

| | |
|-----------------|---|
| Estimate change | ↑ |
| TP change | ↑ |
| Rating change | ↔ |

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| | |
|-----------------------|-------------|
| Bloomberg | TATA IN |
| Equity Shares (m) | 1,145 |
| M.Cap.(INRb)/(USD\$) | 475.8 / 6.3 |
| 52-Week Range (INR) | 506 / 251 |
| 1, 6, 12 Rel. Per (%) | 19/5/13 |
| 12M Avg Val (INR M) | 5863 |

Financials & Valuations (INR b)

| Y/E MARCH | 2020E | 2021E | 2022E |
|----------------------|-------|--------|--------|
| Sales | 1,398 | 1,291 | 1,481 |
| EBITDA | 175 | 155 | 238 |
| Adj. PAT | 10.4 | -9.9 | 66.6 |
| EBITDA Margin (%) | 12.5 | 12.0 | 16.1 |
| Cons. Adj. EPS (INR) | 9.1 | -8.7 | 58.1 |
| EPS Gr. (%) | -89.8 | -195.8 | -769.7 |
| BV/Sh. (INR) | 587 | 567 | 613 |

Ratios

| | | | |
|------------|------|-------|------|
| Net D:E | 1.6 | 1.6 | 1.5 |
| RoE (%) | 1.6 | -1.5 | 9.8 |
| RoCE (%) | 5.8 | 4.0 | 8.1 |
| Payout (%) | 89.3 | -93.2 | 13.9 |

Valuations

| | | | |
|----------------|------|-------|------|
| P/E (x) | 46.1 | -48.2 | 7.2 |
| P/BV (x) | 0.7 | 0.7 | 0.7 |
| EV/EBITDA(x) | 8.9 | 9.9 | 6.3 |
| Div. Yield (%) | 2.4 | 2.4 | 2.4 |
| FCF Yield (%) | 20.4 | 21.6 | 23.9 |

Shareholding pattern (%)

| As On | Jun-20 | Mar-20 | Jun-19 |
|----------|--------|--------|--------|
| Promoter | 34.4 | 34.4 | 33.1 |
| DII | 30.0 | 29.9 | 30.4 |
| FII | 11.8 | 12.4 | 13.8 |
| Others | 23.7 | 23.3 | 22.7 |

FII Includes depository receipts

CMP: INR418 TP: INR433 (+3%) Neutral

Margin improving in Indian operations

But Europe to continue to post losses

- Tata Steel's (TATA) 1QFY21 consolidated EBITDA at INR5b (-91% YoY) was the weakest in the past 10 years. The COVID-19 crisis led to a sharp decline in both volumes and margins across all entities.
- Margin outlook in Indian operations, however, is much better with prices bouncing back to near pre-COVID levels. Europe, though, should remain a drag with EBITDA losses expected to continue in the near term.
- We have raised FY21/FY22E EBITDA estimates by 16%/7% to factor in the improved outlook in Indian operations. However, leverage remains unfavorable at 6.8x FY21 EBITDA. Maintain **Neutral**.

Weak results in line with expectation

Consol. reported EBITDA plunged 89% QoQ (-91% YoY) to INR5.1b (v/s est. INR10.3b) in 1QFY21, led by significantly lower profitability in Tata Steel's India operations and losses in Europe. Adjusted EBITDA (eliminating impact of forex movement on investments) was also weak at INR10.4b (-81% YoY). Consol. sales volumes declined 24% QoQ to 4.86mt. Consol. PAT loss stood at INR44.3b v/s Adj. profit of INR13.8b in 4QFY20.

- Standalone:** EBITDA declined 66% QoQ to INR12.5b (v/s est. INR11.6b), primarily due to 28% QoQ decline in volumes at 2.11mt and 9% QoQ decline in realization to INR44,344/t (on account of weak pricing, adverse product mix and higher exports at ~50% of volumes). Lower volumes resulted in higher fixed cost/t (~INR3,600/t as per management). As a result, EBITDA/t declined 53% QoQ to INR5,940/t (v/s est. INR5,529/t). Adj. PAT loss stood at INR3.9b (v/s Adj PAT of INR13.2b in 4QFY20).
- Tata Steel Europe (TSE):** Tata Steel Europe reported EBITDA loss of INR6.3b (v/s profit of INR650m in 4QFY20), despite profit of INR7.6b from sale of carbon credits and receipt of INR4.4b government support. Operational EBITDA loss, thus, was much higher at INR18b. Volumes declined 19% QoQ to 1.94mt. Per ton EBITDA loss stood at USD44/t (v/s est. USD50/t and positive USD4/t in 4QFY20).
- Tata Steel BSL:** Tata Steel BSL's EBITDA plunged 81% QoQ to INR 1.5b (v/s est. INR3.0b) due to lower volumes (0.69mt, -81% QoQ) and realization (INR38,862/t, -11% QoQ). EBITDA/t declined to INR2,163/t (-73% QoQ).
- Net-debt stood flat QoQ at INR1,070b. However, Net-debt to TTM EBITDA increased to 8.5x (6.1x at end-FY20).

Management commentary highlights

- Management has guided for 2QFY21 EBITDA loss in Europe at similar level as reported in 1QFY21 i.e. USD44/t.
- For Indian operations, management has guided for improvement in realization by >INR3,000/t QoQ (due to better pricing/product mix) and capacity utilization >95% for 2QFY21.

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- Capex guidance for FY21 was maintained at INR50b. However, 1QFY21 spends were higher than guidance run-rate at INR18.5b due to payment of outstanding balances toward certain projects.
- 1QFY21 consol. FCF stood at ~INR7b in 1QFY21. Working capital release during the quarter was INR25.8b (INR22b in India).

Valuation and view

- Outlook for Indian operations is much improved by better domestic demand and prices. However, FCF generation would likely be limited as working capital has already been squeezed out and may now expand on higher receivable days.
- Tata Steel Europe should remain a drag, with EBITDA loss expected in FY21 and PAT loss in FY22E.
- Despite curtailing growth capex, we expect net debt to EBITDA to remain high at 6.8x in FY21 and 4.3x in FY22E.
- At CMP, the stock trades at 6.3x FY22E EV/EBITDA. Maintain Neutral with TP of INR433/share based on FY22E EV/EBITDA of 6.5x for Indian operations and 5x for Europe.

Quarterly Performance (Consolidated)

| Y/E March | FY20 | | | | | | | | FY21E | | | | INR m | |
|----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|----------|--------|-------|-----|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | FY20 | FY21E | | vs Est | 1QE | (%) |
| Net Sales | 3,59,471 | 3,45,792 | 3,55,204 | 3,37,700 | 2,42,885 | 3,19,723 | 3,54,326 | 3,73,937 | 13,98,167 | 12,90,871 | 2,40,582 | 1 | | |
| Change (YoY %) | -5.0 | -20.6 | -13.8 | -20.4 | -32.4 | -7.5 | -0.2 | 10.7 | -11.3 | -7.7 | -33.1 | | | |
| EBITDA | 53,769 | 38,196 | 36,197 | 46,469 | 5,055 | 44,010 | 51,201 | 54,600 | 1,74,631 | 1,54,867 | 10,347 | -51 | | |
| Change (YoY %) | -16.9 | -57.2 | -46.2 | -38.2 | -90.6 | 15.2 | 41.5 | 17.5 | -40.6 | -11.3 | -80.8 | 12 | | |
| (% of Net Sales) | 15.0 | 11.0 | 10.2 | 13.8 | 2.1 | 13.8 | 14.5 | 14.6 | 12.5 | 12.0 | 4.3 | | | |
| EBITDA(USD/tss) | 122 | 83 | 70 | 100 | 14 | 94 | 101 | 104 | 93 | 87 | 28 | -50 | | |
| Interest | 18,064 | 18,714 | 19,306 | 19,251 | 19,983 | 19,819 | 19,202 | 18,892 | 75,335 | 77,896 | 19,380 | 3 | | |
| Depreciation | 20,828 | 21,272 | 20,187 | 22,241 | 21,108 | 21,055 | 21,001 | 20,905 | 84,407 | 84,069 | 21,326 | -1 | | |
| Other Income | 2,511 | 1,836 | 929 | 13,159 | 1,926 | 1,583 | 1,541 | 1,848 | 18,435 | 6,898 | 1,363 | 41 | | |
| PBT (before EO Inc.) | 17,387 | 46 | -2,366 | 18,136 | -34,110 | 4,719 | 12,539 | 16,651 | 33,324 | -200 | -28,995 | 18 | | |
| EO Income(exp) | 160 | -336 | -3,286 | -34,059 | 584 | | | | -37,521 | 584 | | | | |
| PBT (after EO Inc.) | 17,547 | -290 | -5,652 | -15,923 | -33,526 | 4,719 | 12,539 | 16,651 | -4,196 | 383 | -28,995 | 16 | | |
| Total Tax | 11,238 | -40,500 | 6,210 | -2,633 | 12,715 | -590 | 1,775 | 3,008 | -25,684 | 16,909 | -7,539 | | | |
| % Tax | 64.6 | | -263 | -14.5 | -37.3 | -12.5 | 14.2 | 18.1 | -77.1 | | 26.0 | | | |
| Reported PAT | 6,309 | 40,210 | -11,863 | -13,290 | -46,242 | 5,309 | 10,764 | 13,643 | 21,488 | -16,526 | -21,457 | 116 | | |
| Adj. PAT (after MI & asso) | 6,771 | -537 | -7,005 | 13,802 | -44,320 | 7,728 | 13,227 | 16,084 | 10,373 | -9,938 | -19,986 | 122 | | |

*Note: Sum of quarterly Adj. PAT does not match with full year due to pref. dividend accounted in full year

Quarterly Performance (Standalone)

| Y/E March | FY20 | | | | FY21E | | | | FY20 | | FY21E | | INR m | |
|----------------------|----------|----------|----------|----------|--------|----------|----------|----------|----------|----------|--------|--------|-------|-----|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | FY20 | FY21E | | vs Est | 1QE | (%) |
| Net Sales | 1,60,913 | 1,48,712 | 1,52,620 | 1,42,114 | 93,388 | 1,55,757 | 1,59,093 | 1,62,999 | 6,04,360 | 5,71,237 | 93,373 | 0 | | |
| EBITDA | 39,569 | 34,782 | 37,778 | 36,487 | 12,510 | 40,029 | 43,157 | 44,540 | 1,48,616 | 1,40,235 | 11,644 | 7 | | |
| (% of Net Sales) | 24.6 | 23.4 | 24.8 | 25.7 | 13.4 | 25.7 | 27.1 | 27.3 | 24.6 | 24.5 | 12.5 | 7 | | |
| Spreads | 37,790 | 33,938 | 28,374 | 37,298 | 32,181 | 34,075 | 34,175 | 34,175 | 34,124 | 33,798 | 30,701 | 5 | | |
| Conv. Cost | 24,631 | 22,235 | 17,354 | 24,760 | 26,241 | 21,831 | 21,061 | 20,852 | 22,058 | 22,121 | 25,172 | 4 | | |
| EBITDA(INR/tss) | 13,159 | 11,703 | 11,020 | 12,538 | 5,940 | 12,244 | 13,114 | 13,323 | 12,066 | 11,677 | 5,529 | 7 | | |
| EBITDA(USD/tss) | 189 | 166 | 155 | 176 | 81 | 167 | 179 | 182 | 171 | 165 | 75 | 7 | | |
| Interest | 7,231 | 7,200 | 7,839 | 8,040 | 9,083 | 8,811 | 8,194 | 7,883 | 30,310 | 33,972 | 8,281 | 10 | | |
| Depreciation | 9,677 | 9,703 | 9,799 | 10,023 | 9,693 | 9,674 | 9,654 | 9,593 | 39,201 | 38,613 | 10,023 | -3 | | |
| Other Income | 1,778 | 1,035 | 515 | 714 | 1,212 | 869 | 827 | 1,134 | 4,041 | 4,041 | 714 | 70 | | |
| PBT (before EO Inc.) | 24,439 | 18,914 | 20,655 | 19,138 | -5,054 | 22,413 | 26,135 | 28,198 | 83,146 | 71,691 | -5,946 | -15 | | |
| EO Income(exp) | -408 | -26 | 3,492 | -20,095 | 20,589 | | | | -17,036 | 20,589 | | | | |
| PBT (after EO Inc.) | 24,032 | 18,888 | 24,147 | -957 | 15,535 | 22,413 | 26,135 | 28,198 | 66,110 | 92,280 | -5,946 | -361 | | |
| Total Tax | 8,642 | -19,490 | 6,109 | 3,411 | 3,602 | 5,603 | 6,534 | 7,049 | -1,328 | 22,788 | -1,546 | -333 | | |
| % Tax | 36.0 | -103.2 | 25.3 | -356.5 | 23.2 | 25.0 | 25.0 | 25.0 | -2.0 | 24.7 | 26.0 | | | |
| Reported PAT | 15,390 | 38,378 | 18,038 | -4,368 | 11,933 | 16,810 | 19,601 | 21,148 | 67,438 | 69,492 | -4,400 | -371 | | |
| Adjusted PAT | 15,797 | 14,074 | 14,546 | 13,227 | -3,882 | 16,810 | 19,601 | 21,148 | 57,644 | 48,903 | -4,400 | -12 | | |

Source: MOFSL, Company

Operational Table

| Y/E March | FY20 | | | | FY21E | | | | FY20 | FY21 | vs Est |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | 1QE (%) |
| Sales ('000 tons) | 3,007 | 2,972 | 3,428 | 2,910 | 2,106 | 3,269 | 3,291 | 3,343 | 12,317 | 12,009 | 2,106 |
| Change (YoY %) | 1.2 | -6.4 | 15.3 | -18.9 | -30.0 | 10.0 | -4.0 | 14.9 | | | |
| Change (QoQ %) | -16.2 | -1.2 | 15.3 | -15.1 | -27.6 | 55.2 | 0.7 | 1.6 | | | |
| Realization (INR/tss) | 53,513 | 50,038 | 44,522 | 48,837 | 44,344 | 47,644 | 48,344 | 48,758 | 49,067 | 47,567 | 44,337 |
| Change (YoY %) | -3.1 | -11.2 | -22.9 | -8.3 | -17.1 | -4.8 | 8.6 | -0.2 | | | |
| Change (QoQ %) | 0.4 | -6.5 | -11.0 | 9.7 | -9.2 | 7.4 | 1.5 | 0.9 | | | |
| EBITDA (INR/Ton) | 13,159 | 11,703 | 11,020 | 12,538 | 5,940 | 12,244 | 13,114 | 13,323 | 12,066 | 11,677 | 5,529 |
| Change (YoY %) | -22.9 | -38.0 | -28.0 | -9.0 | -54.9 | 4.6 | 19.0 | 6.3 | | | 7 |
| Change (QoQ %) | -4.5 | -11.1 | -5.8 | 13.8 | -52.6 | 106.1 | 7.1 | 1.6 | | | |

Exhibit 1: Quarterly Performance (TSE & Other subsidiaries)

| Y/E March | FY20 | | | | FY21E | | | | FY20 | FY21 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | |
| Sales (000 tons) | 3,333 | 3,558 | 3,882 | 3,590 | 2,754 | 3,083 | 3,611 | 3,807 | 14,363 | 13,255 |
| Europe | 2,260 | 2,290 | 2,350 | 2,390 | 1,940 | 1,832 | 2,115 | 2,313 | 9,290 | 8,200 |
| SEA | | | | | | | | | | |
| Bhushan | 860 | 1,040 | 1,260 | 980 | 694 | 988 | 1,197 | 1,171 | 4,140 | 4,050 |
| Sponge Iron | 93 | 118 | 162 | 140 | 120 | 146 | 162 | 178 | 513 | 606 |
| Change (YoY %) | -6.9 | -16.2 | -3.4 | -8.7 | -17.4 | -13.4 | -7.0 | 6.0 | -8.9 | -7.7 |
| Avg. NSR (USD/t) | 857 | 787 | 733 | 765 | 740 | 725 | 737 | 755 | 783 | 769 |
| Europe (USD/t) | 922 | 871 | 826 | 798 | 788 | 818 | 838 | 838 | | |
| SEA (USD/t) | | | | | | | | | | |
| Bhushan (INR/t) | 50,381 | 43,795 | 39,985 | 43,609 | 38,862 | 42,362 | 42,862 | 43,362 | 43,959 | 42,199 |
| Sponge Iron (INR/t) | 75,806 | 65,914 | 61,686 | 72,021 | 54,425 | 59,425 | 60,425 | 61,425 | 68,039 | 59,290 |
| Net Sales | 1,98,558 | 1,97,080 | 2,02,584 | 1,95,585 | 1,49,497 | 1,63,967 | 1,95,232 | 2,10,938 | 7,93,807 | 7,19,634 |
| Change YoY (%) | -7.3 | -23.1 | -15.8 | -16.0 | -24.7 | -16.8 | -3.6 | 7.8 | -8.8 | -9.3 |
| EBITDA | 14,200 | 3,413 | -1,581 | 9,982 | -7,455 | 3,981 | 8,045 | 10,061 | 26,015 | 14,632 |
| As % of Net Sales | 7.2 | 1.7 | -0.8 | 5.1 | -5.0 | 2.4 | 4.1 | 4.8 | 3.3 | 2.0 |
| Europe | 620 | 1,647 | -9,560 | 650 | -6,259 | -6,051 | -3,881 | -1,698 | -6,644 | -17,889 |
| SEA | | | | | | | | | | |
| Bhushan | 7,850 | 5,265 | 2,838 | 7,750 | 1,501 | 7,282 | 9,182 | 9,333 | 23,703 | 27,298 |
| Sponge Iron | 550 | -401 | 365 | 1,321 | 146 | 875 | 972 | 1,069 | 1,835 | 3,062 |
| Other India | 1,988 | 1,604 | 2,186 | 3,022 | 420 | 1,876 | 1,772 | 1,356 | 8,799 | 5,423 |
| Others | 3,192 | -4,702 | 2,591 | -2,760 | -3,263 | | | | -1,678 | -3,263 |
| Interest | 10,833 | 11,514 | 11,467 | 11,211 | 10,899 | 11,008 | 11,008 | 11,008 | 45,025 | 43,924 |
| Depreciation | 11,152 | 11,568 | 10,388 | 12,219 | 11,415 | 11,381 | 11,347 | 11,313 | 45,206 | 45,456 |
| Other Income | 733 | 801 | 415 | 12,446 | 714 | 714 | 714 | 714 | 14,394 | 2,857 |
| PBT (after EO Inc.) | -6,484 | -19,178 | -29,800 | -14,966 | -49,061 | -17,694 | -13,596 | -11,546 | -70,306 | -91,897 |
| Total Tax | 2,597 | -21,010 | 101 | -6,044 | 9,113 | -6,193 | -4,759 | -4,041 | -24,356 | -5,879 |
| % Tax | -40.0 | 109.6 | -0.3 | 40.4 | -18.6 | 35.0 | 35.0 | 35.0 | 34.6 | 6.4 |
| Reported PAT | -9,081 | 1,832 | -29,901 | -8,922 | -58,174 | -11,501 | -8,837 | -7,505 | -45,950 | -86,018 |
| Minority Interests | -100 | -1,013 | -1,367 | -1,405 | -2,356 | -1,880 | -2,118 | -1,999 | -3,884 | -8,353 |
| Adj. PAT (after MI & asso) | -9,027 | 3,379 | -21,551 | 7,375 | -35,663 | -9,081 | -6,375 | -5,064 | -19,702 | -56,184 |
| Change (YoY %) | 153.9 | 134.0 | -3,999.2 | -992.0 | 295.1 | -368.8 | -70.4 | -168.7 | 710.0 | 185.2 |

Source: MOFSL, Company



Highlights from management commentary

Operational highlights and Outlook

- India domestic steel demand declined ~55% in 1QFY21 due to the lockdown.
- As a result, Tata Steel India sales volumes declined ~27% QoQ as the company exported nearly half of its volumes.
- Domestic demand is improving – in Jul'20, demand recovered to ~75% of FY20 average monthly demand.
- Automotive steel demand is picking up, which is evident from auto customers revising their orders upwards on weekly basis. However, recovery in Medium

and Heavy Vehicle (M&HCV) segment – a key driver of steel demand from the auto segment – is likely to be slow.

- Domestic steel inventories have declined to normal levels, which bodes well for domestic prices.
- Management has informed that HRC prices are higher by INR2,000-2,500/t (v/s end-Jun'20). It has not ruled out the possibility of further hikes as HRC prices are still lower than pre-COVID levels.
- Share of exports would remain at ~25% in 2QFY21. It would gradually decline and come in line with domestic demand improvement.
- The company has guided for realization improvement in excess of INR3,000/t QoQ due to improved pricing and product mix in 2QFY21.
- Capacity utilization for 2QFY21 in India operations has been guided to be higher than ~95%.
- Demand and pricing in Europe is improving slowly. Europe Steel demand is projected to decline ~16% in CY20.
- Tata Steel Europe is operating at ~75% utilization.

Financial highlights

- EBITDA was impacted due to lower volumes and prices.
- During the quarter, idle fixed costs of INR24b were absorbed. Adjusting for the same, consol. EBITDA would have stood at INR29b. In standalone operations, idle costs were INR7.66b.
- Operational performance in Europe was hit by the double whammy of – (a) lower demand leading to lower volumes and adverse mix (less of auto volumes), and (b) lower spreads due to low prices and higher iron ore prices. As a result, it reported EBITDA loss of INR6.3b during the quarter.
- European operations positively benefitted from the government aid of EUR50m (INR4.4b) and one-off profit on sale of carbon credits of GBP78m (INR7.6b).
- Adj. for these benefits, European loss would have been substantially higher at INR18.3b.
- TSE cash flows were aided by sale proceeds of carbon credits worth GBP132m (INR12.9b) and deferral of payments to the government of ~GBP80-100m for two quarters. However, it may have to incur cost on carbon credits if capacity utilization improves.
- Capex spend in 1QFY21 stood at INR18.5b due to outstanding payment toward certain projects. However, management has maintained its capex guidance for FY21 at ~INR50b.
- The company generated FCF of INR7.0b in 1QFY21. Working capital release during the quarter stood at INR25.8b (India – INR22b). It expects working capital release in India operations to sustain.
- TSE's 2QFY21 performance is expected to improve. It has been guided to report EBITDA similar to 1QFY21 level (without benefit of carbon credits).
- Employee cost in Tata Steel BSL was higher by 27% YoY to INR1.28b due to payment of incentives related to previous year.

Other highlights:

- Net-debt stood flat QoQ at INR1,070b. However, Net-debt to TTM EBITDA increased to 8.5x (6.1x at end-FY20). The company raised long-term debt of INR59.3b during the quarter.
- Debt maturities for FY21/FY22E stood lower at ~USD250m for each year.
- The next hearing on the Tata Steel-BSL merger is scheduled for end-Aug'20. The company expects to close the merger process in FY21.

Valuation and view

Play on steel prices: With Tata Steel further deferring capex for Tata Steel Kalinganagar (KPO), the former does not provide for volume growth in the near future. With COVID-19 denting domestic demand and Tata Steel's high exposure to the Auto industry in the India (~10% of volumes) and Europe business (>30% of volumes), we expect volumes to decline ~3% YoY in FY21 and rise 7% YoY in FY22E, implying a CAGR of only 2% over FY20-22E. However, robust integrated domestic operations allow Tata Steel to reap the benefit of higher prices, thereby making it a play on steel prices.

Tata Steel Europe to continue weighing down overall profitability in FY21: With weak demand outlook for European steel, outlook for TSE remains challenging. Steel spreads are likely to remain under pressure in Europe due to lower steel prices and higher iron ore prices. As a result, we expect Tata Steel Europe to post EBITDA loss in FY21 and PAT loss in FY22E.

Net debt to remain elevated, but low maturities in FY21-22E to provide comfort: Tata Steel's net debt increased by INR358b to INR1,071b over FY18-20 on acquisitions and high capex. With a weak profitability outlook in the near term, we expect Tata Steel's net debt to remain elevated. However, capex curtailment amid weak cash flow should keep overall debt levels in control. Tata Steel's net debt to EBITDA is expected to reach 6.8x in FY21 (6.1x in FY20); however, low maturities of USD500m in FY21-22E provides comfort.

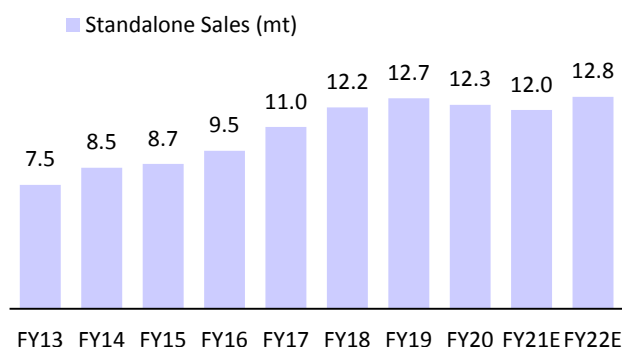
Valuation: The stock trades at 6.3x FY22E EV/EBITDA, which we believe factors in concerns on profitability and high leverage for the company. We, therefore, rate it **Neutral**. We value Tata Steel on an SOTP basis, allocating 6.5x FY22E EV/EBITDA multiple to India operations and 5.0x FY22E EV/EBITDA to Europe operations, to arrive at a target price of INR433/share.

Exhibit 2: SOTP Valuation

| Y/E March | 2017 | 2018 | 2019 | 2020E | 2021E |
|----------------------------------|----------|----------|-----------|-----------|------------------|
| India | | | | | |
| EBITDA per ton (USD) | 201 | 232 | 171 | 165 | 186 |
| EBITDA per ton (INR) | 12,976 | 16,180 | 12,066 | 11,677 | 13,145 |
| Sales (m tons) | 12.2 | 12.7 | 12.3 | 12.0 | 12.8 |
| EBITDA-India | 1,57,790 | 2,05,629 | 1,48,616 | 1,40,235 | 1,68,255 |
| Target EBITDA multiple | | | | | 6.5 |
| EV (India) - (a) | | | | | 10,93,658 |
| INR/share | | | | | 955 |
| Subsidiaries | | | | | |
| EBITDA - India subs | 28,298 | 34,068 | 32,659 | 32,520 | 49,519 |
| Target EBITDA multiple | | | | | 6.5 |
| EBITDA - Europe | 37,920 | 54,136 | -6,644 | -17,889 | 20,479 |
| Target EBITDA multiple | | | | | 5.0 |
| EV (Subsidiaries) - (b) | | | | | 4,24,264 |
| INR/share | | | | | 371 |
| Target EV (c=a+b) | | | | | 15,17,922 |
| Net Debt (d) | 7,13,229 | 9,72,250 | 10,71,164 | 10,54,359 | 10,22,709 |
| INR/share | 623 | 849 | 936 | 921 | 893 |
| Total equity value (c-d) | | | | | 4,95,213 |
| Target Price (INR /share) | | | | | 433 |

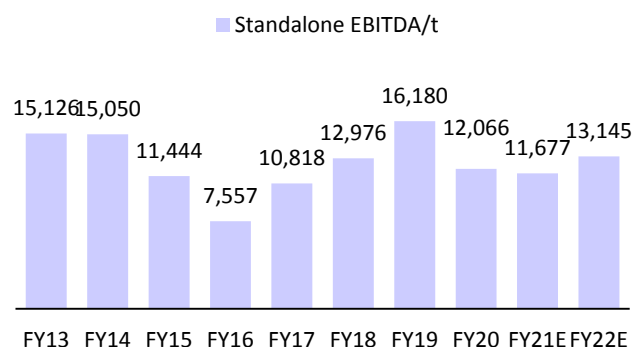
Story in Charts

Exhibit 3: Standalone volumes to remain flat over FY19-22E



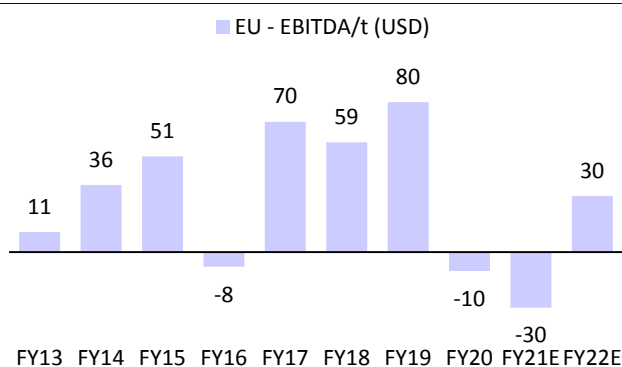
Source: Company, MOFSL

Exhibit 4: Tata Steel S/A EBITDA/t to improve in FY22E



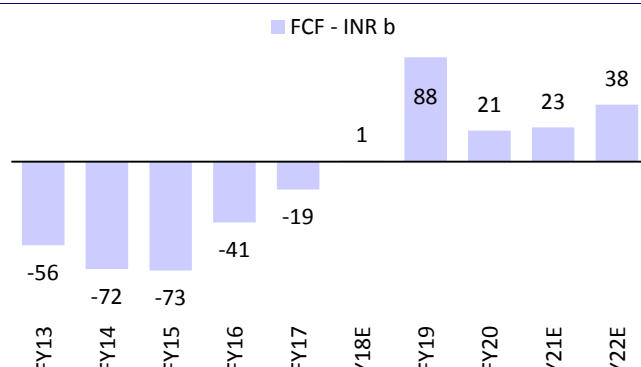
Source: Company, MOFSL

Exhibit 5: Europe profitability to remain weak in FY21-22E



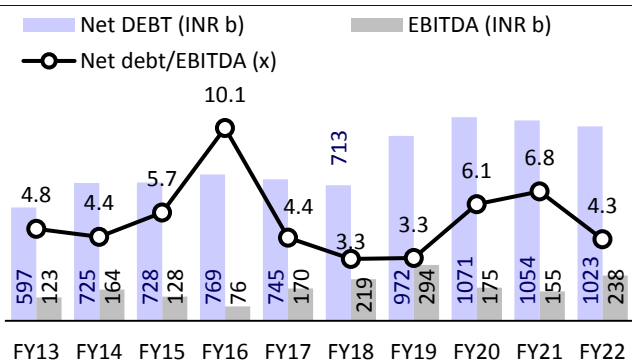
Source: Company, MOFSL

Exhibit 6: FCF post interest not enough to reduce debt



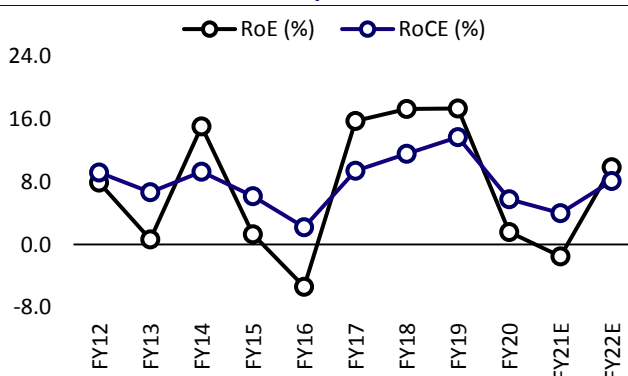
Source: Company, MOFSL

Exhibit 7: Net-debt to EBITDA to remain elevated in FY21



Source: Company, MOFSL

Exhibit 8: Return ratios to improve in FY22E



Source: Company, MOFSL

Financials and valuations

| Income Statement (Consolidated) | | | | | | (INR M) |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Y/E March | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E |
| Net Sales | 11,22,994 | 13,21,558 | 15,76,688 | 13,98,167 | 12,90,871 | 14,80,907 |
| Change (%) | 10.1 | 17.7 | 19.3 | -11.3 | -7.7 | 14.7 |
| EBITDA | 1,70,078 | 2,18,905 | 2,93,833 | 1,74,631 | 1,54,867 | 2,38,252 |
| % of Net Sales | 15.1 | 16.6 | 18.6 | 12.5 | 12.0 | 16.1 |
| Depn. & Amortization | 56,729 | 59,617 | 73,418 | 84,407 | 84,069 | 84,228 |
| EBIT | 1,13,349 | 1,59,289 | 2,20,415 | 90,224 | 70,798 | 1,54,024 |
| Finance cost | 50,722 | 55,018 | 76,601 | 75,335 | 77,896 | 73,620 |
| Other income | 5,275 | 9,095 | 14,206 | 18,435 | 6,898 | 7,082 |
| PBT before EO | 67,902 | 1,13,365 | 1,58,020 | 33,324 | -200 | 87,485 |
| EO income | -43,242 | 95,991 | -1,210 | -37,521 | 584 | |
| PBT after EO | 24,660 | 2,09,357 | 1,56,810 | -4,196 | 383 | 87,485 |
| Tax | 27,780 | 34,054 | 67,184 | -25,684 | 16,909 | 22,705 |
| Rate (%) | 112.7 | 16.3 | 42.8 | 612.0 | 4,410 | 26.0 |
| Reported PAT | -3,120 | 1,75,303 | 89,626 | 21,488 | -16,526 | 64,780 |
| Minority interest P/L | 722 | 43,285 | -10,962 | -3,884 | -8,353 | -4,177 |
| Share of asso. PAT | 77 | 1,741 | 2,247 | 1,880 | 1,476 | 252 |
| PAT (After MI & asso.) | -3,766 | 1,33,759 | 1,02,835 | 27,251 | -6,697 | 69,209 |
| Div. on Pref. /Hybrid Sec. | 2,661 | 2,671 | 2,654 | 2,658 | 2,658 | 2,658 |
| Adjusted PAT | 36,815 | 79,619 | 1,01,390 | 10,373 | -9,938 | 66,551 |
| Change (%) | -275.3 | 116.3 | 27.3 | -89.8 | | |

| Balance Sheet (Consolidated) | | | | | | (INR M) |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Y/E March | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E |
| Share Capital | 9,702 | 11,450 | 11,449 | 11,450 | 11,450 | 11,450 |
| Reserves | 3,45,741 | 5,74,507 | 6,55,051 | 7,01,564 | 6,78,504 | 7,31,350 |
| Net Worth | 3,55,443 | 5,85,956 | 6,66,501 | 7,13,013 | 6,89,953 | 7,42,800 |
| Minority Interest | 16,017 | 9,365 | 23,645 | 25,866 | 17,513 | 13,336 |
| Total Loans | 8,50,709 | 9,41,697 | 10,30,912 | 11,86,030 | 11,86,030 | 11,86,030 |
| Deferred Tax Liability | 91,091 | 94,689 | 1,15,170 | 78,479 | 76,702 | 81,646 |
| Capital Employed | 13,13,260 | 16,31,708 | 18,36,228 | 20,03,388 | 19,70,199 | 20,23,812 |
| Gross Block | 12,65,617 | 13,99,263 | 17,30,400 | 19,15,315 | 19,76,488 | 20,66,661 |
| Less: Accum. Deprn. | 3,80,498 | 4,79,209 | 5,25,947 | 6,10,354 | 6,94,423 | 7,78,651 |
| Net Fixed Assets | 8,85,118 | 9,20,054 | 12,04,453 | 13,04,961 | 12,82,065 | 12,88,010 |
| Capital WIP | 1,57,841 | 1,66,144 | 1,86,412 | 1,94,968 | 1,83,795 | 1,78,622 |
| Investments | 67,840 | 29,905 | 32,133 | 28,533 | 30,009 | 30,260 |
| Goodwill on consolidation | 34,947 | 40,995 | 39,966 | 40,545 | 40,545 | 40,545 |
| Curr. Assets | 5,78,376 | 9,29,472 | 8,63,431 | 9,21,051 | 9,04,048 | 9,85,698 |
| Inventory | 2,48,038 | 2,83,310 | 3,16,561 | 3,10,687 | 2,82,931 | 3,24,582 |
| Account Receivables | 1,15,868 | 1,24,155 | 1,18,110 | 78,849 | 72,798 | 81,146 |
| Cash & liquid investment | 1,05,942 | 2,28,468 | 58,662 | 1,14,866 | 1,31,671 | 1,63,321 |
| Others | 1,08,528 | 2,93,538 | 3,70,097 | 4,16,649 | 4,16,649 | 4,16,649 |
| Curr. Liability & Prov. | 4,10,863 | 4,54,862 | 4,90,167 | 4,86,672 | 4,70,264 | 4,99,324 |
| Account Payables | 1,85,745 | 2,04,138 | 2,17,170 | 2,13,809 | 1,97,401 | 2,26,461 |
| Provisions & Others | 2,25,118 | 2,50,724 | 2,72,998 | 2,72,863 | 2,72,863 | 2,72,863 |
| Net Current Assets | 1,67,513 | 4,74,610 | 3,73,263 | 4,34,380 | 4,33,784 | 4,86,374 |
| Appl. of Funds | 13,13,260 | 16,31,708 | 18,36,228 | 20,03,388 | 19,70,199 | 20,23,812 |

Financials and Valuations

Ratios (Consolidated)

| Y/E March | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E |
|-------------------------------|-------------|-------------|-------------|------------|-------------|-------------|
| Basic (INR) | | | | | | |
| EPS | 37.9 | 69.5 | 88.6 | 9.1 | -8.7 | 58.1 |
| Cash EPS | 96.4 | 121.6 | 152.7 | 82.8 | 64.7 | 131.7 |
| BV/Share (ex goodwill) | 330.3 | 476.0 | 547.2 | 587.3 | 567.2 | 613.3 |
| DPS | 8.0 | 8.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Payout (%) | 25.2 | 11.6 | 9.1 | 89.3 | -93.2 | 13.9 |
| Valuation (x) | | | | | | |
| P/E | | | | 46.1 | -48.2 | 7.2 |
| Cash P/E | | | | 5.0 | 6.5 | 3.2 |
| P/BV | | | | 0.7 | 0.7 | 0.7 |
| EV/Sales | | | | 1.1 | 1.2 | 1.0 |
| EV/EBITDA | | | | 8.9 | 9.9 | 6.3 |
| Dividend Yield (%) | | | | 2.4 | 2.4 | 2.4 |
| Return Ratios (%) | | | | | | |
| EBITDA Margins (%) | 15.1 | 16.6 | 18.6 | 12.5 | 12.0 | 16.1 |
| Net Profit Margins (%) | 3.3 | 6.0 | 6.4 | 0.7 | -0.8 | 4.5 |
| RoE | 15.7 | 17.2 | 17.3 | 1.6 | -1.5 | 9.8 |
| RoCE (pre-tax) | 9.4 | 11.6 | 13.7 | 5.8 | 4.0 | 8.1 |
| RoIC (pre-tax) | 13.3 | 14.6 | 15.9 | 5.6 | 4.3 | 9.4 |
| Working Capital Ratios | | | | | | |
| Fixed Asset Turnover (x) | 1.3 | 1.4 | 1.3 | 1.1 | 1.0 | 1.1 |
| Asset Turnover (x) | 0.9 | 0.8 | 0.9 | 0.7 | 0.7 | 0.7 |
| Debtor (Days) | 38 | 34 | 27 | 21 | 21 | 20 |
| Inventory (Days) | 81 | 78 | 73 | 81 | 80 | 80 |
| Payables (Days) | 60 | 56 | 50 | 56 | 56 | 56 |
| Working Capital T/O (Days) | 58 | 56 | 50 | 46 | 45 | 44 |
| Leverage Ratio (x) | | | | | | |
| Current Ratio | 1.4 | 2.0 | 1.8 | 1.9 | 1.9 | 1.9 |
| Interest Cover Ratio | 2.2 | 2.9 | 2.9 | 1.2 | 0.6 | 1.9 |
| Net Debt/Equity | 2.3 | 1.3 | 1.6 | 1.6 | 1.7 | 1.6 |

E: MOST Estimates

Cash Flow Statement (Consolidated)

(INR M)

| Y/E March | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E |
|--------------------------------|-----------------|-----------------|------------------|------------------|-----------------|-----------------|
| EBITDA | 1,70,078 | 2,18,905 | 2,93,833 | 1,74,631 | 1,54,867 | 2,38,252 |
| Reconciliation income (loss) | 5,736 | -17,034 | -15,437 | 6,154 | | |
| (Inc)/Dec in Wkg. Cap. | -48,907 | -43,468 | 25,905 | 41,962 | 17,400 | -20,939 |
| Tax Paid | -18,427 | -28,882 | -50,942 | -21,059 | -18,685 | -17,761 |
| CF from Op. Activity | 1,08,481 | 1,29,521 | 2,53,360 | 2,01,687 | 1,53,581 | 1,99,552 |
| (Inc)/Dec in FA + CWIP | -77,156 | -74,785 | -90,910 | -1,03,980 | -50,000 | -85,000 |
| Free Cash Flow to Firm | 31,324 | 54,736 | 1,62,450 | 97,707 | 1,03,581 | 1,14,552 |
| (Pur)/Sale of Non-cur. Invest. | 3,552 | -9,366 | 4,392 | 4,451 | | |
| Acquisition in subsidiaries | -10,814 | -2,208 | -3,51,036 | -40,542 | | |
| Int. & Dividend Income | 754 | 3,219 | 3,422 | 3,811 | 6,898 | 7,082 |
| others | -1,450 | 9,745 | 17,694 | 7,723 | | |
| CF from Inv. Activity | -85,113 | -73,394 | -4,16,438 | -1,28,537 | -43,102 | -77,918 |
| Equity raised/(repaid) | 6,519 | 90,872 | -60 | 1,875 | | |
| Debt raised/(repaid) | 27,041 | 41,454 | 81,745 | 76,181 | | |
| Dividend (incl. tax) | -9,498 | -11,800 | -14,239 | -18,152 | -13,705 | -13,705 |
| Interest & equiv. paid | -49,986 | -54,127 | -74,173 | -76,850 | -80,554 | -76,278 |
| CF from Fin. Activity | -25,924 | 66,399 | -6,727 | -16,946 | -94,259 | -89,983 |
| (Inc)/Dec in Cash | -2,557 | 1,22,526 | -1,69,806 | 56,204 | 16,221 | 31,651 |
| Add: opening Balance | 1,08,499 | 1,05,942 | 2,28,468 | 58,662 | 1,14,866 | 1,31,671 |
| Closing Balance | 1,05,942 | 2,28,468 | 58,662 | 1,14,866 | 1,31,087 | 1,63,321 |

| Explanation of Investment Rating | |
|----------------------------------|--|
| Investment Rating | Expected return (over 12-month) |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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* MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench.