

November 15, 2021

Q2FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,835		1,850	
Sales (Rs. m)	2,197,080	2,136,721	2,197,080	2,136,721
% Chng.	-	-	-	-
EBITDA (Rs. m)	433,566	413,718	435,786	413,718
% Chng.	(0.5)	-	-	-
EPS (Rs.)	189.6	181.2	191.5	181.2
% Chng.	(1.0)	-	-	-

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	1,563	2,412	2,197	2,137
EBITDA (Rs. bn)	305	671	434	414
Margin (%)	19.5	27.8	19.7	19.4
PAT (Rs. bn)	85	418	227	217
EPS (Rs.)	71.3	349.0	189.6	181.2
Gr. (%)	358.5	389.8	(45.7)	(4.4)
DPS (Rs.)	25.0	23.9	14.4	14.4
Yield (%)	1.9	1.9	1.1	1.1
RoE (%)	11.5	44.8	18.6	15.3
RoCE (%)	12.1	33.9	18.8	16.8
EV/Sales (x)	1.5	0.9	0.9	0.8
EV/EBITDA (x)	7.5	3.1	4.3	4.2
PE (x)	18.1	3.7	6.8	7.1
P/BV (x)	2.1	1.4	1.2	1.0

Key Data

TISC.BO | TATA IN

52-W High / Low	Rs.1,535 / Rs.465
Sensex / Nifty	60,687 / 18,103
Market Cap	Rs.1,549bn/ \$ 20,802m
Shares Outstanding	1,203m
3M Avg. Daily Value	Rs.30422.73m

Shareholding Pattern (%)

Promoter's	34.41
Foreign	22.38
Domestic Institution	18.28
Public & Others	24.93
Promoter Pledge (Rs bn)	8.78

Stock Performance (%)

	1M	6M	12M
Absolute	(3.1)	9.2	172.1
Relative	(3.8)	(12.4)	94.4

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Miss due to higher costs; Margin trajectory to remain healthy even after normalisation

Quick Pointers:

- Realisations in India/Europe would be higher by Rs2,500/€50-55/t QoQ in Q3
- Coking coal costs would be higher by US\$100/t in India. In Europe, increase in coking coal cost of €55/t would be offset by reduction in iron ore cost by €30/t
- Net debt fell by 7% QoQ to Rs689bn on back of strong earnings

TATA steel (TATA) reported Q2FY22 EBITDA below our estimates/consensus estimates (CE) by 19%/14% at Rs164.6bn (+2% QoQ). The miss was due to lower margins in both domestic and Tata steel Europe (TSE) operations.

Sentiments on Chinese demand turned negative over last quarter. Contrary to historical trend of China pushing volumes in the exports market at unfeasible prices levels in wake of soft domestic demand, the flow of Chinese steel exports has been significantly contained this time with stringent curbs on production. Nonetheless, Chinese steel prices came under pressure with fall of ~15% over last couple of months due to lower iron ore prices and weak demand. As expected, margins were expected to soften due to unsustainable coking coal prices. Having said that, FY23e margins would average out at significantly above historical averages by ~35-40% due to structural withdrawal of Chinese supplies and better outlook on demand. Driven by attractive valuations and strong B/S, we reiterate BUY rating with TP of Rs1,835 (earlier Rs1,850) based on EV/EBITDA of 6.0x FY23e.

- Miss on standalone operations due to higher costs:** Volumes grew 11% QoQ at 4.4mnt as base was impacted due to 2nd wave of Covid-19. Realisations increased 7%/Rs4,550 QoQ to Rs73,715 on back of higher steel prices (+Rs3,400/t) and pass-through of additional royalty charged (due to new MMDRA rules) on sale of iron ore to subsidiaries. Cost increased 21% QoQ/Rs7,500 to Rs43,330 on account of higher royalty and coal costs. Hence, margins fell 9% QoQ at Rs30,390 (PLe:Rs34,040).
- Lower margins in domestic operations and forex losses restricted the growth:** TSE's EBITDA increased 118% QoQ to US\$450mn, below our estimate of US\$540mn. EBITDA/t expanded 134% QoQ to USD209 (PLe:US\$250mn). Owing to fall in margins in domestic operations and forex loss of Rs11.9bn (gain of Rs2.9bn in Q1), EBITDA grew marginally by 2% QoQ at Rs164.6bn (PLe:Rs203.3bn, CE:Rs190.3bn). Benefited by lower tax rate at 11% (v/s 19% in Q1 and PLe:18%) and reversal of Rs2.6bn in interest cost, Adj. PAT grew 25% QoQ to Rs114.0bn (PLe:Rs127.2bn, CE:Rs112.0bn).
- Key highlights of con-call: 1)** Spent Rs42bn on capex in H1FY22 against guidance of Rs100-120bn for FY22e **2)** Spent Rs78.5bn on 5mtpa expansion in Kalinganagar, Odisha out of total outlay of Rs235bn **3)** Combined impact of Rs3.2bn in Tata steel long products (TSLP) and Tata Metaliks for the quarter on account of higher royalty due to change in MMDR act **4)** Will explore options to lessen the impact of additional royalty on iron ore in subsidiaries **5)** Energy cost in TSE would more than double to €80-100mn/quarter **6)** Share of exports will come down by 400bps QoQ o 12% to meet better domestic demand **7)** Expect coking coal to sustain between US\$350-400/t in H2FY22

Exhibit 1: Q2FY22 Result Overview (Rs m)

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Net Sales	6,02,828	3,71,540	62.3	5,33,718	11,36,546	6,14,425	85.0
Raw Material	1,91,147	1,53,244	24.7	1,67,521	3,58,668	2,57,249	39.4
<i>% of Net Sales</i>	<i>31.7</i>	<i>41.2</i>		<i>31.4</i>	<i>31.6</i>	<i>41.9</i>	
Staff Costs	58,619	42,483	38.0	56,626	1,15,244	87,938	31.1
<i>% of Net Sales</i>	<i>9.7</i>	<i>11.4</i>		<i>10.6</i>	<i>10.1</i>	<i>14.3</i>	
Other Expenses	1,88,501	1,14,705	64.3	1,48,466	3,36,967	2,03,074	65.9
<i>% of Net Sales</i>	<i>31.3</i>	<i>30.9</i>		<i>27.8</i>	<i>29.6</i>	<i>33.1</i>	
Total Expenditure	4,38,267	3,10,432	41.2	3,72,613	8,10,879	5,48,262	47.9
EBITDA	1,64,561	61,108	169.3	1,61,106	3,25,667	66,163	392.2
<i>Margin (%)</i>	<i>27.3</i>	<i>16.4</i>		<i>30.2</i>	<i>28.7</i>	<i>10.8</i>	
Depreciation	22,889	22,611	1.2	23,245	46,134	43,720	5.5
Other income	2,709	2,221	21.9	1,622	4,331	4,147	4.4
EBIT	1,44,381	40,718	254.6	1,39,482	2,83,864	26,591	967.5
Interest	10,198	19,402	(47.4)	18,114	28,312	39,385	(28.1)
PBT	1,34,184	21,316	-	1,21,368	2,55,552	(12,795)	(2,097.4)
Extraordinary income/(expense)	5,160	432	-	(1,823)	3,336	1,014	-
PBT (After EO)	1,39,343	21,747	-	1,19,545	2,58,888	(11,780)	-
Tax	15,719	6,129	-	23,084	38,803	18,844	-
<i>% PBT</i>	<i>11.3</i>	<i>-</i>		<i>19.3</i>	<i>-</i>	<i>-</i>	
Reported PAT	1,23,624	15,619	-	96,461	2,20,085	(30,624)	(818.7)
Minority interest	6,296	891	-	8,614	14,910	(1,464)	-
Share of profit/(loss) of associates	1,853	736	151.9	1,223	3,075	886	247.3
Net Profit attributable to shareholders	1,19,181	15,463	-	89,069	2,08,251	(28,274)	(836.5)
Adjusted Net Profit attributable to shareholders	1,14,022	15,031	658.6	90,893	2,04,914	-29,288	(799.6)

Source: Company, PL

Exhibit 2: Key Operating Metrics

Subsidiary performance	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Revenue							
UK Operations (mn USD)	2,892	1,814	59.4	2,635	5,526	3,293	67.8
Adjusted EBITDA							
UK Operations (mn USD)	451	(62)	-	208	659	(145)	-
TSE							
Sales Volume	2.2	2.3	(4.8)	2.3	4.5	4.3	5.6
Realisation per tonne	1,339	799	67.5	1,131	1,231	775	58.8
EBITDA per tonne	209	(27)	-	89	147	(34)	-

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	1,562,942	2,411,917	2,197,080	2,136,721
YoY gr. (%)	4.9	54.3	(8.9)	(2.7)
Cost of Goods Sold	569,402	835,761	846,486	827,041
Gross Profit	993,540	1,576,156	1,350,593	1,309,679
Margin (%)	63.6	65.3	61.5	61.3
Employee Cost	199,088	261,175	264,527	258,450
Other Expenses	(17,657)	-	-	-
EBITDA	305,043	670,748	433,566	413,718
YoY gr. (%)	75.8	119.9	(35.4)	(4.6)
Margin (%)	19.5	27.8	19.7	19.4
Depreciation and Amortization	92,336	96,907	99,444	102,004
EBIT	212,706	573,841	334,122	311,714
Margin (%)	13.6	23.8	15.2	14.6
Net Interest	76,067	57,001	42,001	32,626
Other Income	8,956	7,866	8,253	8,677
Profit Before Tax	135,164	524,707	300,374	287,765
Margin (%)	8.6	21.8	13.7	13.5
Total Tax	56,539	100,144	68,760	66,252
Effective tax rate (%)	41.8	19.1	22.9	23.0
Profit after tax	78,624	424,562	231,614	221,513
Minority interest	6,996	10,000	7,500	7,500
Share Profit from Associate	3,273	4,000	3,000	3,000
Adjusted PAT	85,334	417,970	227,114	217,013
YoY gr. (%)	379.6	389.8	(45.7)	(4.4)
Margin (%)	5.5	17.3	10.3	10.2
Extra Ord. Income / (Exp)	(10,432)	-	-	-
Reported PAT	74,902	417,970	227,114	217,013
YoY gr. (%)	381.2	458.0	(45.7)	(4.4)
Margin (%)	4.8	17.3	10.3	10.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	74,902	417,970	227,114	217,013
Equity Shares O/s (m)	1,198	1,198	1,198	1,198
EPS (Rs)	71.3	349.0	189.6	181.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	2,119,884	2,175,624	2,232,364	2,289,104
Tangibles	2,119,884	2,175,624	2,232,364	2,289,104
Intangibles	-	-	-	-
Acc: Dep / Amortization	805,579	902,485	1,001,929	1,103,934
Tangibles	805,579	902,485	1,001,929	1,103,934
Intangibles	-	-	-	-
Net fixed assets	1,314,305	1,273,138	1,230,434	1,185,170
Tangibles	1,314,305	1,273,138	1,230,434	1,185,170
Intangibles	-	-	-	-
Capital Work In Progress	196,730	261,170	353,980	443,040
Goodwill	43,447	43,447	43,447	43,447
Non-Current Investments	41,772	45,772	48,772	51,772
Net Deferred tax assets	(76,634)	(84,505)	(91,169)	(97,736)
Other Non-Current Assets	240,719	240,719	240,719	240,719
Current Assets				
Investments	72,189	72,189	72,189	72,189
Inventories	332,764	541,855	473,726	462,468
Trade receivables	95,398	165,200	144,466	140,497
Cash & Bank Balance	57,822	53,099	82,947	129,735
Other Current Assets	23,106	28,106	33,106	38,106
Total Assets	2,454,872	2,762,137	2,761,646	2,845,480
Equity				
Equity Share Capital	11,976	11,977	11,977	11,977
Other Equity	730,412	1,110,700	1,309,164	1,508,987
Total Networkth	742,388	1,122,676	1,321,141	1,520,964
Non-Current Liabilities				
Long Term borrowings	885,014	635,014	485,014	385,014
Provisions	46,919	46,919	46,919	46,919
Other non current liabilities	101,754	86,754	71,754	56,754
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	259,675	379,274	351,756	342,487
Other current liabilities	288,070	342,576	321,975	316,188
Total Equity & Liabilities	2,454,872	2,762,137	2,761,646	2,845,480

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	138,437	524,707	300,374	287,765
Add. Depreciation	92,336	96,907	99,444	102,004
Add. Interest	76,067	57,001	42,001	32,626
Less Financial Other Income	8,956	7,866	8,253	8,677
Add. Other	(21,444)	(4,087)	(4,474)	(4,898)
Op. profit before WC changes	285,397	674,527	437,346	417,498
Net Changes-WC	164,913	(125,609)	20,326	(20,308)
Direct tax	(7,043)	(92,074)	(62,096)	(59,685)
Net cash from Op. activities	443,267	456,844	395,575	337,505
Capital expenditures	(63,429)	(120,180)	(149,550)	(145,800)
Interest / Dividend Income	4,012	4,087	4,474	4,898
Others	(36,049)	-	-	-
Net Cash from Inv. activities	(95,467)	(116,093)	(145,076)	(140,902)
Issue of share cap. / premium	32,390	34	-	-
Debt changes	(306,606)	(250,000)	(150,000)	(100,000)
Dividend paid	(11,505)	(29,966)	(28,649)	(17,190)
Interest paid	(68,037)	(57,001)	(42,001)	(32,626)
Others	(17,349)	(8,541)	-	-
Net cash from Fin. activities	(371,107)	(345,474)	(220,650)	(149,816)
Net change in cash	(23,307)	(4,723)	29,848	46,787
Free Cash Flow	373,481	336,664	246,025	191,705

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	419,023	499,774	533,718	602,828
YoY gr. (%)	18.0	38.8	119.7	62.3
Raw Material Expenses	143,850	151,161	167,521	191,147
Gross Profit	275,174	348,613	366,198	411,681
Margin (%)	65.7	69.8	68.6	68.3
EBITDA	95,682	141,841	161,106	164,561
YoY gr. (%)	204.2	195.6	3,087.0	169.3
Margin (%)	22.8	28.4	30.2	27.3
Depreciation / Depletion	23,415	23,924	23,245	22,889
EBIT	72,267	117,917	137,860	141,673
Margin (%)	17.2	23.6	25.8	23.5
Net Interest	17,860	18,663	18,114	10,198
Other Income	2,177	2,722	1,622	2,709
Profit before Tax	55,048	92,065	119,545	139,343
Margin (%)	13.1	18.4	22.4	23.1
Total Tax	15,823	21,950	23,084	15,719
Effective tax rate (%)	28.7	23.8	19.3	11.3
Profit after Tax	39,226	70,115	96,461	123,624
Minority interest	3,137	5,178	8,614	6,296
Share Profit from Associates	884	1,504	1,223	1,853
Adjusted PAT	38,508	76,353	90,893	114,022
YoY gr. (%)	(427.9)	221.9	(305.1)	658.6
Margin (%)	9.2	15.3	17.0	18.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	36,972	66,442	89,069	119,181
YoY gr. (%)	(459.3)	(548.5)	(303.6)	670.8
Margin (%)	8.8	13.3	16.7	19.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	36,972	66,442	89,069	119,181
Avg. Shares O/s (m)	971	971	971	971
EPS (Rs)	39.6	78.6	93.6	117.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	71.3	349.0	189.6	181.2
CEPS	148.4	429.9	272.7	266.4
BVPS	619.9	937.4	1,103.1	1,269.9
FCF	311.9	281.1	205.4	160.1
DPS	25.0	23.9	14.4	14.4
Return Ratio(%)				
RoCE	12.1	33.9	18.8	16.8
ROIC	7.6	29.6	15.8	14.5
RoE	11.5	44.8	18.6	15.3
Balance Sheet				
Net Debt : Equity (x)	1.0	0.5	0.2	0.1
Net Working Capital (Days)	39	50	44	44
Valuation(x)				
PER	18.1	3.7	6.8	7.1
P/B	2.1	1.4	1.2	1.0
P/CEPS	148.4	429.9	272.7	266.4
EV/EBITDA	7.5	3.1	4.3	4.2
EV/Sales	1.5	0.9	0.9	0.8
Dividend Yield (%)	1.9	1.9	1.1	1.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Rev. Indian Op. (US\$ m)	8,739	12,723	11,342	10,987
Rev. Corus (US\$ m)	7,568	13,095	12,125	11,640
Rev. South East (US\$ m)	1,292	1,610	1,560	1,563
EBITDA-India (US\$ m)	2,932	5,345	3,647	3,483
EBITDA-Corus (US\$ m)	(79)	1,843	873	776
EBITDA-South East (US\$ m)	74	115	84	80
Volume (mt)-India	12	13	13	13
Real./ Tonne- India (Rs)	42,353	59,690	52,390	50,255
EBITDA/Tonne- India (Rs)	17,612	31,057	21,189	20,236
SalesVol.-Corus (mt)	9	10	10	10
Real./Tonne-Corus (US\$)	857	1,350	1,250	1,200
EBITDA/Tonne-Corus (US\$)	(9)	190	90	80
Sales Vol.-South East (mt)	2	2	2	3
Real./Tonne-SEAN (US\$)	585	700	650	625
EBITDA/Tonne-SEAN (US\$)	33	50	35	32

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Oct-21	BUY	1,850	1,289
2	15-Aug-21	BUY	1,950	1,462
3	8-Jul-21	Accumulate	1,400	1,190
4	7-Jul-21	Accumulate	1,400	1,167
5	7-May-21	Accumulate	1,330	1,101
6	11-Feb-21	Accumulate	800	690
7	13-Jan-21	Hold	745	695
8	17-Nov-20	Reduce	405	492

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,460	2,243
2	Ambuja Cement	BUY	445	380
3	Coal India	Accumulate	164	191
4	Dalmia Bharat	Accumulate	2,290	1,991
5	Heidelberg Cement India	Reduce	220	248
6	Hindalco Industries	BUY	570	478
7	Hindustan Zinc	Reduce	288	313
8	Jindal Steel & Power	BUY	535	419
9	JK Lakshmi Cement	Hold	670	615
10	JSW Steel	Accumulate	810	674
11	NMDC	Accumulate	170	145
12	Shree Cement	Hold	28,000	28,635
13	Steel Authority of India	Accumulate	155	116
14	Tata Steel	BUY	1,850	1,289
15	The Ramco Cements	Hold	990	943
16	Ultratech Cement	BUY	8,600	7,399

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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