

BSE SENSEX
58,014

S&P CNX
17,340



Stock Info

	TATA IN
Bloomberg	
Equity Shares (m)	1,198
M.Cap.(INRb)/(USD\$)	1325.6 / 17.8
52-Week Range (INR)	1535 / 597
1, 6, 12 Rel. Per (%)	-2/-35/55
12M Avg Val (INR M)	16331
Free float (%)	66.1

Financials Snapshot (INR b)

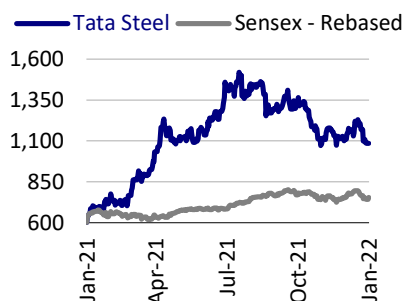
MAR	FY21	FY22E	FY23E
Net Sales	1,563	2,110	1,956
EBITDA	305	615	429
PAT	83	338	197
EPS (INR)	69.0	282.1	164.7
Gr. (%)	661.9	308.7	-41.6
BV/Sh (INR)	577.1	790.8	889.7
RoE (%)	11.9	41.2	19.6
RoCE (%)	11.8	28.0	17.3
P/E (x)	15.7	3.8	6.6
P/BV (x)	1.9	1.4	1.2
EV/EBITDA (x)	7.0	3.3	4.8

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	33.9	34.4	34.4
DII	18.2	18.4	26.1
FII	21.4	22.4	16.9
Others	26.5	24.8	22.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,085 TP: INR1,235(+14%)

Neutral

Neelachal Ispat acquisition – An expensive affair

Iron ore mine and land parcel are the only attraction

- Tata Steel Long Products (TSLP) has acquired the government's 93.71% stake in Neelachal Ispat Nigam (NINL) for INR121b.
- **The deal** implies an EV of INR129b (at 100% stake) for the 100mt iron ore mine and the land parcel of 2,500 acres. As the NINL plant is a short distance away from Tata Steel's Kalinganagar plant, the two plants will have a certain level of operational synergies.
- **The plan going forward:** The management plans to set up a greenfield long steel products plant of 4.5mt capacity on NINL's land. This implies that the existing inefficient 1mt mini blast furnace (MBF) and ancillary equipment is likely to be taken out to make way for the new plant.
- **Expensive acquisition:** NINL is unlikely to deliver returns commensurate with the investment for several years till the new steel plant is commissioned. If a single blast furnace is installed to make the operations economical at NINL, then the associated capex is likely to be in the INR250-300b range and should take at least three years before commercial production can commence. Capex needs to be committed at one go and cannot be undertaken in a staggered manner, which is likely to stretch the recently repaired Balance Sheet of Tata Steel again.
- **Employees:** As on Mar'20, NINL had about 1,478 permanent and ~1,000 contractual employees. These are likely to add to the employee cost of TSLP or Tata Steel standalone (TSI), wherever they are absorbed till the 4.5mt project is completed.
- **Benefit from existing mines:** TSLP can use the existing iron ore mines of NINL to feed its operations and reduce costs by avoiding the additional royalty of 22.5% on IBM prices, which it has started paying on ore purchased from Tata Steel. NINL mines have a mining plan of 2.5mt.
- **Land:** Out of the land parcel of 2,514.7 acres, the plant is spread over 2,200 acres. This means construction cannot be started on a separate plot and that the existing structure has to be taken out first, thus ruling out the possibility of modular construction.

Valuation and view

- The company had pared down its debt to INR688b as of 30th Sep'21 from INR754b as of 31st Mar'21. With this acquisition, its net debt will increase immediately to INR809b. This should reduce going forward as internal cash flows will support repayments. With the peak steel cycle behind, the roadmap to deleveraging will be far more challenging than earlier. The days of EBITDA of INR33,327/t are behind us, at least in the near term.
- We cut our consolidated FY22E/FY23E EBITDA estimate by 10.8%/7.3%, raise our net debt assumption to factor in: a) the current acquisition and b) slowdown in steel cycle, with rising coking coal costs. We value Tata Steel on a SoTP basis at INR1,235 (from INR1,565 earlier). Key risk to our forecast is a slowdown in China.

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Exhibit 1: NINL's financials (INR m)

Particulars	FY15	FY16	FY17	FY18	FY19	1HFY20	9MFY20
Net Sales	12,439	10,737	11,719	9,049	20,054	6,479	8,012
Operating EBITDA	363	57	-179	-269	-28	-1,612	-3,604
EBITDA (incl. Other Income)	401	175	14	-9	171	-1,554	-3,540
Depreciation	1,009	1,051	1,810	1,739	1,505	756	129
Interest	1,728	2,433	3,599	3,884	4,663	2,311	3,598
PAT	-2,327	-3,331	-3,558	-3,777	-4,022	-5,341	-8,267
Net Worth	5,275	1,819	-1,751	-5,521	-9,565	-13,322	N/A
Fixed Assets (incl. CWIP)	30,289	30,315	28,540	27,440	26,144	25,776	N/A
Intangible Assets under development^	0	0	1,200	1,309	1,799	1,897	N/A
Long Term Loans	12,354	17,727	18,975	15,439	13,978	12,939	N/A
Current Maturities of LT Loans	4,191	1,548	2,814	4,039	3,259	N/A	N/A
Short Term Borrowings*	8,801	8,250	10,441	15,151	15,421	15,567	N/A
Current Assets	3,881	2,805	3,987	4,038	5,460	5,285	N/A
Current Liabilities	15,996	13,695	18,459	26,462	33,883	37,788	N/A

Source: MOFSL, NINL EOI

Exhibit 2: Details of NINL's mines

Category	Block	Geological reserve (mt)	Ore grade (Fe %)
A. Reserve at 55% Fe cut-off			
Proved	Mithirda	46.5	59.96
	Basada	34.07	60.38
	Kriyakudar	9.73	58
	Sub-total	90.3	59.61
Probable	Mithirda	4.02	61.08
	Basada	4.18	60.79
	Kriyakudar	4	63.34
	Sub-total	12.2	61.72
Total reserves (proven and probable)		102.5	59.86
B. Resource at 45% Fe cut-off			
	Mithirda	8.33	45%
	Basada	4.39	
	Kriyakudar	1.69	
Total resources		14.41	
Grand total (reserves and resources)		116.91	

Source: MOFSL, NINL EOI

- ML was granted in Aug'02, while the mining plan was approved in Aug'04. The mine is in the Koira block of Sundergarh and Keonjhar districts. Stage 1 and 2 forest clearances for the mine are in place, with stage 2 clearance being awarded in Jul'19. Mining operations have barely started since then.

Exhibit 3: Change in assumptions and key financials

Key assumptions	FY22E			FY23E		
	Old	Revised	Change (%)	Old	Revised	Change (%)
Standalone						
Volumes (mt)	12.8	17.2	34.4	12.8	18.0	40.9
Realization (INR/t)	71,400	72,042	0.9	62,100	67,654	8.9
EBITDA (INR/t)	31,030	27,810	-10.4	22,304	20,595	-7.7
EBITDA (INR b)	397	478	20.4	285	371	30.1
TSE						
Volumes (mt)	9.7	9.0	-7.2	9.7	9.6	-1.0
EBITDA (USD/t)	185	137	-26	84	35	-59
EBITDA (INR b)	133	92	-31	61	25	-59
TSLP						
Volumes (mt)	0.75	0.70	-7	0.85	0.85	0
Realization (INR/t)	96,371	90,150	-6	81,252	87,330	7
EBITDA (INR/t)	26,040	26,743	3	21,071	26,419	25
EBITDA (INR b)	19,530	18,720	-4	17,911	22,456	25
TSLBSL*						
Volumes (mt)	4.6	1.1	-75.4	4.8	0.0	-100.0
Realization (INR/t)	68,183	70,226	3.0	58,660	0	-100.0
EBITDA (INR/t)	23,527	27,648	17.5	17,020	0	-100.0
EBITDA (INR b)	107	31	-71.1	82	0	-100.0
Consolidated (INR b)						
Revenue	2,341	2,110	-9.9	2,034	1,956	-3.8
EBITDA	689	615	-10.8	463	429	-7.3
PAT	394	338	-14.3	228	197	-13.5

Source: MOFSL, Company, Note: *TSLBSL has been merged with Tata Steel standalone in 2QFY22

Exhibit 4: Valuation

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Standalone							
EBITDA/t (USD)	161	201	232	171	228	376	270
EBITDA/t (INR)	10,818	12,976	16,180	12,066	16,916	27,810	21,680
Sales (mt)	11.0	12.2	12.7	12.3	13.6	17.2	18.0
EBITDA India	118.8	157.8	205.6	148.6	230.5	478.3	391.0
Target EBITDA multiple							5.0
Standalone EV – (a)							1,955
INR/share							1,633
Subsidiaries							
EBITDA – India subsidiaries	4.3	28.3	34.1	33	83	41	32
Target EBITDA multiple							5.0
EBITDA – Europe	47	38	54	-7	-6	92	25
Target EBITDA multiple							4.0
EV (subsidiaries) - (b)							263
INR/share							220
Target EV (c=a+b)							2,218
Net Debt (d)	745	713	972	1,071	826	755	739
INR/share	622	596	812	894	690	630	617
Total equity value (c-d+e)							1,479
Target price (INR/share)							1,235

Source:

- The peak of the steel cycle is behind us. Tata Steel has made yet another expensive acquisition in the final leg of the rally, which has resulted in an increase in leverage with immediate effect. It is also likely to announce a parallel capex program for this facility, which will further impact its ability to deleverage faster.

- We build in a standalone EBITDA of INR21,680/t, considering falling steel prices and rising coking coal prices.
- We expect EBITDA for its Europe operations to normalize to USD25/t as we expect coking coal cost to remain elevated. Power costs are likely to stay high in the near term, with tightening carbon emission norms impacting TSE's financials.
- Tata Steel owns a 74.91% stake in TSLP. Hence, an infusion through equity and convertibles looks difficult, which leaves the option of: a) preference shares, b) debt on the books of TSLP, or b) a layered structure with an intermediate investment vehicle to fund this acquisition. Either way its consolidated debt is likely to increase, thus postponing the entire narrative of strong Balance Sheet deleveraging. We maintain our **Neutral** rating.
- Key risk to our call is a sharp recovery or slowdown in China, which can impact steel prices either way. Continued high cost of energy in Europe and carbon costs can dent TSE's EBITDA.

Financials and valuations

Consolidated Income Statement								(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	1,123	1,322	1,577	1,490	1,563	2,110	1,956	1,871
Change (%)	10.1	17.6	19.3	-5.5	4.9	35	-7.3	-4.4
EBITDA	170	219	294	178	305	615	429	401
% of Net Sales	15.1	16.5	18.6	12	19.5	29.2	21.9	21.4
Dep. & Amort	57	60	73	87	92	85	88	94
EBIT	113	159	220	91	213	530	341	307
Finance cost	51	55	77	76	76	73	67	60
Other income	5	9	14	18	9	15	21	6
PBT before EO	68	113	158	34	146	472	294	254
EO income	-43	96	-1	-49	-10	-3.1304	0	0
PBT after EO	25	209	157	-16	135	468	294	254
Tax	28	34	67	-26	57	110	74	69
Rate (%)	113	16	43	163	42	24	25	27
Reported PAT	-3	175	90	10	79	358	221	184
Minority interest P/L	1	43	-11	-4	7	28	28	28
Share of asso. PAT	0	2	2	2	3	5	5	5
PAT (after MI and asso.)	-4	134	103	16	75	336	198	162
Div. on Pref. /Hybrid Sec.	3	3	3	3	3	1	1	1
Adjusted PAT	37	80	101	10	83	338	197	161
Change (%)	-275	116	27	-90	697	309	-42	-19

Consolidated Balance Sheet								(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	10	11	11	11	12	12	12	12
Reserves	346	575	655	702	723	979	1,097	1,186
Net Worth	355	586	667	713	735	991	1,109	1,198
Minority Interest	16	9	24	26	33	60	88	116
Total Loans	851	942	1,031	1,186	956	1,006	836	756
Deferred Tax Liability	91	95	115	78	75	76	75	84
Capital Employed	1,313	1,632	1,836	2,003	1,798	2,132	2,108	2,154
Gross Block	1,266	1,399	1,730	1,918	2,020	2,112	2,209	2,486
Less: Accu. Depn.	380	479	526	613	705	791	879	973
Net Fixed Assets	885	920	1,204	1,305	1,314	1,321	1,330	1,514
Capital WIP	158	166	186	195	190	225	287	169
Investments	68	30	32	29	35	161	166	171
Goodwill on consolidation	35	41	40	41	43	43	43	43
Curr. Assets	578	929	863	921	855	1,097	957	919
Inventory	248	283	317	311	333	434	429	410
Account Receivables	116	124	118	79	95	116	134	128
Cash and liquid investment	106	228	59	115	130	251	97	84
Others	109	294	370	417	297	297	297	297
Cur. Liab & Prov.	411	455	490	487	639	715	674	662
Account Payables	186	204	217	214	260	335	295	282
Provisions & d Others	225	251	273	273	380	380	380	380
Net Current Assets	168	475	373	434	216	382	282	257
Appl. of Funds	1,313	1,632	1,836	2,003	1,798	2,132	2,108	2,154

Financials and valuations

Consolidated Ratios							INR b	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	37.9	69.5	88.6	9.1	69.0	282.1	164.7	134.2
Cash EPS	96.4	121.6	152.7	85.1	146.1	353.5	238.5	212.4
BV/Share (ex- goodwill)	330.3	476.0	547.2	587.3	577.1	790.8	889.7	964.1
DPS	8	8	10	10	25	55.0	55.0	50.0
Payout (%)	25.2	11.6	11.3	110.4	36.2	19.5	33.4	37.3
Valuation (x)								
P/E	28.6	15.6	12.3	119.8	15.7	3.8	6.6	8.1
Cash P/E	11.3	8.9	7.1	12.8	7.4	3.1	4.6	5.1
P/BV	3.3	2.3	2.0	1.8	1.9	1.4	1.2	1.1
EV/Sales	1.6	1.5	1.4	1.6	1.4	1.0	1.0	1.1
EV/EBITDA	10.6	8.9	7.5	13.0	7.0	3.3	4.8	4.9
Dividend Yield (%)	0.7	0.7	0.9	0.9	2.3	5.1	5.1	4.6
Return Ratios (%)								
EBITDA Margin (%)	15.1	16.6	18.6	12.0	19.5	29.2	21.9	21.4
Net Profit Margin (%)	3.3	6.0	6.4	0.7	5.3	16.0	10.1	8.6
RoE	15.7	17.2	17.3	1.6	11.9	41.2	19.6	14.5
RoCE (pre-tax)	9.4	11.6	13.7	5.8	11.8	28.0	17.3	14.9
RoIC (pre-tax)	13.3	14.6	15.9	5.7	13.7	36.0	22.3	18.7
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.4	1.3	1.1	1.2	1.6	1.5	1.2
Asset Turnover (x)	0.9	0.8	0.9	0.7	0.9	1.0	0.9	0.9
Debtor (Days)	37.7	34.3	27.3	19.3	22.3	20	25	25
Inventory (Days)	80.6	78.2	73.3	76.1	77.7	75	80	80
Payables (Days)	60.4	56.4	50.3	52.4	60.6	58	55	55
Working Capital T/O (Days)	57.9	56.2	50.4	43.1	39.3	37	50	50
Leverage Ratio (x)								
Current Ratio	1.4	2.0	1.8	1.9	1.3	1.5	1.4	1.4
Interest Coverage	2.2	2.9	2.9	1.2	2.8	7.2	5.1	5.1
Net Debt/Equity	2.3	1.3	1.6	1.6	1.2	0.8	0.7	0.6

Consolidated Cash Flow Statement							INR b	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBITDA	170	219	294	178	305	615	429	401
Reconciliation income (loss)	6	-17	-15	3	-20	0	0	0
(Inc.)/Dec. in Wkg. Cap.	-49	-43	26	42	165	-45	-54	12
Tax Paid	-18	-29	-51	-21	-7	-110	-74	-60
CF from Op. Activity	108	130	253	202	443	460	301	352
(Inc.)/Dec. in FA + CWIP	-77	-75	-91	-104	-70	-127	-159	-159
Free Cash Flow to Firm	31	55	162	98	373	333	142	193
(Pur.)/Sale of Non-cur. Invest.	4	-9	4	4	4	-121	0	0
Acquisition in subsidiaries	-11	-2	-351	-41	1	-3	0	0
Int. & Dividend Income	2	4	3	4	5	15	21	6
Others	-3	9	18	8	3	0	0	0
CF from Inv. Activity	-85	-73	-416	-129	-57	-236	-139	-153
Equity raised/(repaid)	7	91	0	2	32	0	0	0
Debt raised/(repaid)	27	41	82	76	-321	50	-170	-80
Dividend (incl. tax)	-9	-12	-14	-18	-12	-79	-79	-72
Interest & equiv. paid	-50	-54	-74	-77	-71	-74	-68	-60
CF from Fin. Activity	-26	66	-7	-17	-371	-103	-317	-212
(Inc.)/Dec. in Cash	-3	123	-170	56	15	121	-154	-13
Add: Opening Balance	108	106	228	59	115	130	251	97
Closing Balance	106	228	59	115	130	251	97	84

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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