Tata Steel

BSE SENSEX	S&P CNX
52,306	15,687

Stock Info

Bloomberg	TATA IN
Equity Shares (m)	1,198
M.Cap.(INRb)/(USDb)	1324.9 / 17.8
52-Week Range (INR)	1247 / 312
1, 6, 12 Rel. Per (%)	-5/64/184
12M Avg Val (INR M)	13629
Free float (%)	65.6

Financials Snapshot (INR b)

Y/E Mar	2021	2022E	2023E
Sales	1,563	2,134	1,873
EBITDA	305	592	399
NP	83	326	190
AdjEPS (INR)	69.0	272.2	158.5
EPS Gr. (%)	661.2	294.8	-41.8
BV/Sh. (INR)	577	778	876
RoE (%)	11.8	40.2	19.2
RoCE (%)	11.8	27.7	16.6
Payout (%)	44.6	25.3	35.7
Valuation			
P/E (x)	15.9	4.0	6.9
P/BV (x)	1.9	1.4	1.3
EV/EBITDA (x)	7.0	3.3	4.6
Div. Yield (%)	2.3	5.5	4.5

CMP: INR1,100 TP: INR1,210 (+10%) Neutral

Focus back on growth but with an eye on leverage

Rising carbon costs in Europe a key concern

Tata Steel (TATA)'s FY21 Annual Report highlights the ambition of the company to maintain leadership in volumes, cost, and sustainability. With improved cash flows, the focus is back on growing the India business, wherein it aims to double capacity to 35–40mt by 2030. However, it plans to tread cautiously on this path as debt repayment remains the focal point for the management. On Tata Steel Europe (TSE), the management palpably appears concerned about the tightening emission norms in Europe, rising carbon credit costs, and the resulting lower competitiveness against imports to Europe, which pose a key challenge in the longer term. While we expect deleveraging to continue on the back of higher prices, rising carbon costs and the burden of sustainability capex in TSE are key concerns, in our view. Thus, we assign a Neutral rating, with TP of INR1,210.

Refocusing on growth, but deleveraging remains core focus

- After some muted years, FY21 has ushered in an unexpected bonanza on pricing-led EBITDA growth for TATA, fueling growth ambitions. It now wants to double its steelmaking capacity in India to 35–40mt by 2030, from 19.6mt currently. The resumption of the 5mt expansion at Kalinganagar (KPO-II) is the first step in this direction, with likely completion by FY24-end. KPO-II would involve capex of INR235b (including a 2.2mtpa CRM and pellet plant), of which ~INR75b has already been spent.
- TATA, however, plans to tread cautiously on the growth path as debt repayment remains the focal point for the management. While consolidated net debt declined sharply by INR245b in FY21 (supported by a strong working capital release of INR165b), it remained high at INR826b (2.7x of FY21 EBITDA).
- With the earnings outlook remaining strong, we expect net debt to decline further to INR621b by Mar'22 (1.1x of FY22 EBITDA), which should create an appetite for further growth plans. TATA has a long-term target of maintaining net debt/EBITDA below 2.5x.

Rising carbon costs and Brexit to structurally increase TSE's costs

- While the near-term outlook for TSE is strong, driven by higher prices, the structural increase in costs from tightening emission norms and Brexit is a longer term concern for sustained profitability and cash-neutrality.
- In FY21, despite TSE production falling 7% YoY and emissions being flat YoY (at 1.97 tCO_2/tonne of steel), TSE fell short of 1.5mt of carbon credits. We believe this was due to the agreed upon linear decline in allowed annual credits under the EU Emissions Trading System (EU ETS). Thereby, as production normalizes from the pandemic impact, the carbon credit shortfall would keep rising.
- With carbon credit prices trading at EUR52/t (135% YoY) currently and the growing need for carbon credit purchases, we believe the burden of carbon costs on TSE is likely to increase in FY22 and beyond. While a part of this increase should be offset by the carbon surcharge of EUR12/t recently levied by Tata Steel UK, the sustainability would depend on demand-supply tightness.

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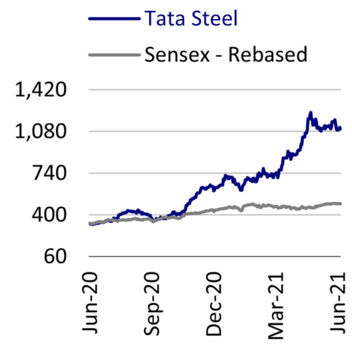
Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	34.4	34.4	34.4
DII	25.4	26.1	29.9
FII	18.6	16.9	12.4
Others	21.6	22.6	23.3

FII Includes depository receipts

Stock performance (one-year)



- Moreover, with the UK's transition period under Brexit ended 1st Jan'21, trade between the UK and EU is likely to be impacted due to the quotas. Tata Steel UK (TSUK) previously supplied ~1mt of steel from the UK to the EU, representing ~25% of its output. Furthermore, with the UK planning to remove import tariffs for certain steel products, TSUK's efforts to achieve breakeven on its high costs would be challenged.
- After a gap of several years, TSE reported positive FCF of GBP66m in FY21 (v/s negative GBP774m in FY20) on the back of a working capital (WC) release of GBP595m and lower capex of GBP316m (v/s GBP376m in FY20). However, a portion of the WC release came from selling of 6.5mt of CO2 emission rights in 1QFY21, which has been provisioned and will be purchased in FY22. Adjusted for this cash outflow deferral, FCF remained negative in FY21.
- The Annual Report also reveals that TSE received a short-term loan of USD320m (GBP230m) from T S Global Holdings Pte Ltd in Apr'21, repayable by Mar'22. This is likely to help TSE buy the provisoned carbon credit shortfall of ~8mt in FY21, which should cost EUR350-400m.

Other highlights from the annual report

- TATA aims to reduce carbon emissions in its India operations to <2.0tCo2/tcs by 2025 and <1.8tCO2/tcs by 2030, from current levels of >2.3 tCo2/tcs.
- Tata Steel Netherlands plans to reduce carbon emissions by 5mt (40%) by 2030.
- The merger of subsidiary Tata Steel BSL (TSBSL) into TATA has enabled TATA to reduce its income tax outgo by ~INR36.0b in FY21 – through offset of its profits against carried forward losses and unabsorbed depreciation at TSBSL.

Valuation and view

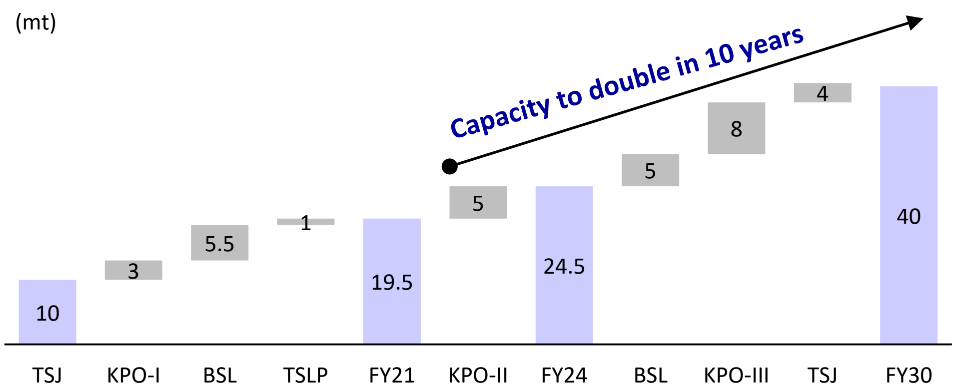
- With the availability of captive iron ore, TATA's India operations are a play on steel prices which we believe should stay higher for longer. We therefore expect margins to stay high in the medium term (with standalone EBITDA/t likely at a new lifetime high of ~INR33,000/t in 1QFY22).
- TSE's margin should also be strong in FY22 (we expect >USD100/t), though sustenance of the same would be challenged by rising carbon costs.
- We expect consolidated revenue/EBITDA/PAT to grow 36%/94%/2.9x to INR2,134b/INR592b/INR326b in FY22.
- Deleveraging should remain strong despite the resumption of growth capex. We expect net debt to decline a further INR204b to INR621b in FY22.
- We arrive at our TP of INR1,210/sh on FY23E EV/EBITDA of 5x for its India operations and 4x for Europe. Our TP implies EV/capacity of USD902/t, a 30% premium to the past five-year average of USD700/t to factor in the benefit from likely deleveraging from the current upcycle. Given limited upside, we however rate it **Neutral.**

Embarking on the growth journey

Aim to double its India capacity by 2030

Emboldened by the improving balance sheet and a focus on growing the India business, TATA has expressed its intent to increase its Indian steel-making capacity to 35-40mt by 2030, implying a 75-100% growth over 19.6mt capacity currently. Resumption of the 5mt expansion at Kalinganagar (KPO-II) is the first step in that direction, with likely completion by FY24-end. There is further brownfield growth potential at all its three locations of Jamshedpur/Kalinganagar/Angul by 4mt/8mt/4.4mt to 14mt/16mt/10mt respectively which can happen at a very competitive cost (as basic infrastructure is already in place).

Exhibit 1: TATA aims to double capacity by FY30



Source: Company, MOFSL

KPO-II expansion underway – should generate 24% post tax ROCE

TATA has resumed work on its Kalinganagar Phase-2 expansion project of 5mtpa. The project includes capex of INR160b towards the setting up of a 5mtpa finished steel (HRC) making facility, INR55.0b towards a 2.2mtpa CRM complex, and INR20b towards pellet-making and other raw material facilities. Of the INR235.0b capex allocated towards the projects, ~INR75b has already been spent up to Mar'21. While the pellet and CRM plants are expected to be commissioned by Sep'22, the steel capacity would be commissioned by Mar'24. We expect the 5mtpa expansion to generate post-tax RoCE of ~24%, based on the last three years' average realization.

Exhibit 2: KPO-II to generate RoCE of 24% based on the last three years' performance

		INR Per ton	At 5mt
	3-yr avg	Adj. for mix	INR m
Realization	**52,391**	**54,449**	**2,72,244**
EBITDA	**15,368**	**17,426**	**87,132**
Depreciation @4%	1,880	1,880	9,400
PBT	**13,488**	**15,546**	**77,732**
Tax @25%	3,372	3,887	19,433
PAT	**10,116**	**11,660**	**58,299**
Capex			2,35,000
Working Capital			7,459
Capital employed			**2,42,459**
Post-tax RoCE			**24%**

Source: MOFSL

Maintaining global cost leadership

TATA's Indian operation is among the lowest cost producer of steel globally and it aims to maintain its global cost leadership by further lowering its raw material costs. In order to achieve this, it ramped-up its captive iron ore production by 8% YoY (to 28.7mt) in FY21. The production ramp-up we estimate left 8.8mt of surplus iron ore availability with TATA standalone, which would have been sufficient to meet the iron ore requirement of its subsidiaries Tata Steel BSL (TSBSL) and others.

Moreover, to be prepared to meet the iron ore requirement for its Kalinganagar plant post expansion to 8mtpa, TATA has already increased capacity at its Joda iron ore mine in Odisha to 15.9mtpa (from 12.0mtpa).

Exhibit 3: Iron ore supplies to subsidiaries keep rising to reduce production cost

Production – mt	FY17	FY18	FY19	FY20	FY21
Captive iron ore (A)	21.3	23.0	23.4	26.5	28.7
Captive coal	6.3	6.2	6.5	6.2	5.9
S/A hot steel production	13.1	13.9	14.2	14.1	13.2
S/A iron ore requirement (est) (B)	19.6	20.8	21.4	21.1	19.9
Balance supplied to group entities (est) (A-B)	1.7	2.3	2.0	5.4	8.8

Source: Company, MOFSL

Exhibit 4: Captive iron ore mines capacity

Iron ore mines	State	Capacity
Joda (E)	Odisha	15.9
Katamati	Odisha	8.0
Khondbond	Odisha	5.4
Naomundi	Jharkhand	6.0
Total		**35.3**

Source: Company, MOFSL

Besides the savings in iron ore cost, TATA also realized savings in other areas:

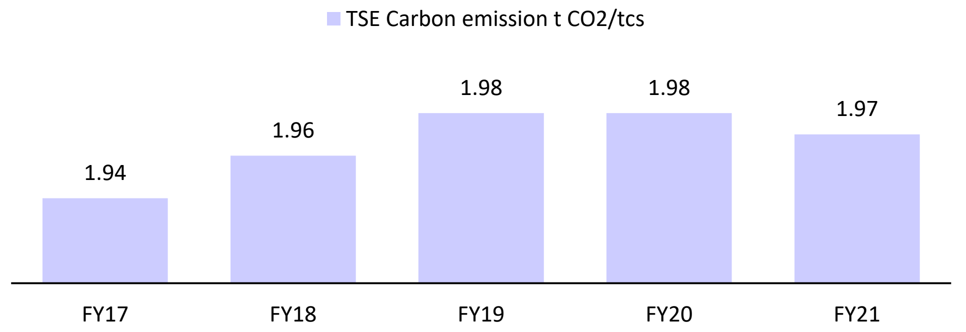
a) INR1b from a predictive analytics tool for forecasting coking coal prices,
b) INR5b from reduced working capital through vendor management of port inventory for coal and supplier credit enhancement,
c) INR3b in group synergies from centralized procurement,
d) INR14.0b at TSBSL from various initiatives – coking coal blend optimization, contract consolidations, logistics optimization, maximization of DRI utilization etc.
e) INR3b at TSLP from optimization of costs post acquisition from Usha Martin.

Rising carbon costs a key risk for Europe

Falling benchmark emission targets to increase carbon cost burden

From having surplus carbon credits historically, TSE is now running short on credits (>1.5mt shortfall in FY21). And this shortfall is only slated to rise in the coming years as TSE's emission has been stagnant at ~1.97t Co2/tcs at a time when the annual allocations are falling every year under the EU Emissions Trading System (EU ETS). **We estimate the CO2 shortfall in FY22 to be ~3mt due to ~5% higher production in FY22 as well as 2.2% YoY decline in CO2 allocation under EU ETS.**

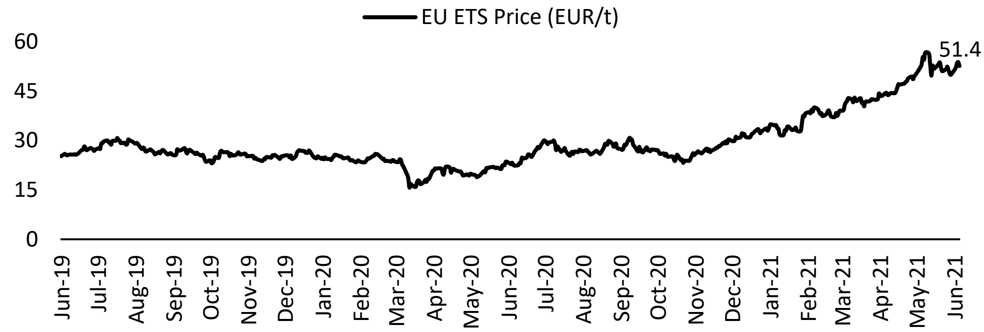
Exhibit 5: TSE – carbon emissions stagnant (but lower than world average of 2.3t Co2/tcs)



Source: Company, MOFSL

- TSE, in its annual report, has highlighted that while it met its environmental obligations in Phase 3 (2013 to 2020) of the EU ETS, the allocation of CO2 credits to it still fell short of its CY20 requirement by >1.5mt. With declining credit allocation weighed by lower benchmarks and higher emissions due to an increase in production, the cost burden of carbon emission credits is expected to increase. However, the company seeks to offset the impact by imposing a carbon surcharge of GBP10/EUR12 per ton of steel in its UK operations.
- Furthermore, there is the emerging risk of imposition of the Netherland Specific Carbon tax, which came into effect on 1st Jan'21. This effectively supplements the price of EU emission allowances (EUA) in the EU ETS if it falls below a pre-determined and increasing annual threshold linearly to EUR125/tCO2 in 2030 (from EUR30/tCO2 in 2021). However, TSE believes the likeliness of carbon tax imposition is low due to higher EUA prices (EUR41/t in Mar'21). Furthermore, the imposition of an EU Carbon Border adjustment mechanism on imports may reduce the impact of carbon costs.

Exhibit 6: EU ETS prices surge in CY21



Source: ICE, MOFSL

- The governments of the UK and Netherlands have sought to take leadership positions in global climate action. The UK government has already legislated for this. In early 2021, it announced the acceptance of the recommendations of its Statutory Advisory Committee on Climate Change (UKCCC) and legislated to ensure the UK achieves a 78% reduction in emissions by 2035 (v/s 1990). The UKCCC has also recommended that ore-based steelmaking in the UK achieve 'near-zero' emissions by 2035.
- Tata Steel Netherlands has laid out plans to reduce emissions by 5mtpa (40%) by 2030. The plan involves (i) capturing CO2 from the two IJmuiden blast furnaces and storing it in empty North Sea gas fields, and (ii) using by-product gases from the blast furnaces to produce 100,000t of hydrogen a year, which would be used in manufacturing steel and supplying to a future national hydrogen network.
- **The carbon reduction plans are likely to weigh on the company's cashflows as it would have to incur capex on carbon reduction projects. Furthermore, the lowering of the carbon emissions benchmark would lead to shortfall in emission credits, resulting in cash outflows on credit purchases. A deficit of 1mt carbon credits could impact TSE's EBITDA by ~EUR40m/USD48m (USD5/t of steel) at carbon credit price of EUR41/t.**

Tata Steel UK to be adversely impacted by Brexit

- The impact of Brexit (along with the ongoing pandemic) has resulted in some major challenges for TSE in logistics and haulage (where demand outstripped supply), with process and transport costs rising by 15%.
- Pre-Brexit, TSE moved 1.4mt steel between the UK and the EU – as both external sales to customers and internal supply between the upstream and downstream businesses. TSUK's exports to EU constitutes over two-thirds of this total volume, i.e. ~1mt, which represents ~30% of TSUK's output. This will get challenged post Brexit due to the establishment of UK-specific steel safeguards in the EU and vice-versa.
- Moreover, while the EU has extended import safeguards for the EU steel mills for the next three years, the UK has proposed to remove quotas/tariffs on certain steel product imports. If this happens, it would further impact the already ailing TSUK operations.

TSE's performance impacted by lower volumes and carbon costs

- TSE reported EBITDA loss for the second consecutive year in FY21 - GBP81m in FY21 v/s GBP69m in FY20. Its FY21 performance was impacted by lower sales volumes (-8% YoY). The loss in FY21 however was largely on account trading loss from selling carbon credits in 1QFY21 to meet cash flow shortfall at TSUK on account of the pandemic. TSUK realized an income of GBP135m in 1QFY21 from the sale of 6.45mt CO2 credits, implying a price of GBP21/t. As production recovered from the pandemic later in FY21, **it fell short of CO2 credits and had to provision a cost of GBP286m for the same, resulting in net cost of GBP151m which was moslty due to trading loss on CO2 as the price rallied to ~GBP40/t by the year end.** TSE's FY21 EBITDA was also supported by a one-time wage aid of GBP61m from governments on account of the pandemic.

Exhibit 7: Tata Steel Europe – P&L statement

GBP M	FY19	FY20	FY21
Revenue (Operations)	**7,070**	**6,202**	**5,773**
Expenses:			
Raw material cost	3,393	3,230	2,805
Employee cost	1,330	1,316	1,250
Maintenance costs	552	527	545
Rent, rates, insurance, and general expense	459	393	494
Other expenses (incl power, freight)	740	805	760
EBITDA	**596**	**-69**	**-81**
Depreciation and amortization	-241	-270	-254
Restructuring, impairment and disposals	-3	-299	-152
Operating Profit/EBIT	**352**	**-638**	**-487**
Financial Charges	-505	-360	-154
Other Income	5	138	5
Share of Profit from Associates / JVs	2	3	7
PBT (Before Exceptional Item)	**-146**	**-857**	**-629**
Exceptional Items	-9	1,900	0
PBT	**-155**	**1,043**	**-629**
Tax	-36	166	-164
Profit after tax	**-191**	**1,209**	**-793**
Minority interest	-128	-1	0
Profit for owners of company	**-63**	**1,210**	**-793**

Source: Company, MOFSL; financials as per IFRS

TSE's per ton realization declined ~1.5% YoY to GBP658/t, whereas cost was up ~1.3% to GBP667/t, resulting in EBITDA loss of GBP9/t. The impact of higher iron ore cost was more than offset by lower coking coal costs and other raw materials. On the other hand, lower volumes resulted in lower fixed cost absorption, leading to fixed cost/t of GBP261 v/s GBP241 in FY20. TSE's employee cost spend remains high at GBP1.3b (~GBP65,000/employee). **TSE's three-year avg breakeven spread (realization-RM cost) came in at ~GBP330/t (~USD460/t).**

Exhibit 8: Breakeven spread for TSE >GBP320/t (USD450/t+)

Per ton analysis – GBP	FY19	FY20	FY21
Production - mt	10.3	10.3	9.5
Sales - mt	9.6	9.3	8.8
Realization	**733**	**668**	**658**
Costs:			
Raw material cost	352	348	319
Spreads	**381**	**320**	**338**
Employee cost	138	142	142
Maintenance costs	57	57	62
Rent, rates, insurance, and general expense	48	42	56
Other expenses (incl power, freight)	77	87	87
EBITDA	**62**	**-7**	**-9**
Cost split:			
Variable	429	434	406
Fixed cost	243	241	261
Breakeven steel-RM spreads	**320**	**327**	**347**

Source: Company, MOFSL

TSE reports positive FCF on working capital release

TSE reported FCF of GBP66m (v/s negative GBP774m in FY20) on the back of a working capital release of GBP595m and lower capex of GBP316m (v/s GBP376m in FY20). **However, a portion of the working capital release was towards provisioning for emission rights deficit, which was paid for in Apr'21.** Capex spending was lower, weighed by a delay in certain projects due to the COVID impact. Capex spending in FY21 was focused largely on facility upgrade projects aimed at increasing the life of plants, reducing power consumption, and lowering dust emissions.

Exhibit 9: Working capital release enables TSE to report positive FCF in FY21

GBP m	FY19	FY20	FY21
Profit after tax	**-191**	**1,209**	**-793**
Add/(Less): Non-cash adjustments	1,022	-868	741
Less: Direct taxes paid	11	1	7
Operating profit before w/cap changes	**820**	**340**	**-59**
Inventories	-47	-152	-28
Spares	-15	-18	-2
Trade receivables	111	-11	87
Payable	72	-241	329
Movement in pension and postretirement benefit	-42	-45	-58
Other provisions	-50	29	267
Cash generated from operations	**849**	**-98**	**536**
Less: Financial cost	505	360	154
Cash generated from operations post interest	**344**	**-458**	**382**
Less: Net capital expenditure	386	376	316
Free cash flows post interest	**-42**	**-834**	**66**

Source: Company, MOFSL; financials as per IFRS

Exhibit 10: Tata Steel UK continues to report huge loss

INR b	Production-mt	Share capital	Res & Surplus	Total Assets	Total Liabilities	Turnover	PBT	PAT
FY21	3.4	225.7	-162.9	357.2	294.4	199.0	-32.8	-51.6
FY20	3.5	209.7	-29.0	415.8	235.2	200.5	-50.2	-38.4
FY19	3.2	203.0	-246.2	391.4	434.6	217.9	-31.4	-32.3
FY18	3.6	206.8	-225.5	389.1	407.8	221.8	133.5	129.7
FY17	3.6	181.5	-350.5	180.3	349.3	177.3	-61.7	-68.8

Source: Company, MOFSL

Exhibit 11: Tata Steel Netherlands also reports loss in FY21

INR b	Production-mt	Share capital	Res & Surplus	Total Assets	Total Liabilities	Turnover	PBT	PAT
FY21	6.2	9.6	199.6	331.4	122.2	310.5	-17.8	-12.5
FY20	6.8	9.3	203.1	319.8	107.4	325.2	-9.6	-7.2
FY19	7.1	8.7	194.1	299.3	96.4	348.3	23.5	17.6
FY18	7.1	9.1	190.7	287.1	87.4	340.5	17.9	12.8
FY17	7.0	7.8	158.7	238.8	72.3	247.9	22.7	16.5

Source: Company, MOFSL

Cashflow support to TSE continues

In Apr'21, Tata Steel advanced USD1.0b to its subsidiary T Steel Holdings Pte Ltd in two installments:

a) USD345m on 12th Apr'21 at an interest charge of 6M USD LIBOR + 3.96% and

b) USD655m on 20th Apr'21 at an interest charge of 6M USD LIBOR + 6.75%.

These loans shall be repayable after six years and have a moratorium of 2.5 years.

T Steel Holdings has advanced the loans on the same terms to its subsidiary T S Global Holdings Pte Ltd. It has in turn used the funds to lend to:

a) **Tata Steel Europe** - short-term loan of GBP230m (~USD320m) at an interest of 2.5% + 12m GBP LIBOR, repayable by 31st Mar'22. This is likely to buy the carbon credit shortfall of 8mt in FY21 which should cost EUR350-400m.

b) **NatSteel Asia Pte** - short-term loan of ~USD430m and EUR167m (USD200m) at an interest of 0.3% and 0.1%, respectively, repayable by 30th Jun'21.

Key financial highlights for FY21

Higher exports and inventory dilution lead to marginal increase in sales

- Higher exports (3.7mt v/s 2.4mt in FY20) and inventory dilution helped Tata Steel achieve 2% volume growth to 17.3mt in its India operations, despite 7% decline in production and weaker domestic demand. With an improved demand outlook in FY22, Tata Steel has guided for an incremental 1mt of sales volumes for its India operations.
- TSE's volumes declined 5% YoY to 8.8mt on weak demand in Europe; however, with demand normalizing in this region, the management has guided for volume improvement of 1.0mt.
- The share of automotive and special products in the mix improved to 11.7% (2.0mt) in FY21 v/s 10.5% (1.8mt) in FY20.

Net debt down INR245b (23%) in FY21; net debt/EBITDA at 2.7x

- Tata Steel's net debt (including an export advance) peaked in FY20, with the same declining by INR245b to INR826b (USD11b) in FY21 – led by higher EBITDA, working capital release, lower capital expenditure, and the receipt of call money toward partly paid-up shares.
- Among the various entities, (a) Tata Steel's standalone net debt declined by INR125b to INR263b, (b) Tata Steel BSL's net debt declined by INR65b to INR102b, and (c) TSE's net debt rose by INR15b to INR187b, partly owing to a higher exchange rate. Net debt at other entities declined INR70b, primarily due to Tata Steel India advancing INR73.1b (USD1.0b) to Tata Steel Holdings Pte Ltd. Net debt/EBITDA plummeted to 2.7x in Mar'21 from 6.0x at FY20-end.
- Tata Steel's debt maturity profile remains comfortable, with just INR86b worth of debt payments scheduled over the next two years.
- Tata Steel is exposed to both currency and interest risk on its debt: a) currency risk: with 61% of debt foreign currency denominated (USD – 31%, EUR – 19%, GBP – 5%, others – 3%) and b) interest risk: with 51% of debt at a floating rate.
- Tata Steel's net debt/equity and net debt/EBITDA declined to 1.2x and 2.7x, respectively, the lowest levels since FY07.

FCF generation robust on higher EBITDA and working capital release

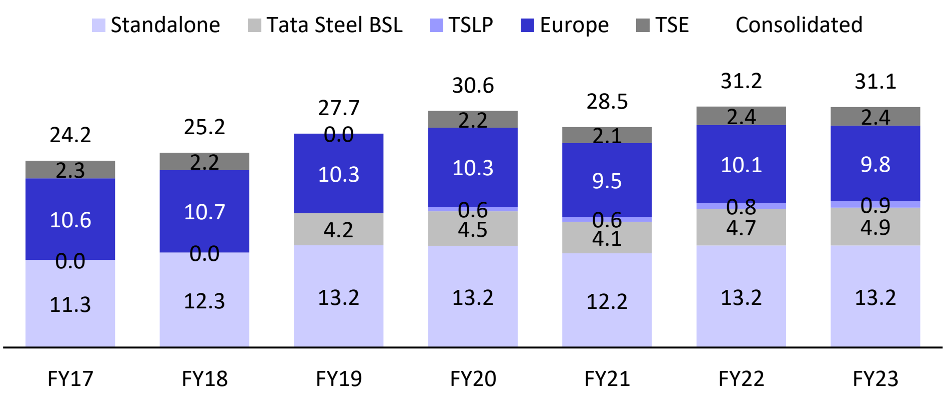
- Tata Steel's FY21 operating cash flow (OCF) improved 120% YoY to INR443b, led by higher EBITDA (INR305b) and a working capital release of INR165b. As a result, the EBITDA-to-OCF conversion ratio improved to 1.5x (v/s 1.1x in FY20).
- Capital expenditure also declined by INR34b to INR70b, resulting in higher FCF of INR373b (v/s INR98b in FY20). The working capital release was higher on the receipt of an export advance of INR63.8b during the year, which we have classified as debt.

Volumes to recover in FY22

Exports and inventory dilution support volumes in FY21

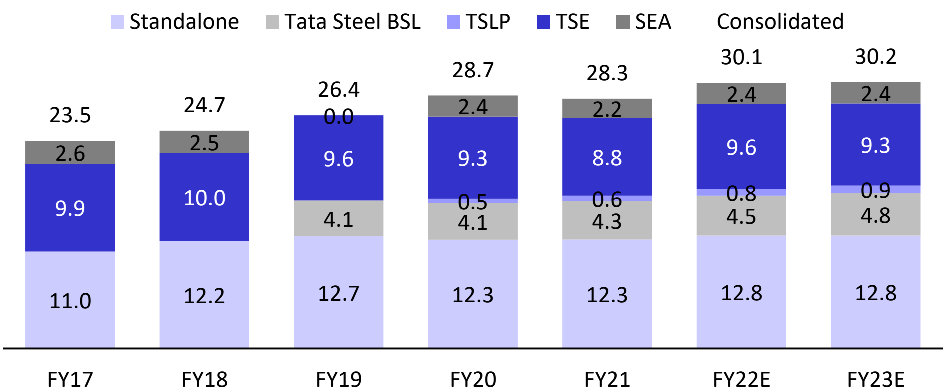
- Tata Steel's consolidated production declined ~7% to 28.5mt due to COVID-led lockdowns across geographies. However, sales volumes declined only marginally to 28.3mt. Steel sales from India operations improved 2% YoY to 17.3mt (the highest ever) on inventory liquidation. Weakness in domestic demand in 1HFY21 was offset by higher exports, resulting in the share of exports rising to 21% (from 14% in FY20). With improved demand for Auto in 2HFY21, Tata Steel's volumes in the Automotive and Special product segments improved 10% to 2.0mt (11.7% of total volumes).
- With expected recovery in domestic demand in FY22, we expect volumes for India operations to improve by 5% in FY22. With steel demand recovery underway in Europe, we expect sales volumes in Europe operations to grow 9% to 9.6mt. Overall, we expect consolidated steel volumes to improve ~6% to 30.1mt in FY22.

Exhibit 12: Steel production (mt) declines across geographies due to COVID-led lockdowns



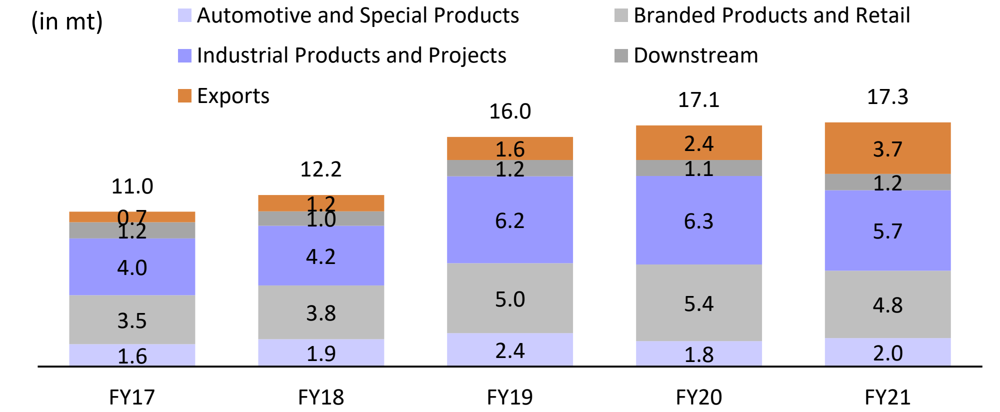
Source: Company, MOFSL; SEA operations were classified as held for sale in FY19

Exhibit 13: Sales volumes (mt) improve at India level on inventory buildup in FY20



Source: Company, MOFSL; SEA operations were classified as held for sale in FY19

Exhibit 14: Exports contribute ~21% to TS India volumes in FY21 v/s 14% in FY20

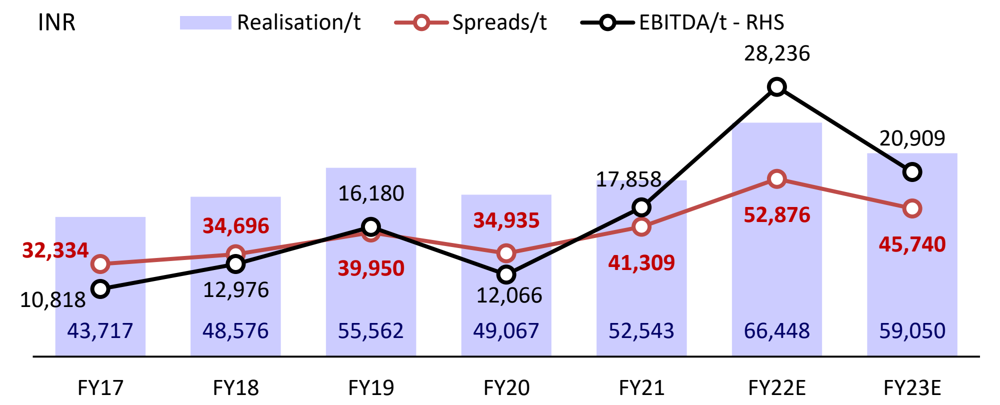


Source: Company, MOFSL

Higher realization boosts EBITDA despite COVID impact in 1HFY21

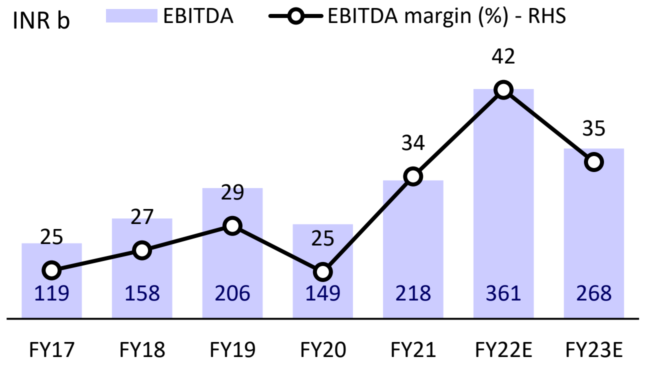
- Tata Steel achieved its highest ever EBITDA of INR305b (+71% YoY) despite a weak demand/pricing scenario in 1HFY21. This was achieved on the back of strong price recovery in 2HFY21, lower coking coal costs, and backward integration in domestic operations.
- Tata Steel posted standalone EBITDA of 46% YoY to INR218b on the back of higher realization of INR52,543/t (+7% YoY) and decline in CNF India coking coal prices to USD129/t (-27% YoY). As a result, standalone EBITDA/t rose 48% YoY to INR17,858/t. Similarly, Tata Steel BSL's EBITDA rose 132% YoY to INR55b and EBITDA/t rose 123% YoY to INR12,629. Tata Steel Long Products' EBITDA rose 5x to INR11.0b on the back of higher volumes and prices. Tata Steel Europe remained a drag on overall EBITDA with loss of INR6.2b (v/s INR6.6b in FY20).
- With steel prices at unprecedented highs (HRC prices at INR70,000/t in India and USD1,300+/t in Europe), we expect TATA's consolidated EBITDA to grow 94% YoY in FY22, led by (a) a 64%/74% jump in standalone / Tata Steel BSL operations to INR361b/INR94b and (b) expected turnaround in Europe operations leading to EBITDA of INR94b. We have factored in HRC prices of INR60,000/t in India operations in FY22.

Exhibit 15: Higher steel prices, lower raw material cost lead to high EBITDA/t in FY21



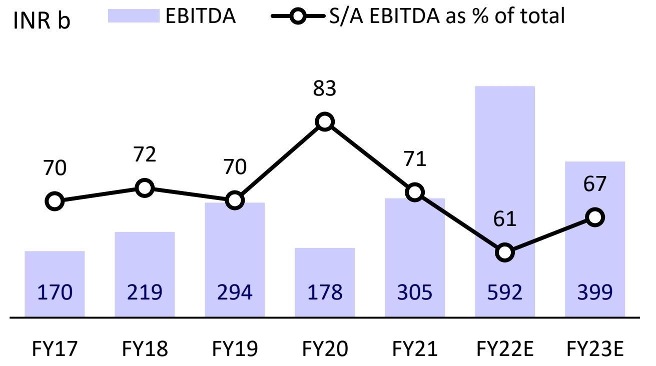
Source: Company, MOFSL

Exhibit 16: Standalone EBITDA up 46% YoY; margins improve by 940bps YoY to 34% in FY21



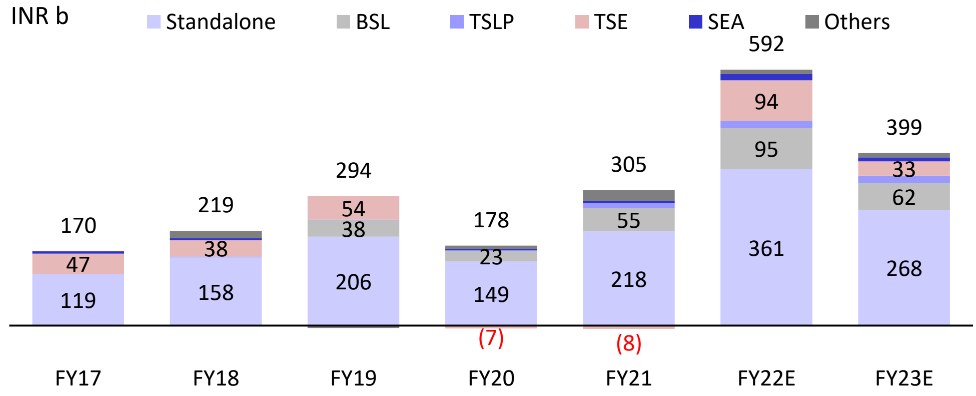
Source: Company, MOFSL

Exhibit 17: Consolidated EBITDA up 85% YoY in FY21 on subsidiaries' improved performances



Source: Company, MOFSL

Exhibit 18: Consolidated EBITDA continues to be impacted by loss at TSE



Source: Company, MOFSL

Exhibit 19: Key subsidiaries' performances

INR b	TSE	TSBSL	TSLP	TML	TSM	Tinplate	NatSteel	TS Thai
FY21								
Sales - mt	8.8	4.3	0.6	0.5	na	0.3	0.9	1.3
Revenue	560.5	214.2	47.5	20.5	5.3	22.8	43.3	52.6
EBITDA	-6.2	54.5	11.0	2.8	0.4	1.8	2.2	3.3
EBITDA/t - INR	*-896*	*12,629*	*17,190*	*5,911*	*na*	*5,593*	*2,489*	*2,500*
PAT	-61.6	24.7	5.7	1.7	0.1	1.0	0.4	1.5
as % of Consolidated EBITDA	-2.0	17.9	3.6	0.9	0.1	0.6	0.7	1.1
FY20								
Sales - mt	9.3	4.1	0.5	0.5	na	0.311	1.2	1.2
Revenue	559.4	182.0	34.9	19.2	2.0	21.1	53.3	46.2
EBITDA	-6.6	23.7	1.8	3.9	0.1	1.5	1.9	1.8
EBITDA/t - INR	*-715*	*5,725*	*3,577*	*7,316*	*na*	*4,878*	*1,575*	*1,475*
PAT	-35.1	-6.4	-2.6	2.2	0.0	1.0	0.0	0.1
as % of Consolidated EBITDA	-3.7	13.3	1.0	2.2	0.1	0.9	1.1	1.0
Change % (YoY)								
Sales - mt	-5.5	4.3	24.6	-9.6	na	1.6	-25.0	8.3
Revenue	0.2	17.7	36.1	7.0	169.4	8.3	-18.8	14.0
EBITDA	-7.0	130.0	498.7	-27.0	298.8	16.5	18.5	83.6
EBITDA/t - INR	*25.3*	*120.6*	*380.6*	*-19.2*	*na*	*14.7*	*58.0*	*69.5*
PAT	na	na	na	-24.5	292.9	3.3	na	1,410.0

Source: Company, MOFSL; TSE – Tata Steel Europe, TSBSL – Tata Steel BSL, TSLP – Tata Steel Long Products, TML – Teta Metaliks Ltd, TSM – Tata Steel Mining; TS Thai – Tata Steel Thailand,

On the path to accelerated deleveraging

Net debt declines by INR245b in FY21; net debt/EBITDA down to 2.7x

- Tata Steel's consolidated net debt (including an export advance) peaked in FY20, with the same declining by INR245b to INR826b (USD11b) in FY21 – led by higher EBITDA, working capital release, and lower capital expenditure.
- Decline in reported net debt was even higher at INR293b to INR755b, supported by the receipt of an export advance of INR63.8b (INR63b at FY21-end) during the year. The advance is interest-bearing and would be adjusted against exports over the next five years (INR13.3b in FY22). We have considered the export advance as debt.
- During the year, the company redeemed hybrid perpetual securities of INR15.0b bearing interest of 11.8% p.a. As a result, perpetual securities worth just INR7.7b were outstanding at FY21-end.
- The decline in net debt was also supported by the receipt of final call money of INR32.4b towards partly paid-up equity shares.
- Entity-wise debt performance stood as:
  - Standalone net debt declined by INR125b to INR263b. The decline would have been higher if not for an INR73.1b loan advanced to its foreign subsidiary Tata Steel Holdings Pte Ltd.
  - Tata Steel BSL net debt declined by INR65b to INR102b.
  - TSE's net debt rose by INR15b to INR187b, partly due to a exchange rate.
  - Other subsidiaries' net debt declined INR70b, primarily owing to an advance of INR73.1b (USD1.0b) by TS India to Tata Steel Holdings Pte Ltd.
- Consolidated net debt/EBITDA declined sharply to 2.7x in Mar'21 (lowest since FY07) from 6.0x at FY20-end. On the expectation of deleveraging and higher EBITDA, we expect net debt/EBITDA to fall below 1.5x over FY22–23. We expect net debt to decline by INR204b/INR112b to INR622b/INR509b in FY22/FY23
- Debt maturity profile remains comfortable, with just INR86b in debt payments scheduled over the next two years.
- TATA is exposed to both currency and interest risk on its debt: a) currency risk: with 61% of debt foreign currency denominated (USD – 31%, EUR – 19%, GBP – 5%, others – 3%) and b) interest risk: with 51% of debt at a floating rate.

Exhibit 20: Net debt declines sharply in FY21

INR b	FY17	FY18	FY19	FY20	FY21
Non-current					
Bonds and Debentures	212	295	295	314	319
Term loans from banks/financial institutions	375	378	445	538	307
Lease obligations	28	29	35	59	67
Others	25	27	29	30	30
Sub-Total (A)	**640**	**728**	**803**	**941**	**724**
Current					
Loans from banks/financial institutions	148	148	106	150	91
Others	36	11	2	42	4
Sub-Total (B)	**183**	**159**	**108**	**192**	**95**
Current maturities of loans (C)	7	35	97	30	66
Gross-reported debt (D=A+B+C)	**830**	**921**	**1,008**	**1,163**	**885**
Less: Cash and Cash Equivalents	106	228	59	115	130
Reported Net-debt	**724**	**693**	**950**	**1,048**	**755**
Add: Hybrid Perpetual securities	23	23	23	23	8
Add: Export advance facility	0	0	0	0	63
Adjusted Net-Debt	**747**	**716**	**972**	**1,071**	**826**

Source: Company, MOFSL

Exhibit 21: Net debt breakup at different entities

INR b	FY17	FY18	FY19	FY20	FY21
Standalone	242	109	306	389	263
Tata Steel BSL	0	0	162	167	102
TSE	477	643	651	171	187
Others/(eliminations)	28	-37	-146	344	274
Consolidated Net debt	**747**	**716**	**972**	**1071**	**826**

Source: Company, MOFSL

Exhibit 22: Debt maturity schedule: Debt maturity profile comfortable as only INR86b payable over FY22–23

INR b	Demand loans	FY22	FY23	FY24	FY25	FY26	FY27 onwards	Total
Borrowings excl. lease obligation	95	55	31	100	126	122	286	814
Lease obligation		17	15	13	13	9	53	121
Total	**95**	**72**	**46**	**113**	**138**	**131**	**340**	**935**
Less: Future finance charges on leases								42
Less: Capitalisation of transaction cost								7
Gross debt								**885**

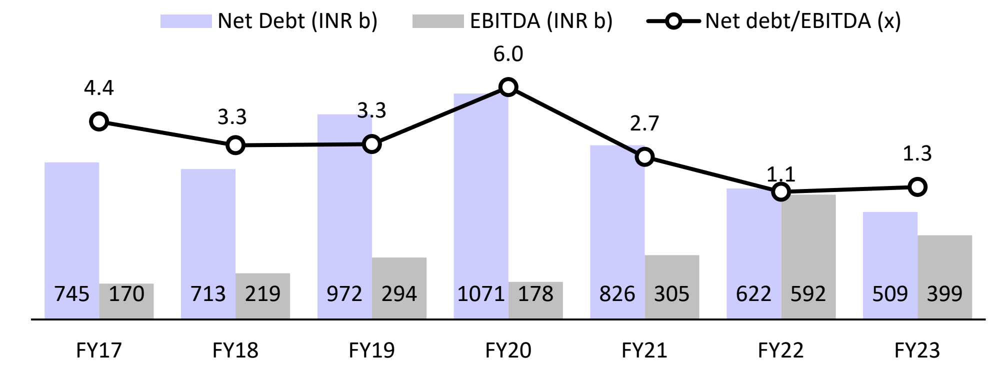
Source: Company, MOFSL

Exhibit 23: Consolidated currency exposure: INR – 39%, USD – 34%, others – 27%; Interest rate exposure: Fixed rate – 49%, floating rate – 51%

	FY21			FY20		
INR b	Fixed Rate	Floating rate	Total	Fixed Rate	Floatin g rate	Total
INR	161	186	346	264	292	556
GBP	22	20	42	12	18	30
EURO	11	154	165	12	173	185
USD	214	88	302	221	148	370
Others	28	1	30	22	0	22
Total	**436**	**449**	**885**	**532**	**631**	**1,163**
Fixed/Floating as % of total	*49*	*51*		*46*	*54*	
Foreign currency as % of total	*63*	*59*	*61*	*50*	*54*	*52*

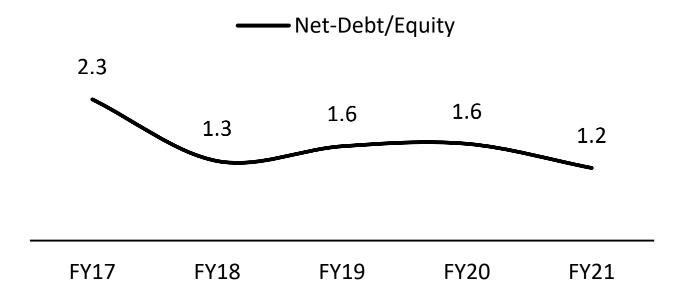
Source: MOFSL, Company

Exhibit 24: Tata Steel – net debt/EBITDA down to 2.7x in FY21



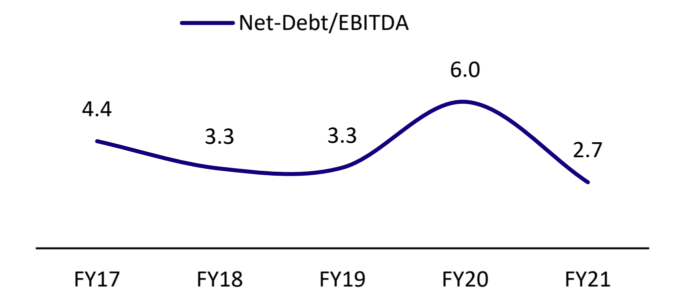
Source: Company, MOFSL

Exhibit 25: Net debt/equity at 1.2x and...



Source: Company, MOFSL

Exhibit 26: ...net debt/EBITDA at 2.7x, lowest since FY07



Source: Company, MOFSL

Free cashflow surges in FY21

EBITDA-to-OCF conversion also improves

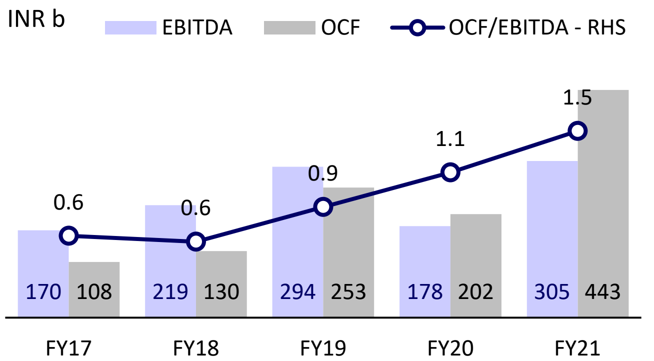
- Tata Steel's OCF improved 120% YoY to INR443b on higher EBITDA (INR305b) and working capital release of INR165b. As a result, the EBITDA-to-OCF conversion ratio improved to 1.5x v/s 1.1x in FY20.
- Capital expenditure also declined by INR34b to INR70b, resulting in higher free cashflow of INR373b v/s INR98b in FY20. Working capital release was higher owing to the receipt of an export advance of INR63.8b during the year, which we have classified as debt.
- In the last five years (FY17–21), Tata Steel has recorded cumulative EBITDA of INR1,166b resulting in OCF of INR1,136b at a healthy OCF-to-EBITDA conversion ratio of 1.0x.
- Of the total, the company has spent INR417b towards capital expenditure and INR400b towards the acquisition of Tata Steel BSL and Usha Martin's Steel business. Of the capex spent, ~INR165b has been spent at TSE.
- The company also distributed dividend of INR65b and paid interest of INR326 during this period. As a result, cashflows post dividend and interest payments were negative at INR53b, resulting in increase of INR79b in debt.

Exhibit 27: Consolidated cashflow – FCF improves on higher EBITDA and lower capex

INR b	FY17	FY18	FY19	FY20	FY21	Cumulative
EBITDA	170	219	294	178	305	1166
Change in WC	-49	-43	26	42	165	140
Tax paid	-18	-29	-51	-21	-7	-126
Other Adj.	6	-17	-15	3	-20	-44
OCF	**108**	**130**	**253**	**202**	**443**	**1136**
Capex	**-77**	**-75**	**-91**	**-104**	**-70**	**-417**
Free Cashflow	**31**	**55**	**162**	**98**	**373**	**720**
Acquisitions/investment in subsidiaries/JVs	0	-3	-353	-44	0	-400
Interest cost net of dividend and interest income	-57	-62	-85	-91	-77	-373
Free Cashflow post interest	**-26**	**-10**	**-276**	**-38**	**296**	**-53**

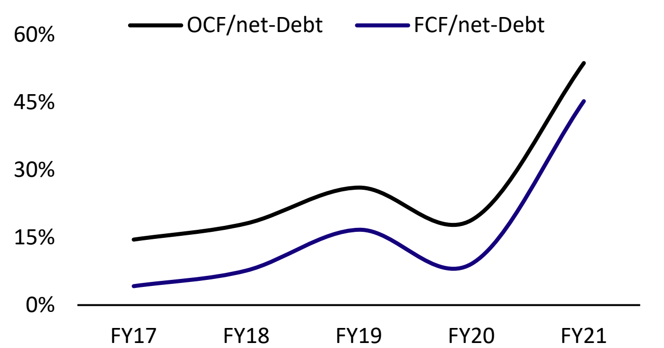
Source: Company, MOFSL

Exhibit 28: Cash conversion ratio improves to 1.5x



Source: Company, MOFSL

Exhibit 29: OCF / Net debt surges in FY21



Source: Company, MOFSL

Working capital declines in FY21 on increase in payables

While TATA's core net working capital declined further in FY21, it was led by increase in payables rather than reduction in receivables as seen in FY20. Net working capital (NWC) declined to 39 days of sales (from 46 days in FY20 and 58 days in FY17) as payables rose by 9 days YoY to 61days of sales.

While payables were stable at Standalone level, it increased at TS Global Procurement Company Pte (procurement arm of the group) where payables nearly doubled to USD737m (INR54b) in FY21 (vs USD397m in FY20) as it increased its trade payables period to 180 days (from 60 days).

Coupled with the EUR350-400m payment for provsioned carbon credits in FY21, if the payables terms normalise again, we therefore see a risk of working capital rising again in FY22.

Exhibit 30: Consolidated core working capital declines on increase in payables

INR b	FY17	FY18	FY19	FY20	FY21
Inventory	248	283	317	311	333
Trade receivables	116	124	118	79	95
Trade payables	186	204	217	214	260
Net Working Capital (NWC)	**178**	**203**	**218**	**176**	**168**
No. of days					
Inventories	81	78	73	76	78
Trade receivables	38	34	27	19	22
Trade payables	60	56	50	52	61
Net Working Capital Days	**58**	**56**	**50**	**46**	**39**

Source: Company, MOFSL

Exhibit 31: Standalone working capital rise in FY21 remains low

INR b	FY17	FY18	FY19	FY20	FY21
Inventory	102	110	113	107	86
Trade receivables	20	19	14	10	39
Trade payables	107	112	110	106	106
Net Working Capital (NWC)	**15**	**17**	**16**	**11**	**18**
No. of days					
Inventories	78	67	58	65	48
Trade receivables	15	11	7	6	22
Trade payables	82	69	57	64	60
Net Working Capital Days	**12**	**10**	**9**	**7**	**10**

Source: Company, MOFSL

Group structure simplification continues

Tata Steel had earlier announced its intention to simplify its group structure by merging various entities as well as operate four key businesses under four different companies:

a) Standalone operations – to focus largely on flat steel
b) Tata Steel Long Products – to carry out business in the long steel products space
c) Tata Steel Mining – to carry out merchant mining operations
d) Tata Steel Down Stream Products business

Mergers of various entities underway

Tata Steel and Tata Steel BSL

- As a part of its strategy, Tata Steel has already announced the merger of Tata Steel and Tata Steel BSL and acquired shareholder approval in Mar'21; the NCLT approval is awaited. The merger would be effective from the appointed date of 1st Apr'19 or any other date approved by NCLT. The share-swap ratio for the merger has been fixed as one share of Tata Steel for every 15 shares of Tata Steel BSL.
- The merger would allow Tata Steel to offset its taxable profits against the accumulated losses of Tata Steel BSL. The latter has accumulated losses and unabsorbed depreciation of INR89.3b, against which it has not recognized deferred taxes of INR22.5b. Tata Steel, in its 4QFY21 earnings call, mentioned that it has offset its taxable profits against the losses of Tata Steel BSL (as per the merger scheme); the quantum of the remaining loss that may be offset in the future is insignificant. This is also evident from Tata Steel's financial statements as the company has paid direct taxes of just INR3.6b for FY21, against current tax provision of INR39.5b in the P&L statement.

Tata Steel Long Products, Tata Metaliks, and Indian Steel & Wire Products

- As a part of its structure simplification exercise, it further announced the merger of Tata Metaliks and Indian Steel & Wire Products Ltd with Tata Steel Long Products Ltd. The share exchange ratio for the TSLP–TML merger has been fixed at 12 shares of TSLP for every 10 shares of TML. For the TSLP–ISWP merger, the ratio is 10 shares of TSLP for every 16 shares held in ISWP. TSLP and TML have submitted the aforementioned scheme of amalgamation to the stock exchanges for approval. Post the merger, TSLP would become a high-value-added and diversified long steel product company.
- Tata Steel has announced that the TSLP would be the vehicle for increasing capacities in long products.

Tata Steel Mining Limited

- Tata Steel Mining, earlier known as TS Alloys, would carry out all of the merchant mining operations in the future. TS Alloys would earlier carry out the Ferro Chrome conversion by procuring chromite ore from Tata Steel. Tata Steel Mining won leases for three chromite mines – this included the Sukinda mine, held by Tata Steel (before the lease expired on 31st Mar'20), which it won at a hefty premium of ~93%. The mines operate a combined capacity of ~1.5mtpa.

- Tata Steel Mining has Ferro Chrome capacity of 0.45mtpa and plans to double the capacity to 0.9mtpa. Furthermore, Tata Steel Mining has been declared a successful resolution applicant for Rohit Ferro-Tech Ltd, which has a Ferro Chrome capacity of 0.27mtpa and a stainless steel-making capacity of 0.1mtpa. The acquisition would enhance TSM's Ferro Chrome capacity and enable forward integration in company processes.
- Tata Steel Mining reported revenue/EBITDA of INR5.3b/INR0.4b (+1.7x/3x YoY).

Exhibit 32: TSM – combined chromite reserves of ~105mt; avg premium paid at ~93%

Chromite Mines	Reserves (mt)	Premium (%)	Validity
Sukinda	92.5	93.8	2070
Saruabil	10.1	88.5	2070
Kamarada	2.4	96.8	2070

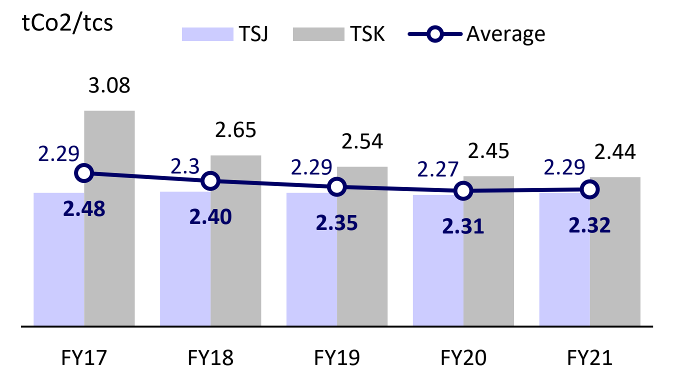
Source: Industry, MOFSL

Increased focus on sustainability

Tata Steel has set targets to achieve leadership in sustainability. As a part of its objective, Tata Steel has set out the following targets to achieve the same:

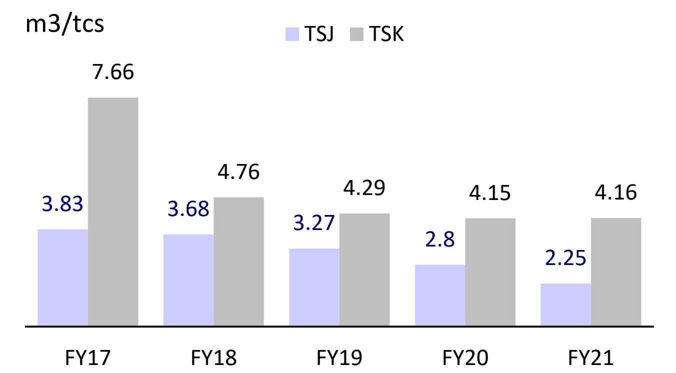
a) Reduce carbon emissions in its Indian operations to <2.0tCo2/tcs by 2025 and <1.8tCO2/tcs by 2030
b) Reduce freshwater consumption to <2.0 m3/tcs by 2025 and <1.5 m3/tcs by 2030 and achieve water-neutrality
c) Increase the scrap recycling capacity to 5.0mtpa from 0.5mtpa currently

Exhibit 33: Tata Steel's carbon emission intensity remains low at Jamshedpur (TSJ)



Source: Company, MOFSL

Exhibit 34: Tata Steel's freshwater consumption declining at Jamshedpur (TSJ)



Source: Company, MOFSL

New digital business initiatives

Tata Steel Aashiyana

- Tata Steel Aashiyana, an initiative providing early inspiration, engagement, and e-commerce for individual home builders (IHBs). It achieved turnover of INR7.3b (+122% YoY) in FY21. Sales of tubes through the Aashiyana platform rose to 20kt (v/s 6.3kt in FY20); wire sales through Aashiyana rose 85% YoY to 5kt+.

Scrap recycling

- Tata Steel set up a 0.5mtpa scrap recycling business in Sep'20 in Rohtak, Haryana. The facility is state-of-the-art, with mechanized equipment for processing, handling, and producing top-quality scrap. Steel scrap is procured from various market segments, such as end-of-life vehicle, obsolete household, construction and demolition, and industrial scrap. This is processed through mechanized equipment, and the high-quality processed scrap is supplied to electric arc furnaces, induction furnaces, and foundries for downstream steel-making, meeting their long-standing demand requirement. Scrap is procured through a digital app named FerroHaat from traders selling scrap to the company. Tata Steel aims to increase the scrap-processing capacity from 0.5mtpa to 5.0mtpa by 2030.

Valuation and view

Play on steel prices: Robust integrated domestic operations allow TATA to reap the benefits of higher prices, thereby making it a play on steel prices. We estimate that every INR1,000/t increase in steel price improves TATA's FY23E EBITDA by 7.8%. We expect steel prices and margins to stay strong on tightening demand-supply in Asia.

Volume growth to be muted over FY21–24E: Due to the lack of capacity growth, TATA volumes are expected to remain flat over the next three years. However, the outlook post FY24 is positive, with the 5mtpa Kalinganagar (KPO) Phase 2 expansion expected to get commissioned by then.

Europe outlook improving, but UK operations remain challenging: With improved spreads, the outlook for TSE has improved. However, given the high cost structure at UK operations and high sustenance capex in Europe, it remains exposed to the vagaries of the pricing cycle.

Decline in net debt a positive: TATA reduced its net debt by INR245b to INR826b in FY21, the lowest since FY19. We expect net debt to decline by a further INR316b (INR264/sh) to INR509b over FY21–23E.

Valuation: We arrive at TP of INR1,210/sh based on FY23E EV/EBITDA of 5x for its India operations and 4x for its Europe operations. Our TP implies EV/capacity of USD902/t, a 30% premium to the past five-year average of USD700/t, which prices in the deleveraging from the upcycle, in our view. Thus, we assign a **Neutral** rating.

Exhibit 35: SOTP valuation

Y/E March (INR b)	2018	2019	2020	2021	2022E	2023E
Standalone						
EBITDA per ton (USD)	201	232	171	240	382	279
EBITDA per ton (INR)	12,976	16,180	12,066	17,858	28,236	20,909
Sales (m tons)	12.2	12.7	12.3	12.3	12.8	12.8
EBITDA-India	157.8	205.6	148.6	220.5	361.4	267.6
Target EBITDA multiple						5.0
EV (Standalone) - (a)						**1,338**
INR/share						1,117
Subsidiaries						
EBITDA - India subs	28.3	34.1	33	92	136	98
Target EBITDA multiple						5.0
EBITDA - Europe	38	54	-7	-6	94	33
Target EBITDA multiple						4.0
EV (Subsidiaries) - (b)						**623**
INR/share						520
Target EV (c=a+b)						**1,970**
Net Debt (d)	713	972	1,071	826	622	509
INR/share	596	812	894	690	519	425
Total equity value (c-d+e)						**1,452**
Target Price (INR /share)						**1,210**

Source: MOFSL

Spot steel price implies significant upside

- Every INR1,000/t of higher steel prices improves TATA's FY23E EBITDA by 8% and EPS by 12%. At the same time, the valuation rises by 12%.
- If we assume spot steel prices would sustain in FY23E, this would imply an upside of 82% to our base case EBITDA and a 119% upside to our valuation of INR1,210/sh.

Exhibit 36: TATA's sensitivity to steel prices

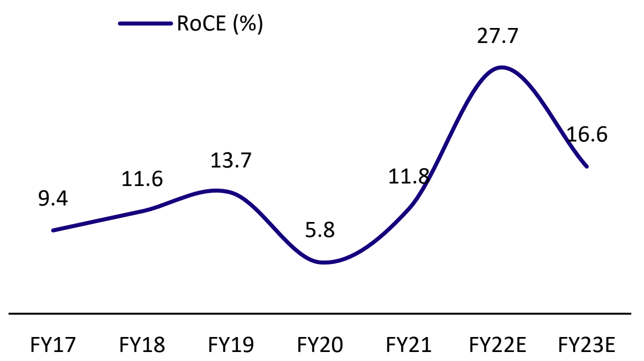
	Current Estimate		Sensitivity to INR1000/t		At spot prices	
INR b	**FY22E**	**FY23E**	**FY23E**	**Change (%)**	**FY23E**	**Change (%)**
S/A Realisation/t – INR	66,448	59,050	60,050	1.7	71,550	21.2
S/A EBITDA/t -INR	28,236	20,909	21,909	4.8	31,834	52.2
Conso Revenue	2,134	1,873	1,904	1.7	2,362	26.1
Conso EBITDA	592	399	430	7.8	726	82.0
Conso PAT	326	190	213	12.1	432	127.5
Net-debt	622	509	488	-4.2	304	-40.2
TP (5x FY23 EV/EBITDA)		1,210	1,356	12.0	2,651	119.0

Source: MOFSL

Return ratios reach at new highs since FY08

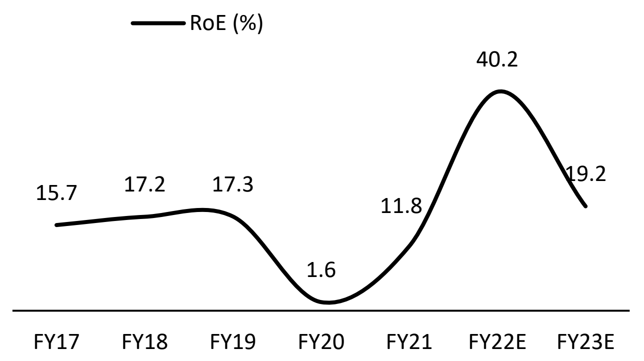
In FY21, EBITDA / adj PAT rose by 71%/7x YoY to INR305b/INR83b. As a result, returns ratios also improved sharply, with RoE (up 10.2pps) and RoCE (up 6.0pp) expanding to 11.8% each. We expect return ratios to improve further in FY22 on the back of estimated record-high profitability.

Exhibit 37: RoCE up 600bps to 11.8% in FY21



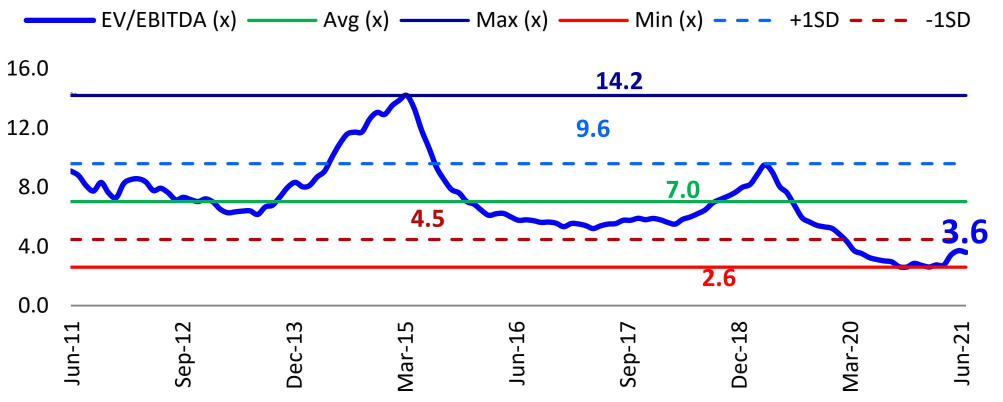
Source: Company, MOFSL

Exhibit 38: RoE up to 11.8% in FY21



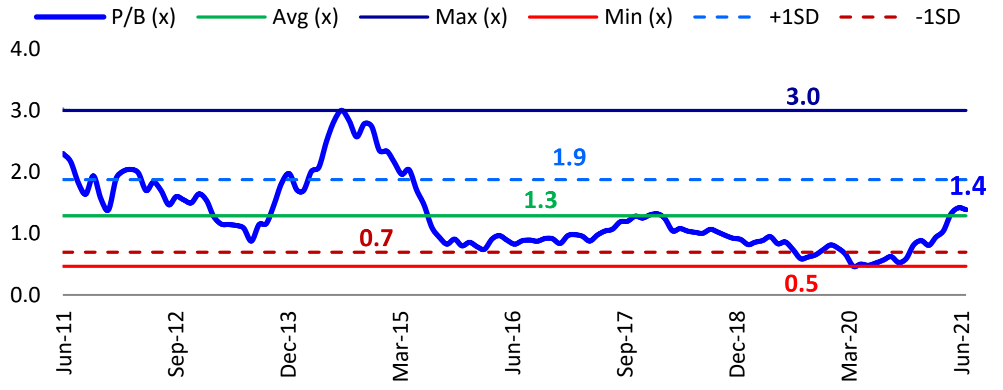
Source: Company, MOFSL

Exhibit 39: Tata Steel trading at 3.6x 1-yr forward EV/EBITDA



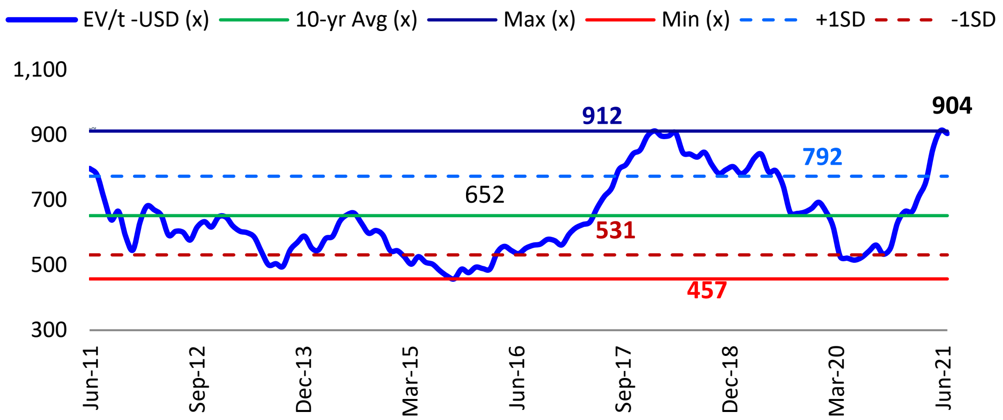
Source: MOFSL

Exhibit 40: Tata Steel trading at 1.4x 1-yr forward P/B, above its long-term average



Source: MOFSL

Exhibit 41: Tata Steel trading at 1-yr forward EV/t of USD904/t



Source: MOFSL

Contingent liability remains high

- Contingent liability rose ~10% YoY to INR183.5b, 25% of Net-worth (FY20: INR167.5b, 23% of NW). It primarily comprised potential liability towards tax of INR97.1b on mineral mining levied by the Odisha government.

Exhibit 42: Contingent liability remains high at 25% of NW

INR b	FY17	FY18	FY19	FY20	FY21
Income tax demands	14.4	15	32.2	23.6	24.6
Customs, Excise duty and Service Tax	8	10.2	9.3	6.1	5.4
Sales Tax / VAT	4.4	6.7	8.9	7.4	10.0
Related to Mining					
- Odisha state gov. (levying tax on mineral land)	58.8	65.2	75.7	87.3	97.1
- Deputy Director of Mines, Joda - Royalty on Iron	18.9	10.4	16.3	19.7	22.1
- Deputy Director of Mines - Excessive production	-	21.4	15.5	15.5	8.6
Others	**16.5**	**10.8**	**18.2**	**7.9**	**15.8**
Contingent Liability	**121.0**	**139.7**	**176.1**	**167.5**	**183.5**
% of Net worth	34%	24%	26%	23%	25%

Source: Company, MOFSL

Financials and valuations

Income Statement (Consolidated) (INR b)

Y/E March	2018	2019	2020	2021	2022E	2023E
Net Sales	**1,322**	**1,577**	**1,490**	**1,563**	**2,134**	**1,873**
Change (%)	17.7	19.3	-5.5	4.9	36.5	-12.2
EBITDA	**219**	**294**	**178**	**305**	**592**	**399**
% of Net Sales	16.6	18.6	12	19.5	27.7	21.3
Depn. & Amortization	60	73	87	92	96	97
EBIT	**159**	**220**	**91**	**213**	**496**	**302**
Finance cost	55	77	76	76	58	48
Other income	9	14	18	9	11	11
PBT before EO	**113**	**158**	**34**	**146**	**449**	**265**
EO income	96	-1	-49	-10	0	0
PBT after EO	**209**	**157**	**-16**	**135**	**449**	**265**
Tax	34	67	-26	57	117	69
Rate (%)	16	43	163	42	26	26
Reported PAT	**175**	**90**	**10**	**79**	**332**	**196**
Minority interest P/L	43	-11	-4	7	8	8
Share of asso. PAT	2	2	2	3	3	3
PAT (After MI & asso.)	**134**	**103**	**16**	**75**	**327**	**191**
Div. on Pref. /Hybrid Sec.	3	3	3	3	1	1
Adjusted PAT	**80**	**101**	**10**	**83**	**326**	**190**
Change (%)	116	27	-90	696	295	-42

Balance Sheet (Consolidated) (INR b)

Y/E March	2018	2019	2020	2021	2022E	2023E
Share Capital	11	11	11	12	12	12
Reserves	575	655	702	723	963	1,081
Net Worth	**586**	**667**	**713**	**735**	**975**	**1,093**
Minority Interest	9	24	26	33	41	49
Total Loans	942	1,031	1,186	956	766	676
Deferred Tax Liability	95	115	78	75	96	107
Capital Employed	**1,632**	**1,836**	**2,003**	**1,798**	**1,877**	**1,924**
Gross Block	1,399	1,730	1,918	2,020	2,111	2,197
Less: Accum. Deprn.	479	526	613	705	801	898
Net Fixed Assets	**920**	**1,204**	**1,305**	**1,314**	**1,310**	**1,299**
Capital WIP	166	186	195	190	209	243
Investments	30	32	29	35	37	40
Goodwill on consolidation	41	40	41	43	43	43
Curr. Assets	**929**	**863**	**921**	**855**	**997**	**987**
Inventory	283	317	311	333	439	411
Account Receivables	124	118	79	95	117	113
Cash & liquid investment	228	59	115	130	144	166
Others	294	370	417	297	297	297
Curr. Liability & Prov.	**455**	**490**	**487**	**639**	**719**	**688**
Account Payables	204	217	214	260	339	308
Provisions & Others	251	273	273	380	380	380
Net Current Assets	**475**	**373**	**434**	**216**	**278**	**299**
Appl. of Funds	**1,632**	**1,836**	**2,003**	**1,798**	**1,877**	**1,924**

Financials and valuations

Ratios (Consolidated)

Y/E March	2018	2019	2020	2021	2022E	2023E
Basic (INR)						
EPS	**69.5**	**88.6**	**9.1**	**69.0**	**272.2**	**158.5**
Cash EPS	121.6	152.7	85.1	146.1	352.1	239.7
BV/Share (ex-goodwill)	476.0	547.2	587.3	577.1	777.6	876.2
DPS	8.0	10.0	10.0	25.0	60.0	50.0
Payout (%)	11.6	11.3	110.4	36.2	22.0	31.5
Valuation (x)						
P/E	15.8	12.4	121.4	15.9	4.0	6.9
Cash P/E	9.0	7.2	12.9	7.5	3.1	4.6
P/BV	2.3	2.0	1.9	1.9	1.4	1.3
EV/Sales	1.5	1.4	1.6	1.4	0.9	1.0
EV/EBITDA	9.0	7.6	13.1	7.0	3.3	4.6
Dividend Yield (%)	0.7	0.9	0.9	2.3	5.5	4.5
Return Ratios (%)						
EBITDA Margins (%)	16.6	18.6	12.0	19.5	27.7	21.3
Net Profit Margins (%)	6.0	6.4	0.7	5.3	15.3	10.1
RoE	17.2	17.3	1.6	11.8	40.2	19.2
RoCE (pre-tax)	11.6	13.7	5.8	11.8	27.7	16.6
RoIC (pre-tax)	14.6	15.9	5.7	13.7	33.8	20.4
Working Capital Ratios						
Fixed Asset Turnover (x)	1.4	1.3	1.1	1.2	1.6	1.4
Asset Turnover (x)	0.8	0.9	0.7	0.9	1.1	1.0
Debtor (Days)	34	27	19	22	20	22
Inventory (Days)	78	73	76	78	75	80
Payables (Days)	56	50	52	61	58	60
Working Capital T/O (Days)	56	50	43	39	37	42
Leverage Ratio (x)						
Current Ratio	2.0	1.8	1.9	1.3	1.4	1.4
Interest Cover Ratio	2.9	2.9	1.2	2.8	8.6	6.3
Net Debt/Equity	1.3	1.6	1.6	1.2	0.7	0.5

E: MOFSL Estimates

Cash Flow Statement (Consolidated) (INR b)

Y/E March	2018	2019	2020	2021	2022E	2023E
EBITDA	219	294	178	305	592	399
Reconciliation income (loss)	-17	-15	3	-20	0	0
(Inc)/Dec in Wkg. Cap.	-43	26	42	165	-48	1
Tax Paid	-29	-51	-21	-7	-96	-58
CF from Op. Activity	**130**	**253**	**202**	**443**	**448**	**341**
(Inc)/Dec in FA + CWIP	-75	-91	-104	-70	-110	-120
Free Cash Flow to Firm	**55**	**162**	**98**	**373**	**338**	**221**
(Pur)/Sale of Non-cur. Invest.	-9	4	4	4	0	0
Acquisition in subsidiaries	-2	-351	-41	1	0	0
Int. & Dividend Income	4	3	4	5	11	11
others	9	18	8	3	0	0
CF from Inv. Activity	**-73**	**-416**	**-129**	**-57**	**-99**	**-109**
Equity raised/(repaid)	91	0	2	32	0	0
Debt raised/(repaid)	41	82	76	-321	-190	-90
Dividend (incl. tax)	-12	-14	-18	-12	-86	-72
Interest & equiv. paid	-54	-74	-77	-71	-58	-48
CF from Fin. Activity	**66**	**-7**	**-17**	**-371**	**-334**	**-210**
(Inc)/Dec in Cash	**123**	**-170**	**56**	**15**	**14**	**22**
Add: opening Balance	106	228	59	115	130	144
Closing Balance	**228**	**59**	**115**	**130**	**144**	**166**

NOTES

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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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