | 16.6 | 17.9 | 15.6 | 13.6 |
| Tata Steel | 327 | 350 | Hold | 39344 | 78.6 | 41.4 | -16.3 | 4.2 | 7.9 | NA | 4.3 | 8.5 | 12.0 | 14.2 | 5.0 | 2.4 | 13.0 | 6.4 | -2.6 |

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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