

April 27, 2022

## Higher input costs impact EBITDA margins...

**About the stock:** Tata Metaliks (TML) is a subsidiary of Tata Steel, which was established in 1990. TML has manufacturing facilities in Kharagpur, West Bengal, which produces pig iron and ductile iron (DI) pipes.

- By Q4FY23, TML would double its DI pipe capacity to 4 lakh tonnes
- TML has healthy cash flows and a strong balance-sheet. It is one of the few players in the steel pipe sector having net cash position on its balance sheet

**Q4FY22 Results:** TML's EBITDA and EBITDA margin declined both QoQ and YoY on higher raw material costs.

- TML reported revenue of ₹ 808 crore, up 22% YoY and 17% QoQ
- TML's EBITDA was at ₹ 57 crore, down 60% YoY and 16% QoQ. EBITDA margin were at 7.0% compared to 21.7% in Q4FY21 and 9.8% in Q3FY22. EBITDA and EBITDA margin came in muted due to higher input costs
- During the quarter, TML reported exceptional income to the tune of ~₹ 31 crore on account of profit on sale of land of discontinued operations in Maharashtra. Ensuing reported PAT for the quarter was at ₹ 52 crore, down 30% YoY but up 46% QoQ

**What should investors do?** TML's share price has given a return of ~84% over the last two years (from ~₹ 435 in April 2020 to ~₹ 800 levels in April 2022).

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value TML at ₹ 900 i.e. 6x FY24E EV/EBITDA

### Key triggers for future price performance:

- The first phase of DI pipe capacity expansion (~1 lakh tonne) is likely to be commissioned in May 2022. The second phase is likely to be commissioned in Q4FY23 (~1 lakh tonne). Post commissioning of both phases, TML would double its DI capacity from 2 lakh tonnes currently to 4 lakh tonnes
- One of the key beneficiaries of Jal Jeevan mission

**Alternate Stock Idea:** In our metal sector coverage we like Graphite India (GIL).

- GIL is the largest Indian producer of graphite electrodes by total capacity. Its manufacturing capacity of 98000 tonnes per annum is spread over three plants at Durgapur & Nashik in India & Nuremberg in Germany
- BUY with a target price of ₹ 650



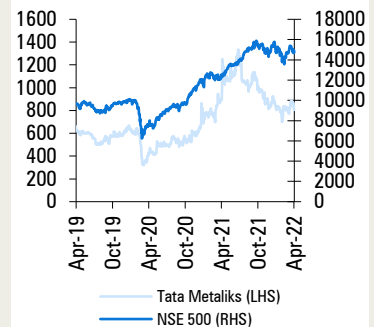
### Particulars

Particulars	Amount
Market Capitalisation (in ₹ crore)	2545
Debt in ₹ crore (FY22)	0
Cash & Cash Eq. in ₹ crore (FY22)	336
EV (in ₹ crore)	2209
52 Week H / L (₹)	1374 / 695
Equity Capital (₹ crore)	32
Face Value	₹ 10

### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	60.0	60.0	60.0	60.0
FIs	1.9	1.1	1.0	0.9
DIs	11.6	10.5	10.5	9.5
Public	26.5	28.4	28.4	29.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Price Chart



### Key risks

- Higher than expected increase in demand of DI pipes
- Higher than expected increase in operating costs

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### Key Financial Summary

(₹ crore)	FY20	FY21	FY22	CAGR (FY17-FY22 in %)	FY23E	FY24E	CAGR (FY22-FY24E in %)
Total Operating income	2,051	1,917	2,746	15	3,181	3,225	8
EBITDA	285	389	378	11	390	413	4
EBITDA Margin (%)	13.9	20.3	13.8		12.3	12.8	
Reported Net Profit	167	221	238	15	241	255	4
EPS (₹)	59.4	69.9	75.4		76.5	80.7	
P/E	13.5	11.4	10.6		10.5	9.9	
RoE (%)	18.1	17.0	15.6		13.9	12.9	
RoCE (%)	19.4	24.6	20.7		18.2	17.1	

Source: Company, ICICI Direct Research

## Key Conference call highlights

- During Q4FY22, pig iron quarterly sales volume was at 86 KT, up 8% YoY and 15% QoQ. For the quarter, ductile iron (DI) pipe sales volume was at 69 KT, up 3% QoQ but down 8% YoY
- During FY22, pig iron sales volume was at 341 KT, up 19% YoY. Similarly, for FY22, ductile iron (DI) pipe sales volume was at 237 KT, up 22% YoY
- For FY23, Tata Metaliks has guided ductile iron (DI) sales volume of ~280000-300000 tonnes. The company currently has a DI order book of seven to eight months
- Over the last three to six months, DI pipe prices witnessed a healthy uptick of ~50-60%. Of the current order book position, about one-third of orders are based on old pricing while balance about two-third of orders have the new higher pricing
- For FY23E, TML has chalked out a capex plan of ~₹ 250-300 crore. Capex incurred during FY22 was ~₹ 325 crore
- On account of Russia Ukraine conflict, pig iron ore prices witnessed healthy momentum. This has also aided domestic pig iron prices. Pig iron prices for April 2022 are ~₹ 4000/tonne higher compared to March 2022 prices

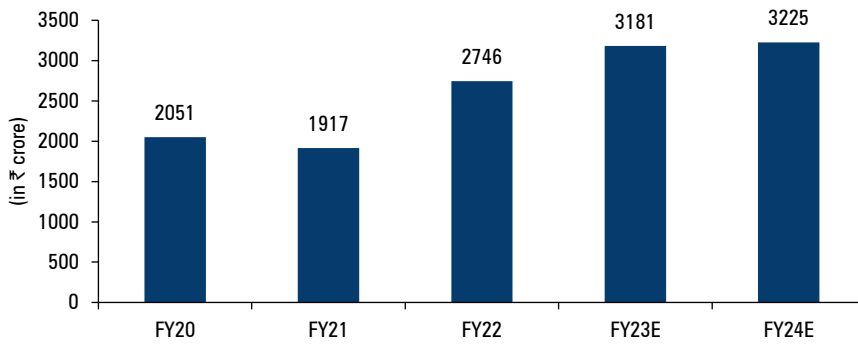
Exhibit 1: Variance Analysis

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
<b>Total Operating Income</b>	<b>808</b>	<b>661</b>	<b>22%</b>	<b>690</b>	<b>17%</b>	Topline increased by 22% YoY and 17% QoQ
Other Income	7	3	143%	3	103%	
Raw Material Expense	560	339	65%	456	23%	
Employee Expense	40	35	13%	36	10%	
Other Expenses	151	144	5%	130	16%	
Total Operating Expenses	751	518	45%	622	21%	
<b>EBITDA</b>	<b>57</b>	<b>143</b>	<b>-60%</b>	<b>68</b>	<b>-16%</b>	EBITDA decreased by 60% YoY and 16% QoQ on account of higher operational cost
EBITDA Margin (%)	7.0	21.7	-1461 bps	9.8	-279 bps	
Depreciation	15	16	-9%	15	-3%	
Interest	7	6	12%	6	15%	
Exceptional Items	31	0	NA	0	NA	
<b>PBT</b>	<b>73</b>	<b>124</b>	<b>-41%</b>	<b>50</b>	<b>46%</b>	
Tax Outgo	21	49	-57%	14	44%	
<b>PAT</b>	<b>52</b>	<b>75</b>	<b>-30%</b>	<b>36</b>	<b>46%</b>	PAT decreased by 30% YoY, however was up 46% QoQ. Sequential growth in PAT was primarily aided by the exceptional income reported during the quarter.

Source: Company, ICICI Direct Research

## Financial story in charts

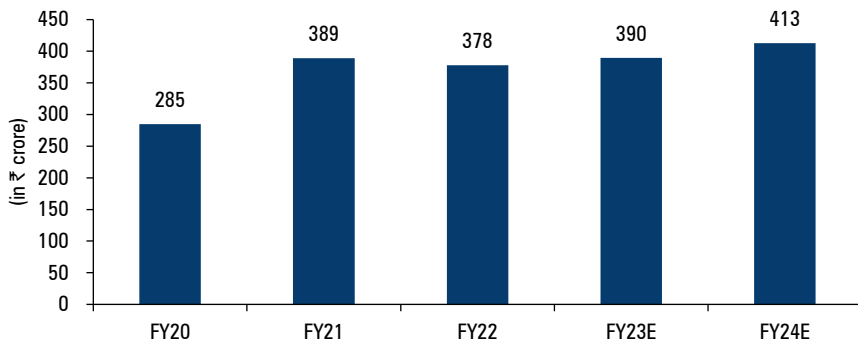
Exhibit 2: Trend in topline... (in ₹ crore)



We expect topline to grow at a CAGR of 8% during FY22-24E

Source: Company, ICICI Direct Research

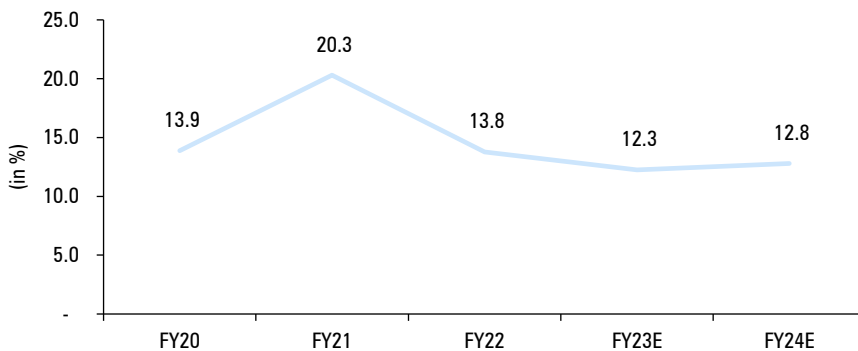
Exhibit 3: Trend in EBITDA... (in ₹ crore)



We expect EBITDA to grow at a CAGR of 4% during FY22-24E

Source: Company, ICICI Direct Research

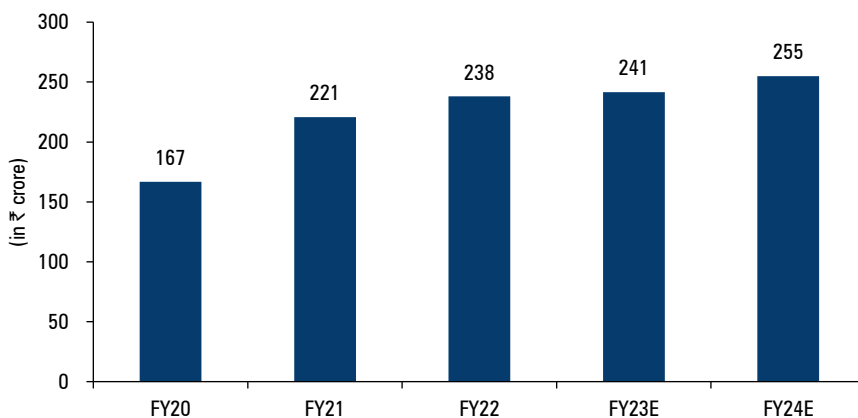
Exhibit 4: Trend in EBITDA margin ... (in %)



Over the next couple of years, we expect EBITDA margin to come in at a ~12.3% in FY23E & ~12.8% in FY24E

Source: Company, ICICI Direct Research



Exhibit 5: Trend in Reported PAT (in ₹ crore)



We expect PAT to grow at a CAGR of 4% during FY22-24E

Source: Company, ICICI Direct Research

**Exhibit 6: Valuation Matrix**

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2,155	15	65.1	14	12.3	7.3	23.8	31.0
FY20	2,051	-5	59.4	-9	13.5	8.3	18.1	19.4
FY21	1,917	-7	69.9	18	11.4	6.0	17.0	24.6
FY22	2,746	43	75.4	8	10.6	6.0	15.6	20.7
FY23E	3,181	16 	76.5	1	10.5	5.9	13.9	18.2
FY24E	3,225	1 	80.7	6	9.9	5.4	12.9	17.1

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>1917</b>	<b>2746</b>	<b>3181</b>	<b>3225</b>
Growth (%)	-7%	43%	16%	1%
<b>EBITDA</b>	<b>389</b>	<b>378</b>	<b>390</b>	<b>413</b>
Growth (%)	37%	-3%	3%	6%
Interest & Finance Cost	24	25	20	18
Depreciation	67	62	72	75
Other Income	8	17	20	21
<b>PBT before Exceptional Items</b>	<b>307</b>	<b>308</b>	<b>318</b>	<b>341</b>
Less: Exceptional Items	0	31	0	0
<b>PBT</b>	<b>307</b>	<b>339</b>	<b>318</b>	<b>341</b>
Total Tax	86	101	76	86
<b>Reported PAT</b>	<b>221</b>	<b>238</b>	<b>241</b>	<b>255</b>
Growth (%)	32%	8%	1%	6%
<b>EPS</b>	<b>69.9</b>	<b>75.4</b>	<b>76.5</b>	<b>80.7</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	221	238	241	255
Add: Dep. & Amortization	67	62	72	75
Net (Inc) / dec.in Current Ass	-86	-30	-138	102
Net Inc / (dec) in Current Liab	-24	229	84	-114
<b>CF from operating activities</b>	<b>178</b>	<b>498</b>	<b>260</b>	<b>318</b>
(Inc)/dec in Investments	10	-60	-0	0
(Inc)/dec in Fixed Assets	-227	-374	-300	-198
Others	0	0	0	0
<b>CF from investing activities</b>	<b>-217</b>	<b>-434</b>	<b>-300</b>	<b>-198</b>
Inc / (Dec) in Equity Capital	3	0	0	0
Inc / (Dec) in Loans	-201	-10	0	0
Dividend & Dividend Tax	-21	-25	-25	-25
Others	189	56	0	0
<b>CF from financing activities</b>	<b>-30</b>	<b>20</b>	<b>-25</b>	<b>-25</b>
Net Cash flow	-68	85	-65	95
Opening Cash	110	42	127	62
<b>Closing Cash</b>	<b>42</b>	<b>127</b>	<b>62</b>	<b>156</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	32	32	32	32
Reserve and Surplus	1,269	1,494	1,710	1,940
Total Shareholders funds	1,300	1,525	1,741	1,971
Total Debt	10	0	0	0
Deferred Tax Liability (net)	12	55	55	55
<b>Source of Funds</b>	<b>1,322</b>	<b>1,580</b>	<b>1,796</b>	<b>2,026</b>
Gross Block - Fixed Assets	1,052	1,326	1,576	2,001
Accumulated Depreciation	260	322	394	469
Net Block	793	1,005	1,183	1,533
Capital WIP	134	233	283	56
Net Fixed Assets	926	1,238	1,466	1,589
Investments	0	60	60	60
Inventory	409	477	549	477
Cash	42	127	62	156
Debtors	247	211	261	212
Loans & Advances & Other CA	238	236	251	270
Total Current Assets	936	1,051	1,123	1,116
Creditors	270	447	523	530
Provisions & Other CL	270	322	330	209
Total Current Liabilities	540	769	853	739
Net Current Assets	396	282	270	377
<b>Application of Funds</b>	<b>1,322</b>	<b>1,580</b>	<b>1,796</b>	<b>2,026</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	69.9	75.4	76.5	80.7
BV	411.7	482.9	551.4	624.1
DPS	6.5	8.0	8.0	8.0
Cash Per Share	13.3	40.2	19.6	49.5
<b>Operating Ratios (%)</b>				
EBITDA margins	20.3	13.8	12.3	12.8
PBT margins	16.0	12.4	10.0	10.6
Net Profit margins	11.5	8.7	7.6	7.9
Inventory days	78	63	63	54
Debtor days	47	28	30	24
Creditor days	51	59	60	60
<b>Return Ratios (%)</b>				
RoE	17.0	15.6	13.9	12.9
RoCE	24.6	20.7	18.2	17.1
RoIC	25.4	22.6	18.9	18.6
<b>Valuation Ratios (x)</b>				
P/E	11.4	10.6	10.5	9.9
EV / EBITDA	6.0	6.0	5.9	5.4
EV / Revenues	1.3	0.9	0.8	0.7
Market Cap / Revenues	1.3	0.9	0.8	0.8
Price to Book Value	1.9	1.7	1.5	1.3
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.4	1.3	1.5
Quick Ratio	1.0	0.7	0.7	0.9

Source: Company, ICICI Direct Research

**Exhibit 11: ICICI Direct coverage universe (Metals and Mining)**

	CMP		TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21
Coal India	187	195	Buy	114627	20.6	25.7	28.0	9.0	7.2	6.6	5.4	4.4	4.1	42.3	46.5	44.3	34.8	37.3	35.5
Hindalco	480	725	Buy	121898	25.5	62.8	73.7	21.2	8.6	7.4	9.6	5.3	4.5	8.8	17.3	17.5	8.5	18.7	18.3
NMDC	160	190	Buy	49732	21.3	34.2	20.9	8.0	5.0	8.1	5.2	3.5	5.5	27.0	34.6	19.0	21.0	28.3	15.9
JSW Steel	720	775	Buy	182234	32.9	98.1	76.8	22.9	7.7	9.8	11.6	6.0	6.5	13.8	22.1	15.6	17.0	33.8	21.0
Ratnamani	2320	2254	Hold	11397	59.0	69.3	90.2	41.3	35.2	27.0	27.3	21.3	16.9	15.7	18.4	19.8	13.9	14.5	16.3
Graphite Ind.	520	650	Buy	10942	-1.6	29.7	62.4	NA	18.9	9.0	NA	14.5	5.2	-5.4	10.0	22.6	-0.7	11.7	20.7
Tata Steel	1225	1600	Buy	161389	77.1	329.7	205.7	17.1	4.0	6.4	7.9	3.5	4.6	13.1	30.0	18.4	12.4	35.1	17.7
Sail	96	120	Buy	44605	9.2	29.1	16.0	11.8	3.7	6.8	6.2	3.0	4.6	10.9	22.2	11.5	8.9	22.5	11.5
Jindal Stainless Jindal	185	250	Buy	10237	8.6	31.9	23.5	23.6	6.4	8.6	9.1	5.3	6.9	16.0	25.4	16.5	13.0	33.3	19.7
Stainless Hisar	360	488	Buy	9035	29.5	70.8	58.9	13.4	5.6	6.7	9.6	5.3	5.4	18.6	28.5	19.8	23.2	34.7	21.9
Vardhman Special Steel	256	300	Buy	1055	10.9	23.0	25.6	23.8	11.3	10.1	11.3	6.5	6.1	13.7	22.0	20.9	9.6	17.2	16.3
Tata Metaliks	800	900	Hold	2526	69.9	75.4	76.5	11.4	10.6	10.5	6.0	6.0	5.9	24.6	20.7	18.2	17.0	15.6	13.9

Source: Company, ICICI Direct Research

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