

Figures disappoint!

27th May, 2016

CMP: Rs. 325
Target Price: Rs. 298
Recommendation: Reduce

Tata Steel for the quarter ended March, 2016 (Q4 FY16) reported lower than expected results with a loss of Rs 3,214 cr at consolidated level due to weak market conditions.

Stock Info

BSE Group	A/BSE100
BSE Code	500470
NSE Symbol	TATASTEEL
Bloomberg	TATA.IN
Reuters	TISC.BO
BSE Sensex	26,537
NSE Nifty	8,129

Market Info

Market Capital	Rs 31,564 crs
Equity Capital	Rs 971cr
Avg. Trading Vol.	67,01,540
52 Wk High/ Low	364/200
Face Value	10

Shareholding Pattern (%)	(Mar 2015)
Promoters	31.4
Domestic Institutions	26.9
Foreign Institutions	11.8
Public & Others	29.9

Price Vs Sensex Chart



At consolidated level revenues decreased by 12.4% YoY and increased by 4.3% on QoQ to Rs 29,508 cr due to lower realizations across geographies which were partly offset by higher deliveries. EBITDA margins increased QoQ by 400 bps to 7.5% & PAT came in at (Rs 3,214 crs) against loss of Rs 5,974 cr in corresponding quarter of previous year.

Indian Operations: Despite muted market environment, Tata Steel India operations recorded strong growth in the quarter and grew by 16% on the back of surge in volumes in high value segments like Auto (19% q-o-q growth) and Branded Products (19% q-o-q growth). Blended realizations came in at Rs 38,064/t sliding by 0.6% QoQ and 12.9% YoY. Operating profit increased by 29% YoY to Rs 2,163 crs with margins increased to 21% from 20% YoY. Tata Steel India saw strong growth across segments. Automotive & Special products sales reached highest ever sales of 1.43MT and contributed 15% of total sales. Branded Products and Retail sales surged to 3.35MT and contributed around 35% of total sales. TATA Steel largest brand 'TISCON' registered highest ever sales of 2.51MT for FY16, a growth of 13%. Our retail customers increased to around 30 lakh households across India.

European operations: The underlying EBITDA reported was Rs 2270 crores which were 171% higher than the previous quarter of Rs 838 crores. The EBITDA margin expanded by 470 bps to 7.7 % compared to 3% in the December 2015 quarter. Exceptional items comprise redundancy provisions of Rs 441 crores in Tata Steel Europe and non cash impairment in some of the downstream businesses in Tata Steel Europe and Tata Steel Minerals Canada. In 2016 deliveries by EU mills were down by -0.8mt compared to a rise of imports of +5.9mt Despite 3.5% growth in EU steel demand, margins were under pressure due to overcapacity. The Eurozone and UK economies continue to grow, however industrial activity continues to lag the services sector. European steel mills expected to continue to be under pressure from increasing imports.

South East Asian operations: Ferrochrome sales in Q4 FY16 increased by over 1.5 times, however realizations continue to fall on account of depressed market conditions. Chrome concentrate sales stable in a weak exports market and Gopalpur ferrochrome plant to come on board with `55,000 MT p.a by end of the Q1 FY17.

Valuations: We foresee Tata Steel to overcome the present difficulties in this challenging business environment with its ongoing restructuring activities. Also, Kalinganagar project is expected to be a catalyst in driving the growth of the company in future. Governments interventions regarding the industry scenario will also be closely watched. We have valued the company at EV/EBITDA of 11.5(x). At CMP of Rs 325 per share & FY17E the stock is trading EV/EBITDA of 12(x). We have "Reduce" rating on stock.



Financial Snapshot:

(Rs Cr)	FY13	FY14	FY15	FY16	FY17E
Net Revenue	1,34,712	1,48,614	1,39,504	1,17,152	1,11,334
EBITDA	12,321	16,411	12,536	7,586	8,573
EBITDA%	9.1	11.0	9.0	6.5	7.7
Reported PAT	(7,058)	3,595	(3,925)	(3,049)	(1,012)
Reported EPS	(73)	37	(40)	(31)	(10)
Adj RONW (%)	1.0	8.9	0.0	3.2	(1.4)
P/E (x)	-4.3	10.6	-7.8	-10.2	-31.2
EV/EBITDA (x)	6.3	6.0	7.3	14.3	12.4

Q3FY16 Results

Rs in Crore Consolidated	Q4FY16	Q4FY15	YOY (%)	Q3FY16	QoQ (%)
Net Sales	29508	33666	-12.4	28039	5.2
Expenditure	27302	32123	-15.0	27263	0.1
EBITDA	2205	1543	42.9	776	184.3
EBITD Margins (%)	7%	5%		3%	
Other Income	129	139		96	
Interest	1018	1195		964	
Depreciation	1232	1513		1133	
Exceptional Items	-2858	-4811		-712	
PBT after exceptional items	-2773	-5837	-52.5	-1937	43.2
Tax	506	-134		243	
Tax rate (%)	-18%	2%		-13%	
Minority Int	72	15		31	
Share of Associate	-7	13		22	
Reported PAT	-3214	-5674	-43.4	-2127	51.1
NPM (%)	-10.9%	-16.9%		-7.6%	

Rs in Crore (India operations)	Q4FY16	Q4FY15	YOY (%)	Q3FY16	QoQ (%)
Net Sales	10522	10635	-1.1	9064	16.1
Expenditure	8358	8956	-6.7	7566	10.5
EBITDA	2163	1679	28.9	1498	44.4
EBITD Margins (%)	21%	16%		17%	
Other Income	126	69		83	
Interest	383	532		350	
Depreciation	493	572		491	
Exceptional Items	-327	-44		-40	
PBT after exceptional items	1087	599	81.5	700	55.2
Tax	410	-215		247	
Tax rate (%)	38%	-36%		35%	
Reported PAT	677	814	-16.9	453	49.4
NPM (%)	6%	8%		5%	



Profit & Loss Statement

Y/E March	FY13	FY14	FY15	FY16	FY17E
(Rs Cr)					
Net Sales	1,34,712	1,48,614	1,39,504	1,17,152	1,11,334
% chg	1.4%	10.3%	-6.1%	-16.0%	-5.0%
Total Expenditure	1,22,390	1,32,203	1,26,968	1,09,566	1,02,761
% chg	1.6%	8.0%	-4.0%	-13.7%	-6.2%
EBITDA	12,321	16,411	12,536	7,586	8,573
EBITDA Margin %	9.1%	11.0%	9.0%	6.5%	7.7%
Other Income	479	517	796	3,926	1,113
Depreciation	5,575	5,841	5,944	5,082	5,698
EBIT	6746	10570	6592	2504	2874
Interest	3,968	4,337	4,848	4,129	4,320
PBT before EI	3,257	6,750	2,541	2,301	(332)
Exceptional item	(7,390)	(28)	(3,929)	(3,975)	(623)
PBT	(4,133)	6,722	(1,388)	(1,674)	(955)
Tax	3,229	3,058	2,567	1,505	101
Reported PAT	(7,058)	3,595	(3,925)	(3,049)	(1,012)

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15	FY16	FY17E
Operating Activities					
PBT	(4,133)	6,722	(1,388)	(1,674)	(955)
Add Depreciation	5,575	5,841	5,944	5,082	5,698
Others	11,321	4,943	9,400	6,918	5,941
Total	12,764	17,507	13,956	10,326	10,684
Cash Taxes	(2,569)	(3,013)	(2,427)	(1,356)	(1,101)
Changes in Working Cap	3,841	(1,349)	351	1,586	1,744
Cash Flow from Operations	14,035	13,145	11,880	10,556	11,327
Investing Activities					
Change in investments	1,926	(326)	3,627	3,636	3,119
Capex	(15,222)	(16,126)	(12,049)	(11,236)	(10,000)
Cash Flow from Investing	(13,297)	(16,451)	(8,422)	(7,600)	(6,881)
Financing Activities					
Dividends + Taxes paid	(1,359)	(924)	(1,152)	(1,210)	(1,270)
Change in Non Curr Liab	(421)	1,939	(1,465)	(4,603)	(6,999)
Cash Flow from Financing	(1,780)	1,015	(2,617)	(5,813)	(8,269)
Opening Cash	10,513	9,669	8,406	8,750	6,716
Changes during year	(1,042)	(2,291)	841	(2,858)	(3,823)
Foregin currency translation	198	1,073	(599)	846	1,667
Earmarked balances with bank	165	153	102	150	130
Closing Cash	9,834	8,604	8,750	6,716	4,470

Balance Sheet

As on 31st March	FY13	FY14	FY15	FY16	FY17E
(Rs. cr)					
LIABILITIES					
Share Capital	971	971	971	970	970
Reserves & Surplus	33,201	39,561	30,378	27,509	26,006
Shareholder's Fund	34,172	40,532	31,349	28,479	26,976
Non Current Liabilites	56,490	62,957	77,771	80,265	83,702
Current Liabilities	52,285	64,123	45,826	50,557	49,901
Othet Liabilities	3,966	4,033	3,999	3,949	4,615
Total Liability	1,46,913	1,71,644	1,58,946	1,63,250	1,65,195
ASSETS					
Fixed Assets	68,492	75,773	68,928	59,571	63,765
Capital Works in progress	13,786	25,956	27,850	29,850	30,314
Non Current Investments	2,497	2,425	2,080	2,085	2,319
Long Term Loans and Advances	7,912	9,501	6,492	17,539	18,122
Current Assets	44,391	49,385	44,845	47,490	46,206
Cash & bank balance	9,834	8,604	8,750	6,716	4,470
Total Assets	1,46,913	1,71,644	1,58,945	1,63,250	1,65,195

Ratio Analysis

	FY13	FY14	FY15	FY16	FY17E
Profitability					
EBITDA%	9.1	11.0	9.0	6.5	7.7
EBIT%	5.0	7.1	4.7	2.1	2.6
PAT%	(5.2)	2.4	(2.8)	(2.6)	(0.9)
Du Pont ROAE breakup					
PAT / Sales	(5.2)	2.4	(2.8)	(2.6)	(0.9)
Sales / Avg Total Assets	0.9	0.9	0.8	0.7	0.7
Avg Total Assets / Avg Equity	3.9	4.6	4.4	5.5	6.0
ROE	(18.9)	10.4	(10.5)	(10.3)	(3.7)
Other Ratios					
Current Ratio	0.8	0.8	1.0	0.9	0.9
D/E	1.7	1.7	2.2	2.9	2.9
EPS	(72.7)	37.0	(40.4)	(31.4)	(10.4)
DPS	8.0	10.0	8.0	8.0	8.0
BVPS	352	417	323	294	278
Valuation					
P/E	(4.3)	10.6	(7.8)	(10.2)	(31.2)
EV/EBITDA	6.3	6.0	7.3	14.3	12.4
P/BV	0.89	0.94	0.98	1.09	1.17

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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