

EBITDA margins impacted by higher raw material cost

About the stock: Tata Metaliks (TML) is a subsidiary of Tata Steel, which was established in 1990. TML has manufacturing facilities in Kharagpur, West Bengal, which produces pig iron and ductile iron (DI) pipes.

- By H2FY23, TML would double its DI pipe capacity to 4 lakh tonnes
- TML has healthy cash flows and a strong balance-sheet. It is one of the few players in the steel pipe sector having net cash position on its balance sheet

Q3FY22 Results: TML's EBITDA and EBITDA margin declined both QoQ and YoY on higher raw material costs.

- TML reported revenue of ₹ 690 crore, up 31% YoY and 7% QoQ
- TML's EBITDA was at of ₹ 68 crore, down 46% YoY and 32% QoQ. EBITDA margin were at 9.8% compared to 24% in Q3FY21 and 15.5% in Q2FY22
- During the quarter, EBITDA and EBITDA margin came in muted on the back of higher domestic coke/coking coal costs and also due to high cost inventories of iron ore, which attracted higher royalties
- Ensuing PAT was at ₹ 36 crore (down 52% YoY and 35% QoQ)

What should investors do? TML's share price has given a return of ~152% over the last five years (from ~₹ 344 in January 2017 to ~₹ 866 levels in January 2022).

- We downgrade to stock from BUY to HOLD

Target Price and Valuation: We value TML at ₹ 975 i.e. 6.5x FY23E EV/EBITDA

Key triggers for future price performance:

- The first phase of DI pipe capacity expansion (~1 lakh tonne) is likely to be commissioned in Q4FY22. The second phase is likely to be commissioned in H2FY23 (~1 lakh tonne). Post commissioning of both phases, TML would double its DI capacity from 2 lakh tonnes currently to 4 lakh tonnes
- One of the key beneficiaries of Jal Jeevan mission

Alternate Stock Idea: In our steel pipes sector coverage we like Ratnamani Metals and Tubes (RMTL).

- Leadership position in stainless steel pipes and tubes segment, differentiates RMTL from its peer group
- BUY with a target price of ₹ 2450



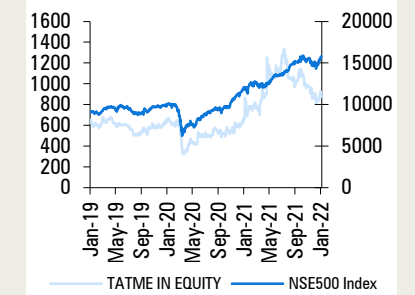
Particulars

Particulars	Amount
Market Capitalisation (in ₹ crore)	2743
Debt in ₹ crore (FY21)	10
Cash & Cash Eq. in ₹ crore (FY21)	192
EV (in ₹ crore)	2561
52 Week H / L (₹)	1374 / 670
Equity Capital (₹ crore)	32
Face Value	₹ 10

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	60.0	60.0	60.0	60.0
FPIs	1.0	1.9	1.1	1.0
DIs	13.2	11.6	10.5	10.5
Public	25.8	26.5	28.4	28.4
Total	100.0	100.0	100.0	100.0

Price Chart



Key risks

- Higher than expected increase in demand of DI pipes
- Higher than expected increase in operating costs

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	CAGR (FY16-FY21 in %)	FY22E	FY23E	CAGR (FY22E-FY23E in %)
Total Operating income	2,155	2,051	1,917	7	2,706	2,768	20
EBITDA	307	285	389	12	392	433	5
EBITDA Margin (%)	14.3	13.9	20.3		14.5	15.7	
Net Profit	183	167	221	14	235	253	7
Diluted EPS (₹)	65.1	59.4	69.9		74.3	80.1	
P/E	13.3	14.6	12.4		11.7	10.8	
RoE (%)	23.8	18.1	17.0		15.6	14.4	
RoCE (%)	31.0	19.4	24.6		21.6	19.5	

Source: Company, ICICI Direct Research

Key Conference call highlights

- During Q3FY22, pig iron quarterly sales volume was at 75 KT, down 17% QoQ. Ductile iron (DI) pipe sales volume was, however, highest ever recorded in any third quarter and was up ~30% compared to Q2FY22
- First phase of ductile iron pipe expansion should be completed by March 2022 while the second phase is expected to get completed by H2FY23
- On the back of cost push, pig iron prices have increased by ~₹ 2000/tonne in January 2022 compared to Q3FY22 average
- Pig iron volumes declined during Q3FY22 on the back of 10 days' maintenance shutdown in one of the blast furnaces. Furthermore, instability of the blast furnace impacted fuel rates and led to elevated operating cost during December 2021. This blast furnace was finally stabilised in the first week of January 2022
- During Q3FY22, focus was to produce more ductile iron pipes so as to finish the old DI pipe contracts. Tata Metaliks has been honouring older lower price ductile iron pipe contracts, which have led to muted profit during the quarter. In the next quarter or two, Tata Metaliks expects prices to be aligned higher as new contracts are executed
- Ductile iron pipe contracts have increased by ~40-45% compared to last year's prices. For DI pipes, prices are currently being contracted at ~₹ 70000/tonne compared to ₹ 50000/tonne last year
- Currently, TML's DI pipes segment order book is of ~9-10 months, of which ~60-70% are older price contracts.

Peer comparison

Exhibit 1: Peer Comparison

	CMP		TP	M Cap (₹ Cr)	Topline(in ₹ crore)			EBITDA(in ₹ crore)			PAT(in ₹ crore)			P/E (x)			EV/EBITDA (x)		
	(₹)	(₹)			Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Ratnamani	2120	2450	Buy	9907	2298	3068	3571	400	537	643	276	356	458	35.9	27.8	21.6	23.5	17.1	13.8
Tata Metaliks	866	975	Hold	2743	1917	2706	2768	389	392	433	221	235	253	12.4	11.7	10.8	6.6	6.5	5.7

Source: Company, ICICI Direct Research

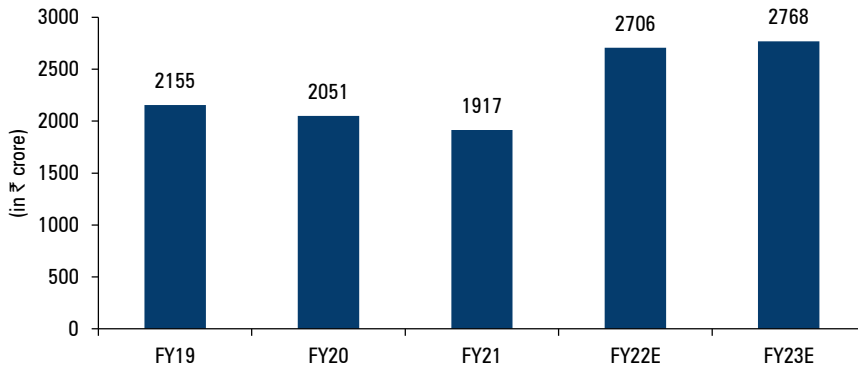
Exhibit 2: Variance Analysis

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Total Operating Income	690	526	31%	645	7%	Topline increased by 31% YoY and 7% QoQ
Other Income	3	2	58%	3	6%	
Raw Material Expense	456	257	77%	388	18%	
Employee Expense	36	35	2%	35	2%	
Other Expenses	130	107	21%	122	7%	
Total Operating Expenses	622	400	56%	545	14%	
EBITDA	68	126	-46%	100	-32%	EBITDA declined by 46% YoY and 32% QoQ on account of higher raw material cost
EBITDA Margin (%)	9.8	24.0	-1420 bps	15.5	-564 bps	
Depreciation	15	15	-1%	16	-6%	
Interest	6	4	30%	6	-2%	
Exceptional Items	0	0	NA	0	NA	
PBT	50	109	-54%	81	-38%	
Tax Outgo	14	34	-57%	26	-45%	
PAT	36	75	-52%	55	-35%	PAT declined by 52% YoY and 35% QoQ

Source: Company, ICICI Direct Research

Financial story in charts

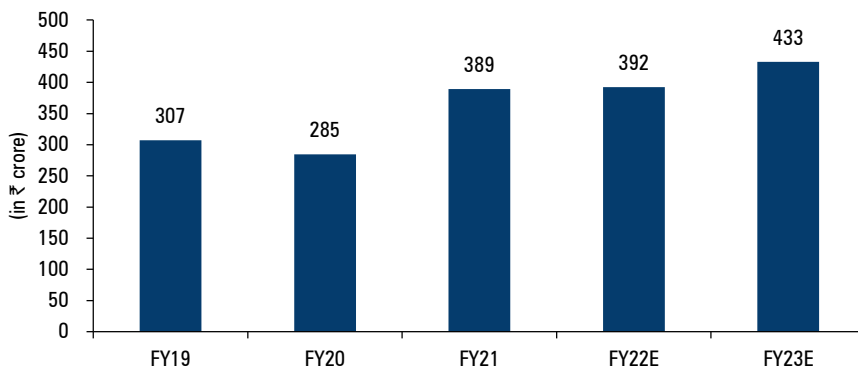
Exhibit 3: Trend in topline... (in ₹ crore)



We expect topline to grow at a CAGR of 20% during FY21-23E

Source: Company, ICICI Direct Research

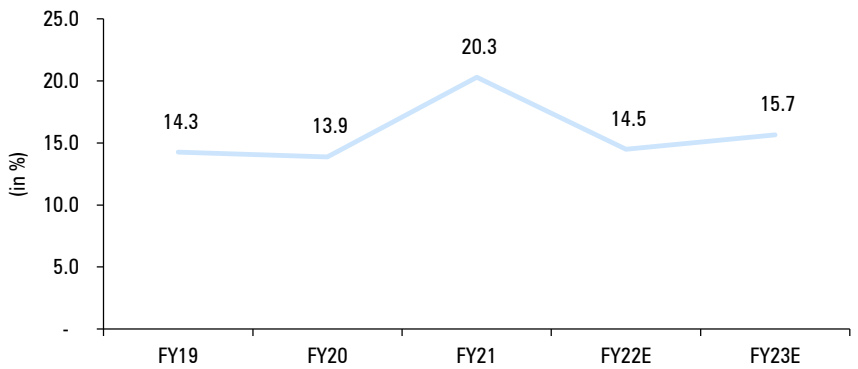
Exhibit 4: Trend in EBITDA... (in ₹ crore)



We expect EBITDA to grow at a CAGR of 5% during FY21-23E

Source: Company, ICICI Direct Research

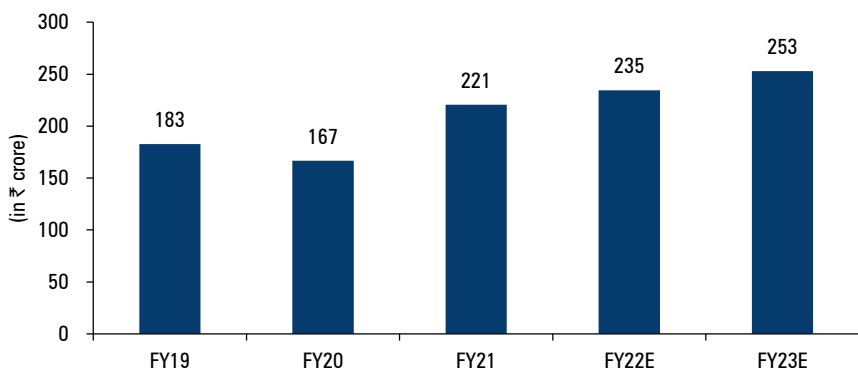
Exhibit 5: Trend in EBITDA margin ... (in %)



Over the next couple of years, we expect EBITDA margin to come in at a ~14.5% in FY22E & ~15.7% in FY23E

Source: Company, ICICI Direct Research

Exhibit 6: Trend in PAT (in ₹ crore)



We expect PAT to grow at a CAGR of 7% during FY21-23E

Source: Company, ICICI Direct Research

Exhibit 7: Valuation

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2,155	15	65.1	14	13.3	7.9	23.8	31.0
FY20	2,051	-5	59.4	-9	14.6	8.9	18.1	19.4
FY21	1,917	-7	69.9	18	12.4	6.6	17.0	24.6
FY22E	2,706	41	74.3	6	11.7	6.5	15.6	21.6
FY23E	2,768	2	80.1	8	10.8	5.7	14.4	19.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	2051	1917	2706	2768
Growth (%)	-5%	-7%	41%	2%
Total Operating Expenditure	1766	1528	2314	2334
EBITDA	285	389	392	433
Growth (%)	-7%	37%	1%	10%
Interest & Finance Cost	33	24	25	20
Depreciation	65	67	68	90
Other Income	16	8	14	15
PBT before Exceptional Items	202	307	313	338
Less: Exceptional Items	0	0	0	0
PBT	202	307	313	338
Total Tax	35	86	79	85
PAT	167	221	235	253
Growth (%)	-9%	32%	6%	8%
EPS	59.4	69.9	74.3	80.1

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	167	221	235	253
Add: Dep. & Amortization	65	67	68	90
Net (Inc) / dec.in Current Asset	-115	-86	-226	-59
Net Inc / (dec) in Current Liab.	-13	-24	142	61
CF from operating activities	104	178	219	344
(Inc)/dec in Investments	-10	10	-0	0
(Inc)/dec in Fixed Assets	-171	-227	-200	-250
Others	0	0	0	0
CF from investing activities	-181	-217	-200	-250
Inc / (Dec) in Equity Capital	0	3	0	0
Inc / (Dec) in Loans	173	-201	-10	0
Dividend & Dividend Tax	-12	-21	-25	-32
Others	-3	189	-6	32
CF from financing activities	158	-30	-42	0
Net Cash flow	82	-68	-23	94
Opening Cash	29	110	42	19
Closing Cash	110	42	19	113

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	28	32	32	32
Reserve and Surplus	891	1,269	1,471	1,724
Total Shareholders funds	919	1,300	1,503	1,756
Total Debt	211	10	0	0
Deferred Tax Liability (net)	0	12	12	12
Source of Funds	1,131	1,322	1,515	1,768
Net Block	668	793	875	1,165
Capital WIP	98	134	184	54
Net Fixed Assets	767	926	1,058	1,218
Investments	10	0	0	0
Inventory	385	409	556	569
Cash	110	42	19	113
Debtors	280	247	311	341
Loans & Advances & Other CA	142	238	252	269
Total Current Assets	918	936	1,139	1,292
Creditors	390	270	408	455
Provisions & Other CL	174	270	274	288
Total Current Liabilities	564	540	682	743
Net Current Assets	354	396	457	550
Application of Funds	1,131	1,322	1,515	1,768

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	59.4	69.9	74.3	80.1
BV	327.3	411.7	475.9	556.0
DPS	3.5	6.5	8.0	10.0
Cash Per Share	39.3	13.3	6.1	35.9
Operating Ratios (%)				
EBITDA margins	13.9	20.3	14.5	15.7
PBT margins	9.9	16.0	11.6	12.2
Net Profit margins	8.1	11.5	8.7	9.1
Inventory days	69	78	75	75
Debtor days	50	47	42	45
Creditor days	69	51	55	60
Return Ratios (%)				
RoE	18.1	17.0	15.6	14.4
RoCE	19.4	24.6	21.6	19.5
RoIC	21.5	25.4	21.9	20.9
Valuation Ratios (x)				
P/E	14.6	12.4	11.7	10.8
EV / EBITDA	8.9	6.6	6.5	5.7
EV / Revenues	1.2	1.4	1.0	0.9
Market Cap / Revenues	1.2	1.4	1.0	1.0
Price to Book Value	2.6	2.1	1.8	1.6
Solvency Ratios				
Debt / Equity	0.2	0.0	0.0	0.0
Debt/EBITDA	0.7	0.0	0.0	0.0
Current Ratio	1.6	1.7	1.7	1.7
Quick Ratio	0.9	1.0	0.9	1.0

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Coal India	163	160	Hold	101305	20.6	25.1	27.7	7.3	6.0	5.5	4.2	4.1	4.1	42.3	41.7	39.8	34.8	36.7	35.5
Hindalco	506	600	Buy	113696	25.5	58.3	59.8	17.3	7.6	7.4	8.3	5.3	4.8	8.8	14.8	14.5	8.5	17.6	15.5
NMDC	144	175	Buy	42113	21.3	34.7	20.6	6.3	3.9	6.5	4.1	2.6	4.1	27.0	35.1	18.7	21.0	28.6	15.4
JSW Steel	695	725	Hold	168118	32.9	82.5	66.4	19.9	8.0	9.9	10.4	5.6	6.4	13.8	22.1	15.3	17.0	30.0	19.5
Ratnamani	1911	2450	Buy	8928	59.0	76.2	98.0	35.9	27.8	21.6	23.5	17.1	13.8	15.7	19.3	20.1	13.9	15.7	17.2
Graphite Ind.	564	650	Buy	11025	-1.6	31.3	62.7	NA	14.7	7.3	NA	9.2	3.8	-5.4	12.1	23.1	-0.7	12.4	21.2
Jindal Stainless	213	250	Buy	10731	8.6	26.2	22.7	19.3	6.3	7.3	7.8	4.9	5.7	16.0	25.2	18.1	13.0	29.1	20.1
Jindal Stainless Hisar	398	488	Buy	9390	29.5	63.9	58.9	10.4	4.8	5.2	7.7	4.2	4.0	18.6	26.7	20.9	23.2	32.4	22.5
Vardhman Special Steel	267	340	Buy	976	10.9	24.9	29.5	23.2	10.2	8.6	11.1	6.4	5.6	13.7	21.2	21.1	9.6	18.5	18.3
Tata Metaliks	866	975	Hold	2743	69.9	74.3	80.1	12.4	11.7	10.8	6.6	6.5	5.7	24.6	21.6	19.5	17.0	15.6	14.4

Source: Company, ICICI Direct Research

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Sell: < -15%



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