

# TATA STEEL

## COMPANY UPDATE

### KEY DATA

<b>Rating</b>	<b>BUY</b>
Sector relative	Sector Outperformer
Price (INR)	376
12 month price target (INR)	500
Market cap (INR bn/USD bn)	427/5.8
Free float/Foreign ownership (%)	66.9/13.6
<b>What's Changed</b>	
Target Price	—
Rating/Risk Rating	—

### INVESTMENT METRICS

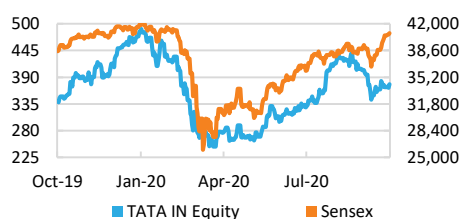


### FINANCIALS

(INR bn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	1,398.2	1,327.8	1,465.8	1,501.5
EBITDA	174.6	167.1	254.7	272.4
Adjusted profit	52.3	12.3	68.4	81.3
Diluted EPS (INR)	45.7	10.8	59.8	71.0
EPS growth (%)	(49.5)	(76.4)	454.5	18.8
RoAE (%)	3.9	1.7	9.3	10.3
P/E (x)	8.1	34.3	6.2	5.2
EV/EBITDA (x)	8.4	8.8	5.6	5.1
Dividend yield (%)	2.7	3.5	3.5	3.5

### PRICE PERFORMANCE



#### Explore:



Financial model



Podcast



Corporate access



Video

## Tata Steel BSL Q2FY21: Spring-time again

Tata Steel BSL's (TS-BSL) Q2FY21 performance surpassed our estimate. Key highlights: 1) Blended realisation uptick led by higher proportion of downstream products and lower exports. 2) Gross debt down by INR15bn owing to prepayment. 3) Working capital release aided cash accretion.

We remain positive on TS-BSL due to: 1) possibility of further improvement in profitability from higher downstream shipments; 2) deleveraging focus; and 3) multi-pronged cost reduction initiatives. We believe Tata Steel (TSL) will benefit from resurgence in performance of Tata Steel Long Products and TS-BSL. Maintain 'BUY' on Tata Steel with TP of INR500/share on 6.4x FY22E EBITDA.

### EBITDA/t highest since Q1FY20

TS-BSL's performance surpassed our estimates on all fronts. Key highlights: 1) EBITDA/t jumped 73% YoY to INR8,649--highest level since Q1FY20--on operating leverage benefits and lower cost. 2) Proportion of exports declined to 30% (Q1FY21: 50%) and downstream products increased to 32% (Q1FY21: 24%). 3) Raw material cost savings led to INR700-800/t benefit. 4) Cost reduction in multiple areas such as procurement, logistics etc., kept other expenses on leash. Going ahead, we expect operating performance to get a leg up from higher downstream proportion as automotive shipments ramp up, focus on the more profitable domestic market and cost control.

### Key positive: H1FY21 cash flow from operations at INR27.8bn

We are also positive on the unwavering balance sheet focus. Cash flow from H1FY21 operations was at INR27.8bn (H1FY20: INR3.2bn; FY20: INR17.1bn) despite a very challenging Q1FY21. Key highlights for H1FY21: 1) Prepayment of total debt of INR15bn. 2) Working capital unlocking of INR11bn due to reduction of receivables and inventory. 3) Reduced capex intensity--down at INR0.9bn compared to INR4.8bn in H1FY20. As a result, cash and equivalents at H1FY21 end stood at INR8.0bn, up from INR7.2bn at March 2020 end. Going forward, we expect cash accretion to improve owing to higher EBITDA generation.

### Outlook and valuation: A turnaround performance; maintain 'BUY'

We are positive on improved operating performance and sustained focus on deleveraging the balance sheet. We believe record CRC-HRC spread of INR9,830/t and higher automotive shipments will aid TS-BSL's profitability.

Taking cue from better-than-expected Q2FY21 performance of TS-BSL as well as Tata Steel Long Products, we revising up Q2FY21E EBITDA for TSL to INR45.8bn (from INR37.6bn; 13% ahead of consensus). We continue to remain positive on TSL and recommend it as the preferred pick in the ferrous space. We maintain 'BUY/SO' with an unchanged TP of INR500/share. The stock is trading at 5.6x FY22E EBITDA.

## Financial Statements

### Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	13,98,167	13,27,807	14,65,835	15,01,544
Raw Material Cost	5,74,748	4,89,273	5,23,072	5,32,524
Employee costs	1,85,336	1,80,606	1,87,813	1,95,346
Other expenses	3,77,292	4,02,183	4,10,194	4,07,465
EBITDA	1,74,631	1,67,049	2,54,672	2,72,365
Depreciation	84,407	87,279	88,207	89,135
Less: Interest expense	75,335	75,168	74,836	74,503
Add: Other income	18,435	11,685	12,365	15,382
Profit before tax	(4,197)	16,287	1,03,994	1,24,109
Prov for tax	(25,684)	6,515	41,598	49,643
Less: Other adj	0	0	0	0
Reported profit	27,196	12,342	68,440	81,311
Less: Excp.item (net)	25,139	0	0	0
Adjusted profit	52,335	12,342	68,440	81,311
Diluted shares o/s	1,145	1,145	1,145	1,145
Adjusted diluted EPS	45.7	10.8	59.8	71.0
DPS (INR)	10.0	13.0	13.0	13.0
Tax rate (%)	612.0	40.0	40.0	40.0

### Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
Realisation: India (INR/t)	48,248.4	46,929.9	49,445.1	49,953.6
EBITDA: S'alone (INR/t)	10,329.9	10,116.2	12,641.4	12,824.5
Net Debt to EBITDA (x)	6.0	6.2	3.9	3.5
EBITDA margin (%)	12.5	12.6	17.4	18.1
Net profit margin (%)	3.7	0.9	4.7	5.4
Revenue growth (% YoY)	(11.3)	(5.0)	10.4	2.4
EBITDA growth (% YoY)	(40.6)	(4.3)	52.5	6.9
Adj. profit growth (%)	(49.5)	(76.4)	454.5	18.8

### Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(6.0)	7.0	6.0
Repo rate (%)	4.4	3.5	3.5	4.0
USD/INR (average)	70.7	75.0	73.0	72.0
Volumes (mT)	12.5	12.2	12.6	12.7
HRC - India (INR/t)	38,465.9	37,872.3	39,347.3	39,822.3
Rebar - India (INR/t)	37,663.6	36,448.8	37,173.8	37,648.8
Coking Coal (USD/t)	146.4	102.0	132.0	139.3
62% Ore Fines (USD/t)	90.9	87.1	73.8	63.3
Premium to HRC (INR/t)	9,782.5	9,057.6	10,097.8	10,131.3

### Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	8.1	34.3	6.2	5.2
Price/BV (x)	0.6	0.6	0.6	0.5
EV/EBITDA (x)	8.4	8.8	5.6	5.1
Dividend yield (%)	2.7	3.5	3.5	3.5

Source: Company and Edelweiss estimates

### Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	11,450	11,450	11,450	11,450
Reserves	7,01,564	6,96,044	7,46,623	8,10,073
Shareholders funds	7,13,013	7,07,494	7,58,072	8,21,522
Minority interest	25,866	25,866	25,866	25,866
Borrowings	11,65,645	11,60,645	11,55,645	11,50,645
Trade payables	2,13,809	2,24,984	2,04,938	2,18,163
Other liabs & prov	2,93,570	2,93,570	2,93,570	2,93,570
Total liabilities	25,04,195	25,04,851	25,30,383	26,02,059
Net block	12,80,538	12,13,259	11,45,052	10,75,917
Intangible assets	64,969	64,969	64,969	64,969
Capital WIP	1,94,968	2,19,968	2,99,968	3,79,968
Total fixed assets	15,40,475	14,98,196	15,09,990	15,20,855
Non current inv	3,76,392	3,76,392	3,76,392	3,76,392
Cash/cash equivalent	1,14,866	1,18,830	1,55,949	1,85,882
Sundry debtors	78,849	95,767	92,985	1,00,365
Loans & advances	2,157	2,157	2,157	2,157
Other assets	3,91,455	4,13,509	3,92,911	4,16,408
Total assets	25,04,195	25,04,851	25,30,383	26,02,059

### Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	27,196	12,342	68,440	81,311
Add: Depreciation	84,407	87,279	88,207	89,135
Interest (net of tax)	(3,85,696)	45,101	44,902	44,702
Others	53,902	0	0	0
Less: Changes in WC	36,182	(27,795)	3,334	(17,652)
Operating cash flow	2,01,687	71,825	1,59,980	1,52,794
Less: Capex	(1,48,307)	(45,000)	(1,00,000)	(1,00,000)
Free cash flow	53,380	26,825	59,980	52,794

### Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	3.9	1.7	9.3	10.3
RoCE (%)	6.0	4.8	9.3	10.1
Inventory days	199	240	225	222
Receivable days	26	24	24	24
Payable days	137	164	150	145
Working cap (% sales)	4.1	6.4	5.6	6.6
Gross debt/equity (x)	1.6	1.6	1.5	1.4
Net debt/equity (x)	1.4	1.4	1.3	1.1
Interest coverage (x)	1.2	1.1	2.2	2.5

### Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	(49.5)	(76.4)	454.5	18.8
RoE (%)	3.9	1.7	9.3	10.3
EBITDA growth (%)	(40.6)	(4.3)	52.5	6.9
Payout ratio (%)	0	0	0	0

## Exhibit 1: TS-BSL's performance surpassed our estimate

(In INR mn)	Q2FY21	Q1FY20	% Change	Q4FY20	% Change	Q2FY21E	% diff
Revenue	55,194	45,546	21.2	26,970	104.6	52,303	5.5
EBITDA	11,063	5,198	112.8	1,520	628.0	7,840	41.1
EBITDA margin	20.0	11.4		5.6		15.0	
PAT	3,281	-2,440	NM	-6,582	NM	-63	NM
PAT margin	5.9	(5.4)		(24.4)		(0.1)	

Source: Company, Edelweiss Research

## Exhibit 2: TS-BSL- Key metrics

	Q2FY21	Q1FY20	% Change	Q4FY20	% Change	Q2FY21E	% diff
Shipments (in mT)	1.3	1.0	22.8	0.7	84.4	1.3	0.0
Realisations (INR/t)	43,120	43,710	(1.4)	38,862	11.0	40,862	5.5
EBITDA (INR/t)	8,643	4,988	73.3	2,190	294.7	6,125	41.1

Source: Company, Edelweiss Research

## Exhibit 3: We are revising up Q2FY21E for TSL

(in INR mn)	Revised	Current	% Change
Revenue	3,76,244	3,45,347	8.9
EBITDA	45,886	37,682	21.8
EBITDA Margin	12.2	10.9	
PAT	9,878	(786)	NM
PAT Margin	2.6	(0.2)	

Source: Edelweiss Research

## Company Description

TATA Steel Limited is a diversified steel producer. The Company is engaged in the business of steel making, including raw material and finishing operations. The Company's segments are Steel and Others. Its operations predominantly relate to manufacture of steel. The Others business segment comprises tubes, bearings, refractories, pigments, port operations and town services. Its products include flat products, including hot rolled, cold rolled, metallic coated, direct rolled, tubes, pre-finished steels, packaging steels, electro plated steels, electrical steels and narrow strip; construction products, including structural steel, floors, walls, roofs, modular and building components; agricultural implements, and bearings. It offers auto assembly components, ball bearings, tapered roller bearings, magneto bearings, clutch release assemblies, fan support assemblies and cylindrical roller bearings. Its brands include Tata Structura, TISCON, Tata Shaktee, Tata Astrum and Tata Steelium.

## Investment Theme

The outlook for the domestic ferrous sector is improving with prices off the recent lows upon nascent signs of improvement in demand. As a result, we see domestic operations (standalone) to clock EBITDA at INR 13,500/t thorough FY22E (compared to current level of INR 10,000/t). In case of Tata Steel Europe, we expect slightly better days ahead as spreads improve owing to an uptick in realization and coking coal price cooling off. We are hopeful on strong global tailwinds and dollar index peaking out.

## Key Risks

- Fall in global steel prices/ spreads
- Higher global iron ore prices than our estimates
- Sustained weakness in domestic auto demand
- Overcapacity in China

## Additional Data

### Management

Chairman Emeritus	Ratan Tata
Chairman	N. Chandrasekaran
CEO & MD	T.V. Narendran
CFO	Koushik Chatterjee
Auditor	PwC CA LLP

### Holdings – Top 10\*

	% Holding		% Holding
Life Insurance	9.62	Nippon Life India AMC	1.33
HDFC AMC	5.19	ICICI Prudential Life	1.12
ICICI Prudential AMC	1.79	Norges Bank	1.03
SBI MF	1.71	Vanguard Group	0.88
UTI AMC	1.16	ABSL AMC	0.85

\*Latest public data

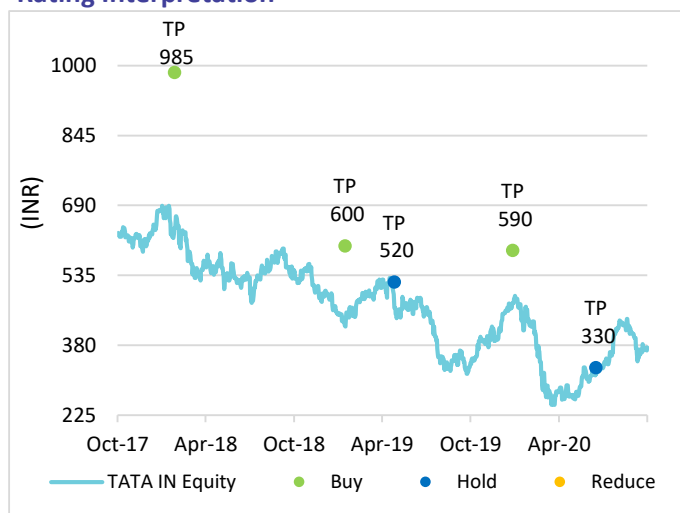
### Recent Company Research

Date	Title	Price	Reco
09-Oct-20	Good volume growth; <i>Company Update</i>	500	Buy
14-Aug-20	Focus on balance sheet reassuring; <i>Result Update</i>	500	Buy
10-Aug-20	Annual Report Insights: Getting the house in order; <i>Company Update</i>	450	Buy

### Recent Sector Research

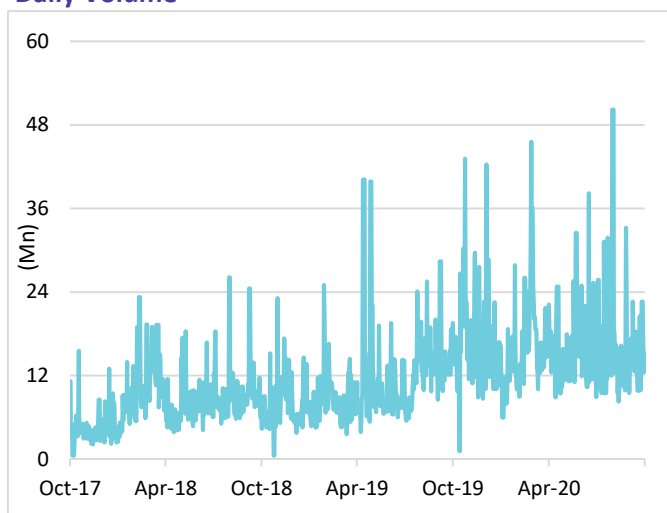
Date	Name of Co./Sector	Title
13-Oct-20	Metals & Mining	Trade data resilient, but concerns remain; <i>Sector Update</i>
07-Oct-20	Metals & Mining	An uncomfortable uptick; <i>Sector Update</i>
06-Oct-20	Metals & Mining	Back on track; <i>Sector Update</i>

### Rating Interpretation



Source: Bloomberg, Edelweiss research

### Daily Volume



Source: Bloomberg

### Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	161	63	14	238
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	176	57	13	246

\* stocks under review

### Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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