

Estimate change



TP change



Rating change



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Bloomberg	TATA IN
Equity Shares (m)	1,198
M.Cap.(INRb)/(USDb)	1160.4 / 14.5
52-Week Range (INR)	1535 / 827
1, 6, 12 Rel. Per (%)	7/-10/-31
12M Avg Val (INR M)	11861
Free float (%)	66.1

Financials & Valuations (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	2,440	2,537	2,439
EBITDA	635	448	403
Adj. PAT	401.1	217.2	187.0
EBITDA Margin (%)	26.0	17.7	16.5
Cons. Adj. EPS (INR)	328.4	177.8	153.1
EPS Gr. (%)	444.5	-45.9	-13.9
BV/Sh. (INR)	902	1,020	1,113
Ratios			
Net D:E	0.5	0.5	0.4
RoE (%)	44.4	18.5	14.4
RoCE (%)	29.2	18.0	15.0
Payout (%)	15.5	28.1	32.6
Valuations			
P/E (x)	2.9	5.3	6.2
P/BV (x)	1.1	0.9	0.9
EV/EBITDA(x)	2.6	4.1	4.4
Div. Yield (%)	5.4	5.3	5.3
FCF Yield (%)	29.8	7.8	15.9

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	33.9	33.9	34.4
DII	19.1	20.5	19.4
FII	22.0	22.9	21.9
Others	25.0	22.7	24.3

FII Includes depository receipts

CMP: INR949
TP: INR1055 (+11%)
Neutral

Spreads to normalize at both India and TSE

- Tata Steel (TATA) reported a strong 1QFY23 with both India and European operations beating our and consensus estimates. European operations especially posted the highest ever EBITDA/t and for the first time in the history, since being acquired, reported EBITDA/t higher than that of the parent.
- TATA's standalone revenue at INR320b was 16% higher YoY but was down 13% QoQ. The YoY growth was driven by 19% growth in blended ASP offset by 3% decline in sales volume. The sequential revenue decline was led by 22% volume decline offset by ASP growth of 10%. The revenue beat our estimates by 7% on account of 7% ASP beat.
- Standalone EBITDA stood at INR96b down 28% YoY and 22% QoQ. The decline in EBITDA was largely due to higher coking coal cost. EBITDA/t for the quarter stood at INR24,622, down 26% YoY and flat QoQ. EBITDA was 25% higher than our estimate driven by 7% topline beat.
- Adjusted PAT stood at INR62b, down 29% YoY and 22% QoQ owing to lower EBITDA. Adjusted PAT was 39% higher than our estimate in 1QFY23.
- Tata Steel Europe (TSE) reported its strongest ever quarter in terms of quarterly EBITDA/t at USD366 (v/s our estimate of USD264). The strong performance was driven by tailwind of contracted steel prices, one-third of which is due for re-pricing.
- TATA's consolidated revenue of INR634b rose 19% YoY but declined 9% QoQ. EBITDA came in at INR150b, down 7% YoY and almost flat QoQ. EBITDA/t on a consolidated basis was at INR22,618/t, flat YoY and up 21% QoQ. Adjusted PAT stood at INR78b, down 14% YoY and 22% QoQ, in 1QFY23.
- Net debt increased QoQ to INR544b from INR510b earlier due to working capital build up during the quarter. In addition, the company paid INR109b on 4th Jul'22 towards NINL acquisition. The net debt post NINL acquisition stood at INR653b.

Spreads to normalize at both India and TSE

- North Europe Steel HRC prices corrected 28% on YoY and QoQ basis. The company had re-priced its contracts during Jan-Feb'22 of which around 30% will be due for renegotiation in 2QFY23E and the balance during 3QFY23E.
- There is a lag in the ASP of TSE v/s spot prices. However, the management has now guided for a correction in margin as the steel contracts are re-negotiated down in line with the spot prices.
- Domestic HRC price has corrected by over INR18,000/t from the peak in Apr'22 till date. Coking coal has also corrected sharply. However, the international steel price (China FoB) has also corrected by USD290/t i.e., ~INR22,000/t. Hence, the domestic margins are also likely to come off sharply in 2QFY23E.

Valuation and view

- The imposition of export tax in India has further dampened the domestic steel demand, which has already been impacted adversely by the slowdown in China. The volume impact due to demand slowdown is visible across all major domestic steel players.
- The impact of correction in coking coal price will be visible from 3QFY23E onwards, however, the steel price correction can continue if China does not recover. IMF has recently slashed global GDP growth rate further to 2.2%/2.9% for CY22/CY23, a downgrade of 0.4%/0/7%, respectively, with the US, China and India leading the downgrades list.
- The slowdown in China implies that despite the strong performance in 1QFY23, there is a possibility of a strong correction in performance in the remaining of FY23.
- The stock trades at 4x/4.3x our FY23E/FY24E EV/EBITDA. On a P/B basis, the stock is quoting 0.9x our FY23/FY24 estimates. We raise our FY23E EBITDA by 11% to INR448b, as we increase the standalone EBITDA by 17% and TSE's EBITDA by 28% due to strong operating performance of both the entities in 1QFY23. **We maintain our Neutral rating with a revised SoTP-based TP of INR1,055 (up from INR975 earlier).**

Standalone quarterly performance (INR b)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E	v/s Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Sales Vol (kt)	3,990	4,420	4,250	4,970	3,886	4,350	4,420	4,509	17,630	17,165	3,886	
ASP (INR/t)	69,413	73,937	75,210	73,805	82,401	68,906	68,106	69,106	73,183	71,808	77,006	7
Net Sales	277.0	326.8	319.6	366.8	320.2	299.8	301.0	311.6	1,290.2	1,232.6	299.2	7
Change (YoY %)	196.6	51.3	77.9	73.0	15.6	-8.3	-5.8	-15.1			8.0	
Change (QoQ %)	30.6	18.0	-2.2	14.8	-12.7	-6.4	0.4	3.5			-18.4	
EBITDA	133.0	134.3	121.7	122.3	95.7	66.1	71.6	69.4	511.3	302.7	76.5	25
Change (YoY %)	962.9	134.6	81.6	33.2	-28.0	-50.8	-41.2	-43.3			-42.5	
Change (QoQ %)	44.7	1.0	-9.4	0.5	-21.8	-30.9	8.3	-3.1	123.6	-40.8	-37.5	
(% of Net Sales)	48.0	41.1	38.1	33.4	29.9	22.0	23.8	22.3	39.6	24.6	25.6	
Spreads	55,181	55,428	53,240	44,685	49,531	39,135	43,765	42,460	53,517	43,554	47,010	5
Conv. Cost	21,854	25,044	24,609	20,069	24,909	23,658	27,359	26,865	22,896	25,918	27,331	-9
EBITDA(INR/tss)	33,327	30,385	28,631	24,616	24,622	15,477	16,406	15,595	30,621	17,636	19,679	25
EBITDA(USD/tss)	452	411	383	327	319	200	210	200	411	233	261	23
Interest	7.7	7.3	6.4	6.5	7.2	6.9	6.1	5.8	27.9	26.0	7.9	-8
Depreciation	13.7	13.5	13.6	13.8	13.4	14.0	13.5	13.4	54.6	54.3	13.6	-1
Other Income	2.8	3.8	2.8	5.1	7.4	4.8	5.0	5.5	14.5	22.7	3.6	103
PBT (after EO Inc.)	115.9	116.0	102.6	106.4	81.8	49.0	56.1	54.7	440.9	241.6	57.7	42
Total Tax	28.1	28.9	25.8	28.0	20.7	12.0	13.7	13.4	110.8	59.8	14.1	46
% Tax	24.2	24.9	25.1	26.3	25.3	24.5	24.5	24.5	25.1	24.8	24.5	
Reported PAT	87.8	87.1	76.8	78.4	61.1	37.0	42.3	41.3	330.1	181.8	43.6	40
Adjusted PAT	86.3	88.4	78.6	79.2	61.7	38.0	43.3	42.3	332.5	185.2	44.5	39
Change (YoY %)	-2,322.1	246.9	104.8	40.2	-28.5	-57.0	-45.0	-46.6	197.7	-44.3	-48.4	
Change (QoQ %)	52.9	2.5	-11.0	0.7	-22.1	-38.4	14.0	-2.3			-43.8	

Source: MOFSL, Company

Consolidated quarterly performance (INR b)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E	v/s Est (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	534.9	604.0	607.8	693.2	634.3	638.6	637.2	626.6	2,440	2,537	617.3	3
Change (YoY %)	110.0	55.1	45.1	38.7	18.6	5.7	4.8	-9.6	56.1	4.0	15.4	
Change (QoQ %)	7.0	12.9	0.6	14.1	-8.5	0.7	-0.2	-1.7			-11.0	
EBITDA	161.1	164.6	158.9	150.3	149.7	95.0	115.2	87.9	635	448	114.9	30
Change (YoY %)	2,886.8	164.9	66.1	6.0	-7.1	-42.3	-27.5	-41.5	108.1	-29.5	-28.7	
Change (QoQ %)	13.6	2.1	-3.4	-5.4	-0.4	-36.6	21.2	-23.6			-23.5	
(% of Net Sales)	30.1	27.2	26.1	21.7	23.6	14.9	18.1	14.0	26.0	17.7	18.6	
EBITDA(USD/t)	307	301	303	249	293	163	195	146	272	197	223	31
Interest	18.1	10.2	15.3	11.0	12.2	13.0	12.6	12.2	54.6	50.0	13.4	-9
Depreciation	23.2	22.9	22.4	22.4	22.4	22.4	22.7	22.7	91.0	90.1	24.0	-7
Other Income	1.6	2.7	0.6	2.9	2.7	1.5	1.5	1.5	7.8	7.2	1.5	79
PBT (before EO Inc.)	121.4	134.2	121.8	119.8	117.9	61.1	81.4	54.6	497	315	79.0	49
EO Income(exp)	-1.8	5.2	-1.9	-2.7	-0.4	-1.0	-1.0	-1.0	-1.3		-1	
PBT (after EO Inc.)	119.5	139.3	119.8	117.1	117.5	60.2	80.4	53.6	496	315	78.0	51
Total Tax	23.1	15.7	25.7	20.3	41.9	15.0	28.1	13.4	84.8	98.5	19.5	
% Tax	19.0	11.7	21.1	16.9	35.6	24.6	34.6	24.6	17.1	31.3	24.7	
Reported PAT	96.5	123.6	94.2	96.8	75.5	45.1	52.3	40.2	411	216	58.5	29
Adj. PAT (after MI & asso)	90.9	114.0	97.7	100.3	78.0	46.8	53.9	41.9	401	217	60.2	30
Change (YoY %)	NA	650.9	153.6	31.4	-14.1	-59.0	-44.8	-58.3	455.2	-45.9	-33.8	
Change (QoQ %)	19.0	25.4	-14.3	2.7	-22.2	-40.1	15.3	-22.4			-40.0	

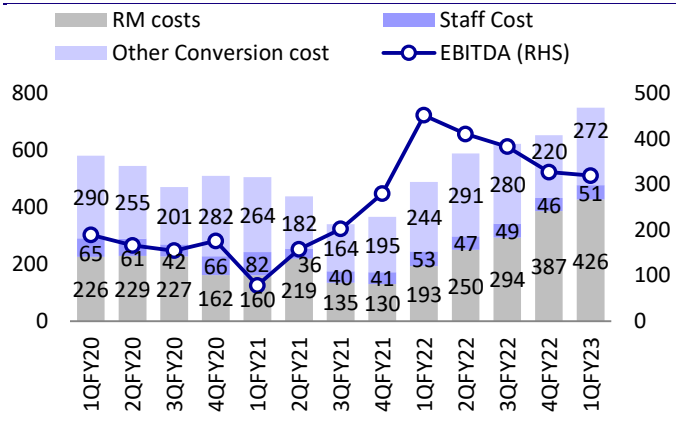
TSE's quarterly performance (USD)

Y/E March	FY22				FY23E				FY22	FY23E	FY22E	v/s Est (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Production (000 tons)	2,730	2,560	2,570	2,310	2,440	2,188	2,188	2,188	10,170	9,003	2,430	0
Sales (000 tons)	2,360	2,140	2,160	2,400	2,140	2,250	2,250	2,250	9,060	8,890	2,160	-1
Avg. NSR (USD per ton)	1,116	1,353	1,409	1,460	1,573	1,500	1,390	1,326	1,329	1,445	1,545	2
EBITDA(USD/t)	88	211	182	241	366	208	158	94	180	204	264	39

Source: MOFSL, Company

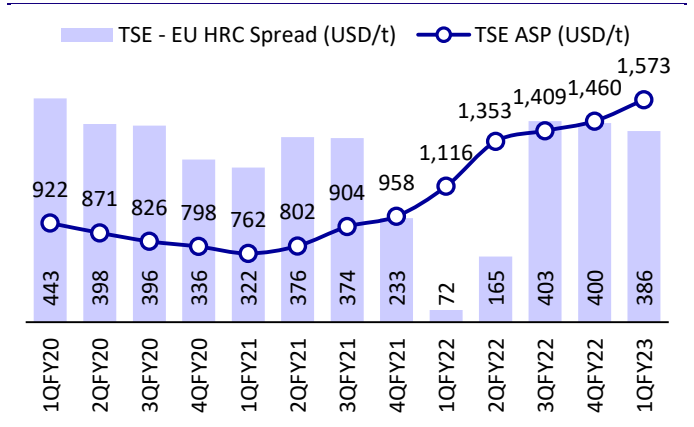
Story in charts

Exhibit 1: India EBITDA flat QoQ as ASP hike aids EBITDA



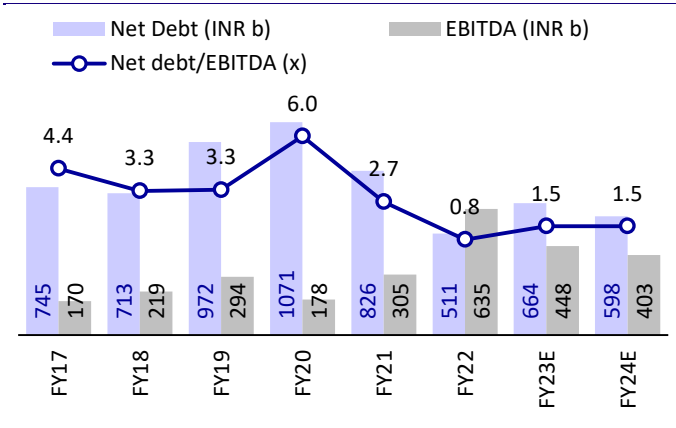
Source: MOFSL, Company

Exhibit 2: TSE spreads – strong tailwinds of pricing



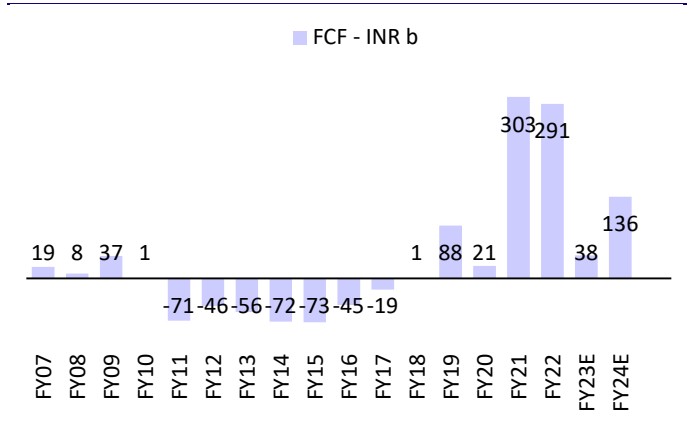
Source: MOFSL, Company

Exhibit 3: Leverage increasing due to a drop in EBITDA



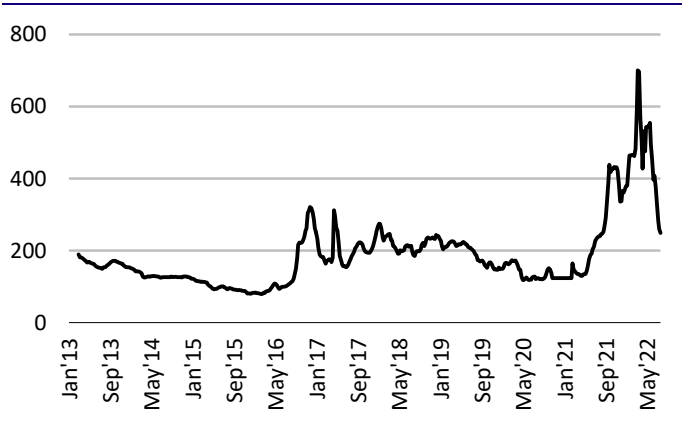
Source: MOFSL, Company

Exhibit 4: But FCF generation to stay positive in FY23 too



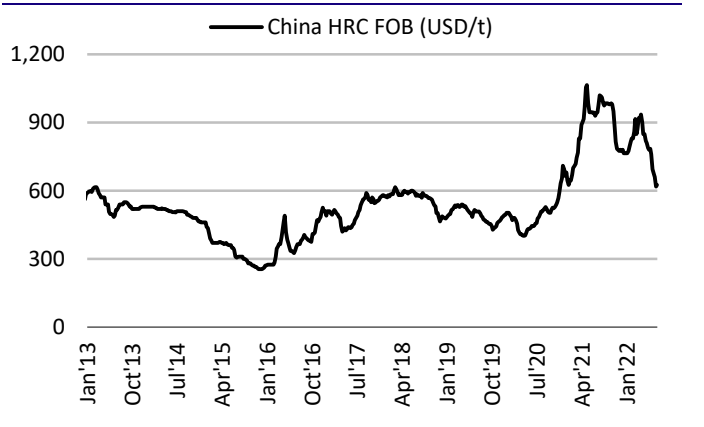
Source: MOFSL, Company

Exhibit 5: Correction in coking coal price to support margin from deteriorating sharply



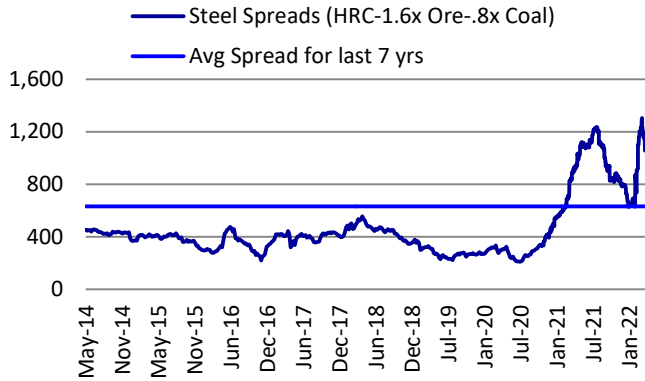
Source: MOFSL

Exhibit 6: But correction in international steel price will restrict margin expansion



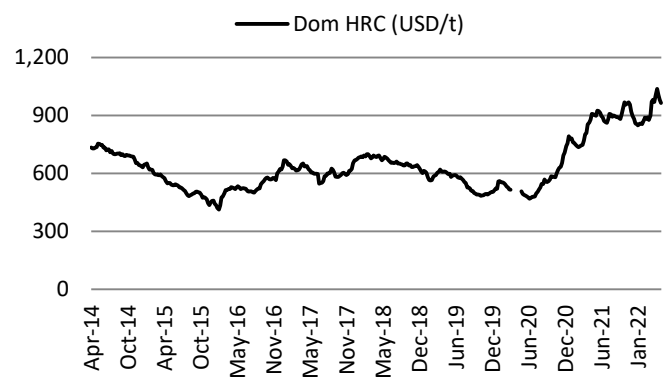
Source: MOFSL

Exhibit 7: Steel spreads in the EU are significantly higher than its historical averages



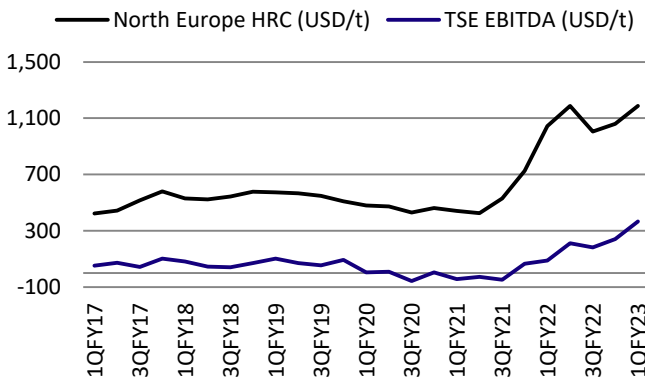
Source: MOFSL, Company

Exhibit 8: Domestic steel price have corrected sharply from its peak



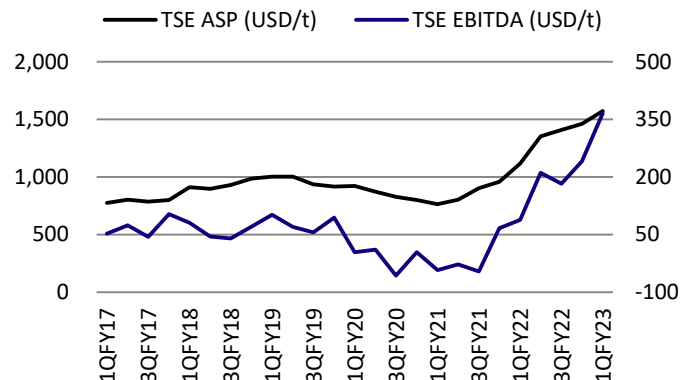
Source: MOFSL, Company

Exhibit 9: TSE EBITDA/t is linked to steel price only



Source: MOFSL, Company

Exhibit 10: TSE's EBITDA is highly sensitive to its ASP



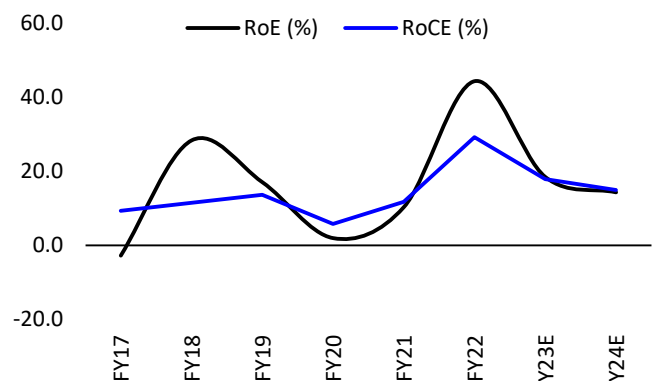
Source: MOFSL, Company

Exhibit 11: Steep correction in steel price...



Source: MOFSL, Company

Exhibit 12: ...will depress return ratios in FY23/24E



Source: MOFSL, Company



Highlights from the management commentary

FY23 guidance

- Domestic coking coal costs for 2QFY23E will be down by USD40/t but significant reduction will happen in 3QFY23E. At TSE, however, the costs will be higher by EUR30/t due to inventory buildup. The reduction in coal costs will happen in 2HFY23E.
- **Steel price contracts being re-priced in Europe:** About 30% of the contracts at TSE is half yearly, and will be re-priced in 3QFY23E and hence the spreads will be lower. The company has about 30% sales on annual contract basis, around 30% with duration of 6-9 months and the balance with around 3-6 months. There is hardly any noticeable volume in spot sales, and hence, there is a lag in the reflection of spot price in the performance of the company.
- Total inventory accretion was about INR80b in the quarter of which two-thirds is in India mainly due to raw materials that will be used in 2QFY23. However, the RM inventory in Europe will be consumed by 3QFY23E. Hence, there will be a working capital release in 2Q.
- Debt reduction target stands at USD1b at least. However, we expect the working capital release to aid reduction in net debt. Hence, the debt reduction most likely will occur during 2HFY23E.
- Capex guidance for FY23 remains at INR120b (2QFY23 spend to be INR26b).
- Coal purchase cost for 2Q is down by USD150/t but the consumption cost will be lower only in 3Q.
- Spreads in Europe will remain higher than the past cycle as: a) Russia's imports are no longer a threat to the domestic steel industry, b) energy costs are higher as fears of dwindling energy supply from Russia keeps energy prices elevated, c) domestic demand remains strong albeit with slowdown looming large, demand could take a beating, d) transitioning to green steel will have costs and carbon tax will ensure higher spreads to help partly fund transitioning into green steel, in management's opinion.

NINL acquisition

- TATA has paid INR109.8b towards the acquisition cost of NINL on 4th Jul'22.
- The site is next to its Kalinganagar plant and gives it access to 6,000 acres, thus, offering it the option to raise its capacity to 25MT from 9MT at present (post expansion, including KPO).
- NINL's current capacity stands at 1MT. The management is looking to start a blast furnace within the next three months. Its FY23E, the monthly exit run-rate should be 80-100kt.
- Work on re-start of the BF has already started. The mining activity has already commenced at NINL iron ore mines. The coke oven batteries will be repaired over the next six months (could take longer in our view).

Guidance for 2QFY23/FY23

- There is no change in FY23 volume guidance so far. The management had guided for a 0.5MT rise in FY23 volumes, which will mostly be achieved through debottlenecking. This implies a sale of 18.8MT, including 0.5MT from NINL. The India business should achieve a volume of 19.3MT. The company expects about

0.5mt additional volumes in 2QFY23 that will also help unwind part of the working capital locked in India.

- Capex is guided at INR120b and the actual spend in 2QFY23E will be INR26b.
- The management refrained from any ASP guidance this time due to high volatility, but ascertained that the steel price has corrected by INR15,000/t from the start of Apr'22 till date.
- Coal cost for TSE will increase by EUR20-30/t in 2QFY23. ASP should decline as steel contracts are reset.
- Around 75-80% of energy costs in Europe are currently hedged but nothing is hedged for FY24 as of now.

Coking coal and energy costs

- 1QFY23 coal cost impact was GBP84/t.
- Rising thermal coal prices in South Africa has impacted DRI production at TSLP and TSBSL, leading to higher costs as the thermal coal cost is higher than coking coal, a rare phenomenon, which we believe is likely to last for a long time as Europe continues to ignite thermal power plants to reduce dependency on Russian gas.

Transition to Green steel (in Europe)

- The company has two different approaches for its operations in the Netherlands and the UK to achieve its carbon reduction targets.
- In the Netherlands, it plans to shift to gas from coal and then to hydrogen in a step-wise manner. The recent disruption and unavailability of gas from Russia has led to a wait and watch approach. The management stated that the cash flows generated from these assets currently will be used to fund its green transition later on.
- In the UK, the management is focusing on scrap recycling as the country is a net exporter of scrap.
- CO2 shortfall at current production levels (*over free allowances*) in the Netherlands is 1.5-2MT, which needs to be purchased from the market. The current cost of CO2 is ~EUR80/t. A similar gap would exist in the UK too. Total CO2 shortfall in FY23 will be 2-4MT in Europe.
- One of its smaller blast furnaces in Europe is due for relining in CY23 (end of FY23). The second and the larger blast furnace will be due subsequently. The management highlighted that as and when the larger furnace will be down for relining, it will be replaced with an EAF and there will be relining for that furnace. The smaller furnace will also not be relined to run over decades, but will have a smaller shelf life.
- In the UK, the cost of transition to green steel is lower than the GBP3b quoted in media reports (source: Financial Times), but the company mentioned that it expects monetary and policy support from the UK government, without which the transition will not happen and it might be forced to shut down the plant.

Capital allocation/debt

- The management has reiterated its target of reducing net debt by at least USD1b. The net debt stood at INR 653b (including payout for NINL acquisition made on 4th Jul'22)
- The company also highlighted that it will not support the European operations financially for operating purposes, but will support otherwise, implying that there is a possibility of TATA paying off debts of TSE in future as well.

Capacity expansion/M&A

- TATA is targeting to achieve a capacity of 40MT by CY30, for which there are multiple options at NINL (to 10MT from 1MT), Kalinganagar (to 16MT from 8MT), and Angul (to 10MT from 5MT). Its EAFs units will provide flexibility.
- Mining capacity is targeted at 60-65MT, from 30-35MT at present, to support its current expansion. This will only be sufficient for captive consumption, and merchant sales, if any, will be limited to iron ore fines only.
- The Kalinganagar pellet plant will have a significant cost impact. A PLTCM of 2MT will be commissioned from FY24 onwards.
- There are significant organic growth opportunities at its current sites (including Greenfield EAF). It prefers organic growth over M&A at present as it can be paced on the basis of available cash flows and is a lot cheaper than M&A. TATA has an adequate land bank to pursue its ambition of raising its India capacity to 40MT over the next eight years and hence, there is no pressing need to opt for another M&A. The management will continue to evaluate M&A opportunities.

Exhibit 13: Changes in our assumptions and key financials

Key Assumptions	FY23E	FY23E			FY24E		
		Revised	Old	Change (%)	Revised	Old	Change (%)
Standalone							
Volumes	mt	17.2	17.2	0.0	18.6	18.6	0.0
ASP	INR/t	71,808	68,145	5.4	66,376	66,627	-0.4
Revenue	INR b	1,233	1,170	5.4	1,233	1,238	-0.4
EBITDA	INR/t	17,636	15,054	17.1	16,594	17,947	-7.5
EBITDA	INR b	303	258	17.1	308	334	-7.5
Europe							
Volumes	mt	8.9	8.9	-0.2	9.3	9.4	-0.2
ASP	INR/t	1,445	1,344	7.5	1,218	1,231	-1.1
Revenue	INR b	998	906	10.2	875	884	-1.0
EBITDA	USD/t	204	159	28.2	67	54	24.1
EBITDA	INR b	141	107	31.4	48	39	24.2
Consolidated (INR b)							
Revenue	INR b	2,537	2,403	5.5	2,439	2,455	-0.7
EBITDA	"	448	404	10.9	403	434	-7.0
PAT	"	217	193	12.8	187	207	-9.4

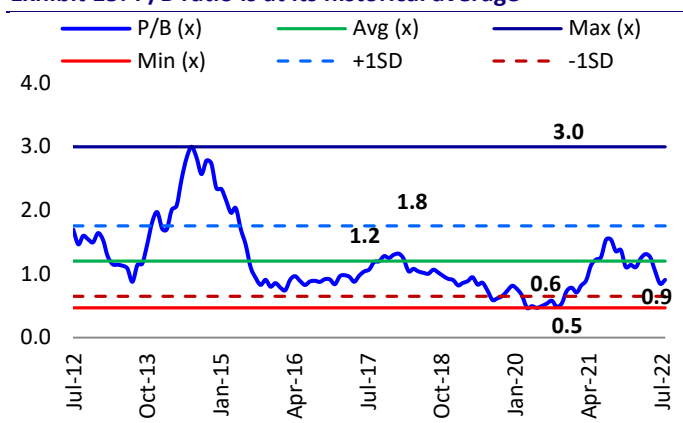
Source: MOFSL

Exhibit 14: Valuation (INR m)

Y/E March	UoM	2017	2018	2019	2020	2021	2022	2023E
Standalone								
Sales	mt	11.0	12.2	12.7	12.3	16.0	17.6	17.2
EBITDA	INR/t	10,818	12,976	16,180	12,066	14,321	29,002	17,636
EBITDA	INR b	118.8	157.8	205.6	148.6	228.7	511.3	302.7
Target multiple	x							5.0
Target EV	INR b							1,514
Europe								
Sales	mt	9.9	10.0	9.6	9.3	8.8	9.1	8.9
EBITDA	USD/t	71	59	80	-10	-12	180	204
EBITDA	INR/t	4,738	3,796	5,616	-715	-896	13,426	15,852
EBITDA/t	USD/t	71	59	80	-10	-12	180	204
EBITDA	INR b	47	38	54	-7	-6	122	141
Target multiple	x							3.0
Target EV	INR b							423
Other Subsidiaries								
EBITDA - India subs	INR b	4.3	28.3	34.1	33	83	114	4
Target EBITDA multiple	x							4.0
Target EV	INR b							17
Target EV	INR b							1,953
Net Debt (d)	INR b	745	713	972	1,071	826	511	664
Total equity value	INR b							1,289
No of shares o/s	b							1.22
Target Price	INR/sh							1,055

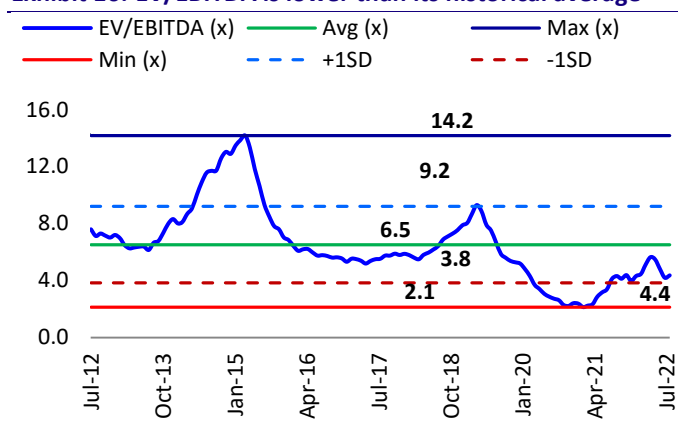
Source: MOFSL

Exhibit 15: P/B ratio is at its historical average



Source: MOFSL

Exhibit 16: EV/EBITDA is lower than its historical average



Source: MOFSL

Exhibit 17: Comparable valuation of global Steel companies

Company	M-cap USD m	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24
India													
TATA*	14,540	2.9	6.0	5.6	2.6	4.6	4.1	1.1	1.0	0.9	44.6	16.6	16.1
JSW*	18,105	6.7	10.4	8.8	5.1	6.6	5.7	2.1	1.9	1.6	37.9	19.3	20.0
JSP*	4,623	4.2	7.8	5.6	3.0	4.4	3.1	1.0	0.9	0.8	25.9	12.4	15.0
SAIL*	3,879	2.2	9.1	3.7	2.2	4.7	2.3	0.6	0.6	0.5	27.7	6.2	14.6
Japan													
JFE	6,614	3.2	4.9	6.1	4.7	5.7	5.9	0.5	0.4	0.4	15.5	7.9	6.6
Nippon Steel	13,636	3.5	5.0	5.4	4.5	5.4	5.6	0.6	0.5	0.5	18.1	10.5	8.6
Kobe Steel	1,788	4.3	4.1	4.8	5.1	5.3	5.2	0.3	0.3	0.3	7.2	6.5	5.3
Korea													
POSCO	15,675	3.7	4.3	4.2	2.6	2.7	2.4	0.3	0.3	0.3	10.2	8.1	7.7
Hyundai Steel	3,413	2.8	3.4	3.5	3.5	3.3	3.1	0.2	0.2	0.2	8.5	6.6	6.1
US													
Nucor	32,943	4.2	9.6	12.8	2.9	5.8	6.1	1.7	1.4	1.3	46.5	16.3	10.6
US Steel	5,325	2.1	6.1	7.2	1.2	2.6	2.8	0.5	0.4	0.4	28.8	7.3	4.4
Steel Dynamics	13,267	3.3	6.6	9.8	2.3	3.8	5.3	1.4	1.1	1.0	50.4	21.2	12.0
Europe													
AM	20,389	2.0	4.2	4.3	1.5	2.4	2.6	0.3	0.3	0.3	21.6	8.8	7.2
SSAB	4,696	2.3	6.7	9.0	1.1	2.5	3.0	0.6	0.6	0.5	24.7	8.5	6.3
TKA	3,473	2.7	5.2	5.0	0.0	NA	NA	0.3	0.3	0.3	10.1	4.4	4.9
VOE	3,772	3.5	4.2	6.3	2.9	2.5	2.9	0.6	0.5	0.5	16.7	11.4	7.2
China													
Baosteel	18,241	6.1	5.8	5.0	3.3	3.2	2.4	0.6	0.6	0.5	10.4	10.6	10.9

Source: MOFSL, Company. (*) denotes MOFSL estimates

Financials and valuations

Consolidated Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	1,123	1,322	1,577	1,490	1,563	2,440	2,537	2,439
Change (%)	10.1	17.7	19.3	-5.5	4.9	56.1	4.0	-3.8
EBITDA	170	219	294	178	305	635	448	403
As a percentage of Net Sales	15.1	16.6	18.6	12.0	19.5	26.0	17.7	16.5
Deprn. and Amortization	57	60	73	87	92	91	90	96
EBIT	113	159	220	91	213	544	358	308
Finance cost	51	55	77	76	76	55	50	45
Other income	5	9	14	18	9	8	7	6
PBT before EO	68	113	158	34	146	497	315	269
EO income	-43	96	-1	-49	-10	-1.3	-3.4412	-3.8576
PBT after EO	25	209	157	-16	135	496	311	265
Tax	28	34	67	-26	57	85	99	81
Rate (%)	113	16	43	163	42	17	32	30
Reported PAT	-3	175	90	10	79	411	213	184
Minority interest P/L	1	43	-11	-4	7	16	1	2
Share of asso. PAT	0	2	2	2	3	6	5	5
PAT (After MI and asso.)	-4	134	103	16	75	402	217	187
Div. on Pref. /Hybrid Sec.	3	3	3	3	3	0	0	0
Adjusted PAT	-6	131	100	13	72	401	217	187
Change (%)	-134.0	-2,139.6	-23.6	-87.1	460.2	455.2	-45.9	-13.9

Consolidated Balance Sheet

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	10	11	11	11	12	12	12	12
Reserves	346	575	655	702	723	1,132	1,276	1,390
Net Worth	355	586	667	713	735	1,144	1,289	1,402
Minority Interest	16	9	24	26	33	27	28	30
Total Loans	851	942	1,031	1,186	956	756	676	606
Deferred Tax Liability	91	95	115	78	75	93	109	110
Capital Employed	1,313	1,632	1,836	2,003	1,798	2,020	2,101	2,148
Gross Block	1,266	1,399	1,730	1,918	2,020	2,086	2,178	2,436
Less: Accum. Deprn.	380	479	526	613	705	796	886	982
Net Fixed Assets	885	920	1,204	1,305	1,314	1,290	1,292	1,453
Capital WIP	158	166	186	195	190	220	266	180
Investments	68	30	32	29	35	58	184	189
Goodwill on consolidation	35	41	40	41	43	43	43	43
Curr. Assets	578	929	863	921	855	1,213	1,134	1,087
Inventory	248	283	317	311	333	488	625	601
Account Receivables	116	124	118	79	95	122	139	120
Cash and liquid investment	106	228	59	115	130	244	12	7
Others	109	294	370	417	297	358	358	358
Curr. Liability and Prov.	411	455	490	487	639	805	819	805
Account Payables	186	204	217	214	260	368	382	368
Provisions and Others	225	251	273	273	380	437	437	437
Net Current Assets	168	475	373	434	216	408	315	282
Appl. of Funds	1,313	1,632	1,836	2,003	1,798	2,020	2,101	2,148

Financials and valuations

Consolidated Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	-7	114	87	11	60	328	178	153
Cash EPS	52	167	152	87	137	403	252	232
BV/Share (excl. goodwill)	330	476	547	587	577	902	1,020	1,113
DPS	8	8	10	10	25	51	50	50
Payout (%)	-144	7	11	89	41	16	28	33
Valuation (x)								
P/E	-143.3	8.3	10.9	84.3	15.7	2.9	5.3	6.2
Cash P/E	18.3	5.7	6.3	10.9	6.9	2.4	3.8	4.1
P/BV	2.9	2.0	1.7	1.6	1.6	1.1	0.9	0.9
EV/Sales	1.5	1.4	1.3	1.4	1.3	0.7	0.7	0.7
EV/EBITDA	9.8	8.2	7.0	12.1	6.4	2.6	4.1	4.4
Dividend Yield (%)	0.8	0.8	1.1	1.1	2.6	5.4	5.3	5.3
Return Ratios (%)								
EBITDA Margin (%)	15.1	16.6	18.6	12.0	19.5	26.0	17.7	16.5
Net Profit Margin (%)	-0.6	9.9	6.4	0.9	4.6	16.4	8.6	7.7
RoE	-2.7	28.4	17.1	2.0	10.4	44.4	18.5	14.4
RoCE (pre-tax)	9.4	11.6	13.7	5.8	11.8	29.2	18.0	15.0
RoIC (pre-tax)	13.3	14.6	15.9	5.7	13.7	37.0	22.8	18.0
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.4	1.3	1.1	1.2	1.9	2.0	1.7
Asset Turnover (x)	0.9	0.8	0.9	0.7	0.9	1.2	1.2	1.1
Debtor (Days)	38	34.3	27.3	19.3	22.3	18	20	18
Inventory (Days)	81	78.2	73.3	76.1	77.7	73	90	90
Payables (Days)	60	56.4	50.3	52.4	60.6	55	55	55
Working Capital T/O (Days)	58	56.2	50.4	43.1	39.3	36	55	53
Leverage Ratio (x)								
Current Ratio	1.4	2.0	1.8	1.9	1.3	1.5	1.4	1.4
Interest Coverage Ratio	2.2	2.9	2.9	1.2	2.8	10.0	7.2	6.9
Net Debt/Equity ratio	2.3	1.3	1.6	1.6	1.2	0.5	0.5	0.4

Consolidated Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA	x	219	294	178	305	635	448	403
Reconciliation income (loss)	6	-17	-15	3	-20	24	0	0
(Inc.)/Dec. in Wkg. Cap.	-49	-43	26	42	165	-96	-139	28
Tax Paid	-18	-29	-51	-21	-7	-119	-82	-79
CF from Op. Activity	108	130	253	202	443	444	226	352
(Inc.)/Dec. in FA + CWIP	-77	-75	-91	-104	-70	-105	-138	-171
Free Cash Flow to the Firm	31	55	162	98	373	339	88	181
(Pur.)/Sale of Non-cur. Invest.	4	-9	4	4	4	-7	-121	0
Acquisition in subsidiaries	-11	-2	-351	-41	1	12	-3	-4
Int. and Dividend Income	2	4	3	4	5	3	7	6
Others	-3	9	18	8	3	2	0	0
CF from Inv. Activity	-85	-73	-416	-129	-57	-96	-255	-169
Equity raised/(repaid)	7	91	0	2	32	3	0	0
Debt raised/(repaid)	27	41	82	76	-321	-160	-80	-70
Dividend (incl. tax)	-9	-12	-14	-18	-12	-30	-73	-73
Interest and equiv. paid	-50	-54	-74	-77	-71	-47	-50	-45
CF from Fin. Activity	-26	66	-7	-17	-371	-234	-203	-188
(Inc.)/Dec. in Cash	-3	123	-170	56	15	114	-232	-5
Add: Opening Balance	108	106	228	59	115	130	244	12
Closing Balance	106	228	59	115	130	244	12	7

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

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