

Healthy operational performance...

Tata Metaliks (TML) reported a healthy set of Q2FY21 numbers. Pig iron reported sales volume of 85684 tonnes, up 12% YoY 167% QoQ. Ductile iron reported sales volume of 48908 tonnes, up 80% QoQ but down 13% YoY. The YoY decline in sales volumes of ductile iron pipe was on account of delays in project sites arising out of Covid impact. The company reported a topline of ₹ 520 crore, up 2% YoY and 148% QoQ while EBITDA came in at ₹ 109 crore vs. ₹ 41 crore in Q2FY20 and ₹ 10 crore in Q1FY21. EBITDA margin came in at 21.1% compared to 8.0% in Q2FY20, 4.9% in Q1FY21. Ensuing PAT came in at ₹ 82 crore, up 248% YoY.

Model EBITDA margins of 16.6% in FY21E, 16.8% in FY22E

For Q2FY21, TML reported robust operating margins on the back of higher spreads between raw material and finished goods prices (for the pig iron segment) and also on the back of structural and operational cost reduction initiatives taken by the company. However, post Q1FY21, an uptick was witnessed in key input prices (especially iron ore). Nevertheless, the compression in pig iron spreads will be partially compensated by increase in DI pipes volume, going forward. Furthermore, cost saving initiatives taken by the company are likely to continue, going forward also. We expect TML to report healthy operating margins annually, going forward, on the back of cost control measures. We model EBITDA margin of 16.6% in FY21E and 16.8% for FY22 (EBITDA margin of 13.9% in FY20).

Update on capacity expansion plans....

TML has delayed its ductile iron (DI) pipe expansion on account of safety related concerns on account of Covid-19 related concerns. Tata Metaliks is likely to take 12 months to commission phase 1 of the new DI plant once the capacity expansion process is initiated.

Valuation & Outlook

The investment lined up in development of water infrastructure and allied projects augurs well for DI pipes demand, which is likely to grow at a steady pace in the medium term to longer term horizon. The government had constituted the Jal Shakti Mantralaya whose primary objective is to work with states to ensure Har Ghar Jal (piped water supply) to all rural households by 2024 under the Jal Jeevan Mission, auguring well for DI pipes demand. We value the stock at 6x FY22E EV/EBITDA and arrive at a target price of ₹ 675. Hence, we assign a BUY rating to the stock. Key risk to our call is a significant increase in raw material costs and lower-than-expected increase in demand for DI pipes.



Particulars	
Particulars	Amount
Market Capitalisation (in ₹ crore)	1798
Debt in ₹ crore (FY20)	302
Cash & Cash Eq. in ₹ crore (FY20)	110
EV (in ₹ crore)	1473
52 Week H / L (₹)	688 / 308
Equity Capital (₹ crore)	28
Face Value	₹ 10

- ### Key Highlights
- There was a notable improvement in gross profit margins. Gross profit margins for Q2FY21 were at 50.3% as compared to 38.1% in Q2FY20 and 45.7% in Q1FY21)
 - Maintain BUY rating with target price of ₹ 675.

Research Analyst

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Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E
Total Operating incme	1,873.7	2,155.1	2,050.6	1,865.8	2,092.0
EBITDA	277.2	307.2	284.6	309.7	350.4
EBITDA Margin (%)	14.8	14.3	13.9	16.6	16.8
Net Profit	160.1	182.8	166.8	172.2	208.0
Diluted EPS (₹)	63.3	65.1	59.4	54.5	65.9
P/E	9.1	8.8	9.7	10.5	8.7
RoE (%)	44.6	23.8	18.1	13.8	14.4
RoCE (%)	27.5	31.0	18.0	19.2	19.3

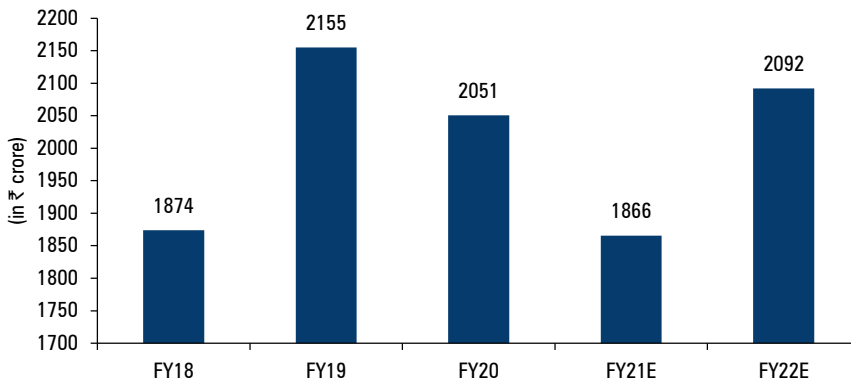
Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY (%)	Q2FY20	QoQ (%)	Comments
Total Operating Income	520	511	2%	210	148%	Topline increased by 2% YoY and 148% QoQ
Other Income	2	6	-61%	1	110%	
Raw Material Expense	258	316	-18%	114	126%	
Employee Expense	28	30	-6%	29	-4%	
Other Expenses	124	124	0%	56	120%	
Total Operating Expenses	410	470	-13%	200	105%	
EBITDA	109	41	167%	10	973%	EBITDA increased by 167% YoY
EBITDA Margin (%)	21.1	8.0	1303 bps	4.9	1620 bps	
Depreciation	16	16	2%	20	-16%	
Interest	5	8	-34%	8	-38%	
Exceptional Items	0	0	NA	0	NA	
PBT	90	23	293%	-16	LP	
Tax Outgo	8	-1	-1352%	-4	PL	
PAT	82	24	248%	-12	LP	PAT increased notably by 248% on a YoY basis

Source: Company, ICICI Direct Research

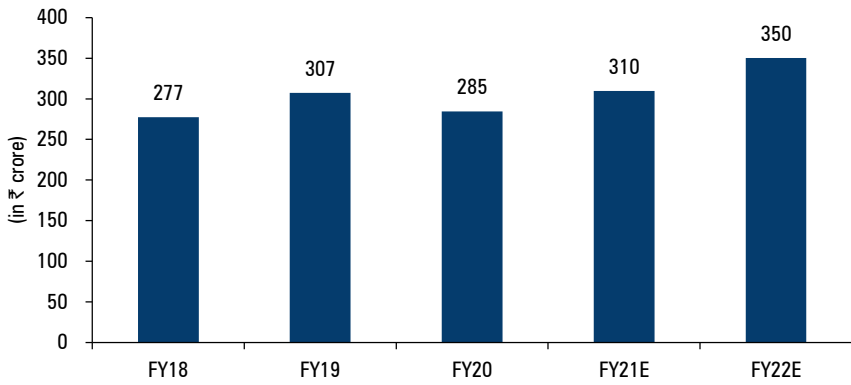
Financial story in charts

Exhibit 2: Trend in topline (in ₹ crore)



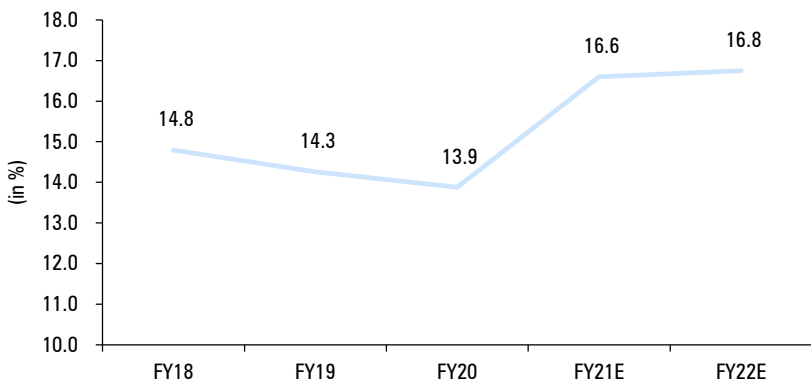
Source: Company, ICICI Direct Research

Exhibit 3: Trend in EBITDA (in ₹ crore)



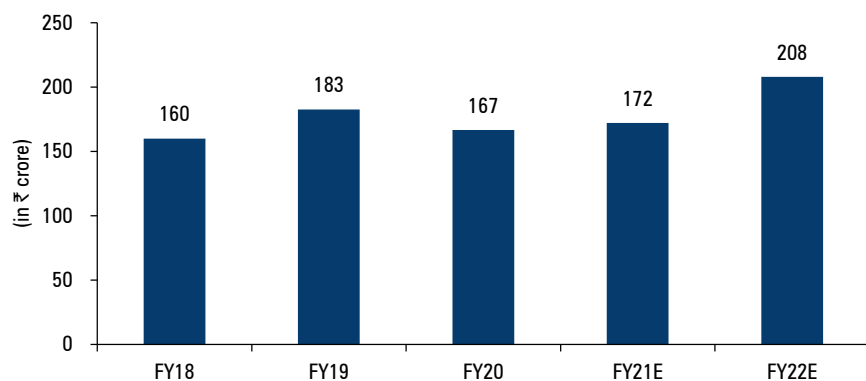
Source: Company, ICICI Direct Research

Exhibit 4: Trend in EBITDA margin (in %)



Source: Company, ICICI Direct Research

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



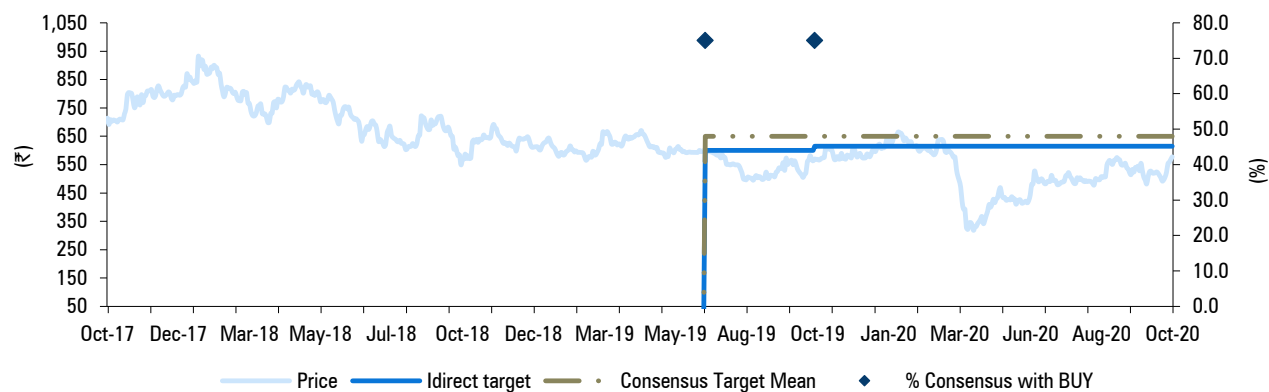
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2,155	15	65.1	14	7.6	5.3	23.8	31.0
FY20	2,051	-5	59.4	-9	8.4	6.3	18.1	18.0
FY21E	1,866	-9	54.5	-8	11.7	5.6	13.8	19.2
FY22E	2,092	12	65.9	21	7.8	5.1	14.4	19.3

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	TATA STEEL LTD	30-06-2020	49.0	15.5	0.0
2	HDFC ASSET MANAGEMEN	30-09-2020	8.1	2.5	0.0
3	SBI FUNDS MANAGEMENT	30-09-2020	2.0	0.6	0.0
4	ADITYA BIRLA SUN LIF	30-09-2020	1.7	0.5	0.0
5	ICICI PRUDENTIAL ASS	30-09-2020	1.7	0.5	0.0
6	DIMENSIONAL FUND ADV	31-08-2020	0.8	0.3	0.0
7	GOVERNMENT OF INDIA	30-06-2020	0.8	0.3	0.0
8	INVESCO INDIA ASSET	30-09-2020	0.7	0.2	0.0
9	UNION MUTUAL FUND	30-09-2020	0.5	0.2	0.0
10	ING GROEP NV	30-09-2017	0.5	0.2	0.2

Source: Reuters, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20
Promoter	55.1	55.1	60.0
Public	44.9	44.9	40.0
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	2155	2051	1866	2092
Growth (%)	15%	-5%	-9%	12%
EBITDA	307	285	310	350
Growth (%)	11%	-7%	9%	13%
Interest & Finance Cost	43	33	28	25
Depreciation	58	65	70	72
Other Income	7	16	10	15
PBT before Exceptional Items	213	202	222	268
Less: Exceptional Items	0	0	0	0
PBT	213	202	222	268
Total Tax	30	35	50	60
PAT	183	167	172	208
Growth (%)	14%	-9%	3%	21%
EPS	65.1	59.4	54.5	65.9

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	28	28	32	32
Reserve and Surplus	739	891	1,217	1,414
Total Shareholders funds	767	919	1,248	1,445
Total Debt	39	302	0	0
Deferred Tax Liability (net)	0	0	0	0
Source of Funds	806	1,222	1,249	1,445
Gross Block - Fixed Assets	757	861	886	936
Accumulated Depreciation	128	193	263	335
Net Block	630	668	623	601
Capital WIP	31	98	223	523
Net Fixed Assets	661	767	847	1,125
Investments	0	10	10	10
Inventory	315	385	358	373
Cash	29	110	75	19
Debtors	278	280	256	287
Loans & Advances & Other C	100	142	152	164
Total Current Assets	721	918	841	842
Creditors	481	390	358	430
Provisions & Other CL	96	83	91	102
Total Current Liabilities	577	473	449	531
Net Current Assets	145	445	392	311
Application of Funds	806	1,222	1,249	1,445

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	183	167	172	208
Add: Dep. & Amortization	58	65	70	72
Net (Inc) / dec.in Current Ass	-191	-115	42	-57
Net Inc / (dec) in Current Liab	281	-104	-24	83
CF from operating activities	330	13	260	305
(Inc)/dec in Investments	10	-10	-0	0
(Inc)/dec in Fixed Assets	-109	-171	-150	-350
Others	0	0	0	0
CF from investing activities	-99	-181	-150	-350
Inc / (Dec) in Equity Capital	3	0	3	0
Inc / (Dec) in Loans	-431	264	-302	0
Dividend & Dividend Tax	-12	-12	-15	-15
Others	234	-3	168	4
CF from financing activities	-206	249	-145	-11
Net Cash flow	26	82	-35	-56
Opening Cash	3	29	110	75
Closing Cash	29	110	75	19

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	65.1	59.4	54.5	65.9
BV	273.1	327.3	395.3	457.7
DPS	3.5	3.5	4.0	4.0
Cash Per Share	10.3	39.3	23.7	6.1
Operating Ratios (%)				
EBITDA margins	14.3	13.9	16.6	16.8
PBT margins	9.9	9.9	11.9	12.8
Net Profit margins	8.5	8.1	9.2	9.9
Inventory days	53	69	70	65
Debtor days	47	50	50	50
Creditor days	81	69	70	75
Return Ratios (%)				
RoE	23.8	18.1	13.8	14.4
RoCE	31.0	18.0	19.2	19.3
RoIC	32.1	19.8	20.4	19.5
Valuation Ratios (x)				
P/E	8.7	9.6	10.4	8.6
EV / EBITDA	5.2	6.3	5.6	5.1
EV / Revenues	0.7	0.9	0.9	0.8
Market Cap / Revenues	0.7	0.8	1.0	0.9
Price to Book Value	2.1	1.7	1.4	1.2
Solvency Ratios				
Debt / Equity	0.1	0.3	0.0	0.0
Debt/EBITDA	0.1	1.1	0.0	0.0
Current Ratio	1.3	1.9	1.9	1.6
Quick Ratio	0.7	1.1	1.1	0.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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