

Tata Steel (TATSTE)

₹ 600

Beat on all fronts...

- Tata Steel reported a robust Q2FY19 performance beating estimates on all fronts driven by sustained healthy realisations and lower cost structure at Indian operations. Domestic operations reported sales volume of 3.18 million tonnes (MT) (up 3.2% YoY, 7.1% QoQ), in line with our estimate of 3.2 MT. European operations reported steel sales of 2.27 MT (down 12.7% YoY, 5.4% QoQ) lower than our estimate of 2.6 MT while Bhushan Steel reported sales volume of 1.14 MT. Consolidated topline was at ₹ 43544 crore (up 34.1% YoY, 15.1% QoQ)
- Domestic operations reported a robust EBITDA/tonne of ₹ 18856/tonne (vs. Q2FY18: ₹ 10959/tonne and Q1FY19: ₹ 17078/tonne significantly higher than our estimate of ₹ 16000/tonne). EBITDA/tonne of Bhushan Steel came in at ₹ 10291/tonne while that of European operations was at US\$70/tonne (Q2FY18: US\$45/tonne, Q1FY19: US\$102/tonne and our estimate: US\$75/tonne)
- Consolidated EBITDA was at ₹ 8920 crore (up 88.9% YoY, 37.9% QoQ) implying an EBITDA margin of 20.5%. The consolidated EBITDA benefited from an exceptional gain of ~₹ 1180 crore largely pertaining to Tata Steel Europe. Consolidated adjusted PAT was at ₹ 3116 crore

Indian operation reports strong performance for H1FY19

H1FY19 was marked by a consistent increase in domestic steel prices on a YoY basis, resulting in Tata Steel's Indian operations (standalone entity) reporting a healthy performance on all fronts. On a standalone basis, Indian operations clocked an EBITDA/tonne of ₹ 17997/tonne (vs. ₹ 10785/tonne in H1FY18). Sales volumes during the period were up 4.6% YoY to 6.2 MT. Revenues increased 26.2% YoY to ₹ 34308 crore. EBITDA was at ₹ 11068 crore implying a healthy EBITDA margin of 32.3% (vs. 23.3% in H1FY18). Ensuing PAT came in at ₹ 5586 crore, up 210.3% YoY.

Strategic developments to augur well in long run...

During FY18, at its European operations, Tata Steel successfully separated pension liabilities with respect to British Steel Pension Scheme, introducing a new surplus pension scheme with ~69% members. The company also entered into a joint venture (JV) with ThyssenKrupp for their respective flat steel businesses. The JV is expected to benefit from cost synergies in the range of ~€400-600 million realised through integration. Also, at Indian operations, the company announced further expansion of 5 MT at its Kalinganagar facility entailing a capex of ₹ 23500 crore, taking total capacity at the location to 8 MT. Post expansion, the capacity of Indian operations will be 18 MT. Furthermore, Tata Steel has successfully acquired Bhushan Steel, which will create downstream synergies and enhance product basket respectively in the long run.

Domestic steel outlook stable; maintain BUY

The domestic steel pricing scenario is expected to remain firm on the back of domestic demand growth. Furthermore, Tata Steel benefits from its integrated operations (100% iron ore and ~35% coking coal) clocking higher EBITDA/tonne vis-à-vis its domestic peers even in increased input cost scenario. Given the robust performance in H1FY19, we have upward revised our EBITDA/tonne for FY19E to ₹ 16500/tonne (from ₹ 13250/tonne earlier) and FY20E to ₹ 15000/tonne (from ₹ 14000/tonne earlier). We continue to value the company on SOTP basis and arrive at a target price of ₹ 700. We maintain our **BUY** recommendation on the stock.

Rating matrix	
Rating	: Buy
Target	: ₹ 700
Target Period	: 12 months
Potential Upside	: 17%

What's Changed?	
Target	Changed from ₹675 to ₹700
EPS FY19E	Changed from ₹83.3 to ₹94.3
EPS FY20E	Changed from ₹85.5 to ₹87.3
Rating	Unchanged

Quarterly Performance					
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	43,544	32,464	34.1	37,833	15.1
EBITDA	8,920	4,721	88.9	6,468	37.9
EBITDA (%)	20.5	14.5	594 bps	17.1	339 bps
Rep. PAT	3,116	1,018	206.2	1,934	61.2

Key Financials				
(₹ Crore)	FY17	FY18	FY19E	FY20E
Net Sales	112,299	131,700	161,077	164,333
EBITDA	17,008	21,891	31,048	30,272
Adj Net Profit	4,092	8,164	10,794	9,998
EPS (₹)	42.2	71.3	94.3	87.3

Valuation summary				
	FY17	FY18	FY19E	FY20E
PE (x)	14.2	8.4	6.4	6.9
Target PE (x)	16.6	9.8	7.4	8.0
EV/EBITDA(x)	8.1	6.9	5.7	5.6
P/BV (x)	1.5	1.1	1.0	0.9
Adj RoNW (%)	10.8	13.4	14.5	12.1
Adj RoCE (%)	9.7	11.0	12.7	11.9

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	68,700
Total Debt (FY18) (₹ Crore)	88,674
Cash & Cash Eq. (FY18) (₹ Crore)	25,837
EV (₹ Crore)	131,537
52 week H/L (₹)	748 / 494
Equity capital	₹ 1145 Crore
Face value	₹ 10

Price performance (%)				
Return %	1M	3M	6M	12M
JSW Steel	-9.3	1.4	6.4	27.2
Tata Steel	1.1	1.1	-4.0	-8.1

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Akshay Kadam
akshay.kadam@icicisecurities.com

Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	
Revenue	43,544.1	39,243.7	32,464.1	34.1	37,832.8	15.1	Topline came in higher than our estimates
Other Income	354.4	355.9	253.2	40.0	347.3	2.1	
Employee Expense	4,996.3	4,905.5	4,294.1	16.4	4,933.3	1.3	
Raw Material Expense	17,541.8	15,697.5	14,289.6	22.8	13,999	25.3	
Other operating Expenses	12,086.5	11,832.2	9,159.8	32.0	12,432.3	-2.8	
EBITDA	8,919.5	6,808.6	4,720.6	88.9	6,467.8	37.9	EBITDA came in higher than our estimates. Consolidated EBITDA benefited from an exceptional gain of ~₹ 1261 crore largely pertaining to Tata Steel Europe
EBITDA Margin (%)	20.5	17.3	14.5	594 bps	17.1	339 bps	EBITDA margin came in higher than our estimates
Depreciation	1,907.9	2,200.8	1,473.3	29.5	1,805.6	5.7	
Interest	2,153.1	2,011.9	1,349.9	59.5	1,670.1	28.9	
Exceptional Item	(235.1)	-	24.9	-1,044.1	299	-178.6	
PBT	5,448.1	2,951.9	2,125.7	156.3	3,040.4	61.2	
Tax Outgo	2,326.4	974.1	1,138.0	104.4	1,103.7	110.8	
PAT	3,121.7	1,977.8	987.7	216.1	1,936.7	61.2	
Profit from discontinued operations	(5.5)	44.0	30.0	-118.3	(3.0)	82.7	
Reported PAT for the Group	3,116.2	2,021.7	1,017.7	206.2	1,933.7	61.2	Reported PAT came in higher than our estimates
Adjusted PAT for the Group	3,604.2	2,021.7	1,042.6	245.7	2,232.7	61.4	
Key Metrics							
TSI Steel Sales (MT)	3.2	3.2	3.1	3.2	3.0	6.7	Sales volume came broadly in line with our estimates
TSE Steel Sales (MT)	2.3	2.6	2.6	-11.5	2.5	-8.0	Sales volume came in lower than our estimates
Group Steel Sales (MT)	7.2	6.5	6.5	11.4	6.6	9.7	Sales volume came in higher than our estimates
TSI EBITDA/tonne (₹/tonne)	18,856	16,000	10,959	72.1	17,077	10.4	EBITDA/tonne came in higher than our estimates
TSE EBITDA/tonne (US\$/tonne)	70	75.0	45	55.2	102	-31.7	EBITDA/tonne came in lower than our estimates

TSI: Tata Steel India; TSE: Tata Steel Europe

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Total Operating Income (₹ crore)	157,790	161,077	2.1	160,131	164,333	2.6	Upward revise estimates for both years
EBITDA (₹ crore)	27,702	31,048	12.1	28,997	30,272	4.4	
EBITDA Margin (%)	17.6	19.3	9.8	18.1	18.4	1.7	
Adj PAT (₹ crore)	9,533	10,794	13.2	9,785	9,998	2.2	
Adj EPS (₹)	83.3	94.3	13.2	85.5	87.3	2.2	

Source: Company, ICICI Direct Research

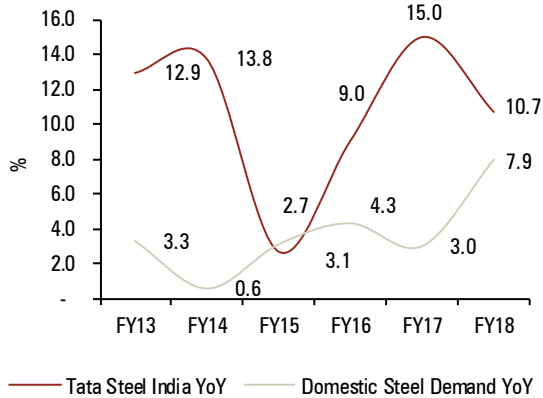
Assumptions

	Current			Earlier		Comments
	FY18	FY19E	FY20E	FY19E	FY20E	
TSI + Bhushan Steel Sales Volume (MT)	12.2	16.5	16.8	16.5	16.8	Maintain sales volume estimates
TSE Steel Sales (MT)	10.0	10.0	10.0	10.0	10.0	
Group Steel Sales (MT)	25.5	31.0	31.3	31.0	31.3	
TSI EBITDA/tonne (₹/tonne)	12,987	16,500	15,000	13,250	14,000	Upward revise EBITDA/tonne estimates for both years
TSE EBITDA/tonne (US\$/tonne)	58.0	75.0	75.0	75.0	75.0	Maintain estimates

TSI: Tata Steel India; TSE: Tata Steel Europe

Source: Company, ICICI Direct Research

TSL India outshines domestic demand...



Source: Company, ICICI Direct Research

Company Analysis

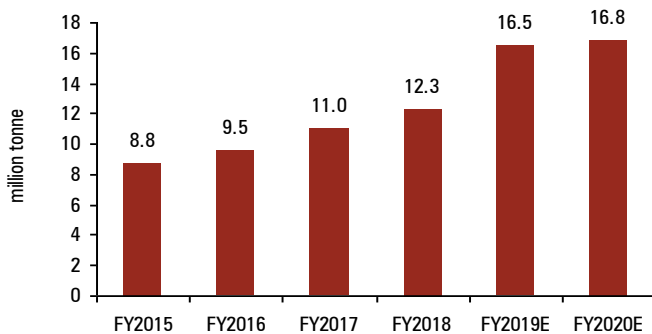
Maintain sales volume estimates of domestic operations & Bhushan Steel

Tata Steel's Indian operations registered sales volume growth of 4.6% YoY during H1FY19E. Domestic steel consumption, as per World Steel Association (WSA), is slated to increase 7.3% in CY18 and further by 7.5% in CY19. Being a formidable player, Tata Steel is likely to benefit from the same. Going forward, we maintain domestic sales volume estimate for FY19E at 12.5 MT and FY20E at 12.8 MT. Bhushan Steel sales volume is assumed at 3.5 MT for FY19 and 4.2 MT for FY20E.

Upward revise EBITDA/tonne estimates...

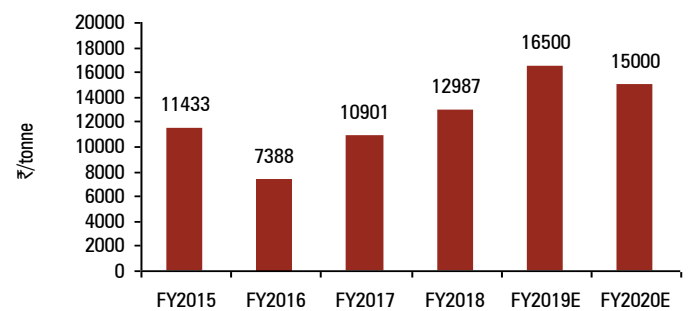
The company's Jamshedpur plant has access to captive raw materials (100% integration for iron ore and ~35% integration for coking coal). This enables TSL to realise superior EBITDA margins compared to its domestic peers. Given the robust EBITDA/tonne of ~₹ 17997/tonne clocked in H1FY19, going forward, we upward revise our EBITDA/tonne estimate for FY19E to ₹ 16500/tonne (from ₹ 13500/tonne earlier) and FY20E to ₹ 15000/tonne (from ₹ 14000/tonne earlier). We expect Bhushan Steel to garner an EBITDA/tonne of ₹ 10000/tonne for both years.

Exhibit 1: Tata Steel + Bhushan Steel volume trend going forward



Source: Company, ICICI Direct Research

Exhibit 2: Tata Steel's domestic EBITDA/tonne to remain healthy...

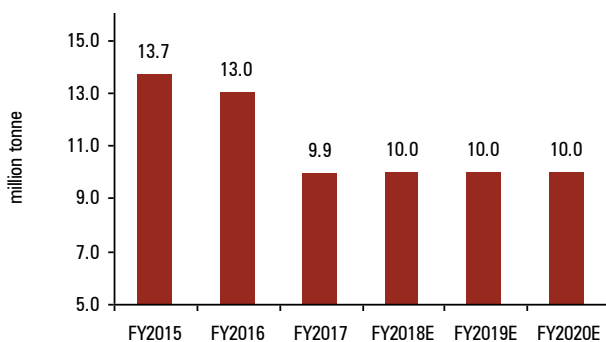


Source: Company, ICICI Direct Research

European operations EBITDA/tonne decline sequentially...

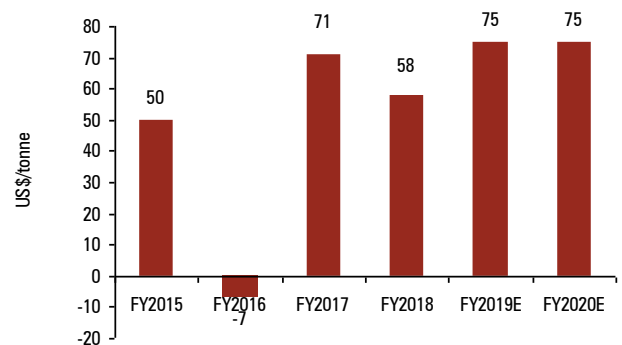
European operations reported a sequential decline in EBITDA/tonne. The EBITDA/tonne came in at US\$70/tonne (vs. Q1FY19: US\$102/tonne). The selling results improved on account of better realisations but higher raw material & energy cost and lower production volume along with higher maintenance cost (due to planned and unplanned production outages) impacted EBITDA. Going forward, we model an EBITDA/tonne of US\$75/tonne for both FY19E and FY20E.

Exhibit 3: Trend in Tata Steel's Europe's volume...



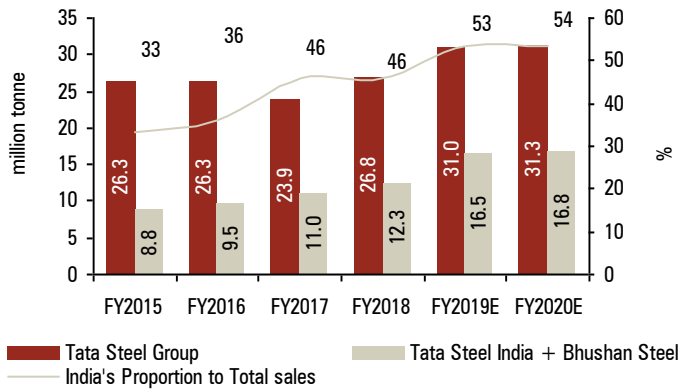
Source: Company, ICICI Direct Research

Exhibit 4: ...TSE EBITDA/tonne to improve



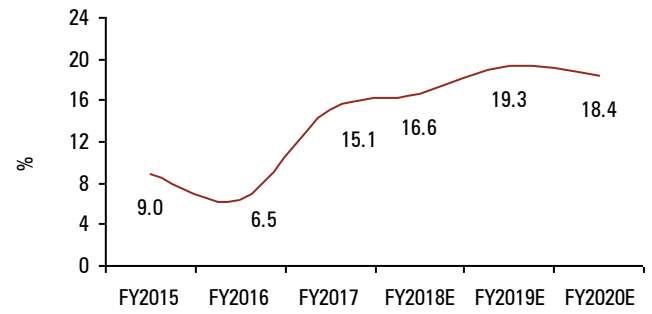
Source: Company, ICICI Direct Research

Exhibit 5: Share of domestic sales volume in overall group sales



Source: Company, ICICI Direct Research

Exhibit 6: Consolidated EBITDA margin trend



Source: Company, ICICI Direct Research

Bhushan Steel

For Q2FY19, Bhushan Steel reported steel sales of 1.14 MT and an EBITDA of ₹ 1173 crore, clocking an EBITDA/tonne of ₹ 10291/tonne. We model sales volume of 3.5 MT and 4.2 MT for FY19E and FY20E, respectively. We expect Bhushan Steel to clock an EBITDA/tonne of ₹ 10000/tonne for both years.

Conference call highlights...

Global Scenario

- Economic growth remained steady on improved investment activities in developed economies and stabilisation in emerging economies
- Steel demand remained resilient and is estimated to grow at 3.9% YoY during CY18. Steel production increased 4.7% YoY in 9MCY18 driven by higher production in China in recent months
- Rising trade tensions, oil prices, interest rates in the US coupled with sharp weakness of currencies remain a concern
- In China, apparent demand grew 7.7% YoY during 9MCY18 compared to an estimate of 6% YoY growth for CY18. Crude steel production was up 6.1% during the aforesaid period. Production growth was higher in recent months in anticipation of annual winter cuts, which also led to an increase in raw material prices
- Steel prices in China witnessed some softness with weakening Yuan and marginal increase in inventories at steel mills

Domestic scenario

- Domestic steel demand growth remained robust despite monsoon driven seasonality. Economic activities remained strong with Government of India's continued focus on infrastructure development
- Steel imports continued to increase with diversion from steel surplus countries but supply remained tight as exports increased on the back of a weaker rupee
- Steel prices improved amid a favourable demand-supply scenario, weakening rupee and higher raw material prices
- Indian crude steel production during the quarter was at 24.1 million tonne (MT) while apparent finished steel demand was at 26.4 MT. Imports during the period were at 2.1 MT

Europe and South East Asian (SEA) Scenario

- During Q2FY19, the eurozone economy rose 1.9% YoY, 0.3% QoQ
- EU steel demand remained healthy driven by growth in main steel using sectors. However, imports continued to grow much faster than the domestic steel deliveries by EU mills.
- In SEA, long steel demand remained weak in Singapore and Thailand as construction sector remained sluggish. The SEA rebar spreads softened in recent months with correction in rebar prices

Operational Performance

Indian operations (TSI)

- The Indian operations reported crude steel production of 3.26 MT for the quarter (vs. 3.2 MT in Q2FY18 and 3.18 MT in Q1FY19)
- The domestic deliveries increased 7% QoQ to 3.18 MT (vs. 3.08 MT in Q2FY18 and 2.97 MT in Q1FY19).
- The branded products sales contributed ~41% of the total domestic sales. The auto steel sales increased 21% YoY exceeding steel usage growth in the auto sector. The enriched/value added products contributed 69% of the total domestic deliveries

European Operations (TSE)

- The Q2FY19 performance was impacted by two unplanned outages, shutdowns for ongoing upgradation program and annual maintenance in a seasonally weak quarter
- TSE continues to strengthen sales mix with higher value differentiated products sales exceeding 41% during the quarter
- TSE launched five new products in Q2 including a new weathering grade steel for long life structures, a premium wide automotive grade

for forming applications and thickened hot rolled steel grades for crane and heavy vehicles

Bhushan Steel

- Crude steel production during the quarter was at 1.05 MT (vs. 1.04 MT in Q1FY19). Production was flattish with focus on improving operational key performance indicators (KPIs) including safety, maintenance and environmental practices
- Sales volumes increased 34% QoQ to 1.14 MT from 0.85 MT in Q1FY19 as increased marketing strategy aided in inventory reduction
- Revenues were at ₹ 5862 crore. EBITDA came in at ₹ 1173 crore. The EBITDA/tonne was at ₹10291/tonne

South East Asia (SEA)

- Overall production improved on a QoQ basis. Q2FY19 production was at 0.54 MT (vs. 0.52 MT in Q1FY19)
- Steel sales were at 0.65 MT. Overall sales volume increased 8% QoQ, primarily due to better exports by Nat Steel. Sales volumes at Thailand were broadly stable on a QoQ basis
- SEA reported revenues of ₹ 2963 crore and an EBITDA of ₹ 112 crore. The EBITDA/tonne was at ₹ 1736/tonne (US\$25/tonne)

Other Key Developments

Kalinganagar Phase-II (5 MT expansion)

- The work for cold roll mill (CRM) complex has been prioritised to improve product mix; the area grading and enabling activities of CRM complex has been completed
- The enabling work on rest of the project is in advance stage; engineering of all other process plants is also progressing well
- The phase II expansion is expected to complete by FY22

Usha Martin

- The company signed a definitive agreement for acquisition of the steel business of Usha Martin
- The acquisition provides rich product basket in long products segment plus operating iron ore mine, an under development thermal coal mine and captive power plants
- Tata Sponge has been identified as a vehicle for this acquisition

Thyssenkrupp Tata Steel JV

- Definitive agreements have been signed and both the partners are currently working together to secure approvals from the relevant regulatory authorities
- The European Commission (EC) began Phase II review of the merger proposal. The discussions with the EC are underway and will typically take ~90 days.

Maintenance of BF5 at Port Talbot

- The blast furnace 5 at Port Talbot has been shut for life extension currently. The same will be up in early Q4FY19. The expected production loss is 450 kilo tonne (KT)

Other Highlights

- The consolidated EBITDA during the quarter was aided by ~₹ 1180 crore of exceptional gains of which ~₹ 580 crore pertained to forex gains including ~₹ 254 crore in standalone entity and ~₹ 600 crore asset monetisation benefits in Europe
- During the quarter, at Bhushan Steel the company did not source much of iron ore from its captive mines. Tata Steel supplied ~100 KT iron ore. In Q3FY19, the same is likely to increase to ~300-400 KT
- The management is targeting debt reduction to the tune of US\$1 billion over the next year through internal accruals and strategic asset sale if possible
- The consolidated gross debt during the quarter increased to ₹ 118680 crore from that of ₹ 116615 crore in Q1FY19 primarily on account of depreciating rupee. Given the cash and cash equivalents of ₹ 14478 crore, the net debt stood at ₹ 104202 crore (flat QoQ)
- The management indicated that the company continues to focus on unlocking synergies led by material purchase by Tata on behalf of Bhushan along with incurring maintenance capex. Further, maximum synergy benefit will be drawn when Bhushan reaches a run rate of 5 MT, (currently running at 4.2-4.3 MT). Over a medium term management is targeting EBITDA/tonne of Bhushan Steel to reach closer to that of standalone players such as JSW Steel and JSPL
- The management indicated the acquisition of Usha Martin received majority approval from its shareholders
- The management indicated steel realisations during Q2FY19 were up ₹ 400-500/tonne. Current spot prices continue to hover around Q2FY19 levels
- In Q2FY19, the company incurred a capex of ~₹ 2177 crore, cumulatively, the capex spent during H1FY19 was at ~₹ 4100 crore including initial capex for Kalinganagar phase-II. The FY19 capex is estimated to be ~₹ 8000 crore

Outlook and valuation

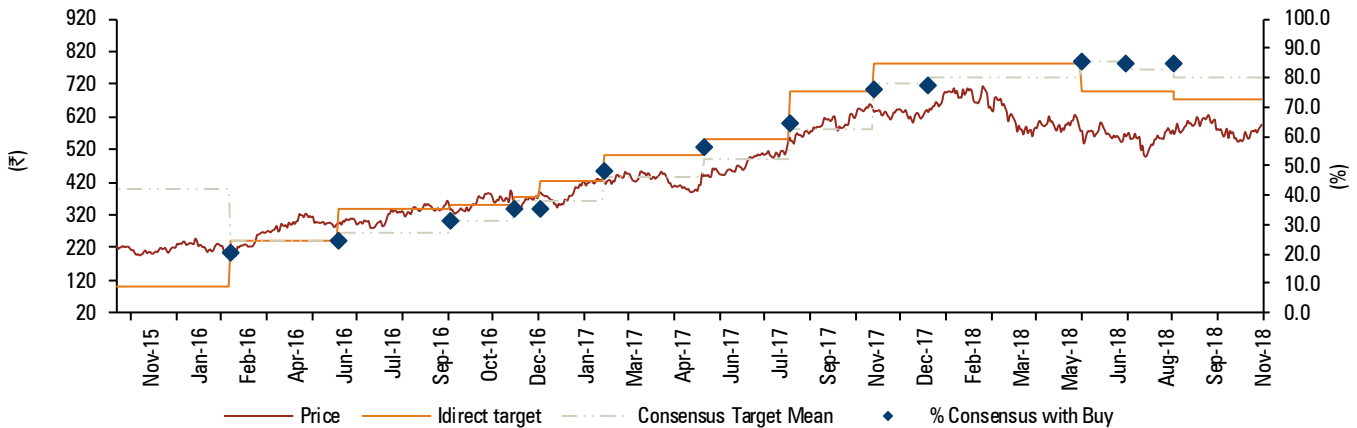
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Exhibit 7: Valuation Matrix

	Total Op. Income (₹ Crore)	Growth % YoY	EPS (₹)	Growth % YoY	PE (x)	EV/EBIDTA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY16	115,952	(16.2)	(23.1)	NM	NA	17.9	1.9	(7.3)	2.1
FY17	111,562	(3.8)	42.2	LP	14.2	8.1	1.5	10.8	9.7
FY18	130,425	16.9	71.3	99.5	8.4	6.9	1.1	13.4	11.0
FY19E	159,980	6.9	94.3	32.2	6.4	5.7	1.0	14.5	12.7
FY20E	163,237	0.1	87.3	(7.4)	6.9	5.6	0.9	12.1	11.9

Source: Company, ICICI Direct Research

Recommended History vs. Consensus Chart



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Aug-17	Tata Steel has signed an agreement on segregating the company's UK business from its pension scheme that will potentially free it up to pursue strategic options for the unit. As part of the arrangement, Tata Steel UK will make a payment of £550 million to the British Steel Pension Scheme (BSPS) while 33% of Tata Steel UK's equity will be issued to the scheme's trustee
Sep-17	Tata Steel UK has received confirmation from The Pensions Regulator regarding approval of Regulated Apportionment Arrangement (RAA) with respect to the British Steel Pension Scheme (BSPS). As part of RAA, Tata Steel UK has made a payment of £ 550 million and issued shares equivalent to a 33% stake in the company to the BSPS Trustee under the terms of a shareholder's agreement
Sep-17	Tata Steel and Thyssenkrupp AG have signed an MoU to combine their respective flat steel businesses in Europe and for the steel mill services. The proposed JV would be named Thyssenkrupp Tata Steel which will have annual shipments of ~21 million tonne (MT) and is likely to have a proforma turnover of ~€15 billion per annum (₹115000 crore). The JV would be formed through a non cash transaction framework, based on fair valuation where both shareholders would contribute debt and liabilities to achieve equal shareholding in the venture. The company intends to sign definitive agreement by March 2018 and is looking to close the deal by December 2018 or March 2019
Oct-17	Tata Steel has acquired Rio Tinto's smelter technology and intellectual property rights required to operate Hisarna process. The technology removes a number of pre-processing steps, resulting in significant efficiency gains and 20% reduction in energy use and carbon dioxide emissions as well as reducing steelmaking costs through lower priced raw materials (up to half of which could be recycled scrap steel)
May-18	Tata Steel Europe recently conducted a detailed portfolio review of all its businesses to assess the strategic fit and its future potential. Based on the above review, Tata Steel Europe has begun a process of seeking buyers for business units which supply products to niche markets, allowing the company to continue to strengthen its focus on strategic strip products and markets
May-18	Bannipal Steel Ltd (wholly owned subsidiary of Tata Steel) has successfully completed the acquisition of controlling stake of 72.65% in Bhushan Steel (BSL) in accordance with the Resolution Plan under the Corporate Insolvency Resolution Process of the Insolvency and Bankruptcy Code 2016. Further settlement of the amounts equivalent to ₹35200 crore towards financial creditors of BSL is being undertaken as per the terms of resolution plan and corresponding transaction documents. The company will pay ₹1200 crore to the operational creditors of BSL over a period of 12 months as per their claims admitted and as per the terms of approved Resolution Plan.

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Tata Group of Companies	30-Sep-18	29.6	356.1	-2.1
2	Life Insurance Corporation of India	30-Sep-18	9.0	108.4	0.0
3	HDFC Asset Management Co., Ltd.	31-Oct-18	4.2	50.8	2.2
4	Reliance Nippon Life Asset Management Limited	31-May-18	3.3	39.2	13.7
5	Aditya Birla Sun Life AMC Limited	31-Oct-18	2.4	28.7	0.8
6	ICICI Prudential Asset Management Co. Ltd.	30-Sep-18	1.2	14.0	-2.8
7	SBI Funds Management Pvt. Ltd.	30-Sep-18	1.1	13.6	-0.8
8	Dimensional Fund Advisors, L.P.	30-Sep-18	1.1	12.7	0.0
9	DSP Investment Managers Pvt. Ltd.	30-Jun-18	1.0	11.9	-1.1
10	BlackRock Institutional Trust Company, N.A.	31-Oct-18	0.9	10.3	-0.1

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	31.4	31.4	33.2	33.2	33.1
FII	15.7	17.1	18.5	15.8	15.0
DII	29.7	28.5	26.8	29.3	30.0
Others	23.3	23.1	21.5	21.7	21.9

Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Reliance Nippon Life Asset Management Limited	116.6	13.7	Kotak Mahindra Asset Management Company Ltd.	-23.3	-2.9
HDFC Asset Management Co., Ltd.	16.1	2.2	ICICI Prudential Asset Management Co. Ltd.	-22.6	-2.8
Canara Robeco Asset Management Company Ltd.	7.2	0.9	Tata Group of Companies	-16.7	-2.1
L&T Investment Management Limited	6.9	0.9	DSP Investment Managers Pvt. Ltd.	-9.5	-1.1
First Trust Advisors L.P.	5.8	0.8	Dorabji Tata Trust	-6.7	-0.8

Source: Reuters, ICICI Direct Research

Financial summary (Consolidated)

Profit and loss statement		(₹ crore)			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Total Operating Income	112299.4	131700.3	161076.8	164333.2	
Growth (%)	-3.8	16.9	6.9	0.1	
Total Operating Expenditure	95291.6	109809.8	130029.0	134061.3	
EBITDA	17007.8	21890.5	31047.8	30272.0	
Growth (%)	124.2	28.7	19.2	-5.7	
Depreciation	5672.9	5961.7	7464.7	7617.3	
Interest	5072.2	5501.8	7933.8	8129.4	
Other Income	527.5	1083.6	709.3	725.5	
PBT	6790.2	11510.6	16358.6	15250.8	
Exceptional Item	-4316.6	9599.1	0.0	0.0	
Total Tax	2778.0	3405.4	5617.2	5299.8	
PAT	-304.4	17704.4	10741.5	9951.0	
Growth (%)	-90.4	-5916.5	-39.3	-7.4	
Minorities, Associates etc	-64.2	58.5	52.6	47.3	
Rep PAT after Assoc., MI	-368.6	17762.8	10794.1	9998.4	
Adj PAT after Assoc., MI	4092.1	8163.7	10794.1	9998.4	
Growth (%)	-282.4	99.5	32.2	-7.4	
EPS (₹)	42.2	71.3	94.3	87.3	

Source: Company, ICICI Direct Research

Balance sheet		(₹ crore)			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Liabilities					
Equity Share Capital	970.2	1,145.0	1,204.3	1,204.3	
Hybrid Perpetual securities	2,275.0	2,275.0	2,275.0	2,275.0	
Reserve and Surplus	34574.1	57450.7	70966.6	78829.7	
Total Shareholders funds	37819.3	60870.6	74445.9	82309.0	
Total Debt	83014.0	88674.1	115874.1	108874.1	
Deferred Tax Liability	10030.1	10569.9	10569.9	10569.9	
Minority Interest & Others	1601.7	9866.9	12919.5	15966.9	
Total Liabilities	132465.1	169981.5	213809.4	217719.8	
Assets					
Gross Block	183767.2	193677.1	232877.1	235877.1	
Less: Impairment	0.0	0.0	0.0	0.0	
Less: Acc Depreciation	95255.4	101217.0	108681.7	116299.0	
Net Block	88511.8	92460.1	124195.4	119578.1	
CWIP	15784.1	16159.8	19159.8	26159.8	
Investments	12536.7	17899.5	20899.5	24549.5	
Inventory	24803.8	28331.0	24934.4	27441.2	
Debtors	11586.8	12415.5	11462.1	13765.0	
Loans and Advances	7587.4	26142.3	23142.3	24142.3	
Other Current Assets	2931.1	3276.6	3376.6	3676.6	
Cash	4921.1	7937.9	9077.3	8630.7	
Total Current Assets	51830.2	78103.4	71992.7	77655.9	
Current Liabilities	18574.5	38506.8	25303.6	27989.6	
Provisions	22003.9	1269.6	2269.6	3269.6	
Current Liabilities & Prov	40578.4	39776.4	27573.2	31259.2	
Net Current Assets	11251.8	38326.9	44419.5	46396.7	
others	4380.6	5135.3	5135.3	1035.8	
Application of Funds	132465.1	169981.5	213809.4	217719.8	

Source: Company, ICICI Direct Research

Cash flow statement		(₹ crore)			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	-368.6	17762.8	10794.1	9998.4	
Add: Depreciation	5672.9	5961.7	7464.7	7617.3	
(Inc)/dec in Current Assets	6666.0	-23256.4	7250.0	-6109.7	
Inc/(dec) in CL and Prov.	-1134.7	-801.9	-12203.2	3686.0	
Others	7125.2	9470.2	3000.0	3000.0	
CF from operating activities	17960.8	9136.3	16305.6	18191.9	
(Inc)/dec in Investments	-5736.1	-5362.8	-3000.0	-3650.0	
(Inc)/dec in Fixed Assets	-31020.6	-10285.6	-8000.0	-10000.0	
Others	-52.5	-665.2	111.9	47.3	
CF from investing activities	-36809.2	-16313.5	-10888.1	-13602.7	
Issue/(Buy back) of Equity	-20.0	174.7	0.0	0.0	
Inc/(dec) in loan funds	-3190.0	5660.1	-7000.0	-7000.0	
Dividend paid & dividend tax	-908.1	-1339.6	-1339.6	-1339.6	
Inc/(dec) in Share Cap	8342.2	6453.4	4061.5	-795.7	
Others	9360.6	-754.7	0.0	4099.5	
CF from financing activities	13584.7	10193.9	-4278.1	-5035.8	
Net Cash flow	-5263.7	3016.8	1139.4	-446.6	
Opening Cash	10184.8	4921.1	7937.9	9077.3	
Closing Cash	4921.1	7937.9	9077.3	8630.7	

Source: Company, ICICI Direct Research

Key ratios		(₹ crore)			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
Adj EPS	42.2	71.3	89.6	83.0	
Cash EPS	100.6	123.4	151.6	146.3	
BV	389.8	531.6	618.2	683.5	
Adj BV (adj for Goodwill)	353.8	495.8	582.4	683.5	
DPS	8.0	10.0	10.0	10.0	
Cash Per Share	50.7	69.3	74.9	71.2	
Operating Ratios (%)					
EBITDA Margin	15.1	16.6	19.3	18.4	
PBT / Total Operating income	6.0	8.7	10.2	9.3	
Adj PAT Margin	3.6	6.2	6.7	6.1	
Inventory days	210	186	175	190	
Debtor days	38	34	30	36	
Creditor days	199	187	190	185	
Return Ratios (%)					
Adj RoE	10.8	13.4	14.5	12.1	
Adj RoCE	9.7	11.0	12.7	11.9	
RoIC	9.8	11.2	13.0	12.4	
Valuation Ratios (x)					
P/E	14.2	8.4	6.7	7.2	
EV / EBITDA	8.1	6.9	5.7	5.6	
EV / Net Sales	1.2	1.2	1.1	1.0	
Market Cap / Sales	0.5	0.4	0.4	0.4	
Price to Book Value	1.5	1.1	1.0	0.9	
Price to Adj Book Value	1.7	1.2	1.0	0.9	
Solvency Ratios					
Debt/EBITDA	4.9	4.1	3.7	3.6	
Debt / Equity	2.2	1.5	1.6	1.3	
Current Ratio	1.3	2.0	2.6	2.5	
Quick Ratio	0.7	1.3	1.7	1.6	

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Metals & Mining)

	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	TP (₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Coal India	266	300	Hold	165303	21.7	22.6	14.9	2.8	13.0	19.7	6.4	6.9	10.5	36.4	45.0	33.5	34.7	42.1	37.8
Hindalco	240	275	Buy	53448	19.9	27.6	28.6	12.1	8.7	8.4	6.4	5.7	5.3	9.4	11.1	11.0	8.1	10.6	9.8
Hindustan Zinc	277	270	Hold	117033	22.0	20.4	23.8	12.6	13.6	11.6	7.7	8.4	6.7	34.0	33.4	33.1	25.8	24.9	24.5
JSW Steel	340	400	Buy	82185	25.3	35.5	36.3	13.4	9.6	9.4	8.0	6.4	6.4	17.9	21.3	18.1	21.8	27.0	22.1
Vedanta	213	220	Hold	63155	20.0	23.3	29.9	10.6	9.1	7.1	4.3	4.3	3.6	15.4	14.5	16.8	11.7	13.4	15.4
Tata Steel	600	700	Buy	55242	71.3	94.3	87.3	8.4	6.4	6.9	6.9	5.7	5.6	11.0	12.7	11.9	13.4	14.4	12.1

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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