

October 3, 2018

## Meeting Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	780		780	
Sales (Rs. m)	16,05,597	16,89,189	16,05,597	16,89,189
% Chng.				
EBITDA (Rs. m)	2,87,062	3,03,197	2,87,062	3,03,197
% Chng.				
EPS (Rs.)	68.1	69.9	68.1	69.9
% Chng.				

### Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	1,123	1,313	1,606	1,689
EBITDA (Rs. bn)	170	210	287	303
Margin (%)	15.1	16.0	17.9	17.9
PAT (Rs. bn)	39	29	82	84
EPS (Rs.)	40.7	25.5	68.1	69.9
Gr. (%)	(315.3)	(37.4)	167.2	2.7
DPS (Rs.)	10.0	10.0	10.0	10.0
Yield (%)	1.8	1.8	1.8	1.8
RoE (%)	9.7	5.9	10.9	9.1
RoCE (%)	9.2	11.0	12.1	10.7
EV/Sales (x)	1.1	1.0	1.0	0.9
EV/EBITDA (x)	7.5	6.3	5.6	5.3
PE (x)	13.8	22.0	8.2	8.0
P/BV (x)	1.4	1.1	0.8	0.7

### Key Data

TISC.BO | TATA IN

52-W High / Low	Rs.748 / Rs.493
Sensex / Nifty	34,377 / 10,316
Market Cap	Rs.639bn/ \$ 8,631m
Shares Outstanding	1,126m
3M Avg. Daily Value	Rs.10332.02m

### Shareholding Pattern (%)

Promoter's	33.21
Foreign	18.50
Domestic Institution	26.71
Public & Others	21.58
Promoter Pledge (Rs bn)	7.04

### Stock Performance (%)

	1M	6M	12M
Absolute	(9.6)	(4.7)	(14.1)
Relative	0.7	(7.0)	(20.7)

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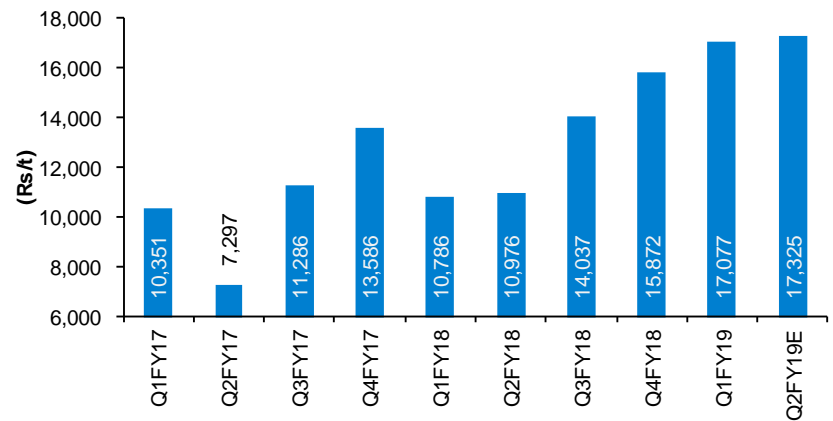
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## On course to regain market leadership

In our recent interaction with TATA Steel's (TATA) Investor Relations Team, they reemphasized on their plans to expand market share in India with 1) Brownfield expansion of Kalinganagar operations, 2) acquisition of Usha Martin's (UML) steel operations in Jamshedpur and 3) increase in utilization of recently acquired Bhushan Steel (BSL). Management is confident of significant improvement in margins of acquired assets with the rationalization of input prices and increase in realizations to bring them on par with TATA. Firm outlook on steel prices, reduction of exposure to European markets (through JV with ThyssenKrupp) and sweating of acquired assets increases our conviction (TP of Rs780). Newsflow on Bhushan Power and Steel (BPSL) acquisition can remain an overhang in the near term. However, we believe that recently concluded acquisition of UML would reduce TATA's aggressiveness for BPSL's acquisition. Maintain BUY.

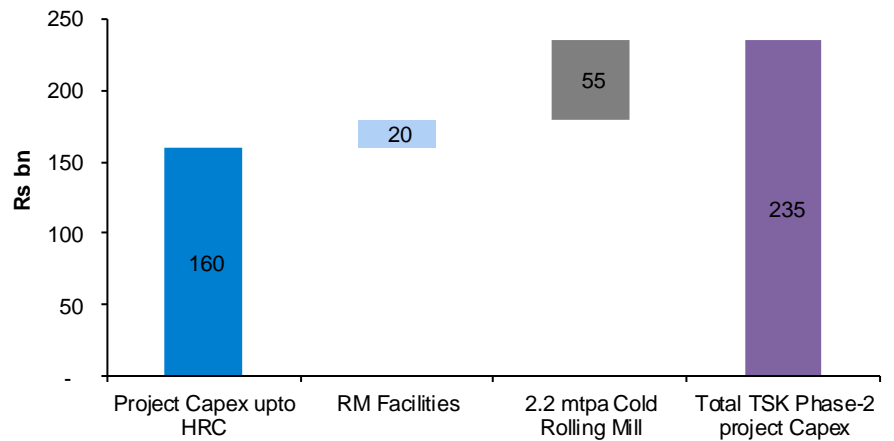
- Strong domestic pricing environment:** Led by steep depreciation of currency and stable global prices, steel prices remained flat QoQ in Q2FY19e better than guidance of Rs500/t cut in Q1 post earnings call.
- BSL's turnaround on full pace:** Management expects to exit FY20e at production run-rate of 5mtpa. This increase in production from current 4mtpa to targeted 5mtpa would involve minimal capex of Rs2-3bn on balancing equipment. On the cost front, TATA expects significant savings in procurement of iron ore and coking coal with tough negotiation, high scale (in case of coking coal) and check on leakages. TATA commenced supplying iron ore from its captive mines though in small quantities. It targets to meet entire of the requirement through captive mines in next couple of years. BSL's realizations would improve by US\$20-25/t on the back of increase in pricing levels at par with TATA and reduction in lower margin exports by 50%.
- UML's acquisition fills gap in Long products:** UML's alloy-based Long products portfolio would help TATA expand its presence in niche applications of Automotive, Engineering and Infrastructure sector. Expansion of similar capacity through organic route would have been more difficult due to size and nature of products.
- JV with ThyssenKrupp on track:** JV for merger of TATA Steel Europe (TSE) and ThyssenKrupp's steel operations is on track to close by Q4FY19. There could be potential issues with proposed JV's high consolidation in packaging segment. However, management is confident of resolving the same within the guided timeline. The JV would make combined entity the second largest Flat steel producer in Europe with deliveries/revenue/EBITDA of 21.4mn t/€20.7bn/€2.07bn. It will have debt of €6.5bn that includes a) senior debt of €2.5bn carved out of TSE and b) €4bn of unfunded pension and other legacy liabilities of ThyssenKrupp.
- Work starts on Kalinganagar Phase-II:** TATA completed majority of ordering for 5mtpa expansion at Kalinganagar (existing capacity at 3mtpa) with a capex of ~Rs250bn. Civil work is in full swing. Company expects to commission the expansion by end of FY22 or mid of FY23.

**Exhibit 1: Domestic margins to sustain at Q1FY19 levels**



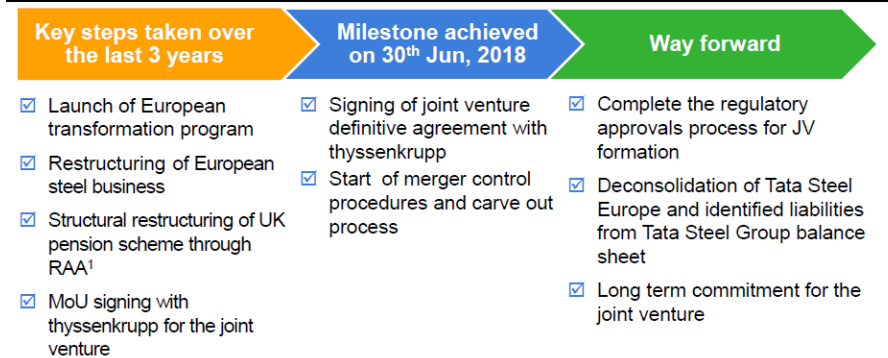
Source: Company, PL

**Exhibit 2: Low capex intensity on 5mtpa expansion in Kalinganagar**



Source: Company, PL

**Exhibit 3: TSE's journey so far and way forward**



Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Net Revenues</b>	<b>11,22,994</b>	<b>13,12,951</b>	<b>16,05,597</b>	<b>16,89,189</b>
YoY gr. (%)	10.1	16.9	22.3	5.2
Cost of Goods Sold	3,93,049	5,21,646	6,46,082	6,79,136
Gross Profit	7,29,945	7,91,306	9,59,515	10,10,053
Margin (%)	65.0	60.3	59.8	59.8
Employee Cost	1,72,522	1,76,062	2,10,966	2,21,759
Other Expenses	(7,647)	(10,009)	-	-
<b>EBITDA</b>	<b>1,70,078</b>	<b>2,10,299</b>	<b>2,87,062</b>	<b>3,03,197</b>
YoY gr. (%)	113.4	23.6	36.5	5.6
Margin (%)	15.1	16.0	17.9	17.9
Depreciation and Amortization	56,729	59,617	76,753	89,549
<b>EBIT</b>	<b>1,13,349</b>	<b>1,50,683</b>	<b>2,10,309</b>	<b>2,13,648</b>
Margin (%)	10.1	11.5	13.1	12.6
Net Interest	50,722	55,018	74,328	74,242
Other Income	5,275	9,095	7,890	8,238
<b>Profit Before Tax</b>	<b>24,660</b>	<b>2,00,750</b>	<b>1,43,871</b>	<b>1,47,644</b>
Margin (%)	2.2	15.3	9.0	8.7
Total Tax	27,780	34,054	59,531	61,096
Effective tax rate (%)	112.7	17.0	41.4	41.4
<b>Profit after tax</b>	<b>(3,120)</b>	<b>1,66,696</b>	<b>84,340</b>	<b>86,548</b>
Minority interest	722	43,285	800	800
Share Profit from Associate	77	1,741	100	100
<b>Adjusted PAT</b>	<b>39,476</b>	<b>29,161</b>	<b>81,900</b>	<b>84,108</b>
YoY gr. (%)	(315.3)	(26.1)	180.9	2.7
Margin (%)	3.5	2.2	5.1	5.0
Extra Ord. Income / (Exp)	(43,242)	95,991	-	-
<b>Reported PAT</b>	<b>(3,766)</b>	<b>1,25,153</b>	<b>81,900</b>	<b>84,108</b>
YoY gr. (%)	(117.5)	(3,423.1)	(34.6)	2.7
Margin (%)	(0.3)	9.5	5.1	5.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(3,766)	1,25,153	81,900	84,108
<b>Equity Shares O/s (m)</b>	<b>970</b>	<b>1,145</b>	<b>1,203</b>	<b>1,203</b>
<b>EPS (Rs)</b>	<b>40.7</b>	<b>25.5</b>	<b>68.1</b>	<b>69.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>12,65,617</b>	<b>13,99,263</b>	<b>20,02,887</b>	<b>20,52,787</b>
Tangibles	12,65,617	13,99,263	20,02,887	20,52,787
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>3,80,498</b>	<b>4,79,209</b>	<b>6,06,998</b>	<b>6,96,547</b>
Tangibles	3,80,498	4,79,209	6,06,998	6,96,547
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>8,85,118</b>	<b>9,20,054</b>	<b>13,95,890</b>	<b>13,56,241</b>
Tangibles	8,85,118	9,20,054	13,95,890	13,56,241
Intangibles	-	-	-	-
Capital Work In Progress	1,64,023	1,71,168	2,22,068	3,12,968
Goodwill	34,947	40,995	40,995	40,995
Non-Current Investments	73,258	38,249	54,249	55,399
Net Deferred tax assets	(91,442)	(95,341)	(1,42,772)	(1,55,433)
Other Non-Current Assets	57,777	2,37,984	2,47,834	2,48,184
<b>Current Assets</b>				
Investments	56,731	1,49,090	59,090	59,090
Inventories	2,48,038	2,83,310	3,29,917	3,47,094
Trade receivables	1,15,868	1,24,155	1,45,411	1,49,517
Cash & Bank Balance	49,211	79,379	70,616	83,198
Other Current Assets	22,424	31,742	37,542	43,042
<b>Total Assets</b>	<b>17,33,332</b>	<b>20,97,579</b>	<b>26,25,659</b>	<b>27,18,302</b>
<b>Equity</b>				
Equity Share Capital	9,702	11,450	12,032	12,032
Other Equity	3,68,491	5,97,257	8,81,635	9,51,292
<b>Total Networkth</b>	<b>3,78,193</b>	<b>6,08,706</b>	<b>8,93,667</b>	<b>9,63,324</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	8,30,145	9,21,471	10,60,601	10,60,601
Provisions	42,797	43,382	43,382	43,382
Other non current liabilities	49,504	44,013	44,013	44,013
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,85,745	2,04,138	2,46,307	2,56,719
Other current liabilities	1,27,744	1,58,897	1,72,485	1,71,598
<b>Total Equity &amp; Liabilities</b>	<b>17,33,332</b>	<b>20,97,579</b>	<b>26,25,659</b>	<b>27,18,302</b>

Source: Company Data, PL Research



### Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	(13,826)	2,11,682	1,43,871	1,47,644
Add. Depreciation	56,898	59,617	76,753	89,549
Add. Interest	50,722	55,018	74,328	74,242
Less Financial Other Income	5,275	9,095	7,890	8,238
Add. Other	82,020	(1,24,445)	(3,483)	(3,831)
Op. profit before WC changes	1,75,814	2,01,871	2,91,469	3,07,604
Net Changes-WC	(49,144)	(92,755)	11,101	(19,184)
Direct tax	(18,427)	(28,882)	(46,179)	(47,514)
<b>Net cash from Op. activities</b>	<b>1,08,243</b>	<b>80,234</b>	<b>2,56,390</b>	<b>2,40,906</b>
Capital expenditures	(85,083)	(75,202)	(90,800)	(1,40,800)
Interest / Dividend Income	2,256	3,656	3,483	3,831
Others	(7,656)	(47,857)	(97,870)	-
<b>Net Cash from Inv. activities</b>	<b>(90,484)</b>	<b>(1,19,403)</b>	<b>(1,85,187)</b>	<b>(1,36,969)</b>
Issue of share cap. / premium	0	90,872	35,838	-
Debt changes	28,823	42,252	(25,000)	-
Dividend paid	(9,498)	(11,800)	(13,815)	(14,452)
Interest paid	(47,328)	(51,456)	(74,328)	(74,242)
Others	2,210	(3,470)	(2,661)	(2,661)
<b>Net cash from Fin. activities</b>	<b>(25,794)</b>	<b>66,399</b>	<b>(79,966)</b>	<b>(91,355)</b>
<b>Net change in cash</b>	<b>(8,034)</b>	<b>27,230</b>	<b>(8,763)</b>	<b>12,583</b>
Free Cash Flow	31,087	5,449	1,65,590	1,00,106

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
<b>Net Revenue</b>	<b>3,34,466</b>	<b>3,61,323</b>	<b>3,78,328</b>	<b>4,32,640</b>
YoY gr. (%)	21.2	6.6	27.6	33.3
Raw Material Expenses	1,31,279	1,36,772	1,39,995	-
Gross Profit	2,03,187	2,24,551	2,38,333	4,32,640
Margin (%)	60.7	62.1	63.0	100.0
<b>EBITDA</b>	<b>56,969</b>	<b>64,989</b>	<b>64,677</b>	<b>68,387</b>
YoY gr. (%)	20.7	14.1	(0.5)	5.7
Margin (%)	17.0	18.0	17.1	15.8
Depreciation / Depletion	14,751	15,122	18,056	21,000
<b>EBIT</b>	<b>42,219</b>	<b>49,867</b>	<b>46,620</b>	<b>47,387</b>
Margin (%)	12.6	13.8	12.3	11.0
Net Interest	13,273	14,809	16,701	19,000
Other Income	2,259	2,749	3,473	3,100
<b>Profit before Tax</b>	<b>20,049</b>	<b>1,51,569</b>	<b>29,956</b>	<b>31,487</b>
Margin (%)	6.0	41.9	7.9	7.3
Total Tax	9,508	5,761	11,037	16,311
Effective tax rate (%)	47.4	3.8	36.8	51.8
<b>Profit after Tax</b>	<b>10,541</b>	<b>1,45,808</b>	<b>18,919</b>	<b>15,176</b>
Minority interest	(1,505)	44,522	(173)	(200)
Share Profit from Associates	898	586	448	400
<b>Adjusted PAT</b>	<b>20,016</b>	<b>35,203</b>	<b>22,976</b>	<b>15,776</b>
YoY gr. (%)	639.2	5.3	75.1	56.0
Margin (%)	6.0	9.7	6.1	3.6
Extra Ord. Income / (Exp)	(7,072)	66,669	(3,436)	-
<b>Reported PAT</b>	<b>12,944</b>	<b>1,01,872</b>	<b>19,540</b>	<b>15,776</b>
YoY gr. (%)	434.3	(1,504.9)	112.6	58.7
Margin (%)	3.9	28.2	5.2	3.6
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>12,944</b>	<b>1,01,872</b>	<b>19,540</b>	<b>15,776</b>
Avg. Shares O/s (m)	971	971	971	971
<b>EPS (Rs)</b>	<b>20.6</b>	<b>36.2</b>	<b>23.7</b>	<b>16.2</b>

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Per Share(Rs)</b>				
EPS	40.7	25.5	68.1	69.9
CEPS	99.2	77.5	131.9	144.3
BVPS	389.8	531.6	742.7	800.6
FCF	32.0	4.8	137.6	83.2
DPS	10.0	10.0	10.0	10.0
<b>Return Ratio(%)</b>				
RoCE	9.2	11.0	12.1	10.7
ROIC	(1.3)	11.0	7.6	6.8
RoE	9.7	5.9	10.9	9.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	1.9	1.1	1.0	1.0
Net Working Capital (Days)	58	57	52	52
<b>Valuation(x)</b>				
PER	13.8	22.0	8.2	8.0
P/B	1.4	1.1	0.8	0.7
P/CEPS	95.3	74.5	126.8	138.8
EV/EBITDA	7.5	6.3	5.6	5.3
EV/Sales	1.1	1.0	1.0	0.9
Dividend Yield (%)	1.8	1.8	1.8	1.8

Source: Company Data, PL Research

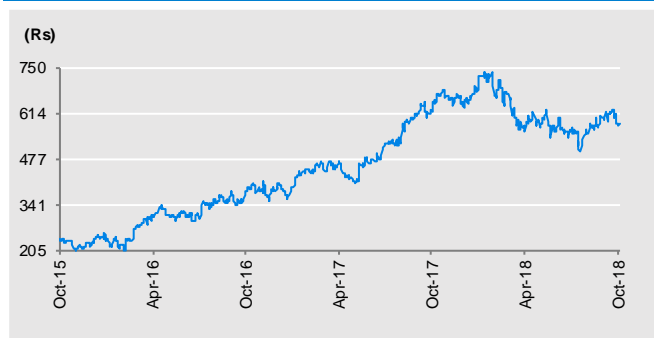
### Key Operating Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Rev. Indian Op. (US\$ m)	7,157	9,249	10,049	10,362
Rev. Corus (US\$ m)	7,764	9,306	9,000	9,000
Rev. South East (US\$ m)	1,229	1,480	1,288	1,288
EBITDA-India (US\$ m)	1,771	2,448	3,049	3,062
EBITDA-Corus (US\$ m)	702	588	600	600
EBITDA-South East (US\$ m)	79	68	50	50
Volume (mt)-India	11	12	13	13
Real./ Tonne- India (Rs)	31,911	36,066	40,361	40,367
EBITDA/Tonne- India (Rs)	10,823	12,986	16,278	15,966
SalesVol.-Corus (mt)	10	10	10	10
Real./Tonne-Corus (US\$)	781	931	900	900
EBITDA/Tonne-Corus (US\$)	71	59	60	60
Sales Vol.-South East (mt)	3	3	3	3
Real./Tonne-SEAN (US\$)	471	590	515	515
EBITDA/Tonne-SEAN (US\$)	30	27	20	20

Source: Company Data, PL Research



## Price Chart



## Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,800	1,528
2	Ambuja Cement	Accumulate	251	214
3	Coal India	BUY	340	273
4	Heidelberg Cement India	BUY	200	139
5	Hindalco Industries	Accumulate	308	252
6	Hindustan Zinc	Accumulate	315	289
7	Jindal Steel & Power	BUY	290	191
8	JK Lakshmi Cement	Hold	359	298
9	JSW Steel	BUY	450	378
10	NMDC	Accumulate	138	115
11	Shree Cement	Hold	18,100	16,384
12	Steel Authority of India	Hold	81	69
13	Tata Steel	BUY	780	582
14	The Ramco Cements	Hold	735	638
15	Ultratech Cement	Hold	4,000	3,944

## PL's Recommendation Nomenclature (Absolute Performance)

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



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