

February 11, 2019

Q3FY19 Result Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	780		785	
Sales (Rs. m)	1,730,219	1,752,979	1,730,219	1,752,979
% Chng.	-	-	-	-
EBITDA (Rs. m)	296,103	306,656	296,103	306,656
% Chng.	-	-	-	-
EPS (Rs.)	75.1	80.2	75.1	80.2
% Chng.	-	-	-	-

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. bn)	1,313	1,599	1,730	1,753
EBITDA (Rs. bn)	210	293	296	307
Margin (%)	16.0	18.3	17.1	17.5
PAT (Rs. bn)	29	89	90	96
EPS (Rs.)	25.5	73.9	75.1	80.2
Gr. (%)	(37.4)	190.1	1.7	6.7
DPS (Rs.)	10.0	10.0	10.0	10.0
Yield (%)	2.1	2.1	2.1	2.1
RoE (%)	5.9	11.8	9.6	9.5
RoCE (%)	11.0	12.4	10.9	10.9
EV/Sales (x)	0.9	0.9	0.9	0.8
EV/EBITDA (x)	5.8	5.1	5.0	4.8
PE (x)	18.4	6.3	6.2	5.8
P/BV (x)	0.9	0.6	0.6	0.5

Key Data

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52-W High / Low	Rs.721 / Rs.441
Sensex / Nifty	36,546 / 10,944
Market Cap	Rs.532bn/ \$ 7,467m
Shares Outstanding	1,126m
3M Avg. Daily Value	Rs.8262.06m

Shareholding Pattern (%)

Promoter's	33.12
Foreign	15.02
Domestic Institution	29.06
Public & Others	22.80
Promoter Pledge (Rs bn)	6.65

Stock Performance (%)

	1M	6M	12M
Absolute	(4.4)	(18.7)	(30.1)
Relative	(5.9)	(15.7)	(34.2)

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In line with estimates; remains the top pick in the sector

Tata Steel (TATA) reported Q3FY19 earnings in line with our estimates. Adjusted for forex loss, domestic operations reported EBITDA/t in line with our estimate at Rs16,400/t (PLe:Rs16,240/t). TSE delivered EBITDA/t of US\$57/t (PLe:US\$40) on the back of better spreads and higher income from carbon credit sale. TATA Steel BSL (formerly Bhushan Steel) continue to deliver strong performance with EBITDA/t of Rs11,000/t (PLe:Rs10,950).

Global steel prices rose by US\$25-30/t in past one month on the back of slowing production in China. We expect increase in prices to accelerate post Chinese Lunar holiday due to steep rise in iron ore prices and improvement in Chinese demand led by cut in interest rates and easing of liquidity. The ongoing trade dispute between China and USA remains immense risk for the sector. However, we believe that it would be resolved amicably in a time bound manner given its adverse repercussions visible on the global economy. In the backdrop of rising iron ore prices and improving outlook on global prices, TATA stands as best placed to exploit the market conditions on back of its integrated domestic operations. Exit from loss making European (TSE) and South East Asian (SEAN) operations would significantly improve the quality of earnings and Balance sheet (would reduce debt by 23% or ~Rs24bn). We reiterate BUY with TP of Rs780, EV/EBITDA 6x FY20e.

- Margins in line with expectation in domestic operations:** Volumes fell 7% QoQ (↓10% YoY) to 3.0mn (PLe:3.3mn) t. Blended realisations rose 1.7% QoQ to Rs56,200 above our estimate of Rs55,080. Impacted by higher coking coal cost and royalty on iron ore, cost/t came above our estimate at Rs41,460 (PLe:Rs39,750); up 8%/Rs3,215 QoQ (↑25%/Rs8,380 YoY). Adj EBITDA fell 17% QoQ (+3% YoY) to Rs48.7bn (PLe:Rs53.6bn). Due to 25% fall in other income, Adj PAT fell 30% QoQ (+12% YoY) to Rs22.9bn (PLe:Rs26.6bn).
- Strong margins in TSE offset the lower earnings in India operations:** TSE volumes rose 1.3% QoQ (↓5.7% YoY) to 2.3mn (PLe:2.2mn) t. Due to higher than expected spreads, TSE's EBITDA came above our estimates at US\$131mn (PLe:US\$80mn), down 17% QoQ (↑40% YoY). Consolidated Adj EBITDA came in line with our estimates at Rs72.3bn (PLe:Rs74.1bn), down 18% QoQ (+27% YoY). Adj. PAT fell 35% QoQ (+14% YoY) to Rs22.8bn (PLe:Rs22.5bn).
- Key highlights of con-call:**
 - Domestic steel prices expected to fall by Rs3,000/t QoQ in Q4FY19e but fall in margins would be partially offset by lower coking coal (down US\$5/t QoQ) costs, efficiency improvements and scale benefit
 - Would complete the announced divestment of 70% stake in SEAN operations (for consideration of US\$500mn) by Q1FY20
 - Expecting announcement from European Commission (EC) on JV with ThyssenKrupp in next week and would work on the remedy to any objections if raised by EC and complete the transaction in the coming months (likely by Q1FY20)
 - Net Debt reduced by Rs30bn QoQ to Rs1.01tn in Q3
 - Reiterated guidance to reduce debt by US\$1bn in 12 months
 - Rs22.6bn/Rs63.7bn capex spent in Q3FY19/9MFY19
 - Maintained FY19e volume guidance for standalone/Tata steel BSL at 12.4mn-12.5mn/4mn t

Exhibit 1: Q3FY19 Result Overview (Rs m)

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Sales	412,199	334,466	23.2	435,441	1,225,968	955,680	28.3
Raw Material	165,055	131,279	25.7	175,418	480,468	384,873	24.8
<i>% of Net Sales</i>	<i>40.0</i>	<i>39.3</i>		<i>40.3</i>	<i>39.2</i>	<i>40.3</i>	
Staff Costs	47,446	44,256	7.2	49,963	146,742	130,235	12.7
<i>% of Net Sales</i>	<i>11.5</i>	<i>13.2</i>		<i>11.5</i>	<i>12.0</i>	<i>13.6</i>	
Other Expenses	132,465	101,962	29.9	120,865	377,653	286,650	31.7
<i>% of Net Sales</i>	<i>32.1</i>	<i>30.5</i>		<i>27.8</i>	<i>30.8</i>	<i>30.0</i>	
Total Expenditure	344,966	277,497	24.3	346,246	1,004,863	801,759	25.3
EBITDA	67,233	56,969	18.0	89,195	221,105	153,921	43.6
<i>Margin (%)</i>	<i>16.3</i>	<i>17.0</i>		<i>20.5</i>	<i>18.0</i>	<i>16.1</i>	
Depreciation	19,255	14,751	30.5	19,079	56,390	44,495	26.7
Other income	2,115	2,259	(6.4)	3,544	9,132	5,928	54.1
EBIT	50,093	44,477	12.6	73,660	173,846	115,354	50.7
Interest	19,400	13,273	46.2	21,531	57,632	40,209	43.3
PBT	30,693	31,205	(1.6)	52,130	116,215	75,145	54.7
Extraordinary income/(expense)	324	(11,156)		1,638	(1,474)	(17,770)	
PBT (After EO)	31,018	20,049	54.7	53,767	114,741	57,375	100.0
Tax	14,006	9,508	47.3	23,264	48,306	28,293	70.7
<i>% PBT</i>	<i>45.2</i>	<i>47.4</i>		<i>43.3</i>	<i>42.1</i>	<i>49.3</i>	
Reported PAT	17,012	10,541	61.4	30,504	66,435	29,081	128.4
Minority interest	(5,329)	(1,505)		(4,825)	(10,327)	(1,237)	
Share of profit/(loss) of associates	500	898	(44.4)	713	1,661	1,573	5.6
Net Profit attributable to shareholders	22,841	12,944	76.5	36,042	78,423	31,892	145.9
Adjusted Net Profit attributable to shareholders	22,751	20,016	13.7	34,894	80,621	43,185	86.7

Source: Company, PL

Exhibit 2: Key Operating Metrics

Subsidiary performance	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Revenue							
Indian Operations (mn USD)	2,381	2,410	(1.2)	2,557	7,385	6,647	11.1
UK Operations (mn USD)	2,198	2,270	(3.2)	2,276	6,923	6,787	2.0
Tata steel BSL (mn USD)	678	-	-	813	1,513	-	-
South east asian operations (mn USD)	357	385	(7.4)	423	1,168	1,071	9.0
Adjusted EBITDA							
Indian Operations (mn USD)	631	715	(11.8)	857	2,244	1,700	32.0
UK Operations (mn USD)	131	98	34.4	159	538	409	31.6
Tata steel BSL (mn USD)	140	-	-	163	307	-	-
South east asian operations (mn USD)	1	28	(95.1)	16	34	53	(36.0)
TSE							
Sales Volume	2.4	2.4	(3.7)	2.3	7.1	7.4	(5.0)
Realisation per tonne	935	930	0.5	1,002	979	912	7.4
EBITDA per tonne	56	40	39.5	70	76	55	38.5
Tata steel BSL							
Sales Volume	0.9	-	-	1.1	2.1	-	-
Realisation per tonne	737	-	-	713	734	-	-
EBITDA per tonne	152	-	-	143	149	-	-
South East Operations							
Sales Volume (mn tonne)	0.5	0.6	(16.1)	0.7	1.8	1.9	(6.3)
Realisation per tonne	686	621	10.4	651	660	567	16.4
EBITDA per tonne	3	46	(94.2)	25	19	28	(31.7)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	1,312,951	1,598,655	1,730,219	1,752,979
YoY gr. (%)	16.9	21.8	8.2	1.3
Cost of Goods Sold	521,646	639,659	702,717	708,698
Gross Profit	791,306	958,995	1,027,502	1,044,281
Margin (%)	60.3	60.0	59.4	59.6
Employee Cost	176,062	208,868	229,459	231,412
Other Expenses	(10,009)	-	-	-
EBITDA	210,299	293,227	296,103	306,656
YoY gr. (%)	23.6	39.4	1.0	3.6
Margin (%)	16.0	18.3	17.1	17.5
Depreciation and Amortization	59,617	76,777	77,938	79,907
EBIT	150,683	216,450	218,165	226,750
Margin (%)	11.5	13.5	12.6	12.9
Net Interest	55,018	82,256	84,848	84,848
Other Income	9,095	13,890	14,238	14,621
Profit Before Tax	200,750	148,084	147,555	156,523
Margin (%)	15.3	9.3	8.5	8.9
Total Tax	34,054	58,952	56,811	59,722
Effective tax rate (%)	17.0	39.8	38.5	38.2
Profit after tax	166,696	89,131	90,744	96,800
Minority interest	43,285	800	800	800
Share Profit from Associate	1,741	2,300	2,200	2,200
Adjusted PAT	29,161	88,891	90,404	96,460
YoY gr. (%)	(26.1)	204.8	1.7	6.7
Margin (%)	2.2	5.6	5.2	5.5
Extra Ord. Income / (Exp)	95,991	-	-	-
Reported PAT	125,153	88,891	90,404	96,460
YoY gr. (%)	(3,423.1)	(29.0)	1.7	6.7
Margin (%)	9.5	5.6	5.2	5.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	125,153	88,891	90,404	96,460
Equity Shares O/s (m)	1,145	1,203	1,203	1,203
EPS (Rs)	25.5	73.9	75.1	80.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	1,399,263	2,003,987	2,055,262	2,106,537
Tangibles	1,399,263	2,003,987	2,055,262	2,106,537
Intangibles	-	-	-	-
Acc: Dep / Amortization	479,209	607,022	684,960	764,867
Tangibles	479,209	607,022	684,960	764,867
Intangibles	-	-	-	-
Net fixed assets	920,054	1,396,965	1,370,302	1,341,671
Tangibles	920,054	1,396,965	1,370,302	1,341,671
Intangibles	-	-	-	-
Capital Work In Progress	171,168	220,768	310,383	394,998
Goodwill	40,995	40,995	40,995	40,995
Non-Current Investments	38,249	56,449	59,699	62,949
Net Deferred tax assets	(95,341)	(142,687)	(154,718)	(167,177)
Other Non-Current Assets	237,984	247,834	248,184	248,534
Current Assets				
Investments	149,090	59,090	59,090	59,090
Inventories	283,310	328,491	355,524	360,201
Trade receivables	124,155	144,013	152,234	153,657
Cash & Bank Balance	79,379	75,667	76,063	102,940
Other Current Assets	31,742	37,542	43,042	48,542
Total Assets	2,097,579	2,629,859	2,738,104	2,836,673
Equity				
Equity Share Capital	11,450	12,032	12,032	12,032
Other Equity	597,257	888,626	964,578	1,046,587
Total Networkth	608,706	900,659	976,611	1,058,619
Non-Current Liabilities				
Long Term borrowings	921,471	1,060,601	1,060,601	1,060,601
Provisions	43,382	43,382	43,382	43,382
Other non current liabilities	44,013	44,013	44,013	44,013
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	204,138	244,413	262,925	265,715
Other current liabilities	158,897	171,672	172,623	173,134
Total Equity & Liabilities	2,097,579	2,629,859	2,738,104	2,836,673

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	211,682	148,084	147,555	156,523
Add. Depreciation	59,617	76,777	77,938	79,907
Add. Interest	55,018	82,256	84,848	84,848
Less Financial Other Income	9,095	13,890	14,238	14,621
Add. Other	(124,445)	(3,483)	(3,831)	(4,214)
Op. profit before WC changes	201,871	303,634	306,510	317,063
Net Changes-WC	(92,755)	11,221	(23,235)	(10,206)
Direct tax	(28,882)	(45,685)	(43,859)	(46,342)
Net cash from Op. activities	80,234	269,169	239,415	260,514
Capital expenditures	(75,202)	(90,600)	(140,890)	(135,890)
Interest / Dividend Income	3,656	3,483	3,831	4,214
Others	(47,857)	(97,870)	-	-
Net Cash from Inv. activities	(119,403)	(184,987)	(137,059)	(131,676)
Issue of share cap. / premium	90,872	35,838	-	-
Debt changes	42,252	(25,000)	-	-
Dividend paid	(11,800)	(13,815)	(14,452)	(14,452)
Interest paid	(51,456)	(82,256)	(84,848)	(84,848)
Others	(3,470)	(2,661)	(2,661)	(2,661)
Net cash from Fin. activities	66,399	(87,894)	(101,961)	(101,961)
Net change in cash	27,230	(3,712)	396	26,878
Free Cash Flow	5,449	178,569	98,525	124,624

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	361,323	378,328	435,441	412,199
YoY gr. (%)	6.6	27.6	34.1	23.2
Raw Material Expenses	136,772	139,995	175,418	165,055
Gross Profit	224,551	238,333	260,023	247,144
Margin (%)	62.1	63.0	59.7	60.0
EBITDA	64,989	64,677	89,195	67,233
YoY gr. (%)	14.1	(0.5)	37.9	(24.6)
Margin (%)	18.0	17.1	20.5	16.3
Depreciation / Depletion	15,122	18,056	19,079	19,255
EBIT	49,867	46,620	70,116	47,978
Margin (%)	13.8	12.3	16.1	11.6
Net Interest	14,809	16,701	21,531	19,400
Other Income	2,749	3,473	3,544	2,115
Profit before Tax	151,569	29,956	53,767	31,018
Margin (%)	41.9	7.9	12.3	7.5
Total Tax	5,761	11,037	23,264	14,006
Effective tax rate (%)	3.8	36.8	43.3	45.2
Profit after Tax	145,808	18,919	30,504	17,012
Minority interest	44,522	(173)	(4,825)	(5,329)
Share Profit from Associates	586	448	713	500
Adjusted PAT	35,203	22,976	34,894	22,751
YoY gr. (%)	5.3	75.1	247.2	13.7
Margin (%)	9.7	6.1	8.0	5.5
Extra Ord. Income / (Exp)	66,669	(3,436)	1,148	90
Reported PAT	101,872	19,540	36,042	22,841
YoY gr. (%)	(1,504.9)	112.6	269.3	76.5
Margin (%)	28.2	5.2	8.3	5.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	101,872	19,540	36,042	22,841
Avg. Shares O/s (m)	971	971	971	971
EPS (Rs)	36.2	23.7	35.9	23.4

Source: Company Data, PL Research

Key Financial Metrics

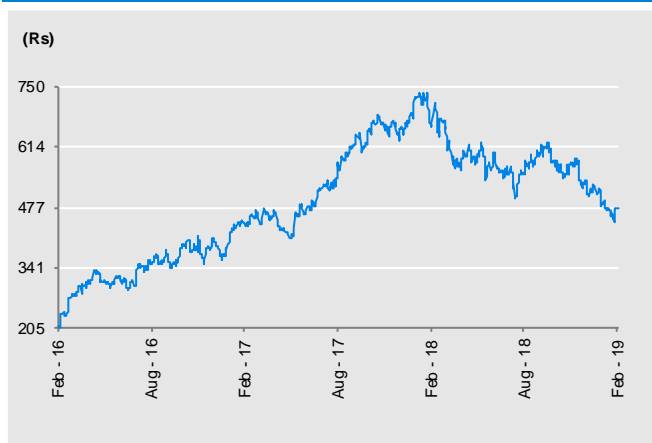
Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	25.5	73.9	75.1	80.2
CEPS	77.5	137.7	139.9	146.6
BVPS	531.6	748.5	811.7	879.8
FCF	4.8	148.4	81.9	103.6
DPS	10.0	10.0	10.0	10.0
Return Ratio(%)				
RoCE	11.0	12.4	10.9	10.9
ROIC	11.0	8.1	7.2	7.3
RoE	5.9	11.8	9.6	9.5
Balance Sheet				
Net Debt : Equity (x)	1.1	1.0	0.9	0.8
Net Working Capital (Days)	57	52	52	52
Valuation(x)				
PER	18.4	6.3	6.2	5.8
P/B	0.9	0.6	0.6	0.5
P/CEPS	76.6	135.9	138.1	144.7
EV/EBITDA	5.8	5.1	5.0	4.8
EV/Sales	0.9	0.9	0.9	0.8
Dividend Yield (%)	2.1	2.1	2.1	2.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Rev. Indian Op. (US\$ m)	9,249	9,792	9,882	10,260
Rev. Corus (US\$ m)	9,306	8,370	9,000	9,000
Rev. South East (US\$ m)	1,480	1,288	1,288	1,288
EBITDA-India (US\$ m)	2,448	2,937	2,774	2,850
EBITDA-Corus (US\$ m)	588	651	600	600
EBITDA-South East (US\$ m)	68	63	63	63
Volume (mt)-India	12	13	13	13
Real./ Tonne- India (Rs)	36,066	40,551	39,904	40,252
EBITDA/Tonne- India (Rs)	12,986	16,144	15,000	15,058
SalesVol.-Corus (mt)	10	9	10	10
Real./Tonne-Corus (US\$)	931	900	900	900
EBITDA/Tonne-Corus (US\$)	59	70	60	60
Sales Vol.-South East (mt)	3	3	3	3
Real./Tonne-SEAN (US\$)	590	515	515	515
EBITDA/Tonne-SEAN (US\$)	27	25	25	25

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Feb-18	BUY	835	684
2	15-Mar-18	BUY	835	611
3	13-Apr-18	BUY	835	595
4	17-May-18	BUY	830	622
5	23-May-18	BUY	830	577
6	21-Jun-18	BUY	830	558
7	2-Jul-18	BUY	815	568
8	10-Jul-18	BUY	727	566
9	14-Aug-18	BUY	770	569
10	5-Oct-18	BUY	780	582

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,710	1,389
2	Ambuja Cement	Hold	220	218
3	Coal India	Hold	262	235
4	Heidelberg Cement India	BUY	200	150
5	Hindalco Industries	Accumulate	280	209
6	Hindustan Zinc	Hold	275	268
7	Jindal Steel & Power	BUY	230	129
8	JK Lakshmi Cement	Hold	340	315
9	JSW Steel	BUY	360	279
10	NMDC	Reduce	86	95
11	Shree Cement	Hold	16,800	15,918
12	Steel Authority of India	Hold	50	53
13	Tata Steel	BUY	785	486
14	The Ramco Cements	Hold	600	574
15	Ultratech Cement	Hold	3,725	3,791

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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