

## On strong footing...

**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 five steel companies in the DJSI Corporate Sustainability Assessment

### Key Updates:

- Over the last few days, Indian steel prices have witnessed a softening trend. Domestic HRC prices have declined from ₹ 67500/tonne as on November 30, 2021 to ₹ 65500/tonne on December 09, 2021. Along with steel prices, prices of key inputs such as coking coal have also witnessed a falling trend. During November 2021, coking coal prices (CNF India, Australia premium hard coking coal) were at ~US\$318/tonne compared to ~US\$403/tonne in October 2021, registering a decline of 21% MoM
- China recently cut its reserve requirement ratio by 50 bps to boost its economic growth. This cut in reserve requirement ratio for major commercial banks will be effective from December 15, 2021. This step to cut the ratio augurs well for Chinese steel demand, in general
- Chinese finished steel exports declined for a fifth consecutive month in November 2021, falling 3.1% MoM to 4.4 MT (a new monthly low for CY21). Monthly Chinese steel exports have declined from 6.5 million tonnes (MT) in June 2021 to 4.4 MT in November 2021
- Over the last six months, Tata Steel's net debt/equity has improved from 0.98x at the end of FY21 to 0.79x at the end of H1FY22. Similarly, Tata Steel's net debt/EBITDA has improved from 2.44x at the end of FY21 to 1.21x at the end of H1FY22

**What should investors do?** TSL's share price has given a return of 93% over the last 12 months (from ~₹ 610 in December 2020 to ~₹ 1178 levels in December 2021).

- We maintain our BUY rating on the stock

**Target Price and Valuation:** We value TSL at ₹ 1400, based on SoTP valuation

### Key triggers for future price performance:

- India's share in Tata Steel's overall consolidated production capacity has risen from 29% in 2010 to 57% in 2020 and is likely to reach 73% by 2030
- For FY22E, Tata Steel is targeting over US\$2 billion gross debt reduction wherein it will prioritise offshore debt repayment

**Alternate Stock Idea:** In our metal sector coverage, we also like Hindalco.

- Hindalco is the world's largest aluminium company by revenue and a major player in copper segment
- BUY with a target price of ₹ 600

### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	CAGR (FY16-21)	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	1,31,700	1,57,669	1,39,817	1,56,294	6%	2,27,931	2,01,072	13%
EBITDA	21,891	29,383	17,463	30,504	32%	62,450	44,644	21%
Adj PAT	8,164	8,995	4,737	9,233	NA	35,126	21,759	54%
EPS (₹)	71.3	78.6	41.4	77.1		293.3	181.7	
EV/EBITDA (x)	10.3	7.6	14.0	7.3		3.4	4.5	
RoCE (%)	12.3	13.8	4.8	13.1		30.1	18.8	
RoE (%)	17.7	13.0	6.4	12.4		32.7	16.7	

Source: Company, ICICI Direct Research



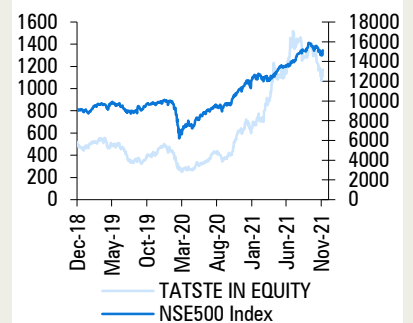
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,43,653
Total Debt (Q2FY22) (₹ Crore)	78,163
Cash & Cash Eq. (Q2FY22) (₹ Crore)	9,303
EV (₹ Crore)	2,12,513
52 week H/L (₹)	1535 / 585
Equity capital	₹ 1198 Cr.
Face value	₹ 10

### Shareholding Pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	34.4	34.4	34.4	34.4	34.4
FII's	11.5	16.9	18.6	21.9	22.4
DII's	29.9	25.8	25.2	19.2	18.3
Others	24.3	22.9	21.9	24.4	24.9
Total	100.0	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

### Research Analyst

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## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total Operating Inc.</b>	<b>139817</b>	<b>156294</b>	<b>227931</b>	<b>201072</b>
Growth (%)	-11	12	46	-12
Total Operating Expend.	122354	125790	165482	156427
<b>EBITDA</b>	<b>17463</b>	<b>30504</b>	<b>62450</b>	<b>44644</b>
Growth (%)	-41	75	105	-29
Depreciation	8441	9234	9315	9639
Interest	7533	7607	5382	4614
Other Income	1843	896	977	952
<b>PBT</b>	<b>3332</b>	<b>14560</b>	<b>48730</b>	<b>31343</b>
Exceptional Item	-3564	-1043	0	0
Total Tax	-2568	5654	13987	9929
<b>PAT</b>	<b>2337</b>	<b>7862</b>	<b>34743</b>	<b>21414</b>
Growth (%)	-75	236	342	-38
Minorities, Associates, etc	-1164	327	383	345
Rep PAT after Assoc. MI	1172	8190	35126	21759
<b>Adj PAT after Assoc. MI</b>	<b>4737</b>	<b>9233</b>	<b>35126</b>	<b>21759</b>
Growth (%)	-47.3	94.9	237.5	-30.8
<b>EPS (₹)</b>	<b>41.4</b>	<b>77.1</b>	<b>293.3</b>	<b>181.7</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	1172	8190	35126	21759
Add: Depreciation	8441	9234	9315	9639
(Inc)/dec in Current Assets	-141	5843	-40295	1058
Inc/(dec) in CL and Prov.	12244	18900	28129	-7541
Others	-2425	-12821	3000	3000
<b>CF from operating activities</b>	<b>19292</b>	<b>29345</b>	<b>35274</b>	<b>27914</b>
(Inc)/dec in Investments	-10547	-4397	-750	-1000
(Inc)/dec in Fixed Assets	-10347	-7023	-14000	-16000
Others	-5867	683	383	345
<b>CF from investing activities</b>	<b>-26761</b>	<b>-10737</b>	<b>-14367</b>	<b>-16655</b>
Issue/(Buy back) of Equity	0	-1447	0	0
Inc/(dec) in loan funds	22145	-24789	-19500	-13685
Dividend paid & dividend tax	-1340	-2994	-5988	-5389
Inc/(dec) in Share Cap	0	0	0	0
Others	-8612	8349	4000	6706
<b>CF from financing activities</b>	<b>12193</b>	<b>-20880</b>	<b>-21488</b>	<b>-12369</b>
Net Cash flow	4724	-2273	-581	-1109
Opening Cash	3331	8055	5782	5202
<b>Closing Cash</b>	<b>8055</b>	<b>5782</b>	<b>5202</b>	<b>4092</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Share Capital	1145	1198	1198	1198
Hybrid Perpetual securities	2275	775	775	775
Reserve and Surplus	70156	72266	105404	128479
<b>Total Shareholders funds</b>	<b>73576</b>	<b>74239</b>	<b>107377</b>	<b>130452</b>
<b>Total Debt</b>	<b>113289</b>	<b>88501</b>	<b>69001</b>	<b>55316</b>
<b>Deferred Tax Liability</b>	<b>9261</b>	<b>9241</b>	<b>9241</b>	<b>9241</b>
Minority Interest & Others	11816	18731	22114	25459
<b>Total Liabilities</b>	<b>207943</b>	<b>190712</b>	<b>207733</b>	<b>220468</b>
<b>Assets</b>				
Net Block	131131	136654	133839	136201
CWIP	18862	18129	25629	29629
Net Fixed Assets (Incl. CWIP)	149993	154783	159468	165829
Investments	6285	10682	11432	12432
Inventory	31069	33276	61931	56197
Debtors	7885	9540	13630	13407
Loans and Advances	35663	29692	35692	39692
Other Current Assets	6144	2410	3960	4860
Cash	8055	5782	5202	4092
<b>Total Current Assets</b>	<b>88816</b>	<b>80701</b>	<b>120415</b>	<b>118248</b>
Current Liabilities	40813	56651	85279	77988
Provisions	1664	4725	4225	3975
<b>Current Liabilities &amp; Prov</b>	<b>42476</b>	<b>61376</b>	<b>89505</b>	<b>81964</b>
Net Current Assets	46340	19325	30910	36284
others	5325	5923	5923	5923
<b>Application of Funds</b>	<b>207943</b>	<b>190712</b>	<b>207733</b>	<b>220468</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Adj EPS	41.4	77.1	293.3	181.7
Cash EPS	115.1	154.2	371.1	262.2
BV	642.6	619.9	896.6	1089.3
DPS	10.0	25.0	50.0	45.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	12.5	19.5	27.4	22.2
PBT / Total Operating income	2.4	9.3	21.4	15.6
Adj PAT Margin	3.4	5.9	15.4	10.8
Inventory days	89	83	115	120
Debtor days	26	30	30	35
Creditor days	144	145	150	150
<b>Return Ratios (%)</b>				
Adj RoE	6.4	12.4	32.7	16.7
Adj RoCE	4.8	13.1	30.1	18.8
Adj RoIC	5.0	13.6	31.0	19.3
<b>Valuation Ratios (x)</b>				
P/E	28.3	15.2	4.0	6.4
EV / EBITDA	14.0	7.3	3.4	4.5
EV / Net Sales	1.8	1.6	1.1	1.1
Market Cap / Sales	1.0	1.0	0.7	0.8
Price to Book Value	1.8	1.9	1.3	1.1
Price to Adj Book Value	1.8	1.9	1.3	1.1
<b>Solvency Ratios</b>				
Debt/EBITDA	6.0	2.7	1.0	1.1
Debt / Equity	1.4	1.1	0.6	0.4
Current Ratio	2.1	1.3	1.3	1.4
Quick Ratio	1.4	0.8	0.7	0.8

Source: Company, ICICI Direct Research

**Exhibit 5: ICICI Direct coverage universe (Metals and Mining)**

	CMP		TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21
Coal India	153	160	Hold	94725	20.6	25.1	27.7	7.3	6.0	5.5	4.2	4.1	4.1	42.3	41.7	39.8	34.8	36.7	35.5
Hindalco	456	600	Buy	102437	25.5	58.3	59.8	17.3	7.6	7.4	8.3	5.3	4.8	8.8	14.8	14.5	8.5	17.6	15.5
NMDC	147	175	Buy	43109	21.3	34.7	20.6	6.3	3.9	6.5	4.1	2.6	4.1	27.0	35.1	18.7	21.0	28.6	15.4
JSW Steel	674	725	Hold	162896	32.9	82.5	66.4	19.9	8.0	9.9	10.4	5.6	6.4	13.8	22.1	15.3	17.0	30.0	19.5
Ratnamani	1963	2450	Buy	9173	59.0	76.2	98.0	35.9	27.8	21.6	23.5	17.1	13.8	15.7	19.3	20.1	13.9	15.7	17.2
Graphite Ind.	427	650	Buy	8346	-1.6	31.3	62.7	NA	14.7	7.3	NA	9.2	3.8	-5.4	12.1	23.1	-0.7	12.4	21.2
Tata Steel	1170	1400	Buy	143653	77.1	293.3	181.7	15.2	4.0	6.4	7.3	3.4	4.5	13.1	30.1	18.8	12.4	32.7	16.7
Sail	112	160	Buy	46195	9.2	31.4	22.1	11.7	3.4	4.8	6.2	2.8	3.7	10.9	24.1	15.2	8.9	24.4	15.1
Jindal Stainless Jindal	172	250	Buy	8671	8.6	26.2	22.7	19.3	6.3	7.3	7.8	4.9	5.7	16.0	25.2	18.1	13.0	29.1	20.1
Stainless Hisar	320	488	Buy	7545	29.5	63.9	58.9	10.4	4.8	5.2	7.7	4.2	4.0	18.6	26.7	20.9	23.2	32.4	22.5
Vardhman Special Steel	241	340	Buy	976	10.9	24.9	29.5	23.2	10.2	8.6	11.1	6.4	5.6	13.7	21.2	21.1	9.6	18.5	18.3
Tata Metaliks	894	1300	Buy	2822	69.9	88.9	101.2	13.0	10.2	9.0	6.9	5.9	4.6	24.6	24.9	23.0	17.0	18.1	17.1

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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