

Reports highest ever quarterly consolidated EBITDA...

About the stock: Tata Steel Group is among the top global steel companies with an annual steel production capacity of ~34 million tonnes per annum (MTPA).

- Tata Steel (TSL) is one of the world's most geographically diversified steel producers, with operations and commercial presence across the world
- TSL has been a part of the DJSI emerging markets Index since 2012 and has been consistently ranked among top five steel companies in the DJSI Corporate Sustainability Assessment since 2016

Q1FY22 Results: Tata Steel reported a steady performance for Q1FY22.

- Consolidated topline for the quarter was at ₹ 53372 crore (up 110% YoY, 7% QoQ), broadly in line with our estimate of ₹ 51636 crore. Consolidated EBITDA for the quarter was at ₹ 16111 crore (up 14% QoQ), in line with our estimate of ₹ 16186 crore
- Consolidated EBITDA margin for the quarter was at 30.2% compared to 28.4% in Q4FY21 and 2.1% in Q1FY21 (our estimate of 31.3%). Ensuing consolidated PAT for the quarter was at ₹ 9768 crore, up 36% QoQ, higher than our estimate of ₹ 9136 crore
- Standalone operations reported an EBITDA/tonne of ₹ 35558/tonne, higher than our estimate of ₹ 33000/tonne (EBITDA/tonne of ₹ 27775/tonne in Q4FY21, ₹ 5920/tonne in Q1FY21). European operations reported EBITDA/tonne of US\$89/tonne, marginally lower than our expectation of US\$100/tonne. Tata Steel BSL reported EBITDA/tonne of ₹ 27856/tonne, broadly in line with our estimate of ₹ 27500/tonne

What should investors do? Tata Steel share price has grown by ~3.5x over the last 12 months (from ~₹ 413 in August 2020 to ~₹ 1461 levels in August 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value TSL at ₹ 1750, based on SoTP valuation

Key triggers for future price performance:

- Tata Steel 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
- India's share in Tata Steel's overall consolidated production capacity has risen from 29% in 2010 to 57% in 2020 and is likely to reach 73% by 2030
- For FY22E, Tata Steel is targeting over US\$2 billion gross debt reduction wherein it will prioritise offshore debt repayment

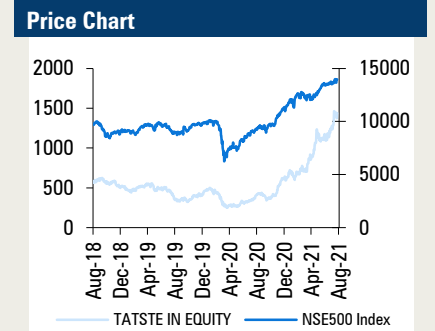
Alternate Stock Idea: In our ferrous metal sector coverage, we also like JSW Steel.

- JSW Steel is one of the leading integrated steel companies in India, which has a strategic collaboration with global leader JFE Steel of Japan
- BUY with a target price of ₹ 850



Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	1,75,848
Total Debt (Q1FY22) (₹ Crore)	84,237
Cash & Cash Eq. (Q1FY22) (₹ Crore)	10,264
EV (₹ Crore)	2,49,821
52 week H/L (₹)	1481 / 343
Equity capital	₹ 1198 Cr.
Face value	₹ 10

Shareholding Pattern				
(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	34.4	34.4	34.4	34.4
FII's	11.5	16.9	18.6	21.9
DII's	29.9	25.8	25.2	19.2
Others	0.3	0.3	0.3	0.1
Total	100.0	100.0	100.0	100.0



Key Risks & Events	
•	Consolidated free cash flow generation was ₹ 3553 crore during Q1FY22 despite working capital absorbing of ₹ 8272 crore
•	Key risks: (i) Steep decline in steel prices (ii) Higher than expected increase in operating costs.

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Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	CAGR (FY16-21)	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	1,31,700	1,57,669	1,39,817	1,56,294	6%	2,20,401	1,93,542	11%
EBITDA	21,891	29,383	17,463	30,504	32%	58,700	45,329	22%
Adj PAT	8,164	8,995	4,737	9,233	NA	31,158	21,548	53%
EPS (₹)	71.3	78.6	41.4	77.1		260.2	179.9	
EV/EBITDA (x)	11.8	8.8	15.9	8.4		4.0	4.9	
RoCE (%)	12.3	13.8	4.8	13.1		29.5	20.2	
RoE (%)	17.7	13.0	6.4	12.4		30.5	17.5	

Key Highlights & takeaways.....

Q1FY22 Results

- For Q1FY22, Tata Steel's Indian operations reported sales volume of 4.15 million tonnes (MT), down 11% QoQ. Indian operations sales volumes declined sequentially due to partial lockdowns and temporary shutdowns in few steel consuming sectors. For the quarter, European operations reported sales volume of 2.33 MT, down 6% QoQ
- Gross debt declined to ₹ 84237 crore with debt repayment of ₹ 5894 crore. Net debt declined by ₹ 1416 crore QoQ and was at ₹ 73973 crore at the end of June 2021. Net debt to EBITDA improved to 1.59x while net debt to equity improved to 0.91x
- The company is committed to deleveraging further and expects to bring down the debt significantly by the end of the current financial year
- TSL spent ₹ 2011 crore on capex in Q1FY22. Work on the pellet plant, cold roll mill complex and the 5 MTPA expansion at Kalinganagar is ongoing

Q1FY22 Conference Call Highlights

- For FY22E, Indian operations steel volumes are expected to be higher by ~1 million tonnes (MT) compared to FY21 (FY21 Indian operations steel sales volume was at 17.3 MT)
- For Q2FY22E, for Indian operations blended steel realisations are expected to be higher by ~₹ 3000/tonne compared to Q1FY22. For Q2FY22, coking coal cost is expected to be ~US\$20/tonne higher compared to Q1FY22
- For Q2FY22E, for Tata Steel European operations, realisations are expected to increase by ~ €200-250/tonne QoQ (compared to Q1FY22). This is since a substantial number of contracts were renegotiated in July 2021 and the impact of the same is likely to be seen in ensuing quarters
- The company has accelerated capex allocation for the 6 MTPA pellet plant and the CRM complex. Both are expected to be commissioned by the first half of 2022
- The working capital witnessed in Q1FY22 is expected to witness an unwinding trend over the coming quarters

Peer comparison

Exhibit 1: Peer Comparison

Company	CMP (₹)	TP (₹)	Rating	Mcap (₹)	Topline(in ₹ crore)			EBITDA (in ₹crore)			Adj. PAT(in ₹ crore)			P/E(x)			EV/EBITDA(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Tata Steel	1461	1750	Buy	175848	156294	220401	193542	30,504	58,700	45,329	9,233	31,158	21,548	18.9	5.6	8.1	8.4	4.0	4.9
JSW Steel	747	850	Buy	181098	79839	123468	127970	20,141	37,096	33,224	7,956	21,187	17,307	22.7	8.5	10.4	11.5	6.1	6.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis (Consolidated Performance)

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	53372	51636	25475	110%	49,977	7%	Consolidated topline came broadly in line with our estimate
Other Income	162	172	188	-14%	272	-40%	
Other operating Expenses	37261	35450	24935	49%	35,793	4%	
EBITDA	16111	16186	539	2888%	14,184	14%	EBITDA came broadly higher than our estimates
EBITDA Margin (%)	30.2	31.3	2.1	2810 bps	28.4	180 bps	
Depreciation	2325	2425	2175	7%	2,392	-3%	
Interest	1811	1825	2006	-10%	1,866	-3%	
Share of Profit from associate	122	100	15	715%	150	-19%	
Exceptional Items	-182	0	58	PL	-991	-82%	
PBT	12077	12208	-3381	-457%	9357	29%	
Tax Outgo	2308	3072	1268	82%	2,195	5%	
PAT from continued operations	9768	9136	-4648	-310%	7162	36%	PAT came in higher than our estimates

Key Metrics

TSI Steel Sales (MT) (Standalone operations)	2.9	2.9	2.1	38%	3.3	-12%	Tata Steel India sales came broadly in line with our estimates
TSE Steel Sales (MT)	2.4	2.4	2.0	18%	2.5	-6%	
Adjusted TSI EBITDA/tonne (₹/tonne)	35558	33000	5920	501%	27775	28%	EBITDA/tonne came in higher than our estimates
TSE EBITDA/tonne (₹/tonne)	6590.0	7378.0	-3187.0	LP	4812.0	37%	

Source: Company, ICICI Direct Research

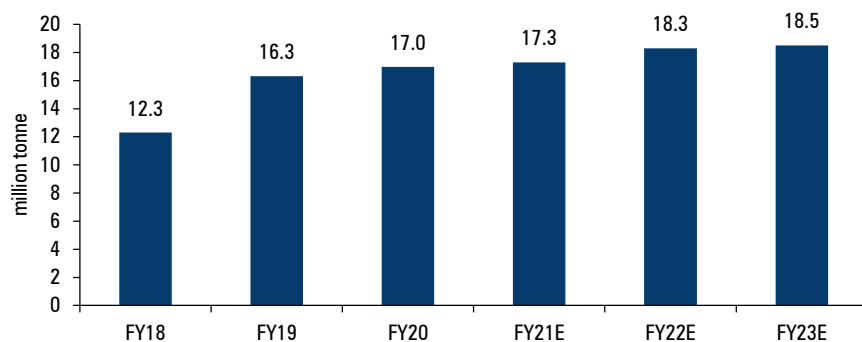
Exhibit 3: Change in estimates

	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Total Operating Income (₹ crore)	1,87,369	2,20,401	17.6	1,86,613	1,93,542	3.7	Topline revised upwards for FY22E & FY23E
EBITDA (₹ crore)	46,469	58,700	26.3	40,644	45,329	11.5	EBITDA revised upward for FY22E & FY23E
EBITDA Margin (%)	24.8	26.6	183 bps	21.8	23.4	164 bps	EBITDA margin revised upwards for FY22E & FY23E
Adj PAT (₹ crore)	22,613	31,158	37.8	18,262	21,548	18.0	PAT revised upward for FY22E & FY23E
Adj EPS (₹)	189	260	37.8	153	180	18.0	EPS revised upwards for FY22E & FY23E

Source: Company, ICICI Direct Research

Financial story in charts

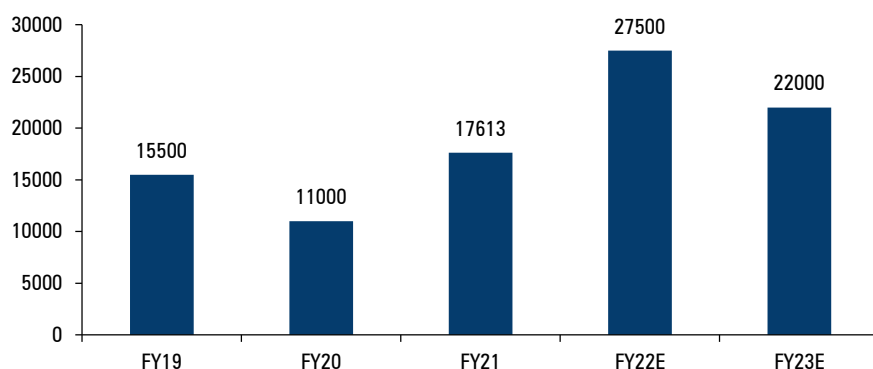
Exhibit 4: Domestic operations volume trend, going forward



Source: Company, ICICI Direct Research, Domestic business includes Tata Steel Standalone, Tata Steel BSL and Tata Steel long products

For Tata Steel domestic operations, we model sales volume of 18.3 MT for FY22E and 18.5 MT for FY23E

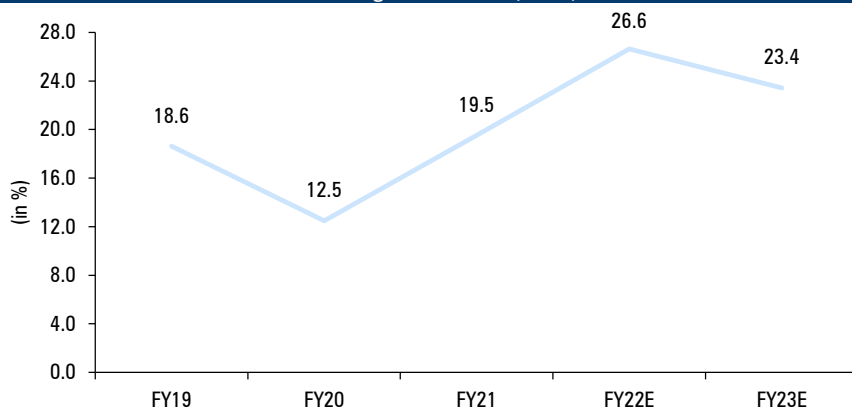
Exhibit 5: Standalone operation EBITDA... (in ₹/tonne)



Source: Company, ICICI Direct Research

For Tata Steel standalone operations, we model EBITDA/tonne of ₹ 27500/tonne for FY22E and ₹ 22000/tonne for FY23E

Exhibit 6: Consolidated EBITDA margins trend....(in %)



Source: Company, ICICI Direct Research

Over the next couple of years, we expect consolidated EBITDA margin at ~26.6% for FY22E and ~23.4% for FY23E

Exhibit 7: Valuation

	Total Op. Income	Growth	EPS	Growth	PE	EV/EBIDTA	P/ BV	RoNW	RoCE
	(₹ Crore)	% YoY	(₹)	% YoY	(x)	(x)	(x)	(%)	(%)
FY18	1,31,700	17.3	71.3	69.1	20.5	11.8	3.6	17.7	12.3
FY19	1,57,669	19.7	78.6	10.2	18.6	8.8	2.4	13.0	13.8
FY20	1,39,817	(11.3)	41.4	(47.3)	35.3	15.9	2.3	6.4	4.8
FY21	1,56,294	11.8	77.1	86.4	18.9	8.4	2.4	12.4	13.1
FY22E	2,20,401	41.0	260.2	237.5	5.6	4.0	1.7	30.5	29.5
FY23E	1,93,542	(12.2)	179.9	(30.8)	8.1	4.9	1.4	17.5	20.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Inc.	139817	156294	220401	193542
Growth (%)	-11	12	41	-12
Total Operating Expend.	122354	125790	161702	148212
EBITDA	17463	30504	58700	45329
Growth (%)	-41	75	92	-23
Depreciation	8441	9234	10645	11015
Interest	7533	7607	6223	4536
Other Income	1843	896	977	952
PBT	3332	14560	42808	30730
Exceptional Item	-3564	-1043	0	0
Total Tax	-2568	5654	12033	9526
PAT	2337	7862	30775	21203
Growth (%)	-75	236	291	-31
Minorities, Associates, etc	-1164	327	383	345
Rep PAT after Assoc. MI	1172	8190	31158	21548
Adj PAT after Assoc. MI	4737	9233	31158	21548
Growth (%)	-47.3	94.9	237.5	-30.8
EPS (₹)	41.4	77.1	260.2	179.9

Source: Company, ICICI Direct Research

Exhibit 10: 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	100239	121307
Total Shareholders funds	73576	74239	102211	123280
Total Debt	113289	88501	60501	46316
Deferred Tax Liability	9261	9241	9241	9241
Minority Interest & Others	11816	18731	22114	25459
Total Liabilities	207943	190712	194068	204296
Assets				
Less: Acc Depreciation	117000	126233	136879	147894
Net Block	131131	136654	132508	133493
CWIP	18862	18129	25629	29629
Net Fixed Assets (Incl. CWIP)	149993	154783	158137	163122
Investments	6285	10682	11432	12432
Inventory	31069	33276	57802	49172
Debtors	7885	9540	13014	12688
Loans and Advances	35663	29692	35692	39692
Other Current Assets	6144	2410	3960	4860
Cash	8055	5782	5271	5098
Total Current Assets	88816	80701	115739	111510
Current Liabilities	40813	56651	92938	84715
Provisions	1664	4725	4225	3975
Current Liabilities & Prov	42476	61376	97163	88690
Net Current Assets	46340	19325	18576	22820
others	5325	5923	5923	5923
Application of Funds	207943	190712	194068	204296

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	1172	8190	31158	21548
Add: Depreciation	8441	9234	10645	11015
(Inc)/dec in Current Assets	-141	5843	-35550	4056
Inc/(dec) in CL and Prov.	12244	18900	35787	-8473
Others	-2425	-12821	3000	3000
CF from operating activities	19292	29345	45041	31147
(Inc)/dec in Investments	-10547	-4397	-750	-1000
(Inc)/dec in Fixed Assets	-10347	-7023	-14000	-16000
Others	-5867	683	383	345
CF from investing activities	-26761	-10737	-14367	-16655
Issue/(Buy back) of Equity	0	-1447	0	0
Inc/(dec) in loan funds	22145	-24789	-28000	-14185
Dividend paid & dividend tax	-1340	-2994	-7185	-7185
Inc/(dec) in Share Cap	0	0	0	0
Others	-8612	8349	4000	6706
CF from financing activities	12193	-20880	-31185	-14665
Net Cash flow	4724	-2273	-512	-173
Opening Cash	3331	8055	5782	5271
Closing Cash	8055	5782	5271	5098

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adj EPS	41.4	77.1	260.2	179.9
Cash EPS	115.1	154.2	349.1	271.9
BV	642.6	619.9	853.5	1029.4
DPS	10.0	25.0	60.0	60.0
Operating Ratios (%)				
EBITDA Margin	12.5	19.5	26.6	23.4
PBT / Total Operating income	2.4	9.3	19.4	15.9
Adj PAT Margin	3.4	5.9	14.1	11.1
Inventory days	89	83	100	100
Debtor days	26	30	30	35
Creditor days	144	145	150	150
Return Ratios (%)				
Adj RoE	6.4	12.4	30.5	17.5
Adj RoCE	4.8	13.1	29.5	20.2
Adj RoIC	5.0	13.6	30.5	20.9
Valuation Ratios (x)				
P/E	35.3	18.9	5.6	8.1
EV / EBITDA	15.9	8.4	4.0	4.9
EV / Net Sales	2.0	1.9	1.2	1.3
Market Cap / Sales	1.2	1.2	0.9	1.1
Price to Book Value	2.3	2.4	1.7	1.4
Price to Adj Book Value	2.3	2.4	1.7	1.4
Solvency Ratios				
Debt/EBITDA	6.0	2.7	0.9	0.9
Debt / Equity	1.4	1.1	0.5	0.3
Current Ratio	2.1	1.3	1.2	1.3
Quick Ratio	1.4	0.8	0.6	0.7

Source: Company, ICICI Direct Research

Exhibit 12: 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	FY22E
Coal India	144	160	Hold	90877	20.6	25.1	27.7	7.1	5.9	5.3	4.1	3.9	3.9	42.3	43.1	41.2	34.8	36.7	35.5
Hindalco	435	525	Buy	99336	25.5	46.0	51.1	17.3	9.6	8.6	8.3	6.2	5.4	8.8	12.4	13.0	8.5	14.3	13.9
Hind Zinc	317	340	Hold	140598	18.9	22.3	25.6	17.6	14.9	13.0	10.8	8.1	6.8	27.8	33.1	37.8	24.7	26.3	26.0
JSW Steel	747	850	Buy	181098	32.9	87.7	71.6	22.7	8.5	10.4	11.5	6.1	6.8	13.8	24.2	18.2	17.0	31.3	20.4
NMDC	175	210	Buy	52077	21.3	24.7	9.5	8.3	7.2	9.2	5.5	4.6	5.3	27.0	24.9	17.2	21.0	20.5	14.6
Ratnamani	2075	2400	Buy	9696	59.0	76.2	96.0	33.9	26.2	20.8	22.1	16.1	13.0	15.7	19.3	20.1	13.9	15.7	16.9
Graphite Ind.	702	825	Buy	13717	-2.0	46.0	81.0	NA	15.4	8.8	NA	10.5	5.3	-5.4	19.0	28.8	-5.7	20.0	30.3
Tata Steel	1461	1750	Buy	175848	77.1	260.2	179.9	18.9	5.6	8.1	8.4	4.0	4.9	13.1	29.5	20.2	12.4	30.5	17.5
Sail	138	160	Buy	53697	9.2	26.4	21.2	14.2	4.9	6.1	7.0	4.1	4.8	10.9	18.4	13.9	8.9	20.7	14.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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