

August 17, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	REDUCE		REDUCE	
Target Price	300		250	
Sales (Rs. m)	1,334,203	14,75,453	1,344,373	14,93,438
% Chng.	(0.8)	(1.2)		
EBITDA (Rs. m)	1,75,142	2,17,895	1,64,420	2,17,05
% Chng.	6.5	0.3		
EPS (Rs.)	11.2	38.8	(5.2)	26.1
% Chng.	NA	48.5		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	1,398	1,334	1,475	1,527
EBITDA (Rs. bn)	170	175	218	225
Margin (%)	12.2	13.1	14.8	14.7
PAT (Rs. bn)	18	13	44	50
EPS (Rs.)	15.4	11.2	38.8	43.8
Gr. (%)	(83.0)	(27.5)	246.6	12.9
DPS (Rs.)	10.0	10.2	10.2	10.2
Yield (%)	2.4	2.4	2.4	2.4
RoE (%)	2.5	1.7	5.9	6.3
RoCE (%)	4.7	4.5	6.5	6.6
EV/Sales (x)	1.1	1.1	1.0	1.0
EV/EBITDA (x)	9.0	8.7	6.9	6.6
PE (x)	27.2	37.4	10.8	9.6
P/BV (x)	0.7	0.7	0.6	0.6

Key Data

TISC.BO | TATA IN

52-W High / Low	Rs.506 / Rs.251
Sensex / Nifty	37,877 / 11,178
Market Cap	Rs.476bn/ \$ 6,352m
Shares Outstanding	1,126m
3M Avg. Daily Value	Rs.10371.82m

Shareholding Pattern (%)

Promoter's	34.41
Foreign	11.84
Domestic Institution	29.79
Public & Others	23.96
Promoter Pledge (Rs bn)	5.23

Stock Performance (%)

	1M	6M	12M
Absolute	24.3	(3.7)	14.8
Relative	18.3	4.9	13.1

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Weak performance on all counts; Maintain Reduce

Quick Pointers:

- Domestic margins to improve in Q2 due to increase in realisations by Rs3,000/t
- Earnings in Tata Steel Europe (TSE) to remain weak at par with Q1FY21 levels
- Net debt flat QoQ (↑1.6% YoY) at Rs1.05trn.

Tata Steel (TATA) reported Q1FY21 EBITDA below our/consensus estimates by 76%/61% at Rs5.1bn (down 89% QoQ/down 91% YoY), due to lower than expected earnings across operations. Impacted by weak spreads and lower volumes, TATA Steel Europe (TSE) reported EBITDA loss of US\$82mn (v/s PLe: Loss of US\$45mn and positive EBITDA of US\$9mn in Q4FY20). Indian operations earnings missed our/consensus estimates by 32%/18% owing to lower volumes and higher than expected costs. Domestic EBITDA margins fell 53% QoQ/↓55% YoY to Rs5,900/t (PLe:Rs8,420).

Stock moved up ~35% over last couple of months in light of strong recovery improvement in Chinese prices (up 25% from bottom) and low coking coal prices. We maintain our bearish outlook on the sector as we see weakness in steel prices Q3CY20 onwards due to ease in China's pent-up demand and sharp increase in global steel production, led by strong margins. Weak market outlook, over-stretched debt levels (Net debt/EBITDA of 5.0x on normalized FY22e earnings) and weak overseas asset portfolio drives our negative view on the stock. Hence, we maintain Reduce rating with TP of Rs300 (Earlier Rs250), EV/EBITDA of 6.5x FY22e.

- Higher costs drag domestic ops EBITDA:** Volumes fell 27% QoQ/30% YoY to 2.1mnt (PLe:2.2mnt). Realisations fell 8.3%/Rs3,915 QoQ to Rs43,160 (PLe: Rs43,375). EBITDA fell 66% QoQ (↓68% YoY) at Rs12.5bn, below our expectation of Rs18.3bn due to higher costs and lower export incentives. Domestic operations turned in to red with Adj. net loss of Rs3.3bn (PLe: +Rs1.3bn) against +Rs10.5bn/+Rs15.7bn in Q4FY20/Q1FY20.
- TSE led the drag at consol level:** TSE's volumes remained fell 16% QoQ/12% YoY at 2.0mnt (PLe:2.0mnt). Owing to weak spreads and higher costs, TSE posted EBITDA loss of US\$82mn (PLe: loss of US\$45mn) against profit of US\$9mn/US\$9mn in Q4FY20/Q1FY20. Other subsidiaries reported EBITDA loss of Rs1.2bn (PLe: profit of Rs5.9bn) against profit of Rs9.3bn/Rs13.6bn in Q4FY20/Q1FY20. Hence, consolidated EBITDA fell 89% QoQ/↓91% YoY to Rs5.1bn (PLe:Rs20.8bn). Marred by weak operating performance across ops, Adj. loss came at Rs44.3bn (PLe: Loss of Rs17.3bn) against Net profit of Rs23.1bn/Rs7.1bn in Q4FY20/Q1FY20.
- Key highlights of con-call: 1)** TSE booked one-time gain of £78mn on sale carbon credits, unavailable in rest of FY21 **2)** TSE also received govt support of £50mn **3)** Will reduce exports to 25% (50% in Q1FY21) in Q2FY21 on the back of better domestic demand **4)** Maintained capex guidance of Rs50bn (Spent Rs18.5bn in Q1) for FY21e; would revisit guidance in H2FY21e **5)** Delayed guidance on debt reduction due to volatile European ops **6)** Coking coal cost would be lower by US\$5/t (↓US\$10/t QoQ in Q1)

Exhibit 1: Q1FY21 Result Overview (Rs m)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	242,883	359,471	(32.4)	337,700	1,334,203	1,398,167	(4.6)
Raw Material	104,005	137,621	(24.4)	117,552	556,349	574,748	(3.2)
<i>% of Net Sales</i>	<i>42.8</i>	<i>38.3</i>		<i>34.8</i>	<i>41.7</i>	<i>41.1</i>	
Staff Costs	45,456	48,994	(7.2)	47,350	173,859	185,336	(6.2)
<i>% of Net Sales</i>	<i>18.7</i>	<i>13.6</i>		<i>14.0</i>	<i>13.0</i>	<i>13.3</i>	
Other Expenses	88,369	119,087	(25.8)	126,329	428,853	468,192	(8.4)
<i>% of Net Sales</i>	<i>36.4</i>	<i>33.1</i>		<i>37.4</i>	<i>32.1</i>	<i>33.5</i>	
Total Expenditure	237,830	305,702	(22.2)	291,231	1,159,061	1,228,275	(5.6)
EBITDA	5,053	53,769	(90.6)	46,469	175,142	169,892	3.1
<i>Margin (%)</i>	<i>2.1</i>	<i>15.0</i>		<i>13.8</i>	<i>13.1</i>	<i>12.2</i>	
Depreciation	21,108	20,708	1.9	22,241	89,132	84,407	5.6
Other income	1,926	2,511	(23.3)	13,159	20,013	18,435	8.6
EBIT	(14,129)	35,572	(139.7)	37,387	106,022	103,919	2.0
Interest	19,983	18,064	10.6	19,251	77,767	75,335	3.2
PBT	(34,112)	17,508	-	18,136	28,256	28,585	(1.1)
Extraordinary income/(expense)	583	160		(34,059)	-	(32,781)	
PBT (After EO)	(33,529)	17,668	-	(15,923)	28,256	(4,197)	(773.3)
Tax	12,715	11,238	13.1	(2,633)	20,462	-25,684	(179.7)
<i>% PBT</i>	<i>-</i>	<i>63.6</i>		<i>-</i>	<i>-</i>	<i>612.0</i>	
Reported PAT	(46,245)	6,430	-	(13,290)	7,794	21,487	(63.7)
Minority interest	(2,356)	(45)		(1,405)	(5,000)	(3,829)	
Share of profit/(loss) of associates	150	522	(71.3)	928	9	1,880	(99.5)
Net Profit attributable to shareholders	(43,739)	6,997	-	(10,957)	12,803	27,196	(52.9)
Adjusted Net Profit attributable to shareholders	(44,322)	7,066	-	23,102	12,803	17,877	-

Source: Company, PL

Exhibit 2: Key Operating Metrics

Subsidiary performance	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Revenue							
Indian Operations (mn USD)	1,231	2,313	(46.8)	1,963	7,653	8,534	(10.3)
UK Operations (mn USD)	1,479	2,084	(29.0)	1,877	7,055	7,897	(10.7)
Tata steel BSL (mn USD)	355	623	(42.9)	590	2,043	2,568	(20.5)
Adjusted EBITDA							
Indian Operations (mn USD)	165	569	(71.0)	504	1,788	2,031	(12.0)
UK Operations (mn USD)	(82)	9	-	9	60	(93)	-
Tata steel BSL (mn USD)	20	113	(82.5)	107	353	334	5.5
TSE							
Sales Volume	2.0	2.3	(12.4)	2.4	8.5	9.3	(8.3)
Realisation per tonne	747	922	(19.0)	792	830	852	(2.6)
EBITDA per tonne	(42)	4	-	4	7	(10)	-
Tata steel BSL							
Sales Volume	0.7	0.9	(19.3)	1.0	4.1	4.2	(2.3)
Realisation per tonne	512	724	(29.3)	602	502	616	(18.6)
EBITDA per tonne	29	131	(78.3)	109	87	80	8.0

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	13,98,167	13,34,203	14,75,453	15,26,835
YoY gr. (%)	(11.3)	(4.6)	10.6	3.5
Cost of Goods Sold	5,74,748	5,56,349	6,03,628	6,24,942
Gross Profit	8,23,419	7,77,854	8,71,825	9,01,893
Margin (%)	58.9	58.3	59.1	59.1
Employee Cost	1,85,336	1,73,859	1,88,634	1,95,294
Other Expenses	(23,180)	-	-	-
EBITDA	1,69,892	1,75,142	2,17,895	2,24,872
YoY gr. (%)	(42.2)	3.1	24.4	3.2
Margin (%)	12.2	13.1	14.8	14.7
Depreciation and Amortization	84,407	89,132	91,076	93,123
EBIT	85,484	86,009	1,26,819	1,31,749
Margin (%)	6.1	6.4	8.6	8.6
Net Interest	75,335	77,767	79,087	79,747
Other Income	18,435	20,013	21,082	21,889
Profit Before Tax	(4,197)	28,256	68,814	73,892
Margin (%)	(0.3)	2.1	4.7	4.8
Total Tax	(25,684)	20,462	27,701	27,298
Effective tax rate (%)	612.0	72.4	40.3	36.9
Profit after tax	21,487	7,794	41,113	46,594
Minority interest	(3,829)	(5,000)	(3,000)	(3,000)
Share Profit from Associate	1,880	2,000	2,250	2,500
Adjusted PAT	17,647	12,803	44,371	50,102
YoY gr. (%)	(83.0)	(27.5)	246.6	12.9
Margin (%)	1.3	1.0	3.0	3.3
Extra Ord. Income / (Exp)	(32,781)	-	-	-
Reported PAT	27,196	12,803	44,371	50,102
YoY gr. (%)	(73.6)	(52.9)	246.6	12.9
Margin (%)	1.9	1.0	3.0	3.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	27,196	12,803	44,371	50,102
Equity Shares O/s (m)	1,145	1,145	1,145	1,145
EPS (Rs)	15.4	11.2	38.8	43.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	19,54,950	19,95,950	20,41,110	20,86,680
Tangibles	19,54,950	19,95,950	20,41,110	20,86,680
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,49,988	7,39,121	8,30,197	9,23,320
Tangibles	6,49,988	7,39,121	8,30,197	9,23,320
Intangibles	-	-	-	-
Net fixed assets	13,04,961	12,56,829	12,10,913	11,63,360
Tangibles	13,04,961	12,56,829	12,10,913	11,63,360
Intangibles	-	-	-	-
Capital Work In Progress	2,07,381	2,26,381	2,77,901	3,29,441
Goodwill	40,545	40,545	40,545	40,545
Non-Current Investments	42,106	45,156	48,456	52,006
Net Deferred tax assets	(79,911)	(83,467)	(88,686)	(93,890)
Other Non-Current Assets	3,09,170	3,09,520	3,09,870	3,10,220
Current Assets				
Investments	34,319	34,319	34,319	34,319
Inventories	3,10,687	2,77,807	2,95,091	3,05,367
Trade receivables	78,849	1,02,350	1,13,185	1,17,127
Cash & Bank Balance	80,547	1,18,093	1,44,074	1,70,079
Other Current Assets	33,209	38,709	44,209	49,709
Total Assets	25,04,195	25,12,599	25,82,018	26,36,151
Equity				
Equity Share Capital	11,450	11,450	11,450	11,450
Other Equity	7,24,314	7,25,657	7,58,375	7,96,824
Total Networkth	7,35,763	7,37,106	7,69,825	8,08,274
Non-Current Liabilities				
Long Term borrowings	11,63,282	11,93,282	12,03,282	12,13,282
Provisions	42,351	42,351	42,351	42,351
Other non current liabilities	44,786	44,786	44,786	44,786
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,13,809	2,00,930	2,13,111	2,12,117
Other current liabilities	1,80,568	1,71,952	1,84,252	1,88,727
Total Equity & Liabilities	25,04,195	25,12,599	25,82,018	26,36,151

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	(13,804)	28,256	68,814	73,892
Add. Depreciation	87,077	89,132	91,076	93,123
Add. Interest	75,335	77,767	79,087	79,747
Less Financial Other Income	18,435	20,013	21,082	21,889
Add. Other	32,177	(15,377)	(16,146)	(16,953)
Op. profit before WC changes	1,80,784	1,79,777	2,22,831	2,29,808
Net Changes-WC	41,962	(19,486)	(11,103)	(18,161)
Direct tax	(21,059)	(16,236)	(21,812)	(21,424)
Net cash from Op. activities	2,01,687	1,44,056	1,89,916	1,90,223
Capital expenditures	(1,39,988)	(60,000)	(96,680)	(97,110)
Interest / Dividend Income	3,052	15,377	16,146	16,953
Others	(6,986)	-	-	-
Net Cash from Inv. activities	(1,43,922)	(44,623)	(80,534)	(80,157)
Issue of share cap. / premium	1,875	-	-	-
Debt changes	76,073	30,000	10,000	10,000
Dividend paid	(18,152)	(11,459)	(11,653)	(11,653)
Interest paid	(74,193)	(77,767)	(79,087)	(79,747)
Others	(2,550)	(2,661)	(2,661)	(2,661)
Net cash from Fin. activities	(16,946)	(61,887)	(83,401)	(84,061)
Net change in cash	40,819	37,546	25,981	26,005
Free Cash Flow	97,707	84,056	93,236	93,113

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	3,45,792	3,55,204	3,37,700	2,42,883
YoY gr. (%)	(15.4)	(8.6)	(20.4)	(32.4)
Raw Material Expenses	1,48,477	1,71,098	1,17,552	1,04,005
Gross Profit	1,97,315	1,84,106	2,20,148	1,38,878
Margin (%)	57.1	51.8	65.2	57.2
EBITDA	38,196	31,458	46,469	5,053
YoY gr. (%)	(56.6)	(53.2)	(38.2)	(90.6)
Margin (%)	11.0	8.9	13.8	2.1
Depreciation / Depletion	21,272	20,187	22,241	21,108
EBIT	16,924	11,272	24,227	(16,055)
Margin (%)	4.9	3.2	7.2	(6.6)
Net Interest	18,714	19,306	19,251	19,983
Other Income	1,836	929	13,159	1,926
Profit before Tax	(290)	(5,652)	(15,923)	(33,529)
Margin (%)	(0.1)	(1.6)	(4.7)	(13.8)
Total Tax	(40,500)	6,210	(2,633)	12,715
Effective tax rate (%)	13,975.1	(109.9)	16.5	(37.9)
Profit after Tax	40,210	(11,863)	(13,290)	(46,245)
Minority interest	(1,013)	(1,367)	(1,405)	(2,356)
Share Profit from Associates	224	205	928	150
Adjusted PAT	(547)	(11,744)	23,102	(44,322)
YoY gr. (%)	(101.6)	(150.5)	(4.7)	(727.3)
Margin (%)	(0.2)	(3.3)	6.8	(18.2)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	41,447	(10,291)	(10,957)	(43,739)
YoY gr. (%)	15.9	(144.1)	(145.1)	(725.1)
Margin (%)	12.0	(2.9)	(3.2)	(18.0)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	41,447	(10,291)	(10,957)	(43,739)
Avg. Shares O/s (m)	971	971	971	971
EPS (Rs)	(0.6)	(12.1)	23.8	(45.6)

Source: Company Data, PL Research

Key Financial Metrics

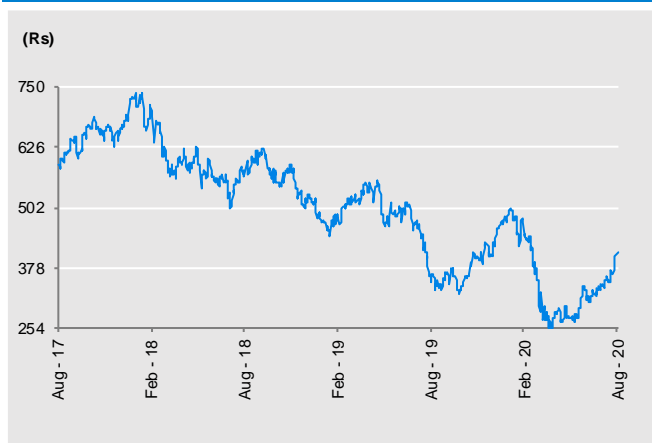
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	15.4	11.2	38.8	43.8
CEPS	89.1	89.0	118.3	125.1
BVPS	642.6	643.8	672.4	705.9
FCF	85.3	73.4	81.4	81.3
DPS	10.0	10.2	10.2	10.2
Return Ratio(%)				
RoCE	4.7	4.5	6.5	6.6
ROIC	(25.9)	1.3	4.3	4.6
RoE	2.5	1.7	5.9	6.3
Balance Sheet				
Net Debt : Equity (x)	1.4	1.4	1.3	1.2
Net Working Capital (Days)	46	49	48	50
Valuation(x)				
PER	27.2	37.4	10.8	9.6
P/B	0.7	0.7	0.6	0.6
P/CEPS	89.1	89.0	118.3	125.1
EV/EBITDA	9.0	8.7	6.9	6.6
EV/Sales	1.1	1.1	1.0	1.0
Dividend Yield (%)	2.4	2.4	2.4	2.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Rev. Indian Op. (US\$ m)	8,888	7,653	8,121	8,104
Rev. Corus (US\$ m)	7,897	7,055	7,863	8,170
EBITDA-India (US\$ m)	2,116	1,788	1,978	1,955
EBITDA-Corus (US\$ m)	(93)	60	324	380
Volume (mt)-India	12	12	13	13
Real./ Tonne- India (Rs)	35,762	35,266	36,068	36,215
EBITDA/Tonne- India (Rs)	11,676	11,167	11,802	11,822
SalesVol.-Corus (mt)	9	9	9	10
Real./Tonne-Corus (US\$)	852	830	850	860
EBITDA/Tonne-Corus (US\$)	(10)	7	35	40

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-20	Reduce	250	345
2	01-Jul-20	Reduce	250	327
3	20-Apr-20	Reduce	242	293
4	08-Feb-20	Reduce	350	471
5	03-Jan-20	Reduce	400	484
6	07-Nov-19	Reduce	350	403
7	03-Oct-19	Reduce	355	340

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,505	1,335
2	Ambuja Cement	BUY	235	201
3	Coal India	Hold	155	130
4	Heidelberg Cement India	Accumulate	191	173
5	Hindalco Industries	BUY	205	176
6	Hindustan Zinc	Accumulate	200	183
7	Jindal Steel & Power	BUY	215	172
8	JK Lakshmi Cement	BUY	350	287
9	JSW Steel	Reduce	160	204
10	NMDC	Accumulate	87	86
11	Shree Cement	Reduce	19,100	22,396
12	Steel Authority of India	Reduce	25	37
13	Tata Steel	Reduce	250	345
14	The Ramco Cements	Reduce	590	678
15	Ultratech Cement	BUY	4,675	4,136

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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