

Targeting 40 MT production capacity in India by 2030

Recently, in its Investor Day, Tata Steel (TSL) laid out its strategic Roadmap 2030. TSL is aiming to double Indian operations steel production capacity to 40 million tonnes (MT) by 2030. The doubling of domestic production capacity would be done through both organic as well as inorganic route. The company would focus on organic growth for the flat product segment and would participate in inorganic opportunities for the long product segment. In terms of product-wise break-up, by 2030 the target is to increase the production capacity of flat product portfolio to 30 MT (from 15.6 MT currently) and increase the production capacity of long product portfolio to 10 MT (from 4 MT currently). India would be the dominant manufacturing base for TSL, going forward. India's share in the company's overall consolidated production capacity has increased to 57% in 2020 from 29% in 2010. The country's share is further likely to increase to 73% by 2030.

Targets net debt/EBITDA at 2x across cycles....

TSL is aiming at net debt/EBITDA at 2x across cycles wherein 2x would be the upper limit. For FY22E, net debt/EBITDA is likely to be lower than 2x, given buoyancy in earnings due to higher steel prices. In FY22E, the company is targeting an annual capex of ~₹ 10000-12000 crore for the India operations (majority of which would be growth capex) and ~₹ 3500 crore for the European operations (majority of which would be maintenance capex). The interest coverage ratio target is at 4x, across cycles.

Debt reduction drive to continue....

TSL's debt reduction drive would continue, going forward, also, auguring well. During FY21, the net debt reduction was to the tune of ~US\$4 billion. For FY22E, TSL is targeting over US\$2 billion gross debt reduction wherein it will prioritise offshore debt prepayment. In FY22E, the company expects to drive working capital management in the upcycle.

Valuation & Outlook

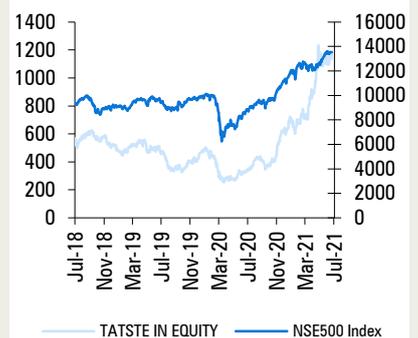
TSL is currently in a sweet spot on the back of a) relatively healthy steel prices both in the global and domestic markets and b) balance sheet improvement on the back of the debt repayment exercise that it is undertaking. On the back of a healthy operating environment, we remain positive on the stock. TSL's targeted RoIC is 15% across cycles. Furthermore, the carbon adjusted project IRR threshold for capital allocation is 12%. We continue to value the stock on an SoTP basis and arrive at an unchanged target price of ₹ 1500. We maintain our **BUY** recommendation on the stock.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,46,411
Total Debt (FY21) (₹ Crore)	88,501
Cash & Cash Eq. (FY21) (₹ Crore)	13,113
EV (₹ Crore)	2,21,799
52 week H/L (₹)	1246 / 328
Equity capital	₹ 1198 Cr.
Face value	₹ 10

Price performance



Key risks to our call

- Steep decline in steel prices
- Higher-than-expected increase in operating costs

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	1,57,669	1,39,817	1,56,294	1,87,369	1,86,613	9%
EBITDA	29,383	17,463	30,504	46,469	40,644	15%
Adj PAT	8,995	4,737	9,233	22,613	18,262	41%
EPS (₹)	78.6	41.4	77.1	188.8	152.5	
EV/EBITDA (x)	7.8	14.3	7.5	4.5	4.7	
RoCE (%)	13.8	4.8	13.1	22.9	18.5	
RoE (%)	13.0	6.4	12.4	23.5	15.7	

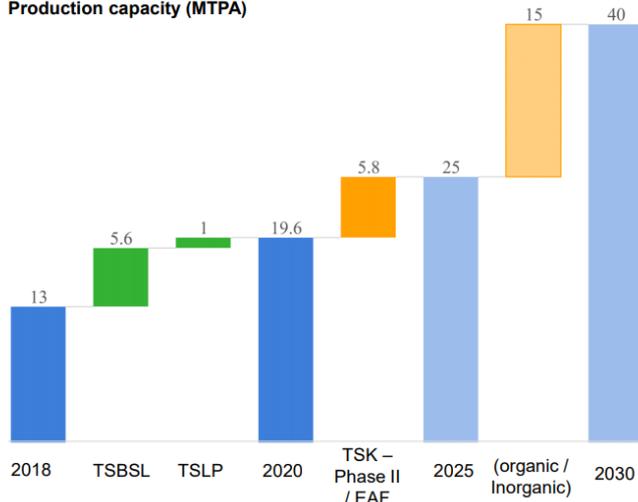
Key Highlights: Tata Steel's Investor Day.

Exhibit 1: Tata Steel's strategy pivots around capitalising on India growth story

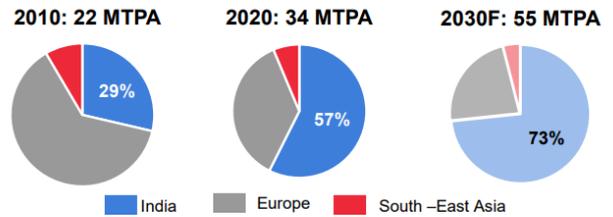


Targeting value accretive growth in India

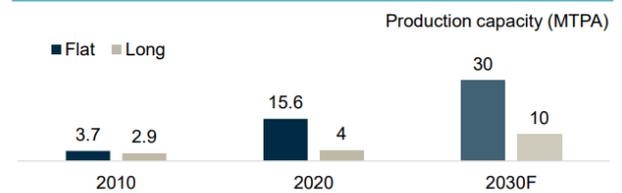
Production capacity (MTPA)



India to be the dominant manufacturing base for Tata Steel going forward



Optimizing product portfolio is a key target in India



TSBSL – Tata Steel BSL; TSLP – Tata Steel Long Products.; TSK – Tata Steel Kalinganagar; EAF – Electric Arc Furnace;

Source: Company, ICICI Direct Research

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Exhibit 2: ...with continued strong market presence



Attain and retain Leadership in chosen segments (current and new)

- Market share in 'Automotive' grew to 58% in FY21 from 50% in FY20
- High-end engineering segment grew by 46%YoY in FY21

Reinventing the route to connect, transact and engage with customers

- Connected platforms: Aashiyana (130% YoY growth to reach sales of Rs. 726 crores in FY21), COMPASS, DigECA and Sampoorna
- Synergy across the Group: Basera and Nexarc (Digital B2B platform & one-stop solution for emerging businesses)



Technology and knowledge intensive differentiation in marketplace

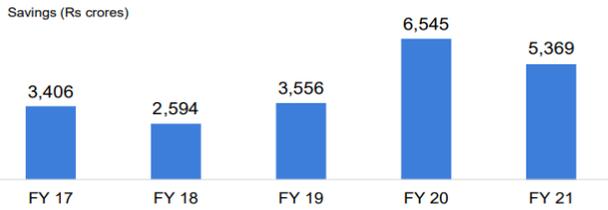
- Steel for future mobility and Ready-to-paint technology
- Graphene and Composites

Source: Company, ICICI Direct Research

Exhibit 3: Continuous structural and operational improvements key to achieve its financial goals



Savings of Rs 21,400+ crores over last 5 years through operation efficiency improvement in Tata Steel India

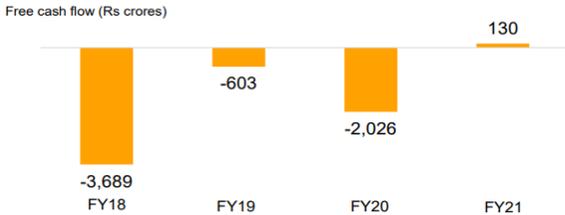


Interventions planned over the next 5 years

- Focus on augmenting raw material production capacity
- Strengthen logistics network and upstream of steel manufacturing
- Continue to focus on reducing fixed cost



Structural interventions has resulted in TSE becoming cash positive



- Continue with the ongoing transformation program in TSE
- Complete separation of **UK & Netherlands operations** to focus profit & loss accountability at geography level

Tata Steel India – Tata Steel Standalone + Tata Steel BSL + Tata Steel Long Products; TSE – Tata Steel Europe

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Source: Company, ICICI Direct Research,

Exhibit 4: Sustainability - Strategic imperative for “hard to abate” sector

Sustainability is now deeply embedded in Tata Steel ecosystem ...

Long term decarbonization roadmap created

Pursuing low carbon technologies

Circular Economy integrated as part of business model

Deploying Responsible Supply Chain Policy across value chain

Improving transparency and disclosures

...intent to demonstrate leadership position in sustainability over this decade

Goals for 2025

Goals for 2030



Climate change

- TSI: Achieve <2 tCO₂ /tcs carbon emission

- TSI: Achieve <1.8 tCO₂ /tcs carbon emission
- TSE: 30% reduction in specific emissions over 2020



Water

- TSI: Achieve specific freshwater consumption of 2 m³/tcs

- TSI: Achieve specific freshwater consumption of <1.5 m³/tcs, aim for water neutrality
- TSE: EU benchmark for water intensity



Circular Economy

- Achieve material efficiency of 99%

- Build 5 MTPA recycling business



Bio-diversity

- Develop and implement Biodiversity Management Plans for all operations sites

- Aspire for no net loss of biodiversity

Source: Company, ICICI Direct Research,, Net Debt is excluding ₹900 crore of Intercompany deposit that JSHL has given to JSL

Exhibit 5: Balance sheet management : De-risked and resilient

Value Drivers	FY 20-21 Actions	FY 21-22 Priorities
<p>Deleveraging</p>	Net debt reduction by ~ US\$4 billion	> US\$2 billion gross debt reduction; prioritize off-shore debt pre-payment
<p>Raising Equity</p>	Called residual Partly paid amount ~Rs.3,000 crores	Not envisaged
<p>Working capital Management</p>	Cash release of ~ Rs.9,400 crores	Drive working capital management in upcycle
<p>Capex</p>	~ Rs.7,000 crores	~ Rs.10,000 -12,000 crores

Source: Company, ICICI Direct Research

Exhibit 6: Capital allocation- Focus on sector leading returns

Rs. 80,000 crores Spend over Last 5 years

Running the Business (Sustenance)	Working Responsibly (License to Operate)
25%	4%
Enhance Market Competitiveness Through Growth	Invest in New Business (Internal Start-ups)
70%	0.4%

82% of Investments in India is prioritised towards Growth

~ 65% of Investments in Europe is towards Sustenance & Environment

12% Carbon adjusted Project IRR threshold for capital allocation

Allocation

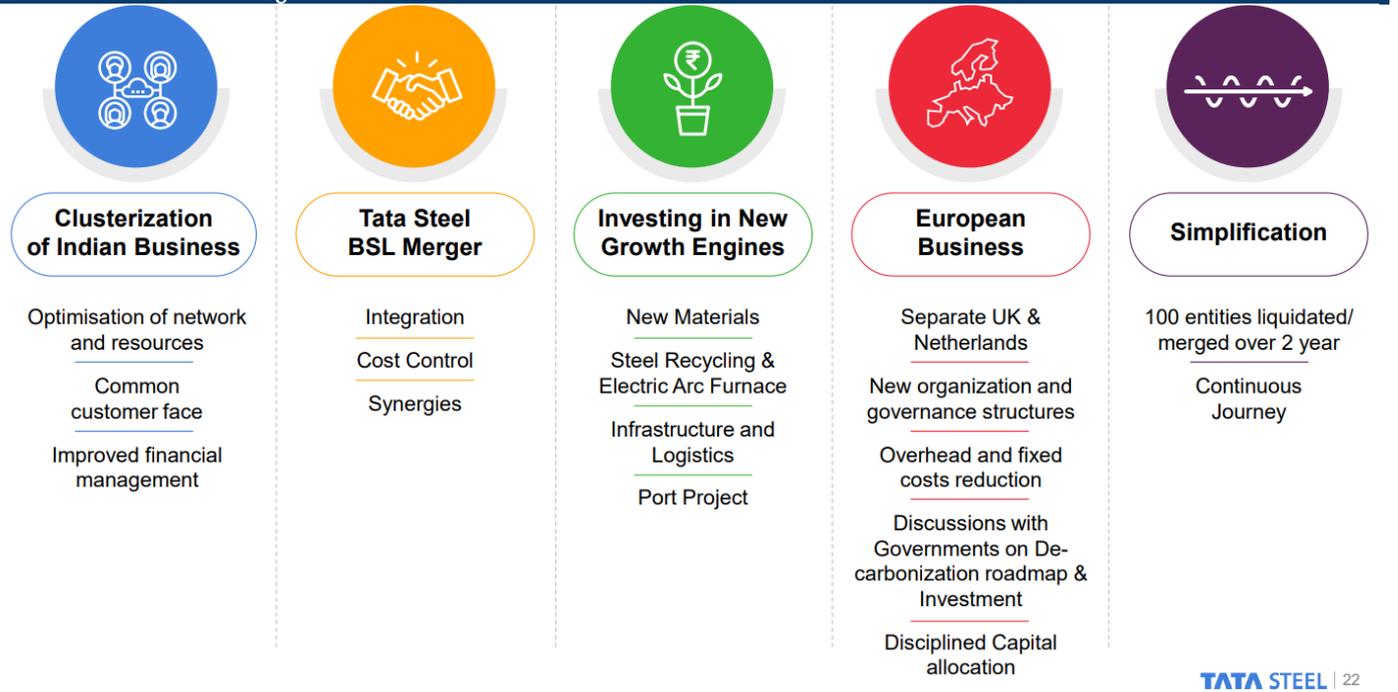
76% India Operations
22% Tata Steel Europe
1% South East Asia
2% Others

<p>Future Investments Focus</p> <ul style="list-style-type: none"> India Steel Production <ul style="list-style-type: none"> Complete Kalinganagar expansion @ Rs.48,000/ton of Capex Invest in Raw Material Expansion @ Rs.2,600/ton to 50 MTPA of Iron Ore 	<p>New & Allied Business</p> <ul style="list-style-type: none"> Electric arc furnace low carbon Steel Composites Graphene Medical Materials Services and Solutions Ferro chrome business 	<p>Downstream Portfolio in India</p> <ul style="list-style-type: none"> Cold Rolling Mill – From 4.3 MTPA to 6.5 MTPA Ductile Iron Pipes - From 0.2 MTPA to 1 MTPA Tinplate – From 0.4 MTPA to 1 MTPA Tubes – From 1.3 MTPA to 2 MTPA Wires – From 0.45 MTPA to 1 MTPA
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Average India Capital Expenditure estimated @ Rs. 10,000- 12,000 crores per annum over next 5 years (excluding potential acquisitions)

Source: Company, ICICI Direct Research

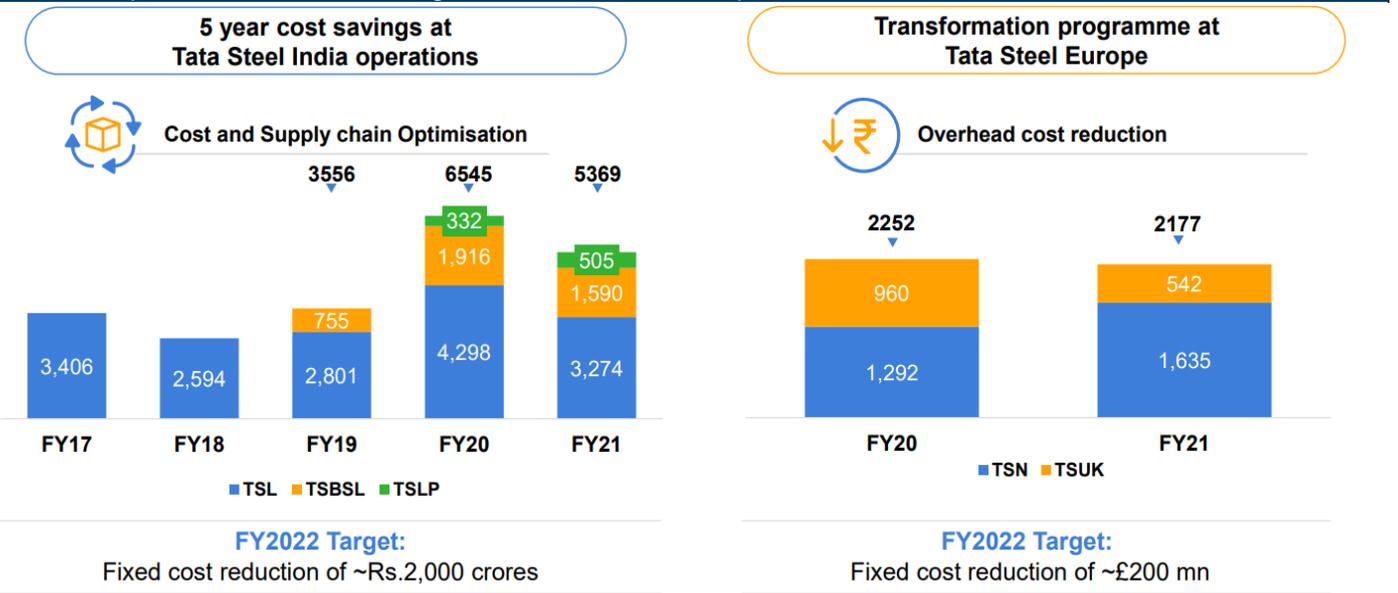
Exhibit 7: Portfolio management



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Source: Company, ICICI Direct Research

Exhibit 8: Operational excellence through culture of continuous improvement



Target to reduce India operation fixed Cost by ~10 % over the medium term

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TSL: Tata Steel Standalone; TSBSL: Tata Steel BSL; TSLP: Tata Steel Long Products; TSN: Tata Steel Netherlands; TSUK: Tata Steel UK

Source: Company, ICICI Direct Research

Exhibit 9: Pathway for future financial strategy



**Short-term
FY2022**

- Strong earnings and cashflow performance expected
- Investment Grade Financial Metrics
- Significant reduction in Overseas debt
- Continued focus on Capital allocation and cashflow management



**Medium-term
(Across cycle
targets)**

Target Leverage

**Net Debt/EBITDA at 2x
Interest Cover at 4x**

Target RoIC

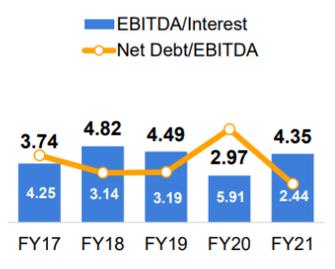
15%

Dividend Policy

**Robust dividend
pay-out**

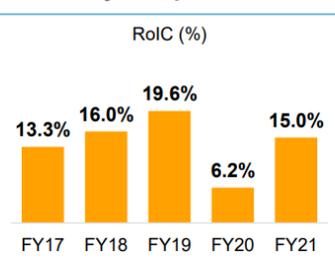
Last 5 years performance

EBITDA/Interest
Net Debt/EBITDA



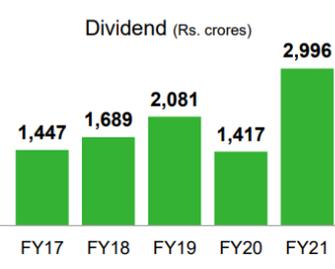
Year	EBITDA/Interest	Net Debt/EBITDA
FY17	4.25	3.74
FY18	3.14	4.82
FY19	3.19	4.49
FY20	5.91	2.97
FY21	2.44	4.35

RoIC (%)



Year	RoIC (%)
FY17	13.3%
FY18	16.0%
FY19	19.6%
FY20	6.2%
FY21	15.0%

Dividend (Rs. crores)



Year	Dividend (Rs. crores)
FY17	1,447
FY18	1,689
FY19	2,081
FY20	1,417
FY21	2,996

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RoIC: Return on Invested Capital

Source: Company, ICICI Direct Research

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Exhibit 10: Valuation

	Total Op. Income (₹ Crore)	Growth % YoY	EPS (₹)	Growth % YoY	PE (x)	EV/EBIDTA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY18	1,31,700	17.3	71.3	69.1	17.1	10.5	3.0	17.7	12.3
FY19	1,57,669	19.7	78.6	10.2	15.5	7.8	2.0	13.0	13.8
FY20	1,39,817	(11.3)	41.4	(47.3)	29.5	14.3	1.9	6.4	4.8
FY21	1,56,294	11.8	77.1	86.4	15.8	7.5	2.0	12.4	13.1
FY22E	1,87,369	19.9	188.8	144.9	6.5	4.5	1.5	23.5	22.9
FY23E	1,86,613	(0.4)	152.5	(19.2)	8.0	4.7	1.3	15.7	18.5

Source: Company, ICICI Direct Research

Exhibit 11: Price Performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-21	Apr-21	May-21
Promoter	34.4	34.4	34.4
Others	65.6	65.6	65.6
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 13: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Inc.	139817	156294	187369	186613
Growth (%)	-11	12	20	0
Total Operating Expend.	122354	125790	140900	145969
EBITDA	17463	30504	46469	40644
Growth (%)	-41	75	52	-13
Depreciation	8441	9234	10645	11015
Interest	7533	7607	6223	4456
Other Income	1843	896	977	952
PBT	3332	14560	30577	26124
Exceptional Item	-3564	-1043	0	0
Total Tax	-2568	5654	8348	8207
PAT	2337	7862	22230	17917
Growth (%)	-75	236	183	-19
Minorities, Associates, etc	-1164	327	383	345
Rep PAT after Assoc. MI	1172	8190	22613	18262
Adj PAT after Assoc. MI	4737	9233	22613	18262
Growth (%)	-47.3	94.9	144.9	-19.2
EPS (₹)	41.4	77.1	188.8	152.5

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	1172	8190	22613	18262
Add: Depreciation	8441	9234	10645	11015
(Inc)/dec in Current Assets	-141	5843	187	-10817
Inc/(dec) in CL and Prov.	12244	18900	3934	7675
Others	-2425	-12821	3000	3000
CF from operating activities	19292	29345	40379	29135
(Inc)/dec in Investments	-10547	-4397	200	0
(Inc)/dec in Fixed Assets	-10347	-7023	-13500	-14000
Others	-5867	683	383	345
CF from investing activities	-26761	-10737	-12917	-13655
Issue/(Buy back) of Equity	0	-1447	0	0
Inc/(dec) in loan funds	22145	-24789	-28000	-16185
Dividend paid & dividend tax	-1340	-2994	-4790	-4790
Inc/(dec) in Share Cap	0	0	0	0
Others	-8612	8349	4000	6706
CF from financing activities	12193	-20880	-28790	-14270
Net Cash flow	4724	-2273	-1328	1211
Opening Cash	3331	8055	5782	4455
Closing Cash	8055	5782	4455	5665

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Share Capital	1145	1198	1198	1198
Hybrid Perpetual securities	2275	775	775	775
Reserve and Surplus	70156	72266	94088	114266
Total Shareholders funds	73576	74239	96061	116239
Total Debt	113289	88501	60501	44316
Deferred Tax Liability	9261	9241	9241	9241
Minority Interest & Others	11816	18731	22114	25459
Total Liabilities	207943	190712	187918	195255
Assets				
Net Block	131131	136654	132508	133493
CWIP	18862	18129	25129	27129
Net Fixed Assets (Incl. CWIP)	149993	154783	157637	160622
Investments	6285	10682	10482	10482
Inventory	31069	33276	30486	35636
Debtors	7885	9540	8593	10310
Loans and Advances	35663	29692	31692	34192
Other Current Assets	6144	2410	3960	5410
Cash	8055	5782	4455	5665
Total Current Assets	88816	80701	79186	91214
Current Liabilities	40813	56651	61085	69010
Provisions	1664	4725	4225	3975
Current Liabilities & Prov	42476	61376	65311	72985
Net Current Assets	46340	19325	13876	18229
others	5325	5923	5923	5923
Application of Funds	207943	190712	187918	195255

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adj EPS	41.4	77.1	188.8	152.5
Cash EPS	115.1	154.2	277.7	244.5
BV	642.6	619.9	802.1	970.6
DPS	10.0	25.0	40.0	40.0
Operating Ratios (%)				
EBITDA Margin	12.5	19.5	24.8	21.8
PBT / Total Operating income	2.4	9.3	16.3	14.0
Adj PAT Margin	3.4	5.9	12.1	9.8
Inventory days	89	83	75	85
Debtor days	26	30	25	30
Creditor days	144	145	175	160
Return Ratios (%)				
Adj RoE	6.4	12.4	23.5	15.7
Adj RoCE	4.8	13.1	22.9	18.5
Adj RoIC	5.0	13.6	23.6	19.1
Valuation Ratios (x)				
P/E	29.5	15.8	6.5	8.0
EV / EBITDA	14.3	7.5	4.5	4.7
EV / Net Sales	1.8	1.7	1.3	1.2
Market Cap / Sales	1.0	1.0	0.9	0.9
Price to Book Value	1.9	2.0	1.5	1.3
Price to Adj Book Value	1.9	2.0	1.5	1.3
Solvency Ratios				
Debt/EBITDA	6.0	2.7	1.2	1.0
Debt / Equity	1.4	1.1	0.6	0.3
Current Ratio	2.1	1.3	1.2	1.2
Quick Ratio	1.4	0.8	0.7	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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