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Q4FY21 result review and
earnings change

Metals

Target price: Rs1,020

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 1.8	↑ 2.0
EBITDA	↑ 6.2	↑ 11.0
PAT	↑ 8.6	↑ 19.9

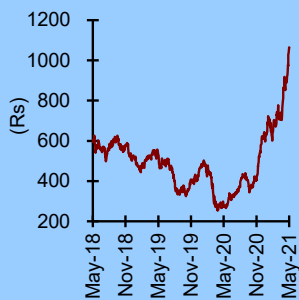
Target price revision

Rs1,020 from Rs920

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	34.4	34.4	34.4
Institutional investors	41.4	42.7	43.7
MFs and others	13.1	10.1	11.6
FIs/Banks	0.2	0.1	0.0
Insurance Cos	16.5	15.5	13.5
FII	11.6	17.0	18.6
Others	24.2	22.9	21.9

Price chart



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INDIA

Tata Steel

ICICI Securities

HOLD

Maintained

Rs1,070

FY22E Net Debt/EBITDA at <1x

Deleveraging (Rs 110bn in Q4FY21) aided by Rs 32.4bn of net proceeds from partly paid shares was the key highlight of Tata Steel Q4FY21 results. FY21E witnessed ~ Rs 200bn net debt reduction. Adjusted consolidated EBITDA of Rs139.3bn was largely inline, with ~ Rs 3bn from Tata Steel South East Asia which has been reclassified to “Continuing operations” from “Held for sale”. Standalone EBITDA print surprised at Rs27828/te against Rs 26,500/te expected, while Tata Steel Europe (TSE) reported an inline US\$66/te of EBITDA. Management has maintained its net debt reduction guidance of US\$1bn + for FY22E. This appears a bit conservative given the MTM earnings and despite accelerated capex. The extent of deleveraging is creating an upward bias for multiples for the entire sector, given significantly reduced loss probability. We maintain HOLD with a revised target of ~ Rs 1,020/share at 0.9x FY23E P/B – with significantly reduced loss probability, the increase in valuation band is only a matter of time in our view.

- **Maintain HOLD.** Spot EBITDA at Rs38,000/te remains a key concern, especially when cycle duration has shrunk. The positive takeaways of Q4FY21 are: deleveraging – Rs 110bn of net debt reduction in Q4FY21 aided by Rs 32bn of proceeds from partly paid shares. Net pre export advances was largely flat QoQ at Rs 62.3bn. While capex is expected to pick-up, we expect a possible deleveraging of ~ Rs 300bn+ in FY22E – FY22E can be the defining year where ND/EBITDA approaches 1x before normalising to 2-2.5x. With near zero loss probability through cycle now, one can make an argument for expanding multiples.
- **Indian operations reported a better than expected print.** Tata Steel India standalone adjusted EBITDA came in at Rs92bn (+37% QoQ, +151% YoY), ahead of I-Sec estimate of ~Rs87bn. EBITDA increased by ~ Rs 7,800/te QoQ to reach ~Rs 28,000/te (Higher than I-Sec estimate). Q4FY21 delivery volume increased 16%YoY as domestic deliveries increased 22%YoY; exports were at 11% of overall deliveries. Auto volumes increased 13% QoQ (highest ever quarterly auto volumes at 0.79mnte). This, helped realisations. Higher exports and lower auto volumes will define Q1FY22E, yet an EBITDA print of ~ Rs 37-38,000/te is possible. Combined India EBITDA reached Rs 26,309/te against Rs 18.931/te QoQ.
- **Key takeaways for TSLP.** Steel production grew on the back of debottlenecking at steel melting shop and arcing – improving 7% QoQ and 19%YoY in Q4FY21 while FY21 production increased 11%YoY. TSLP increased alloy Wire Rod mix to 49% in FY21 vs. 37% YoY, and increased market share to 20% in FY21 vis-a-vis.12% YoY; supported by increased share in 2Ws segment. In the auto segment, domestic market share grew to 15% in FY21 vs. 12% YoY; maintained leadership position in CV with 38% market share, and registered 2x growth in auto component exports.

Market Cap	Rs1283bn/US\$17.3bn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	TATA.BO/TATA IN	Revenue (Rs mn)	13,98,167	15,55,759	20,40,842	18,47,874
Shares Outstanding (mn)	1,196.8	Net Income (Rs mn)	64,716	88,079	3,67,360	1,93,189
52-week Range (Rs)	1070/267	EPS (Rs)	53.7	73.1	305.0	160.4
Free Float (%)	65.4	% Chg YoY	(37.8)	36.1	317.1	(47.4)
FII (%)	18.6	P/E (x)	19.9	14.6	3.5	6.7
Daily Volume (US\$/'000)	2,19,062	CEPS (Rs)	119.1	138.5	379.4	238.3
Absolute Return 3m (%)	56.2	EV/E (x)	12.6	6.5	2.6	3.8
Absolute Return 12m (%)	302.3	Dividend Yield (%)	0.8	0.8	0.8	0.8
Sensex Return 3m (%)	(3.9)	RoCE (%)	6.0	12.2	32.2	17.1
Sensex Return 12m (%)	56.5	RoE (%)	8.3	10.0	30.8	13.8

Please refer to important disclosures at the end of this report

- **Europe EBITDA inline; structural solutions awaited.** EBITDA came inline at Rs11.9bn vs negative Rs7.2bn in Q3FY21 (EBITDA/te of US\$66). Realisations increased only US\$53/te QoQ highlighting the spread expansion possibilities in Q1FY22E. (notwithstanding the increase in iron ore prices)

Table 1: Tata Steel consolidated Q4FY21 result review

(Rs mn)	Q4FY21	Q4FY20	% Chg YoY	Q3FY21	% Chg QoQ	FY21	FY20	% Chg YoY
Net Sales	499,774	337,700	48.0	395,941	26.2	1,562,942	1,489,717	4.9
Expenses	357,933	291,231	22.9	301,005	18.9	1,257,899	1,311,441	(4.1)
Inc./Dec in stock	(16,421)	(15,405)		(8,012)		15,168	(4,901)	
Purchase of steel etc	35,218	10,689		12,702		92,354	105,042	
Raw materials	132,364	122,268		124,133		461,880	535,928	
Total Raw materials	151,161	117,552		128,823		569,402	636,070	
Staff expenses	53,912	47,350		53,147		199,088	191,522	
Other Expenditure	152,861	126,329		119,036		489,410	483,849	
Total Expenditure		291,231		301,005		1,257,899	1,311,441	(4.1)
EBITDA	141,841	46,469	205.2	94,935	49.4	305,043	178,276	71.1
<i>Margins (%)</i>	28.4	13.8		24.0		19.5	12.0	
Other Income	2,722	13,159	(79.3)	2,150	26.6	8,936	18,220	(51.0)
Interest	18,663	19,251	(3.1)	17,779	5.0	76,067	75,807	0.3
Depreciation	23,924	22,241	7.6	22,748	5.2	92,336	87,077	6.0
Operational PBT	101,976	18,136	462.3	56,559	80.3	145,575	33,612	333.1
ExtraOrdinary	(9,911)	(34,059)		(1,536)		(10,432)	(49,296)	
PBT	92,065	(15,923)		55,023	67.3	135,144	(15,684)	
Tax	21,950	(2,633)		15,717		56,539	(25,529)	
PAT	70,115	(13,290)	NM	39,306		78,605	9,845	698.4
Adj.PAT	80,026	20,769	NM	40,842	95.9	89,036	59,141	50.5
Minority Interest	5,178	1,405		3,110		6,996	(3,841)	
Share of Associates	1,504	928		884		3,273	1,880	
Adjusted PAT	76,353	20,292	276.3	35,545	114.8	64,451	(41,412)	
Reported PAT	66,442	(10,957)		37,081	79.2	74,882	7,884	

Source: Company data, I-Sec research

Table 2: Tata Steel's standalone Q4FY21 result review

(Rs mn)	Q4FY21	Q4FY20	% Chg YoY	Q3FY21	% Chg QoQ	FY21	FY20	% Chg YoY
Net Sales	212,026	142,114	49.2	179,657	18.0	648,690	604,360	7.3
Other Operating Income	3,849	5,125	(24.9)	2,961	30.0	11,256	16,204	(30.5)
Expenses								
Total Raw materials	42,716	33,577	27.2	44,729	(4.5)	164,788	184,057	(10.5)
Staff expenses	13,526	13,708	(1.3)	13,409	0.9	51,988	50,366	3.2
Other Expenditure	63,907	58,343	9.5	54,500	17.3	214,261	221,321	(3.2)
Total Expenditure	120,148	105,628	13.7	112,638	6.7	431,037	455,744	(5.4)
EBITDA	91,878	36,487	151.8	67,019	37.1	217,654	148,616	46.5
<i>Margin (%)</i>	43.3	25.7		37.3		33.6	24.6	
Other Income	1,898	714	165.9	1,407	34.8	6,379	4,041	57.8
Interest	8,297	8,040	3.2	8,001	3.7	33,938	30,310	12.0
Depreciation	10,410	10,023	3.9	9,711	7.2	39,873	39,201	1.7
Operational PBT	75,069	19,138	292.3	50,715	NM	150,221	83,146	80.7
ExtraOrdinary Exp.	9,493	(20,095)		(2,259)		27,731	(17,036)	
Rep. PBT	84,561	(957)	(8,936.1)	48,455	74.5	177,951	66,110	169.2
Tax	18,626	3,411	446.0	12,306		41,885	(1,328)	
PAT	65,935	(4,368)	(1,609.4)	36,149	82.4	136,066	67,438	101.8
Adj.PAT	56,443	15,727	258.9	38,409	47.0	108,336	84,474	28.2

Source: Company data, I-Sec research

Table 3: Tata Steel's standalone volumes, realisations and EBITDA

Rs mn	Q4FY21	Q4FY20	YoY (%)	Q3FY21	% Chg QoQ	FY21	FY20	YoY (%)
Net Sales	212,026	142,114	49.2	179,657	18.0	648,690	604,360	7.3
EBITDA	91,878	36,487	151.8	67,019	37.1	217,654	148,616	46.5
Volumes (mt)	3.31	2.9	13.5	3.35	(1.2)	12.36	12.32	0.3
Realisations (Rs/te)	62,989	47,027	33.9	52,824	19.2	51,589	47,724	8.1
EBITDA (Rs/te)	27,800	12,526	121.9	20,035	38.8	17,615	12,059	46.1

Source: Company data, I-Sec research

Table 4: Tata Steel Europe's volumes, realisations and EBITDA

US\$ mn	Q4FY21	Q4FY20	YoY (%)	Q3FY21	% Chg QoQ	FY21	FY20	YoY (%)
Net Sales	2,367	1,876	26.2	1,905	24.2	7,567	7,896	(4.2)
EBITDA	164	9	NM	(98)	NM	(79)	(93)	NM
Volumes (mnte)	2.5	2.4	3.3	2.1	17.1	8.8	9.3	(5.0)
Realisations (US\$/te)	958	785	22.1	903	6.1	857	850	0.8
EBITDA (US\$/te)	66	4	NM	(46)	NM	(9)	(10)	NM

Source: Company data, I-Sec research

Table 5: Consolidated QoQ variations

(Rs mn)	4QFY21	3QFY21	Key Reasons
Income from operations	4,89,510	4,11,120	Higher with improved steel realisation and higher deliveries across geographies
Other operating income	10,270	7,910	Higher primarily at Standalone and Tata Steel BSL
Raw materials consumed	1,32,360	1,25,370	Primarily due to higher production and higher cost of iron ore bearing material at TSE, TSBSL and TSLP, partly offset by lower coking coal cost
Purchases of finished, semis & other products	35,220	26,900	Higher primarily at Standalone and SEA operating entities
Changes in inventories	-16,420	-8,420	Primarily due to higher inventory value
Employee benefits expenses	53,910	54,640	Lower primarily at Tata Steel Europe
Other expenses	1,52,860	1,24,860	Higher mainly due higher royalty charges, higher deliveries and unfavorable FX impact at overseas entities
Depreciation & amortisation	23,920	23,420	At par
Other income	2,720	2,180	Higher with higher interest income on income tax refund for earlier year
Finance cost	18,660	17,860	Higher primarily at Standalone; largely offset by lower interest with reduction in debt level
Exceptional Items	-9,910	-1,540	Mainly due to net impairment of assets at overseas entities and charge under special Early Separation Scheme at Jharia location
Tax	21,950	15,820	In-line with profitability level
Other comprehensive income	-10,310	-18,070	Primarily on account of re-measurement gain/loss on actuarial valuation and FX translation impact

Source: Company data, I-Sec research

Table 6: Standalone QoQ variations

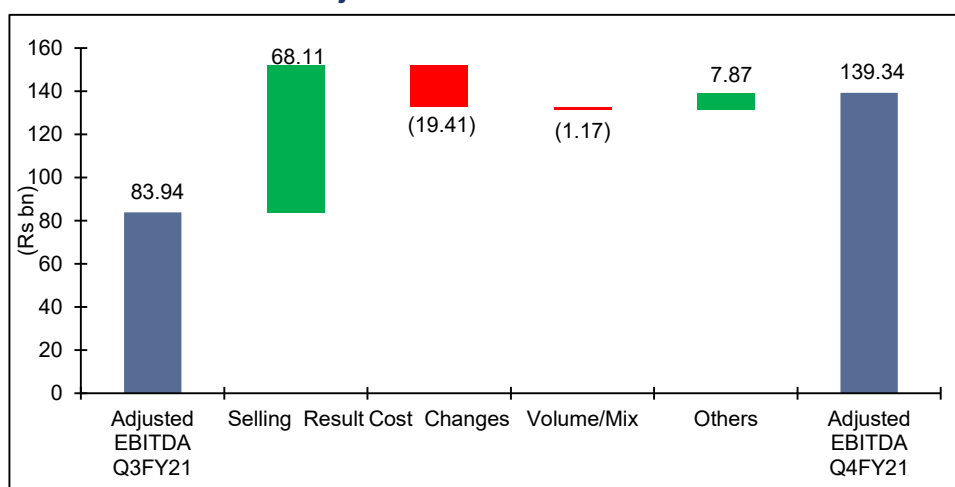
(Rs mn)	4QFY21	3QFY21	Key Reasons
Income from operations	2,08,180	1,76,700	Due to improved realisations and favourable mix
Other operating income	3,850	2,960	Primarily due to higher sale of seconds steel and reversal of old liabilities no longer required
Raw materials consumed	38,990	37,780	Higher with increased production and improved product mix, partially offset by lower coal consumption cost
Purchases of finished, semis & other products	4,770	3,870	Primarily due to higher purchase of wire rods
Changes in inventories	-1,040	3,070	Due to marginal increase in inventory level
Employee benefits expenses	13,530	13,410	Primarily due to higher bonus provision, partially offset by lower leave salary provision on change in discount rate
Other expenses	63,910	54,500	Primarily due to higher royalty expenses with increase in iron ore prices, and higher Freight & handling charges
Depreciation & amortisation	10,410	9,710	At par
Other income	1,900	1,410	Primarily due to higher interest income
Finance cost	8,300	8,000	Lower interest with reduction in debt level was more than offset by provision for interest under the Income tax act
Exceptional Items	9,490	-2,260	Primarily reflects gain on transfer of investments held in JCAPCPL and Tata Bluescope to TSDPL; partially offset by charge under special Early Separation Scheme at Jharia location
Tax	18,630	12,310	In-line with profitability level
Other comprehensive income	3,610	170	Primarily on account of higher gain on re-measurement of actuarial valuation of employee benefits and fair value adjustments of non-current investments

Source: Company data, I-Sec research

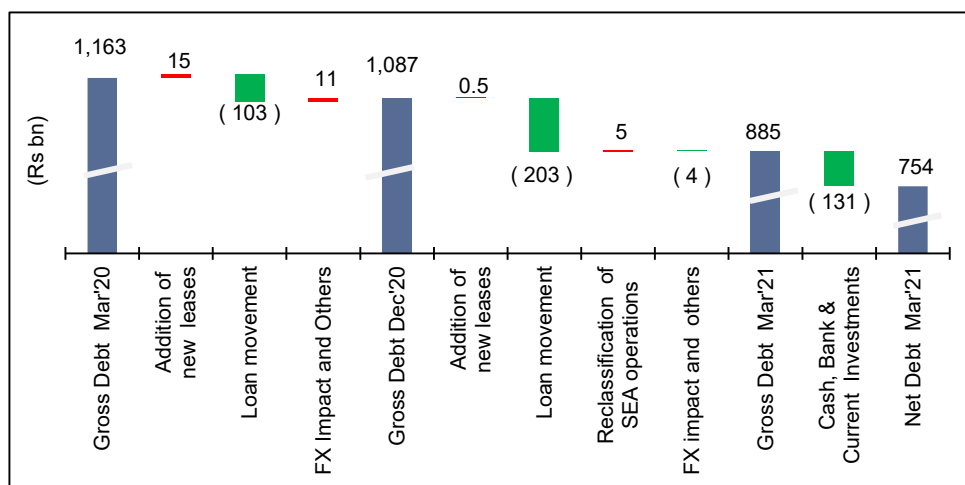
Table 7: Tata Steel Long Products QoQ variations

(Rs mn)	4QFY21	3QFY21	Key Reasons
Income from operations	15,470	13,640	Higher with improved steel and DRI realisations along with increased volume for both Steel and DRI
Raw materials consumed	6,720	5,490	Primarily due to higher production of steel and DRI and increased iron ore price, partially offset by lower coking coal prices
Changes in inventories	-330	10	Primarily due to higher closing price of inventory
Employee benefits expenses	500	560	Primarily due to lower impact of actuarial valuation
Other expenses	3,600	3,470	Primarily due to increase in royalty on higher iron ore prices along with higher steel and DRI delivery volumes
Depreciation & amortisation	840	850	At par
Other income	150	360	3QFY21 included one off write-back with favourable judgement on entry tax litigation
Finance cost	460	570	Due to pre-payment of term loans
Exceptional Items	-	-	
Tax	430	0	Higher due to creation of Deferred tax liability
Other comprehensive income	40	10	At par

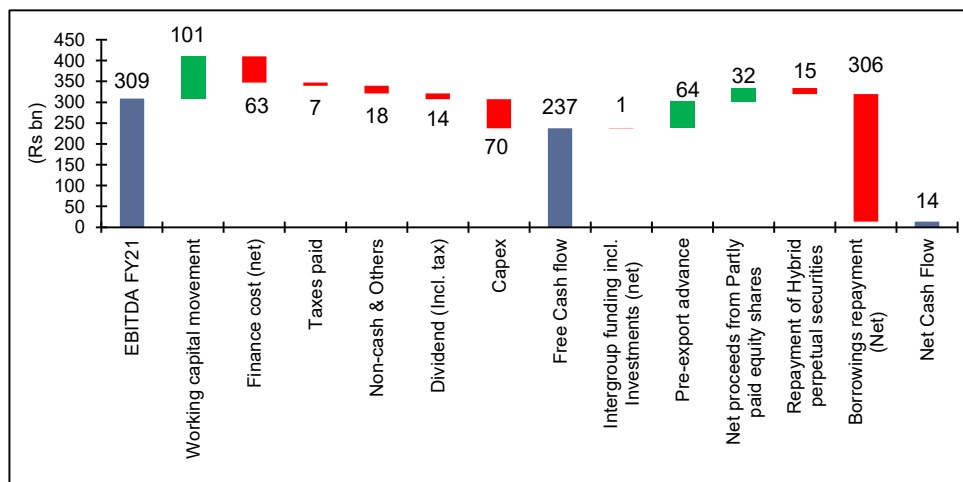
Source: Company data, I-Sec research

Chart 1: Consolidated adjusted EBITDA movement

Source: Company data, I-Sec research

Chart 2: Consolidated debt movement

Source: Company data, I-Sec research

Chart 3: Consolidated FCF movement

Source: Company data, I-Sec research

Tata Steel valuations and assumptions

We maintain HOLD with a target price of Rs 1020/share based on FY23E P/B of 0.9x (increased from 0.85x earlier). With near zero loss probability, ND/EBITDA of < 1x at FY22E end, the financials may well pivot towards a through cycle RoE of 15%.

Key risks to our call are not earnings-linked. We would continue to emphasise the irrelevance of earnings-based analysis in the sector. Key upside risks are continued resilience of steel prices. The downside risks are lower steel prices puts a break to deleveraging, but staying high enough to lead to announcement of greenfield/brownfield capex.

Revision of earnings

We have factored-in higher realisations and higher EBITDA in Tata Steel India business for FY22/23E.

Table 8: Earnings change

(Rs mn)

	FY22E			FY23E		
	New	Old	% Chg	New	Old	% Chg
Sales	2,040,842	2,005,153	1.8	1,847,874	1,811,176	2.0
EBITDA	611,172	575,483	6.2	369,285	332,587	11.0
PAT	363,531	334,665	8.6	189,360	157,891	19.9

Source: Company data, I-Sec research

Financial summary

Table 9: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Income	13,98,167	15,55,759	20,40,842	18,47,874
Operating Expenses	12,23,536	12,67,421	14,29,670	14,78,589
EBITDA	1,74,631	2,88,338	6,11,172	3,69,285
% margins	12.5	18.5	29.9	20.0
D&A expense	84,407	84,407	95,319	99,463
Gross Interest	75,335	75,000	41,650	29,400
Other Income	18,435	8,000	8,000	9,552
Recurring PBT	33,324	1,36,930	4,82,202	2,49,974
Add: Extraordinary	(37,521)	-	-	-
Less: Taxes	(25,684)	54,560	1,20,551	62,494
Recurring Net Income	64,716	88,079	3,67,360	1,93,189
Reported Net Income	11,725	84,250	3,63,531	1,89,360

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	6,15,380	4,53,307	4,67,095	4,63,955
Of which cash & cash eqv.	80,547	51,333	35,812	34,849
Total Current Liabilities	3,64,738	4,33,100	4,60,053	4,77,449
Net Current Assets	2,50,642	20,206	7,042	(13,494)
Investments	62,852	62,852	62,852	62,852
Strategic/Group	28,533	28,533	28,533	28,533
Other Marketable	34,319	34,319	34,319	34,319
Net Fixed Assets	14,14,432	14,09,289	14,36,725	14,57,362
Capital Work-in-Progress	1,94,968	1,77,963	2,27,963	2,37,963
Goodwill	40,545	40,545	40,545	40,545
Total Assets	18,53,969	16,18,390	16,32,662	16,32,762
Liabilities				
Borrowings	12,70,569	9,30,000	5,95,000	4,20,000
Deferred Tax Liability	79,911	79,911	79,911	79,911
Minority Interest	25,866	22,037	18,208	14,379
Equity Share Capital	12,043	12,043	12,043	12,043
Face Value per share (Rs)	10	11	11	11
Reserves & Surplus	7,00,970	8,09,789	11,62,890	13,41,819
Net Worth	7,13,013	8,21,832	11,74,933	13,53,863
Total Liabilities	18,53,969	16,18,390	16,32,662	16,32,762

Source: Company data, I-Sec research

Table 11: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	83,918	1,58,778	4,48,971	2,77,392
Working Capital				
Changes	41,962	2,01,221	(2,357)	19,573
Capital Commitments	(1,40,665)	(79,264)	(1,22,756)	(1,20,100)
Free Cashflow	(14,785)	2,80,735	3,23,859	1,76,865
Cashflow from Investing Activities	(4,638)	8,000	8,000	9,552
Issue of Share Capital	1,875	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	76,073	(3,40,569)	(3,35,000)	(1,75,000)
Dividend paid	(18,152)	(10,431)	(10,431)	(10,431)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank balances	39,438	(64,512)	(15,819)	(1,261)

Source: Company data, I-Sec research

Table 12: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	73.1	305.0	160.4	124.1
Diluted Recurring EPS	73.1	305.0	160.4	124.1
Recurring Cash EPS	138.5	379.4	238.3	203.9
Dividend per share (DPS)**	8.7	8.7	8.7	8.7
Adj. BV/share (BV)*	649	942	1,132	1,203
Growth Ratios (%)				
Operating Income	11.3	31.2	(9.5)	(2.9)
EBITDA	65.1	112.0	(39.6)	(17.9)
Valuation Ratios (x)				
P/E	14.6	3.5	6.7	8.6
P/CEPS	7.7	2.8	4.5	5.2
P/BV	1.6	1.1	1.0	0.9
EV / EBITDA	6.5	2.6	3.8	4.1
EV / Operating Income	1.2	0.8	0.8	0.7
EV / Operating FCF	5.2	3.5	4.7	5.2
Operating Ratios (%)				
Raw Material/Sales	49.4	43.3	49.0	49.6
SG&A/Sales	8.9	2.6	(0.6)	0.3
Other Income / PBT	5.8	1.7	3.8	5.5
NWC / Total Assets	(1.9)	(1.8)	(3.0)	(3.1)
Inventory Turnover (days)	88.6	83.4	84.3	86.1
Receivables (days)	13.9	13.9	13.9	13.9
Payables (days)	143.7	144.1	144.1	143.0
D/E Ratio (x)	1.23	0.57	0.37	0.25
Profitability Ratios (%)				
Rec Net Income Margins	5.3	17.7	10.1	8.0
RoCE	12.2	32.2	17.1	13.0
RoNW	10.0	30.8	13.8	10.1
Dividend Payout Ratio	11.8	2.8	5.4	7.0
Dividend Yield	0.8	0.8	0.8	0.8
EBITDA Margins	18.5	29.9	20.0	16.9

Source: Company data, I-Sec research

* Adj. for goodwill. ** On fully diluted no of shares

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

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