

Standalone operations EBITDA/tonne to inch up...

Tata Steel reported subdued Q1FY21 results wherein consolidated topline came in line with our estimate while consolidated EBITDA was notably lower than our estimate. The EBITDA/tonne of both Indian, European operations came in lower than our estimate. Standalone operations reported sales volume of ~2.1 million tonnes (MT). European operations reported steel sales of 2.0 MT, marginally higher than our estimate of 1.9 MT. Tata Steel BSL reported sales volume of 0.7 MT (higher than our estimate of 0.65 MT). Consolidated topline was at ₹ 24289 crore (down 32% YoY, 28% QoQ), largely in line with our estimate of ₹ 23010 crore. Consolidated reported EBITDA was at ₹ 506 crore while adjusted EBITDA was at ₹ 1038 crore (notably lower than our estimate of ₹ 1634 crore). For the quarter, the company reported exceptional gain (net) of ₹ 58 crore. Subsequently, on a consolidated basis, the company reported a net loss of ₹ 4609 crore.

Healthy improvement at operating level...

Operating level of Tata Steel Indian operations recovered to 90% by end June 2020 and has since then increased further to 95%, catering to both domestic and export customers. With the improvement in the domestic market, Tata Steel has been reducing its exports ratio. In Q1FY21, for the Indian operations, of total sales volume ~50% was exported. Contribution of export volumes in overall volumes is expected to fall to 25% in Q2FY21. The company has indicated that the price outlook in both export and domestic market has witnessed an improving trend on an MoM basis. Furthermore, it also indicated that current quarter demand has been much better than a typically slow monsoon quarter in the past.

On standalone basis, Q2FY21 likely to be better than Q1FY21

Tata Steel reported subdued consolidated performance for Q1FY21, primarily on the back of Covid-19 related concerns. With regard to standalone Indian operations, while blended realisations were muted in Q1FY21, they are expected to improve Q2FY21. Blended realisations are likely to be up ₹ 3000/tonne in Q2FY21 (vs. Q1FY21 average). Also, for domestic operations, prices of coking coal are expected to fall by US\$5/tonne in Q2FY21 vs. Q1FY21, auguring well for the company.

Valuation & Outlook

Tata Steel reported a muted consolidated performance in Q1FY21. At the consolidated level, ~₹ 2000 crore of costs was under absorbed due to lower volumes and have been charged to the P&L, thereby impacting its operating performance during the quarter. However, going forward, we expect Tata Steel standalone operations' Q2FY21 performance to improve (from Q1FY21 levels), on the back of higher realisations QoQ, lower coking coal costs and QoQ higher domestic sales volume. We value the stock on SoTP basis and arrive at a target price of ₹ 450. We maintain our **HOLD** rating on the stock.



Particulars

| Particular | Amount |
|----------------------------------|------------|
| Market Capitalization (₹ Crore) | 47,950 |
| Total Debt (FY20) (₹ Crore) | 1,13,289 |
| Cash & Cash Eq. (FY20) (₹ Crore) | 8,055 |
| EV (₹ Crore) | 1,53,185 |
| 52 week H/L (₹) | 506 / 251 |
| Equity capital | ₹ 1145 Cr. |
| Face value | ₹ 10 |

Key Highlights

- Standalone Indian operations reported EBITDA/tonne of ₹ 5929/tonne (₹ 12531/tonne in Q4FY20, ₹ 13158/tonne in Q1FY20), notably lower than our estimate of ₹ 7500/tonne
- For Q1FY21, Tata Steel European operations reported negative EBITDA/tonne of ~US\$42/tonne vs. our expectation of a negative EBITDA/tonne of US\$25/tonne
- Assign **HOLD** with target price of ₹ 450

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Key Financial Summary

| (₹ Crore) | FY18 | FY19 | FY20 | FY21E | FY22E |
|---------------|----------|----------|----------|----------|----------|
| Net Sales | 1,31,700 | 1,57,669 | 1,39,817 | 1,24,571 | 1,67,838 |
| EBITDA | 21,891 | 29,383 | 17,463 | 12,570 | 26,444 |
| Adj PAT | 8,164 | 8,995 | 4,737 | -2,325 | 6,492 |
| EPS (₹) | 71.3 | 78.6 | 41.4 | (20.3) | 56.7 |
| EV/EBITDA (x) | 6.3 | 4.7 | 9.1 | 12.6 | 5.7 |
| RoCE (%) | 12.3 | 14.2 | 5.0 | 2.0 | 8.9 |
| RoE (%) | 17.7 | 13.0 | 6.4 | -3.2 | 8.0 |

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis (Consolidated Performance)

| | Q1FY21 | Q1FY21E | Q1FY20 | YoY (%) | Q4FY20 | QoQ (%) | Comments |
|--|-----------|-----------|----------|-----------|-----------|-----------|---|
| Revenue | 24,288.5 | 23,010.0 | 35,947.1 | -32% | 33,770.0 | -28% | Consolidated topline came largely in line with our estimate |
| Other Income | 192.6 | 500.0 | 251.1 | -23% | 1,315.9 | -85% | |
| Employee Expense | 4,545.6 | 4,476.0 | 4,899.4 | -7% | 4,735.0 | -4% | |
| Raw Material Expense | 10,400.5 | 8,950.0 | 13,762.1 | -24% | 11,755.2 | -12% | |
| Other operating Expenses | 8,836.9 | 7,950.0 | 11,908.7 | -26% | 12,632.9 | -30% | |
| EBITDA | 505.5 | 1,634.0 | 5,376.9 | -91% | 4,646.9 | -89% | EBITDA came in lower than our estimates |
| EBITDA Margin (%) | 2.1 | 7.1 | 15.0 | -1288 bps | 13.8 | -1168 bps | |
| Depreciation | 2,110.8 | 2,250.0 | 2,070.8 | 2% | 2,224.1 | -5% | |
| Interest | 1,998.3 | 1,900.0 | 1,806.4 | 11% | 1,925.1 | 4% | |
| Exceptional Item and Share of associates | 73.4 | 25.0 | 68.2 | - | (3,313.0) | | |
| PBT | (3,337.6) | (1,991.0) | 1,819.0 | | (1,499.5) | | |
| Tax Outgo | 1,271.5 | 25.0 | 1,123.8 | 13% | (263.3) | -583% | |
| PAT | (4,609.2) | (2,016.0) | 695.2 | -763% | (1,236.2) | 273% | |
| Key Metrics | | | | | | | |
| TSI Steel Sales (MT) (Standalone operations) | 2.1 | 2.1 | 3.0 | -30% | 3.0 | -30% | Standalone sales came in line with our estimate |
| TSE Steel Sales (MT) | 2.0 | 1.9 | 2.3 | -13% | 2.4 | -15% | |
| Adjusted TSI EBITDA/tonne (₹/tonne) | 5,920 | 7,500 | 13,158 | -55% | 12,531 | -53% | EBITDA/tonne came in lower than our estimate |

Source: Company, ICICI Direct Research, Adjusted EBITDA came in at ₹1038 crore.

Exhibit 2: Change in Estimates

| | FY21E | | | FY22E | | | Comments |
|----------------------------------|----------|----------|----------|----------|----------|----------|--|
| (₹ Crore) | Old | New | % Change | Old | New | % Change | |
| Total Operating Income (₹ crore) | 1,25,321 | 1,24,571 | (0.6) | 1,66,563 | 1,67,838 | 0.8 | Topline revised downward for FY21E & upwards for FY22E |
| EBITDA (₹ crore) | 13,321 | 12,570 | (5.6) | 25,168 | 26,444 | 5.1 | EBITDA revised upward for FY22E |
| EBITDA Margin (%) | 10.6 | 10.1 | -51 bps | 15.1 | 15.8 | 66 bps | EBITDA margin revised upwards for FY22E |
| Adj PAT (₹ crore) | (1,869) | (2,325) | 24.4 | 5,367 | 6,492 | 21.0 | PAT revised upward for FY22E |
| Adj EPS (₹) | (16.3) | (20.3) | 24.5 | 46.9 | 56.7 | 20.9 | EPS revised upwards for FY22E |

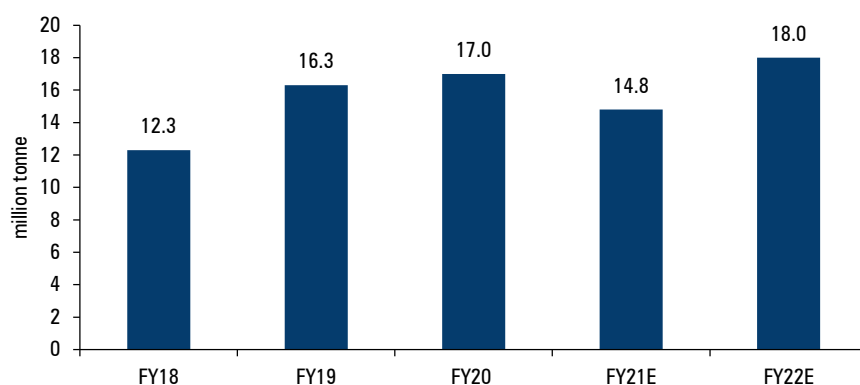
Source: Company, ICICI Direct Research

Conference Call Highlights

- Blended realisations are likely to be higher by ₹ 3000/tonne in Q2FY21 (as compared to Q1FY21 average)
- Coking coal prices were lower by US\$10/tonne during Q1FY21 compared to Q4FY20. The prices of coking coal are expected to decline by US\$5/tonne in Q2FY21, as compared to Q1FY21
- In Q1FY21, for Indian operations, of total sales volume ~50% was exported. Contribution of export volumes in overall volumes is expected to decline to 25% in Q2FY21
- While the gross consolidated debt increased by ₹ 2542 crore QoQ (of which ~₹ 504 crore was on account of forex impact and others), the net debt declined by ₹ 87 crore sequentially on the back of free cash flow generation during the quarter. The consolidated net debt as on June 2020 was at ₹ 104692 crore. Over a longer-term horizon, Tata Steel aims to bring down net debt to EBITDA below 3x
- With respect to the European operations, one off due to carbon credits sale stood at £78 million during the quarter
- With respect to the European operations, the company has guided that Q2FY21 performance will be similar to Q1FY21
- During the quarter, Tata Steel generated a free cash flow of ₹ 700 crore, wherein India business generated a free cash flow of ₹ 1791 crore. The same was achieved through cross function coordination and cash flow initiatives, which included fixed cost reduction, working capital management, etc
- Working capital release during the quarter was ~₹ 2585 crore, of which majority was from the domestic operations (~₹ 2200 crore)
- 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)

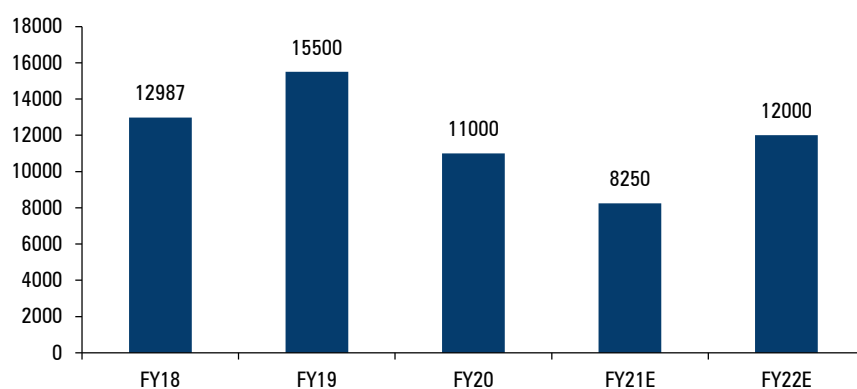
Financial story in charts

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



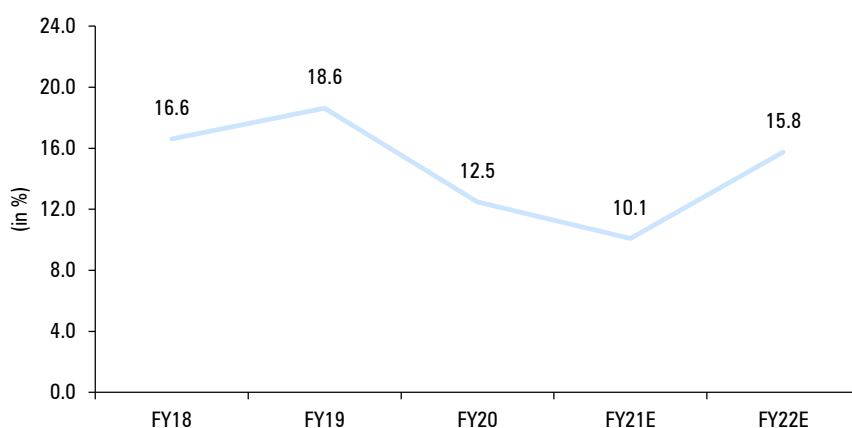
Source: Company, ICICI Direct Research

Exhibit 4: Tata Steel standalone operation EBITDA... (in ₹/tonne)



Source: Company, ICICI Direct Research

Exhibit 5: Consolidated EBITDA margins trend....(in %)

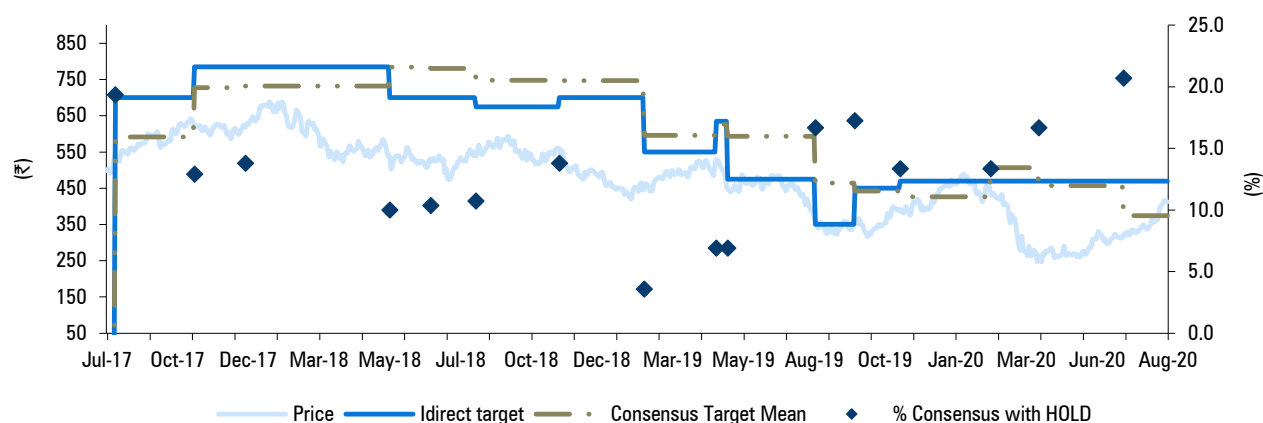


Source: Company, ICICI Direct Research

Exhibit 6: 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 | 5.9 | 6.3 | 1.0 | 17.7 | 12.3 |
| FY19 | 1,57,669 | 19.7 | 78.6 | 10.2 | 5.3 | 4.7 | 0.7 | 13.0 | 14.2 |
| FY20 | 1,39,817 | (11.3) | 41.4 | (47.3) | 10.1 | 9.1 | 0.7 | 6.4 | 5.0 |
| FY21E | 1,24,571 | (10.9) | (20.3) | (149.1) | NA | 12.6 | 0.7 | (3.2) | 2.0 |
| FY22E | 1,67,838 | 34.7 | 56.7 | (379.2) | 7.4 | 5.7 | 0.6 | 8.0 | 8.9 |

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 SONS LTD | 30-06-2020 | 35.2 | 396.5 | 0.0 |
| 2 | LIFE INSURANCE CORP | 30-06-2020 | 11.0 | 123.5 | 13.8 |
| 3 | HDFC ASSET MANAGEMEN | 30-06-2020 | 5.2 | 58.4 | 0.4 |
| 4 | ICICI PRUDENTIAL ASS | 31-07-2020 | 2.0 | 22.7 | -0.7 |
| 5 | SBI FUNDS MANAGEMENT | 31-07-2020 | 1.7 | 19.2 | -0.5 |
| 6 | RELIANCE CAPITAL TRU | 30-06-2020 | 1.2 | 13.7 | -4.4 |
| 7 | UTI ASSET MANAGEMENT | 31-07-2020 | 1.1 | 12.8 | 0.8 |
| 8 | ICICI PRUDENTIAL LIF | 30-06-2020 | 1.1 | 12.7 | -5.3 |
| 9 | NORGES BANK | 31-12-2019 | 1.0 | 11.6 | 0.0 |
| 10 | BLACKROCK | 12-08-2020 | 0.9 | 10.0 | 0.0 |

Source: Bloomberg, ICICI Direct Research

Exhibit 9: Shareholding Pattern

| (in %) | Dec-19 | Mar-20 | Jun-20 |
|----------|--------|--------|--------|
| Promoter | 33.1 | 34.4 | 34.4 |
| Others | 66.9 | 65.6 | 65.6 |
| 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 Inc. | 157669 | 139817 | 124571 | 167838 |
| Growth (%) | 19 | -11 | -36 | 41 |
| Total Operating Expend. | 128286 | 122354 | 112001 | 141395 |
| EBITDA | 29383 | 17463 | 12570 | 26444 |
| Growth (%) | 34 | -41 | -28 | 110 |
| Depreciation | 7342 | 8441 | 8797 | 9735 |
| Interest | 7660 | 7533 | 7790 | 8299 |
| Other Income | 1421 | 1843 | 996 | 1202 |
| PBT | 15802 | 3332 | -3021 | 9611 |
| Exceptional Item | 104 | -3564 | 0 | 0 |
| Total Tax | 6718 | -2568 | -653 | 3158 |
| PAT | 9187 | 2337 | -2368 | 6454 |
| Growth (%) | -48 | -75 | PL | -373 |
| Minorities, Associates, etc | -89 | -1164 | 43 | 38 |
| Rep PAT after Assoc. MI | 9098 | 1172 | -2325 | 6492 |
| Adj PAT after Assoc. MI | 8995 | 4737 | -2325 | 6492 |
| Growth (%) | 10.2 | -47.3 | -149.1 | -379.2 |
| EPS (₹) | 78.6 | 41.4 | -20.3 | 56.7 |

Source: Company, ICICI Direct Research

| Exhibit 11: Cash flow statement ₹ crore | | | | |
|---|---------------|---------------|--------------|---------------|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Profit after Tax | 9098 | 1172 | -2325 | 6492 |
| Add: Depreciation | 7342 | 8441 | 8797 | 9735 |
| (Inc)/dec in Current Assets | -10455 | -141 | 26681 | -25389 |
| Inc/(dec) in CL and Prov. | 10456 | -7756 | -30903 | 22528 |
| Others | 1416 | -2425 | 3000 | 3000 |
| CF from operating activities | 17856 | -708 | 5249 | 16366 |
| (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 | 5000 | -7000 |
| 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 | 5889 | -4145 |
| Net Cash flow | 1259 | 4724 | 5963 | 343 |
| Opening Cash | 2073 | 3331 | 8055 | 14019 |
| Closing Cash | 3331 | 8055 | 14019 | 14361 |

Source: Company, ICICI Direct Research

| Exhibit 12: 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 | 68662 | 78008 |
| Total Shareholders funds | 68925 | 73576 | 72082 | 81428 |
| Total Debt | 91145 | 113289 | 118289 | 111289 |
| Deferred Tax Liability | 12460 | 9261 | 9261 | 9261 |
| Minority Interest & Other: | 10821 | 11816 | 14859 | 17897 |
| Total Liabilities | 183350 | 207943 | 214491 | 219876 |
| 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 | 13582 | 21882 |
| Debtors | 11811 | 7885 | 5969 | 10086 |
| Loans and Advances | 29343 | 35663 | 29385 | 40807 |
| Other Current Assets | 7810 | 6144 | 5144 | 6694 |
| Cash | 3331 | 8055 | 14019 | 14361 |
| Total Current Assets | 83952 | 88816 | 68099 | 93831 |
| Current Liabilities | 48983 | 40813 | 8910 | 33038 |
| Provisions | 1249 | 1664 | 2664 | 1064 |
| Current Liabilities & Prov | 50232 | 42476 | 11574 | 34102 |
| Net Current Assets | 33720 | 46340 | 56526 | 59729 |
| others | 4806 | 5325 | 5267 | 5267 |
| Application of Funds | 183350 | 207943 | 214491 | 219876 |

Source: Company, ICICI Direct Research

| Exhibit 13: Key ratios ₹ crore | | | | |
|--------------------------------|-------|-------|-------|-------|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Per share data (₹) | | | | |
| Adj EPS | 78.6 | 41.4 | -20.3 | 56.7 |
| Cash EPS | 142.7 | 115.1 | 56.5 | 141.7 |
| BV | 572.8 | 611.4 | 599.0 | 676.7 |
| Adj BV (adj for Goodwill) | 539.5 | 577.7 | 565.8 | 643.4 |
| DPS | 10.0 | 10.0 | 10.0 | 10.0 |
| Cash Per Share | 29.1 | 70.4 | 122.4 | 125.4 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 18.6 | 12.5 | 10.1 | 15.8 |
| PBT / Total Operating income | 10.0 | 2.4 | -2.4 | 5.7 |
| Adj PAT Margin | 5.7 | 3.4 | -1.9 | 3.9 |
| Inventory days | 180 | 199 | 175 | 200 |
| Debtor days | 29 | 26 | 25 | 30 |
| Creditor days | 249 | 288 | 300 | 250 |
| Return Ratios (%) | | | | |
| Adj RoE | 13.0 | 6.4 | -3.2 | 8.0 |
| Adj RoCE | 14.2 | 5.0 | 2.0 | 8.9 |
| Valuation Ratios (x) | | | | |
| P/E | 5.3 | 10.1 | NA | 7.4 |
| EV / EBITDA | 4.7 | 9.1 | 12.6 | 5.7 |
| EV / Net Sales | 0.9 | 1.2 | 1.4 | 1.0 |
| Market Cap / Sales | 0.3 | 0.3 | 0.5 | 0.3 |
| Price to Book Value | 0.7 | 0.7 | 0.7 | 0.6 |
| Price to Adj Book Value | 0.8 | 0.7 | 0.7 | 0.6 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 3.1 | 6.5 | 9.4 | 4.2 |
| Debt / Equity | 1.3 | 1.5 | 1.6 | 1.4 |
| Current Ratio | 1.7 | 2.1 | 5.9 | 2.8 |
| Quick Ratio | 1.0 | 1.4 | 4.7 | 2.1 |

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Metals and Mining)

| | CMP | TP | | M Cap | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | ROCE(%) | | | ROE(%) | | |
|--------------|------------|------------|------|--------------|----------------|-------|-------|----------------|-------|-------|----------------------|-------|-------|----------------|-------|-------|---------------|-------|-------|
| | (₹) | (₹) Rating | | (₹ Cr) | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E |
| Coal India | 132 | 150 | Hold | 81814 | 27.1 | 22.2 | 22.9 | 5.0 | 6.1 | 5.9 | 2.8 | 4.4 | 4.5 | 55.5 | 40.2 | 40.1 | 51.9 | 39.0 | 36.9 |
| Hindalco | 185 | 160 | Hold | 41177 | 18.2 | 8.5 | 20.4 | 8.3 | 17.9 | 7.5 | 4.9 | 6.9 | 5.1 | 7.8 | 4.8 | 7.2 | 7.0 | 3.0 | 6.7 |
| Hind Zinc | 232 | 195 | Hold | 98006 | 16.1 | 12.4 | 18.8 | 11.8 | 15.3 | 10.1 | 6.6 | 8.2 | 4.8 | 20.8 | 20.0 | 26.0 | 16.9 | 14.5 | 19.0 |
| JSW Steel | 265 | 210 | Hold | 64152 | 19.5 | 3.3 | 22.2 | 10.5 | 61.3 | 9.2 | 8.9 | 11.7 | 6.5 | 7.2 | 4.5 | 10.6 | 12.7 | 2.1 | 12.5 |
| NMDC | 93 | 90 | Hold | 28506 | 11.8 | 9.4 | 10.8 | 7.9 | 9.9 | 8.6 | 4.2 | 6.3 | 4.7 | 20.3 | 11.6 | 12.9 | 13.1 | 9.1 | 9.9 |
| Ratnamani | 1126 | 1200 | Buy | 5252 | 65.8 | 49.5 | 66.0 | 17.1 | 22.7 | 17.0 | 12.5 | 16.0 | 11.4 | 22.2 | 14.8 | 19.8 | 18.0 | 12.3 | 14.4 |
| Graphite Ind | 179 | 200 | Hold | 3473 | 2.0 | 1.0 | 21.0 | 80.8 | 231.3 | 8.7 | NA | NA | 3.2 | -2.6 | -5.4 | 6.0 | 1.0 | 0.3 | 8.7 |
| Tata Steel | 418 | 450 | Hold | 50394 | 41.4 | -20.3 | 56.7 | 10.1 | NA | 7.4 | 9.1 | 12.6 | 5.7 | 5.0 | 2.0 | 8.9 | 6.4 | -3.2 | 8.0 |
| HEG | 776 | 900 | Hold | 3136 | 14.0 | 86.0 | 150.0 | 63.7 | 10.2 | 5.9 | -409.5 | 6.3 | 3.6 | 1.6 | 12.0 | 19.8 | 1.6 | 9.2 | 14.6 |

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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