

## European operations surprise positively...

**About the stock:** Tata Steel Group is among the top global steel companies with an annual steel production capacity of ~34 million tonnes per annum (MTPA).

- Tata Steel (TSL) is one of the world's most geographically diversified steel producers, with operations and commercial presence across the world
- TSL has been a part of the DJSI Emerging Markets Index since 2012 and has been consistently ranked among top 10 steel companies in the DJSI Corporate Sustainability Assessment since 2016

**Q4FY22 Results:** Tata Steel reported steady consolidated performance for Q4FY22.

- Consolidated topline for the quarter was at ₹ 69324 crore (up 39% YoY, 14% QoQ), higher than our estimate of ₹ 677710 crore. Consolidated reported EBITDA for the quarter was at ₹ 15030 crore while adjusted EBITDA was at ₹ 15891 crore (our estimate of ₹ 16632 crore)
- Ensuing consolidated PAT for the quarter was at ₹ 9835 crore, up 37% YoY and 2% QoQ, broadly in line with our estimate of ₹ 9808 crore
- Tata Steel's standalone operations reported adjusted EBITDA/tonne of ₹ 23690/tonne, lower than our estimate of ₹ 25500/tonne (EBITDA/tonne of ₹ 27775/tonne in Q4FY21 and ₹ 28631/tonne in Q3FY22). European operations reported EBITDA/tonne of US\$ 241/tonne, higher than our expectation of US\$200/tonne (For Q4FY21 Tata Steel European operations EBITDA/tonne stood at US\$ 66/tonne and US\$ 182/tonne in Q3FY22)
- On the balance-sheet side, Tata Steel continued to reduce its debt levels, which augured well for the consolidated entity. As on FY22, on a consolidated basis, Tata Steel's net debt to EBITDA was at 0.8x (2.44x in FY21) and net debt to equity was at 0.52x (0.98x in FY21)

**What should investors do?** Tata Steel share price has given a return of ~19% over the last 12 months (from ~₹ 1064 in May 2021 to ~₹ 1261 levels in May 2022).

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value TSL at ₹ 1600, based on SoTP valuation

**Key triggers for future price performance:**

- Tata Steel is aiming to double Indian operations crude steel production capacity to 40 million tonnes (MT) by 2030.
- The Neelachal Ispat Nigam (NINL) share purchase agreement is completed and the transaction is expected to be closed in Q1FY23

**Alternate Stock Idea:** Apart from Tata Steel, we also like Jindal Stainless (JSL).

- JSL has a 1.1 million tonnes per annum (MTPA) integrated facility with backward integration.
- BUY with a target price of ₹ 250



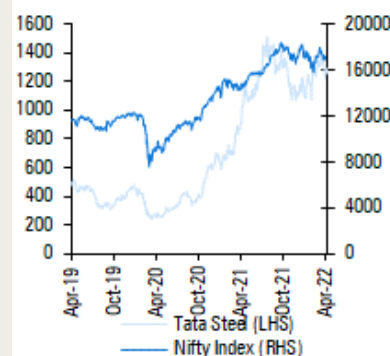
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,54,166
Total Debt (FY22) (₹ Crore)	75,561
Cash & Cash Eq. (FY22) (₹ Crore)	24,513
EV (₹ Crore)	2,05,214
52 week H/L (₹)	535 / 1018
Equity capital	₹ 1221 Cr.
Face value	₹ 10

### Shareholding Pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	34.4	34.4	33.9	33.9
Flls	21.9	22.4	21.4	22.9
Dlls	19.3	18.3	18.1	20.4
Public	24.4	24.9	26.6	22.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Price Chart



### Key Risks

- Key risks: (i) Steep decline in steel prices (ii) Higher than expected increase in operating costs.

### Research Analyst

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR (FY17-22)	FY23E	FY24E	CAGR (FY22-24E)
Net Sales	1,57,669	1,39,817	1,56,294	2,43,959	17%	2,54,137	2,46,383	0%
Reported EBITDA	29,383	17,463	30,504	63,490	30%	52,994	45,525	-15%
Reported PAT	9,098	1,172	8,190	41,749	LP	30,532	24,392	-23%
EPS (₹)	78.6	41.4	77.1	343.0		252.8	202.6	
EV/EBITDA (x)	8.0	14.6	7.7	3.4		4.0	4.5	
RoCE (%)	13.8	4.8	13.1	28.5		20.1	15.4	
RoE (%)	13.0	6.4	12.4	36.4		22.0	15.5	

## Key Highlights & takeaways.....

### FY22 – Key operational highlights

- During FY22, Tata Steel's consolidated free cash flow was at ₹ 27185 crore despite an increase in working capital requirement of ₹ 9618 crore and capex of ₹ 10522 crore
- Tata Steel's consolidated net debt declined from ₹ 75389 crore as on March 2021 to ₹ 51049 crore as on March 2022
- At the end of FY22, on a consolidated basis, Tata Steel's net debt to EBITDA stood 0.8x (2.44x at the end of FY21) and net debt to equity was at 0.52x (0.98x in FY21)

### Q4FY22 Conference Call Highlights

- For Q1FY23E, for Indian operations blended steel realisations are expected to be higher by ~₹ 8000 - 8500/tonne as compared to Q4FY22. For Q1FY23E, coking coal consumption cost for Indian operations is expected to be ~US\$100/tonne higher as compared to Q4FY22
- For Q1FY23E, for Tata Steel European operations, blended realisations are expected to increase by ~€60/tonne QoQ (compared to Q4FY22). For Q1FY23E, coking coal consumption cost for European operations is expected to be Euros ~50-60/tonne higher as compared to Q4FY22
- On the consolidated basis, Tata Steel has debt repayment target of ~US1 billion for FY23E
- Tata Steel has guided for a ballpark ~₹ 20000-25000 crore of capex for NINL 4 million tonnes per annum (MTPA) expansion
- Of the total capex earmarked for KPO phase 2 expansion, ~50% is already being incurred
- The Neelachal Ispat Nigam (NINL) share purchase agreement is completed and the transaction is expected to close in Q1FY23
- The company is planning to add EAF units in the locations where there is scrap availability. EAF expansions would be asset light in nature
- Of the total capex earmarked for KPO phase 2 expansion, ~50% is already being incurred and balance 50% would be incurred in upcoming years
- The capex guidance for FY23E is ~₹ 12000 crore
- For FY23E, the company has given a sales volume guidance wherein in terms of deliveries, FY23E sales volume would be 0.5 MT, higher volumes compared to FY22. This guidance does not include any NINL deliveries
- Tata Steel is aiming to double Indian operations crude steel production capacity to 40 million tonnes (MT) by 2030

### Other highlights

- Tata Steel has recommended a dividend of ₹ 51 per fully paid equity share and ₹ 12.75 per partly paid equity shares. A 10:1 stock split is also recommended

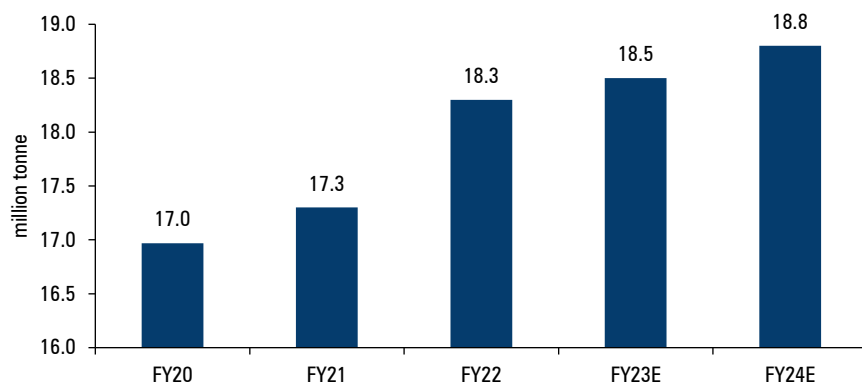
**Exhibit 1: Variance Analysis (Consolidated Performance)**

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
<b>Revenue</b>	69324	67710	50028	39%	60783	14%	Consolidated Topline came in higher than our estimate
Total Expenditure	54294	51078	35844	51%	44889	21%	
Reported EBITDA	15030	16632	14184	6%	15894	-5%	
<b>Adjusted EBITDA</b>	<b>15891</b>	<b>16632</b>	<b>13933</b>	14%	<b>15890</b>	0%	
<b>Adjusted EBITDA Margin (%)</b>	22.9	24.6	27.9	(500) bps	26.1	(320) bps	
Depreciation	2243	2400	2392	-6%	2244	0%	
Finance cost	1099	1400	1866	-41%	1532	-28%	
Other Income	292	125	272	7%	60	390%	
Share of Profit from associate	159	150	150	6%	182	-13%	
Exceptional Items	-274	0	-991	-72%	-193	42%	
PBT	11865	13107	9357	27%	12166	-2%	
Tax Outgo	2030	3299	2195	-8%	2567	-21%	
PAT	9835	9808	7162	37%	9598	2%	Consolidated PAT came in line with estimate
<b>Key Metrics</b>							
Tata Steel (Standalone operations) sales volumes (in MT)	5.0	5.0	4.5	10%	4.3	17%	Tata Steel Standalone operations sales volume came in line with our estimate
Tata Steel European operations sales volume (in MT)	2.4	2.4	2.5	-4%	2.2	9%	Tata Steel European operations sales volume came in line with our estimate
Tata Steel (Standalone operation) Adjusted EBITDA/tonne (in ₹/tonne)	23690	25500	27775	-15%	28631	-17%	Tata Steel Standalone operations EBITDA/tonne came in lower than our estimate
Tata Steel European operations EBITDA/tonne (in US\$/tonne)	241	200	66	265%	182	32%	Tata Steel European operations EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

## Financial story in charts

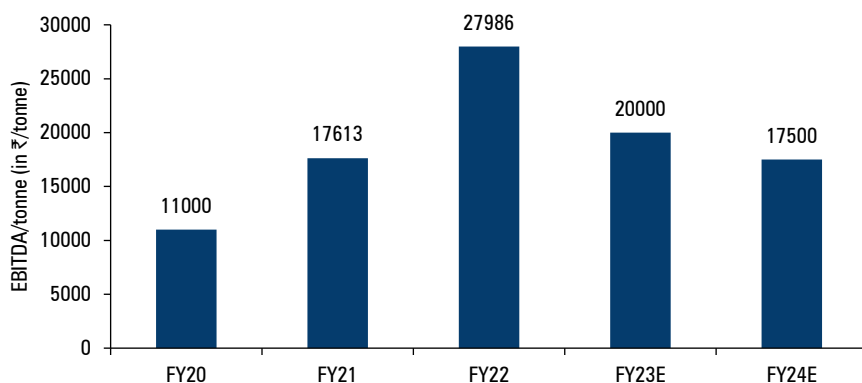
**Exhibit 2: Domestic operations volume trend, going forward (in Million Tonnes)**



For Tata Steel domestic operations, we model sales volume of 18.5 MT for FY23E and 18.8 MT for FY24E

Source: Company, ICICI Direct Research, Domestic business includes Tata Steel Standalone and Tata Steel long products

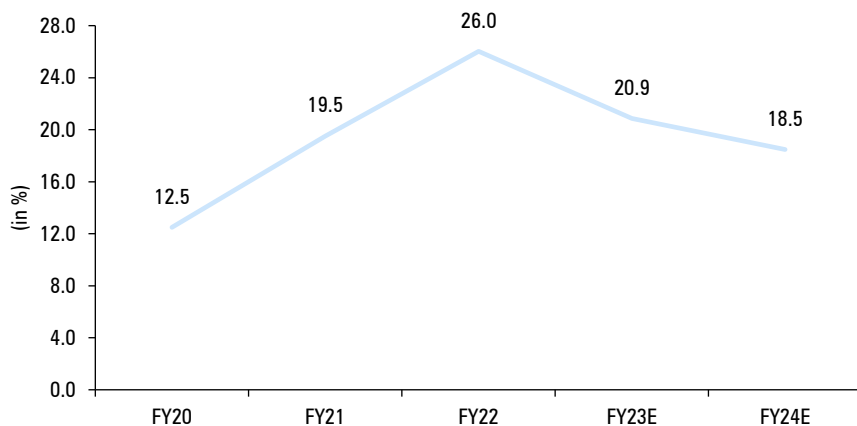
**Exhibit 3: Standalone operation EBITDA... (in ₹/tonne)**



For Tata Steel standalone operations, we model EBITDA/tonne of ₹ 20000/tonne for FY23E and ₹ 17500/tonne for FY24E

Source: Company, ICICI Direct Research

**Exhibit 4: Consolidated EBITDA margins trend....(in %)**



Over the next couple of years, we expect consolidated EBITDA margin at ~20.9% for FY23E and ~18.5% for FY24E

Source: Company, ICICI Direct Research

**Exhibit 5: Valuation**

	Total Op. Income	Growth	EPS	Growth	PE	EV/EBIDTA	P/ BV	RoNW	RoCE
	(₹ Crore)	% YoY	(₹)	% YoY	(x)	(x)	(x)	(%)	(%)
FY18	1,31,700	17.3	71.3	69.1	17.7	10.7	3.1	17.7	12.3
FY19	1,57,669	19.7	78.6	10.2	16.1	8.0	2.1	13.0	13.8
FY20	1,39,817	(11.3)	41.4	(47.3)	30.5	14.6	2.0	6.4	4.8
FY21	1,56,294	11.8	77.1	86.4	16.4	7.7	2.0	12.4	13.1
FY22	2,43,959	56.1	343.0	344.9	3.7	3.4	1.3	36.4	28.5
FY23E	2,54,137	4.2	252.8	(26.3)	5.0	4.0	1.1	22.0	20.1
FY24E	2,46,383	(3.1)	202.6	(19.9)	6.2	4.5	1.0	15.5	15.4

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Inc.</b>	<b>156294</b>	<b>243959</b>	<b>254137</b>	<b>246383</b>
Growth (%)	12	56	4	-3
Total Operating Expend.	125790	180469	201143	200858
<b>EBITDA</b>	<b>30504</b>	<b>63490</b>	<b>52994</b>	<b>45525</b>
Growth (%)	75	108	-17	-14
Depreciation	9234	9101	11018	11498
Interest	7607	5462	5290	5408
Other Income	896	785	652	649
<b>PBT</b>	<b>14560</b>	<b>49712</b>	<b>37338</b>	<b>29268</b>
Share of Profit from JV/Assoi	0	649	682	750
Exceptional Item	-1043	-134	0	0
Total Tax	5654	8478	7488	5626
<b>PAT</b>	<b>7862</b>	<b>41749</b>	<b>30532</b>	<b>24392</b>
Growth (%)	236	431	-27	-20
Minorities, Associates, etc	327	0	345	345
Rep PAT after Assoc. MI	8190	41749	30877	24737
<b>Adj PAT after Assoc. MI</b>	<b>9233</b>	<b>41883</b>	<b>30877</b>	<b>24737</b>
Growth (%)	94.9	353.6	-26.3	-19.9
<b>EPS (₹)</b>	<b>77.1</b>	<b>343.0</b>	<b>252.8</b>	<b>202.6</b>

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	8190	41749	30877	24737
Add: Depreciation	9234	9101	11018	11498
(Inc)/dec in Current Assets	5843	-23575	-15339	1620
Inc/(dec) in CL and Prov.	18900	9302	59	-11759
Others	-12821	7804	3370	3254
<b>CF from operating activities</b>	<b>29345</b>	<b>44381</b>	<b>29983</b>	<b>29350</b>
(Inc)/dec in Investments	-4397	-3668	-1000	-1000
(Inc)/dec in Fixed Assets	-7023	-10522	-16000	-16000
Others	683	-13132	-337	-405
<b>CF from investing activities</b>	<b>-10737</b>	<b>-27321</b>	<b>-17337</b>	<b>-17405</b>
Issue/(Buy back) of Equity	-1447	24	0	0
Inc/(dec) in loan funds	-24789	-12940	-7500	-7500
Dividend paid & dividend tax	-2994	-6228	-5495	-5495
Inc/(dec) in Share Cap	0	0	0	0
Others	8349	12201	682	750
<b>CF from financing activities</b>	<b>-20880</b>	<b>-6943</b>	<b>-12314</b>	<b>-12245</b>
Net Cash flow	-2273	10116	333	-300
Opening Cash	8055	5782	15899	16232
<b>Closing Cash</b>	<b>5782</b>	<b>15899</b>	<b>16232</b>	<b>15932</b>

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Share Capital	1198	1221	1221	1221
Hybrid Perpetual securities	775	775	775	775
Reserve and Surplus	72266	113222	138603	157845
<b>Total Shareholders funds</b>	<b>74239</b>	<b>115218</b>	<b>140599</b>	<b>159841</b>
<b>Total Debt</b>	<b>88501</b>	<b>75561</b>	<b>68061</b>	<b>60561</b>
<b>Deferred Tax Liability</b>	<b>9241</b>	<b>12326</b>	<b>12696</b>	<b>12949</b>
Minority Interest & Others	18731	17628	20973	24318
<b>Total Liabilities</b>	<b>190712</b>	<b>220733</b>	<b>242329</b>	<b>257670</b>
<b>Assets</b>				
Net Block	136654	134106	135088	135591
CWIP	18129	21228	25228	29228
Net Fixed Assets (Incl. CWIP)	154783	155333	160316	164818
Investments	10682	14350	15350	16350
Inventory	33276	48824	53098	52183
Debtors	9540	12246	14912	14307
Loans and Advances	29692	33550	41550	40550
Other Current Assets	2410	3872	4272	5172
Cash	5782	15899	16232	15932
<b>Total Current Assets</b>	<b>80701</b>	<b>114392</b>	<b>130064</b>	<b>128144</b>
Current Liabilities	56651	65852	66160	54651
Provisions	4725	4826	4576	4326
<b>Current Liabilities &amp; Prov</b>	<b>61376</b>	<b>70678</b>	<b>70736</b>	<b>58977</b>
Net Current Assets	19325	43715	59328	69166
others	5923	7335	7335	7335
<b>Application of Funds</b>	<b>190712</b>	<b>220733</b>	<b>242329</b>	<b>257670</b>

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Adj EPS	77.1	343.0	252.8	202.6
Cash EPS	154.2	417.5	343.1	296.7
BV	619.9	943.5	1151.4	1308.9
DPS	25.0	51.0	45.0	45.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	19.5	26.0	20.9	18.5
PBT / Total Operating income	9.3	20.4	14.7	11.9
Adj PAT Margin	5.9	17.2	12.1	10.0
Inventory days	83	115	120	130
Debtor days	30	30	30	30
Creditor days	145	150	145	135
<b>Return Ratios (%)</b>				
Adj RoE	12.4	36.4	22.0	15.5
Adj RoCE	13.1	28.5	20.1	15.4
Adj RoIC	13.6	31.1	21.8	16.6
<b>Valuation Ratios (x)</b>				
P/E	16.4	3.7	5.0	6.2
EV / EBITDA	7.7	3.4	4.0	4.5
EV / Net Sales	1.7	0.9	0.9	0.9
Market Cap / Sales	1.1	0.6	0.7	0.7
Price to Book Value	2.0	1.3	1.1	1.0
Price to Adj Book Value	2.0	1.3	1.1	1.0
<b>Solvency Ratios</b>				
Debt/EBITDA	2.7	0.8	0.8	0.8
Debt / Equity	1.1	0.5	0.4	0.3
Current Ratio	1.3	1.6	1.8	2.2
Quick Ratio	0.8	0.9	1.1	1.3

Source: Company, ICICI Direct Research

**Exhibit 10: ICICI Direct coverage universe (Metals and Mining)**

	CMP		TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Coal India	187	195	Buy	115705	20.6	25.7	28.0	9.0	7.2	6.6	5.4	4.4	4.1	42.3	46.5	44.3	34.8	37.3	35.5	
Hindalco	462	725	Buy	108909	25.5	62.8	73.7	21.2	8.6	7.4	9.6	5.3	4.5	8.8	17.3	17.5	8.5	18.7	18.3	
NMDC	157	190	Buy	46948	21.3	34.2	20.9	8.0	5.0	8.1	5.2	3.5	5.5	27.0	34.6	19.0	21.0	28.3	15.9	
JSW Steel	711	775	Buy	176916	32.9	98.1	76.8	22.9	7.7	9.8	11.6	6.0	6.5	13.8	22.1	15.6	17.0	33.8	21.0	
Ratnamani	2304	2254	Hold	11112	59.0	69.3	90.2	41.3	35.2	27.0	27.3	21.3	16.9	15.7	18.4	19.8	13.9	14.5	16.3	
Graphite Ind.	510	650	Buy	9939	-1.6	29.7	62.4	NA	18.9	9.0	NA	14.5	5.2	-5.4	10.0	22.6	-0.7	11.7	20.7	
Tata Steel	1261	1600	Buy	158279	77.1	343.0	252.8	16.4	3.7	5.0	7.7	3.4	4.0	13.1	28.5	20.1	12.4	36.4	22.0	
Sail	95	120	Buy	40000	9.2	29.1	16.0	11.8	3.7	6.8	6.2	3.0	4.6	10.9	22.2	11.5	8.9	22.5	11.5	
Jindal Stainless Jindal	180	250	Buy	9064	8.6	31.9	23.5	23.6	6.4	8.6	9.1	5.3	6.9	16.0	25.4	16.5	13.0	33.3	19.7	
Stainless Hisar	342	488	Buy	8083	29.5	70.8	58.9	13.4	5.6	6.7	9.6	5.3	5.4	18.6	28.5	19.8	23.2	34.7	21.9	
Vardhman Special Steel	240	300	Buy	1011	10.9	24.8	27.6	22.8	10.0	9.0	11.1	6.7	6.6	13.2	24.5	20.1	9.6	18.2	17.2	
Tata Metaliks	768	900	Hold	2459	69.9	75.4	76.5	11.4	10.6	10.5	6.0	6.0	5.9	24.6	20.7	18.2	17.0	15.6	13.9	

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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