

Strength in steel prices augurs well...

Tata Steel reported a healthy operational performance in Q4FY21. In Q4, topline of consolidated operations was at ₹ 49977 crore (up 39% YoY, 19% QoQ), higher than our estimate of ₹ 47745 core. Tata Steel India's delivery volumes for Q4FY21 were at 4.67 million tonnes (MT), up 16% YoY, flattish QoQ. For Q4FY21, Tata Steel India's domestic deliveries increased 22% YoY to 4.16 MT while export volume for the quarter was at 0.51 MT (exports accounting for ~11% of overall deliveries for quarter). For Q4FY21, Tata Steel European operations deliveries improved 3% YoY, 17% QoQ to 2.47 MT. Consolidated EBITDA for Q4FY21 was at ₹ 14184 crore (up 48% QoQ, 196% YoY), in line with our estimate of ₹ 14052 crore. Consolidated EBITDA margin came in at 28.4% (22.8% in Q3FY21, 13.3% in Q4FY20). In Q4FY21, aggregate exceptional charge was at ₹ 991 crore. Hence, consolidated PAT was at ₹ 7162 crore, up 79% QoQ (our estimate: ₹ 7872 crore).

Standalone operations post healthy performance...

Tata Steel standalone operations reported EBITDA/tonne of ₹ 27775/tonne, higher than our estimate of ₹ 26000/tonne (EBITDA/tonne of ₹ 20070/tonne in Q3FY21 and ₹ 12531/tonne in Q4FY20). Q4FY21 performance of standalone operations was aided by healthy uptick in blended realisation. Going forward, for standalone operations, we model EBITDA/tonne of ₹ 24000/tonne for FY22E (upward revised from ₹ 18000/tonne earlier) and ₹ 20000/tonne for FY23E (upward revised from ₹ 17250/tonne earlier). For FY21, EBITDA/tonne of standalone operations was at ₹ 17613/tonne.

Debt reduction drive augurs well...

Tata Steel's consolidated net debt declined from ₹ 104779 crore as on March 2020 to ₹ 75389 crore as on March 2021 (total debt repayment during FY21 was at ₹ 29390 crore while for Q4FY21 was at ₹ 10781 crore). For Q4FY21, Tata Steel's consolidated free cash flow was at ₹ 8826 crore while for FY21 Tata Steel's consolidated free cash was at ₹ 23748 crore. Furthermore, Tata Steel's consolidated operations net debt to EBITDA improved to 2.44x while net debt to equity improved to 0.98x.

Valuation & Outlook

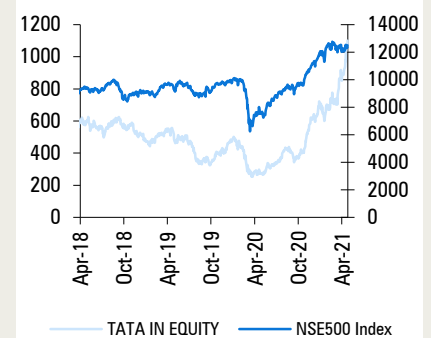
On the back of an increase in realisations both QoQ as well as YoY, Tata Steel's Indian operations reported a healthy performance. For the quarter, the healthy performance of Indian operations aided the consolidated operations. Going forward, we model consolidated EBITDA margin of 24.8% for FY22E and 21.8% for FY23E (FY21 EBITDA margin was at 19.5%). The debt repayment drive also augurs well. We value the stock on an SoTP basis and arrive at a target price of ₹ 1500 (earlier target price ₹ 1150). We maintain our **BUY** recommendation on the stock.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,36,572
Total Debt (FY21) (₹ Crore)	88,501
Cash & Cash Eq. (FY21) (₹ Crore)	13,113
EV (₹ Crore)	2,11,960
52 week H/L (₹)	1152 / 262
Equity capital	₹ 1198 Cr.
Face value	₹ 10

Price Performance



Key risks to call

- Steep decline in steel prices
- Higher than expected increase in operating costs

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	1,57,669	1,39,817	1,56,294	1,87,369	1,86,613
EBITDA	29,383	17,463	30,504	46,469	40,644
Adj PAT	8,995	4,737	9,233	22,666	18,316
EPS (₹)	78.6	41.4	77.1	189.3	152.9
EV/EBITDA (x)	7.5	13.8	7.2	4.2	4.5
RoCE (%)	13.8	4.8	13.1	23.2	18.4
RoE (%)	13.0	6.4	12.4	23.6	15.7

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis (Consolidated Performance)

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	49977	47745	36009	39%	41,902	19%	Consolidated topline came in higher than our estimate
Other Income	272	225	1313	-79%	218	25%	
Other operating Expenses	35793	33693	31210	15%	32,334	11%	
EBITDA	14184	14052	4799	196%	9,568	48%	EBITDA came in line with our estimates
EBITDA Margin (%)	28.4	29.4	13.3	1505 bps	22.8	555 bps	
Depreciation	2392	2325	2288	5%	2,342	2%	
Interest	1866	1750	1934	-4%	1,786	4%	
Share of profit from associates	150	152	93	61%	88	70%	
Exceptional Item and	-991	0	-3854	-74%	-154	544%	
PBT	9357	10354	-1871	LP	5592	67%	
Tax Outgo	2195	2482	-255	-961%	1,582	39%	
PAT from continued operations	7162	7872	-1616	LP	4011	79%	
Key Metrics							
TSI Steel Sales (MT) (Standalone operations)	3.3	3.3	3.0	10%	3.3	0%	Standalone sales came in line with our estimate
TSE Steel Sales (MT)	2.5	2.5	2.4	4%	2.1	19%	
Adjusted TSI EBITDA/tonne (₹/tonne)	27775	26000	12531	122%	20070	38%	EBITDA/tonne came in higher than our estimates
TSE EBITDA/tonne (US\$/tonne)	66.0	100.0	4.0	1550%	-46.0	LP	

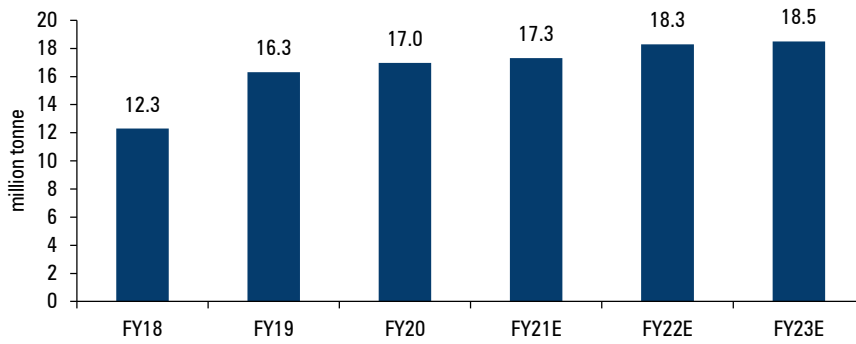
Source: Company, ICICI Direct Research

Conference Call Highlights

- For FY22E, steel volumes of Indian operations are expected to be higher by ~1 million tonnes (MT) compared to FY21 (FY21 Indian operations steel sales volume were at 17.3 MT)
- For Q1FY22E, domestic steel realisations are expected to be higher by ~₹ 6000-7000/tonne compared to Q4FY21 realisations. Furthermore, Q1FY22E costs are expected to be higher by ~₹ 2000-2500/tonne compared to Q4FY21
- For FY22E, the company has chalked a capex plan of ~₹ 11000 crore, of which ~₹ 7500 crore would be spent on Indian operations (for FY21 total capex incurred was ~₹ 6979 crore). The pellet plant and cold roll mill complex at Kalinganagar is under construction. The 5 million tonnes per annum (MTPA) Kalinganagar expansion project has been restarted and is likely to be completed by FY24. Out of the total capex of ₹ 23500 crore for Kalinganagar 5 MTPA expansion, the company has already spent ~₹ 7000-8000 crore till date
- The company is passing on the carbon surcharge to customers in EU, which is ~£12 /tonne to recover carbon credit charges
- European business reported EBITDA/tonne of US\$65/tonne and increased sequentially from an EBITDA loss of US\$46/tonne. During the quarter, European operations EBITDA included exceptional carbon provision of £47 million (US\$26/tonne). Accounting for same, European operations adjusted EBITDA/tonne was US\$92/tonne (against our estimate of US\$100/tonne)
- With respect to European operations, spreads are likely to be notably higher in Q1FY22 compared to Q4FY21. As compared to Q4FY21, in Q1FY22 spreads in the Netherlands are expected to increase by €70/tonne and in the UK are expected to increase by £40/tonne
- Over the longer term plans, the company has indicated that it can reach 40 MTPA steel capacity in India through brownfield expansions. As and when required, Jamshedpur operations can be scaled to 14 MT from 11 MT currently, Kalinganagar operations can be scaled to 16 MT from 3 MT currently while Angul (Tata Steel BSL) can be scaled to 10 MT from 5 MT currently. The company does not plan to go for any greenfield expansion in the medium term
- South East Asian operations have been re-classified to 'continuing operations' from 'held for sale' as the purchase bids were lower than expectation
- Shareholders have approved the merger of Tata Steel BSL with Tata Steel. A joint "scheme petition" has been filed with the NCLT to sanction the scheme with effect from April 1, 2019. The merger of Tata Metaliks and Indian Steel and Wire Products with Tata Steel Long Products is also under way
- The Board of Directors has recommended a dividend of ₹ 25 per fully paid equity share and ₹ 6.25 per partly paid equity shares

Financial story in charts

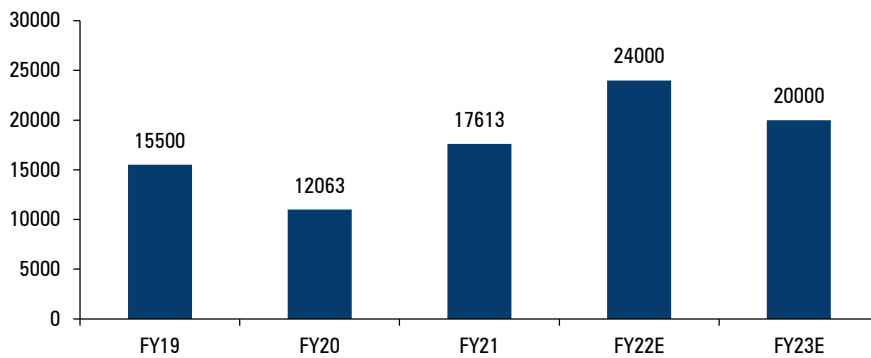
Exhibit 2: Domestic operations volume trend, going forward



For Tata Steel domestic operations, we model sales volume of 18.3 MT for FY22E and 18.5 MT for FY23E

Source: Company, ICICI Direct Research, Domestic business includes Tata Steel Standalone, Tata Steel BSL and Tata Steel long products

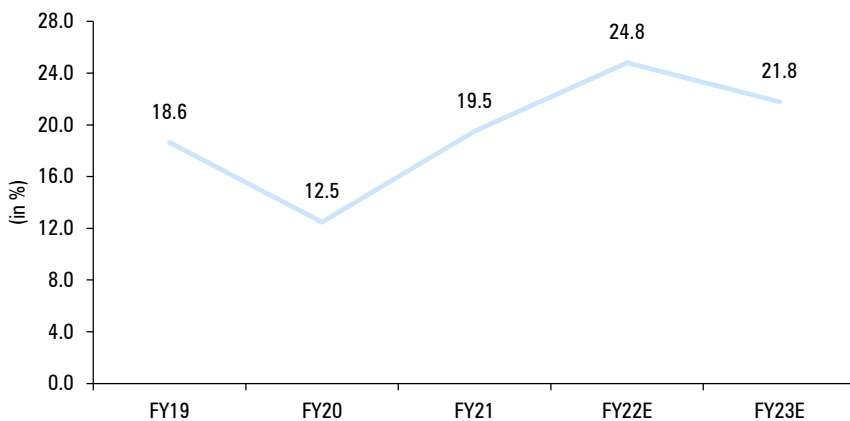
Exhibit 3: Standalone operation EBITDA... (in ₹/tonne)



For Tata Steel Standalone operations, we model EBITDA/tonne of ₹ 24000/tonne for FY22E and ₹ 20000/tonne for FY23E

Source: Company, ICICI Direct Research

Exhibit 4: Consolidated EBITDA margins trend....(in %)



Over the next couple of years, we expect consolidated EBITDA margin at ~24.8% for FY22E and ~21.8% for FY23E

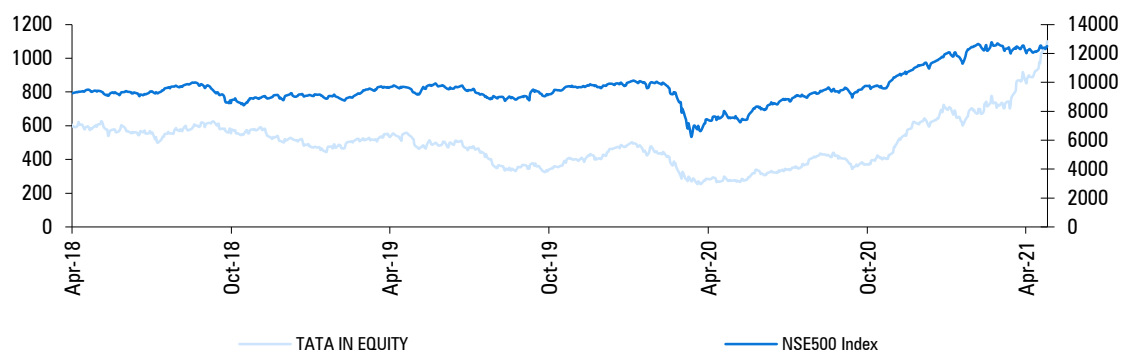
Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	Total Op. Income (₹ Crore)	Growth % YoY	EPS (₹)	Growth % YoY	PE (x)	EV/EBIDTA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY18	1,31,700	17.3	71.3	69.1	16.0	10.1	2.8	17.7	12.3
FY19	1,57,669	19.7	78.6	10.2	14.5	7.5	1.9	13.0	13.8
FY20	1,39,817	(11.3)	41.4	(47.3)	27.6	13.8	1.8	6.4	4.8
FY21	1,56,294	11.8	77.1	86.4	14.8	7.2	1.8	12.4	13.1
FY22E	1,87,369	19.9	189.3	145.5	6.0	4.2	1.4	23.6	23.2
FY23E	1,86,613	(0.4)	152.9	(19.2)	7.5	4.5	1.2	15.7	18.4

Source: Company, ICICI Direct Research

Exhibit 6: Price Performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Sep-20	Dec-20	Apr-21
Promoter	34.4	34.4	34.4
Others	65.6	65.6	65.6
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Inc.	139817	156294	187369	186613
Growth (%)	-11	12	20	0
Total Operating Expend.	122354	125790	140900	145969
EBITDA	17463	30504	46469	40644
Growth (%)	-41	75	52	-13
Depreciation	8441	9234	10645	11015
Interest	7533	7607	6143	4376
Other Income	1843	896	977	952
PBT	3332	14560	30657	26204
Exceptional Item	-3564	-1043	0	0
Total Tax	-2568	5654	8374	8233
PAT	2337	7862	22283	17971
Growth (%)	-75	236	183	-19
Minorities, Associates, etc	-1164	327	383	345
Rep PAT after Assoc. MI	1172	8190	22666	18316
Adj PAT after Assoc. MI	4737	9233	22666	18316
Growth (%)	-47.3	94.9	145.5	-19.2
EPS (₹)	41.4	77.1	189.3	152.9

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Share Capital	1145	1198	1198	1198
Hybrid Perpetual securities	2275	775	775	775
Reserve and Surplus	70156	72266	94142	114373
Total Shareholders funds	73576	74239	96115	116346
Total Debt	113289	88501	58501	44316
Deferred Tax Liability	9261	9241	9241	9241
Minority Interest & Others	11816	18731	22114	25459
Total Liabilities	207943	190712	185971	195362
Assets				
Net Block	131131	136654	132508	133493
CWIP	18862	18129	22629	27129
Net Fixed Assets (Incl. CWIP)	149993	154783	155137	160622
Investments	6285	10682	10482	10482
Inventory	31069	33276	30486	35636
Debtors	7885	9540	8593	10310
Loans and Advances	35663	29692	31692	34192
Other Current Assets	6144	2410	3960	5510
Cash	8055	5782	5008	5672
Total Current Assets	88816	80701	79740	91321
Current Liabilities	40813	56651	61085	69010
Provisions	1664	4725	4225	3975
Current Liabilities & Prov	42476	61376	65311	72985
Net Current Assets	46340	19325	14429	18336
others	5325	5923	5923	5923
Application of Funds	207943	190712	185971	195362

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	1172	8190	22666	18316
Add: Depreciation	8441	9234	10645	11015
(Inc)/dec in Current Assets	-141	5843	187	-10917
Inc/(dec) in CL and Prov.	12244	18900	3934	7675
Others	-2425	-12821	3000	3000
CF from operating activities	19292	29345	40433	29089
(Inc)/dec in Investments	-10547	-4397	200	0
(Inc)/dec in Fixed Assets	-10347	-7023	-11000	-16500
Others	-5867	683	383	345
CF from investing activities	-26761	-10737	-10417	-16155
Issue/(Buy back) of Equity	0	-1447	0	0
Inc/(dec) in loan funds	22145	-24789	-30000	-14185
Dividend paid & dividend tax	-1340	-2994	-4790	-4790
Inc/(dec) in Share Cap	0	0	0	0
Others	-8612	8349	4000	6706
CF from financing activities	12193	-20880	-30790	-12270
Net Cash flow	4724	-2273	-774	664
Opening Cash	3331	8055	5782	5008
Closing Cash	8055	5782	5008	5672

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adj EPS	41.4	77.1	189.3	152.9
Cash EPS	115.1	154.2	278.2	244.9
BV	642.6	619.9	802.6	971.5
DPS	10.0	25.0	40.0	40.0
Operating Ratios (%)				
EBITDA Margin	12.5	19.5	24.8	21.8
PBT / Total Operating income	2.4	9.3	16.4	14.0
Adj PAT Margin	3.4	5.9	12.1	9.8
Inventory days	89	83	75	85
Debtor days	26	30	25	30
Creditor days	144	145	175	160
Return Ratios (%)				
Adj RoE	6.4	12.4	23.6	15.7
Adj RoCE	4.8	13.1	23.2	18.4
Adj RoIC	5.0	13.6	23.9	19.1
Valuation Ratios (x)				
P/E	27.6	14.8	6.0	7.5
EV / EBITDA	13.8	7.2	4.2	4.5
EV / Net Sales	1.8	1.6	1.2	1.2
Market Cap / Sales	1.0	1.0	0.8	0.9
Price to Book Value	1.8	1.8	1.4	1.2
Price to Adj Book Value	1.8	1.8	1.4	1.2
Solvency Ratios				
Debt/EBITDA	6.0	2.7	1.2	1.0
Debt / Equity	1.4	1.1	0.6	0.3
Current Ratio	2.1	1.3	1.2	1.3
Quick Ratio	1.4	0.8	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)		(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Coal India	135	140	Hold	83552	20.3	21.0	22.7	6.5	6.3	5.9	3.7	4.1	4.3	39.6	35.6	33.0	33.6	30.3	28.2
Hindalco	386	390	Buy	86772	31.9	35.1	40.4	10.4	9.4	8.2	7.2	6.7	5.9	9.2	9.7	10.5	11.1	11.0	11.3
Hind Zinc	296	340	Hold	125259	18.7	23.6	27.2	15.0	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	729	675	Hold	176336	32.9	59.2	62.7	20.3	11.2	10.6	10.8	7.2	6.4	13.4	20.1	20.4	17.9	24.5	20.7
NMDC	170	125	Hold	49908	17.1	11.9	3.7	6.6	9.5	8.2	4.7	5.6	5.0	21.4	13.2	14.0	16.7	10.9	11.9
Ratnamani	1927	1900	Buy	9008	49.4	64.5	79.2	32.9	25.2	20.5	22.6	16.8	13.9	16.2	19.6	21.6	12.3	14.1	15.8
Graphite Ind.	737	825	Buy	14416	3.0	55.0	84.0	224.0	12.6	8.2	NA	9.1	4.6	-5.4	19.0	25.2	1.3	19.3	23.4
Tata Steel	1140	1500	Buy	137017	77.1	189.3	152.9	14.8	6.0	7.5	7.2	4.2	4.5	13.1	23.2	18.4	12.4	23.6	15.7
Sail	134	130	Buy	55199	9.0	15.0	17.0	10.7	6.6	6.0	6.0	5.2	4.6	11.2	12.2	12.3	9.3	12.7	12.5
Jindal Stainless Jindal	91	90	Buy	4402	2.8	7.1	9.2	26.6	10.5	8.1	6.7	5.1	4.5	10.7	14.9	16.4	4.8	10.9	12.4
Stainless Hisar	166	170	Buy	3930	13.0	18.0	21.0	10.9	7.6	6.6	6.3	5.2	4.6	11.6	13.7	14.0	11.4	14.0	13.8

Source: Company, ICICI Direct Research

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Sell: <-15%



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