

Tata Steel

BSE SENSEX

58,099

S&P CNX

17,327



Stock Info

Bloomberg	TATA IN
Equity Shares (m)	11,976
M.Cap.(INRb)/(USD\$)	1273.9 / 15.7
52-Week Range (INR)	143 / 83
1, 6, 12 Rel. Per (%)	-1/-22/-18
12M Avg Val (INR M)	11422
Free float (%)	66.1

Financials Snapshot (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	2,440	2,537	2,439
EBITDA	635	448	403
Adj. PAT	401.1	217.2	187.0
EBITDA Margin (%)	26.0	17.7	16.5
Cons. Adj. EPS (INR)	32.8	17.8	15.3
EPS Gr. (%)	444.5	-45.9	-13.9
BV/Sh. (INR)	90	102	111

Ratios

Net D:E	0.5	0.5	0.4
RoE (%)	44.4	18.5	14.4
RoCE (%)	29.2	18.0	15.0
Payout (%)	15.5	28.1	32.6

Valuations

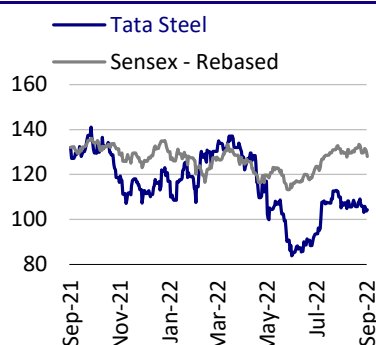
P/E (x)	3.2	5.8	6.8
P/BV (x)	1.1	1.0	0.9
EV/EBITDA(x)	2.8	4.3	4.6
Div. Yield (%)	4.9	4.8	4.8
FCF Yield (%)	27.3	7.1	14.6

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	33.9	33.9	34.4
DII	19.1	20.5	19.4
FII	22.0	22.9	21.9
Others	25.0	22.7	24.3

FII Includes depository receipts

Stock's performance (one-year)


CMP: INR104 TP: INR106(+2%)
NEUTRAL

Much awaited merger with its subsidiaries a positive

Move aimed at simplification of the group's corporate structure

- TATA announced the merger of seven of its Indian subsidiaries to simplify its mammoth corporate structure. The company, as of 31st Mar'22, had 156 subsidiaries (32/124 Indian/foreign subsidiaries). In addition, it also had 25 joint ventures (12 Indian and 13 foreign). It closed/merged eight subsidiaries in FY22 and liquidated ~32 subsidiaries that had no assets/liabilities/transactions in FY22. It also had 24 subsidiaries under liquidation as of 31st Mar'22.
- The creation of a massive number of subsidiaries over the last several decades was due to multiple reasons in our view, which includes, but is not limited to, diversifying into new businesses and areas during the MRTTP regime, and legacy subsidiaries acquired during the acquisition of Corus, NatSteel, TSTH, BSL, etc.
- TATA has been trying to simplify the group structure, which will reduce its regulatory costs and improve synergies. However, we also note that in the past, the management had highlighted it will keep certain subsidiaries alive to maintain a focused approach on growth in those segments (for example, TSLP was envisioned as a growth vehicle for the group in long steel products).
- We expect simplification of the group structure to continue ahead, but a big reduction in the number of subsidiaries will only occur after the sale /closure of its international subsidiaries, including TSE, TSTH, and NatSteel, if it happens.
- There is no change in our earnings estimates at present as we await clarity on the synergies and timelines for the merger.
- We maintain our Neutral rating with a SoTP-based TP of INR106.

The merger will offer synergies, especially a reduction in regulatory costs

- TATA is currently paying an additional royalty of 22.5% of IBM prices for the quantum of iron ore supplied to TSLP and TSML. This is over and above the normal royalty, NMET, and DMF (works out to 19.8%) already paid for the iron ore dispatched from its mines.
- The management expects savings of INR7-8b on an NPV basis due to the non-payment of additional royalty on iron ore supplies to these subsidiaries post-merger. The savings on additional royalty will however depend on iron ore prices in Jharkhand/Odisha, where these mines operate.
- TATA can use the tax shield on account of unabsorbed business loss/depreciation of these subsidiaries. However, we believe these are not large enough. We await further clarity on the same.
- It will also save on other regulatory costs like audits, filings/compliances under various acts which is not only costly time consuming, especially in cases where the size of operations does not justify the regulatory costs.

- There are typical synergistic benefits that will accrue with simplification of any group structure like common IT services, lower administration overheads, common procurement, and fungibility of manpower, /cash/debt.

Valuation and view

- As the entities merging with TATA are already part of its consolidated accounts, there is no incremental profitability that accrues to the group, other than the elimination of regulatory costs like additional iron ore royalty.
- Spot HRC prices in Europe have corrected by ~30% in 2Q, which will likely reflect in the financials of TSE in 2HFY23, as its steel contracts get reset.
- Correction in steel prices outweighs any correction in the input costs, especially in iron ore and coking coal. With an earlier than normal onset of La Nina (normal times is from November in Australia) and expectations of a wetter than normal season, we feel a surge in coking coal prices are imminent.
- Expansion in its India operations will fructify from FY25, while the benefits from its pellet plant will stay muted as domestic pellet prices have crashed after the imposition of export duty.
- We also note that any move towards reduction/elimination/calibration of export duty on steel/pellet/iron ore will be positive for the entire industry and stocks will react positively to the news, despite the slowdown in the domestic market. Reduction /elimination of export duty will boost steel exports and help reduce inventories, which is the key reason why prices remain subdued in the domestic market. Weak international prices and monsoon are important factors that have driven down domestic steel prices.
- The stock is trading at 4.3x/4.6x FY23E/FY24E EV/EBITDA. In terms of P/B, the stock is trading at 1.1x/1x FY23E/FY24E BV. We expect TATA to generate a RoE of 18.5%/14.4% in FY23/FY24 as compared to 44.4% in FY22. We maintain our Neutral rating.

The group structure has been simplified since FY08

- When TATA reported its first year of consolidation after the acquisition of Corus at the end of FY08, it reported 358 subsidiaries u/s 212(8) of the Companies Act, CY56 v/s 59 at the end of FY07.
- Since FY08, the company has either sold, closed, or liquidated some companies under various provisions of the Act.
- However, a continuous spree of acquisition has increased this list, especially with the acquisition of Bhushan Steel and Usha Martin under the IBC process.
- We believe over the next few years, TATA continue to eliminate non-strategic subsidiaries, which have no business or where the business can be combined without creating hassles. No change is expected in the status of certain subsidiaries, which have been created for specific purposes.
- NINL will not be merged with TATA in the near term.

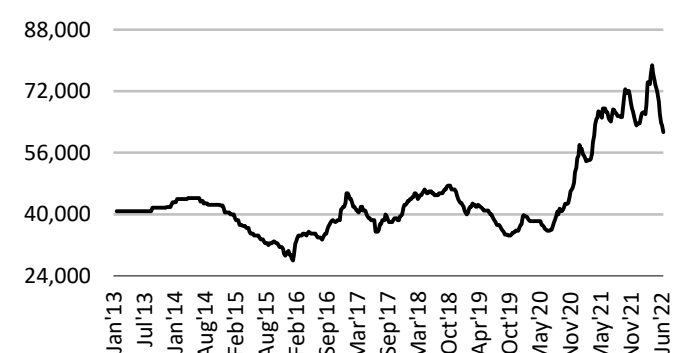
No immediate change in our estimates

- We note that TATA has been trying to merge TSLP and TTML, among other companies, for a while, but had been unable to consummate the same. Hence, we will wait for further clarity on the completion of these mergers.
- We will also like to understand the timeline for the merger as the company has just made the announcement in this regard.
- We also seek greater clarity on the actual (and not NPV) synergy benefits that will accrue to the merged entity to evaluate the quantum of EPS accretion from this merger.

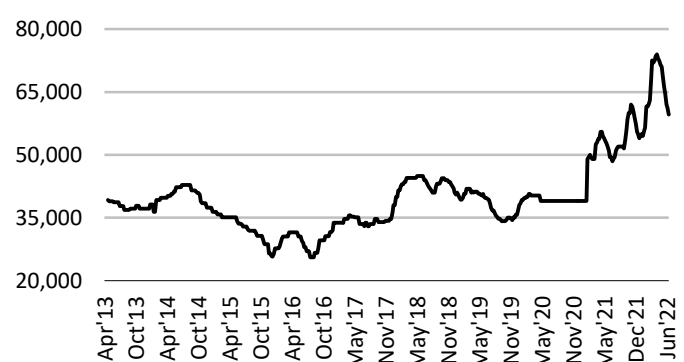
Exhibit 1: Snapshot of the subsidiaries and the parent entity

		Tata Steel (standalone)	Tata Steel Long Products	Tinplate Company of India	Tata Metaliks	Tata Refractories	Indian Steel and Wire Products	T S Mining	S & T mining	Total for these subsidiaries	% share to TATA (Standalone)
		TATA	TSLP	TCIL	TTML	TRF	ISWP	TSML	STML		
Total shares o/s	m sh	12,215	45	105	32	11	6	822	822		12,490
Existing stake of TATA	"	NA	34	78	19	4	6	822	822		
(%) share of TATA	(%)	NA	75%	75%	60%	34%	95%	100%	100%		
Shares with Public	m sh	NA	11	26	13	7	0	0	0		
Share swap ratio		NA	67:10	33:10	79:10	17:10		0	0		
Fresh shares by TATA	m sh	12,215	76	86	100	12	0	0	0	274	2.2%
Cash payout	INR/sh	NA	0	0	0	0	426	0	0		
Cash payout	INR b						127	0	0	127	
Revenue	"	1,290	68.0	42.5	27.5	1.3	3.5	46.1	NA	188.8	15%
EBITDA	"	511	11.8	5.0	3.8	0.0	0.2	-11.6	NA	9.2	2%
RPAT	"	330	6.3	3.5	2.4	-0.2	0.2	-9.4	NA	2.8	1%
EPS		270.2	139.7	33.7	75.4	-14.6	33.1	-11.5	NA		
Total assets	"	1,254	32	12	15	-3	1	1	0	58	5%
DTA on unabsorbed loss	"		0			1.12	0	1.33		2.45	
MAT credit/advance tax	"		0	0.21	0.52					0.73	

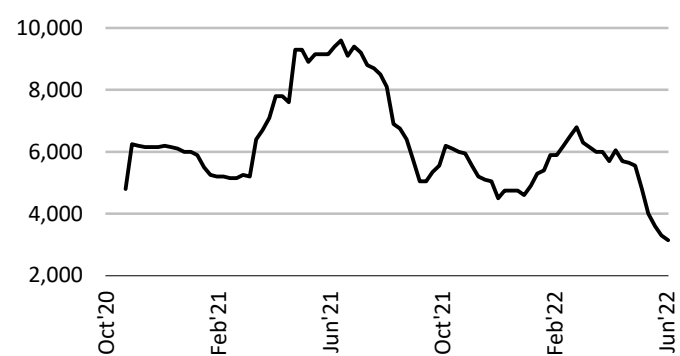
Source: MOFSL, Company

Exhibit 2: Domestic HRC prices (INR/t)

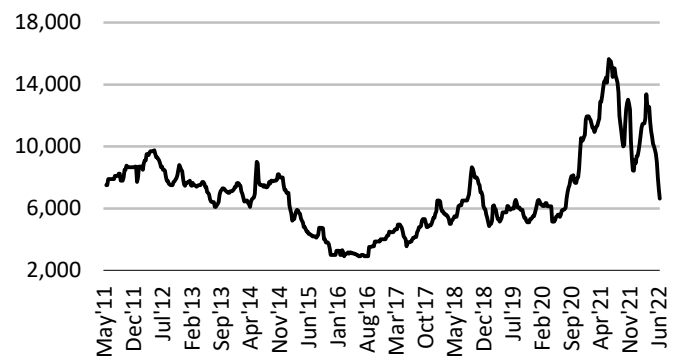
Source: Industry

Exhibit 3: Domestic TMT prices (INR/t)

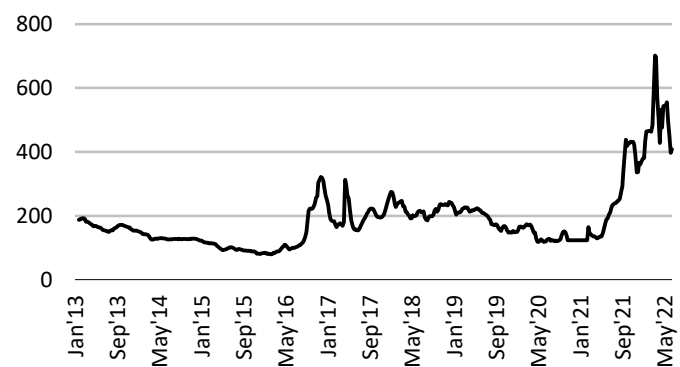
Source: Industry

Exhibit 4: Domestic iron ore prices (INR/t)

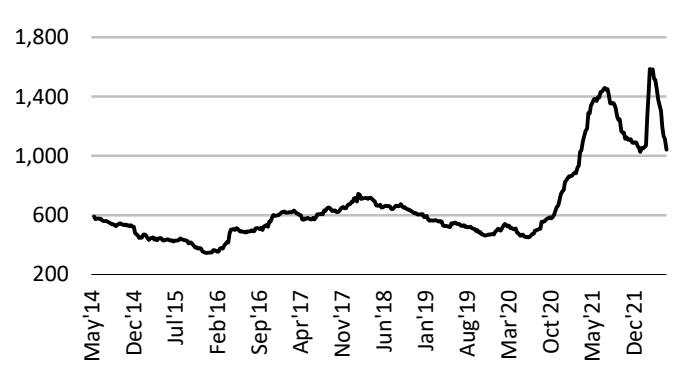
Source: MOFSL, Industry

Exhibit 5: Domestic pellet prices (INR/t)

Source: MOFSL, Industry

Exhibit 6: Coking coal prices (USD/t)

Source: MOFSL, Industry

Exhibit 7: North European HRC (USD/t)

Source: MOFSL, Industry

Exhibit 8: Key assumptions

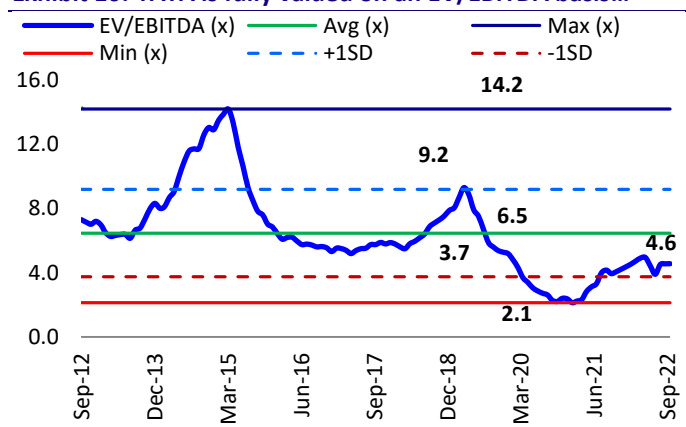
		FY23E	FY24E
Standalone			
Volumes	mt	17.2	18.6
ASP	INR/t	71,808	66,376
Revenue	INR b	1,233	1,233
EBITDA	INR/t	17,636	16,594
EBITDA	INR b	303	308
Europe			
Volumes	mt	8.9	9.3
ASP	INR/t	1,445	1,218
Revenue	INR b	998	875
EBITDA	USD/t	204	67
EBITDA	INR b	141	48
Consolidated (INR b)			
Revenue	INR b	2,537	2,439
EBITDA	"	448	403
PAT	"	217	187
Net debt	"	664	598

Source: MOFSL

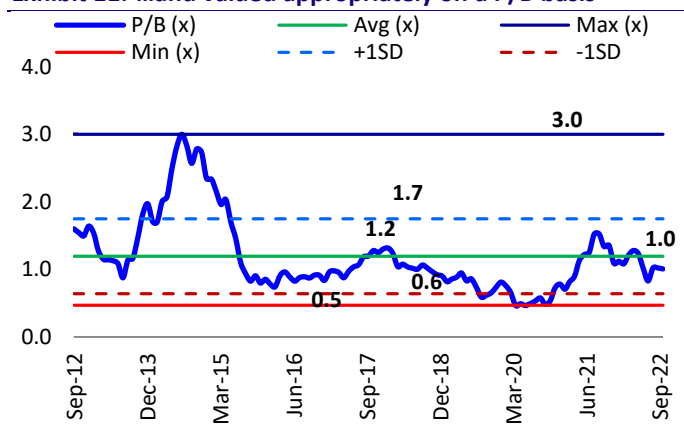
Exhibit 9: Valuation is not commensurate with the steel cycle

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E
Standalone						
EBITDA/t (INR)	12,976	16,180	12,066	14,321	29,002	17,636
Sales (mt)	12.2	12.7	12.3	16.0	17.6	17.2
EBITDA – India	158	206	149	229	511	303
Target EBITDA multiple						5.0
Standalone EV						1,514
Subsidiaries						
EBITDA – India subsidiaries	28,298	34,068	32,659	83	114	4
Target EBITDA multiple						4
EBITDA – Europe	38	54	-7	-6	122	141
Target EBITDA multiple						3
EV (subsidiaries)	0	0	0	0	0	439
Target EV consolidated						1,953
Net debt	713	972	1,071	826	511	664
Total equity value						1,289
TP (INR/share)						106

Source: MOFSL

Exhibit 10: TATA is fully valued on an EV/EBITDA basis...

Source: MOFSL

Exhibit 11: ...and valued appropriately on a P/B basis

Source: MOFSL

Exhibit 12: Global comparative valuation

Company	M-cap USD m	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24
India													
Tata Steel	15,712	3.2	5.9	6.8	2.8	4.3	1.8	1.2	1.0	0.9	44.6	18.5	14.4
JSW Steel	19,945	7.5	11.7	9.8	5.5	7.2	6.2	2.4	2.1	1.8	37.9	19.3	20.0
Jindal Steel & Power	5,357	4.9	9.1	6.6	3.4	5.1	3.6	1.2	1.1	0.9	25.9	12.4	15.0
Steel Authority of India	3,981	2.3	9.5	3.9	2.3	4.8	2.4	0.6	0.6	0.5	27.7	6.2	14.6
Japan													
JFE Holdings Inc	6,343	3.2	5.8	6.4	4.7	6.1	6.7	0.5	0.4	0.4	15.5	7.5	6.4
Nippon Steel Corp	14,922	4.0	4.3	5.5	4.8	4.3	5.4	0.7	0.5	0.5	18.1	12.3	8.3
Kobe Steel	1,815	4.6	4.6	5.0	5.2	5.5	5.3	0.3	0.3	0.3	7.2	6.8	5.3
Korea													
POSCO Holdings Inc	14,084	3.8	4.5	4.3	2.6	2.7	2.5	0.3	0.3	0.3	9.9	8.0	7.6
Hyundai Steel Co	2,985	2.6	3.3	3.3	3.3	3.3	3.0	0.2	0.2	0.2	8.9	6.5	6.1
US													
Nucor Corp	28,495	3.7	8.7	11.0	2.6	5.2	5.7	1.4	1.2	1.1	44.2	14.9	10.5
United States Steel Corp	4,669	2.0	6.5	11.0	1.2	3.1	3.2	0.5	0.4	0.4	28.1	6.1	4.0
Steel Dynamics Inc	13,250	3.4	7.0	10.8	2.4	4.1	6.6	1.5	1.2	1.0	49.9	18.3	10.5
Europe													
ArcelorMittal SA	17,978	1.7	3.9	3.6	1.4	2.4	2.5	0.3	0.3	0.2	21.9	7.7	7.0
SSAB AB	4,380	2.3	6.4	8.4	1.1	2.5	3.1	0.5	0.5	0.5	26.6	8.6	6.3
thyssenkrupp AG	3,109	2.7	5.7	4.9	0.1	NA	NA	0.3	0.2	0.2	9.8	4.0	4.9
voestalpine AG	3,245	3.1	3.6	6.0	2.7	2.5	2.9	0.5	0.4	0.4	16.7	11.4	6.5
China													
Baoshan Iron & Steel Co	16,891	6.4	6.1	5.3	3.7	3.5	2.7	0.6	0.6	0.5	9.3	9.7	10.0

Source: Bloomberg, MOFSL; **Note: (*) denotes stocks under active coverage**

Financials and valuations

Consolidated Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	1,123	1,322	1,577	1,490	1,563	2,440	2,537	2,439
Change (%)	10.1	17.7	19.3	-5.5	4.9	56.1	4.0	-3.8
EBITDA	170	219	294	178	305	635	448	403
% of Net Sales	15.1	16.6	18.6	12.0	19.5	26.0	17.7	16.5
Dep. & Amort	57	60	73	87	92	91	90	96
EBIT	113	159	220	91	213	544	358	308
Finance cost	51	55	77	76	76	55	50	45
Other income	5	9	14	18	9	8	7	6
PBT before EO	68	113	158	34	146	497	315	269
EO income	-43	96	-1	-49	-10	-1.3	-3.4412	-3.8576
PBT after EO	25	209	157	-16	135	496	311	265
Tax	28	34	67	-26	57	85	99	81
Rate (%)	113	16	43	163	42	17	32	30
Reported PAT	-3	175	90	10	79	411	213	184
Minority interest P/L	1	43	-11	-4	7	16	1	2
Share of asso. PAT	0	2	2	2	3	6	5	5
PAT (after MI and asso.)	-4	134	103	16	75	402	217	187
Div. on Pref. /Hybrid Sec.	3	3	3	3	3	0	0	0
Adjusted PAT	-6	131	100	13	72	401	217	187
Change (%)	-134.0	-2,139.6	-23.6	-87.1	460.2	455.2	-45.9	-13.9

Consolidated Balance Sheet

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	10	11	11	11	12	12	12	12
Reserves	346	575	655	702	723	1,132	1,276	1,390
Net Worth	355	586	667	713	735	1,144	1,289	1,402
Minority Interest	16	9	24	26	33	27	28	30
Total Loans	851	942	1,031	1,186	956	756	676	606
Deferred Tax Liability	91	95	115	78	75	93	109	110
Capital Employed	1,313	1,632	1,836	2,003	1,798	2,020	2,101	2,148
Gross Block	1,266	1,399	1,730	1,918	2,020	2,086	2,178	2,436
Less: Accu. Depn.	380	479	526	613	705	796	886	982
Net Fixed Assets	885	920	1,204	1,305	1,314	1,290	1,292	1,453
Capital WIP	158	166	186	195	190	220	266	180
Investments	68	30	32	29	35	58	184	189
Goodwill on consolidation	35	41	40	41	43	43	43	43
Curr. Assets	578	929	863	921	855	1,213	1,134	1,087
Inventory	248	283	317	311	333	488	625	601
Account Receivables	116	124	118	79	95	122	139	120
Cash and liquid investment	106	228	59	115	130	244	12	7
Others	109	294	370	417	297	358	358	358
Cur. Liab & Prov.	411	455	490	487	639	805	819	805
Account Payables	186	204	217	214	260	368	382	368
Provisions & d Others	225	251	273	273	380	437	437	437
Net Current Assets	168	475	373	434	216	408	315	282
Appl. of Funds	1,313	1,632	1,836	2,003	1,798	2,020	2,101	2,148

Financials and valuations

Consolidated Ratios							(INR b)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	-1	11	9	1	6	33	18	15
Cash EPS	5	17	15	9	14	40	25	23
BV/Share (ex-. goodwill)	33	48	55	59	58	90	102	111
DPS	1	1	1	1	3	5	5	5
Payout (%)	-144	7	11	89	41	16	28	33
Valuation (x)								
P/E	-156.5	9.1	11.8	92.0	17.2	3.2	5.8	6.8
Cash P/E	20.0	6.2	6.8	11.9	7.5	2.6	4.1	4.5
P/BV	3.1	2.2	1.9	1.8	1.8	1.1	1.0	0.9
EV/Sales	1.6	1.4	1.4	1.5	1.3	0.7	0.8	0.8
EV/EBITDA	10.3	8.7	7.3	12.7	6.8	2.8	4.3	4.6
Dividend Yield (%)	0.8	0.8	1.0	1.0	2.4	4.9	4.8	4.8
Return Ratios (%)								
EBITDA Margin (%)	15.1	16.6	18.6	12.0	19.5	26.0	17.7	16.5
Net Profit Margin (%)	-0.6	9.9	6.4	0.9	4.6	16.4	8.6	7.7
RoE	-2.7	28.4	17.1	2.0	10.4	44.4	18.5	14.4
RoCE (pre-tax)	9.4	11.6	13.7	5.8	11.8	29.2	18.0	15.0
RoIC (pre-tax)	13.3	14.6	15.9	5.7	13.7	37.0	22.8	18.0
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.4	1.3	1.1	1.2	1.9	2.0	1.7
Asset Turnover (x)	0.9	0.8	0.9	0.7	0.9	1.2	1.2	1.1
Debtor (Days)	38	34.3	27.3	19.3	22.3	18	20	18
Inventory (Days)	81	78.2	73.3	76.1	77.7	73	90	90
Payables (Days)	60	56.4	50.3	52.4	60.6	55	55	55
Working Capital T/O (Days)	58	56.2	50.4	43.1	39.3	36	55	53
Leverage Ratio (x)								
Current Ratio	1.4	2.0	1.8	1.9	1.3	1.5	1.4	1.4
Interest Coverage	2.2	2.9	2.9	1.2	2.8	10.0	7.2	6.9
Net Debt/Equity	2.3	1.3	1.6	1.6	1.2	0.5	0.5	0.4

Consolidated Cash Flow Statement							(INR b)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA	170	219	294	178	305	635	448	403
Reconciliation income (loss)	6	-17	-15	3	-20	24	0	0
(Inc.)/Dec. in Wkg. Cap.	-49	-43	26	42	165	-96	-139	28
Tax Paid	-18	-29	-51	-21	-7	-119	-82	-79
CF from Op. Activity	108	130	253	202	443	444	226	352
(Inc.)/Dec. in FA + CWIP	-77	-75	-91	-104	-70	-105	-138	-171
Free Cash Flow to Firm	31	55	162	98	373	339	88	181
(Pur.)/Sale of Non-cur. Invest.	4	-9	4	4	4	-7	-121	0
Acquisition in subsidiaries	-11	-2	-351	-41	1	12	-3	-4
Int. & Dividend Income	2	4	3	4	5	3	7	6
Others	-3	9	18	8	3	2	0	0
CF from Inv. Activity	-85	-73	-416	-129	-57	-96	-255	-169
Equity raised/(repaid)	7	91	0	2	32	3	0	0
Debt raised/(repaid)	27	41	82	76	-321	-160	-80	-70
Dividend (incl. tax)	-9	-12	-14	-18	-12	-30	-73	-73
Interest & equiv. paid	-50	-54	-74	-77	-71	-47	-50	-45
CF from Fin. Activity	-26	66	-7	-17	-371	-234	-203	-188
(Inc.)/Dec. in Cash	-3	123	-170	56	15	114	-232	-5
Add: Opening Balance	108	106	228	59	115	130	244	12
Closing Balance	106	228	59	115	130	244	12	7

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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