

Tata Steel (TATA IN)

Rating: ACCUMULATE | CMP: Rs1,101 | TP: Rs1,330

May 7, 2021

Q4FY21 Result Update

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. bn)	1,398	1,563	2,049	1,754
EBITDA (Rs. bn)	170	305	552	362
Margin (%)	12.2	19.5	26.9	20.6
PAT (Rs. bn)	18	83	313	161
EPS (Rs.)	15.4	69.6	261.4	134.2
Gr. (%)	(83.0)	351.8	275.4	(48.7)
DPS (Rs.)	10.0	25.0	25.0	15.0
Yield (%)	0.9	2.3	2.3	1.4
RoE (%)	2.5	10.7	32.5	13.8
RoCE (%)	4.7	11.4	24.2	13.5
EV/Sales (x)	1.7	1.4	0.9	1.0
EV/EBITDA (x)	13.6	7.0	3.4	5.0
PE (x)	71.4	15.8	4.2	8.2
P/BV (x)	1.7	1.6	1.2	1.1

Key Data

TISC.BO | TATA IN

52-W High / Low	Rs.1,129 / Rs.262
Sensex / Nifty	48,950 / 14,725
Market Cap	Rs.1,320bn / \$ 17,891m
Shares Outstanding	1,197m
3M Avg. Daily Value	Rs.39324.26m

Shareholding Pattern (%)

Promoter's	34.41
Foreign	18.56
Domestic Institution	25.16
Public & Others	21.87
Promoter Pledge (Rs bn)	6.83

Stock Performance (%)

	1M	6M	12M
Absolute	27.6	158.1	296.4
Relative	28.2	120.9	156.6

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Outlook on strong footing, Top pick in the ferrous space

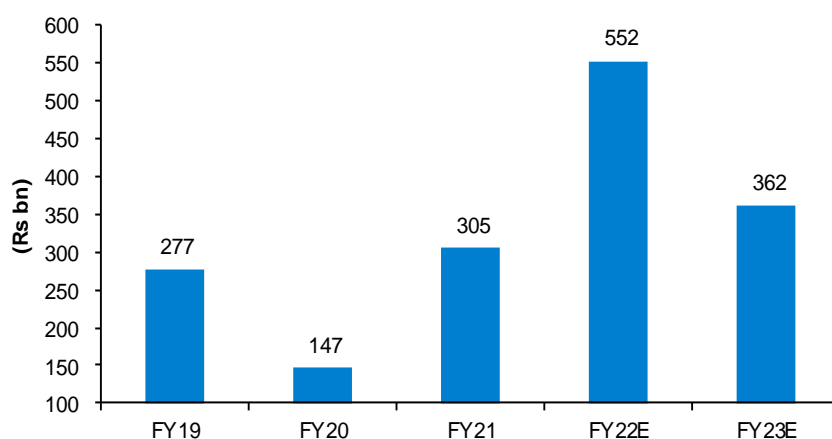
Quick Pointers:

- Realisations in domestic ops to increase by Rs6,000-7,000/t QoQ while cost would increase by Rs2,000-2,500/t QoQ owing to higher input costs
- Spreads in Netherlands/UK would improve by €70/£40 QoQ in Q1
- Net debt fell 12.5% QoQ/Rs108bn at Rs754bn, lowest since Q2FY18

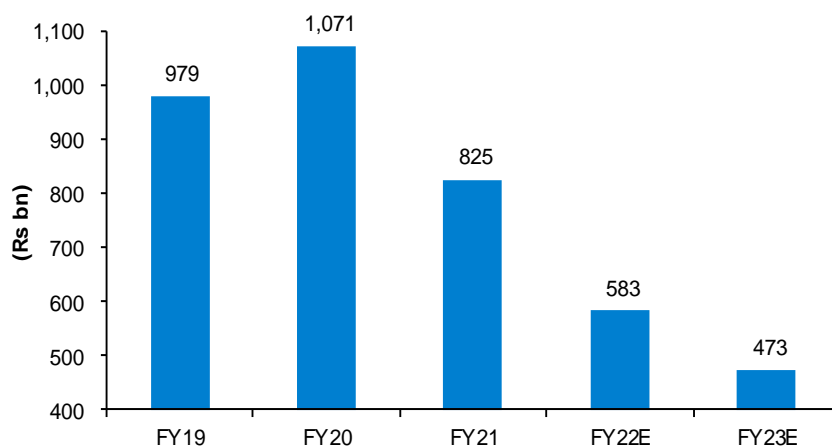
Led by better than expected performance in domestic operations, TATA steel (TATA) reported 6%/8% beat on our/consensus EBITDA estimates. Consolidated EBITDA grew 48% QoQ at Rs141.8bn (PLe:Rs130.9bn). PAT doubled QoQ to Rs76.4bn (PLe:Rs70.1bn). Beat was largely led by strong show in standalone/TATA steel BSL operations with EBITDA at Rs91.9bn/Rs25.8bn (PLe:Rs86.7bn/Rs22.7bn), up 37% QoQ/58% QoQ. However, TATA Steel Europe (TSE) operations marginally fell short of expectation due to reversal of gain of £47mn recognised on monetisation of carbon credit receipts in Q1FY21.

China's relentless drive to reorganise supplies on the merit of environment sustainability has lifted the long-term price outlook for steel prices. Structurally global steel cost curve would increase by ~US100/t due to higher costs associated with reducing carbon footprint. This coupled with improved outlook on global demand and reduced supplies from China would push steel prices higher. In this backdrop, TATA would be the key beneficiary on back of its integrated operations. TSE would also report better profitability given its high dependence on steel prices. Underpinned by strong steel outlook and comfortable B/S, we maintain Accumulate rating with TP of Rs1,330, EV/EBITDA of 5.7x FY23e.

- Strong beat on standalone operations:** Volumes remained flattish QoQ at 3.3mnt (PLe:3.3mnt). While, realisations increased 17%/Rs9,200 QoQ to Rs63,000, above our estimate of Rs60,300. However, sharper than expected increase in costs partially diluted higher realisations. Cost/t increased 6% QoQ at Rs36,350 (PLe:Rs35,000) due to higher royalty on iron ore. Hence, EBITDA/t expanded 36% QoQ at Rs27,800 (PLe:Rs26,250).
- TSE back in black, South East Asia (SEAN) reclassified as continuing ops:** TSE turned profitable with EBITDA of US\$164mn (PLe of US\$187mn) against loss of US\$98mn in Q3FY21. EBITDA/t came at US\$66 (PLe:US\$75). SEAN ops added Rs3bn to the EBITDA. Led by strong margins, EBITDA grew 48% QoQ at Rs141.8bn (PLe:Rs130.9bn, CE:Rs128.0bn). Adj. PAT doubled QoQ to Rs76.4bn (PLe:Rs70.1bn, CE:Rs74.0bn).
- Key highlights of con-call:** 1) Domestic volume guidance for FY22e at 18.3mnt, up 1.0mnt YoY 2) Guided consolidated capex of Rs110bn including Rs70-75bn capex for India ops for FY22e against Rs70bn in FY21 3) 5.0mnt expansion in Kalinganagar, Odisha will be commissioned in mid of FY24e 4) Reiterated annual debt reduction guidance of US\$1bn 5) Long term target for Net Debt/EBITDA at ~2.5x across cycles 6) TSE imposed carbon surcharge of £12/t to pass on higher costs associated with carbon emissions

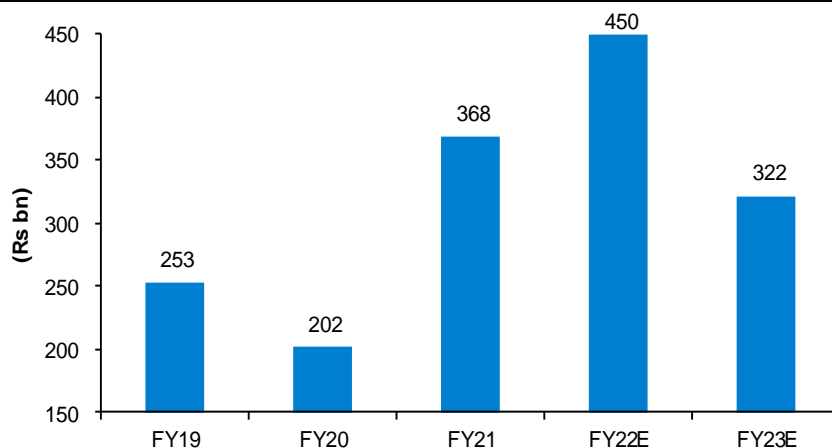
Exhibit 1: EBITDA to grow ~80% in FY22e; FY23 higher 18% above FY21


Source: Company, PL

Exhibit 2: Net Debt* to further fall 43% in FY21-FY23e


Source: Company, PL

* Net Debt includes Hybrid perpetual bonds and pre-export advance

Exhibit 3: FCFF to peak in FY22e; FY23e still strong despite lower margins


Source: Company, PL

Exhibit 4: Key Assumptions

	FY19	FY20	FY21	FY22E	FY23E
Standalone operations					
Volume	12.7	12.3	12.3	12.7	12.7
Revenue (Rs mn)	706107	604360	648690	828882	722622
EBITDA (Rs mn)	205630	143877	217654	353250	229261
Realisation per tonne	41,166	37,300	40,575	52,420	44,053
Total cost per tonne	39,433	37,371	35,030	37,344	38,736
EBITDA/t	16,202	11,676	17,689	27,735	18,000
Tata steel Europe					
Volume	9.6	9.3	8.8	9.7	9.7
EBITDA (US\$m)	781	(93)	(79)	1,000	582
Realisation per tonne (US\$)	962	852	857	1,100	900
EBITDA per tonne (US\$)	81	(10)	(9)	103	60
SEAN operations					
Volume	2.4	2.4	2.2	2.3	2.4
EBITDA (US\$m)	34	52	74	127	84
Realisation per tonne (US\$)	495	585	585	700	650
EBITDA per tonne (US\$)	14	22	33	55	35
TATA steel Bhushan					
Volume	4.0	4.2	4.3	4.6	4.8
EBITDA (Rs mn)	30,376	23,701	54,807	82,170	57,420
EBITDA per tonne (Rs)	7,519	5,688	12,728	18,000	12,000

Source: Company, PL

Exhibit 5: Q4FY21 Result Overview (Rs m)

Y/e March	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	FY21	FY20	YoY gr. (%)
Net Sales	4,99,774	3,60,094	38.8	4,19,023	15,33,222	14,20,561	7.9
Raw Material	1,51,161	1,32,197	14.3	1,43,850	5,52,260	5,89,393	(6.3)
<i>% of Net Sales</i>	<i>30.2</i>	<i>36.7</i>		<i>34.3</i>	<i>36.0</i>	<i>41.5</i>	
Staff Costs	53,912	48,939	10.2	54,635	1,96,485	1,86,925	5.1
<i>% of Net Sales</i>	<i>10.8</i>	<i>13.6</i>		<i>13.0</i>	<i>12.8</i>	<i>13.2</i>	
Other Expenses	1,52,861	1,30,966	16.7	1,24,856	4,80,791	4,72,828	1.7
<i>% of Net Sales</i>	<i>30.6</i>	<i>36.4</i>		<i>29.8</i>	<i>31.4</i>	<i>33.3</i>	
Total Expenditure	3,57,933	3,12,102	14.7	3,23,341	12,29,536	12,49,146	(1.6)
EBITDA	1,41,841	47,992	195.6	95,682	3,03,686	1,71,415	77.2
<i>Margin (%)</i>	<i>28.4</i>	<i>13.3</i>		<i>22.8</i>	<i>19.8</i>	<i>12.1</i>	
Depreciation	23,924	22,885	4.5	23,415	91,059	85,051	7.1
Other income	2,722	13,133	(79.3)	2,177	9,046	18,409	(50.9)
EBIT	1,20,639	38,240	215.5	74,444	2,21,673	1,04,773	111.6
Interest	18,663	19,338	(3.5)	17,860	75,908	75,421	0.6
PBT	1,01,976	18,903	-	56,584	1,45,765	29,351	
Extraordinary income/(expense)	(9,911)	(38,536)		(1,536)	(10,433)	(37,259)	
PBT (After EO)	92,065	(19,634)	-	55,048	1,35,332	(7,908)	
Tax	21,950	(2,552)	(960.1)	15,823	56,616	(25,603)	
<i>% PBT</i>	<i>23.8</i>			<i>28.7</i>	<i>41.8</i>		
Reported PAT	70,115	(17,082)	-	39,226	78,717	17,695	344.8
Minority interest	5,178	(1,340)		3,137	6,850	(3,764)	
Share of profit/(loss) of associates	1,504	928	62.0	884	3,273	1,880	74.1
Net Profit attributable to shareholders	66,442	(14,813)	-	36,972	75,140	23,339	
Adjusted Net Profit attributable to shareholders	76,353	23,723	221.9	38,508	85,572	18,498	-

Source: Company, PL

Exhibit 6: Key Operating Metrics

Subsidiary performance	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	FY21	FY20	YoY gr. (%)
Revenue							
Indian Operations (mn USD)	2,908	1,963	48.1	2,435	8,773	8,534	2.8
UK Operations (mn USD)	2,367	1,877	26.1	1,907	7,568	7,897	(4.2)
Tata steel BSL (mn USD)	1,004	590	70.1	797	2,885	2,568	12.4
Adjusted EBITDA							
Indian Operations (mn USD)	1,260	504	150.0	908	2,955	2,031	45.5
UK Operations (mn USD)	164	9	-	(98)	(79)	(93)	-
Tata steel BSL (mn USD)	354	107	231.0	221	738	334	120.8
TSE							
Sales Volume	2.5	2.4	4.2	2.1	8.8	9.3	(4.7)
Realisation per tonne	958	792	21.0	904	857	852	0.6
EBITDA per tonne	66	4	-	(47)	(9)	(10)	-
Tata steel BSL							
Sales Volume	1.2	1.0	21.7	1.1	4.3	4.2	3.3
Realisation per tonne	842	602	39.7	694	670	616	8.7
EBITDA per tonne	297	109	171.9	193	171	80	113.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	1,398,167	1,562,942	2,048,744	1,753,701
YoY gr. (%)	(11.3)	11.8	31.1	(14.4)
Cost of Goods Sold	574,748	603,792	718,396	668,082
Gross Profit	823,419	959,150	1,330,348	1,085,620
Margin (%)	58.9	61.4	64.9	61.9
Employee Cost	185,336	188,685	224,499	208,776
Other Expenses	(23,180)	-	-	-
EBITDA	169,892	305,043	552,086	361,865
YoY gr. (%)	(42.2)	79.6	81.0	(34.5)
Margin (%)	12.2	19.5	26.9	20.6
Depreciation and Amortization	84,407	92,336	92,018	94,366
EBIT	85,484	212,706	460,068	267,498
Margin (%)	6.1	13.6	22.5	15.3
Net Interest	75,335	76,067	67,556	60,996
Other Income	18,435	8,956	11,501	12,176
Profit Before Tax	(4,197)	145,595	404,012	218,678
Margin (%)	(0.3)	9.3	19.7	12.5
Total Tax	(25,684)	56,539	84,371	53,436
Effective tax rate (%)	612.0	38.8	20.9	24.4
Profit after tax	21,487	89,056	319,641	165,241
Minority interest	(3,829)	6,996	10,000	7,500
Share Profit from Associate	1,880	3,273	4,000	3,000
Adjusted PAT	17,647	83,389	313,049	160,741
YoY gr. (%)	(83.0)	372.5	275.4	(48.7)
Margin (%)	1.3	5.3	15.3	9.2
Extra Ord. Income / (Exp)	(32,781)	-	-	-
Reported PAT	27,196	83,389	313,049	160,741
YoY gr. (%)	(73.6)	206.6	275.4	(48.7)
Margin (%)	1.9	5.3	15.3	9.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	27,196	83,389	313,049	160,741
Equity Shares O/s (m)	1,145	1,198	1,198	1,198
EPS (Rs)	15.4	69.6	261.4	134.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	1,954,950	2,013,395	2,065,435	2,117,475
Tangibles	1,954,950	2,013,395	2,065,435	2,117,475
Intangibles	-	-	-	-
Acc: Dep / Amortization	649,988	742,325	834,343	928,710
Tangibles	649,988	742,325	834,343	928,710
Intangibles	-	-	-	-
Net fixed assets	1,304,961	1,271,071	1,231,092	1,188,766
Tangibles	1,304,961	1,271,071	1,231,092	1,188,766
Intangibles	-	-	-	-
Capital Work In Progress	207,381	218,866	282,846	359,326
Goodwill	40,545	40,545	40,545	40,545
Non-Current Investments	42,106	38,949	42,949	45,949
Net Deferred tax assets	(79,911)	(93,567)	(100,966)	(107,175)
Other Non-Current Assets	309,170	310,367	310,367	310,367
Current Assets				
Investments	34,319	34,319	34,319	34,319
Inventories	310,687	332,764	437,814	374,764
Trade receivables	78,849	95,398	117,873	100,898
Cash & Bank Balance	80,547	161,279	245,844	255,756
Other Current Assets	33,209	23,105	28,105	33,105
Total Assets	2,504,195	2,587,446	2,833,329	2,805,734
Equity				
Equity Share Capital	11,450	11,976	11,977	11,977
Other Equity	724,314	813,102	1,088,546	1,219,396
Total Network	735,763	825,078	1,100,522	1,231,373
Non-Current Liabilities				
Long Term borrowings	1,163,282	1,013,282	863,282	763,282
Provisions	42,351	42,351	42,351	42,351
Other non current liabilities	44,786	44,786	44,786	44,786
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	213,809	269,681	323,476	281,229
Other current liabilities	180,568	247,194	296,440	266,531
Total Equity & Liabilities	2,504,195	2,587,446	2,833,329	2,805,734

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	(13,804)	145,595	404,012	218,678
Add. Depreciation	87,077	92,336	92,018	94,366
Add. Interest	75,335	76,067	67,556	60,996
Less Financial Other Income	18,435	8,956	11,501	12,176
Add. Other	32,177	(5,477)	(7,001)	(7,676)
Op. profit before WC changes	180,784	308,522	556,586	366,365
Net Changes-WC	41,962	66,447	(30,277)	2,506
Direct tax	(21,059)	(7,043)	(76,773)	(47,227)
Net cash from Op. activities	201,687	367,925	449,536	321,643
Capital expenditures	(139,988)	(69,930)	(116,020)	(128,520)
Interest / Dividend Income	3,052	5,477	7,001	7,676
Others	(6,986)	-	-	-
Net Cash from Invst. activities	(143,922)	(64,453)	(109,019)	(120,844)
Issue of share cap. / premium	1,875	32,385	34	-
Debt changes	76,073	(150,000)	(150,000)	(100,000)
Dividend paid	(18,152)	(11,459)	(29,889)	(29,891)
Interest paid	(74,193)	(76,067)	(67,556)	(60,996)
Others	(2,550)	(17,598)	(8,541)	-
Net cash from Fin. activities	(16,946)	(222,740)	(255,952)	(190,887)
Net change in cash	40,819	80,732	84,565	9,912
Free Cash Flow	97,707	297,995	333,516	193,123

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Net Revenue	2,42,885	3,71,540	4,19,023	4,99,774
YoY gr. (%)	(32.4)	7.4	18.0	38.8
Raw Material Expenses	1,04,005	1,53,244	1,43,850	1,51,161
Gross Profit	1,38,880	2,18,296	2,75,174	3,48,613
Margin (%)	57.2	58.8	65.7	69.8
EBITDA	5,055	61,108	95,682	1,41,841
YoY gr. (%)	(90.6)	60.0	204.2	195.6
Margin (%)	2.1	16.4	22.8	28.4
Depreciation / Depletion	21,108	22,611	23,415	23,924
EBIT	(16,053)	38,497	72,267	1,17,917
Margin (%)	(6.6)	10.4	17.2	23.6
Net Interest	19,983	19,402	17,860	18,663
Other Income	1,926	2,221	2,177	2,722
Profit before Tax	(33,527)	21,747	55,048	92,065
Margin (%)	(13.8)	5.9	13.1	18.4
Total Tax	12,715	6,129	15,823	21,950
Effective tax rate (%)	(37.9)	28.2	28.7	23.8
Profit after Tax	(46,243)	15,619	39,226	70,115
Minority interest	(2,356)	891	3,137	5,178
Share Profit from Associates	150	736	884	1,504
Adjusted PAT	(44,320)	15,031	38,508	76,353
YoY gr. (%)	(727.2)	(2,846.4)	(427.9)	221.9
Margin (%)	(18.2)	4.0	9.2	15.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(43,737)	15,463	36,972	66,442
YoY gr. (%)	(725.1)	(62.7)	(459.3)	(548.5)
Margin (%)	(18.0)	4.2	8.8	13.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(43,737)	15,463	36,972	66,442
Avg. Shares O/s (m)	971	971	971	971
EPS (Rs)	(45.6)	15.5	39.6	78.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	15.4	69.6	261.4	134.2
CEPS	89.1	146.7	338.2	213.0
BVPS	642.6	688.9	918.9	1,028.1
FCF	85.3	248.8	278.5	161.2
DPS	10.0	25.0	25.0	15.0
Return Ratio(%)				
RoCE	4.7	11.4	24.2	13.5
ROIC	(25.9)	7.8	22.5	12.0
RoE	2.5	10.7	32.5	13.8
Balance Sheet				
Net Debt : Equity (x)	1.4	1.0	0.5	0.4
Net Working Capital (Days)	46	37	41	40
Valuation(x)				
PER	71.4	15.8	4.2	8.2
P/B	1.7	1.6	1.2	1.1
P/CEPS	89.1	146.7	338.2	213.0
EV/EBITDA	13.6	7.0	3.4	5.0
EV/Sales	1.7	1.4	0.9	1.0
Dividend Yield (%)	0.9	2.3	2.3	1.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Rev. Indian Op. (US\$ m)	8,526	8,739	11,201	9,765
Rev.Corus (US\$ m)	7,897	7,568	10,670	8,730
Rev. South East (US\$ m)	1,403	1,292	1,610	1,560
EBITDA-India (US\$ m)	2,030	2,932	4,774	3,098
EBITDA-Corus (US\$ m)	(93)	(79)	1,000	582
EBITDA-South East (US\$ m)	52	74	127	84
Volume (mt)-India	12	12	13	13
Real./ Tonne- India (Rs)	37,300	40,575	52,420	44,053
EBITDA/Tonne- India (Rs)	11,676	17,689	27,735	18,000
SalesVol.-Corus (mt)	9	9	10	10
Real./Tonne-Corus (US\$)	852	857	1,100	900
EBITDA/Tonne-Corus (US\$)	(10)	(9)	103	60
Sales Vol.-South East (mt)	2	2	2	2
Real./Tonne-SEAN (US\$)	585	585	700	650
EBITDA/Tonne-SEAN (US\$)	22	33	55	35

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Feb-21	Accumulate	800	690
2	13-Jan-21	Hold	745	695
3	17-Nov-20	Reduce	405	492
4	09-Oct-20	Reduce	315	374
5	17-Aug-20	Reduce	300	419
6	10-Jul-20	Reduce	250	345
7	01-Jul-20	Reduce	250	327

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,150	1,877
2	Ambuja Cement	BUY	375	314
3	Coal India	Hold	143	134
4	Dalmia Bharat	BUY	2,140	1,506
5	Heidelberg Cement India	Hold	218	239
6	Hindalco Industries	BUY	360	316
7	Hindustan Zinc	Reduce	260	296
8	Jindal Steel & Power	Accumulate	500	444
9	JK Lakshmi Cement	BUY	545	420
10	JSW Steel	Reduce	335	375
11	NMDC	BUY	145	118
12	Shree Cement	Hold	26,545	30,150
13	Steel Authority of India	Accumulate	66	58
14	Tata Steel	Accumulate	800	690
15	The Ramco Cements	Reduce	945	1,042
16	Ultratech Cement	BUY	7,370	6,737

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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