

## Domestic operations end FY19 on strong note...

Tata Steel's Indian operation ended FY19 on a strong note wherein it reported healthy production and sales volume for Q4FY19. Its Indian operations (including erstwhile Bhushan Steel) achieved the highest ever crude steel production in Q4FY19 driven by better plant availability across locations including ramp-up at Tata Steel BSL. Tata Steel Indian operation (Tata Steel standalone + Tata Steel BSL) reported production volume of 4.47 million tonnes (MT) (up 2% QoQ). The sales volume for the quarter was at 4.73 MT, up 22% QoQ. For FY19, Tata Steel Indian operations (Tata Steel standalone + Tata Steel BSL) reported a production volume of 16.79 MT and sales volume 16.27 MT.

## European operations production increases QoQ, YoY

For Q4FY19, Tata Steel's European operations reported production volumes of 2.73 MT (up 17% QoQ, 4% YoY). Similarly, Tata Steel's European operations sales volume for the period was at 2.55 MT (up 9% QoQ, but flattish YoY). Production and sales volumes improved QoQ on the back of better plant availability. The Blast furnace 5 at Port Talbot, which had been shut down for life extension programme since September 2018, resumed operations in January 2019. For South East Asian operations, production was down 4% QoQ to 0.50 MT, mainly due to maintenance shutdowns at NatSteel Holdings during the Chinese new year holidays. Sales volume was, however, up 3.5% QoQ to 0.59 MT reflecting better sales at Tata Steel Thailand with improved rebars market sentiment.

## Valuation & Outlook

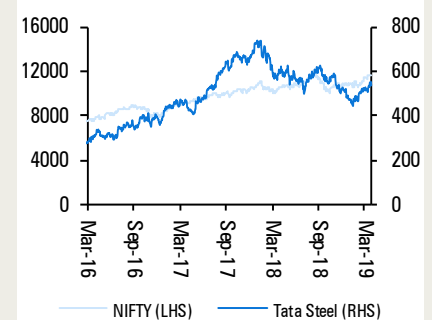
We remain positive on Tata Steel on the back of increasing focus on higher margin domestic operations. Tata Steel's standalone operations benefit from its integrated operations thereby clocking higher EBITDA/tonne vis-à-vis its domestic peers. After the recent correction, since the start of February 2019 both domestic as well as global steel prices have moved upward, auguring well for Tata Steel. Furthermore, with respect to the potential European JV so as to allay EU concerns, both ThyssenKrupp AG and Tata Steel have submitted concessions to European Union regulators in an effort to win antitrust approval for their steel joint venture. Both Tata Steel and ThyssenKrupp have submitted comprehensive solutions for the potential joint venture. The European Union is expected to review the latest set of proposals and announce its decision by June 5. We await the final outcome of the same. Hence, it remains a key monitorable. We introduce FY21 estimates and roll over our valuations. Valuing the stock on an SoTP basis, we arrive at a target price of ₹ 625, with a **BUY** recommendation on the stock.



### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	61,830
Total Debt (FY18) (₹ Crore)	88,674
Cash & Cash Eq. (FY18) (₹ Crore)	25,837
EV (₹ Crore)	124,667
52 week H/L (₹)	647 / 442
Equity capital	₹ 1145 Crore
Face value	₹ 10

### Price Performance (t)



### Key Highlights

- Ends FY19 on a strong note wherein Indian operations sales volume for Q4FY19 were at 4.73 MT, up 22% QoQ
- After the recent correction, since the start of February 2019 both domestic and global steel prices moved upward auguring well for Tata Steel
- Upgrade target price to ₹ 625/share (from ₹ 550/share earlier) and maintain BUY recommendation

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### Key Financial Summary

(₹ Crore)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	111,562	130,425	162,247	164,273	167,067
EBITDA	17,008	21,891	28,614	28,096	28,927
Adj PAT	4,092	8,164	8,334	7,642	8,561
P/E (x)	42.2	71.3	69.2	63.5	71.1
EV/EBITDA (x)	7.8	6.6	6.1	5.9	5.6
RoCE (%)	9.7	11.0	11.4	10.8	10.9
RoE (%)	10.8	13.4	12.0	10.2	10.4

Source: ICICI Direct Research, Company

## Financial Summary

### Exhibit 1: Profit & Loss statement

(Year-end March)	FY18	FY19E	FY20E	FY21E
Total Operating Income	131700.3	163314.4	165346.5	168176.1
Growth (%)	16.9	5.2	-0.3	1.1
Total Operating Expend.	109809.8	134700.3	137250.3	139249.2
EBITDA	21890.5	28614.1	28096.2	28926.9
Growth (%)	28.7	30.7	-1.8	3.0
Depreciation	5961.7	8035.4	8273.2	8658.3
Interest	5501.8	8189.5	8164.4	7744.4
Other Income	1083.6	1141.5	1168.5	1245.8
PBT	11510.6	13530.7	12827.1	13770.0
Exceptional Item	9599.1	164.8	0.0	0.0
Total Tax	3405.4	5249.6	5232.6	5251.9
PAT	17704.4	8445.9	7594.4	8518.1
Growth (%)	-5916.5	-52.3	-10.1	12.2
Minorities, Associates, etc	58.5	52.6	47.3	42.6
Rep PAT after Assoc. MI	17762.8	8498.5	7641.8	8560.7
Adj PAT after Assoc. MI	8163.7	8333.7	7641.8	8560.7
Growth (%)	99.5	2.1	-8.3	12.0
EPS (₹)	71.3	69.2	63.5	71.1

Source: Company, ICICI Direct Research

### Exhibit 2: Cash Flow Statement

(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	17762.8	8498.5	7641.8	8560.7
Add: Depreciation	5961.7	8035.4	8273.2	8658.3
(Inc)/dec in Current Assets	-23256.4	7575.7	-6360.2	-1079.9
Inc/(dec) in CL and Prov.	-801.9	-12434.7	3990.5	1029.8
Others	9470.2	3000.0	3000.0	3000.0
CF from operating activities	9136.3	14674.9	16545.3	20168.9
(Inc)/dec in Investments	-5362.8	-1000.0	-1000.0	-500.0
(Inc)/dec in Fixed Assets	-10285.6	-10000.0	-10000.0	-13865.3
Others	-665.2	111.9	47.3	42.6
CF from investing activities	-16313.5	-10888.1	-10952.7	-14322.7
Issue/(Buy back) of Equity	174.7	0.0	0.0	0.0
Inc/(dec) in loan funds	5660.1	-7000.0	-6000.0	-6000.0
Dividend paid & dividend tax	-1339.6	-1339.6	-1607.5	-2009.4
Inc/(dec) in Share Cap	6453.4	1601.1	-691.9	918.9
Others	-754.7	0.0	4099.5	0.0
CF from financing activities	10193.9	-6738.5	-4200.0	-7090.4
Net Cash flow	3016.8	-2951.7	1392.6	-1244.2
Opening Cash	4921.1	7937.9	4986.1	6378.8
Closing Cash	7937.9	4986.1	6378.8	5134.6

Source: Company, ICICI Direct Research

### Exhibit 3: Balance Sheet

(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Liabilities</b>				
Equity Share Capital	1,145.0	1,204.3	1,204.3	1,204.3
Hybrid Perpetual securitie	2,275.0	2,275.0	2,275.0	2,275.0
Reserve and Surplus	57450.7	66210.7	71553.0	79023.3
Total Shareholders funds	60870.6	69689.9	75032.3	82502.6
Total Debt	88674.1	115874.1	109874.1	103874.1
Deferred Tax Liability	10569.9	10569.9	10569.9	10569.9
Minority Interest & Other	9866.9	12919.5	15966.9	19009.5
Total Liabilities	169981.5	209053.4	211443.1	215956.0
<b>Assets</b>				
Gross Block	193677.1	234877.1	237877.1	256884.1
Less: Impairment	0.0	0.0	0.0	0.0
Less: Acc Depreciation	101217.0	109252.4	117525.6	117525.6
Net Block	92460.1	125624.7	120351.5	139358.5
CWIP	16159.8	19159.8	26159.8	12359.8
Investments	17899.5	18899.5	19899.5	20399.5
Inventory	28331.0	24790.3	27441.2	28368.8
Debtors	12415.5	11280.6	13489.9	13642.2
Loans and Advances	26142.3	23142.3	24142.3	25142.3
Other Current Assets	3276.6	3376.6	3876.6	2876.6
Cash	7937.9	4986.1	6378.8	5134.6
Total Current Assets	78103.4	67576.0	75328.9	75164.6
Current Liabilities	38506.8	25072.1	28062.6	28092.4
Provisions	1269.6	2269.6	3269.6	4269.6
Current Liabilities & Prov	39776.4	27341.7	31332.3	32362.1
Net Current Assets	38326.9	40234.2	43996.6	42802.5
others	5135.3	5135.3	1035.8	1035.8
Application of Funds	169981.5	209053.4	211443.1	215956.0

Source: Company, ICICI Direct Research

### Exhibit 4: Key Ratios

(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Per share data (₹)</b>				
Adj EPS	71.3	69.2	63.5	71.1
Cash EPS	123.4	135.9	132.2	143.0
BV	531.6	578.7	623.1	685.1
Adj BV (adj for Goodwill)	495.8	542.9	623.1	685.1
DPS	10.0	10.0	12.0	15.0
Cash Per Share	69.3	41.4	53.0	42.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	16.6	17.5	17.0	17.2
PBT / Total Operating income	8.7	8.3	7.8	8.2
Adj PAT Margin	6.2	5.1	4.6	5.1
Inventory days	186	175	190	190
Debtor days	34	30	36	36
Creditor days	187	190	185	185
<b>Return Ratios (%)</b>				
Adj RoE	13.4	12.0	10.2	10.4
Adj RoCE	11.0	11.4	10.8	10.9
RoIC	11.2	11.4	11.1	11.2
<b>Valuation Ratios (x)</b>				
P/E	7.6	7.8	8.5	7.6
EV / EBITDA	6.6	6.1	5.9	5.6
EV / Net Sales	1.1	1.1	1.0	1.0
Market Cap / Sales	0.4	0.4	0.4	0.4
Price to Book Value	1.0	0.9	0.9	0.8
Price to Adj Book Value	1.1	1.0	0.9	0.8
<b>Solvency Ratios</b>				
Debt/EBITDA	4.1	4.0	3.9	3.6
Debt / Equity	1.5	1.7	1.5	1.3
Current Ratio	2.0	2.5	2.4	2.3
Quick Ratio	1.3	1.6	1.5	1.4

Source: Company, ICICI Direct Research

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