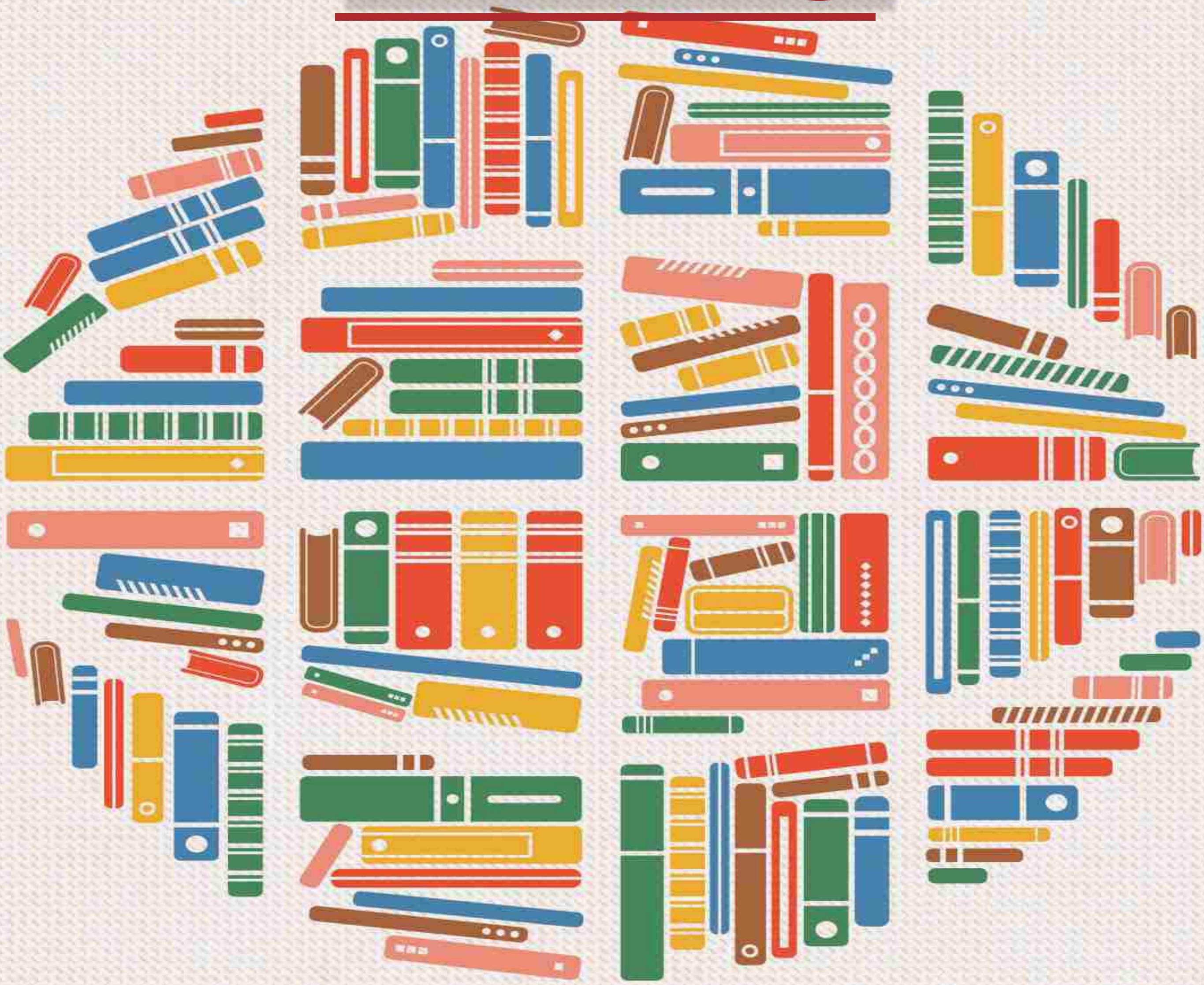
ICICI direct Research

October 1, 2019

Stock TALES



Stock Tales are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

Tata Metaliks (TATME)

CMP: ₹ 521 | Target: ₹ 615 (18%) | Target Period: 12 -18 months | BUY

October 1, 2019

Well placed to cater to rising demand...

Incorporated in 1990, Tata Metaliks (TML) is one of India's leading producers of pig iron and ductile iron (DI) pipes. Domestically, Tata Metaliks has ~19% market share in the pig iron segment and ~12% market share in the ductile iron segment. In the last Budget, the government had constituted the Jal Shakti Mantralaya whose primary objective is to work with states to ensure Har Ghar Jal (piped water supply) to all rural households by 2024 under the Jal Jeevan Mission. In FY19, ~18% of rural households had piped water supply. The target to reach 100% level by 2024 would entail notable investment. As DI pipes are used in potable water distribution, Tata Metaliks is well placed to cater to this rising demand.

Planning to double its DI capacity to 4 lakh tonnes by FY22

Fortunes of the DI pipes segment are closely linked to the investment carried out in water, sanitation and irrigation projects across the country. Over the last five years, the DI pipes demand has grown at ~8% CAGR. Going forward also, on the back of a significant increase in government allocation on water infrastructure, the demand for DI pipes is expected to grow at ~10-12% in the next five years. Driven by notable investment planned by the government, Tata Metaliks is planning to expand its DI pipe making capacity to 4 lakh tonne from 2 lakh tonne. The company has also chalked out plans for augmenting Mini Blast Furnace-1 capacity by 0.70 lakh tonne per annum and installing a new 15 MW power plant. Hot metal capacity will further increase due to commissioning of pulverised coal injection and other operational improvements. Capex for the same is estimated at ₹ 620 crore. The plant is expected to get commissioned in modules by FY22.

Capex to be part funded by Tata Steel through equity & warrant

Tata Metaliks is planning to fund capex through a mix of contribution from promoters (i.e. Tata Steel), internal accruals and debt. To part finance the capex, Tata Metaliks has issued new equity shares and convertible warrants on a preferential basis to the promoter entity (i.e. Tata Steel) at ₹ 642/share, thereby cumulatively amounting to ₹ 403.8 crore (received ₹ 235.6 crore in FY19). On account of same, total dilution is ~20%.

Valuation & Outlook

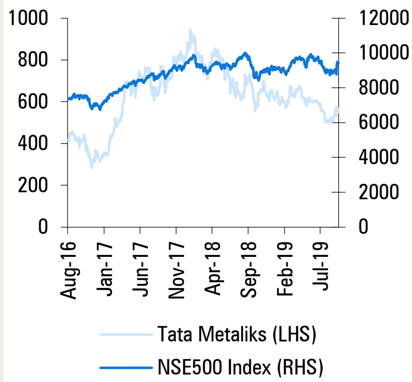
The investment lined up in development of water infrastructure and allied projects augurs well for DI pipes demand, which is likely to grow ~10-12% in the medium term. In order to cater to this opportunity, Tata Metaliks has already started work on doubling its DI capacity, thereby providing healthy revenue visibility over the longer run. We value the stock at 6x FY21E EV/EBITDA and arrive at a target price of ₹ 615. Hence, we assign a **BUY** rating to the stock. Key risk to our call is a significant increase in raw material costs and lower-than-expected increase in demand of DI pipes.

TATA
TATA METALIKS

Particulars

Particulars	Amount
Market Capitalisation (in ₹ crore)	1,463.2
Debt in ₹ crore (FY19)	38.5
Cash & Cash Eq. in ₹ crore (FY19)	28.8
EV (in ₹ crore)	1,472.9
52 Week H / L (₹)	715 / 481
Equity Capital (₹ crore)	28.1
Face Value	₹ 10

Price Performance



Key Highlights

- Doubling DI capacity to 4 lakh tonne by FY22 to cater to rising demand
- We recommend BUY on the stock with a target price of ₹ 615

Research Analyst

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Stock Tales

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ crore)	FY17	FY18	FY19	FY20E	FY21E
Total Operating incme	1,338.7	1,873.7	2,155.1	1,974.5	2,077.8
EBITDA	224.9	277.2	307.2	271.5	332.4
EBITDA Margin (%)	16.8	14.8	14.3	13.8	16.0
Net Profit	116.8	160.1	182.8	143.5	188.3
Diluted EPS (₹)	46.2	63.3	65.1	45.4	59.6
P/E	11.3	8.2	8.0	11.5	8.7
RoE (%)	56.4	44.6	23.8	13.4	15.1
RoCE (%)	25.4	27.5	31.0	19.1	19.5

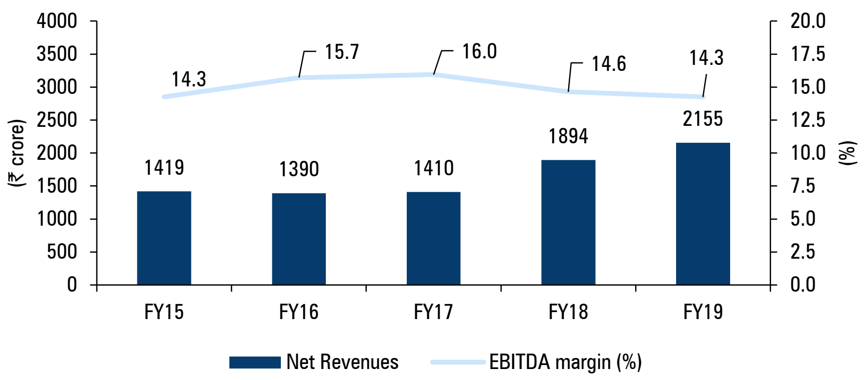
Source: Company, ICICI Direct Research

Company Background

Incorporated in 1990, Tata Metaliks is one of India's leading producers of pig iron and ductile iron (DI) pipes. The current pig iron capacity is 5 lakh tonnes per annum and DI is 2 lakh tonnes per annum. The company caters to pig iron foundry customers mainly in eastern Indian and northern Indian markets while its DI pipes are sold all over the country. Pig iron is suitable for various kinds of castings in industries such as automotive, agriculture, power, railways, aluminium smelters, etc. Ductile iron pipe finds application in diverse applications such as distribution of potable water, transportation of sewage and waste water, agricultural applications including irrigation, industrial usage in power plants, etc. Over the years, Tata Metaliks has gradually got transformed from a commodity company only manufacturing pig iron to a niche product player manufacturing value added product viz. DI pipes. In FY09, Tata Metaliks ventured into forward integration by forming a separate subsidiary Tata Metaliks Kubota pipes (TMKPL). In this JV, Tata Metaliks had 51% stake while Japanese partners Kubota and Metal One Holding were at 44% and 5%, respectively. In 2013, Tata Metaliks bought the balance 49% stake. They renamed the company Tata Metaliks Ductile iron pipe (TMDIPL) and made it a 100% fully owned subsidiary.

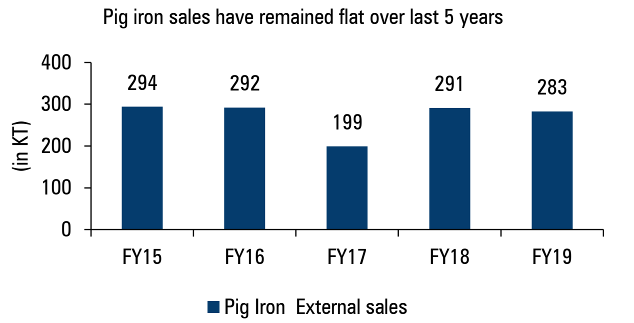
The topline of Tata Metaliks has increased from ₹ 1419 crore in FY15 to ₹ 2155 crore in FY19, registering 11% CAGR in this period. In the same period, blended EBITDA per tonne has increased from ₹ 5010/tonne in FY15 to ₹ 5931/tonne in FY19. Tata Metaliks has been focusing on the higher margin DI pipe business. The pig iron sales volume have witnessed a flattish trend over the last five years while the higher margin DI pipes sales volume has grown at 21% CAGR during the aforementioned period. Going forward also, DI pipes demand is expected to grow at a healthy pace. As currently both pig iron and DI pipes are operating at 100%+ capacity utilisation levels, Tata Metaliks has chalked out capacity expansion plan to cater to rising demand.

Exhibit 1: Trend in revenue (₹ crore) & EBITDA margin (%)



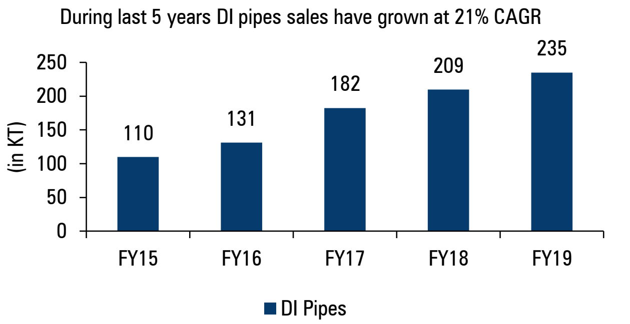
Source: Company, ICICI Direct Research

Exhibit 2: Trend in pig iron external sales volume (in KT)



Source: Company, ICICI Direct Research, In FY17 there was 91 days shut down at one of the blast furnaces, thereby leading to subdued pig iron volume

Exhibit 3: Trend in ductile iron ore pipes (in KT)



Source: Company, ICICI Direct Research

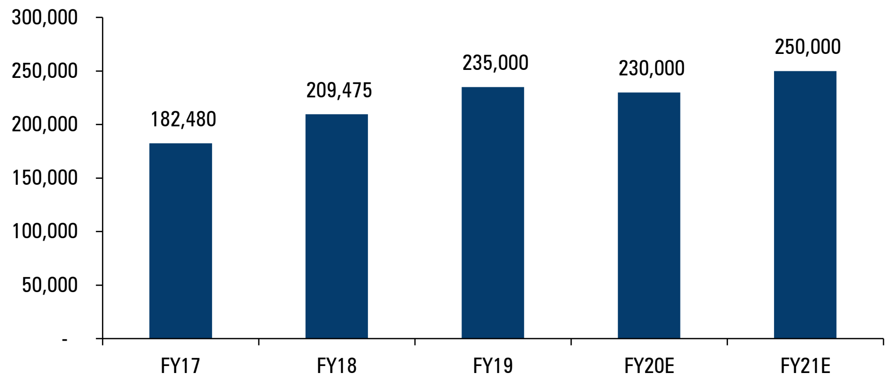
Investment Rationale

DI pipes demand to remain healthy…

The demand for DI pipes is driven by the need to transport drinking water and provide sanitation facilities and is closely linked to water supply infrastructure creation in the country, which, in turn, is predominantly driven by the Centre as well as state governments. In the recent Budget, the Government of India constituted Jal Shakti Mantralaya whose primary objective would be to work with states to ensure Har Ghar Jal (piped water supply) to all rural households by 2024 under the Jal Jeevan Mission. The Jal Jeevan Mission will converge with other central and state government schemes to achieve its objectives of sustainable water supply management across the country. By expanding its DI capacity in modules, Tata Metaliks is well placed to cater to this rising demand. Tata Metaliks is itself operating at 100%+ capacity utilisation levels. With prospect of healthy demand, Tata Metaliks is planning to double its DI capacity in the next couple of years. DI volumes are expected to further increase once the new capacity is commissioned, thereby auguring well for the company.

The company is currently operating at 100%+ capacity utilisation level. Majority of volume growth of the same would come from FY22, when the fully expanded capacity is commissioned. Part capacity is expected to come in H2FY21 and balance in FY22. Currently, the order book of DI pipes is for nine months

Exhibit 4: Trend in DI pipes sales volume

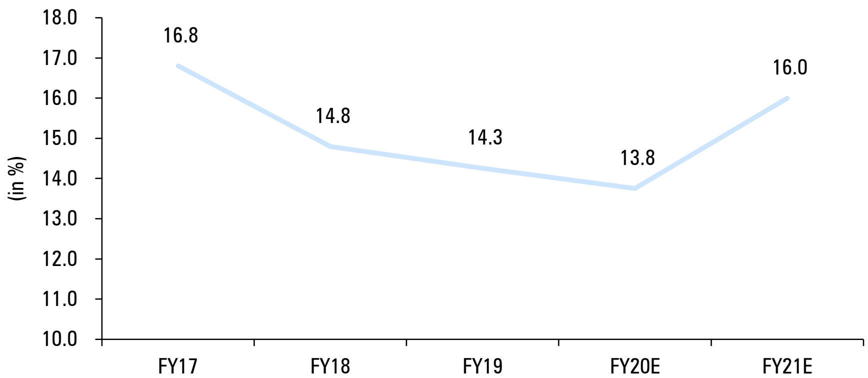


Source: Company, ICICI Direct Research

DI pipes share in overall volume to increase from current level

In FY19, the higher margin DI pipe capacity contributed ~53% of total revenues while the balance 47% is contributed by the pig iron segment. Going forward, we expect the share of DI pipes revenue in total revenue to increase to ~59% by FY21E. With the increasing share of higher margin DI pipes business coupled with benefit of decline in prices of key raw material viz coking coal, we expect EBITDA margins to increase from 14.3% in FY19 to 16.0% in FY21. Going forward, the management, over a medium term horizon, has guided that the share of DI pipes to TML's total turnover could increase to 70-75% gradually once the full expansion is complete and capacities are ramped up in coming years. The higher share of DI would provide further fillip to overall EBITDA margins.

Exhibit 5: Trend in EBITDA margins (in %)

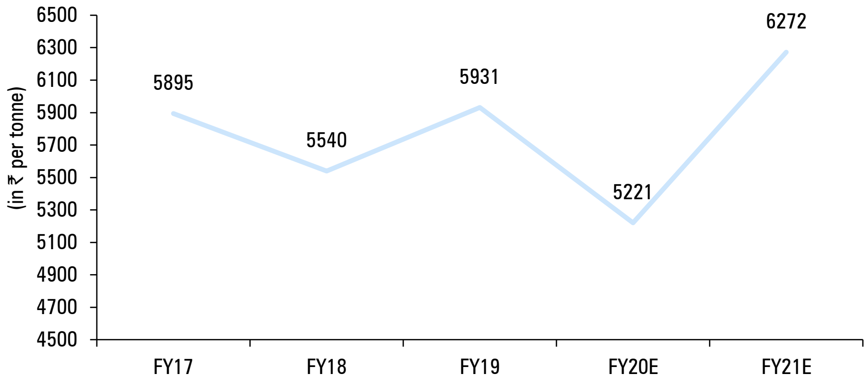


Source: Company, ICICI Direct Research

Blended EBITDA/tonne to bounce back in FY21E

For FY19, TML reported pig iron sales volume of 283 KT and DI sales volume of 235 KT. Going forward, for FY21E, we model pig iron sales volume of 280 KT and DI pipes sales volume of 250 KT. While FY20E is likely to be subdued because of muted Q1FY20, we expect the overall EBITDA/tonne to bounce back in FY21E, driven by a better demand scenario and lower coking coal costs. We model blended EBITDA of ₹ 5221/tonne for FY20E and ₹ 6272/tonne for FY21E (for FY19, blended EBITDA/tonne was at ₹ 5931tonne).

Exhibit 6: Trend in blended EBITDA/tonne



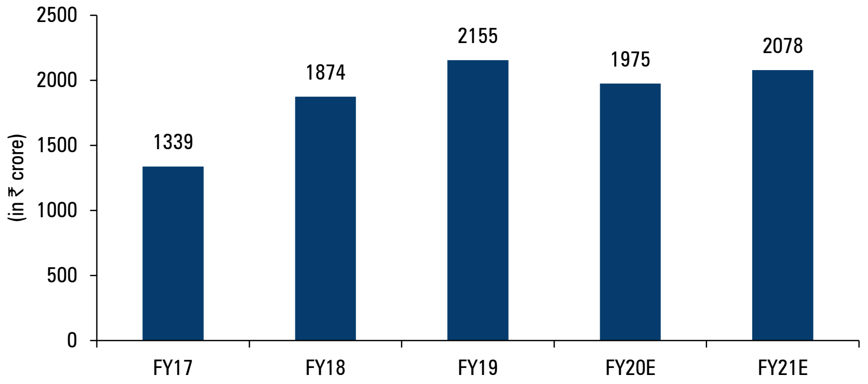
Source: Company, ICICI Direct Research

Expansion to enrich product profile mix of DI pipe

In the DI pipe segment, Tata Metaliks' current product range is from 80 mm to 800 mm diameter. TML's long-term aspiration is to achieve profitable growth through increased focus on ductile iron pipe segments. One of the areas in this is improving the product mix. The current capacity, which Tata Metaliks has undertaken, would improve Tata Metaliks' manufacturing capability wherein it will be able to produce pipes to up to 1200 mm diameter pipe (from current level of up to 800 mm). Hence overall, the proposed expansion aims to build capacity in all segments along with additional capacity in >800 mm diameter pipe that would enable the company to meet the future demand requirement.

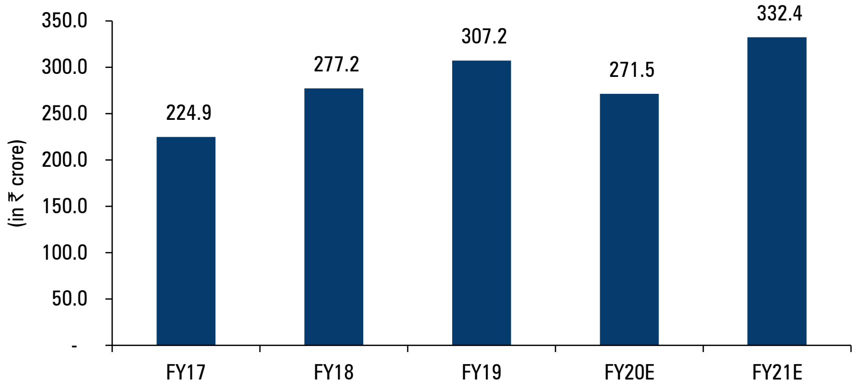
Financial story in charts

Exhibit 7: Trend in total operating income (in ₹ crore)



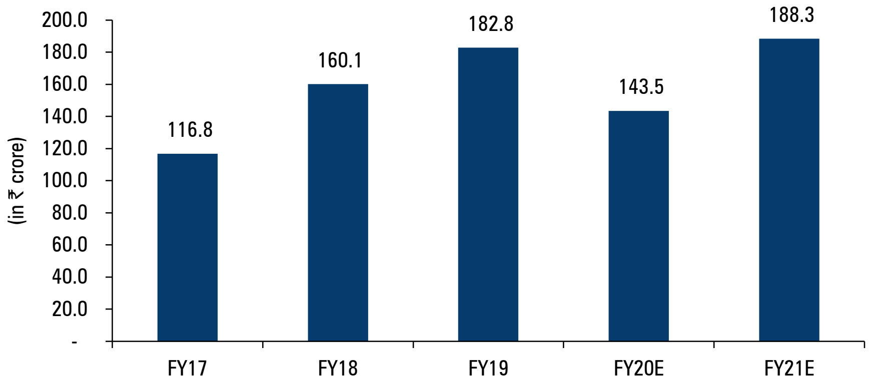
Source: Company, Reuters, ICICI Direct Research

Exhibit 8: Trend in EBITDA (in ₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Trend in net profit (in ₹ crore)



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit & loss statement (₹ crore)

(Year-end March)	FY18	FY19	FY20E	FY21E
Total Operating Income	**1,873.7**	**2,155.1**	**1,974.5**	**2,077.8**
Growth (%)	40.0%	15.0%	-8.4%	5.2%
Raw Material Expenses	1,088.4	1,332.5	1,184.7	1,194.7
Employee Expenses	100.3	112.0	113.5	124.7
Other Manufacturing Expenses	407.8	403.4	404.8	425.9
Total Operating Expenditure	1,596.5	1,847.9	1,703.0	1,745.3
EBITDA	**277.2**	**307.2**	**271.5**	**332.4**
Growth (%)	23.3%	10.8%	-11.6%	22.4%
Interest & Finance Cost	47.1	43.3	21.8	15.3
Depreciation	49.1	57.6	60.0	68.0
Other Income	20.2	6.6	2.0	2.5
PBT before Exceptional Items	201.3	213.0	191.7	251.7
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	201.3	213.0	191.7	251.7
Total Tax	41.2	30.2	48.3	63.4
PAT	**160.1**	**182.8**	**143.5**	**188.3**
Growth (%)	37.0%	14.2%	-21.5%	31.3%
EPS	**63.3**	**65.1**	**45.4**	**59.6**

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement (₹ crore)

(Year-end March)	FY18	FY19	FY20E	FY21E
Profit/(Loss) after taxation	160.1	182.8	143.5	188.3
Add: Dep. & Amortization	49.1	57.6	60.0	68.0
Net (Inc) / dec.in Current Asset	(61.4)	(171.2)	126.2	4.3
Net Inc / (dec) in Current Liab.	(27.4)	280.6	(174.0)	54.6
CF from operating activities	**120.4**	**349.9**	**155.7**	**315.2**
(Inc)/dec in Investments	(10.0)	10.0	-	-
(Inc)/dec in Fixed Assets	(35.5)	(109.0)	(170.0)	(490.0)
Others	-	-	-	-
CF from investing activities	**(45.6)**	**(98.9)**	**(170.0)**	**(490.0)**
Inc / (Dec) in Equity Capital	-	2.8	3.5	-
Inc / (Dec) in Loans	(65.1)	(431.1)	(0.7)	75.0
Dividend & Dividend Tax	(7.4)	(11.5)	(12.9)	(12.9)
Others	(1.2)	214.5	168.2	-
CF from financing activities	**(73.8)**	**(225.3)**	**158.0**	**62.1**
Net Cash flow	1.1	25.6	143.7	(112.7)
Opening Cash	2.1	3.2	28.8	172.5
Closing Cash	**3.2**	**28.8**	**172.5**	**59.8**

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet (₹ crore)

(Year-end March)	FY18	FY19	FY20E	FY21E
Equity Capital	25.3	28.1	31.6	31.6
Reserve and Surplus	333.4	739.0	1,037.7	1,213.1
Total Shareholders funds	358.7	767.1	1,069.3	1,244.7
Total Debt	469.7	38.5	37.8	112.8
Deferred Tax Liability (net)	-	(19.8)	(19.8)	(19.8)
Source of Funds	**828.3**	**785.8**	**1,087.3**	**1,337.8**
Gross Block - Fixed Assets	680.8	757.3	832.3	1,132.3
Accumulated Depreciation	95.8	127.7	187.7	255.7
Net Block	585.0	629.6	644.6	876.6
Capital WIP	24.2	31.5	126.5	316.5
Net Fixed Assets	609.8	661.1	771.1	1,193.1
Investments	10.0	0.0	0.0	0.0
Inventory	198.7	315.0	227.2	227.7
Cash	3.2	28.8	172.5	59.8
Debtors	214.2	277.8	243.4	239.1
Loans & Advances & Other CA	88.7	80.0	76.0	75.6
Total Current Assets	504.8	701.6	719.2	602.1
Creditors	198.0	481.1	297.5	341.5
Provisions & Other CL	98.2	95.8	105.4	115.9
Total Current Liabilities	296.3	576.9	402.9	457.5
Net Current Assets	208.6	124.8	316.3	144.7
Application of Funds	**828.3**	**785.8**	**1,087.3**	**1,337.8**

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	63.3	65.1	45.4	59.6
BV	141.8	273.1	338.6	394.2
DPS	2.5	3.5	3.5	3.5
Cash Per Share	1.3	10.3	54.6	18.9
Operating Ratios (%)				
EBITDA margins	14.8	14.3	13.8	16.0
PBT margins	10.7	9.9	9.7	12.1
Net Profit margins	8.5	8.5	7.3	9.1
Inventory days	39	53	42	40
Debtor days	42	47	45	42
Creditor days	39	81	55	60
Return Ratios (%)				
RoE	44.6	23.8	13.4	15.1
RoCE	27.5	31.0	19.1	19.5
RoIC	27.7	32.1	22.6	20.4
Valuation Ratios (x)				
P/E	8.2	8.0	11.5	8.7
EV / EBITDA	6.4	4.8	5.6	5.1
EV / Revenues	1.0	0.7	0.8	0.8
Market Cap / Revenues	0.7	0.7	0.8	0.8
Price to Book Value	3.7	1.9	1.5	1.3
Solvency Ratios				
Debt / Equity	1.3	0.1	0.0	0.1
Debt/EBITDA	1.7	0.1	0.1	0.3
Current Ratio	1.7	1.2	1.8	1.3
Quick Ratio	1.0	0.7	1.2	0.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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