

Conference call and result highlights

Domestic operations – strong show

- Standalone EBITDA was also well above expectations at Rs43.6bn (up 98% YoY and 29% QoQ). This translated to superlative EBITDA/t of Rs13,600/t, up 68% YoY and 20% QoQ, the best ever since Q2FY15. The strong performance was driven by the following:
 - Strong sales volumes of 3.2 MT (up 7% QoQ) with improved product mix and full benefit of strong realisations in both domestic and export markets
 - Strong volumes and high realisations for the Ferro alloy division (FAMD) leading to EBITDA of Rs5.7bn from FAMD, higher by Rs2.7bn on QoQ basis
 - Accrual of deferred income release in Q4 on higher export volumes during FY17 and lower employee cost on changes in actuarial assumptions (this contributed ~Rs5.7bn)
 - Higher scrap and iron sales as compared to normal run rates
 - Improved performance of KPO 1 with volume ramp-up

European operations – improvement continues, spread contraction ahead

- European operations EBITDA stood at Rs19.7bn with EBITDA/t of US\$103 which was highest since Q2FY09. This was driven by the following:-
 - Strong sales volumes of 2.9MT with a larger share of differentiated products
 - Delay in increase in RM costs for the P&L with coking coal cost at US\$135/t for Q4 and higher coking coal cost expected to get reflected only from Q1FY18
 - Overall operational improvements, favorable forex and better market conditions
- Increase in raw material costs could impact profitability from Q1 due to lower spreads

Pension scheme update

- The BSPTS was shifted from defined benefit to defined contribution leading to a one-time non-cash charge of ~Rs36bn
- More importantly, an in principle agreement was reached between TSUK and BSPTS' trustee to close down the old scheme and convert it into a new scheme with much better certainty of low deficit and less risk for TSUK. This arrangement would involve payment of GBP 550mn from TSUK and a provision of 33% equity stake of TSUK to the trustees

Balance sheet and capex

- Capex of Rs77bn incurred for FY17 (v/s guidance of Rs90bn) and net debt increased by Rs10bn in FY17 to Rs724bn. However, net debt was reduced by Rs43bn in Q4
- Capex guidance of Rs65bn for FY18 and KPO phase 2 has not been announced as yet

Exhibit 1: Tata Steel Operational Metrics

(Operations)	Q4FY17	Q4FY16	Q3FY17	YoY %	QoQ %	Q4FY17E	Var%	FY17	FY16	YoY %
India										
Sales Volume (MT)	3.2	2.7	3.0	18.0	7.1	3.2	1.0	11.0	9.5	15.0
Blended realisation/tonne (Rs)	47,439	38,465	41,742	23.3	13.6	43,619	8.8	43,123	39,688	8.7
EBITDA/tonne (Rs)	13,594	8,116	11,285	67.5	20.5	9,565	42.1	10,828	7,979	35.7
EBITDA Margin %	28.7	21.1	27.0			21.9		25.1	20.1	
Europe (excl. long & specialty)										
Sales Volume (MT)	2.9	2.9	2.3	0.0	21.8	2.5	14.0	10.0	11.0	(8.7)
Blended realisation/tonne (US\$)	798	675	771	18.3	3.5	825	(3.2)	776	745	4.1
EBITDA/tonne (US\$)	103	(18)	45	NA	130.6	55	87.8	70	(7)	
EBITDA Margin %	12.9	(2.7)	5.8			6.7		9.0	(1.0)	
South East Asia										
Sales Volume	0.7	0.7	0.7	(1.5)	1.5	0.7	(5.7)	2.6	2.7	(3.7)
Blended realisation/tonne (US\$)	475	399	453	19.1	4.9	475	0.0	475	442	7.4
EBITDA/tonne (US\$)	33	15	29	121.3	13.2	25		30	13	141.4
EBITDA Margin %	6.4	3.7	6.4			5.3		6.4	2.8	

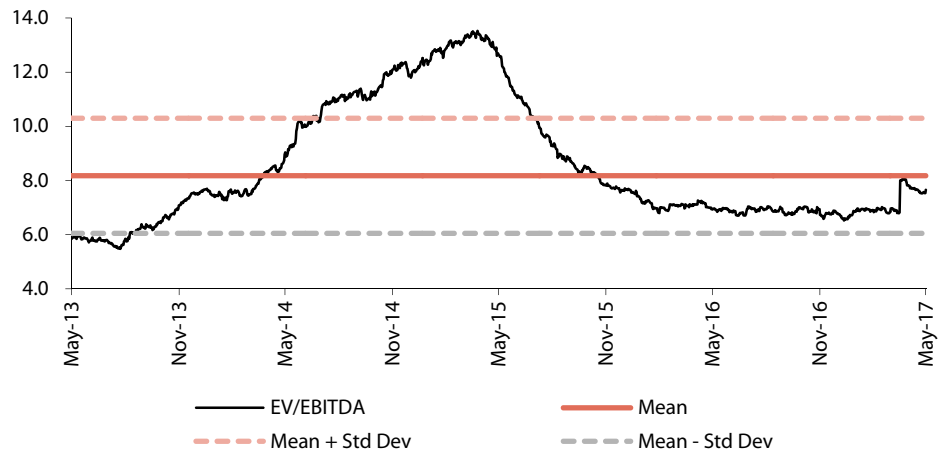
Source: Company, Centrum Research

Exhibit 2: Sensitivity Analysis (FY18E)

Sensitivity to key variables	% change	% impact on EBITDA	% impact on EPS
Sales volume	1	0.7	1.4
Realization	1	1.2	2.3

Source: Company, Centrum Research Estimates

Exhibit 3: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: Comparative Valuations

Sector	Mkt Cap (USD bn)	CAGR FY17-FY19E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Tata Steel*	6.9	1.3	6.5	22.9	15.1	16.5	16.8	11.0	7.4	7.3	6.6	6.0	5.7	14.3	21.5	18.5	2.6	2.2	2.2
JSW Steel	7.6	7.7	9.4	23.3	20.9	20.8	21.6	12.0	11.5	9.7	6.8	6.5	5.9	15.0	16.4	16.9	0.7	0.7	0.8
POSCO	21.3	6.5	8.8	30.6	12.1	12.5	12.7	13.1	9.2	8.7	5.6	5.2	5.2	3.7	5.8	5.9	3.3	3.0	3.0
Nucor Corp	18.4	10.9	27.0	48.1	12.5	16.1	16.3	25.2	12.9	12.5	9.6	6.2	6.6	9.0	17.8	16.4	2.8	2.6	2.6
ThyssenKrupp AG	13.8	1.9	10.2	46.4	6.5	6.7	7.6	25.5	19.9	12.8	6.2	5.6	6.1	15.0	21.7	35.0	0.8	1.0	1.4

Source: Bloomberg consensus, *Centrum Research Estimates, NM-not meaningful

Exhibit 5: Valuation

Mar'19E (Rs mn)

Cons EBITDA	1,92,957
EV/EBITDA (x)	6.0
Total EV	11,57,742
Add: Cash*	1,51,048
Less: Debt	8,10,696
Less: Pension funding (GBP 550mn)	46,750
Fair Value	4,51,345
No. of shares (mn)	970
Fair Value/share (Rs)	465

Source: Company, Centrum Research Estimates, *includes investments valued at 20% holding co. discount

Exhibit 6: Quarterly Financials (Cons)

Particulars (Rs mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Sales	2,66,741	2,90,685	2,78,187	2,57,836	2,51,560	2,62,919	2,74,770	3,34,241
Other Operating Income	2,638	2,362	2,203	1,715	738	791	1,126	4,719
Total Income	2,69,378	2,93,047	2,80,390	2,59,551	2,52,298	2,63,710	2,75,896	3,38,960
Accretion to Stocks in trade & work in progress	(7,440)	1,141	9,567	17,733	(17,757)	(9,995)	(15,660)	(2,953)
Raw Material Consumed	77,638	87,837	76,248	63,672	69,232	77,172	80,113	99,576
Purchase of Semi/finished goods/traded goods	31,138	23,920	24,319	21,498	30,365	26,891	29,331	27,848
Employee Expenses	46,193	49,905	49,646	45,231	46,796	45,183	41,792	42,169
Other Exp	95022	111939	112854	88960	91242	94759	1,03,958	1,02,067
Operating Profit (Core EBITDA)	26,828	18,305	7,757	22,457	32,420	29,700	36,362	70,252
Depreciation	13,371	13,708	11,327	13,643	12,417	14,677	13,790	15,892
EBIT	13,457	4,597	(3,570)	8,815	20,002	15,023	22,572	54,360
Interest	11,470	10,487	9,641	9,874	10,707	13,511	13,874	12,631
Other Revenue/Income	620	29,382	962	1,233	1,367	1,084	1,301	1,522
Other Excep. Items (restructuring, asset sales etc)	(1,446)	(5,637)	(7,118)	(22,958)	(1,678)	(593)	(286)	(40,686)
Profit Before Tax	1,161	17,854	(19,367)	(22,784)	8,984	2,004	9,713	2,565
Tax	1,007	2,402	2,434	4,249	7,405	3,634	6,984	9,760
Tax rate (%)	86.7	13.5	(12.6)	(18.6)	82.4	181.3	71.9	380.6
Profit After Tax	154	15,452	(21,801)	(27,033)	1,580	(1,630)	2,729	(7,195)
Less: Minority interest in income	-	(8)	310	-	-	-	-	-
Add/(Less) - Share in the profit/(loss) of associates	63	(157)	219	(458)	142	(91)	(3)	28
Profit/(loss) from discontinued ops	(3,386)	-	-	(2,928)	(33,553)	1,227	(408)	(4,513)
PAT attributable to Consolidated Group	(3,169)	15,287	(21,272)	(27,491)	(31,831)	(494)	2,319	(11,680)
Adjusted PAT for the group	1,663	20,925	(14,155)	(1,606)	3,400	(1,127)	3,012	33,518
Growth (%)								
Net Sales	(26.2)	(18.1)	(16.5)	(22.7)	(5.7)	(9.6)	(1.2)	29.6
EBITDA	(37.2)	(49.8)	(74.8)	45.5	20.8	62.3	368.8	212.8
Adj. PAT	(72.3)	1814.2	NM	NM	NM	NM	NM	NM
Margin (%)								
EBITDA	10.0	6.2	2.8	8.7	12.8	11.3	13.2	20.7
EBIT	5.0	1.6	(1.3)	3.4	7.9	5.7	8.2	16.0
PAT	0.1	5.3	(7.8)	(10.4)	0.6	(0.6)	1.0	(2.1)
Key Drivers								
Volumes (MT)								
Indian operations	2.1	2.3	2.3	2.7	2.1	2.6	3.0	3.2
Europe	3.4	3.3	3.4	3.6	2.5	2.3	2.4	2.9
South-East Asia	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
EBITDA/tonne (US\$)								
Indian operations (Rs/t)	8,734	8,306	6,792	8,116	10,351	7,308	11,285	13,594
Europe	18	(8)	(42)	(18)	51	67	45	103
South-East Asia	7	16	12	15	43	16	29	33

Source: Company, Centrum Research

Exhibit 7: Key Performance Indicators

Assumptions	FY15	FY16	FY17	FY18E	FY19E
Volumes (MT)					
Indian operations	8.8	9.5	11.0	11.9	12.6
Europe	13.7	13.6	10.1	10.0	10.0
South-East Asia	3.6	2.7	2.6	2.8	2.8
EBITDA/tonne (US\$/t)					
Indian operations (Rs/t)	11,439	7,979	10,828	11,143	10,697
Europe	51	(7)	70	65	65
South-East Asia	(23)	13	30	25	25
Realizations/tonne (US\$/t)					
Indian operations (Rs/t)	47,353	39,688	43,123	43,757	42,710
Europe	955	756	774	800	780
South-East Asia	594	442	475	450	450

Source: Company, Centrum Research Estimates

Financials

Exhibit 8: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	13,95,037	10,19,647	11,22,994	11,49,793	11,51,714
Materials cost	5,56,674	4,06,215	3,93,049	3,80,541	3,72,417
% of revenues	39.9	39.8	35.0	33.1	32.3
Employee cost	2,14,076	1,75,876	1,72,522	1,83,214	1,86,143
% of revenues	15.3	17.2	15.4	15.9	16.2
Others	4,98,929	3,57,873	3,87,345	3,96,443	4,00,196
% of revenues	35.8	35.1	34.5	34.5	34.7
EBITDA	1,25,358	79,683	1,70,078	1,89,594	1,92,957
EBITDA margin (%)	9.0	7.8	15.1	16.5	16.8
Depreciation & Amortisation	59,436	53,064	56,729	61,701	65,957
EBIT	65,922	26,620	1,13,349	1,27,894	1,27,000
Interest expenses	48,478	42,214	50,722	46,513	45,138
PBT from operations	17,444	(15,594)	62,627	81,380	81,862
Other income	7,962	4,122	5,275	5,538	5,815
Exceptional items	(39,287)	39,904	(43,242)	-	-
PBT	(13,881)	28,432	24,660	86,919	87,677
Taxes	25,674.1	6,899.6	27,780.1	26,945.2	27,090.7
Effective tax rate (%)	(185)	24	113	31	31
PAT	(39,555)	21,532	(3,120)	59,974	60,587
Minority/Associates	300	(1,104)	77	84	93
Extraordinary Items	-	(25,399)	(38,642)	-	-
Reported PAT	(39,255)	20,428	(41,686)	60,058	60,679
Adjusted PAT	32	5,923	40,198	60,058	60,679

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E March (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Growth Ratio (%)					
Revenue	(6.1)	(26.9)	10.1	2.4	0.2
EBITDA	(23.6)	(36.4)	113.4	11.5	1.8
Adjusted PAT	(99.9)	18,643.4	578.7	49.4	1.0
Margin Ratios (%)					
EBITDA	9.0	7.8	15.1	16.5	16.8
PBT from operations	1.3	(1.5)	5.6	7.1	7.1
Adjusted PAT	0.0	0.6	3.6	5.2	5.3
Return Ratios (%)					
ROE	0.0	1.8	14.3	21.5	18.5
ROCE	17.0	1.9	(1.3)	7.9	7.7
ROIC	17.8	2.0	(1.4)	8.4	8.4
Turnover Ratios (days)					
Gross block turnover ratio (x)	0.8	0.6	0.6	0.6	0.5
Debtors	35	42	38	40	40
Inventory	66	73	81	65	65
Creditors	50	73	60	57	57
Cash conversion cycle	50	42	58	48	48
Solvency Ratio (x)					
Net debt-equity	1.8	2.3	3.0	2.3	1.9
Debt-equity	2.4	2.8	3.4	2.7	2.3
Interest coverage ratio	0.7	1.6	0.4	0.4	0.4
Gross debt/EBITDA	6.4	10.8	5.1	4.4	4.2
Current Ratio	1.2	0.9	0.9	1.0	1.0
Per share Ratios (Rs)					
Adjusted EPS	0.0	6.1	41.4	61.9	62.5
BVPS	346.4	317.3	262.5	312.7	363.6
CEPS	20.8	75.8	15.5	125.5	130.5
DPS	10.1	8.0	10.0	10.0	10.0
Dividend payout %	NM	38.0	NM	16.2%	16.0
Valuation (x)*Avg Mkt Cap					
P/E (adjusted)	NM	44.5	11.0	7.4	7.3
P/BV	1.3	0.9	1.7	1.5	1.3
EV/EBITDA	8.4	12.2	6.6	6.0	5.7
Dividend yield %	2.2	2.9	2.6	2.2	2.2
5 Yr Avg AOCF/EV yield %	6.5	8.4	5.1	5.8	6.5

Source: Company, Centrum Research Estimates, NM – not meaningful

Exhibit 10: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Equity Share Capital	9,714	9,702	9,702	9,702	9,702
Reserves & surplus	3,26,730	2,98,036	2,44,999	2,93,704	3,43,032
Shareholders' fund	3,36,444	3,07,739	2,54,701	3,03,407	3,52,734
Total Debt	8,05,937	8,60,696	8,60,696	8,30,696	8,10,696
Def tax liab. (net)	28,618	28,830	28,830	28,830	28,830
Minority interest	17,039	16,542	16,542	16,542	16,542
Total Liabilities	11,88,037	12,13,807	11,60,769	11,79,475	12,08,803
Gross Block	16,54,590	17,32,680	19,94,280	21,46,280	22,60,280
Less: Acc. Depreciation	9,65,176	11,21,252	11,77,981	12,39,681	13,05,638
Net Block	6,89,413	6,11,429	8,16,300	9,06,599	9,54,642
Capital WIP	2,78,371	3,49,940	1,65,340	78,340	44,340
Net Fixed Assets	9,67,785	9,61,368	9,81,639	9,84,939	9,98,982
Investments	34,551	68,006	77,576	77,576	77,576
Inventories	2,51,499	2,03,560	2,48,038	2,04,758	2,05,100
Sundry debtors	1,33,099	1,17,012	1,15,868	1,26,005	1,26,215
Cash	87,499	67,156	15,693	44,508	59,671
Loans & Advances	98,549	1,96,887	92,301	1,10,254	1,10,438
Other assets	18,112	18,293	15,383	15,751	15,777
Total Current Asset	5,88,758	6,02,907	4,87,284	5,01,275	5,17,201
Trade payables	1,91,899	2,03,883	1,85,745	1,79,557	1,79,857
Other current Liab.	1,09,085	1,03,271	1,07,684	1,10,254	1,10,438
Provisions	1,02,073	1,11,321	92,301	94,504	94,661
Net Current Assets	1,85,702	1,84,433	1,01,554	1,16,960	1,32,244
Total Assets	11,88,037	12,13,807	11,60,769	11,79,475	12,08,803

Source: Company, Centrum Research Estimates

Exhibit 11: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Operating profit before WC	1,39,554	81,750	88,270	1,89,678	1,93,050
Changes in working capital	3,514	54,332	(61,473)	26,956	(253)
Cash flow from operations	1,18,798	1,19,632	(982)	1,89,689	1,65,706
Adj. OCF (OCF - Interest)	70,320	77,418	(51,704)	1,43,176	1,20,568
Net Capex	1,49,359	1,16,916	77,000	65,000	80,000
Adj. FCF	(79,039)	(39,499)	(1,28,704)	78,176	40,568
Cash flow from investments	(84,221)	(1,04,242)	11,593	(73,009)	(74,053)
Cash flow from financing	(26,172)	(39,284)	(62,074)	(87,865)	(76,490)
Cash flow from investments	8,404	(23,894)	(51,463)	28,815	15,163

Source: Company, Centrum Research Estimates

Appendix A

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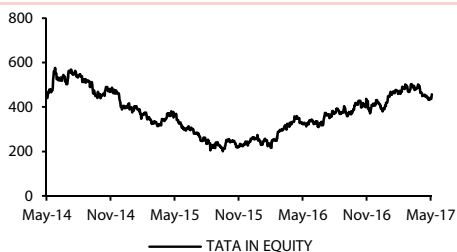
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Tata Steel price chart



Source: Bloomberg, Centrum Research

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Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
Sell	Downside > 20%	Downside > 15%	Downside > 10%

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