

Steady performance...

Tata Metaliks (TML) reported a steady operational performance in Q4FY21, aided by healthy pig iron prices. During the quarter, ductile iron (DI) pipe segment also reported highest ever quarterly deliveries. For Q4FY21, TML reported DI pipe sales volume of ~75000 tonnes, up ~38% YoY, ~73% QoQ. Pig iron sales volume for the quarter was at ~80000 tonnes, up ~1% YoY but down ~10% QoQ. Topline for the quarter was at ₹ 661 crore, up 27% YoY, 26% QoQ. EBITDA for the quarter was at ₹ 143 crore (up 19% YoY, 13% QoQ). PBT for the quarter was at ₹ 124 crore, up 28% YoY, 14% QoQ while ensuing PAT was at ₹ 75 crore (flattish YoY but down 3% YoY). PAT declined YoY on the back of relatively higher effective tax rate. Effective tax rate for Q4FY21 was at 39% vs. 20% in Q4FY20 and 31% in Q3FY21.

Steady operating margin in Q4FY21...

Q4FY21 was marked by a sharp increase in prices of key raw materials. Q4FY21 witnessed a steep rise in domestic iron ore prices by ~20-30% mainly due to supply constraint in Odisha from merchant mines. Furthermore, domestic coke prices in Eastern India increased ~22% QoQ, caused by limited availability, as merchant coke plants contracted for exports to avail better realisation. Despite a notable increase in prices of key raw materials, TML was able to report relatively steady EBITDA margin for the quarter. For Q4FY21, EBITDA margins were at 21.7% (23.1% in Q4FY20, 24.0% in Q3FY21). Higher pig iron prices aided EBITDA margins in Q4FY21.

FY21 EBITDA margin increases sharply YoY....

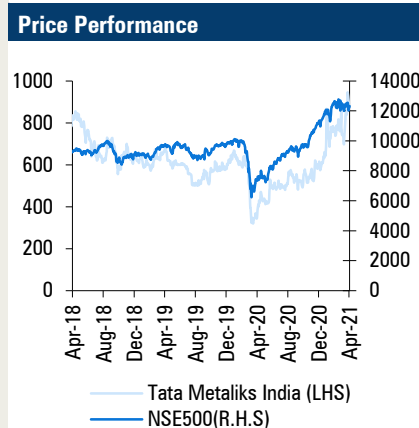
For FY21, Tata Metaliks reported a topline of ₹ 1917 crore, down 7% YoY. Topline was lower YoY due to a decline in both pig iron and DI pipe sales volume. Pig Iron sales volume for FY21 were at ~287000 tonnes (down 9% YoY) while DI pipe sales volume for FY21 was at ~194000 tonnes (down 11% YoY). EBITDA margin for FY21 was at 20.3% compared to 13.9% during FY20. Ensuing EBITDA for FY21 was at ₹ 389 crore, up 37% YoY.

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 introduce our FY23E estimates and roll over our valuations to FY23E. We value the stock at 6x FY23E EV/EBITDA and arrive at a target price of ₹ 1050 (earlier target price ₹ 675). Hence, we maintain our **BUY** rating on the stock.



Particulars	
Particulars	Amount
Market Capitalisation (in ₹ crore)	2780
Debt in ₹ crore (FY21)	10
Cash & Cash Eq. in ₹ crore (FY21)	192
EV (in ₹ crore)	2598
52 Week H / L (₹)	956 / 347
Equity Capital (₹ crore)	32
Face Value	₹ 10



- ### Key Risks
- Lower than expected increase in demand for DI pipes
 - Higher-than-expected increase in operating costs.

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-FY23E)
Total Operating income	2,155	2,051	1,917	2,420	2,549	15.3%
EBITDA	307	285	389	424	465	9.3%
EBITDA Margin (%)	14.3	13.9	20.3	17.5	18.3	
Net Profit	183	167	221	260	294	15.5%
Diluted EPS (₹)	65	59	70	82	93	
P/E	13.5	14.8	12.6	10.7	9.4	
RoE (%)	23.8	18.1	17.0	16.9	16.1	
RoCE (%)	31.0	19.4	24.6	22.9	21.3	

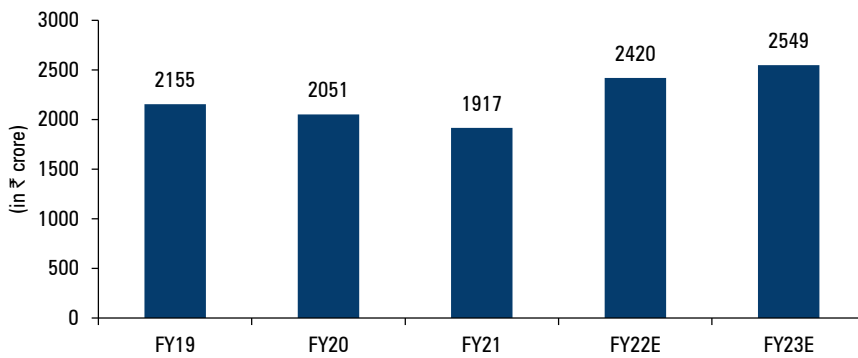
Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	661	522	27%	526	26%	Topline increased 27% YoY, 26% QoQ
Other Income	3	3	13%	2	43%	
Raw Material Expense	339	267	27%	257	32%	
Employee Expense	35	35	2%	35	0%	
Other Expenses	144	100	44%	107	34%	
Total Operating Expenses	518	401	29%	400	30%	
EBITDA	143	120	19%	126	13%	EBITDA increased 19% YoY, 13% QoQ
EBITDA Margin (%)	21.7	23.1	-141 bps	24	-238 bps	
Depreciation	16	17	-8%	15	6%	
Interest	6	9	-35%	4	33%	
Exceptional Items	0	0	NA	0	NA	
PBT	124	96	29%	109	14%	
Tax Outgo	49	19	158%	34	44%	Effective tax rate for Q4FY21 was at 39% compared to 20% in Q4FY20 and 31% in Q3FY21
PAT	75	77	-3%	75	0%	PAT declined on a YoY basis on the back of relatively higher effective tax rate

Source: Company, ICICI Direct Research

Financial story in charts

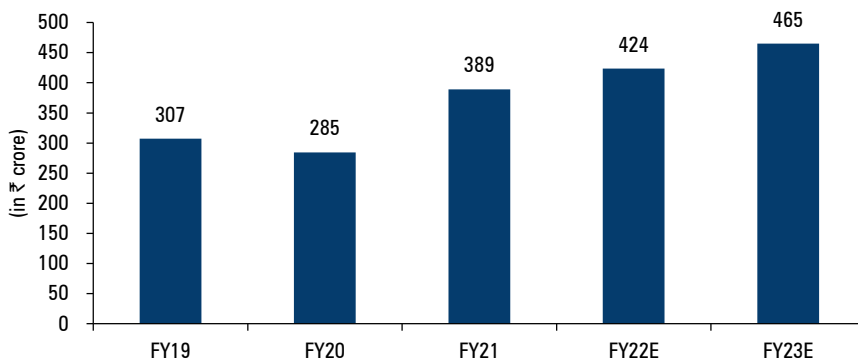
Exhibit 2: Topline trend... (in ₹ crore)



We expect topline to grow at a CAGR of 15.3% in FY21-23E

Source: Company, ICICI Direct Research

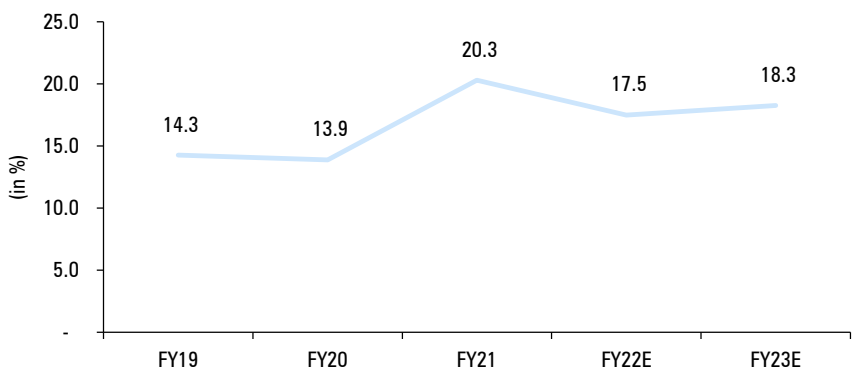
Exhibit 3: EBITDA trend... (in ₹ crore)



We expect EBITDA to grow at a CAGR of 9.3% during FY21-23E.

Source: Company, ICICI Direct Research

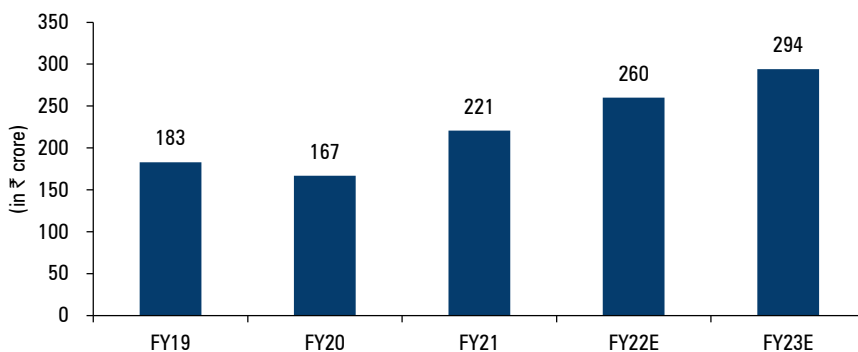
Exhibit 4: EBITDA margin trend ... (in %)



Over the next couple of years, we expect EBITDA margins to come in at a ~17.5% in FY22E & ~18.3% in FY23E

Source: Company, ICICI Direct Research

Exhibit 5: PAT trend (in ₹ crore)



We expect PAT to grow at a CAGR of 15.5% during FY21-23E

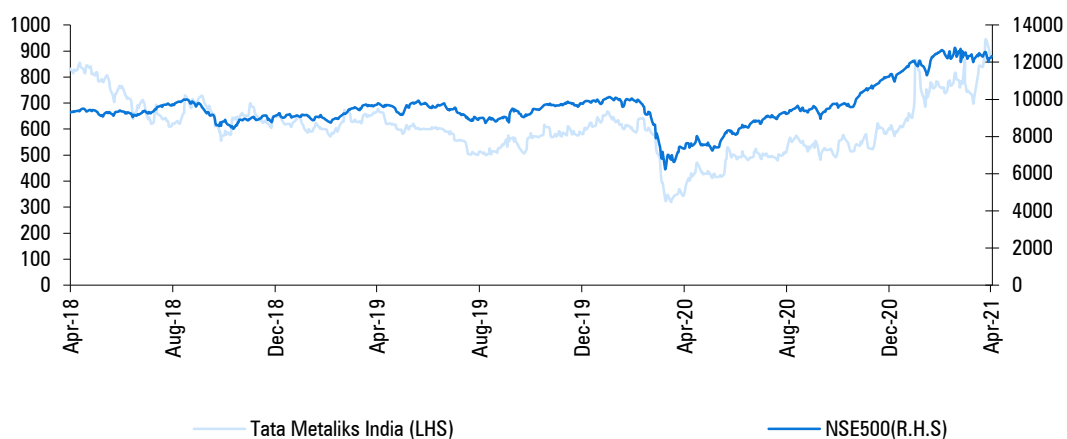
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2,155	15	65.1	14	13.5	8.1	23.8	31.0
FY20	2,051	-5	59.4	-9	14.8	9.0	18.1	19.4
FY21	1,917	-7	69.9	18	12.6	6.7	17.0	24.6
FY22E	2,420	26	82.3	18	10.7	6.1	16.9	22.9
FY23E	2,549	5	93.2	13	9.4	5.0	16.1	21.3

Source: Company, ICICI Direct Research

Exhibit 7: Price Performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Jun-20	Aug-20	Dec-20
Promoter	55.1	60.0	60.0
Public	44.9	40.0	40.0
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Total Operating Income	2051	1917	2420	2549	
Growth (%)	-5%	-7%	26%	5%	
Raw Material Expenses	1204	968	1271	1338	
Employee Expenses	125	128	169	178	
Other Manufacturing Expenses	437	431	557	567	
Total Operating Expenditure	1766	1528	1997	2084	
EBITDA	285	389	424	465	
Growth (%)	-7%	37%	9%	10%	
Interest & Finance Cost	33	24	20	18	
Depreciation	65	67	72	74	
Other Income	16	8	16	20	
PBT before Exceptional Items	202	307	348	393	
Less: Exceptional Items	0	0	0	0	
PBT	202	307	348	393	
Total Tax	35	86	87	99	
PAT	167	221	260	294	
Growth (%)	-9%	32%	18%	13%	
EPS	59.4	69.9	82.3	93.2	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit/(Loss) after taxation	167	221	260	294	
Add: Dep. & Amortization	65	67	72	74	
Net (Inc) / dec.in Current Asset	-115	-86	-144	-42	
Net Inc / (dec) in Current Liab.	-13	-24	99	54	
CF from operating activities	104	178	287	380	
(Inc)/dec in Investments	-10	10	-0	0	
(Inc)/dec in Fixed Assets	-171	-227	-250	-130	
Others	0	0	0	0	
CF from investing activities	-181	-217	-250	-130	
Inc / (Dec) in Equity Capital	0	3	0	0	
Inc / (Dec) in Loans	173	-201	-10	0	
Dividend & Dividend Tax	-12	-21	-22	-22	
Others	-3	189	0	22	
CF from financing activities	158	-30	-32	-0	
Net Cash flow	82	-68	4	250	
Opening Cash	29	110	42	47	
Closing Cash	110	42	47	297	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Equity Capital	28	32	32	32	
Reserve and Surplus	891	1,269	1,506	1,801	
Total Shareholders funds	919	1,300	1,538	1,832	
Total Debt	211	10	0	0	
Deferred Tax Liability (net)	0	12	12	12	
Source of Funds	1,131	1,322	1,550	1,844	
Net Block	668	793	871	1,077	
Capital WIP	98	134	234	84	
Net Fixed Assets	767	926	1,104	1,160	
Investments	10	0	0	0	
Inventory	385	409	497	524	
Cash	110	42	47	297	
Debtors	280	247	298	314	
Loans & Advances & Other CA	142	238	242	242	
Total Current Assets	918	936	1,085	1,377	
Creditors	390	270	365	405	
Provisions & Other CL	174	270	274	288	
Total Current Liabilities	564	540	639	693	
Net Current Assets	354	396	446	684	
Application of Funds	1,131	1,322	1,550	1,844	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Per share data (₹)					
EPS	59.4	69.9	82.3	93.2	
BV	327.3	411.7	487.0	580.1	
DPS	3.5	6.5	7.0	7.0	
Cash Per Share	39.3	13.3	14.8	93.9	
Operating Ratios (%)					
EBITDA margins	13.9	20.3	17.5	18.3	
PBT margins	9.9	16.0	14.4	15.4	
Net Profit margins	8.1	11.5	10.7	11.5	
Inventory days	69	78	75	75	
Debtor days	50	47	45	45	
Creditor days	69	51	55	58	
Return Ratios (%)					
RoE	18.1	17.0	16.9	16.1	
RoCE	19.4	24.6	22.9	21.3	
RoIC	21.5	25.4	23.6	25.5	
Valuation Ratios (x)					
P/E	14.8	12.6	10.7	9.4	
EV / EBITDA	9.0	6.7	6.1	5.0	
EV / Revenues	1.3	1.4	1.1	1.0	
Market Cap / Revenues	1.2	1.5	1.1	1.1	
Price to Book Value	2.7	2.1	1.8	1.5	
Solvency Ratios					
Debt / Equity	0.2	0.0	0.0	0.0	
Debt/EBITDA	0.7	0.0	0.0	0.0	
Current Ratio	1.6	1.7	1.7	2.0	
Quick Ratio	0.9	1.0	0.9	1.2	

Source: Company, ICICI Direct Research

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