

July 27, 2022

Q1FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	REDUCE		REDUCE	
Target Price	975		975	
Sales (Rs. m)	22,77,234	22,46,613	22,77,234	22,46,613
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,65,822	3,62,443	3,65,822	3,62,443
% Chng.	-	-	-	-
EPS (Rs.)	127.4	124.2	127.4	124.2
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	1,565	2,440	2,277	2,247
EBITDA (Rs. bn)	305	635	366	362
Margin (%)	19.5	26.0	16.1	16.1
PAT (Rs. bn)	85	402	156	152
EPS (Rs.)	71.3	329.4	127.4	124.2
Gr. (%)	358.5	362.3	(61.3)	(2.5)
DPS (Rs.)	25.0	51.0	40.0	50.0
Yield (%)	2.6	5.4	4.2	5.3
RoE (%)	11.5	42.6	13.1	11.8
RoCE (%)	12.3	32.2	14.2	13.6
EV/Sales (x)	1.2	0.7	0.7	0.7
EV/EBITDA (x)	5.9	2.5	4.5	4.4
PE (x)	13.3	2.9	7.5	7.6
P/BV (x)	1.5	1.0	0.9	0.9

Key Data

TISC.BO | TATA IN

52-W High / Low	Rs.1,535 / Rs.827
Sensex / Nifty	55,268 / 16,484
Market Cap	Rs.1,160bn / \$ 14,547m
Shares Outstanding	1,222m
3M Avg. Daily Value	Rs.9639m

Shareholding Pattern (%)

Promoter's	33.92
Foreign	21.36
Domestic Institution	18.11
Public & Others	26.61
Promoter Pledge (Rs bn)	8.50

Stock Performance (%)

	1M	6M	12M
Absolute	11.3	(14.4)	(26.8)
Relative	6.2	(10.4)	(30.0)

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Europe drives the beat; Current down-cycle equally strong

Quick Pointers:

- Coking coal costs would be lower by US\$40/t in India. While, it will be up by €20-30/t QoQ in Europe due to high cost inventory
- Exit prices in June are lower by Rs15,000/t over prices at the beginning of April

TATA steel (TATA) reported strong set of Q1FY23 earnings. EBITDA remained flat QoQ at Rs149.7bn (down 7% YoY), above our/consensus estimates (CE) by 16%/20%. The beat was largely due to stronger than expected margins in Tata steel Europe (TSE).

Domestic steel prices fell sharply by ~25% in last couple of months due to slump in global demand, elevated inventory and subdued recovery in Chinese demand. We see further fall in prices in wake of sharp decline in coking coal prices, destocking and weak demand. Though margins are expected to come off sharply by 35-40% QoQ in Q2FY23, still the levels are far higher than sustained low margins in down cycle. We expect that it would take couple of quarters for margins to bottom-out due to 1) weak demand in US & Europe, 2) concerns on high inflation and 3) uncertain market conditions in China. Stock has come-off sharply, because of combination of factors including export duty imposed by Govt of India. However, margins way above historical averages in both India and Europe, challenging macro environment and limited upside drives our negative view on stock. Maintain Reduce rating with TP of Rs975, EV/EBITDA of 5x FY24e.

- **Reported EBITDA in India benefitted by forex gains:** Volumes declined 22% QoQ at 3.9mnt (PLe:3.9mnt). Realisations increased 11.8%/Rs8,610 QoQ to Rs81,540 (PLe:77,430) on back of higher export realisations and fall in domestic steel prices with a lag. Cost (adj for forex movement of Rs13.1bn (Rs3.376/t) on offshore liabilities) increased 21.7% QoQ/Rs10,900 to Rs61,030/t (PLe:Rs56,800) on account of higher other expenses. Adj EBITDA/t declined 10%/35% QoQ/YoY at Rs21,326 (PLe:Rs21,330) as benefit of higher realisations got negated by sharper increase in costs.
- **Strong show continues in TSE:** TSE's EBITDA increased 35% QoQ to US\$780mn, above our estimate of US\$550mn. EBITDA/t expanded by 52% QoQ to US\$365 (PLe:US\$255) on back of better than expected realisations and lower costs. TSE's realisations increased 7% QoQ at US\$1,570/t (PLe:US\$1,540). While, cost remained flat QoQ at US\$1,220/t on back of lower other expenses. Led by strong performance in TSE and forex gain of 7bn, EBITDA came above our estimate at Rs149.7bn (PLe:Rs129.4bn). Impacted by increase in deferred tax in TSE with overall tax rate by 1830bps QoQ at 35.7% (PLe:19%), PAT declined 22% QoQ at Rs78.0bn (PLe:Rs79.0bn).
- **Key takeaways of con-call:** 1) Will sell additional volumes of 500kt in India operations QoQ in Q2 2) Capex guidance of Rs120bn for FY23e 3) 75 of energy cost in TSE hedged for next couple of quarters 4) Sells 60-70%/40% of Netherlands/UK volumes on contracts basis 5) Spreads in UK and Netherlands are currently at £400-450/t and €550-600/t respectively 6) Net debt increased by 7% QoQ to Rs545bn due to high raw material prices

Exhibit 1: Q1FY23 Result Overview (Rs m)

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Net Sales	6,34,301	5,33,718	18.8	6,93,235	(8.5)
Raw Material	2,32,206	1,67,521	38.6	2,76,302	(16.0)
<i>% of Net Sales</i>	<i>36.6</i>	<i>31.4</i>		<i>39.9</i>	
Staff Costs	59,634	56,626	5.3	60,562	(1.5)
<i>% of Net Sales</i>	<i>9.4</i>	<i>10.6</i>		<i>8.7</i>	
Other Expenses	1,92,733	1,48,466	29.8	2,06,075	(6.5)
<i>% of Net Sales</i>	<i>30.4</i>	<i>27.8</i>		<i>29.7</i>	
Total Expenditure	4,84,573	3,72,613	30.0	5,42,939	(10.8)
EBITDA	1,49,728	1,61,106	(7.1)	1,50,296	(0.4)
<i>Margin (%)</i>	<i>23.6</i>	<i>30.2</i>		<i>21.7</i>	
Depreciation	22,368	23,245	(3.8)	22,434	(0.3)
Other income	2,681	1,622	65.2	2,922	(8.3)
EBIT	1,30,041	1,39,482	(6.8)	1,30,784	(0.6)
Interest	12,181	18,114	(32.8)	10,985	10.9
PBT	1,17,860	1,21,368	(2.9)	1,19,799	(1.6)
Extraordinary income/(expense)	(392)	(1,823)	-	(2,743)	(85.7)
PBT (After EO)	1,17,467	1,19,545	(1.7)	1,17,056	0.4
Tax	41,923	23,084	81.6	20,299	106.5
<i>% PBT</i>	<i>35.7</i>	<i>19.3</i>		<i>17.3</i>	
Reported PAT	75,545	96,461	(21.7)	96,758	(21.9)
Minority interest	(510)	8,614	-	789	(165)
Share of profit/(loss) of associates	1,595	1,223	30.5	1,594	0.1
Net Profit attributable to shareholders	77,650	89,069	-	97,562	(20.4)
Adjusted Net Profit attributable to shareholders	78,042	90,893	(14.1)	1,00,305	(22.2)

Source: Company, PL

Exhibit 2: Key Operating Metrics

Subsidiary performance	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)
Revenue (mn USD)					
Indian Operations	4,145	3,752	10.5	4,875	(15.0)
Europe Operations	3,360	2,635	27.5	3,507	(4.2)
Adjusted EBITDA (mn USD)					
Indian Operations	1,238	1,802	(31.3)	1,626	(23.8)
Europe Operations	781	208	276.2	578	35.2
Operating Metrics-India					
Sales Volume (mnt)	3.9	4.0	(2.6)	5.0	(21.8)
Realisation per tonne (USD/t)	1,067	940	13.4	981	8.7
EBITDA per tonne (USD/t)	319	452	(29.4)	327	(2.6)
Operating Metrics-Europe					
Sales Volume (mnt)	2.1	2.3	(8.2)	2.4	(10.8)
Realisation per tonne (USD/t)	1,570	1,131	38.9	1,461	7.4
EBITDA per tonne (USD/t)	365	89	309.6	241	51.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	15,64,774	24,39,592	22,77,234	22,46,613
YoY gr. (%)	5.0	55.9	(6.7)	(1.3)
Cost of Goods Sold	5,66,176	8,34,787	9,17,478	9,04,401
Gross Profit	9,98,598	16,04,804	13,59,756	13,42,211
Margin (%)	63.8	65.8	59.7	59.7
Employee Cost	1,99,088	2,32,641	2,86,712	2,82,625
Other Expenses	(17,657)	(28,899)	-	-
EBITDA	3,05,043	6,34,900	3,65,822	3,62,443
YoY gr. (%)	75.8	108.1	(42.4)	(0.9)
Margin (%)	19.5	26.0	16.1	16.1
Depreciation and Amortization	92,336	91,009	1,01,677	1,07,515
EBIT	2,12,706	5,43,891	2,64,145	2,54,928
Margin (%)	13.6	22.3	11.6	11.3
Net Interest	76,067	54,622	53,063	47,063
Other Income	8,956	7,849	7,298	7,585
Profit Before Tax	1,35,164	4,95,777	2,18,380	2,15,450
Margin (%)	8.6	20.3	9.6	9.6
Total Tax	56,539	84,776	58,815	59,807
Effective tax rate (%)	41.8	17.1	26.9	27.8
Profit after tax	78,624	4,11,002	1,59,565	1,55,642
Minority interest	6,996	15,954	7,500	7,500
Share Profit from Associate	3,273	6,492	3,500	3,500
Adjusted PAT	85,334	4,02,288	1,55,565	1,51,642
YoY gr. (%)	379.6	371.4	(61.3)	(2.5)
Margin (%)	5.5	16.5	6.8	6.7
Extra Ord. Income / (Exp)	(10,432)	(1,341)	-	-
Reported PAT	74,902	4,00,947	1,55,565	1,51,642
YoY gr. (%)	381.2	435.3	(61.2)	(2.5)
Margin (%)	4.8	16.4	6.8	6.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	74,902	4,00,947	1,55,565	1,51,642
Equity Shares O/s (m)	1,198	1,221	1,221	1,221
EPS (Rs)	71.3	329.4	127.4	124.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	21,19,884	21,58,522	23,48,422	24,17,322
Tangibles	21,19,884	21,58,522	23,48,422	24,17,322
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,05,579	8,68,756	9,70,432	10,77,948
Tangibles	8,05,579	8,68,756	9,70,432	10,77,948
Intangibles	-	-	-	-
Net fixed assets	13,14,305	12,89,766	13,77,990	13,39,374
Tangibles	13,14,305	12,89,766	13,77,990	13,39,374
Intangibles	-	-	-	-
Capital Work In Progress	1,96,730	2,33,785	2,96,285	3,58,785
Goodwill	43,447	43,112	43,112	43,112
Non-Current Investments	41,772	54,487	57,987	61,487
Net Deferred tax assets	(76,634)	(93,019)	(99,308)	(1,05,629)
Other Non-Current Assets	2,40,719	2,65,400	2,65,400	2,65,400
Current Assets				
Investments	72,189	85,244	85,244	85,244
Inventories	3,32,764	4,88,244	4,80,403	4,73,943
Trade receivables	95,398	1,22,464	1,24,780	1,23,102
Cash & Bank Balance	57,822	1,58,989	54,020	23,020
Other Current Assets	23,106	35,717	40,717	45,717
Total Assets	24,54,872	28,42,356	28,91,585	28,85,332
Equity				
Equity Share Capital	11,976	12,212	12,212	12,212
Other Equity	7,30,412	11,32,218	12,25,452	13,28,248
Total Networkth	7,42,388	11,44,430	12,37,665	13,40,460
Non-Current Liabilities				
Long Term borrowings	8,06,670	6,88,287	6,38,287	5,38,287
Provisions	46,919	48,260	48,260	48,260
Other non current liabilities	1,01,754	91,469	76,469	61,469
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,59,675	3,67,649	3,52,571	3,47,900
Other current liabilities	2,88,070	2,87,223	2,97,406	2,94,208
Total Equity & Liabilities	23,76,528	27,87,129	28,24,258	28,18,005

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	1,38,437	5,02,269	2,18,380	2,15,450
Add. Depreciation	92,336	91,009	1,01,677	1,07,515
Add. Interest	76,067	54,622	53,063	47,063
Less Financial Other Income	8,956	7,849	7,298	7,585
Add. Other	(21,444)	11,105	(3,052)	(3,339)
Op. profit before WC changes	2,85,397	6,59,004	3,70,068	3,66,689
Net Changes-WC	1,64,913	(96,177)	(19,869)	(20,231)
Direct tax	(7,043)	(1,19,017)	(52,526)	(53,486)
Net cash from Op. activities	4,43,267	4,43,810	2,97,673	2,92,971
Capital expenditures	(63,429)	(99,907)	(2,40,300)	(1,31,400)
Interest / Dividend Income	4,012	2,989	3,052	3,339
Others	(36,049)	(11,712)	-	-
Net Cash from Invst. activities	(95,467)	(1,08,630)	(2,37,248)	(1,28,061)
Issue of share cap. / premium	32,390	3,257	-	-
Debt changes	(3,06,606)	(1,52,307)	(50,000)	(1,00,000)
Dividend paid	(11,505)	(30,201)	(62,331)	(48,847)
Interest paid	(68,037)	(46,867)	(53,063)	(47,063)
Others	(17,349)	(7,893)	-	-
Net cash from Fin. activities	(3,71,107)	(2,34,011)	(1,65,394)	(1,95,910)
Net change in cash	(23,307)	1,01,169	(1,04,969)	(31,000)
Free Cash Flow	3,73,481	3,38,588	1,66,273	1,61,571

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	6,03,871	6,07,831	6,93,235	6,34,301
YoY gr. (%)	62.5	44.9	38.6	18.8
Raw Material Expenses	1,90,584	2,01,258	2,76,302	2,32,206
Gross Profit	4,13,287	4,06,574	4,16,933	4,02,095
Margin (%)	68.4	66.9	60.1	63.4
EBITDA	1,64,561	1,58,937	1,50,296	1,49,728
YoY gr. (%)	169.3	66.1	6.0	(7.1)
Margin (%)	27.3	26.1	21.7	23.6
Depreciation / Depletion	22,889	22,441	22,434	22,368
EBIT	1,41,673	1,36,496	1,27,862	1,27,360
Margin (%)	23.5	22.5	18.4	20.1
Net Interest	10,198	15,325	10,985	12,181
Other Income	2,709	596	2,922	2,681
Profit before Tax	1,39,343	1,19,833	1,17,056	1,17,467
Margin (%)	23.1	19.7	16.9	18.5
Total Tax	15,719	25,674	20,299	41,923
Effective tax rate (%)	11.3	21.4	17.3	35.7
Profit after Tax	1,23,624	94,159	96,758	75,545
Minority interest	6,296	255	789	(510)
Share Profit from Associates	1,853	1,823	1,594	1,595
Adjusted PAT	1,14,022	97,661	1,00,305	78,042
YoY gr. (%)	658.6	153.6	31.4	(14.1)
Margin (%)	18.9	16.1	14.5	12.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,19,181	95,727	97,562	77,650
YoY gr. (%)	670.8	158.9	46.8	(12.8)
Margin (%)	19.7	15.7	14.1	12.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,19,181	95,727	97,562	77,650
Avg. Shares O/s (m)	971	971	971	971
EPS (Rs)	117.4	100.6	103.3	80.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	71.3	329.4	127.4	124.2
CEPS	148.4	403.9	210.6	212.2
BVPS	619.9	937.1	1,013.5	1,097.6
FCF	311.9	277.3	136.2	132.3
DPS	25.0	51.0	40.0	50.0
Return Ratio(%)				
RoCE	12.3	32.2	14.2	13.6
ROIC	7.8	31.2	11.3	10.4
RoE	11.5	42.6	13.1	11.8
Balance Sheet				
Net Debt : Equity (x)	0.9	0.4	0.4	0.3
Net Working Capital (Days)	39	36	40	40
Valuation(x)				
PER	13.3	2.9	7.5	7.6
P/B	1.5	1.0	0.9	0.9
P/CEPS	148.4	403.9	210.6	212.2
EV/EBITDA	5.9	2.5	4.5	4.4
EV/Sales	1.2	0.7	0.7	0.7
Dividend Yield (%)	2.6	5.4	4.2	5.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Rev. Indian Op. (US\$ m)	11,334	17,435	15,253	14,956
Rev. Corus (US\$ m)	7,568	12,071	12,350	12,125
Rev. South East (US\$ m)	1,292	1,610	1,040	1,063
EBITDA-India (US\$ m)	3,627	6,879	3,343	3,352
EBITDA-Corus (US\$ m)	(79)	1,629	950	873
EBITDA-South East (US\$ m)	74	115	56	54
Volume (mt)-India	17	18	18	18
Real./ Tonne- India (Rs)	50,467	73,199	64,692	62,771
EBITDA/Tonne- India (Rs)	16,151	28,880	14,179	14,068
SalesVol.-Corus (mt)	9	9	10	10
Real./Tonne-Corus (US\$)	857	1,337	1,300	1,250
EBITDA/Tonne-Corus (US\$)	(9)	180	100	90
Sales Vol.-South East (mt)	2	2	2	2
Real./Tonne-SEAN (US\$)	585	700	650	625
EBITDA/Tonne-SEAN (US\$)	33	50	35	32

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jul-22	Reduce	975	886
2	23-May-22	Reduce	1,230	1,171
3	05-May-22	BUY	1,705	1,261
4	11-Apr-22	BUY	1,745	1,371
5	08-Feb-22	BUY	1,745	1,183
6	11-Jan-22	BUY	1,842	1,169
7	15-Nov-21	BUY	1,835	1,287
8	07-Oct-21	BUY	1,850	1,289
9	15-Aug-21	BUY	1,950	1,462

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	Reduce	2,250	2,160
2	Ambuja Cement	Hold	385	371
3	Coal India	Accumulate	220	190
4	Dalmia Bharat	Accumulate	1,755	1,453
5	Heidelberg Cement India	Reduce	183	181
6	Hindalco Industries	Accumulate	545	358
7	Hindustan Zinc	Reduce	283	263
8	Jindal Steel & Power	Reduce	360	346
9	JK Lakshmi Cement	Accumulate	570	434
10	JSW Steel	Reduce	560	582
11	NMDC	Reduce	120	109
12	Shree Cement	Hold	23,150	20,015
13	Steel Authority of India	Reduce	55	72
14	Tata Steel	Reduce	975	886
15	The Ramco Cements	Hold	650	654
16	Ultratech Cement	Accumulate	7,180	6,459

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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