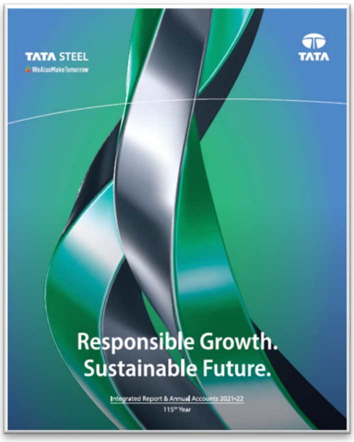
20 June 2023
Annual Report Update | Sector: Metals

# Tata Steel

| BSE SENSEX | S&P CNX |
|---|---|
| 63,328 | 18,817 |






**Stock Info**

| | |
|---|---|
| Bloomberg | TATA IN |
| Equity Shares (m) | 12212 |
| M.Cap.(INRb)/(USDb) | 1396.3 / 17 |
| 52-Week Range (INR) | 124 / 83 |
| 1, 6, 12 Rel. Per (%) | 6/1/10 |
| 12M Avg Val (INR M) | 5869 |
| Free float (%) | 66.1 |

**Financials Snapshot (INR b)**

| Y/E MARCH | 2023 | 2024E | 2025E |
|---|---|---|---|
| Sales | 2,434 | 2,353 | 2,460 |
| EBITDA | 323 | 361 | 411 |
| Adj. PAT | 86 | 136 | 150 |
| EBITDA Margin (%) | 13.3 | 15.3 | 16.7 |
| Adj. EPS (INR) | 7.1 | 11.1 | 12.3 |
| EPS Gr. (%) | -78.5 | 57.1 | 10.7 |
| BV/Sh. (INR) | 80 | 86 | 93 |
| **Ratios** | | | |
| Net D:E | 0.7 | 0.7 | 0.6 |
| RoE (%) | 8.3 | 13.4 | 13.7 |
| RoCE (%) | 12.1 | 13.4 | 15.3 |
| Payout (%) | 50.8 | 44.9 | 40.6 |
| **Valuations** | | | |
| P/E (x) | 16.1 | 10.3 | 9.3 |
| P/BV (x) | 1.4 | 1.3 | 1.2 |
| EV/EBITDA(x) | 6.4 | 5.8 | 4.9 |
| Div. Yield (%) | 3.2 | 4.4 | 4.4 |
| FCF Yield (%) | 5.4 | 8.2 | 12.3 |

**CMP: INR114 TP: INR110 (-4%) Neutral**

## Strong domestic growth story; capacity expansion underway

- Our analysis of TATA's FY23 annual report showed that despite an adverse macro-economic environment and geopolitical volatility, the domestic growth story remained resilient for the company.
- Steel demand in India is expected to mimic the GDP growth rate, driven by higher budgetary outlay toward infrastructure and higher private sector consumption.
- Steel demand is expected to remain robust across key sectors, such as construction, infrastructure, automobiles, railways and white goods. TATA remains buoyant about domestic steel demand over the next decade and is expected to almost double its domestic capacity to 40mt from 21mt.
- The capacity expansion will help TATA navigate steel cycles, capitalize multiple opportunities and simultaneously deleverage its balance sheet. TATA expects to resume its deleveraging exercise and targets to reduce its debt by USD1b in FY24.
- **Financial highlights:** Consolidated FY23 revenue was flat at INR2,434b; however, EBITDA and APAT were down by 50% and 78% YoY at INR323b and INR86b, respectively. The performance was affected by lower steel demand in 2HFY23, higher interest rates, elevated input costs and geopolitical volatility.
- **Valuation:** TATA is currently trading at 5.8x FY24E EV/EBITDA and we reiterate our Neutral rating on the stock with a SoTP-based TP of INR110.

### On track to double domestic capacity by FY30

- TATA is planning a significant capex to augment its Indian capacity to 40mt from 21mt by FY30.
- Incremental capex will be aimed at Indian operations. It also plans to increase the share of long steel products to 33% from 23% by FY30.
- The company is increasing its downstream capacity across tubes (1mt to 4mt), wires (0.45mt to 1mt), tinplate (0.38mt to 1mt), and DI (0.2mt to 1mt). TATA's focus on product enrichment will help the company to augment its portfolio of value-added products (VAP).
- TATA has already commissioned the first circuit of 6mt pellet plant, pickling line and tandem cold mill line of 2.2mt CRM complex in FY23. This expansion will enhance its product mix and drive cost savings. CRM will cater to the highest standard cold rolled product to meet the auto sector's requirements.
- As part of its strategy to be a net zero-emission company by 2045 and invest in a 'circular economy', TATA has signed MoU with the Punjab government to set up a 0.75mt scrap-based long steel EAF facility at Kadiana Khurd, Ludhiana.
- NINL is currently operating at the 1mt annual run rate, and its proximity to the Kalinganagar facility has significantly enhanced the synergies.

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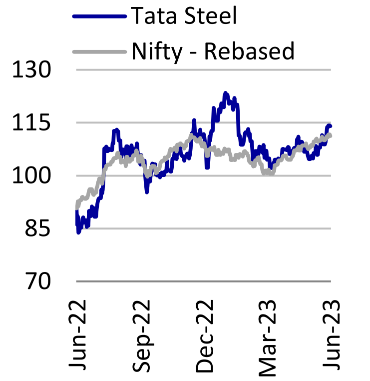
**Shareholding pattern (%)**

| As On | Mar-23 | Dec-22 | Mar-22 |
|---|---|---|---|
| Promoter | 33.9 | 33.9 | 33.9 |
| DII | 20.8 | 19.8 | 20.5 |
| FII | 21.3 | 22.6 | 22.9 |
| Others | 23.9 | 23.7 | 22.7 |

FII Includes depository receipts

**Stock performance (one-year)**




- TATA is focusing on enhancing its capacity at Kalinganagar. The plant is expected to be one of the most advanced steel manufacturing facilities and is recognized as the 'manufacturing lighthouse' by the World Economic Forum.
- To remain self-sufficient, TATA also plans to enhance its captive iron ore mining capacity to 60-65mt from 36mt.
- In FY24, TATA is expected to incur a capex of INR160b, including ~INR70b for the Kalinganagar expansion, which will increase its existing capacity to 8mt by FY25-26 from 3mt.

## Robust domestic demand augurs well for TATA

- Indian steel demand is expected to remain robust and grow by 6.2% in FY24 on the back of higher private sector consumption, the government's thrust on infrastructure, new launches in the automobile sector, higher investments in renewable energy and higher demand for white goods.
- India is the second largest steel manufacturer in the world and is all set to increase its crude steel capacity to 300mt by FY30-31, providing significant headroom for growth in steel consumption in India.
- Growth in steel demand is expected to mimic the GDP growth rate, and the Atmanirbhar Bharat initiative is also expected to drive steel demand in coming years.
- The company's domestic operation currently contributes almost 2/3 of total volumes, which is expected to increase in coming years after the expansion.
- Urbanization would play a vital role in increasing the steel demand. A rapid increase in per capita income, modularization, and an increase in housing and mobility would further drive steel demand.

## Preferred supplier to automobile sector

- TATA's dispatches to the auto sector were up 7% YoY at 2.4mt, representing ~16% of domestic sales volumes in FY23.
- TATA continues to be a market leader. It has enhanced its relationship with OEMs and large value chain partners through 'early vendor involvements' on upcoming models and by broadening its supply chain capabilities, which has helped TATA expand its presence across fast-growing segments.
- During the year, TATA has developed high-strength automotive grade HRC products such as AHSS – HS900 for bulk trailer application, JSH5908 with 100% HER for control arm application, E46 and YST38 for wheel disc application in HCV, SAPH370 and Grade CF for car wheel application, and ASTM-Gr-90-Type-1 for PEB application.
- Similarly TATA has also launched CR, coated and rebar for 2Ws, which are BSVI-compliant.
- TATA is also setting up a 0.5mt 'Combi Mill' at Jamshedpur, which will cater to PV and 2W segments.

## UK business remains a drag

- TATA has a strong presence in the UK; however, the operations have been a drag, with dispatches declining by 0.47mt to 3.02mt in FY23.
- The FY23 performance was affected by lower market demand, higher interest rates and geopolitical volatility.

- Some of the heavy upstream assets are facing ageing issues and these assets are approaching the end of their useful lives in the next 12- 24 months.
- TATA has effectively de-risked the future funding risk from the ALM mismatch in the legacy defined benefit pension scheme – BSPS. TATA has de-risked and transferred the remaining 38% to insurance companies in 1QFY24.

## TATA to be a steel power house post amalgamation

- The ongoing amalgamation process of seven of its subsidiaries and one associate company into TATA is expected to be concluded by the end of FY24.
- TATA is merging four of its listed entities, namely Tata Steel Long Products Ltd, Tinplate Company of India Ltd, Tata Metaliks Ltd and TRF Ltd in the swap ratio of 6.7, 3.3, 7.9 and 1.7 for every 1 share of TATA, respectively.
- The amalgamation will enable TATA to achieve higher synergies, drive significant cost savings, undertake focused growth capex, increase market presence across product lines, and consolidate market share under a single unified brand.
- The amalgamated entity will also incur lower royalty payments and increase liquidity for the existing shareholders.

## Project Aalingana – net zero emissions by 2045

- Steel is a ‘hard-to-abate sector’; however, TATA continues to focus on achieving its net-zero target by 2045 by investing in research and technological innovations.
- TATA has already commenced its studies in the adoption of DRI using green hydrogen, injection of hydrogen in BoF and use of alternate low-carbon fuels such as biomass.
- The company is already leading the decarbonization movement, with its Ijmuiden facility ranking third in the Co2 intensity benchmark for BoF steel producers by WSA. The facility is committed to gradually transitioning to green hydrogen and has engaged with technology and engineering partners to undertake the evaluation, implementation and costing of the project.
- TATA has already launched Zeremis Carbon Lite (zero+emission) which is almost 100% carbon neutral steel.
- TATA is setting up a scrap-based EAF facility in Ludhiana, Punjab, which will further strengthen its net-zero emission goal.
- TATA has setup short – mid - long term goals for decarbonization and has developed a 5tpd pilot plant in Jamshedpur to capture CO2 from BoF gas, which is used to treat water in the steel making unit.
- TATA has also initiated the first of its kind trial by injecting a record quantity of hydrogen gas directly into BoF, which is expected to reduce the coke rate by 10-15%.

## R&D the backbone of TATA

- R&D has been the backbone of the company and during the year, TATA developed 107 new products and filed for 154 patents.
- TATA has also joined hands with IIT Madras for innovation in mobility and develop futuristic application technology in automobile, railways and hyperloop.

- It has also established a center for innovation in mining and mineral beneficiation at IIT Dhanbad. It is also working with BHP to study low carbon, iron and steel-making technology.
- TATA launched Zeremis and Optemis in Europe (a carbon neutral steel), which is a testimony to the company's R&D prowess.
- TATA has also undertaken research in the rebar segment and has developed the first of its kind high-strength corrosion resistance rebar and steel, which can sustain in harsh climatic conditions in Artic.

## Shikhar25 – cost reduction and value enhancement

- Shikhar25 is an EBITDA-focused multi-dimensional cross functional initiative, which is expected to bring key strategic changes across the value chain.
- The process includes benchmarking the performance and identifying enablers to achieve the best-in-class yield, along with energy efficiency and high quality throughput.
- The Shikar25 initiative has led to EBITDA improvement of over INR63b in FY23.
- It can also be leveraged to drive digital initiatives across the value chain and achieve improvement via 'Industry 4.0'.
- Similar to Shikhar25, TATA has 'Sustainable Profits Program' in the Netherlands and the UK, which generated savings of EUR112m and GBP52m, respectively, in FY23.
- Shikar25 has helped TATA to achieve global benchmark levels on multiple operational KPIs through process improvement, which eventually has reduced the cost.

## Valuation and view

- Domestic steel prices, which move in tandem with international steel prices, have corrected over the last few weeks; however, steel demand is expected to improve before the onset of the monsoon season.
- The UK operation continues to be a drag, with its assets nearing the end of useful lives, and would keep the group performance in check.
- TATA relies heavily (75-78%) on domestic merchants or imports for its coal requirements and any sharp increase in its prices could adversely impact its margins.
- While TATA is well placed and, the stock trades at 5.8x FY24E EV/EBITDA. We reiterate our Neutral rating on the stock with a SoTP-based TP of INR110.

## Strong focus on domestic growth story

India's growth remains resilient, underpinned by the government's capital outlay and buoyant private consumption. India's GDP is estimated to have grown 6.8% in FY23 and is expected to continue to be the fastest-growing large economy for the third consecutive year.

Given the current stage of development of the Indian economy and the focus on infrastructure development, steel demand growth in India is expected to keep up the pace with GDP growth over the next decade. Demand from key steel-consuming sectors such as construction, capital goods, railways, and automotive is expected to remain robust.

**Key takeaways from Chairman message – - N. Chandrasekaran,**

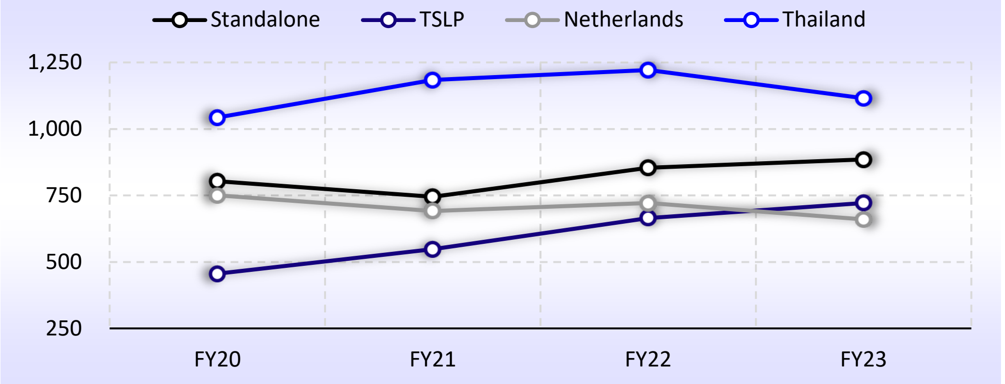
**"The Company has made substantial progress in its simplification journey and is working on the amalgamation of seven subsidiaries and one associate company into and with Tata Steel"**

**- N. Chandrasekaran, Chairman**

**Excerpts from the 'Management Speak'**

- "We are committed to cash flow optimisation and in the last quarter of the financial year 2022-23, we were able to reduce debt by around ₹3,700 crore on the back of a special drive on working capital management."
- "In Europe, we have also already launched low carbon steel products. Zeremis® Carbon Lite, launched in Tata Steel Nederland, is a steel with an allocated carbon footprint reduction of up to 100%."
- "Our continuous improvement programs Shikhar in India and similar other initiatives in Netherlands and UK focussed on bettering operating metrices so that the adverse impact of contraction in price spreads could to some extent be mitigated."
- "During the year, Tata Steel India's operational performance witnessed many firsts and records including highest-ever crude steel production of 19.9 million tons, growing 4% on a Y-o-Y basis. India deliveries increased in line with production, surpassing the previous record."
- "The company's India crude steel production now accounts for two-thirds of its overall production and this trend is expected to continue as we focus on investments and growth in our home market where we enjoy a premium leadership position."

**Exhibit 1: Employee productivity (tcs/employee/year) across geographies**

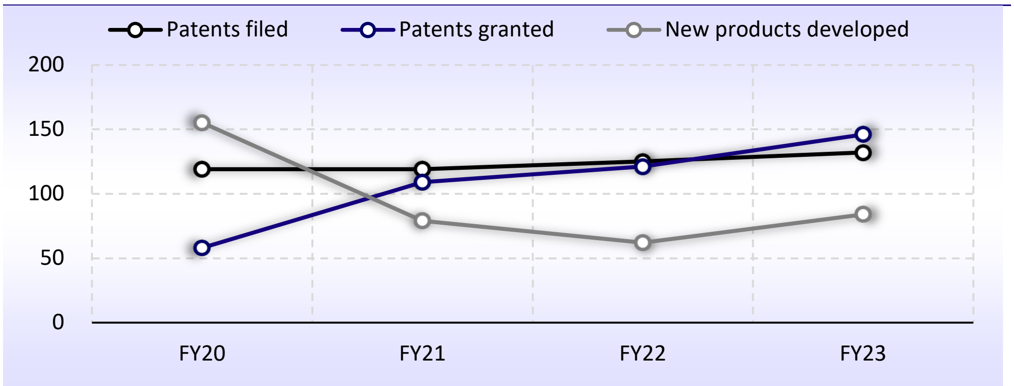



tcs: tonne crude steel

Source: MOFSL, Company

- TATA Thailand has the best employee productivity among all the geographies; however, it has been declining since FY22.
- TATA standalone and TSLP witnessed higher productivity YoY at 885tcs/employee/year and 722tcs/employee/year respectively. The same was seen in total production volume growth of 2% and 3%, respectively.
- TATA has over 77,000 employees on its payroll.

**Exhibit 2: Intellectual capital - Standalone**




Source: MOFSL, Company

- TATA developed 84 new products in FY23 (up 35% YoY) and was granted 146 patents as of FY23.
- TATA in FY20 had achieved a milestone by developing over 155 new products.
- R&D has been the backbone of the company. During the year, TATA on the consolidated group level, developed 107 new products and filed for 154 patents.

**Exhibit 3: Manufacturing facilities (in mt)**

| Facility | Capacity | Planned expansion | Post expansion capacity | FY23 Production | |
|---|---|---|---|---|---|
| Jamshedpur, Jharkhand, India | 11 | 0.5 | 11.5 | 10.65 | ❖ First steel plant in Asia |
| Ghamaria, Jharkhand, India | 1 | | 1 | 0.71 | ❖ TSLP facility |
| Kalinganagar, Odisha, India | 3 | 5 | 8 | 3.37 | ❖ Expanding to 8mt |
| Meramandali, Odisha, India | 5.6 | | 5.6 | 4.95 | ❖ One of the largest flat steel facility in India |
| NINL, Odisha, India | 1 | | 1 | 0.2 | ❖ Integrated steel plant, Kalinganagar |
| Ludhiana ,Punjab | 0 | 0.75 | 0.75 | | ❖ Scrap based EAF facility |
| Ijmuiden, Netherlands | 7 | | 7 | 6.33 | ❖ High quality strip steel product manufacturer |
| Port Talbot, UK | 5 | | 5 | 3.02 | ❖ Largest steel producer in UK |
| NTS plant, SISCO plant and SCSC plant (Thailand) | 1.7 | | 1.7 | 1.2 | ❖ Long steel manufacturer |

Source: MOFSL, Company

- TATA has a total manufacturing capacity of 35.3mt on consolidated basis and the company had produced 30.65mt in FY23.
- TATA is undertaking mammoth capex in India to augment the domestic capacity to 40mt from ~21mt by FY30.
- TATA has already announced its capex plans for 6.25mt across Kalinganagar, Jamshedpur, and Punjab.
- TATA is also undertaking capex across Tinplate (75% subsidiary), Tata Metaliks (60% subsidiary) and other subsidiaries, which will augment the downstream capacities. TATA is planning an expansion, which will enhance the tinplate capacity to 1mt from 0.38mt, DI pipe capacity to 1mt from 0.2mt, wire capacity to 1mt from 0.45mt, and tubes capacity to 4mt from 1mt.
- Apart from the above facilities, TATA has a strong global presence of 40 processing centers and downstream facilities.
- International operations: Apart from the 12mt manufacturing facilities at the Netherlands and the UK and mines in Canada, TATA has downstream operations across 12 international locations namely France, Germany, USA, Belgium, Sweden, Spain and Turkey.
- TATA has three manufacturing facilities in central and eastern Thailand, which primarily focus on long steel products. TATA plans to significantly increase the usage of scrap in production, which adheres to its net zero goal and improves cost efficiency.

Iron ore requirements at Jamshedpur, Kalinganagar and Meramandali are met through six mining facilities in India.

**Exhibit 4: Mining facilities**

| Facility | Raw Material | FY23 Production (mt) |
|---|---|---|
| Noamundi (Jharkhand) & Katamati (Odisha) | Iron ore | 15.2 |
| Joda, Odisha, India | Iron ore | 11.3 |
| Khondbond, Odisha, India | Iron ore | 6.3 |
| Vijaya II, Odisha, India | Iron ore | 2.4 |
| Labrador & Northern Quebec, Canada | Iron ore | 1.6 |
| West Bokaro, Jharkhand | Coal | 5.1 |
| Jharia, Jharkhand | Coal | 0.7 |

Source: MOFSL, Company

- 100% of the iron ore requirement and 22% of the coal requirement are met via captive mines.
- To remain self-sufficient, TATA also plans to enhance its captive iron ore mining capacity to 60-65mt from 36mt by developing Gandhalpada and Kalamang iron ore mines.
- TATA has already executed lease deed for Kalamang West (Northern Part) iron ore mines in Dec'22.
- The company has a total raw material requirement of ~65mt, of which ~44.11mt is met via captive mines in India and Canada.

**Exhibit 5: Diversified brand portfolio**

| Sector | Brands |
|---|---|
| **India** | |
| Automotive and ancillaries | Astrum (HR), Steelium (CRCA), Galvano (Galvanised Plain, GP), Galv, Galume, Pre Painted Galvanised Iron (PPGI), Pre Painted Galvalume (PPGL) |
| Construction – B2B | Steelium (CRCA), GalvaRos, PPGL, Tata WAMA, Tiscon |
| Construction – Retail | Astrum (HR), Galvano (GP), Tata Shaktee, Tata WAMA, Tiscon |
| Consumer Durables – B2C | Steelium (CRCA), GalvaRos, Galvanova, Colornova, Tata Kosh |
| Engineering goods | Astrum (HR), Steelium (CRCA), GalvaRos, Colornova, Thermo Mechanically Treated (TMT) |
| Trade & commercial | Astrum (HR), Steelium (CRCA), GalvaRos |
| Energy | Astrum (HR), Steelium (CRCA), Galvanova |
| **Netherlands** | |
| Automotive and ancillaries | Serica, MagiZinc Auto, XPF, HyperForm, Contiflo, HILUMIN |
| Construction – B2B | MagiZinc, Ymagine, Ympress, Contiflo, Hybox, Strongbox, SAB Profil, Fischer Profil, Montana, Colorcoat, Advantica, Fischertherm, Fischerfireproof, Montanatherm, Montapanel, Swiss Panel, Holorib |
| Construction – Retail | MagiZinc, Ymagine, Ympress, Colorcoat |
| Consumer Durables – B2C | Ymvit, HILUMIN, HILAN, NICOR, HI-BRITE, Motiva, Contiflo, Reflex |
| Packaging | Protact, TCCT |
| Engineering goods | MagiZinc, Ymagine, Ympress, Ympress Laser, Ymvit, Contiflo, Hybox, Strongbox, HILUMIN, HILAN, NICOR, HI-BRITE, Advantica, Motiva |
| Trade & commercial | MagiZinc, Ymagine, Ympress, Ympress Laser, Ymvit, Contiflo, Hybox, Strongbox |
| Energy | Ymagine, Ympress, MagiZinc |
| **UK** | |
| Automotive and ancilliaries | MagiZinc Auto, Tenform |
| Construction – B2B | MagiZinc, Durbar, Celsius, Hybox, Strongbox, Install, Inflow, Inline, Colorcoat, Advantica, Comflor, Roofdek, Trimapanel, Trisomet, Vetex, Protect 365, Catnic, Catnic Urban |
| Construction – Retail | MagiZinc, Durbar, Colorcoat, Catnic, Catnic Urban |
| Consumer Durables – B2C | RADECOL, Motiva |
| Packaging | Protact |
| Engineering goods | MagiZinc, Durbar, Celsius, Hybox, Strongbox, Advantica, Motiva, RADECOL |
| Trade & commercial | MagiZinc, Durbar, Celsius, Hybox, Strongbox, Advantica, Motiva |
| Energy | Ymagine, Ympress, MagiZinc, Install, Inflow, Inline |

Source: MOFSL, Company

- TATA has a diversified product portfolio of HRC, CRC, GP, HRPO, HRSPO, PEB, FHCR, tubes, wire rods, billets, MC/HC, slabs, PPGI, etc., which caters to a number of sectors such as automobile, construction, energy, packaging, consumer durables and engineering across geographies.
- TATA Astrum (an HR brand), which caters to a number of sectors such as automobiles, construction, energy, etc., has grown to be a INR180b brand over a decade.
- Similarly TATA Tiscon (Long steel B2C brand) recorded the best ever sales volumes in FY23.

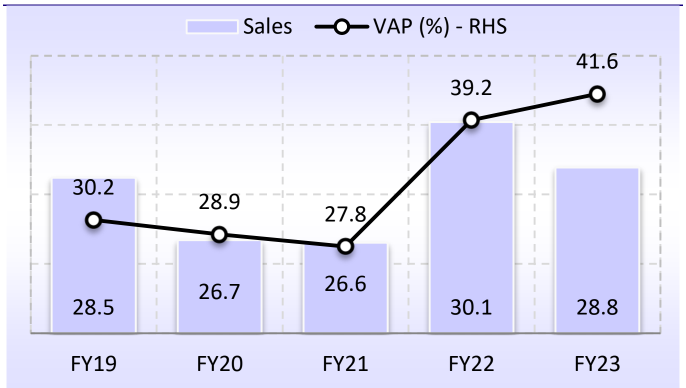
Long steel contributes around 23% of the total volumes in India, and after the ongoing capacity expansion, it is expected to reach 33%.

**Exhibit 6: Sales mix across geographies**

| Revenue (%) | India | UK | Netherlands |
|---|---|---|---|
| HRC/CRC | 55 | 34 | 30 |
| GP/Rebars/Pravesh doors | 19 | | 25 |
| Structural, pipes, tubes | 3 | | 4 |
| Coated | | 35 | 16 |
| Others | 23 | 31 | 25 |

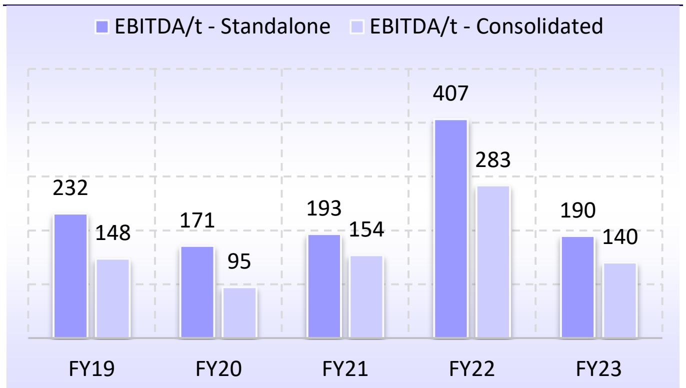
Source: MOFSL, Company

**Exhibit 7: Share of VAP (% of sales volume) – ~41%**



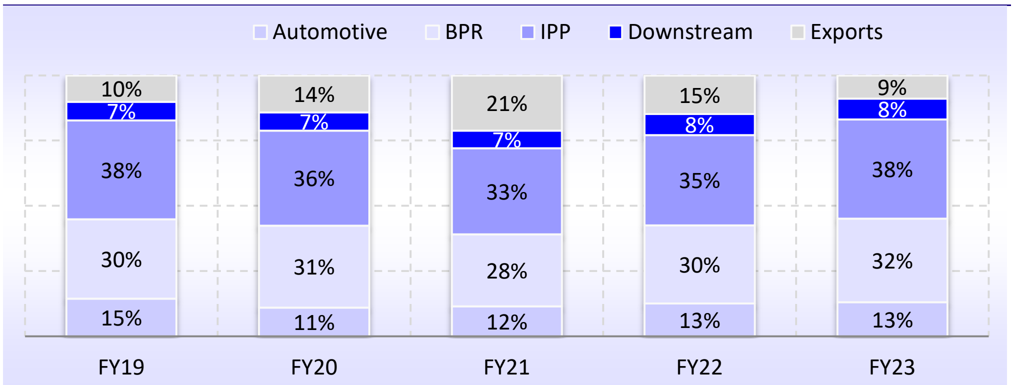

Source: MOFSL, Company

**Exhibit 8: EBITDA/t (USD/t)**



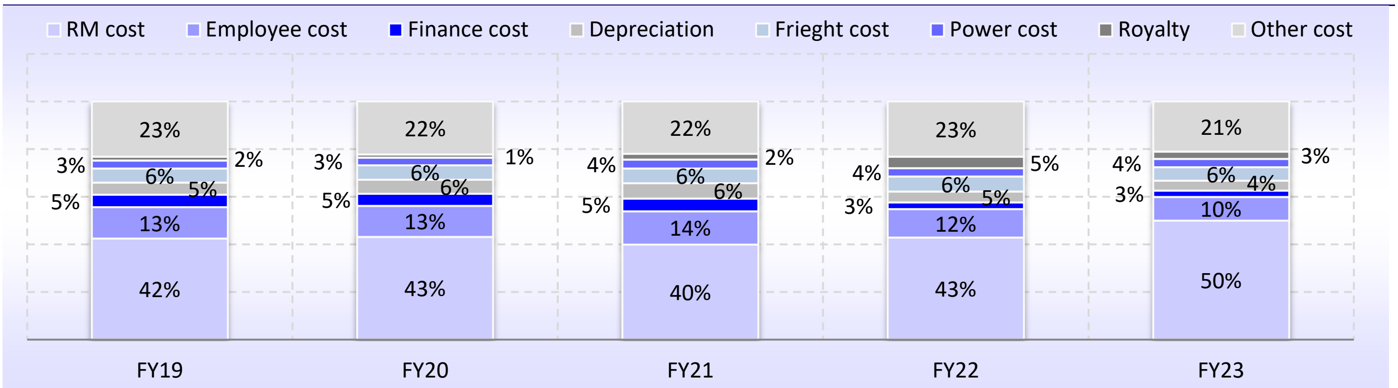

Source: MOFSL, Company

**Exhibit 9: Share of high-margin branded products (BPR) has been increasing; dispatches to auto sector represent ~16% of the domestic sales volumes (ex-exports and downstream)**




Source: MOFSL, Company

**Exhibit 10: Cost break-up**



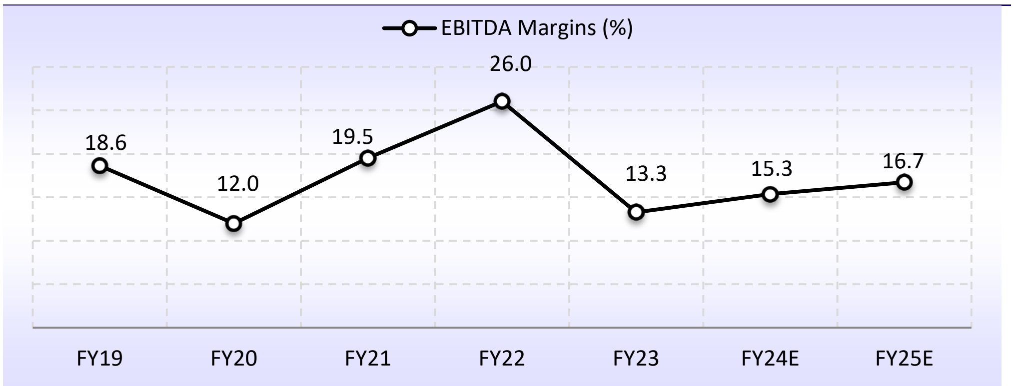

Source: MOFSL, Company

- The share of raw material costs in total costs has increased from a low of 40% in FY21 to 50% in FY23. Coking coal touched record levels after the Russia-Ukraine conflict and has eventually cooled off to below USD250/t now.
- Power and freight costs have been stable for the last five years at an average of 3% and 6%, respectively.
- Consumption of stores/spares and repairs of machineries, which are a part of other expenses, account for almost 15% of total expenses.

## Margins moderated in FY23; expected to pickup in FY24

- EBITDA margins were affected by a slowdown in the steel sector, especially in 2HFY23, coupled with higher interest rates and geopolitical volatility.
- The Russia-Ukraine conflict in 1QFY23 impacted the supply chain of all raw materials, which impacted input costs.
- However, with India steel demand expected to outpace China and other major economies, EBITDA margin is expected to pick up in FY24.
- TATA caters to 87% of the domestic market and the company has seen higher sales across all the segments, such as automobile, retail, packaging, construction, infrastructure, energy, consumer durables, engineering, and trade.
- As the share of VAP increases and as the new facility comes on stream, margins are expected to improve further.

**Exhibit 11: Consolidated EBITDA margins (%)**

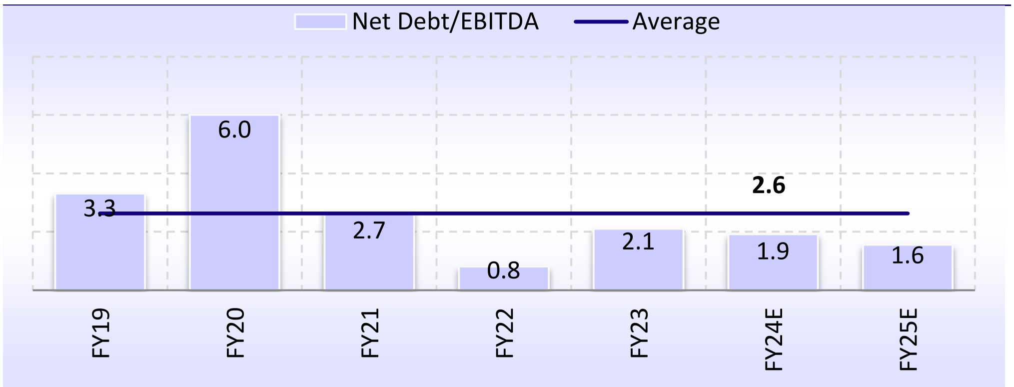



Source: MOFSL, Company

## Net debt/EBITDA ratio below LTA

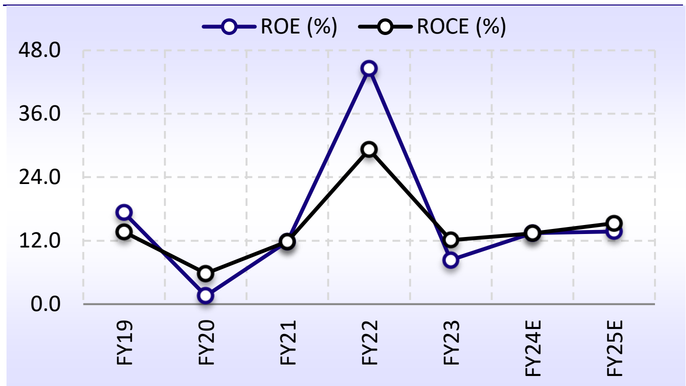
- ND/EBITDA currently is below the LTA of 2.6x; excluding outlier (FY20), ND/EBITDA is near its LTA of 2.1x.
- Between FY21 and FY22, TATA had substantially deleveraged, with gross debt at INR756b. However, in FY23, debt increased by INR93b to INR849b due to the NINL acquisition and Kalinganagar 5mt expansion.
- However TATA was able to reduce the debt by INR37b in 4QFY23 through working capital release. It expects debt to reduce further through inventory liquidation.
- TATA expects to resume its deleveraging exercise and targets to reduce the debt by USD1b in FY24.

**Exhibit 12: ND/EBITDA at 2.1x**




Source: MOFSL, Company

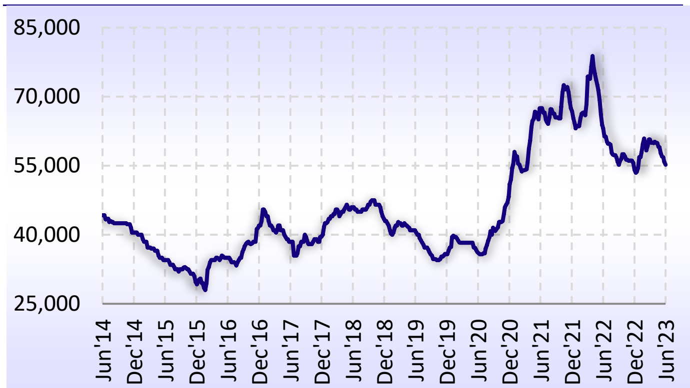
**Exhibit 13: ROE (%) and ROCE (%)***




*Consolidated

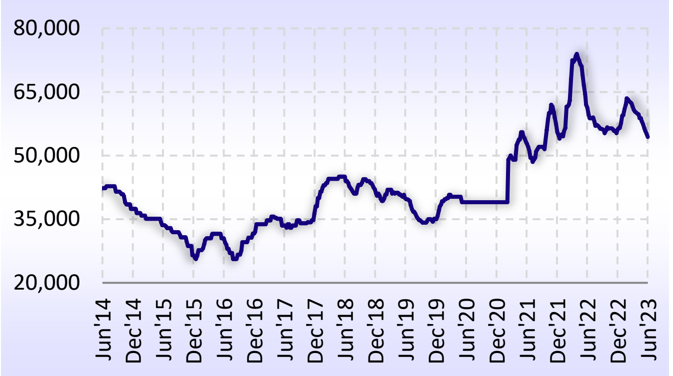
Source: MOFSL, Company

**Exhibit 14: Domestic HRC prices (INR/t)**



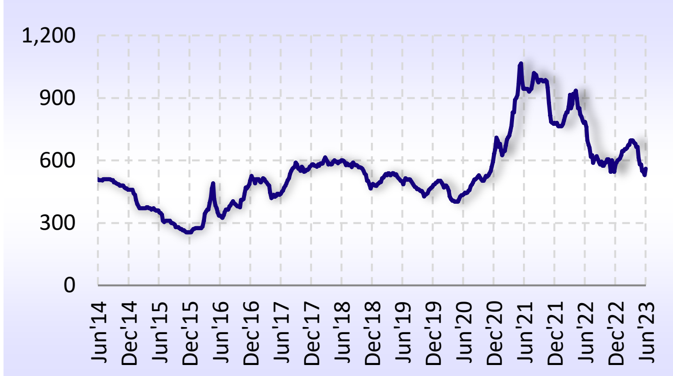

Source: MOFSL, SteelMint

**Exhibit 15: Domestic rebar prices (INR/t)**



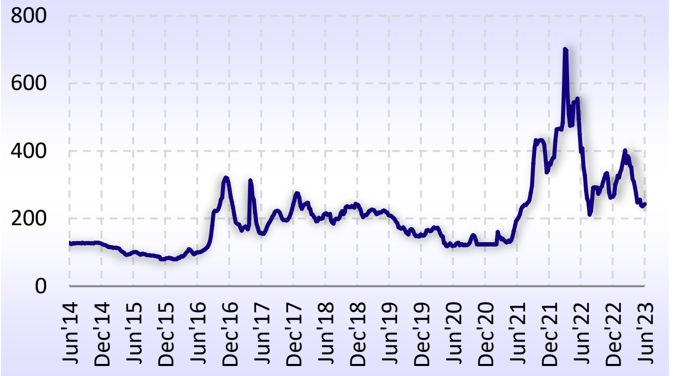
Source: MOFSL, SteelMint

**Exhibit 16: China HRC (FOB) (USD/t)**



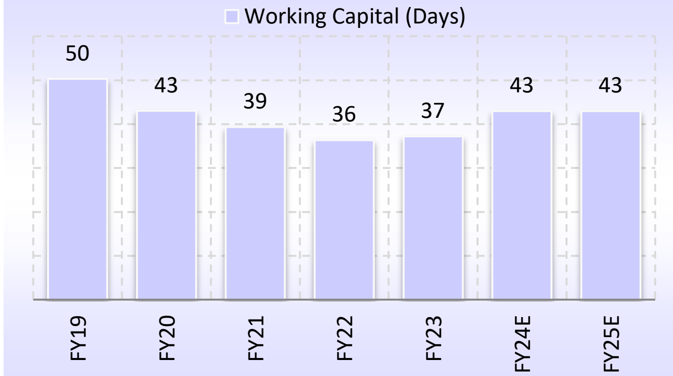
Source: MOFSL, Company

**Exhibit 17: Coking coal (USD/t)**



Source: MOFSL, SteelMint

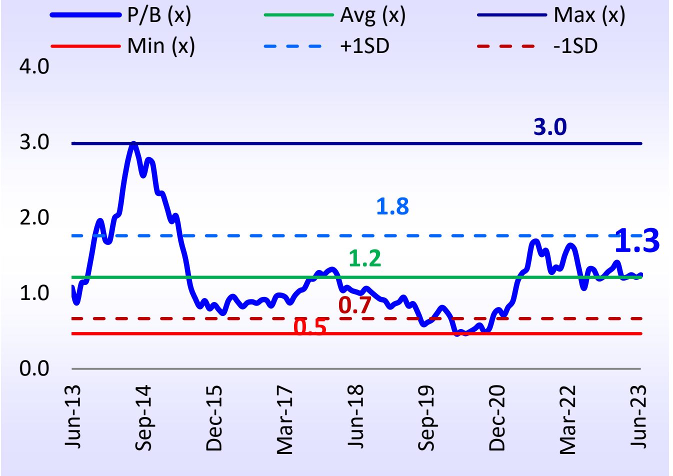
**Exhibit 18: Working capital (days) to improve from FY24***




*consolidated

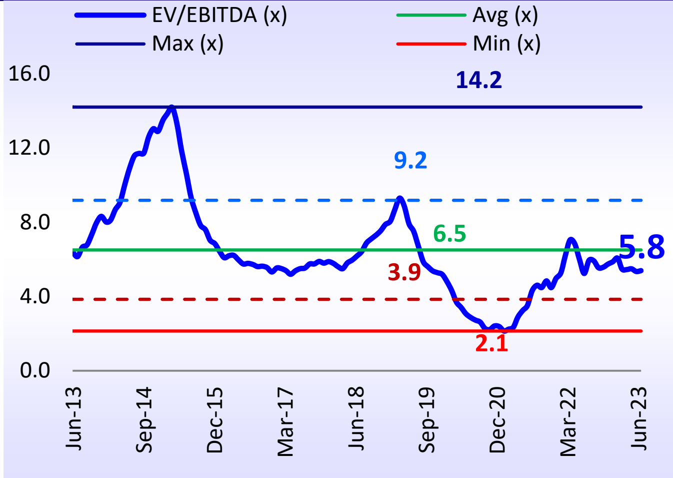
Source: MOFSL, Company

**Exhibit 19: P/B near LTA**




Source: MOFSL, Company Data

**Exhibit 20: EV/EBITDA below LTA**




Source: MOFSL, Company Data

# Financials and valuations

**Income Statement (Consolidated)** (INR b)

| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|---|---|
| **Net Sales** | **1,123** | **1,322** | **1,577** | **1,490** | **1,563** | **2,440** | **2,434** | **2,353** | **2,460** |
| **EBITDA** | **170** | **219** | **294** | **178** | **305** | **635** | **323** | **361** | **411** |
| Depn. & Amortization | 57 | 60 | 73 | 87 | 92 | 91 | 93 | 103 | 105 |
| **EBIT** | **113** | **159** | **220** | **91** | **213** | **544** | **230** | **258** | **306** |
| Finance cost | 51 | 55 | 77 | 76 | 76 | 55 | 63 | 75 | 65 |
| Other income | 5 | 9 | 14 | 18 | 9 | 8 | 10 | 8 | 9 |
| **PBT before EO** | **68** | **113** | **158** | **34** | **146** | **497** | **177** | **191** | **250** |
| EO income | -43 | 96 | -1 | -49 | -10 | -1 | 1 | 0 | 0 |
| **PBT after EO** | **25** | **209** | **157** | **-16** | **135** | **496** | **178** | **191** | **250** |
| Tax | 28 | 34 | 67 | -26 | 57 | 85 | 102 | 57 | 101 |
| **Reported PAT** | **-3** | **175** | **90** | **10** | **79** | **411** | **77** | **134** | **149** |
| Minority interest P/L | 1 | 43 | -11 | -4 | 7 | 16 | -7 | 3 | 1 |
| Share of asso. PAT | 0 | 2 | 2 | 2 | 3 | 6 | 4 | 5 | 2 |
| **PAT (After MI & asso.)** | **-4** | **134** | **103** | **16** | **75** | **402** | **88** | **136** | **150** |
| Div. on Pref. /Hybrid Sec. | 3 | 3 | 3 | 3 | 3 | 0 | 0 | 0 | 0 |
| **Adjusted PAT** | **37** | **80** | **101** | **10** | **83** | **402** | **86** | **136** | **150** |

**Balance Sheet (Consolidated)** (INR b)

| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|---|---|
| Share Capital | 10 | 11 | 11 | 11 | 12 | 12 | 12 | 12 | 12 |
| Reserves | 346 | 575 | 655 | 702 | 723 | 1,132 | 1,019 | 1,093 | 1,183 |
| **Net Worth** | **355** | **586** | **667** | **713** | **735** | **1,144** | **1,031** | **1,106** | **1,195** |
| Minority Interest | 16 | 9 | 24 | 26 | 33 | 27 | 21 | 24 | 25 |
| Total Loans | 851 | 942 | 1,031 | 1,186 | 956 | 756 | 849 | 789 | 749 |
| Deferred Tax Liability | 91 | 95 | 115 | 78 | 75 | 93 | 115 | 115 | 148 |
| **Capital Employed** | **1,313** | **1,632** | **1,836** | **2,003** | **1,798** | **2,020** | **2,016** | **2,033** | **2,117** |
| Gross Block | 1,266 | 1,399 | 1,730 | 1,955 | 2,120 | 2,159 | 2,382 | 2,639 | 2,911 |
| Less: Accum. Deprn. | 380 | 479 | 526 | 652 | 806 | 869 | 972 | 1,074 | 1,179 |
| **Net Fixed Assets** | **885** | **920** | **1,204** | **1,305** | **1,314** | **1,290** | **1,410** | **1,565** | **1,732** |
| Capital WIP | 158 | 166 | 186 | 195 | 190 | 220 | 312 | 215 | 103 |
| Investments | 68 | 30 | 32 | 29 | 35 | 58 | 48 | 53 | 55 |
| Goodwill on consolidation | 35 | 41 | 40 | 41 | 43 | 43 | 56 | 56 | 56 |
| **Curr. Assets** | **578** | **929** | **863** | **921** | **855** | **1,213** | **1,028** | **960** | **1,002** |
| Inventory | 248 | 283 | 317 | 311 | 333 | 488 | 544 | 516 | 539 |
| Account Receivables | 116 | 124 | 118 | 79 | 95 | 122 | 83 | 116 | 121 |
| Cash & liquid investment | 106 | 228 | 59 | 115 | 130 | 244 | 170 | 97 | 111 |
| Others | 109 | 294 | 370 | 417 | 297 | 358 | 231 | 231 | 231 |
| **Curr. Liability & Prov.** | **411** | **455** | **490** | **487** | **639** | **805** | **838** | **815** | **831** |
| Account Payables | 186 | 204 | 217 | 214 | 260 | 368 | 378 | 355 | 371 |
| Provisions & Others | 225 | 251 | 273 | 273 | 380 | 437 | 460 | 460 | 460 |
| **Net Current Assets** | **168** | **475** | **373** | **434** | **216** | **408** | **189** | **145** | **172** |
| **Appl. of Funds** | **1,313** | **1,632** | **1,836** | **2,003** | **1,798** | **2,020** | **2,016** | **2,033** | **2,117** |

# Financials and valuations

**Ratios (Consolidated)**

| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|---|---|
| **Basic (INR)** | | | | | | | | | |
| **EPS** | **3.8** | **7.0** | **8.9** | **0.9** | **6.9** | **33.0** | **7.1** | **11.1** | **12.3** |
| Cash EPS | 9.6 | 12.2 | 15.3 | 8.5 | 14.6 | 40.4 | 14.7 | 19.6 | 20.9 |
| BV/Share (ex goodwill) | 33.0 | 47.6 | 54.7 | 58.7 | 57.7 | 90.2 | 79.8 | 85.9 | 93.3 |
| DPS | 0.8 | 0.8 | 1.0 | 1.0 | 2.5 | 5.1 | 3.6 | 5.0 | 5.0 |
| Payout (%) | 25.2 | 11.6 | 11.3 | 110.4 | 36.2 | 15.5 | 50.8 | 44.9 | 40.6 |
| **Valuation (x)** | | | | | | | | | |
| P/E | 30.1 | 16.4 | 12.9 | 126.1 | 16.6 | 3.5 | 16.1 | 10.3 | 9.3 |
| Cash P/E | 11.9 | 9.4 | 7.5 | 13.4 | 7.8 | 2.8 | 7.8 | 5.8 | 5.5 |
| P/BV | 3.5 | 2.4 | 2.1 | 1.9 | 2.0 | 1.3 | 1.4 | 1.3 | 1.2 |
| EV/Sales | 1.7 | 1.5 | 1.4 | 1.6 | 1.4 | 0.8 | 0.9 | 0.9 | 0.8 |
| EV/EBITDA | 10.9 | 9.2 | 7.8 | 13.3 | 7.2 | 3.0 | 6.4 | 5.8 | 4.9 |
| Dividend Yield (%) | 0.7 | 0.7 | 0.9 | 0.9 | 2.2 | 4.5 | 3.2 | 4.4 | 4.4 |
| **Return Ratios (%)** | | | | | | | | | |
| EBITDA Margins (%) | 15.1 | 16.6 | 18.6 | 12.0 | 19.5 | 26.0 | 13.3 | 15.3 | 16.7 |
| Net Profit Margins (%) | 3.3 | 6.0 | 6.4 | 0.7 | 5.3 | 16.5 | 3.6 | 5.8 | 6.1 |
| RoE | 15.7 | 17.2 | 17.3 | 1.6 | 11.9 | 44.6 | 8.3 | 13.4 | 13.7 |
| RoCE (pre-tax) | 9.4 | 11.6 | 13.7 | 5.8 | 11.8 | 29.2 | 12.1 | 13.4 | 15.3 |
| RoIC (pre-tax) | 13.3 | 14.6 | 15.9 | 5.7 | 13.7 | 37.0 | 15.4 | 16.4 | 17.4 |
| **Working Capital Ratios** | | | | | | | | | |
| Fixed Asset Turnover (x) | 1.3 | 1.4 | 1.3 | 1.1 | 1.2 | 1.9 | 1.7 | 1.5 | 1.4 |
| Asset Turnover (x) | 0.9 | 0.8 | 0.9 | 0.7 | 0.9 | 1.2 | 1.2 | 1.2 | 1.2 |
| Debtor (Days) | 38 | 34 | 27 | 19 | 22 | 18 | 12 | 18 | 18 |
| Inventory (Days) | 81 | 78 | 73 | 76 | 78 | 73 | 82 | 80 | 80 |
| Payables (Days) | 60 | 56 | 50 | 52 | 61 | 55 | 57 | 55 | 55 |
| Working Capital T/O (Days) | 58 | 56 | 50 | 43 | 39 | 36 | 37 | 43 | 43 |
| **Leverage Ratio (x)** | | | | | | | | | |
| Current Ratio | 1.4 | 2.0 | 1.8 | 1.9 | 1.3 | 1.5 | 1.2 | 1.2 | 1.2 |
| Interest Cover Ratio | 2.2 | 2.9 | 2.9 | 1.2 | 2.8 | 10.0 | 3.6 | 3.4 | 4.7 |
| Net Debt/Equity | 2.3 | 1.3 | 1.6 | 1.6 | 1.2 | 0.5 | 0.7 | 0.7 | 0.6 |

**Cash Flow Statement (Consolidated)** **(INR b)**

| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA | 170 | 219 | 294 | 178 | 305 | 635 | 323 | 361 | 411 |
| Reconciliation income (loss) | 6 | -17 | -15 | 3 | -20 | 24 | -14 | 0 | 0 |
| (Inc)/Dec in Wkg. Cap. | -49 | -43 | 26 | 42 | 165 | -96 | -37 | -29 | -13 |
| Tax Paid | -18 | -29 | -51 | -21 | -7 | -119 | -55 | -57 | -68 |
| **CF from Op. Activity** | **108** | **130** | **253** | **202** | **443** | **444** | **217** | **275** | **331** |
| (Inc)/Dec in FA + CWIP | -77 | -75 | -91 | -104 | -70 | -105 | -141 | -160 | -160 |
| Free Cash Flow to Firm | 31 | 55 | 162 | 98 | 373 | 339 | 75 | 115 | 171 |
| (Pur)/Sale of Non-cur. Invest. | 4 | -9 | 4 | 4 | 4 | -6 | 0 | 0 | 0 |
| Acquisition in subsidiaries | -11 | -2 | -351 | -41 | 1 | 12 | -104 | 0 | 0 |
| Int. & Dividend Income | 2 | 4 | 3 | 4 | 5 | 3 | 6 | 8 | 9 |
| Others | -3 | 9 | 18 | 8 | 3 | 1 | 13 | 0 | 0 |
| **CF from Inv. Activity** | **-85** | **-73** | **-416** | **-129** | **-57** | **-95** | **-226** | **-152** | **-151** |
| Equity raised/(repaid) | 7 | 91 | 0 | 2 | 32 | 3 | 0 | 0 | 0 |
| Debt raised/(repaid) | 27 | 41 | 82 | 76 | -321 | -160 | 54 | -60 | -40 |
| Dividend (incl. tax) | -9 | -12 | -14 | -18 | -12 | -30 | -63 | -61 | -61 |
| Interest & equiv. paid | -50 | -54 | -74 | -77 | -71 | -47 | -61 | -75 | -65 |
| **CF from Fin. Activity** | **-26** | **66** | **-7** | **-17** | **-371** | **-234** | **-70** | **-196** | **-166** |
| **(Inc)/Dec in Cash** | **-3** | **123** | **-170** | **56** | **15** | **114** | **-79** | **-73** | **14** |
| Add: opening Balance | 108 | 106 | 228 | 59 | 115 | 130 | 244 | 170 | 97 |
| **Closing Balance** | **106** | **228** | **59** | **115** | **130** | **244** | **170** | **97** | **111** |

# NOTES

| 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 |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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