

Result Update – Q2FY22

- ❑ The consolidated revenue increased during the quarter by 12.9% QoQ and 54.8% YoY to ₹ 602.8 billion. Tata Steel achieved a new highest ever quarterly consolidated EBITDA of ₹ 164.5 billion, which reflects a margin of 27.3%. The consolidated profit after tax was also one of the highest at ₹ 123.6 billion with a net profit margin of 20.5%.
- ❑ During the quarter, Tata steel standalone business deliveries improved 10.4 % QoQ to 4.58 mn tons, While consolidated front steel production fell by 1.4% to 7.77 mn tons, steel deliveries increased by 3.9% to 7.39 mn tons in Q2 FY22 over Q1 FY22. As compared with Q2 FY21, the steel production is higher by 7.2% but deliveries are lower by 6.8%, despite market demand contraction amidst seasonal weakness, and this is a testament to their strong customer relationships and a superior distribution network. Sales volume to the Automotive segment increased by 18% QoQ despite semiconductor shortage driven weakness in the sector.
- ❑ Tata Steel Europe operations revenues improved to about £ 2.1 billion during the quarter with the increase in the market prices getting translated into the profit and loss account. Reported EBITDA for the quarter more than doubled to about £ 328 million on a QoQ basis which translates to an EBITDA per ton of £153 with higher steel prices and better mix, which was partially offset by increase in the raw material cost, especially coking coal, and a certain increase in the energy cost.
- ❑ Tata Steel India operations, which include receded standalone and the Tata Steel long products generated revenue of ₹ 342.2 billion supported by an increase in steel prices and higher deliveries. The management achieved the highest-ever quarterly adjusted EBITDA of ₹ 138.7 billion during this quarter. Tata Steel Standalone revenues increased by 18.1% QoQ and 50.8% YoY to ₹ 325.8 billion with the benefit of strong steel prices and higher deliveries.
- ❑ On a consolidated basis, Tata Steel has spent as capex around ₹ 42 billion in the first half of this financial year. So far their total spend on Kalinganagar is about ₹ 78.5 billion. As mentioned previously, the company FY22 consolidated CapEx guidance is around ₹ 100 to ₹ 120 billion. The operating cash flows continue to be strong, despite working capital pressure due to price effect on coal price increase in recent months. Besides this, the quarter also witnessed major cash outflows in the form of tax, which was about ₹ 42.2 billion and dividend takes about ₹ 30 billion. Despite this, the company generated a consolidated free cash flow of over ₹ 3 billion during this quarter.

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- ❑ Tata Steel continues to deploy the free cash flow for deleveraging the balance sheet with about ₹ 114 billion of debt repayment in the first half of the current financial year and they are certainly targeting additional aggressive deleveraging in the second half as well. The company net debt to equity has further dropped to about 0.79 times, while the net debt to EBITDA improved to about 1.2 times. Group liquidity position remained strong at about ₹ 200 billion, including about ₹ 90.3 billion of cash and cash equivalent.
- ❑ In Europe, the economic activities and steel consuming sectors are witnessing a recovery, while the automotive sector is impacted by the semiconductor shortages. The steel production in Europe declined by about 4% QoQ due to some temporary or operational issues at both Netherlands and the UK steelmaking sites. And steel sales volume declined about 8% QoQ to 2.14 mn tons in the September quarter, but better product mix improved their underlying performance sharply.
- ❑ The steel prices have been volatile within a range over the last few months and a few factors are contributing to the situation. One is input costs continue to be quite high. Iron ore prices have dropped from over \$200 to less than \$100 but coking coal prices continue to be high at \$550 to \$600 in China and \$380 to \$400 for the rest of the world. This, in some sense, keeps a floor on the prices. And that's why while there has been volatility, it is being range-bound at a higher end for the last few years.
- ❑ After a strong performance in H1FY22, we expect the rest of the year to be stronger for Tata Steel standalone operations. Domestic steel prices are at a discount to import parity prices allowing companies to push through price hikes. Iron ore integration in the domestic operations enables the company to capture the increase in steel prices in profits. European operations are also expected to remain profitable with an improvement in spreads which lead to further fall in net debt over FY22-FY24 even though Tata Steel will continue to pursue growth capex in India. Hence, we reiterate our **BUY** rating on the stock with target price of ₹ 1,776.

Quarterly Results

Financial Results

Consolidated						
(In ₹ mn)	Q2-FY22	Q2-FY21	Chg	1H-FY22	1H-FY21	Chg
Net Sales	602,828	389,399	54.8%	1,136,546	785,340	44.7%
Operating Expense	438,267	327,272	33.9%	810,879	628,578	29.0%
EBITDA	164,561	62,127	164.9%	325,667	156,763	107.7%
Other Income	2,709	2,179	24.3%	4,331	4,328	0.1%
Depreciation	22,889	23,251	(1.6%)	46,134	45,998	0.3%
EBIT	144,381	41,055	251.7%	283,864	115,093	146.6%
Interest	10,198	19,480	(47.7%)	28,312	37,259	(24.0%)
PBT	134,184	21,575	521.9%	255,552	77,834	228.3%
Tax	15,719	6,092	158.0%	38,803	21,808	77.9%
Exceptional Items	5,160	432	-	3,336	(1,104)	-
PAT	123,624	15,915	676.8%	220,085	54,922	300.7%
Minority /Other Adj.	(4,443)	(261)	-	(11,835)	(2,515)	-
Consolidated PAT	119,181	15,654	661.3%	208,251	52,407	297.4%
Consolidated						
Margins	Q2-FY22	Q2-FY21	Chg	1H-FY22	1H-FY21	Chg
Operating Margin %	27.3%	16.0%	1134	28.7%	20.0%	869
PAT Margin %	19.8%	4.0%	1575	18.3%	6.7%	1165

Source: Company, Anand Rathi Research

Key Risks:

- ❑ Steel prices significantly influenced by international markets.
- ❑ Demand contraction in India/world
- ❑ Supply cuts being undermined in China

Rating and Target Price history:

TATASTEEL rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 20 November 2021 close.

TATASTEEL rating details

Date	Rating	Target Price (₹)	Share Price (₹)
04-Apr-2021	BUY	1,094	925
11-May-2021	BUY	1,230	1,437
18-Aug-2021	BUY	1,500	1,776
20-Nov-2021	BUY	1189	1776

Source: Bloomberg, Anand Rathi Research

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Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
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