



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- The company improved its net debt to ratio 0.52x in FY22 from 0.98x in FY21, 1.42x in FY20. The improvement in the ratio on YoY basis was primarily attributed to reduction of debt from Rs.75389 cr (FY21) to Rs.51049 cr (FY22).
- Consolidated EBITDA stood at Rs 63490 cr grew by 108% YoY with margin of 26% (increased by 600 Bps YoY). Revenue for the quarter stood at Rs.243,959 cr, up 56% YoY.

### 2. MANAGEMENT COMMENTARY:

- Company would expand its production through scrap recycling units in the Western and Southern India.
- The management stated that Coking coal consumption cost is expected to increase by ~\$100/ton in India and €50-€60/ton in Europe in Q1 FY23 as compared to the consumption cost of Q4 FY22.
- Company guided that In Q1 FY23, net realizations in India would be higher by ₹8,000-₹8,500/ton and in Europe, the same would increase by €60/ton, as compared to the net realizations of Q4 FY22.
- The company would set up an electric arc furnace (EAF) facility in the Northern India (likely in Punjab), which will be supported by the scrap recycling facility.

### 3. PRICE PERFORMANCE (%)

Particulars	3 M	1 Y
Tata Steel	7.23	18.6
Nifty Metal	5.64	25.13
Nifty 50	4.79	6.92

### 4. CONCALL SUMMARY:

- The revenue from operations increased on a sequential basis on account of higher steel prices in Europe and higher deliveries in India and Europe.
- Raw material cost was higher on a sequential basis due to increase in coking coal prices. This was offset by decline in iron ore prices in Europe.
- The group liquidity position remained strong at ~Rs.37,470 crore including ~Rs.24,500 crore as cash and cash equivalents.
- The Board of Directors had recommended dividend of Rs.12.75/share for partly paid-up equity shares and had also recommended stock split in the ratio of 10:1.
- In Q4 FY22, in its Indian operations (including Tata Steel standalone and Tata Steel Long Products Ltd), crude steel production increased by 1.9% QoQ and 3.2% YoY to 4.9 million tons (MT).
- During the quarter, in its Europe operations sales volume decreased by 2.8% on a YoY basis. On a sequential basis, sales volume increased by 11.1% on the back of inventory liquidation despite lower production. Net realizations on a sequential basis were higher by ~€53/ton.
- The 6 million ton per annum (MTPA) pellet plant at Kalinganagar will be commissioned in Q3 FY23 followed by the cold roll mill complex and the 5 MTPA expansion.
- The acquisition of Neelachal Ispat Nigam Ltd (NINL) is expected to be completed by the end of Q1 FY23.
- Coking coal prices witnessed renewed volatility, with a steep rise being followed by a sharp decline. On a sequential basis, in India, coking coal consumption cost increased by ~\$50/ton and in Europe, the same increased by ~€50/ton.
- Apparent steel consumption in India improved by ~4% sequentially driven by ongoing economic recovery. Automotive production especially in passenger and commercial vehicles improved while infrastructure/construction goods witnessed steady growth.

### 5. VALUATION AND OUTLOOK:

- Company reported another operationally strong quarter with sales of Rs 69,324 cr (+38.57% YoY)
- In FY22, the company mined 29.4 MT of iron ore. It would expand its mining capacity to 60-65 MTPA by 2030.
- Management guided to further reduce debt by \$ 1 bn in FY 23..
- Ramp-up of NINL cold will provide some additional volumes.
- We have maintained BUY rating on stock and value the stock at 3.81x FY24 earnings to arrive at the target of Rs.1650.**

## RECOMMENDATION – BUY

CMP –1266

TARGET – 1650 (30.3%)

Industry	Steel & Iron Products
NSE CODE	TATASTEEL
BSE CODE	500470
Market Cap (₹ Cr)	158304.96
Shares outstanding (in Cr)	122.15
52 wk High/Low (₹)	1534/1019
P/E	3.92
P/BV	1.35
Face Value (₹)	10.0
Book Value (₹)	958
EPS (₹)	62.5
Dividend Yield (%)	3.1
Debt / Equity	1.2
Interest coverage	2.78

## SHAREHOLDING PATTERN

	Mar 22	Dec 21	Sep 21
Promoters	33.92	33.92	34.41
Mutual Funds	10.08	10.37	10.67
FII/FPI	22.87	21.36	22.38
Retail & Others	21.91	25.71	23.99
Promoter Pledging	1.55	1.55	1.55

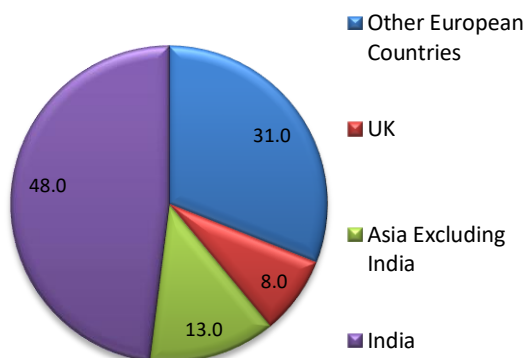
## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2023E	2024E
<b>Core</b>			
Sales	243959	250600	256328
Sales Gr. (%)	56	2.7	2.3
EBITDA	63490	70500	73128
EBITDA mrg. (%)	26%	28.1	28.5
PAT	40154	50097	52852
EPS (₹)	328.8	410.6	433
EPS Gr. (%)	425.2	24.9	5.5
<b>Ratios</b>			
RoE (%)	35.1	20	13.5
RoCE (%)	28.3	19	14.0
<b>Valuation</b>			
P/E (x)	3.93	4.2	3.81
Div. Yield	1.94	1.9	1.9

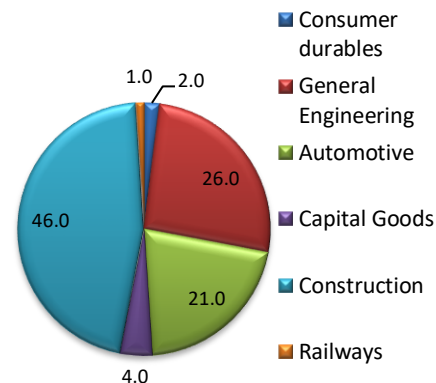
Particulars	TTM	5 Yr Avg
Historical P/E :	3.92	10.88
Industry P/E :	6.80	
Historical P/B :	1.35	1.05
Industry P/B :	1.75	

## QUARTERLY PERFORMANCE

### Geographical Revenue Split (%)



### Sector Wise Domestic Sales (%)



### QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21				FY22				FY23	FY22	FY23E*
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE*		
<b>Net sales</b>	<b>24,997</b>	<b>38249</b>	<b>41473</b>	<b>49499</b>	<b>52574</b>	<b>59394</b>	<b>60525</b>	<b>68711</b>	<b>75255</b>	<b>243959</b>	<b>250600</b>
YoY change (%)	-29.35	12.65	19.3	41.0	110.3	55.3	45.94	38.81	43.14	56	2.7
<b>Total Expenditure</b>	<b>24935</b>	<b>32727</b>	<b>32367</b>	<b>35844</b>	<b>37261</b>	<b>43827</b>	<b>44889</b>	<b>53681</b>	<b>58065</b>	<b>180469</b>	<b>180100</b>
<b>EBITDA</b>	<b>539</b>	<b>6213</b>	<b>9568</b>	<b>14184</b>	<b>16111</b>	<b>16456</b>	<b>15894</b>	<b>15030</b>	<b>17190</b>	<b>63490</b>	<b>70500</b>
Margins (%)	2.0	16.0	23.0	28.0	30.0	27.0	26.0	22.0	22.8	26	28.1
Depreciation	2175	2325	2342	2392	2325	2289	2244	2243	2221	9101	9150
Interest	2006	1948	1786	1866	1811	1020	1532	1099	891	5462	3562
Other income	188	218	218	272	162	271	60	292	251	1300	1150
<b>PBT</b>	<b>-3396</b>	<b>2201</b>	<b>5505</b>	<b>9206</b>	<b>11954</b>	<b>13934</b>	<b>11983</b>	<b>11706</b>	<b>14329</b>	<b>50227</b>	<b>58938</b>
Tax	1268	609	1582	2195	2308	1572	2567	2030	2149	10073	8841
Rate (%)	-38.0	27.0	28.0	23.0	19.0	11.0	21.0	17.0	15	17.0	15
<b>Adjusted PAT</b>	<b>-4663</b>	<b>1592</b>	<b>3923</b>	<b>7012</b>	<b>9646</b>	<b>12362</b>	<b>9416</b>	<b>9676</b>	<b>12180</b>	<b>40154</b>	<b>50097</b>
YoY change (%)	-825	-60.4	-430.7	-510.5	-306.9	676.77	140.0	38.0	26.3	436.1	24.8
<b>Key Performance Indicators</b>											
RM Cost (% of Sales)	43.51	42.0	34.1	30.0	31.4	31.6	33.1	39.9	36.4	34.2	35
Staff Cost (% of Sales)	18.37	11.24	13.0	10.8	10.6	9.7	9.4	8.7	10.6	12.7	13
Other Costs (% of Sales)	38.12	46.8	52.9	59.2	58.0	58.7	57.5	51.4	53	14.3	52
EBITDA Margin (%)	2.0	16	23.0	28	30.0	27.0	26.0	22.0	22.8	26	28.1
PAT Margin (%)	-17.3	4.0	8.8	14.2	18.3	20.8	15.6	14.1	16.2	16.5	20.0

Source: Company, Hem Securities Research.

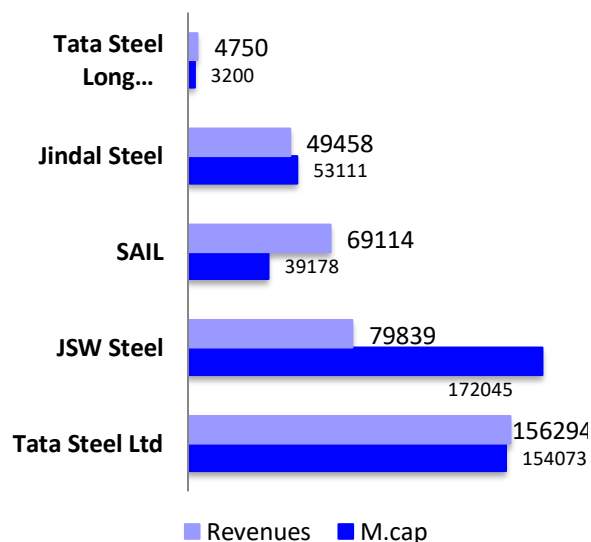
#### \*Insights into the assumptions:

- Expected to see sharp growth in FY23 on the back of Owning to the improving demand dynamics and a strong sales performance in FY22.
- Near term focus of company is to de leverage the balance sheet. The company reduced its Debt equity ratio to 0.52x in FY22 from 0.98x in FY 21.
- We expect EBITDA and PAT margins to improve supported by favorable pricing and a turnaround in overseas operations by the company.

## INDUSTRY OVERVIEW

- Increased steel demand from sectors including infrastructure, oil and gas, and automotive will drive the growth of the industry.
- India's finished steel consumption is anticipated to increase to 230 MT by 2030-31 from 86.3 MT in FY22 (till January).
- As of October 2021, India was the world's second-largest producer of crude steel, with an output of 9.8 MT. Also, in October 2021 the government announced guidelines for the approved specialty steel production-linked incentive (PLI) scheme.
- Under the Union Budget 2022-23, the government allocated Rs.47 crore (US\$ 6.2 million) to the Ministry of Steel.
- Easy availability of low-cost manpower and presence of abundant iron ore reserves make India competitive in the global set up.
- India is home to fifth-highest reserves of iron ore in the world.
- China has been a price setter in the steel industry as it accounts for more than half of global steel production and demand. With China shifting focus to carbon neutrality, the country is targeting to reduce its steel exports.
- Government has taken various steps to boost the sector including the introduction of National Steel Policy 2017 and allowing 100% Foreign Direct Investment (FDI) in the steel sector under the automatic route. The Government's National Steel Policy 2017 aims to increase the per capita steel consumption to 160 kgs by 2030-31.

## KEY PLAYERS



## PEER PERFORMANCE

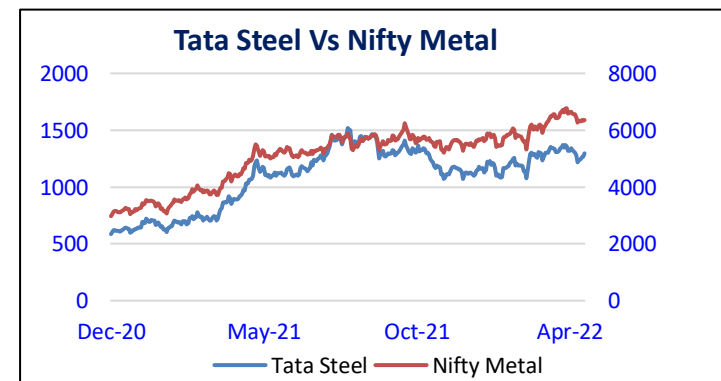
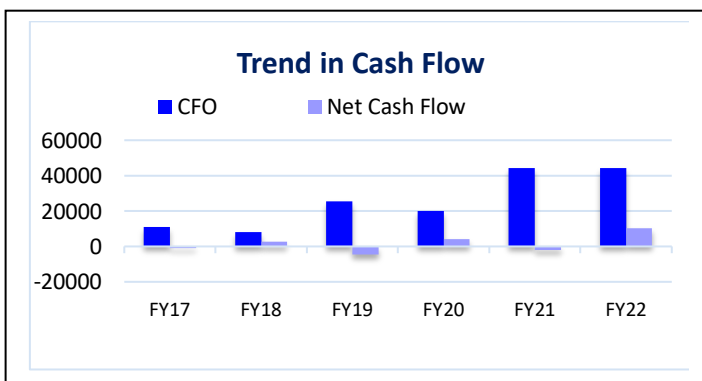
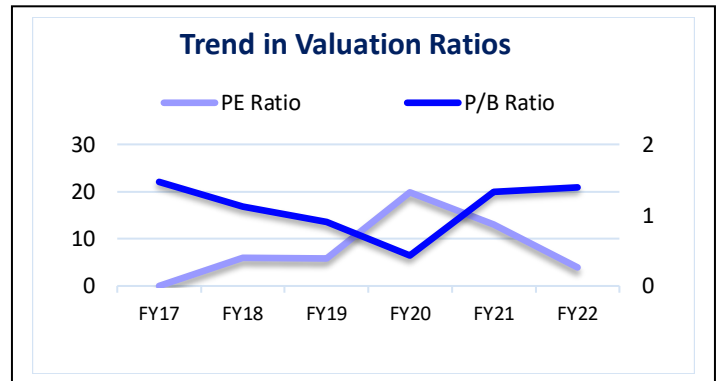
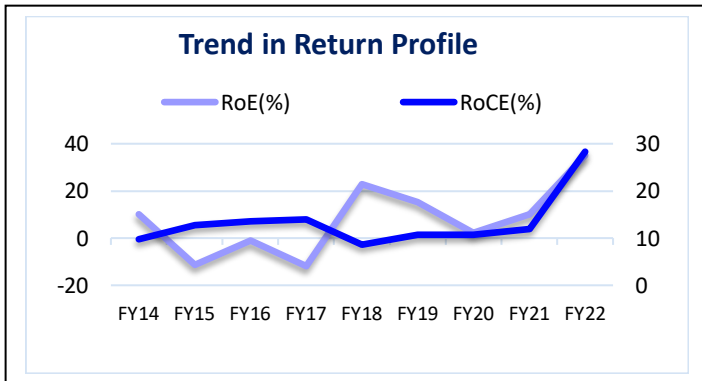
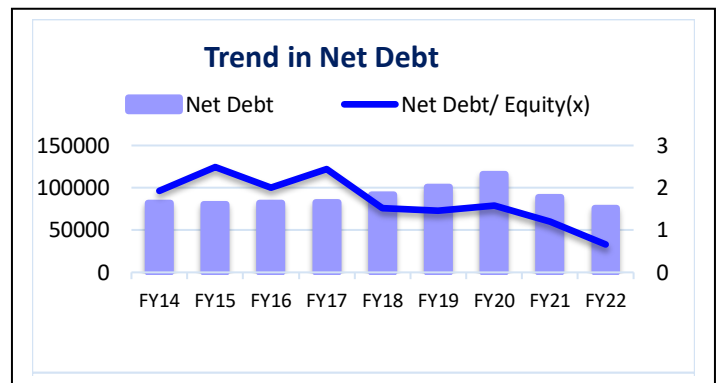
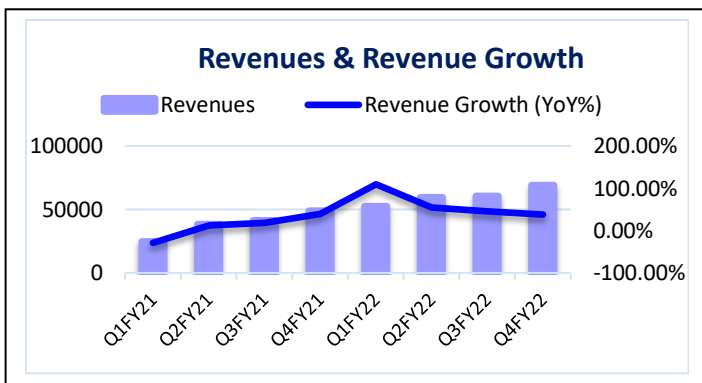
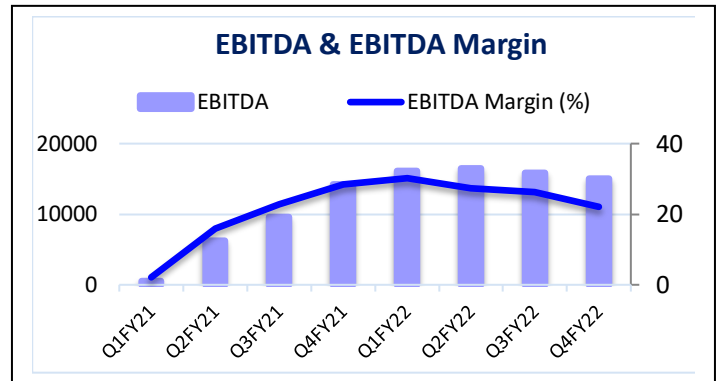
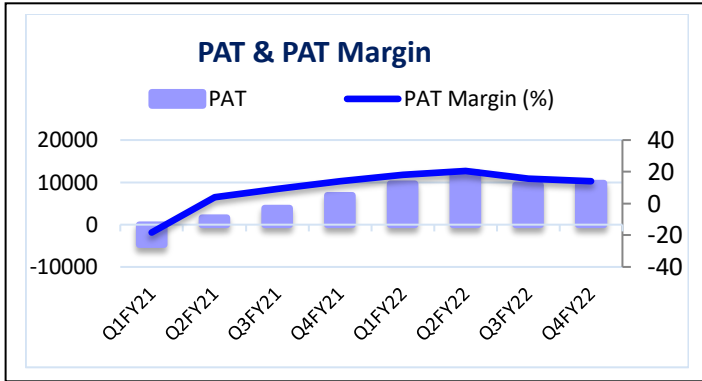
(₹ Cr)

Particulars	Tata Steel Ltd	JSW Steel	SAIL	Jindal Steel	Tata Steel Long Products
Market Cap	154073	172045	39178	53111	3200
Net Sales	156294	79839	69114	49458	4750
EBITDA	30504	20178	12776	13200	1108
PAT	7490	7911	4148	4012	572
EPS (Rs)	62.6	32.7	10.0	39.3	126.8
EBITDA MARGIN %	20.0	25.0	18.0	27.0	23
PAT MARGIN %	4.8	9.91	6.0	8.1	12.0
ROCE %	12.7	15.3	13.1	19.7	20.8
ROE %	10.2	16.9	9.1	11.4	22.1
P/E	12.7	14.2	7.8	9.6	5.7
P/B	1.3	3.0	0.7	1.1	1.3
EV/EBITDA	5.6	8.7	4.9	3.3	9.2
Debt to Equity	1.1	1.1	0.8	0.7	0.6
Return on assets	3.1	5.3	3.5	4.7	9.7

Source: Company, Hem Securities Research.



## STORY IN CHARTS





## INVESTMENT RATIONALE:

- We expect steel prices to remain resilient which would drive strong cash flows for the company in the upcoming quarters and allow it to continue deleveraging even after pursuing its growth Capex.
- Although higher coking coal prices would impact the margins in 1HFY23, the margin trajectory continues to be robust and above the historical average, thereby driving profitability for the company.
- Company achieved massive deleveraging, post which, the company's net debt has come down from the peak of Rs.1 lakh crore in FY 20 to Rs.62,869 cr as of Dec 21. Strong steel prices, disciplined capex outflow, and working capital management has put the company's balance sheet on solid footing.
- Tata intends to double its capacity from 19.6 mtpa to ~40 mtpa through a combination of organic/inorganic expansion in India. Post the recent acquisition of Bhushan Steel, Usha Martin steel business and NINL (Neelanchal Ispat Nigam Ltd), the company has got sufficient land bank and iron ore mines which would provide it with sufficient optionality to enhance its production capacity.
- The steel price hike is sharp in Europe which incentivised the Indian steel mills for exports to the EU. China's decarbonisation leading to lower steel exports is creating opportunities for Indian steel mills to fill the volumes.
- Company Indian operations have shown resilience through steel cycles due to the advantage of captive raw materials, as compared to non-integrated European operations. The company targets to increase the share of Indian steel production from 57% in 2020 to 73% by 2030.
- Adequate land bank to increase the capacity to 40mtpa: Tata Steel is housing 11mtpa of existing steel capacity at its 1,800 acre Jamshedpur facility. The management said that it can easily utilise the landbank available at its other locations to double its production in India.

## RISK FACTORS:

- **Global Pandemic:** If the country once again comes in grasp of the COVID-19 pandemic, it may create uncertainty with respect to revenue and business operations of the company as the intensity of the lockdown and restrictions cannot be predicted.
- **Slowdown in Infrastructure projects:** If there is a slowdown in the infrastructure projects and revival in the auto industry halts for some reason in the country, then it can have a detrimental effect on the demand for steel products

## COMPANY RECAP

- Tata Steel Group is among the top global steel companies with an annual crude steel capacity of 35 million tonnes per annum (MnTPA). It is one of the world's most geographically-diversified steel producers, with operations and commercial presence across the world.
- Company has a 10 mn t plant at Jamshedpur. Its domestic operations are backward integrated (100% for iron ore and 40% for coal). The company has set up greenfield project in the eastern state of Odisha commissioning the first phase (3 MnTPA) of 8 MnTPA of steel capacity in 2016. Tata Steel India remains the lowest cost producer of steel in Asia.
- The company offers a broad range of steel products including a portfolio of high value added downstream products such as hot rolled, cold rolled, coated steel, rebars, wire rods, tubes, wires, etc.
- Presently, India accounts for ~51% of revenues, followed by Europe excl. UK (26%), UK (9%), Asia excl. India (7%) and other regions (7%). Over 50% of the company's sales are in the value added product categories which helps it fetch higher realisations and support its profitability.
- Tata Steel is present in ~87% of the domestic carbon steel market, it caters to all major steel segments and particularly has a significant play in the automotive sector (21% sales in FY21).
- In FY21, the company's 48% revenue came from India, 39% revenue from Europe, and 13% from Asia Excluding India.
- Total crude steel production capacity of ~35mtpa: Tata steel operates in different geographically based segments. These are
  - \* Tata steel India (19.6 mtpa),
  - \* Tata Steel long products (1 mtpa),
  - \* Steel Europe (12.4 mtpa), and
  - \* Tata Steel South East Asia (1.4 mtpa).
 The company's long subsidiary (Tata Steel Long products) acquired Neelachal Ispat Nigam Ltd (NINL) (93.71% stake) in Jan'22 which has an idle 1.1mtpa steel plant capacity.
- The company is reorganising its India business into four clusters with a view to simplify its corporate structure. It transferred half of stake of 2 of its subsidiaries to Tata Steel Downstream Products Ltd which is another wholly owned subsidiary of the company.
- Strong Distribution Network: Tata Steel has designed multiple routes to market to connect, transact and engage with customer groups and enabled digitally. It has a direct route for B2B customer groups, distributors for B2ECA and distributors and dealers as channel partners for B2C.
- Group structure simplification: The company has completed the merger of Tata Steel BSL with Tata Steel.



## ANNUAL PERFORMANCE

### Financials & Valuations

#### Income Statement

								(₹ Cr)	
March	2017	2018	2019	2020	2021	2022	2023E	2024E	
<b>Revenue from operations</b>	<b>112,299</b>	<b>123,249</b>	<b>157,669</b>	<b>148972</b>	<b>156294</b>	<b>243,959</b>	<b>250600</b>	<b>256328</b>	
Growth YoY (%)	10.14	9.75	27.93	-5.52	4.92	56	2.7	2.3	
<b>Total Expenditure</b>	<b>99,156</b>	<b>101,816</b>	<b>128,351</b>	<b>131144</b>	<b>125,790</b>	<b>180469</b>	<b>180100</b>	<b>183200</b>	
(%) of sales	88.30	82.61	81.4	88.03	80.48	73.98	71.87	71.5	
<b>EBITDA</b>	<b>13,144</b>	<b>21,433</b>	<b>29,318</b>	<b>17,828</b>	<b>30,504</b>	<b>63,490</b>	<b>70500</b>	<b>73128</b>	
EBITDA Growth (%)	2203	63.06	36.79	-39.19	71.10	108.14	11.0	3.7	
EBITDA Margin (%)	12	17	19	12	20	26	28.1	28.5	
Depreciation	5673	5742	7342	8708	9234	9101	9150	9047	
<b>EBIT</b>	<b>7471</b>	<b>15691</b>	<b>21976</b>	<b>9120</b>	<b>21270</b>	<b>54389</b>	<b>61350</b>	<b>64081</b>	
Growth (%)	240.8	110.0	40.0	58.5	133.2	155.71	12.8	4.5	
Interest Expenses	5072	5455	7660	7581	7607	5462	3562	2412	
Other Income	-3789	10898	1524	-2920	180	1300	1150	1250	
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.0	
<b>Earnings before Taxes</b>	<b>-1390</b>	<b>21134</b>	<b>15840</b>	<b>-1381</b>	<b>13843</b>	<b>50227</b>	<b>58938</b>	<b>62919</b>	
Growth (%)	-	1620.4	-25.1	-108.7	1102	262.8	17.3	6.75	
EBT Margin (%)	-1.2	17.1	10.0	-0.9	8.86	20.59	23.52	24.5	
Tax-Total	-2851	7700	5622	-2938	6353	10073	8841	10067	
Rate of tax (%)	-200	16	42	185	41	17	15	16	
<b>Net Profit</b>	<b>-4241</b>	<b>13,434</b>	<b>10,218</b>	<b>1,557</b>	<b>7,490</b>	<b>40154</b>	<b>50097</b>	<b>52852</b>	
Growth (%)	-	416.7	23.9	84.7	381.1	436.10	24.76	5.5	
PAT Margin (%)	3.7	10.9	6.5	1.0	4.8	16.5	20.0	20.6	
<b>EPS</b>	<b>-37.6</b>	<b>119.3</b>	<b>90.7</b>	<b>13.8</b>	<b>62.6</b>	<b>328.8</b>	<b>410.6</b>	<b>433</b>	
EPS Growth (%)	-	417.3	-23.9	84.8	353.6	425.24	24.9	5.5	

#### Balance Sheet

Y/E March	2017	2018	2019	2020	2021	2022
Equity Share Capital	970.0	1165.0	1158.0	1145.0	1198.0	1221
Reserves & Surplus	34,574	57,451	65,505	70,156	72,262	113,222
<b>Total Shareholder's Funds (A)</b>	<b>35,544</b>	<b>58,616</b>	<b>66,663</b>	<b>71,301</b>	<b>73,460</b>	<b>114,443</b>
Long Term Borrowings	83,014	92,127	100,803	116,328	88,501	75,561
Non-Controlling Interest	1602	937	2364	2587	3270	2655
<b>Total Non-Current Liabilities (B)</b>	<b>84,616</b>	<b>93,064</b>	<b>103,167</b>	<b>118,915</b>	<b>91,771</b>	<b>78,216</b>
Advance from customers	566	616	819	869	2399	-
Trade Payables	18,574	20,414	21,717	21,381	25,967	36,765
Other Liability Items	33,146	36,033	40,420	36,683	50,312	56,021
<b>Total Current Liabilities (C)</b>	<b>52,286</b>	<b>57,063</b>	<b>62,956</b>	<b>58,933</b>	<b>78,678</b>	<b>92,786</b>
<b>Total Equity and Liabilities (A+B+C)</b>	<b>172,446</b>	<b>208,743</b>	<b>232,786</b>	<b>249,150</b>	<b>243,909</b>	<b>285,445</b>
Property, Plant & Equipment	92,007	96,105	124,442	134,551	135,775	134,106
Capital Work in progress	15,784	16,614	18,641	19,497	19,007	21,228
Investments	12,457	17,899	5,738	6,285	10,682	13,140
<b>Total Non-Current Assets (A)</b>	<b>120,248</b>	<b>130,618</b>	<b>148,821</b>	<b>160,333</b>	<b>165,464</b>	<b>168,474</b>
Inventory	24,804	28,331	31,656	31,069	33,276	48,824
Debtors	11,587	12,416	11,811	7,885	9,540	12,246
Cash and Bank Balance	4,921	7,938	3,341	8,055	5,782	15,899
Loans and advances	9,614	12,778	20,327	19,047	14,579	839
Other Current Assets	1,273	16,641	16,817	22,761	15,267	39,164
<b>Total Current Assets (B)</b>	<b>52,200</b>	<b>78,103</b>	<b>83,952</b>	<b>88,817</b>	<b>78,445</b>	<b>116,972</b>
<b>Total Assets (A+B)</b>	<b>172,446</b>	<b>208,743</b>	<b>232,786</b>	<b>249,150</b>	<b>243,909</b>	<b>285,445</b>

Source: Company, Hem Securities Research.



<b>Ratios</b>						
<b>Y/E March</b> (Basic (INR))	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Profitability and return ratios</b>						
Net profit margin (%)	-3.46	13.3	5.31	0.66	5.03	16.84
EBITDA margin (%)	11.39	17	18.55	13.19	20.09	22.61
EBIT margin (%)	3.09	12.7	13.94	4.04	13.51	22.3
ROE (%)	-11.89	22.9	14.20	1.43	10.87	35.08
ROCE (%)	3.10	10.9	14.47	3.34	11.98	28.31
<b>Working Capital &amp; liquidity ratios</b>						
Payables (Days)	168.14	161.0	114.01	123.66	151.76	161
Inventory (Days)	67.85	224.0	65.44	76.84	75.13	213
Receivables (Days)	35.81	37.0	26.43	24.13	20.35	18
Current Ratio (x)	1.01	1.22	0.97	0.95	0.85	1.02
<b>Valuations Ratios</b>						
EV/sales (x)	1.08	1.12	0.94	0.93	1.15	0.89
EV/EBITDA (x)	9.09	6.45	5.06	7.08	5.73	3.45
P/E (x)	-	6.0	5.83	19.84	12.98	3.93
P/BV (x)	1.47	1.12	0.90	0.43	1.33	1.39
Dividend Yield (%)	2.07	1.75	2.50	3.71	3.08	1.94
Return on Assets (%)	-2.39	6.40	4.02	0.41	3.19	14.06
<b>Leverage Ratio</b>						
Debt/Equity (x)	2.44	1.52	1.46	1.58	1.20	0.66

### Cash Flow Statement

<b>Y/E March</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>CF from Operating activities (A)</b>	10824	8023	25336	20169	44327	44,381
<b>CF from Investing Activities (B)</b>	-9706	-12026	29211	-14530	-9322.9	-10,881
<b>CF from Financing Activities (C)</b>	-2579	6640	673	-1695	-37090	-23,401.1
Net Cash Flow	-831	2637.7	-4547.7	3943.8	-2086	10,098.7
Add: Opening Bal.	<b>6077</b>	<b>4850</b>	<b>7784</b>	<b>3270</b>	<b>7732</b>	<b>5532.1</b>
<b>Closing Balance</b>	4832	7784	3270	7732	5532	15,607

Source: Company, Hem Securities Research.



## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
4 <sup>TH</sup> May 2022	BUY	1650

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Name of the Research Analyst: Deepanshu Jain

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