

Tata Steel

 BSE SENSEX
 51,598

 S&P CNX
 15,350

CMP: INR 861 TP: INR 965 (+12%)
Neutral

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TATA STEEL
 #WeAlsoMakeTomorrow

Stock Info

Bloomberg	TATA IN
Equity Shares (m)	1,198
M.Cap.(INRb)/(USDb)	1052.7 / 13.5
52-Week Range (INR)	1535 / 843
1, 6, 12 Rel. Per (%)	-21/-12/-20
12M Avg Val (INR M)	12529
Free float (%)	66.1

Financials Snapshot (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	2,440	2,446	2,442
EBITDA	635	379	420
Adj. PAT	402.4	171.6	193.7
EBITDA Margin (%)	26.0	15.5	17.2
Cons. Adj. EPS (INR)	329.5	140.5	158.6
EPS Gr. (%)	377.4	-57.4	12.9
BV/Sh. (INR)	902	982	1,081
Ratios			
Net D:E	0.5	0.5	0.4
RoE (%)	44.6	14.9	15.4
RoCE (%)	29.2	14.6	16.0
Payout (%)	15.5	35.6	31.5
Valuations			
P/E (x)	2.6	6.1	5.4
P/BV (x)	1.0	0.9	0.8
EV/EBITDA(x)	2.5	4.3	3.8
Div. Yield (%)	5.9	5.8	5.8
FCF Yield (%)	32.8	17.1	16.3

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	33.9	33.9	34.4
DII	20.5	18.2	25.4
FII	22.9	21.4	18.6
Others	22.7	26.5	21.6

FII Includes depository receipts

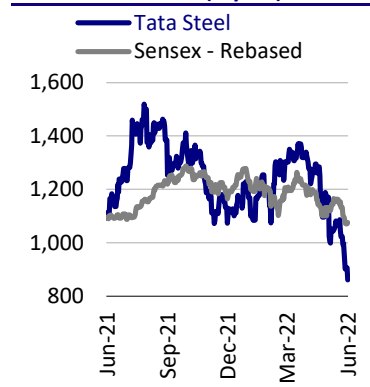
Will not benefit from inexpensive ore, Russian coal

Tata Steel India EBITDA to contract significantly in 1HFY23

- We believe Tata Steel standalone's 1HFY23 EBITDA is likely to contract by 66% over 1HFY22 driven by lower ASP, lower demand and peak coking coal costs and high base effect.
- India operations will not benefit from lower iron ore costs or discounted Russian coal. Hence, the cost structure will only benefit from the reduction in coking coal prices that too for 70-75% of requirement as India operations are captive on coking coal for the balance.
- We cut our FY23E consolidated EBITDA by 22%, driven by 34% reduction in standalone EBITDA, partially offset by 4% increase in TSE EBITDA. The reduction in domestic EBITDA is driven by: a) lower than expected sales volume, b) reduction in ASP and c) higher than estimated coking coal cost.
- We maintain our Neutral rating on Tata Steel with revised TP of INR 965 (vs INR 1,410 earlier) based on SoTP.

ASP will decline, cost benefits will not accrue to India operations

- We note that the Indian steel prices have corrected from the peak of INR75,000/t to INR61,500/t currently in the trade market. However, the mill pricing still remains higher than the trade and has a scope for further downward revision.
- The negotiations for the automotive steel for the 1QFY23 is not over yet and we believe with the imposition of 15% export duty and consequent crash in domestic steel prices, the automotive industry will likely negotiate hard to bring down the contracted price for 1QFY23. We do not see a respite in 2QFY23 contracts as well from steel industry's perspective and expect another round of correction before steel prices rebound towards the mid of 2QFY23. We expect a protracted negotiation and delayed completion of 1QFY23 automotive price negotiation.
- Tata Steel will not benefit from reduction in iron ore costs due to its captive iron ore mines while continuing to pay additional royalty on iron ore supplied to TSLP (Tata Steel Longs Products). Iron ore prices have already corrected by INR1500/t and are poised to fall further.
- Pellet business is no longer viable in the export market with the imposition of 45% export duty and hence, the domestic prices have also crashed in line with iron ore prices.
- However, unless export duty on pellets is reversed, TSI will not benefit from crashing pellet prices as well as it commissions its 6mt pellet plant at Kalinganagar in 3QFY23.
- Unlike its peers, Tata Steel will also not benefit from the lower cost Russian coal as it has announced that it will not buy Russian coal as a matter of policy. We note that Netherlands and UK, where the majority of its TSE operations are located, are founding members of NATO.

Stock Performance (1-year)**Europe business to be more resilient than our estimates**

- We had expected the European profitability to correct sharply in 2HFY23 on expectation of sharp rise in costs. However, the company's guidance on lower than expected increase in costs has influenced our TSE assumptions favourably.
- Hence, despite an 11% reduction in our ASP estimates, we increase our FY23 EBITDA/t estimate for TSE from USD157/t to USD 163/t.
- We believe TSE will continue to benefit from the strong tailwind of prices before the profitability normalizes, but will still remain above previous decadal average.

NINL benefit to accrue in FY24

- Tata Steel has not yet paid the acquisition price of INR121b to the government for acquiring 93.71% stake.
- Upon acquisition, the company will first work on resuming the iron ore mining (production from the iron ore mine of NINL has started very recently). Hence, scaling the mines to the desired level will take time.
- Further, re-start of the furnace, which has been closed for a long time, will also take time and we believe it could be in 4QFY23. Hence, the benefit of additional volumes should be available only in FY24.
- The benefit of captive iron ore mines of NINL is likely to accrue to Tata Steel in FY24 only. However, we also note that the one of the strategic benefit of the NINL acquisition, which has contiguous land just near its existing operations of Tata Steel Long Products (TSLP), could be realized very late as expansion at NINL might get delayed due to the slowdown in sector, imposition of export duty and looming surplus steel capacity in India over the next 3-4 years.

Balance sheet has been repaired, but lacks growth

- We note that the company has been most prudent in deleveraging its balance sheet in this up-cycle. It has reduced its net debt by 51% from INR1,048b in Mar'20 to INR510b in FY22.
- However, it still needs to pay out INR121b towards acquisition of NINL. At the peak of the steel cycle, it has again made an acquisition (NINL) and announced lofty capex plans to reach 50mt by CY30.
- The volume growth will come at the end of FY24 with the commissioning of 5mt brownfield expansion at Kalinganagar.
- With the imposition of 45% export duty on pellets, the benefit of captive pellet plant at Kalinganagar is also limited.

Valuation and view

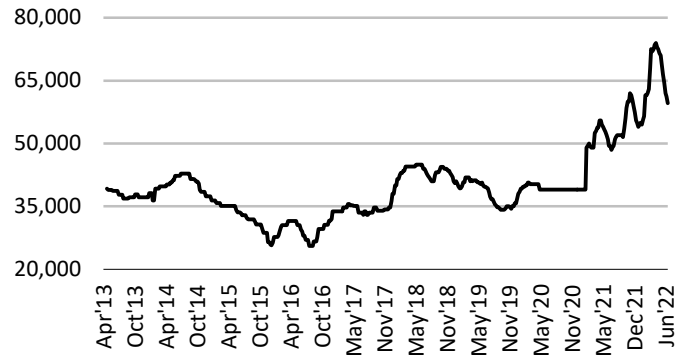
- Coking coal costs have been stagnant at USD400/t vis-à-vis our expectations of a sharp correction (in line with reduction in steel prices in India) as India is one of the largest coking coal purchaser from Australia.
- Slowdown in China is not helping steel prices either. Unless the Chinese government announces a large scale stimulus to revive the economy, the economic activities are likely to remain curtailed.
- We believe the company will have a higher than normal inventory as the trade activities came to a near halt after the imposition of 15% export duty on steel.
- We expect most of the steel mills (including Tata Steel) to pre-pone their monsoon shutdown schedules in view of a) weak domestic demand, b) marginal to negative EBITDA on exports, and c) high inventory pileup. This should lead to normalization of situation by mid 2QFY23.
- The stock is trading at 4.3x our FY23 EV/EBITDA estimates. In terms of P/B, the stock quotes at 0.9x FY23 BV. We expect Tata to generate RoE of 15% for FY23 compared to 45% in FY22.

Exhibit 1: Dom HRC prices (INR/t) have corrected sharply



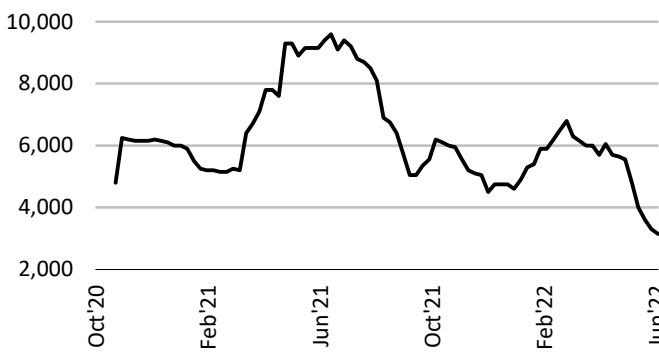
Source: Industry

Exhibit 2: Dom TMT prices (INR/t) have also crashed



Source: Industry

Exhibit 3: Domestic iron ore prices (INR/t) have crashed



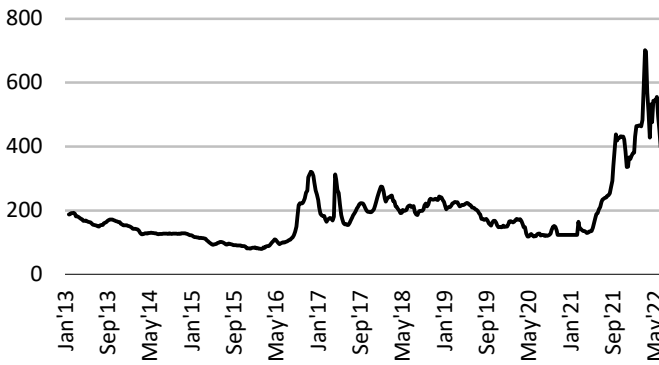
Source: MOFSL, Industry

Exhibit 4: While pellet (INR/t) trades have almost collapsed



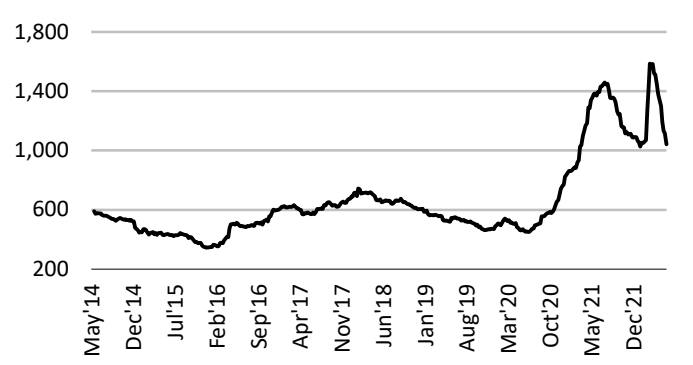
Source: MOFSL, Industry

Exhibit 5: Correction in Coking coal prices (USD/t) has not been commensurate with correction in domestic steel prices



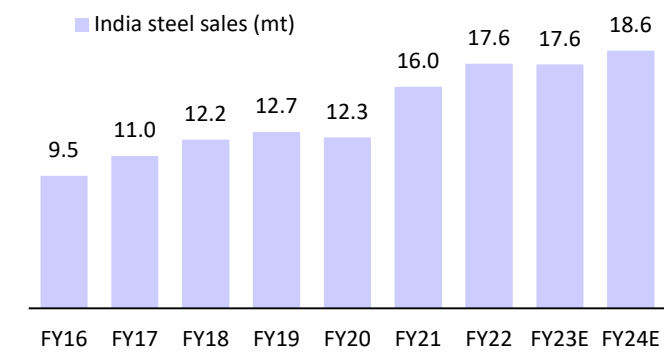
Source: MOFSL, Industry

Exhibit 6: However, North European HRC (USD/t) have been more resilient than domestic prices



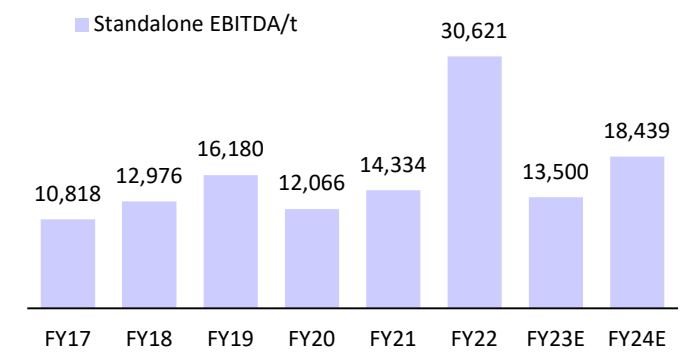
Source: MOFSL, Industry

Exhibit 7: India Sales (mt) to remain almost stagnant



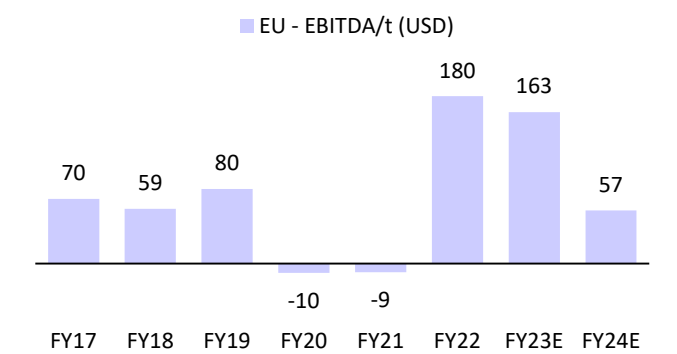
Source: Company, MOFSL

Exhibit 8: While EBITDA will decline



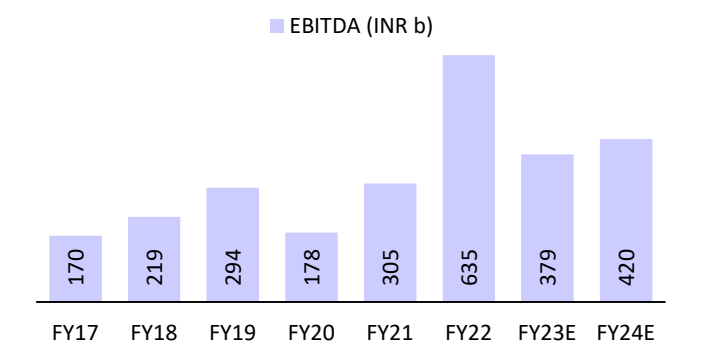
Source: Company, MOFSL

Exhibit 9: But TSE EBITDA will remain resilient in FY23



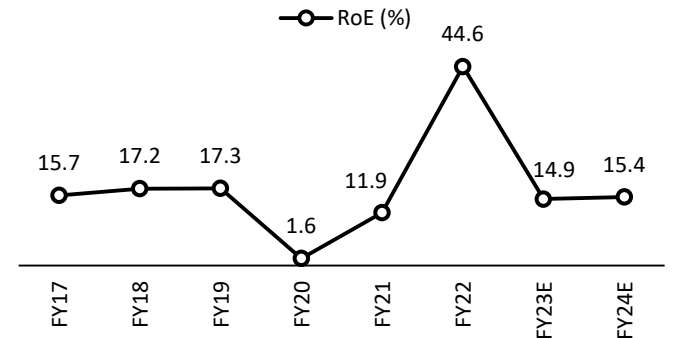
Source: Company, MOFSL

Exhibit 10: Consolidated EBITDA will correct sharply in FY23



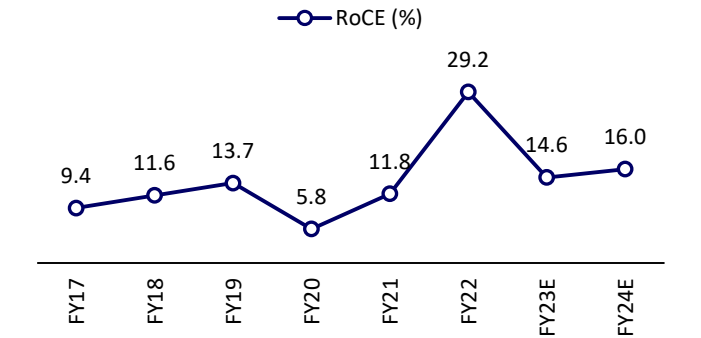
Source: Company, MOFSL

Exhibit 11: RoE to correct sharply in FY23 before rebounding



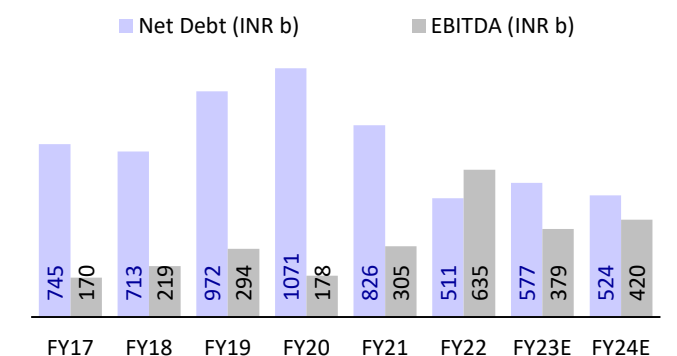
Source: Company, MOFSL

Exhibit 12: RoCE will also correct



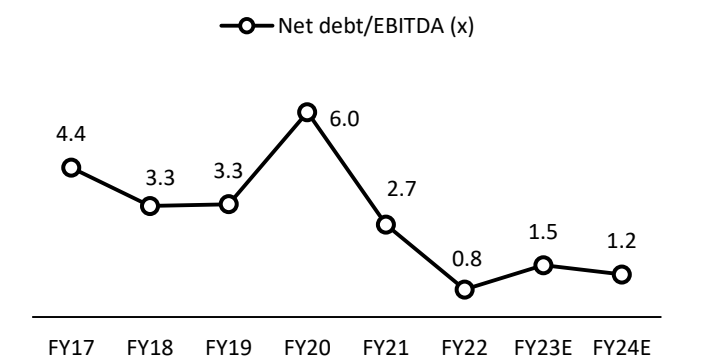
Source: Company, MOFSL

Exhibit 13: Peak debt reduction is behind as ebitda generation will reduce



Source: Company, MOFSL

Exhibit 14: Leverage unlikely to reduce meaningfully from here



Source: Company, MOFSL

Exhibit 15: Key assumptions and change in Estimates

Key Assumptions	UoM	FY23E			FY24E		
		Old	Revised	Change (%)	Old	Revised	Change (%)
Standalone							
Volumes	mt	18.0	17.6	-2.4	18.9	18.6	-1.8
ASP	INR/t	71,833	68,506	-4.6	61,033	66,620	9.2
Revenue	INR b	1,296	1,206	-6.9	1,154	1,238	7.2
EBITDA	INR/t	19,916	13,500	-32.2	18,775	18,439	-1.8
EBITDA	INR b	359	238	-33.9	355	343	-3.5
Europe							
Volumes	mt	9.0	9.0	0.0	9.5	9.5	0.0
ASP	INR/t	1,493	1,329	-11.0	1,347	1,231	-8.6
Revenue	INR b	1,016	904	-11.0	977	893	-8.6
EBITDA	USD/t	157	163	4	94	57	-39
EBITDA	INR b	107	111	4	68	42	-39
Consolidated							
Revenue	INR b	2,650	2,446	-7.7	2,446	2,442	-0.1
EBITDA	"	484	379	-21.7	458	420	-8.3
PAT	"	249	172	-31.0	221	194	-12.5
Net Debt	"	554	577	4.1	464	524	12.9

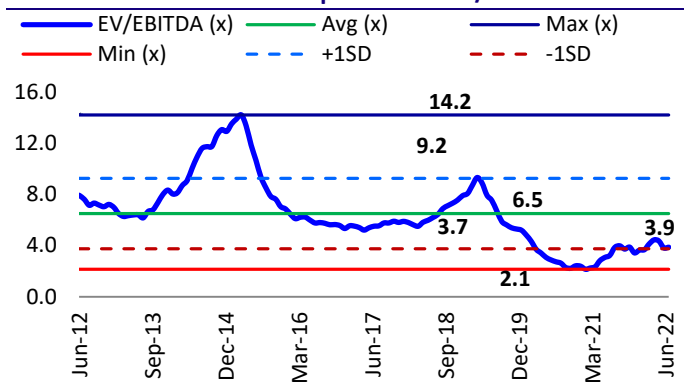
Source: MOFSL

Exhibit 16: Valuations are not expensive but lacks growth

Y/E March	UoM	2017	2018	2019	2020	2021	2022	2023E
Standalone								
Sales	mt	11.0	12.2	12.7	12.3	16.0	17.6	17.6
EBITDA	INR/t	10,818	12,976	16,180	12,066	14,334	30,621	13,500
EBITDA	INR b	118.8	157.8	205.6	148.6	228.9	539.8	237.6
Target multiple	x							5.0
Target EV	INR b							1,188
Europe								
Sales	mt	9.9	10.0	9.6	9.3	8.8	9.1	9.0
EBITDA	USD/t	71	59	80	-10	-12	180	163
EBITDA	INR/t	4,738	3,796	5,616	-715	-896	13,426	12,349
EBITDA	INR b	47	38	54	-7	-6	122	111
Target multiple	x							4.0
Target EV	INR b							445
Other Subsidiaries								
EBITDA - India subs	INR b	4.3	28.3	34.1	33	83	114	31
Target EBITDA multiple	x							4.0
Target EV	INR b							123
Target EV	INR b							1,755
Net Debt (d)	INR b	745	713	972	1,071	826	511	577
Total equity value	INR b							1,178
No of shares o/s	b							1.22
Target Price	INR/sh							965

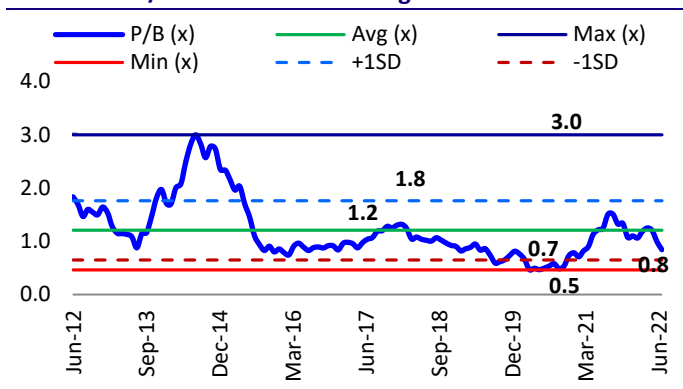
Source: MOFSL

Exhibit 17: Tata Steel is inexpensive on EV/EBITDA



Source: MOFSL

Exhibit 18: P/B is also below average



Source: MOFSL

Exhibit 19: Global Comparative Valuation

Company	MCap USD m	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24
India													
Tata*	13,507	2.6	6.1	5.4	2.5	4.3	3.8	1.0	0.9	0.8	44.6	14.9	15.4
JSW*	17,069	6.1	7.7	6.4	4.8	5.6	4.6	2.0	1.7	1.4	37.9	23.5	23.8
JSP*	4,101	3.6	5.5	4.2	2.6	3.3	2.3	0.9	0.8	0.7	25.9	15.1	16.9
SAIL*	3,439	1.9	5.3	3.0	2.0	4.1	2.5	0.5	0.5	0.4	27.7	9.2	15.0
Japan													
JFE	6,399	3.0	4.6	5.7	4.6	5.7	6.0	0.4	0.4	0.4	15.5	8.6	7.0
Nippon Steel	13,343	3.4	4.9	5.4	4.5	5.4	5.6	0.5	0.5	0.5	18.1	10.9	8.5
Kobe Steel	1,807	4.3	4.4	4.7	5.1	5.5	5.3	0.3	0.3	0.3	7.2	6.7	5.3
Korea													
POSCO	17,062	4.1	4.3	4.3	2.7	2.6	2.5	0.4	0.4	0.3	10.0	8.8	8.1
Hyundai Steel	3,506	2.9	3.2	3.4	3.6	3.3	3.1	0.2	0.2	0.2	8.1	6.7	6.3
US													
Nucor	30,321	4.3	9.0	10.8	2.9	5.4	5.5	1.5	1.3	1.1	44.3	16.3	12.0
US Steel	5,184	2.0	5.6	8.0	1.1	2.2	2.5	0.5	0.4	0.4	29.2	7.9	4.9
Steel Dynamics	13,559	3.5	6.7	9.5	2.4	3.6	4.5	1.4	1.1	1.0	49.3	21.0	13.0
Europe													
AM	22,796	2.0	3.7	4.1	1.4	2.0	2.4	0.4	0.4	0.3	22.7	10.8	7.8
SSAB	4,700	2.5	5.9	8.6	1.2	2.4	2.9	0.6	0.6	0.5	23.9	9.4	6.1
TKA	4,490	3.1	5.3	5.7	0.2	0.2	0.2	0.4	0.3	0.3	10.3	5.3	5.3
VOE	4,526	4.0	5.0	6.1	3.1	2.9	3.0	0.7	0.6	0.6	16.7	12.2	8.7
China													
Baosteel	21,342	6.7	6.6	5.8	3.6	3.6	2.8	0.7	0.7	0.6	11.0	10.7	10.7

Source: Bloomberg, MOFSL; **Note: (*)** denotes MOFSL est.

Financials and valuations

Consolidated Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	1,123	1,322	1,577	1,490	1,563	2,440	2,446	2,442
Change (%)	10.1	17.7	19.3	-5.5	4.9	56.1	0.3	-0.2
EBITDA	170	219	294	178	305	635	379	420
% of Net Sales	15.1	16.6	18.6	12.0	19.5	26.0	15.5	17.2
Dep. & Amort	57	60	73	87	92	91	97	103
EBIT	113	159	220	91	213	544	283	317
Finance cost	51	55	77	76	76	55	51	45
Other income	5	9	14	18	9	8	6	6
PBT before EO	68	113	158	34	146	497	237	278
EO income	-43	96	-1	-49	-10	-1.3	0	0
PBT after EO	25	209	157	-16	135	496	237	278
Tax	28	34	67	-26	57	85	66	85
Rate (%)	113	16	43	163	42	17	28	30
Reported PAT	-3	175	90	10	79	411	171	194
Minority interest P/L	1	43	-11	-4	7	16	2	2
Share of asso. PAT	0	2	2	2	3	6	5	5
PAT (after MI and asso.)	-4	134	103	16	75	402	174	196
Div. on Pref. /Hybrid Sec.	3	3	3	3	3	0	3	3
Adjusted PAT	37	80	101	10	83	402	172	194
Change (%)	-275.3	116.3	27.3	-89.8	697.0	386.8	-57.4	12.9

Consolidated Balance Sheet

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	10	11	11	11	12	12	12	12
Reserves	346	575	655	702	723	1,132	1,231	1,351
Net Worth	355	586	667	713	735	1,144	1,243	1,364
Minority Interest	16	9	24	26	33	27	29	31
Total Loans	851	942	1,031	1,186	956	756	636	606
Deferred Tax Liability	91	95	115	78	75	93	88	90
Capital Employed	1,313	1,632	1,836	2,003	1,798	2,020	1,995	2,089
Gross Block	1,266	1,399	1,730	1,918	2,020	2,086	2,178	2,419
Less: Accu. Depn.	380	479	526	613	705	796	893	996
Net Fixed Assets	885	920	1,204	1,305	1,314	1,290	1,285	1,423
Capital WIP	158	166	186	195	190	220	256	178
Investments	68	30	32	29	35	58	184	189
Goodwill on consolidation	35	41	40	41	43	43	43	43
Curr. Assets	578	929	863	921	855	1,213	1,046	1,062
Inventory	248	283	317	311	333	488	503	502
Account Receivables	116	124	118	79	95	122	127	120
Cash and liquid investment	106	228	59	115	130	244	58	82
Others	109	294	370	417	297	358	358	358
Cur. Liab & Prov.	411	455	490	487	639	805	819	805
Account Payables	186	204	217	214	260	368	382	368
Provisions & d Others	225	251	273	273	380	437	437	437
Net Current Assets	168	475	373	434	216	408	227	257
Appl. of Funds	1,313	1,632	1,836	2,003	1,798	2,020	1,995	2,089

Financials and valuations

Consolidated Ratios								INR b
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	37.9	69.5	88.6	9.1	69.0	329.5	140.5	158.6
Cash EPS	96.4	121.6	152.7	85.1	146.1	404.1	219.8	242.6
BV/Share (ex-. goodwill)	330.3	476.0	547.2	587.3	577.1	901.8	982.5	1,081.2
DPS	8	8	10	10	25	51.0	50.0	50.0
Payout (%)	25.2	11.6	11.3	110.4	36.2	15.5	35.6	31.5
Valuation (x)								
P/E	22.7	12.4	9.7	95.1	12.5	2.6	6.1	5.4
Cash P/E	8.9	7.1	5.6	10.1	5.9	2.1	3.9	3.5
P/BV	2.6	1.8	1.6	1.5	1.5	1.0	0.9	0.8
EV/Sales	1.4	1.3	1.2	1.4	1.2	0.6	0.7	0.6
EV/EBITDA	9.3	7.8	6.7	11.5	6.1	2.5	4.3	3.8
Dividend Yield (%)	0.9	0.9	1.2	1.2	2.9	5.9	5.8	5.8
Return Ratios (%)								
EBITDA Margin (%)	15.1	16.6	18.6	12.0	19.5	26.0	15.5	17.2
Net Profit Margin (%)	3.3	6.0	6.4	0.7	5.3	16.5	7.0	7.9
RoE	15.7	17.2	17.3	1.6	11.9	44.6	14.9	15.4
RoCE (pre-tax)	9.4	11.6	13.7	5.8	11.8	29.2	14.6	16.0
RoIC (pre-tax)	13.3	14.6	15.9	5.7	13.7	37.0	18.9	20.2
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.4	1.3	1.1	1.2	1.9	1.9	1.7
Asset Turnover (x)	0.9	0.8	0.9	0.7	0.9	1.2	1.2	1.2
Debtor (Days)	37.7	34.3	27.3	19.3	22.3	18	19	18
Inventory (Days)	80.6	78.2	73.3	76.1	77.7	73	75	75
Payables (Days)	60.4	56.4	50.3	52.4	60.6	55	57	55
Working Capital T/O (Days)	57.9	56.2	50.4	43.1	39.3	36	37	38
Leverage Ratio (x)								
Current Ratio	1.4	2.0	1.8	1.9	1.3	1.5	1.3	1.3
Interest Coverage	2.2	2.9	2.9	1.2	2.8	10.0	5.5	7.1
Net Debt/Equity	2.3	1.3	1.6	1.6	1.2	0.5	0.5	0.4

Consolidated Cash Flow Statement								INR b
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA	170	219	294	178	305	635	379	420
Reconciliation income (loss)	6	-17	-15	3	-20	24	0	0
(Inc.)/Dec. in Wkg. Cap.	-49	-43	26	42	165	-96	-5	-6
Tax Paid	-18	-29	-51	-21	-7	-119	-71	-83
CF from Op. Activity	108	130	253	202	443	444	304	330
(Inc.)/Dec. in FA + CWIP	-77	-75	-91	-104	-70	-105	-127	-162
Free Cash Flow to Firm	31	55	162	98	373	339	176	168
(Pur.)/Sale of Non-cur. Invest.	4	-9	4	4	4	-7	-121	0
Acquisition in subsidiaries	-11	-2	-351	-41	1	12	0	0
Int. & Dividend Income	2	4	3	4	5	3	6	6
Others	-3	9	18	8	3	2	0	0
CF from Inv. Activity	-85	-73	-416	-129	-57	-96	-242	-156
Equity raised/(repaid)	7	91	0	2	32	3	0	0
Debt raised/(repaid)	27	41	82	76	-321	-160	-120	-30
Dividend (incl. tax)	-9	-12	-14	-18	-12	-30	-73	-73
Interest & equiv. paid	-50	-54	-74	-77	-71	-47	-54	-47
CF from Fin. Activity	-26	66	-7	-17	-371	-234	-247	-151
(Inc.)/Dec. in Cash	-3	123	-170	56	15	114	-186	23
Add: Opening Balance	108	106	228	59	115	130	244	58
Closing Balance	106	228	59	115	130	244	58	82

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

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