

July 15, 2022

Higher input costs impact EBITDA margins...

About the stock: Tata Metaliks (TML) is a subsidiary of Tata Steel, which was established in 1990. TML has manufacturing facilities in Kharagpur, West Bengal, which produces pig iron and ductile iron (DI) pipes.

- TML is currently in the process of expanding its ductile iron pipe capacity
- TML has healthy cash flows and a strong balance-sheet. It is one of the few players in the steel pipe sector having net cash position on its balance sheet

Q1FY23 Results: TML reported a muted performance for the quarter on account of plant shutdowns, muted demand and higher raw material costs.

- TML's revenue was at ₹ 666 crore, up 11% YoY but down 18% QoQ
- TML's EBITDA for the quarter was at ₹ 24 crore, down 84% YoY, 58% QoQ. EBITDA margin was at 7.0% compared to 21.7% in Q4FY21 and 9.8% in Q3FY22. During the quarter, pig iron sales volume was at 68000 tonnes, down 24% YoY, 21% QoQ. Pig iron business adversely got impacted due to muted demand from mid-May 2022 onwards. Pig iron division also got impacted by annual maintenance shutdowns and operational issue in one of the blast furnace for much of April 2022 and May 2022
- Ensuing PAT for the quarter was at ₹ 1 crore, down 99% YoY, 98% QoQ

What should investors do? TML's share price has given a return of ~38% over the last two years (from ~₹ 506 in July 2020 to ~₹ 700 levels in July 2022).

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value TML at ₹ 690 i.e. 5x FY24E EV/EBITDA

Key triggers for future price performance:

- The first phase of ductile iron pipes expansion of ~1 lakh tonnes is likely to commence commercial production in H2FY23 while the second phase of ductile iron pipes expansion of ~1 lakh tonnes is likely to be commissioned in FY24
- One of the key beneficiaries of Jal Jeevan mission

Alternate Stock Idea: In our metal sector coverage we like Jindal Stainless (JSL).

- JSL operates an integrated stainless steel plant at Jajpur, Odisha. The complex has a total stainless steel capacity of 1.1 million tonnes per annum
- BUY with a target price of ₹ 125



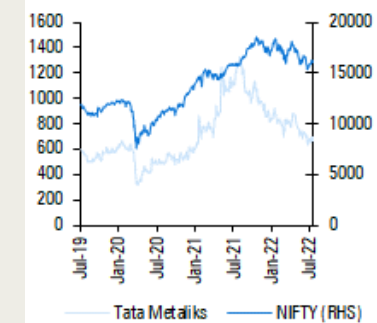
Particulars

Particulars	Amount
Market Capitalisation (in ₹ crore)	2106
Debt in ₹ crore (FY22)	0
Cash & Cash Eq. in ₹ crore (FY22)	336
EV (in ₹ crore)	1770
52 Week H / L (₹)	1365 / 622
Equity Capital (₹ crore)	32
Face Value	₹ 10

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	60.0	60.0	60.0	60.0
FIs	1.9	1.1	1.0	0.9
DIs	11.6	10.5	10.5	9.5
Public	26.5	28.4	28.4	29.6
Total	100.0	100.0	100.0	100.0

Price Chart



Key risks

- Higher than expected increase in demand of DI pipes
- Higher than expected increase in operating costs

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	CAGR (FY17-FY22 in %)	FY23E	FY24E	CAGR (FY22-FY24E in %)
Total Operating income	2,155	2,051	1,917	2,746	15	3,100	3,150	7
EBITDA	307	285	389	378	11	333	376	0
EBITDA Margin (%)	14.3	13.9	20.3	13.8		10.8	11.9	
Reported Net Profit	183	167	221	238	15	199	228	-2
EPS (₹)	65.1	59.4	69.9	75.4		62.9	72.1	
P/E	10.8	11.8	10.0	9.3		11.1	9.7	
RoE (%)	23.8	18.1	17.0	15.6		11.7	12.0	
RoCE (%)	31.0	19.4	24.6	20.7		15.4	15.8	

Source: Company, ICICI Direct Research

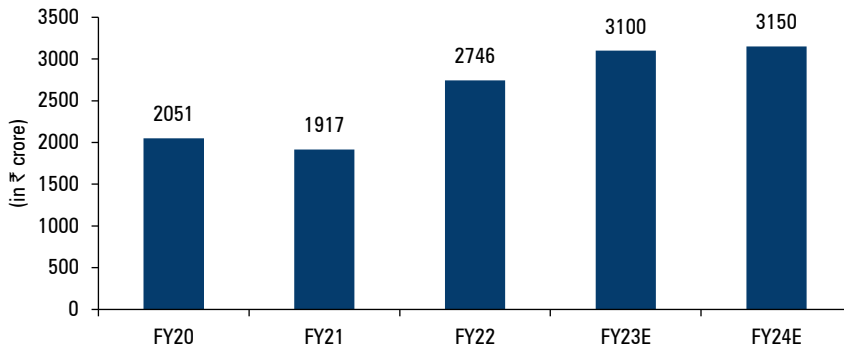
Exhibit 1: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	666	603	11%	808	-18%	Topline came in 11% higher YoY but down 18% QoQ
Other Income	3	3	-14%	7	-56%	
Raw Material Expense	458	302	52%	560	-18%	
Employee Expense	38	35	8%	40	-5%	
Other Expenses	147	113	30%	151	-3%	
Total Operating Expenses	642	449	43%	751	-14%	
EBITDA	24	154	-84%	57	-58%	EBITDA declined 84% YoY, 58% QoQ
EBITDA Margin (%)	3.6	25.5	-2184 bps	7.0	-342 bps	
Depreciation	18	16	14%	15	26%	
Interest	7	6	17%	7	5%	
Exceptional Items	0	0	NA	31	PL	
PBT	2	135	-99%	73	-98%	
Tax Outgo	1	40	-99%	21	-98%	
PAT	1	95	-99%	52	-98%	PAT declined 99% YoY, 98% QoQ

Source: Company, ICICI Direct Research

Financial story in charts

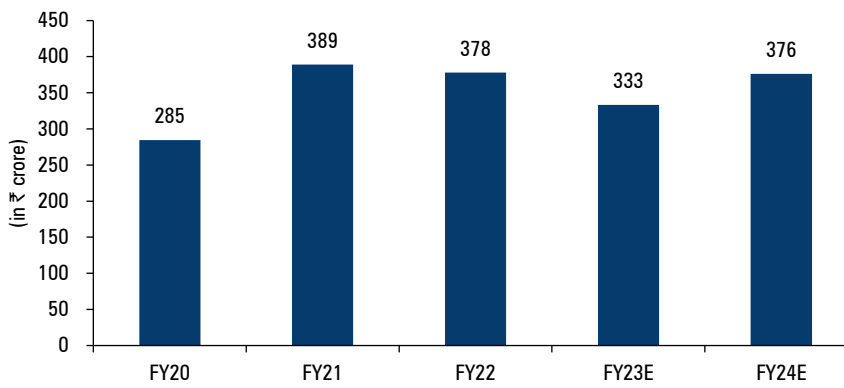
Exhibit 2: Trend in topline.... (in ₹ crore)



We expect topline to grow at a CAGR of 7% during FY22-24E

Source: Company, ICICI Direct Research

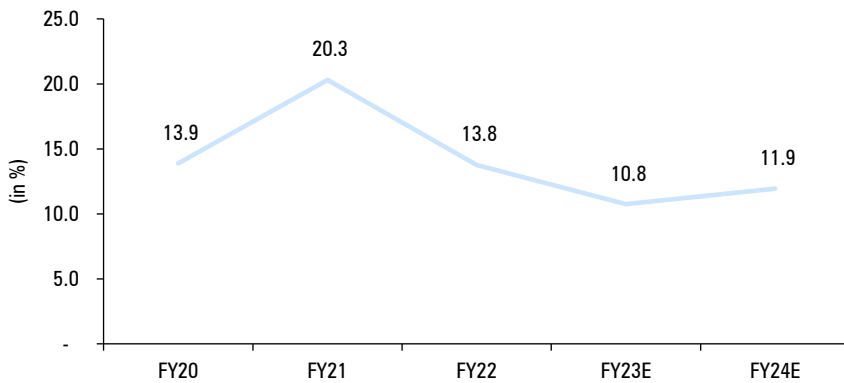
Exhibit 3: Trend in EBITDA... (in ₹ crore)



We expect Tata Metaliks to report EBITDA of ₹ 333 crore in FY23E and ₹ 376 crore in FY24E.

Source: Company, ICICI Direct Research

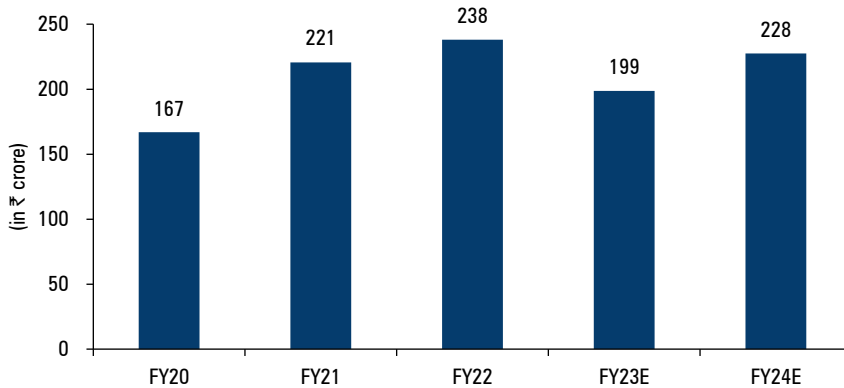
Exhibit 4: Trend in EBITDA margin (in %)



Over the next couple of years, we expect EBITDA margin to come in at a ~10.8% in FY23E & ~11.9% in FY24E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in reported PAT (in ₹ crore)



We expect Tata Metaliks to report PAT of ₹ 199 crore for FY23E and ₹ 228 crore for FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Matrix

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2,155	15	65.1	14	10.8	6.4	23.8	31.0
FY20	2,051	-5	59.4	-9	11.8	7.3	18.1	19.4
FY21	1,917	-7	69.9	18	10.0	5.2	17.0	24.6
FY22	2,746	43	75.4	8	9.3	5.0	15.6	20.7
FY23E	3,100	13	62.9	-17	11.1	5.9	11.7	15.4
FY24E	3,150	2	72.1	15	9.7	5.1	12.0	15.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	1917	2746	3100	3150
Growth (%)	-7%	43%	13%	2%
Total Operating Expenditure	1528	2368	2767	2774
EBITDA	389	378	333	376
Growth (%)	37%	-3%	-12%	13%
Interest & Finance Cost	24	25	20	18
Depreciation	67	62	72	75
Other Income	8	17	20	21
PBT before Exceptional Items	307	308	261	304
Less: Exceptional Items	0	31	0	0
PBT	307	339	261	304
Total Tax	86	101	63	77
Reported PAT	221	238	199	228
Growth (%)	32%	8%	-17%	15%
EPS	69.9	75.4	62.9	72.1

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	221	238	199	228
Add: Dep. & Amortization	67	62	72	75
Net (Inc) / dec.in Current Ass	-86	-30	-117	98
Net Inc / (dec) in Current Liab	-24	229	71	-113
CF from operating activities	178	498	225	287
(Inc)/dec in Investments	10	-60	-0	0
(Inc)/dec in Fixed Assets	-227	-374	-300	-198
Others	0	0	0	0
CF from investing activities	-217	-434	-300	-198
Inc / (Dec) in Equity Capital	3	0	0	0
Inc / (Dec) in Loans	-201	-10	0	0
Dividend & Dividend Tax	-21	-25	-25	-25
Others	189	56	0	0
CF from financing activities	-30	20	-25	-25
Net Cash flow	-68	85	-101	64
Opening Cash	110	42	127	26
Closing Cash	42	127	26	90

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	32	32	32	32
Reserve and Surplus	1,269	1,494	1,667	1,869
Total Shareholders funds	1,300	1,525	1,699	1,901
Total Debt	10	0	0	0
Deferred Tax Liability (net)	12	55	55	55
Source of Funds	1,322	1,580	1,754	1,956
Gross Block - Fixed Assets	1,052	1,326	1,576	2,001
Accumulated Depreciation	260	322	394	469
Net Block	793	1,005	1,183	1,533
Capital WIP	134	233	283	56
Net Fixed Assets	926	1,238	1,466	1,589
Investments	0	60	60	60
Inventory	409	477	535	466
Cash	42	127	26	90
Debtors	247	211	255	207
Loans & Advances & Other CA	238	236	251	270
Total Current Assets	936	1,051	1,067	1,033
Creditors	270	447	510	518
Provisions & Other CL	270	322	330	209
Total Current Liabilities	540	769	840	726
Net Current Assets	396	282	227	307
Application of Funds	1,322	1,580	1,754	1,956

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	69.9	75.4	62.9	72.1
BV	411.7	482.9	537.8	601.9
DPS	6.5	8.0	8.0	8.0
Cash Per Share	13.3	40.2	8.3	28.4
Operating Ratios (%)				
EBITDA margins	20.3	13.8	10.8	11.9
PBT margins	16.0	12.4	8.4	9.7
Net Profit margins	11.5	8.7	6.4	7.2
Inventory days	78	63	63	54
Debtor days	47	28	30	24
Creditor days	51	59	60	60
Return Ratios (%)				
RoE	17.0	15.6	11.7	12.0
RoCE	24.6	20.7	15.4	15.8
RoIC	25.4	22.6	15.6	16.6
Valuation Ratios (x)				
P/E	10.0	9.3	11.1	9.7
EV / EBITDA	5.2	5.0	5.9	5.1
EV / Revenues	1.1	0.8	0.7	0.7
Market Cap / Revenues	1.2	0.8	0.7	0.7
Price to Book Value	1.7	1.4	1.3	1.2
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.4	1.3	1.4
Quick Ratio	1.0	0.7	0.6	0.8

Source: Company, ICICI Direct Research

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