

Performance likely to improve, going forward....

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

Q3FY23 Results: Tata Metalik's (TML's) Q3FY23 performance was adversely impacted by operational issues with one of the blast furnaces, which had frequent shutdowns thereby increasing the operating costs. The blast furnace was repaired in early December 2022 and is now operating well.

- TML's revenue was at ₹ 790 crore, up 15% YoY but down 10% QoQ. TML's pig iron sales volumes were at ~63000 tonnes, down 25% YoY. TML's ductile iron (DI) pipes sales volume was at ~77000 tonnes, up 16% YoY & 11% QoQ. The growth in DI pipe volume was aided by the new plant. DI pipe plant - 2 (new plant) had a vertical ramp-up wherein production of finished DI pipes touched 25 KT in Q3FY23 compared to 13 KT in Q2FY23
- TML's EBITDA for the quarter was at ₹ 39 crore, down 43% YoY and 5% QoQ. TML's EBITDA margin for the quarter was at 4.9% compared to 4.7% in Q2FY23 and 9.8% in Q2FY23
- Ensuing PAT for Q3FY23 was at ₹ 9 crore, down 74% YoY and 34% QoQ

What should investors do? TML's share price has given a return of ~37% over the last three years (from ~₹ 625 in January 2020 to ~₹ 856 levels in January 2023).

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

Target Price and Valuation: We value TML at ₹ 900 i.e. 6.5x FY24E EV/EBITDA.

Key triggers for future price performance:

- Domestic demand of pig iron is expected to firm up in Q4FY23 as utilisation levels in general castings, agriculture, etc are likely to improve
- Demand outlook for DI pipes for Q4FY23 is robust in line with government's increased outlay through Jal Jeevan mission to provide drinking water

Alternate Stock Idea: In our metal and mining coverage we like Midhani.

- Mishra Dhatu Nigam (Midhani) is a leading manufacturer of special steel, super alloys and titanium alloys catering to niche end-user segments like space, defence, etc.
- BUY with a target price of ₹ 285



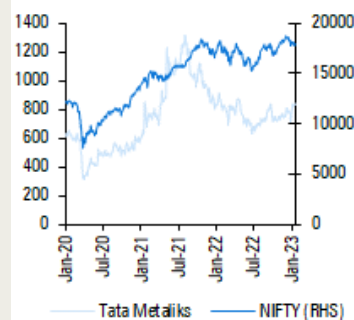
Particulars

Particulars	Amount
Market Capitalisation (in ₹ crore)	2700
Debt in ₹ crore (FY22)	0
Cash & Cash Eq. in ₹ crore (FY22)	336
EV (in ₹ crore)	2364
52 Week H / L (₹)	922 / 622
Equity Capital (₹ crore)	32
Face Value	₹ 10

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	60.0	60.0	60.0	60.0
FIs	1.0	0.9	0.9	1.5
DIs	10.5	9.5	9.0	8.8
Public	28.4	29.6	30.1	29.7
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

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

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	3,279	3,450	12
EBITDA	307	285	389	378	11	210	391	2
EBITDA Margin (%)	14.3	13.9	20.3	13.8		6.4	11.3	
Reported Net Profit	183	167	221	238	15	97	223	-3
EPS (₹)	65.1	59.4	69.9	75.4		30.6	70.6	
P/E	13.2	14.4	12.3	11.4		28.0	12.1	
RoE (%)	23.8	18.1	17.0	15.5		6.0	12.3	
RoCE (%)	31.0	19.4	24.6	20.7		8.6	17.5	

Source: Company, ICICI Direct Research

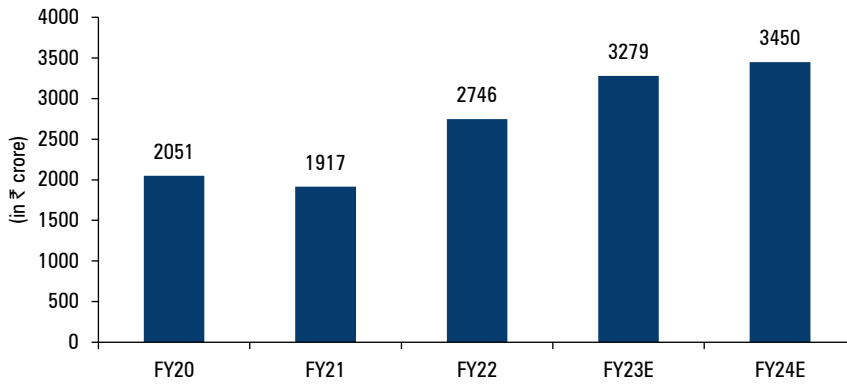
Exhibit 1: Variance Analysis

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Operating Income	790	690	15%	877	-10%	Topline came in 15% higher YoY but was down 10% QoQ
Other Income	2	3	-34%	5	-54%	
Raw Material Expense	535	456	17%	628	-15%	
Employee Expense	41	36	13%	38	6%	
Other Expenses	176	130	35%	170	3%	
Total Operating Expenses	751	622	21%	836	-10%	
EBITDA	39	68	-43%	41	-5%	EBITDA declined 43% YoY and 5% QoQ
EBITDA Margin (%)	4.9	9.8	-493 bps	4.7	24 bps	
Depreciation	19	15	24%	19	0%	
Interest	10	6	72%	7	43%	
Exceptional Items	0	0	NA	0	NA	
PBT	12	50	-76%	20	-39%	
Tax Outgo	3	14	-81%	6	-53%	
PAT	9	36	-74%	14	-34%	PAT declined 74% YoY and 34% QoQ

Source: Company, ICICI Direct Research

Financial story in charts

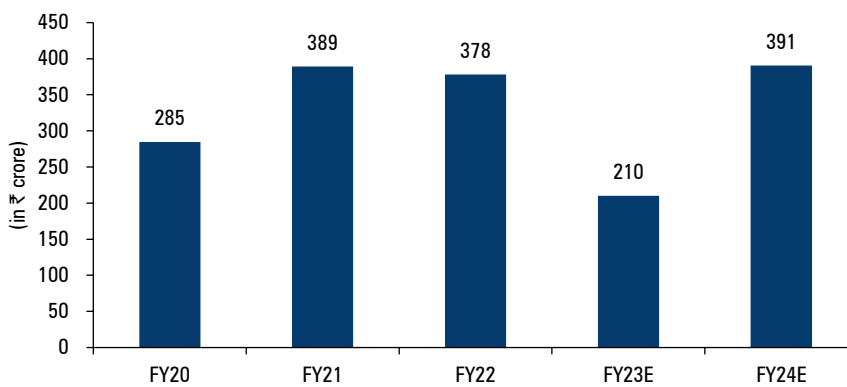
Exhibit 2: Trend in topline.... (in ₹ crore)



We expect topline to grow at a CAGR of 12% during FY22-24E

Source: Company, ICICI Direct Research

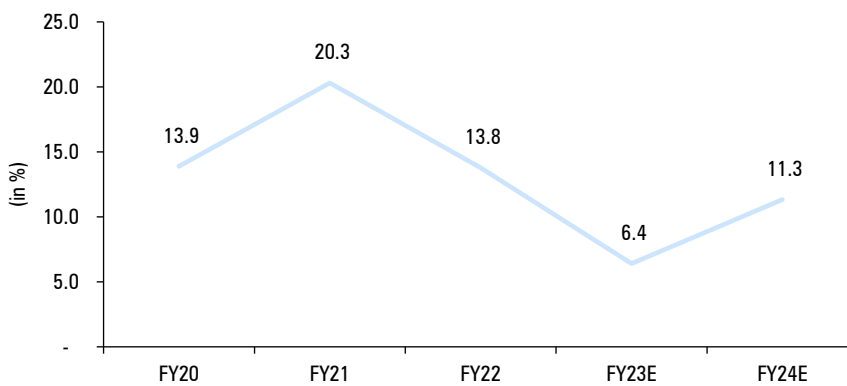
Exhibit 3: Trend in EBITDA... (in ₹ crore)



We expect Tata Metaliks to report EBITDA of ₹ 210 crore in FY23E and ₹ 391 crore in FY24E.

Source: Company, ICICI Direct Research

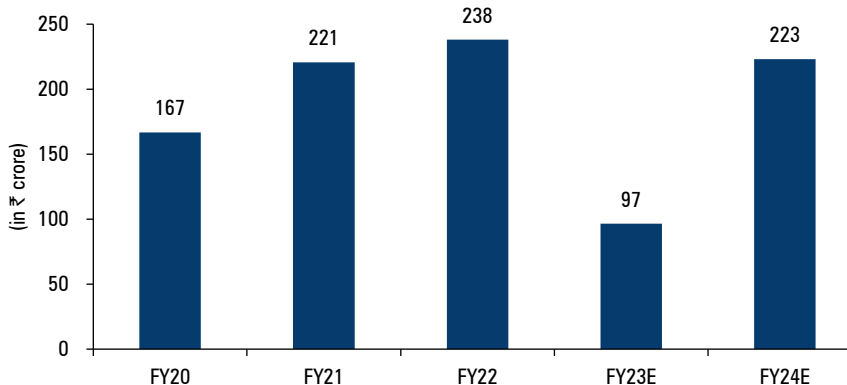
Exhibit 4: Trend in EBITDA margin (in %)



Over the next couple of years, we expect EBITDA margin to come in at a ~6.4% 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 ₹ 97 crore for FY23E and ₹ 223 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	13.2	7.9	23.8	31.0
FY20	2,051	-5	59.4	-9	14.4	8.8	18.1	19.4
FY21	1,917	-7	69.9	18	12.3	6.5	17.0	24.6
FY22	2,746	43	75.4	8	11.4	6.2	15.5	20.7
FY23E	3,279	19	30.6	-59	28.0	11.8	6.0	8.6
FY24E	3,450	5	70.6	131	12.1	6.1	12.3	17.5

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	3279	3450
Growth (%)	-7%	43%	19%	5%
Total Operating Expenditure	1528	2368	3069	3059
EBITDA	389	378	210	391
Growth (%)	37%	-3%	-44%	86%
Interest & Finance Cost	24	25	20	18
Depreciation	67	62	72	75
Other Income	8	17	20	21
PBT before Exceptional Items	307	308	138	319
Less: Exceptional Items	0	31	0	0
PBT	307	339	138	319
Total Tax	86	101	41	96
Reported PAT	221	238	97	223
Growth (%)	32%	8%	-59%	131%
EPS	69.9	75.4	30.6	70.6

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	221	238	97	223
Add: Dep. & Amortization	67	62	72	75
Net (Inc) / dec.in Current Ass	-86	-30	-91	-2
Net Inc / (dec) in Current Liab	-24	229	100	-93
CF from operating activities	178	498	178	202
(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	-19	-25
Others	189	62	0	0
CF from financing activities	-30	27	-19	-25
Net Cash flow	-68	91	-116	77
Opening Cash	110	42	133	18
Closing Cash	42	133	18	95

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	1,500	1,578	1,775
Total Shareholders funds	1,300	1,532	1,609	1,807
Total Debt	10	0	0	0
Deferred Tax Liability (net)	12	55	55	55
Source of Funds	1,322	1,587	1,664	1,862
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	539	520
Cash	42	133	18	95
Debtors	247	211	225	227
Loans & Advances & Other CA	238	236	251	270
Total Current Assets	936	1,057	1,032	1,112
Creditors	270	447	539	567
Provisions & Other CL	270	322	330	209
Total Current Liabilities	540	769	869	776
Net Current Assets	396	288	163	336
Application of Funds	1,322	1,587	1,664	1,862

Source: Company, ICICI Direct Research

Exhibit 10: TML - ESG Disclosure Score*

ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	17.1	19.1	NA
Social	36.8	36.8	NA
Governance	78.6	78.6	NA
Overall ESG Score	44.2	44.9	NA

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures, NA - Not Available

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	69.9	75.4	30.6	70.6
BV	411.7	484.9	509.5	572.1
DPS	6.5	8.0	6.0	8.0
Cash Per Share	13.3	42.2	5.6	30.0
Operating Ratios (%)				
EBITDA margins	20.3	13.8	6.4	11.3
PBT margins	16.0	12.4	4.2	9.2
Net Profit margins	11.5	8.7	2.9	6.5
Inventory days	78	63	60	55
Debtor days	47	28	25	24
Creditor days	51	59	60	60
Return Ratios (%)				
RoE	17.0	15.5	6.0	12.3
RoCE	24.6	20.7	8.6	17.5
RoIC	25.4	22.6	8.7	18.4
Valuation Ratios (x)				
P/E	12.3	11.4	28.0	12.1
EV / EBITDA	6.5	6.2	11.8	6.1
EV / Revenues	1.4	0.9	0.8	0.8
Market Cap / Revenues	1.4	1.0	0.8	0.8
Price to Book Value	2.1	1.8	1.7	1.5
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	1.4
Quick Ratio	1.0	0.8	0.6	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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