

Result Update – Q1FY22

- Tata Steel consolidated revenue increased during the quarter by 6.8% QoQ and more than doubled on a YoY basis to ₹ 533.7 billion. During the quarter the company achieved a highest ever quarterly consolidated EBITDA of ₹ 161.1 billion which reflects essentially a 30.2% margin. Consolidated profit after tax stood at ₹ 97.7 billion which is higher than the full year PAT of the previous financial year.
- During the quarter, Tata Steel India's crude steel production declined by 2.6% QoQ to 4.63 MT with the supply of liquid medical oxygen to different states. Company steel deliveries declined 11% QoQ to 4.15 MT due to partial lockdowns and temporary shutdowns in various steel consuming sectors. Company has increased exports to 16% of total volume in the domestic markets. Company able to develop 24 new products in India for customers across segments including automotive and branded products and retail.
- Tata Steel India operations which include the standalone Tata Steel, Tata Steel BSL, and Tata Steel Long Products generated revenues of about ₹ 303.4 billion supported by higher steel prices and stable operations. Company achieved its highest ever quarterly EBITDA of about ₹139.5 billion this quarter. Tata Steel standalone revenues were marginally lower at ₹ 207.9 billion as the benefit of the strong steel prices were offset by lower deliveries. Tata Steel standalone also achieved the highest ever quarterly EBITDA of ₹102.7 billion with a 12% QoQ growth. The operations generated free cash flow of more than ₹ 47 billion in the first quarter of this financial year.
- Company key subsidiaries Tata Steel BSL generated an EBITDA of ₹ 31.2 billion while Tata Steel Long Products generated an EBITDA of ₹ 5.5 billion. Both entities generated free cash flow of more than ₹ 27 billion and ₹ 4.5 billion, respectively. As part of the overall deleveraging program, both companies have utilized the free cash flows to reduce debt. Both Tata Steel BSL and Tata Steel Long Products are close to being net debt free individually.
- Tata Steel Europe operations revenues increased to ₹ 194.41 billion during the Q1FY22. Reported EBITDA for the quarter improved by 19% QoQ with higher steel prices and better mix, partially offset by increased input cost as iron ore costs have started to increase. Steel deliveries at Tata Steel Europe increased by 17.4%YoY to 2.33 mn tons in 1QFY22. EBITDA improved sharply to ₹150 million in 1QFY22.
- The Company's FY22 consolidated Capex is expected to be about ₹ 100 to 120 billion however the company has spent ₹ 20 billion on capex during the quarter, work on the Pellet plant, the Cold Roll Mill complex and the 5 MTPA expansion at Kalinganagar is ongoing. CRM and pellet plant commissioning at Kalinganagar is expected in 1HCY22.

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- TATA steel made debt repayments of ₹ 58.9 billion this quarter. Company gross debt has decreased to about ₹ 842.4 billion while the net debt has come down to ₹ 739.7 billion. Tata steel credit metrics have improved significantly with net debt to equity now remaining under 1x and the improvement in net debt to EBITDA to 1.59 x, which is now under the 2x trend line.
- Company delivered strong financial performance with strong revenue growth and margin expansion along with solid free cash flow. Strong recovery in India business, efficient working capital management coupled with sharp capital allocation should improve prospects further. We expect H2FY22 to be stronger for Tata Steel India operations as Chinese steel curbs are likely to keep steel prices and a return to profitability at the European operations. Also, we believe strong profitability and further fall in net debt over FY22-FY23. Therefore, we maintain our **BUY** rating on the stock with a roll forward target price of ₹ **1,776** using SOTP valuation.

Quarterly Results

Financial Results

Consolidated			
(In ₹ mn)	Q1-FY22	Q1-FY21	Chg
Net Sales	533,718	254,745	109.5%
Operating Expense	372,613	249,353	49.4%
EBITDA	161,106	5,392	2887.7%
Other Income	1,622	1,879	-13.7%
Depreciation	23,245	21,747	6.9%
EBIT	139,482	(14,475)	
Interest	18,114	20,064	-9.7%
PBT	121,368	(34,539)	
Tax	23,084	12,676	82.1%
Share of profit/loss (JV & Ass)	1,223	150	715.1%
Exceptional Items	(1,823)	584	
Consolidated PAT	97,683	(46,481)	
Consolidated			
Margins	Q1-FY22	Q1-FY21	Chg
Operating Margin %	30.2%	2.1%	2807
PBT Margin %	22.7%	-13.6%	
PAT Margin %	18.3%	-18.2%	

Source: Company, Anand Rathi Research

Consolidated Financials:

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	1,489,717	1,562,941	2,034,222	1,985,700
Operating Expense	1,311,441	1,257,898	1,532,211	1,547,746
EBITDA	178,276	305,043	502,011	437,954
Other Income	18,220	8,956	10,299	11,123
Depreciation	87,077	92,336	92,610	104,321
EBIT	109,419	221,662	419,699	344,757
Interest	75,807	76,067	54,992	48,699
Misc. items	(1,879)	(3,273)	-	-
PBT	35,491	148,868	364,708	296,058
Tax	(25,529)	56,539	93,001	75,495
Exceptional Items	(49,296)	(10,431)	-	-
PAT	11,724	81,898	271,707	220,563

Margins	FY-20	FY-21	FY-22E	FY-23E
Sales Growth %	-8.8%	4.9%	30.2%	-2.4%
Operating Margin %	12.0%	19.5%	24.7%	22.1%
Net Margin %	0.8%	5.2%	13.4%	11.1%

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Liabilities				
Equity Share Capital	11,450	11,976	11,976	11,976
Reserves & Surplus	724,314	730,412	987,748	1,193,940
Total Shareholder's Funds	735,764	742,388	999,724	1,205,916
Minority Interest	25,866	32,696	32,696	32,696
Long-Term Liabilities	1,132,893	819,009	725,292	588,620
Other Long-term Liabilities	65,037	94,172	111,368	99,907
Deferred Tax Liability	79,910	92,412	92,412	-
Short-term Liabilities	438,485	674,189	764,925	769,672
Total	2,477,955	2,454,866	2,726,418	2,696,811
Assets				
Net Fixed Assets	1,499,926	1,504,377	1,694,598	1,680,278
Long-Term L&A	381,887	240,870	243,279	245,711
Non Current Investments	28,532	106,817	112,158	117,766
Other Non-Current Assets	40,545	43,446	-	-
Current Asset	527,065	559,356	676,383	653,056
Total	2,477,955	2,454,866	2,726,418	2,696,811

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	87.0	68.4	226.9	184.2
P/E (x)	17.2	21.9	6.6	8.1
P/B (x)	2.4	2.4	1.8	1.5
ROE	13.1%	10.6%	26.3%	17.8%

Source: Company, Anand Rathi Research

Key Risks:

- ❑ Fall in global steel prices/ spreads
- ❑ Demand contraction in India/world
- ❑ Supply cuts being undermined in China

Rating and Target Price history:

TATASTEEL rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 18 August 2021 close.

TATASTEEL rating details

Date	Rating	Target Price (₹)	Share Price (₹)
04-Apr-2021	BUY	1,094	925
11-May-2021	BUY	1,230	1,437
18-Aug-2021	BUY	1,500	1,776

Source: Bloomberg, Anand Rathi Research

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