

## Performs well...

Tata Steel's Q3FY21 operational performance was better than our estimates. Consolidated topline came in at ₹ 39594 crore (up 7% QoQ, 11% YoY), broadly in line with our estimate of ₹ 39091 crore. During the quarter, for Indian operations while sales momentum was strong, deliveries were down 8% QoQ, 4% YoY to 4.65 million tonnes (MT) primarily due to lower opening inventory post strong sales in Q2FY21. European operations reported sales volume of 2.11 MT (down 10% YoY, 7% QoQ). Consolidated EBITDA was at ₹ 9464 crore (up 55% QoQ, 161% YoY), higher than our estimate of ₹ 8825 crore. Consolidated EBITDA margin was at 23.9% (up 1370 bps YoY, 750 bps QoQ), higher than our estimate of 22.6%. Ensuing consolidated PAT was at ₹ 4011 crore, higher than our estimate of ₹ 3672 crore (net loss of ₹ 1229 crore in Q3FY20 and net profit of ₹ 1665 crore in Q2FY21).

## Standalone operations post healthy performance...

Tata Steel's standalone operations reported a healthy Q3FY21 performance. Standalone operations reported EBITDA/tonne of ₹ 20070/tonne (₹ 10123/tonne in Q3FY20, ₹ 12861/tonne in Q2FY21), higher than our estimate of ₹ 19000/tonne. Q3FY21 performance of standalone operations was aided by an uptick in blended realisation. Going forward, for standalone operations, we model EBITDA/tonne of ₹ 16500/tonne in FY21E, ₹ 15000/tonne for FY22E, FY23E each (for 9MFY21, EBITDA/tonne of standalone operations was at ₹ 13976/tonne).

## Debt reduction drive augurs well....

As part of the enterprise deleveraging plan, Tata Steel has completed reduction of net debt by ₹ 18609 crore in 9MFY21. During Q3FY21, the company reduced leverage by ₹ 10325 crore. During the quarter, Tata Steel received ~₹ 6000 crore on account of export advances (forward sell of export volumes), which aided the net debt reduction in Q3FY21. As part of the continued de-leveraging strategy further deleveraging is being undertaken in Q4FY21.

## Valuation & Outlook

On the back of an increase in realisations both QoQ as well as YoY, Tata Steel's Indian operations reported a healthy performance. For the quarter, the healthy performance of Indian operations aided the consolidated operations. Going forward, we model consolidated EBITDA margin of 16.7% for FY21E and 16.6% for FY22E, FY23E each (9MFY21 consolidated EBITDA margin was 15.9%). The debt repayment drive also augurs well. We introduce FY23E estimates and roll over our valuations to FY23E. We value the stock on an SoTP basis and arrive at a target price of ₹ 750 (earlier target price of ₹ 625). On the back of the recent run-up witnessed in the stock, we downgrade the stock from BUY to **HOLD**.

### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	131,700	157,669	139,817	155,673	177,234	181,960	9%
EBITDA	21,891	29,383	17,463	26,028	29,449	30,134	20%
Adj PAT	8,164	8,995	4,737	7,546	9,629	9,889	28%
EPS (₹)	71.3	78.6	41.4	62.7	80.0	82.1	
EV/EBITDA (x)	7.8	5.8	10.7	6.3	5.4	5.1	
RoCE (%)	12.3	13.8	4.8	9.4	10.5	10.2	
RoE (%)	17.7	13.0	6.4	9.2	10.2	9.0	

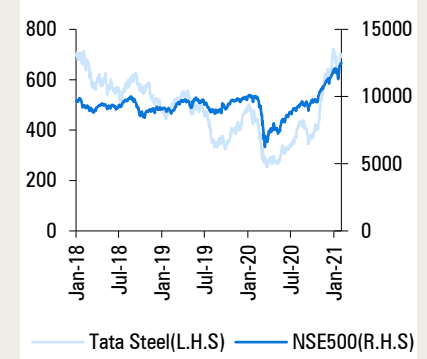
Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	79,582
Total Debt (FY20) (₹ Crore)	113,289
Cash & Cash Eq. (FY20) (₹ Crore)	8,055
EV (₹ Crore)	184,817
52 week H/L (₹)	731 / 251
Equity capital	₹ 1145 Cr.
Face value	₹ 10

### Price Performance



### Key risks to call

- Steel prices remaining elevated for a longer period of time
- Steep rise in operating costs (especially coking coal prices) coupled with any downward trend in steel prices

### Research Analyst

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**Exhibit 1: Variance Analysis (Consolidated Performance)**

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
<b>Revenue</b>	39594	39091	35520	11%	37,154	7%	Consolidated topline came in broadly in line with our estimate
Other Income	215	193	93	131%	222	-3%	
Other operating Expenses	11904	30266	31901	-63%	31,043	-62%	
<b>EBITDA</b>	<b>9464</b>	<b>8825</b>	<b>3620</b>	<b>161%</b>	<b>6,111</b>	<b>55%</b>	EBITDA was higher than our estimates
<b>EBITDA Margin (%)</b>	23.9	22.6	10.2	1371 bps	16.4	745 bps	EBITDA margin came in higher than our estimate
Depreciation	2275	2275	2019	13%	2,261	1%	
Interest	1778	1918	1931	-8%	1,940	-8%	
Exceptional Item and Share of associates	-65	75	-308	-79%	117	-156%	
<b>PBT</b>	<b>5561</b>	<b>4900</b>	<b>-545</b>	<b>LP</b>	<b>2248</b>	<b>147%</b>	
Tax Outgo	1572	1228	621	153%	613	156%	
<b>PAT from continued operations</b>	<b>3989</b>	<b>3672</b>	<b>-1166</b>	<b>-442%</b>	<b>1635</b>	<b>144%</b>	PAT came in higher than our estimates
<b>Key Metrics</b>							
TSI Steel Sales (MT) (Standalone operations)	3.3	3.4	3.4	-3%	3.6	-8%	Standalone sales came broadly in line with our estimate
TSE Steel Sales (MT)	2.1	2.1	2.4	-10%	2.3	-7%	
Adjusted TSI EBITDA/tonne (₹/tonne)	20070	19000	10123	98%	12861	56%	EBITDA/tonne came in higher than our estimates
TSE EBITDA/tonne (US\$/tonne)	-46.0	30.0	-57.0	-19%	-27.0	70%	

Source: Company, ICICI Direct Research, Adjusted for fair value changes on account of FX rate movement on investments in T Steel Holdings and revaluation gain/loss on external/ internal company debts/ receivables at TS Global Holdings Adjusted EBITDA came in at ₹ 8283 crore.

## Conference Call Highlights

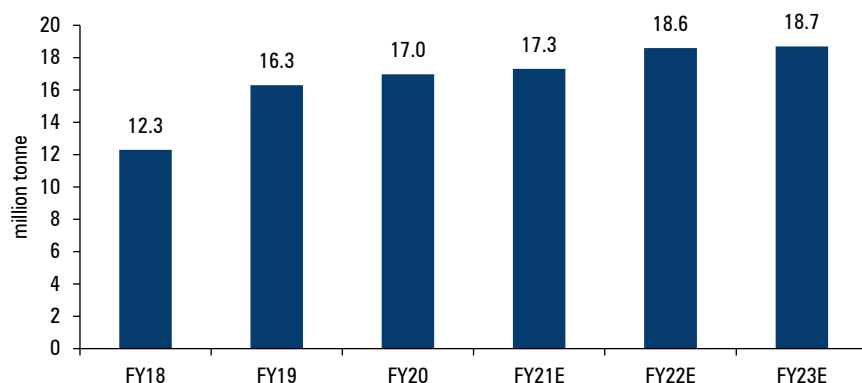
- For Indian operations, the blended realisation for Q4FY21 is likely to be QoQ higher by ₹ 6000-7000/tonne compared to Q3FY21)
- European operations reported negative EBITDA/tonne of US\$46/tonne against our estimate of positive EBITDA/tonne of US\$30/tonne (negative EBITDA/tonne of US\$57/tonne in Q3FY20 and negative EBITDA/tonne of US\$27/tonne in Q2FY21)
- For the quarter, EBITDA loss for European operations was at ₹ 724 crore (EBITDA loss of ₹ 462 crore in Q2FY21 and ₹ 956 crore in Q3FY20). For European operations, the EBITDA loss increased sequentially on account of lower deliveries, reversal of wage support from the Netherlands government, which was recognised in Q2FY21 and higher provision for carbon emission in Q3FY21
- During the quarter, for Indian operations while sales momentum was strong, deliveries were down 8% QoQ, 4% YoY to 4.65 MT, primarily due to lower opening inventory post strong sales in Q2FY21
- During the quarter, domestic deliveries were sharply ramped up to 4.16 MT (up 8% QoQ, 4% YoY), while exports shrank to 11% of overall sales volume (exports contributed 24% of overall sales volumes in Q2FY21 and 18% of overall sales volumes in Q3FY20)

## Key Update

- Tata Steel is making a first and final call of ₹ 461 (comprising ₹ 7.5 towards face value and ₹ 453.5 towards securities premium) per partly paid-up equity share, on ~7.76 crore outstanding partly paid-up equity shares of face value ₹ 10 each, issued by the company on a rights basis. The Board of Directors of the company have fixed February 19, 2021 as the record date for the purpose of determining the holders of partly paid-up equity shares to whom the Call notice will be dispatched for payment of the Call. The Call payment period will open on Monday, March 1, 2021 and close on Monday, March 15, 2021

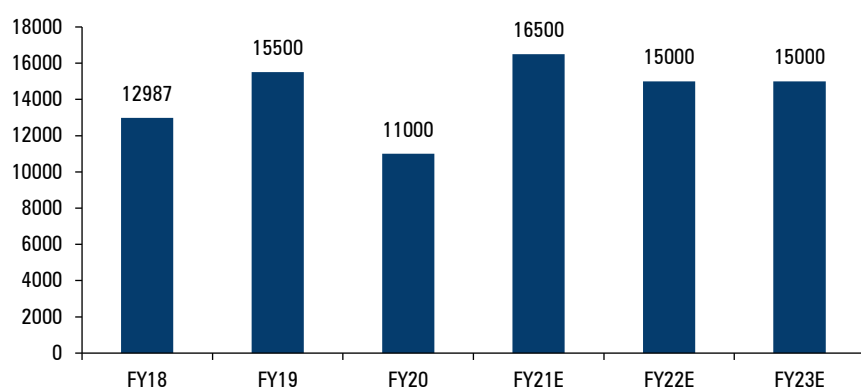
## Financial story in charts

Exhibit 2: Domestic operations volume trend, going forward



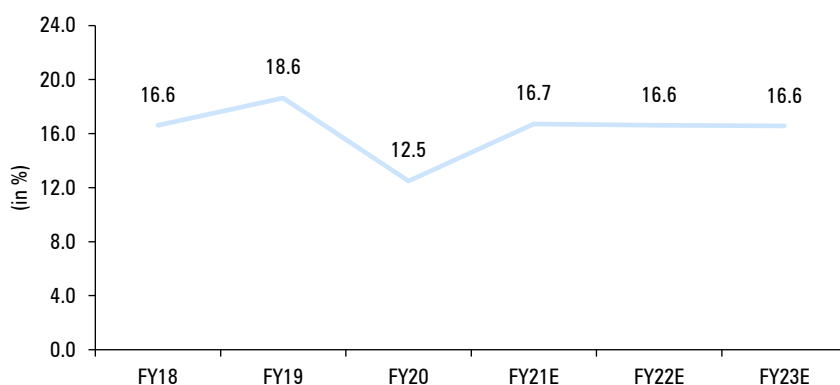
Source: Company, ICICI Direct Research, Domestic business includes Tata Steel Standalone, Tata Steel BSL and Tata Steel long products

Exhibit 3: Standalone operation EBITDA... (in ₹/tonne)



Source: Company, ICICI Direct Research

Exhibit 4: Consolidated EBITDA margins trend....(in %)



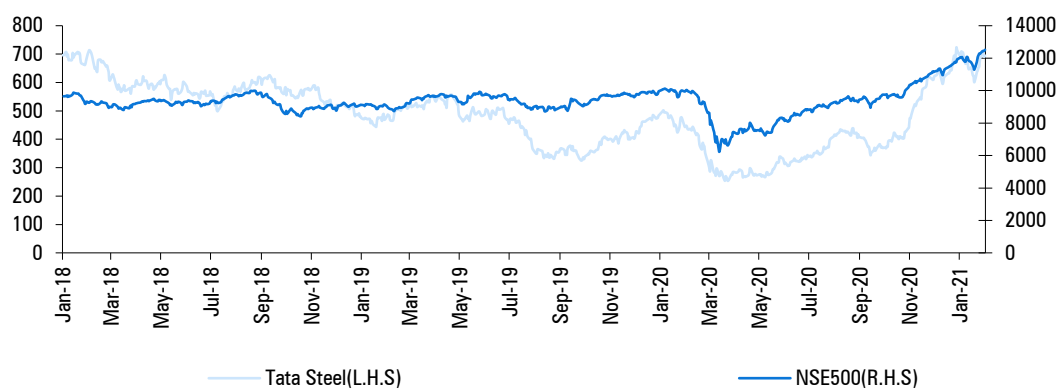
Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	Total Op. Income	Growth	EPS	Growth	PE	EV/EBIDTA	P/ BV	RoNW	RoCE
	(₹ Crore)	% YoY	(₹)	% YoY	(x)	(x)	(x)	(%)	(%)
FY18	131,700	17.3	71.3	69.1	9.7	7.8	1.7	17.7	12.3
FY19	157,669	19.7	78.6	10.2	8.8	5.8	1.2	13.0	13.8
FY20	139,817	(11.3)	41.4	(47.3)	16.8	10.7	1.1	6.4	4.8
FY21E	155,673	11.3	62.7	51.5	11.1	6.4	1.0	9.2	9.4
FY22E	177,234	13.8	80.0	27.6	8.7	5.4	0.9	10.2	10.5
FY23E	181,960	2.7	82.1	2.7	8.5	5.1	0.8	9.0	10.2

Source: Company, ICICI Direct Research

**Exhibit 6: Price Performance**



Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 7: Shareholding Pattern**

(in %)	Jun-20	Sep-20	Dec-20
Promoter	34.4	34.4	34.4
Others	65.6	65.6	65.6
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total Operating Inc.</b>	<b>139817</b>	<b>155673</b>	<b>177234</b>	<b>181960</b>
Growth (%)	-11	-18	13	3
Total Operating Expend.	122354	129646	147784	151826
<b>EBITDA</b>	<b>17463</b>	<b>26028</b>	<b>29449</b>	<b>30134</b>
Growth (%)	-41	49	13	2
Depreciation	8441	8797	9735	10115
Interest	7533	7221	7074	6577
Other Income	1843	996	1202	1377
<b>PBT</b>	<b>3332</b>	<b>11006</b>	<b>13842</b>	<b>14820</b>
Exceptional Item	-3564	0	0	0
Total Tax	-2568	3503	4251	4966
<b>PAT</b>	<b>2337</b>	<b>7503</b>	<b>9591</b>	<b>9854</b>
Growth (%)	-75	221	28	3
Minorities, Associates, etc	-1164	43	38	35
Rep PAT after Assoc. MI	1172	7546	9629	9889
<b>Adj PAT after Assoc.</b>	<b>4737</b>	<b>7546</b>	<b>9629</b>	<b>9889</b>
Growth (%)	-47.3	59.3	27.6	2.7
<b>EPS (₹)</b>	<b>41.4</b>	<b>62.7</b>	<b>80.0</b>	<b>82.1</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1172	7546	9629	9889
Add: Depreciation	8441	8797	9735	10115
(Inc)/dec in Current Assets	-141	23175	-24074	-13252
Inc/(dec) in CL and Prov.	-7756	-20509	14362	893
Others	-2425	3000	3000	3000
<b>CF from operating activitie</b>	<b>-708</b>	<b>22009</b>	<b>12653</b>	<b>10644</b>
(Inc)/dec in Investments	-547	5000	200	0
(Inc)/dec in Fixed Assets	-10347	-5917	-9617	-9617
Others	-867	43	38	35
<b>CF from investing activitie</b>	<b>-11761</b>	<b>-874</b>	<b>-9379</b>	<b>-9583</b>
Issue/(Buy back) of Equity	0	59	0	0
Inc/(dec) in loan funds	22145	-12500	-7000	-7200
Dividend paid & dividend tax	-1340	-1145	-1145	-1145
Inc/(dec) in Share Cap	-4182	1777	4000	6706
Others	570	256	0	0
<b>CF from financing activitie</b>	<b>17193</b>	<b>-11552</b>	<b>-4145</b>	<b>-1639</b>
Net Cash flow	4724	9583	-871	-578
Opening Cash	3331	8055	17638	16767
<b>Closing Cash</b>	<b>8055</b>	<b>17638</b>	<b>16767</b>	<b>16189</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Share Capital	1145	1204	1204	1204
Hybrid Perpetual securitie	2275	2275	2275	2275
Reserve and Surplus	70156	78533	91018	106467
<b>Total Shareholders fi</b>	<b>73576</b>	<b>82012</b>	<b>94497</b>	<b>109946</b>
<b>Total Debt</b>	<b>113289</b>	<b>100789</b>	<b>93789</b>	<b>86589</b>
<b>Deferred Tax Liability</b>	<b>9261</b>	<b>9261</b>	<b>9261</b>	<b>9261</b>
Minority Interest & Other:	11816	14859	17897	20931
<b>Total Liabilities</b>	<b>207943</b>	<b>206922</b>	<b>215445</b>	<b>226728</b>
<b>Assets</b>				
Gross Block	248131	254548	264665	274782
Less: Impairment	0	0	0	0
Less: Acc Depreciation	117000	125796	135532	145646
Net Block	131131	128751	129133	129135
CWIP	18862	18362	17862	17362
Investments	6285	1285	1085	1085
Inventory	31069	15364	25494	25494
Debtors	7885	7693	8664	8944
Loans and Advances	35663	29385	40807	52229
Other Current Assets	6144	5144	6694	8244
Cash	8055	17638	16767	16189
<b>Total Current Assets</b>	<b>88816</b>	<b>75224</b>	<b>98427</b>	<b>111101</b>
Current Liabilities	40813	19304	35266	36259
Provisions	1664	2664	1064	964
Current Liabilities & Prov	42476	21968	36330	37223
Net Current Assets	46340	53256	62097	73879
others	5325	5267	5267	5267
<b>Application of Funds</b>	<b>207943</b>	<b>206922</b>	<b>215445</b>	<b>226728</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Adj EPS	41.4	62.7	80.0	82.1
Cash EPS	115.1	135.7	160.8	166.1
BV	642.6	681.0	784.7	913.0
Adj BV (adj for Goodwill)	607.2	647.8	751.5	913.0
DPS	10.0	10.0	10.0	10.0
Cash Per Share	70.4	146.5	139.2	134.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	12.5	16.7	16.6	16.6
PBT / Total Operating income	2.4	7.1	7.8	8.1
Adj PAT Margin	3.4	4.8	5.4	5.4
Inventory days	110	112	89	107
Debtor days	26	25	25	25
Creditor days	27	18	30	30
<b>Return Ratios (%)</b>				
Adj RoE	6.4	9.2	10.2	9.0
Adj RoCE	4.8	9.4	10.5	10.2
Adj RoIC	5.0	10.4	11.5	11.1
<b>Valuation Ratios (x)</b>				
P/E	16.8	11.1	8.7	8.5
EV / EBITDA	10.7	6.4	5.4	5.1
EV / Net Sales	1.4	1.2	1.0	0.9
Market Cap / Sales	0.6	0.6	0.5	0.5
Price to Book Value	1.1	1.0	0.9	0.8
Price to Adj Book Value	1.1	1.1	0.9	0.8
<b>Solvency Ratios</b>				
Debt/EBITDA	6.0	3.2	2.6	2.3
Debt / Equity	1.4	1.0	0.8	0.6
Current Ratio	2.1	3.4	2.7	3.0
Quick Ratio	1.4	2.7	2.0	2.3

Source: Company, ICICI Direct Research

**Exhibit 13: ICICI Direct coverage universe (Metals and Mining)**

	CMP		TP	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
Coal India	134	130	Hold	83024	27.1	22.2	22.9	5.2	6.4	6.2	3.0	4.6	4.7	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	292	240	Buy	62634	18.2	25.3	34.4	14.3	10.3	7.6	6.9	7.0	5.8	7.8	7.7	9.2	6.9	9.0	10.9
Hind Zinc	298	290	Hold	125914	16.1	18.7	23.6	15.2	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	410	400	Hold	98900	19.5	29.9	37.3	19.4	12.7	10.2	12.5	8.2	6.7	7.2	11.9	13.7	12.9	16.6	17.2
NMDC	113	125	Hold	34690	11.8	11.6	9.0	10.6	10.7	13.8	4.5	5.0	5.5	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1633	1900	Buy	7630	65.8	49.4	64.5	24.7	32.9	25.2	17.7	22.6	16.8	22.2	16.2	19.6	18.0	12.3	14.1
Graphite Ind.	419	185	Hold	8192	2.0	-1.0	18.0	78.0	NA	10.5	NA	NA	3.6	-2.6	-5.7	4.4	1.0	-0.4	7.3
Tata Steel	695	750	Hold	79582	41.4	62.7	80.0	16.8	11.1	8.7	10.7	6.4	5.4	4.8	9.4	10.5	6.4	9.2	10.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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