

October 19, 2022

Volume recovers sequentially; margin stays muted...

About the stock: Tata Metaliks (TML) is a subsidiary of Tata Steel, which started its commercial production in 1994. TML has manufacturing facilities in Kharagpur, West Bengal, which produces pig iron and ductile iron (DI) pipes.

- TML is currently in process of expanding its DI pipe capacity in two phases
- TML has a healthy balance-sheet. It is one of the few players in the steel pipe sector having a net cash position on its balance sheet

Q2FY23 Results: During the quarter, while Tata Metalik's (TML's) sales volume recovered sequentially, operating margins came in muted for Q2FY23 on a YoY basis due to higher raw material costs.

- TML's revenue was at ₹ 877 crore, up 36% YoY, 32% QoQ. For the quarter, TML's pig iron sales volumes were at ~83000 tonnes, up 22% QoQ but down 9% YoY. For the quarter, TML's ductile iron (DI) pipes sales volume was at ~70000 tonnes, up 52% QoQ, 35% YoY
- TML's EBITDA for the quarter was at ₹ 41 crore, down 59% YoY but up 70% QoQ. TML's EBITDA margin for the quarter was at 4.7% compared to 15.5% in Q2FY22 and 3.6% in Q1FY23
- Ensuing PAT for the quarter was at ₹ 14 crore, down 74% YoY

What should investors do? TML's share price has given a return of ~33% over the last two years (from ~₹ 551 in October 2020 to ~₹ 732 levels in October 2022).

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

Target Price and Valuation: We value TML at ₹ 750 i.e. 5.5x FY24E EV/EBITDA.

Key triggers for future price performance:

- The first phase of ductile iron pipes expansion has been commissioned and H2FY23 is likely to see good production of DI pipe from the new plant. The new plant is one of the most advanced DI pipe plants with high level of automation and robotics to make the operations safe and efficient. The second phase of DI expansion is likely to get commissioned in FY24
- It is one of the key beneficiaries of Jal Jeevan mission

Alternate Stock Idea: In our metal & mining coverage, we like Coal India.

- Coal India (CIL) is one of the largest coal producers in the world. In FY22, CIL produced 623 million tonnes (MT) while offtake was at 662 MT
- BUY with a target price of ₹ 275



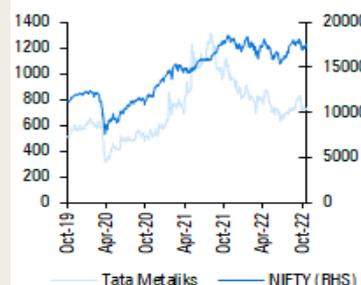
Particulars

Particulars	Amount
Market Capitalisation (in ₹ crore)	2312
Debt in ₹ crore (FY22)	0
Cash & Cash Eq. in ₹ crore (FY22)	336
EV (in ₹ crore)	1976
52 Week H / L (₹)	1103 / 622
Equity Capital (₹ crore)	32
Face Value	₹ 10

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	60.0	60.0	60.0	60.0
Flls	1.1	1.0	0.9	0.9
Dlls	10.5	10.5	9.5	9.0
Public	28.4	28.4	29.6	30.1
Total	100.0	100.0	100.0	100.0

Price Chart



Key risks

- Higher than expected increase in demand of DI pipes
- Higher than expected increase in operating costs

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	CAGR (FY17-FY22 in %)	FY23E	FY24E	CAGR (FY22-FY24E in %)
Total Operating income	2,155	2,051	1,917	2,746	15	3,344	3,390	11
EBITDA	307	285	389	378	11	293	381	0
EBITDA Margin (%)	14.3	13.9	20.3	13.8		8.8	11.3	
Reported Net Profit	183	167	221	238	15	165	232	-1
EPS (₹)	65.1	59.4	69.9	75.4		52.3	73.3	
P/E	11.2	12.3	10.5	9.7		14.0	10.0	
RoE (%)	23.8	18.1	17.0	15.6		9.9	12.4	
RoCE (%)	31.0	19.4	24.6	20.7		13.2	16.4	

Source: Company, ICICI Direct Research

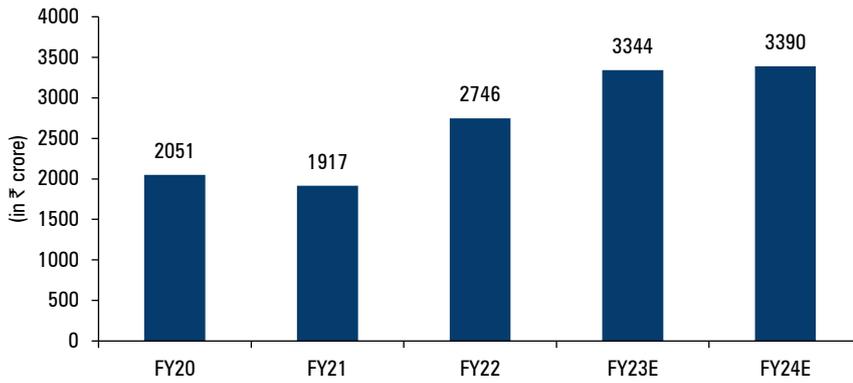
Exhibit 1: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	877	645	36%	666	32%	Topline came in 36% higher YoY, 32% QoQ
Other Income	5	3	54%	3	61%	
Raw Material Expense	628	388	62%	458	37%	
Employee Expense	38	35	9%	38	2%	
Other Expenses	170	122	40%	147	16%	
Total Operating Expenses	836	545	53%	642	30%	
EBITDA	41	100	-59%	24	70%	EBITDA declined 59% YoY but was up 70% QoQ
EBITDA Margin (%)	4.7	15.5	-1081 bps	3.6	104 bps	
Depreciation	19	16	17%	18	1%	
Interest	7	6	17%	7	0%	
Exceptional Items	0	0	NA	0	NA	
PBT	20	81	-75%	2	1064%	
Tax Outgo	6	26	-78%	1	1045%	
PAT	14	55	-74%	1	1071%	PAT declined 74% YoY

Source: Company, ICICI Direct Research

Financial story in charts

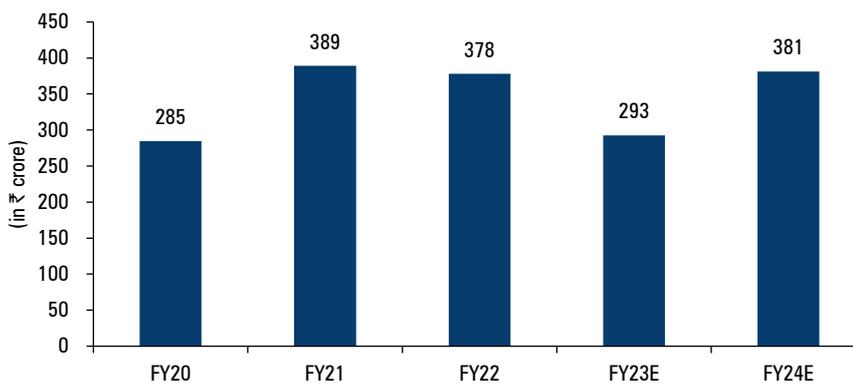
Exhibit 2: Trend in topline (in ₹ crore)



We expect topline to grow at a CAGR of 11% during FY22-24E

Source: Company, ICICI Direct Research

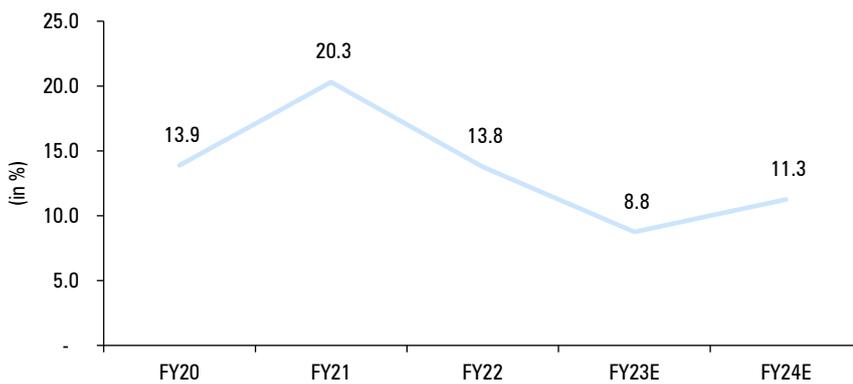
Exhibit 3: Trend in EBITDA (in ₹ crore)



We expect Tata Metaliks to report EBITDA of ₹ 293 crore in FY23E and ₹ 381 crore in FY24E.

Source: Company, ICICI Direct Research

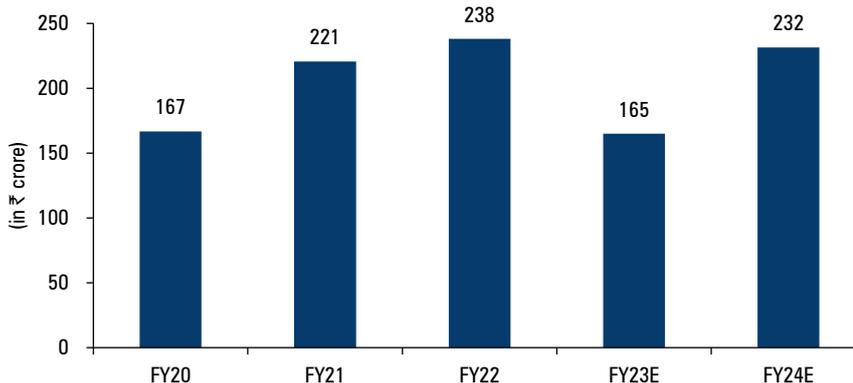
Exhibit 4: Trend in EBITDA margin (in %)



Over the next couple of years, we expect EBITDA margin to come in at a ~8.8% in FY23E & ~11.3% in FY24E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in reported PAT (in ₹ crore)



We expect Tata Metaliks to report PAT of ₹ 165 crore for FY23E and ₹ 232 crore for FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Matrix

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2,155	15	65.1	14	11.2	6.7	23.8	31.0
FY20	2,051	-5	59.4	-9	12.3	7.6	18.1	19.4
FY21	1,917	-7	69.9	18	10.5	5.5	17.0	24.6
FY22	2,746	43	75.4	8	9.7	5.2	15.6	20.7
FY23E	3,344	22	52.3	-31	14.0	7.1	9.9	13.2
FY24E	3,390	1	73.3	40	10.0	5.4	12.4	16.4

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total Operating Income	1917	2746	3344	3390	
Growth (%)	-7%	43%	22%	1%	
Total Operating Expenditure	1528	2368	3051	3009	
EBITDA	389	378	293	381	
Growth (%)	37%	-3%	-23%	30%	
Interest & Finance Cost	24	25	20	18	
Depreciation	67	62	72	75	
Other Income	8	17	20	21	
PBT before Exceptional Items	307	308	221	309	
Less: Exceptional Items	0	31	0	0	
PBT	307	339	221	309	
Total Tax	86	101	56	78	
Reported PAT	221	238	165	232	
Growth (%)	32%	8%	-31%	40%	
EPS	69.9	75.4	52.3	73.3	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	221	238	165	232	
Add: Dep. & Amortization	67	62	72	75	
Net (Inc) / dec.in Current Ass	-86	-30	-152	-30	
Net Inc / (dec) in Current Liab	-24	229	111	-114	
CF from operating activities	178	498	196	162	
(Inc)/dec in Investments	10	-60	-0	0	
(Inc)/dec in Fixed Assets	-227	-374	-275	-100	
Others	0	0	0	0	
CF from investing activities	-217	-434	-275	-100	
Inc / (Dec) in Equity Capital	3	0	0	0	
Inc / (Dec) in Loans	-201	-10	0	0	
Dividend & Dividend Tax	-21	-25	-25	-25	
Others	189	56	0	0	
CF from financing activities	-30	20	-25	-25	
Net Cash flow	-68	85	-104	37	
Opening Cash	110	42	127	23	
Closing Cash	42	127	23	60	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Equity Capital	32	32	32	32	
Reserve and Surplus	1,269	1,494	1,633	1,840	
Total Shareholders funds	1,300	1,525	1,665	1,871	
Total Debt	10	0	0	0	
Deferred Tax Liability (net)	12	55	55	55	
Source of Funds	1,322	1,580	1,720	1,926	
Gross Block - Fixed Assets	1,052	1,326	1,551	1,878	
Accumulated Depreciation	260	322	394	469	
Net Block	793	1,005	1,158	1,410	
Capital WIP	134	233	283	56	
Net Fixed Assets	926	1,238	1,441	1,466	
Investments	0	60	60	60	
Inventory	409	477	550	557	
Cash	42	127	23	60	
Debtors	247	211	275	279	
Loans & Advances & Other CA	238	236	251	270	
Total Current Assets	936	1,051	1,099	1,166	
Creditors	270	447	550	557	
Provisions & Other CL	270	322	330	209	
Total Current Liabilities	540	769	880	766	
Net Current Assets	396	282	219	400	
Application of Funds	1,322	1,580	1,720	1,926	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
EPS	69.9	75.4	52.3	73.3	
BV	411.7	482.9	527.2	592.5	
DPS	6.5	8.0	8.0	8.0	
Cash Per Share	13.3	40.2	7.3	19.0	
Operating Ratios (%)					
EBITDA margins	20.3	13.8	8.8	11.3	
PBT margins	16.0	12.4	6.6	9.1	
Net Profit margins	11.5	8.7	4.9	6.8	
Inventory days	78	63	60	60	
Debtor days	47	28	30	30	
Creditor days	51	59	60	60	
Return Ratios (%)					
RoE	17.0	15.6	9.9	12.4	
RoCE	24.6	20.7	13.2	16.4	
RoIC	25.4	22.6	13.4	16.9	
Valuation Ratios (x)					
P/E	10.5	9.7	14.0	10.0	
EV / EBITDA	5.5	5.2	7.1	5.4	
EV / Revenues	1.2	0.8	0.7	0.7	
Market Cap / Revenues	1.2	0.8	0.7	0.7	
Price to Book Value	1.8	1.5	1.4	1.2	
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	
Debt/EBITDA	0.0	0.0	0.0	0.0	
Current Ratio	1.7	1.4	1.2	1.5	
Quick Ratio	1.0	0.7	0.6	0.8	

Source: Company, ICICI Direct Research

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