

Softening coking coal prices augur well...

About the stock: Tata Steel group is among the top global steel companies with an annual steel production capacity of ~34 million tonnes per annum (MTPA).

- Tata Steel (TSL) is one of the world's most geographically diversified steel producers, with operations and commercial presence across the world
- Since 2016, TSL has been consistently ranked among the top 10 steel companies in the DJSI Corporate Sustainability Assessment

Key Highlights:

- Over the last one month (i.e. from July first week to August first week) domestic hot rolled coil (HRC) prices have been range bound and hovered at ~₹ 57500-59500/tonne. In the backdrop of range bound domestic steel prices (HRC), the recent sharp fall in coking coal prices augurs well for Indian steel players. Over the last couple of months coking coal prices have halved from ~US\$415/tonne in June 2022 to ~US\$208/tonne currently in August 2022. The benefit of lower coking coal costs is likely to feed through in the cost base by September 2022 for Tata Steel Indian operations and by Q3FY22 for Tata Steel European operations
- During Q1FY23, Tata Steel Indian operations reported sales volume of 4.06 million tonnes. For Q2FY23E, sequentially Tata Steel Indian operations sales volumes is likely to be 0.5 million tonnes (MT) higher compared to Q1FY23
- During Q1FY23, Tata Steel's European operations achieved highest ever quarterly EBITDA of ₹ 6037 crore (up 294% YoY and 39% QoQ). European operations reported a strong beat on the EBITDA front aided by long term contracts and product mix. For Q1FY23, Tata Steel European operations reported EBITDA/tonne of US\$365/tonne (US\$89/tonne in Q1FY22 and US\$241/tonne in Q4FY22)
- Tata Steel Long Products, a subsidiary of Tata Steel, completed the acquisition of Neelachal Ispat Nigam (NINL) on July 4, 2022

What should investors do? TSL's share price has given a return of ~159% over the last two years (from ~₹ 42 in August 2020 to ~₹ 109 levels in August 2022).

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

Target Price and Valuation: We value Tata Steel at ₹ 130, based on SoTP valuation

Key triggers for future price performance:

- With respect to NINL, Tata Steel plans to restart NINL's blast furnace in next three months & ramp up capacity to ~80-100 KT/month run-rate by Mar'23
- Tata Steel remains committed to its annual deleveraging target of US\$1 billion in line with its capital allocation strategy to reduce debt

Alternate Stock Idea: In our metal sector coverage, we also like Jindal Stainless.

- Jindal Stainless (JSL) has a 1.1 million tonnes per annum (MTPA) integrated facility with backward integration.
- BUY with a target price of ₹ 135

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR (FY17-22)	FY23E	FY24E	CAGR (FY22-24E)
Net Sales	1,57,669	1,39,817	1,56,294	2,43,959	17%	2,44,888	2,45,783	0%
Reported EBITDA	29,383	17,463	30,504	63,490	30%	45,620	46,800	-15%
Adjusted PAT	8,995	4,737	9,233	41,749	LP	24,633	25,007	-23%
Adjusted EPS (₹)	7.9	4.1	7.7	34.3		20.5	20.8	
EV/EBITDA (x)	7.2	13.3	7.1	3.1		4.4	4.1	
RoCE (%)	13.8	4.8	13.1	28.5		15.9	15.1	
RoE (%)	13.0	6.4	12.4	36.4		18.3	16.0	



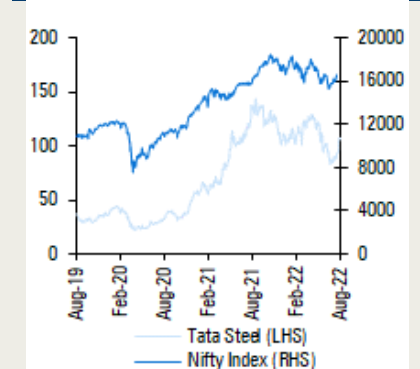
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,31,337
Total Debt (FY22) (₹ Crore)	75,561
Cash & Cash Eq. (FY22) (₹ Crore)	24,513
EV (₹ Crore)	1,82,385
52 week H/L (₹)	153 / 83
Equity capital	₹ 1221 Cr.
Face value	₹ 1

Shareholding Pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	34.4	33.9	33.9	33.9
FIs	22.4	21.4	22.9	22.0
DIs	18.3	18.1	20.4	19.0
Public	24.9	26.6	22.8	25.1
Total	100.0	100.0	100.0	100.0

Price Chart



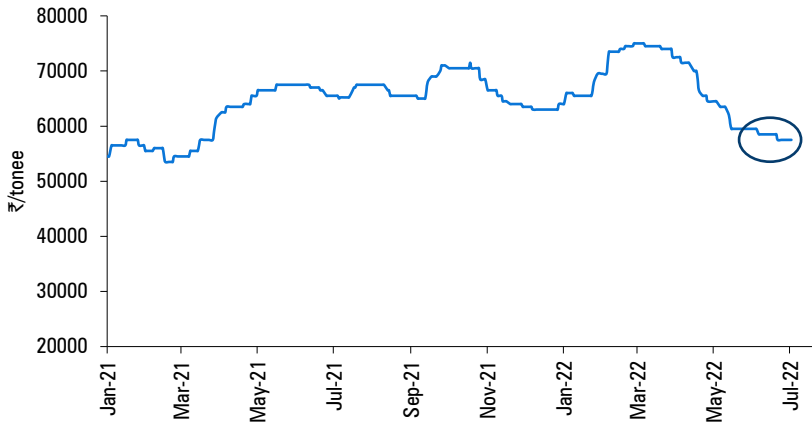
Key Risks

- Key risks: (i) Steep decline in steel prices (ii) Higher-than-expected increase in operating costs

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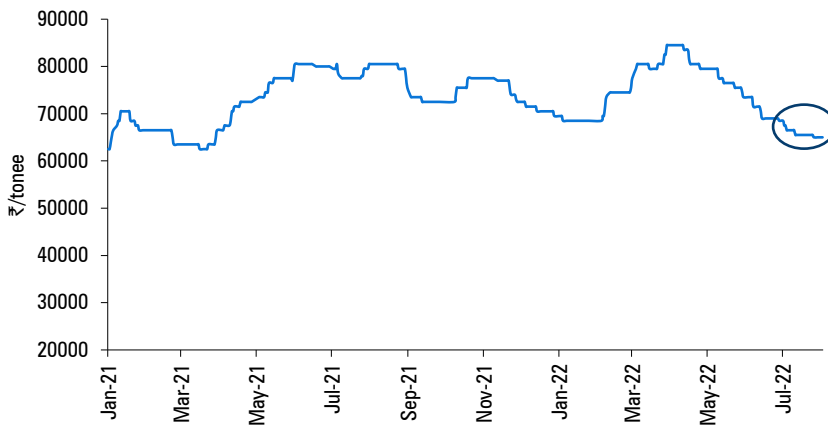
Exhibit 1: Domestic HRC prices remain range bound in last one month...



Post the levy of export duty, domestic steel prices (HRC) in one-month period between last week of May 2022 to last week of June 2022 witnessed a fall of ~15% to ₹ 59500/tonne. However, since the last one month (i.e. from July first week to August first week) domestic steel prices (HRC) have been range bound and hovered ~₹ 57500-59500/tonne

Source: Company, ICICI Direct Research

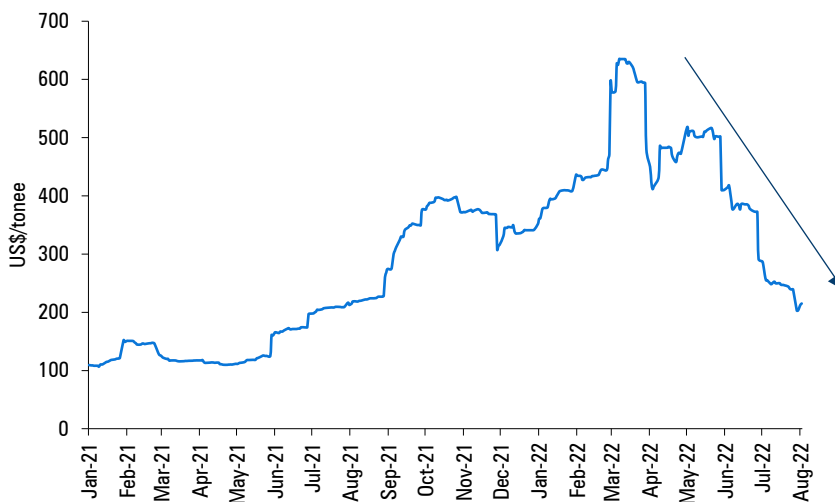
Exhibit 2: Similarly, Domestic CRC prices also remain range bound in last one month....



Over the last one month, domestic CRC prices are hovering at ₹ 65000-66500/tonne

Source: Company, ICICI Direct Research

Exhibit 3: Sharp drop has been seen in coking coal prices since March 2022..



Over the last couple of months coking coal prices have halved from ~US\$415/tonne in June 2022 to ~US\$208/tonne currently in August 2022. Coking coal prices have fallen significantly from the peak of US\$635/tonne in March 2022

Source: Company, ICICI Direct Research

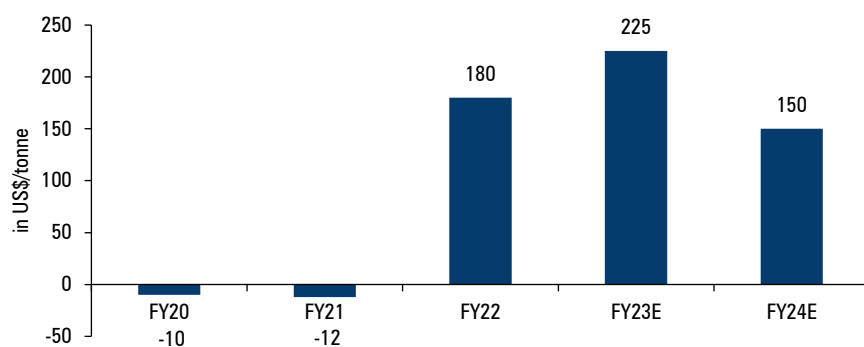
Exhibit 4 : Variance Analysis (Tata Steel - Consolidated Performance)

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	63430	59280	53465	19%	69324	-9%	Consolidated topline came in higher than our estimate
Total Expenditure	48457	46783	37355	30%	54294	-11%	
Reported EBITDA	14973	12497	16111	-7%	15030	0%	
Adjusted EBITDA	14348	12497	15892	-10%	15891	-10%	Consolidated adjusted EBITDA came in higher than our estimate
Adjusted EBITDA Margin (%)	22.6	21.1	29.7	(710) bps	22.9	(30) bps	Consolidated adjusted EBITDA margin came in higher than our estimate
Depreciation	2237	2250	2325	-4%	2243	0%	
Finance cost	1218	1025	1811	-33%	1099	11%	
Other Income	268	275	162	65%	292	-8%	
Share of Profit from associate	160	100	122	30%	159	0%	
Exceptional Items	-39	0	-182	-78%	-274	-86%	
PBT	11906	9597	12077	-1%	11865	0%	
Tax Outgo	4192	2399	2308	82%	2030	107%	
PAT	7714	7198	9768	-21%	9835	-22%	Ensuing consolidated PAT came in higher than our estimate
Key Metrics							
Tata Steel (Standalone operations) sales volumes (in MT)	3.9	3.9	4.0	-3%	5.0	-22%	Tata Steel standalone operations sales volume came in line with our estimate
Tata Steel European operations sales volume (in MT)	2.1	2.2	2.3	-8%	2.4	-11%	Tata Steel European operations sales volume broadly came in line with our estimate
Tata Steel (Standalone operation) Adjusted EBITDA/tonne (in ₹/tonne)	21326	20500	32712	-35%	23690	-10%	Tata Steel standalone operations adjusted EBITDA/tonne came in marginally higher than our estimate
Tata Steel European operations EBITDA/tonne (in US\$/tonne)	365	250	89	310%	241	51%	Tata Steel European operations EBITDA/tonne came in notably higher than our estimate

Source: Company, ICICI Direct Research.

Financial story in charts

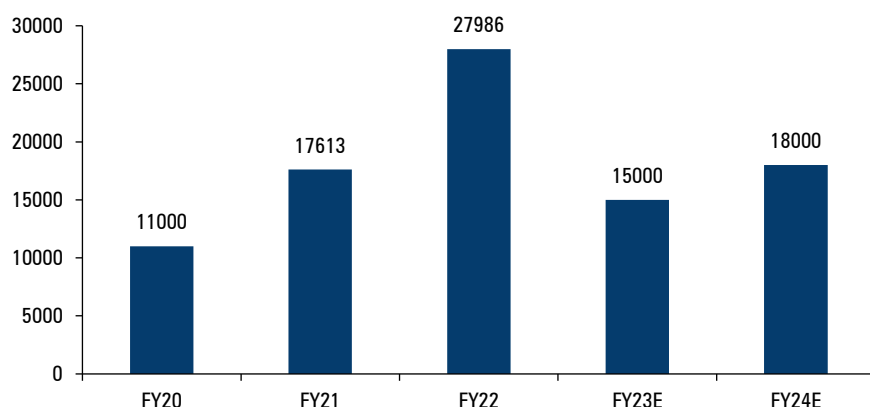
Exhibit 5 : Tata Steel European operation EBITDA... (in US\$/tonne)



For Tata Steel European operations, we model EBITDA/tonne of US\$225/tonne for FY23E and US\$150/tonne for FY24E.

Source: Company, ICICI Direct Research

Exhibit 6 : Tata Steel Standalone operation EBITDA... (in ₹/tonne)

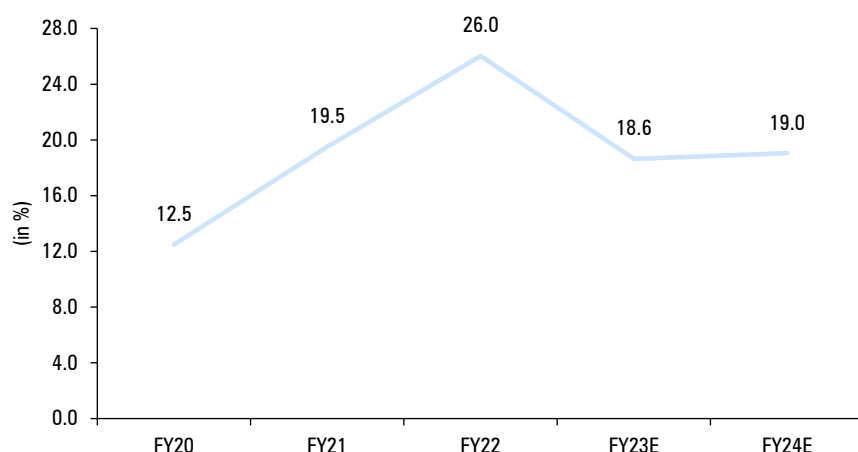


For Tata Steel standalone operations, we model EBITDA/tonne of ₹ 15000/tonne for FY23E and ₹ 18000/tonne for FY24E

For Q1FY23, Tata Steel standalone operations reported adjusted EBITDA/tonne of ₹ 21326/tonne.

Source: Company, ICICI Direct Research

Exhibit 7: Consolidated EBITDA margins trend....(in %)



Over the next couple of years, we expect consolidated EBITDA margin at ~18.6% for FY23E and ~19.0% for FY24E

Source: Company, ICICI Direct Research

Exhibit 8 : Valuation Matrix

	Total Op. Income	Growth	EPS	Growth	PE	EV/EBIDTA	P/ BV	RoNW	RoCE
	(₹ Crore)	% YoY	(₹)	% YoY	(x)	(x)	(x)	(%)	(%)
FY21	1,56,294	11.8	7.7	86.4	13.9	7.1	1.7	12.4	13.1
FY22	2,43,959	56.1	34.3	344.9	3.1	3.1	1.1	36.4	28.5
FY23E	2,44,888	0.4	20.5	(40.4)	5.2	4.4	1.0	18.3	15.9
FY24E	2,45,783	0.4	20.8	1.5	5.2	4.1	0.8	16.0	15.1

Source: Company, ICICI Direct Research

Exhibit 9 : SoTP Valuation

Particulars	Units	Mar-24E
Tata Steel Standalone Operations		
Tata Steel Standalone operations Sales volume (FY24E)	in MT	18.8
Tata Steel Standalone operations EBITDA/tonne (FY24E)	₹/tonne	18,000
Tata Steel Standalone operations EBITDA (FY24E)	₹ crore	33,840
Multiple	x	5.0
Tata Steel Standalone operations Target EV (A)	₹ crore	169200
Tata Steel European Operations		
Tata Steel European operations Sales volume (FY24E)	in MT	10
Tata Steel European operations EBITDA/tonne (FY24E)	₹/tonne	11250
Tata Steel European operations EBITDA (FY24E)	₹ crore	11,250
Multiple	x	3.0
Tata Steel European operations Target EV (B)	₹ crore	33750
Tata Steel Other Subsidiaries EBITDA (FY24E)	₹ crore	1710
Multiple	x	3.5
Tata Steel Other Subsidiaries Target EV (C)	₹ crore	5985
Total Consolidated Target EV (A+B+C)	₹ crore	208935
Gross Debt (FY24E)	₹ crore	73061
Net Cash and Cash Equivalents (FY24E)	₹ crore	22625
Net Debt (FY24E)	₹ crore	50436
Equity value	₹ crore	158499
No. of Equity Shares	in crore	1221
Target price of Tata Steel	in ₹/share	130
CMP of Tata Steel	in ₹/share	109
Upside (%)	in %	19%

Source: Company, ICICI Direct Research

Financial summary – Tata Steel (Consolidated)

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Inc.	156294	243959	244888	245783
Growth (%)	12	56	0	0
Total Operating Expend.	125790	180469	199268	198983
EBITDA	30504	63490	45620	46800
Growth (%)	75	108	-28	3
Depreciation	9234	9101	11180	11822
Interest	7607	5462	5728	5640
Other Income	896	785	652	649
PBT	14560	49712	29365	29987
Share of Profit from JV/Asso	0	649	682	750
Exceptional Item	-1043	-134	0	0
Total Tax	5654	8478	5413	5730
PAT	7862	41749	24633	25007
Growth (%)	236	431	-41	2
Minorities, Associates, etc	327	0	345	353
Rep PAT after Assoc. MI	8190	41749	24978	25361
Adj PAT after Assoc. MI	9233	41883	24978	25361
Growth (%)	94.9	353.6	-40.4	1.5
EPS (₹)	7.7	34.3	20.5	20.8

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	8190	41749	24978	25361
Add: Depreciation	9234	9101	11180	11822
(Inc)/dec in Current Assets	5843	-23575	-14820	1101
Inc/(dec) in CL and Prov.	18900	9302	59	-11759
Others	-12821	7804	3370	3254
CF from operating activities	29345	44381	24766	29779
(Inc)/dec in Investments	-4397	-3668	-1000	-1000
(Inc)/dec in Fixed Assets	-7023	-10522	-24100	-16000
Others	683	-13132	-337	-396
CF from investing activities	-10737	-27321	-25437	-17397
Issue/(Buy back) of Equity	-1447	24	0	0
Inc/(dec) in loan funds	-24789	-12940	5000	-7500
Dividend paid & dividend tax	-2994	-6228	-3663	-3663
Inc/(dec) in Share Cap	0	0	0	0
Others	8349	12201	682	750
CF from financing activities	-20880	-6943	2018	-10414
Net Cash flow	-2273	10116	1347	1968
Opening Cash	8055	5782	15899	17246
Closing Cash	5782	15899	17246	19215

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Share Capital	1198	1221	1221	1221
Hybrid Perpetual securities	775	775	775	775
Reserve and Surplus	72266	113222	134536	156233
Total Shareholders funds	74239	115218	136533	158230
Total Debt	88501	75561	80561	73061
Deferred Tax Liability	9241	12326	12696	12949
Minority Interest & Others	18731	17628	20973	24327
Total Liabilities	190712	220733	250762	268567
Assets				
Gross Block	262887	269440	289540	301540
Less: Acc Depreciation	126233	135334	146514	158335
Net Block	136654	134106	143026	143205
CWIP	18129	21228	25228	29228
Net Fixed Assets (Incl. CWIP)	154783	155333	168254	172432
Investments	10682	14350	15350	16350
Inventory	33276	48824	53098	52183
Debtors	9540	12246	14392	14307
Loans and Advances	29692	33550	41550	40550
Other Current Assets	2410	3872	4272	5172
Cash	5782	15899	17246	19215
Total Current Assets	80701	114392	130560	131427
Current Liabilities	56651	65852	66160	54651
Provisions	4725	4826	4576	4326
Current Liabilities & Prov	61376	70678	70736	58977
Net Current Assets	19325	43715	59823	72449
others	5923	7335	7335	7335
Application of Funds	190712	220733	250762	268567

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Adj EPS	7.7	34.3	20.5	20.8
Cash EPS	15.4	41.8	29.6	30.4
BV	62.0	94.4	111.8	129.6
DPS	2.5	5.1	3.0	3.0
Operating Ratios (%)				
EBITDA Margin	19.5	26.0	18.6	19.0
PBT / Total Operating income	9.3	20.4	12.0	12.2
Adj PAT Margin	5.9	17.2	10.2	10.3
Inventory days	83	115	120	130
Debtor days	30	30	30	30
Creditor days	145	150	145	135
Return Ratios (%)				
Adj RoE	12.4	36.4	18.3	16.0
Adj RoCE	13.1	28.5	15.9	15.1
Adj RoIC	13.6	31.1	17.2	16.5
Valuation Ratios (x)				
P/E	13.9	3.1	5.2	5.2
EV / EBITDA	7.1	3.1	4.4	4.1
EV / Net Sales	1.6	0.8	0.9	0.9
Market Cap / Sales	0.9	0.5	0.6	0.6
Price to Book Value	1.7	1.1	1.0	0.8
Solvency Ratios				
Debt/EBITDA	2.7	0.8	1.2	1.0
Debt / Equity	1.1	0.5	0.5	0.3
Current Ratio	1.3	1.6	1.8	2.2
Quick Ratio	0.8	0.9	1.1	1.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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