COMPANY UPDATE

TATA STEEL

The home coming

India Equity Research| Metals and Mining

Edelweiss
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Tata Steel (TSL) management's comments at its recently held investor day bolstered our confidence in the company's bright prospects as well as our positive view on the stock. Key takeaways: 1) domestic focus evident as TSL-India expected to scale 30mtpa; 2) endeavour to insulate earnings from price volatility by focus on downstream, services & solutions and new materials; and 3) deleveraging & cost leadership remain top priorities. In our view, TSL is in a sweet spot to enhance margin by focusing on the more profitable domestic market and differentiated retail offerings boosting its last-mile connectivity. Further, we see key concern—high debt—receding as the company will hit peak debt of INR950bn at FY20E exit. Maintain 'BUY' with SOTP-based TP of INR720.

Twin benefits of scale and structural strength

We believe TSL will revert to the more profitable domestic market with 30mtpa domestic capacity by CY25 bolstered by Tata Steel Kalinganagar Phase 2 (TSK-II), Bhushan Steel and Usha Martin. We expect it to reap twin benefits of capacity and its inherent strength in cost & product leadership, which will enhance margin.

In focus: Differentiated offerings, cost and deleveraging

TSL is focusing on innovative solutions to expand reach and protect/enhance margin by decommoditising steel. Additionally, it is benchmarking to the world's best on fuel rate and labour productivity, which is envisaged to further lower cost. Capex of INR80-100bn per annum over FY20-22E is likely to be funded through internal accruals, resulting in gross debt peaking out at INR950bn with proceeds from divestment of non-core assets to be utilised for deleveraging.

Outlook and valuations: Value lies at home; maintain 'BUY'

We are upbeat on TSL's initiative to focus on the domestic market by augmenting capacity to 30mtpa by CY25 and enhance presence in value-added segments. We maintain **'BUY/SO'** with SOTP-based TP of INR720, implying exit multiple of 6.5x FY20E EBITDA. At CMP, the stock is trading at 5.1x FY20E EBITDA.

Financials **(INR mn)**

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	1,174,199	1,330,164	1,670,828	1,766,836
EBITDA	170,078	218,905	250,975	290,767
Adjusted Profit	39,476	37,768	81,795	97,126
Diluted equity shares (mn)	971	1,145	1,145	1,145
Adjusted diluted EPS (INR)	40.6	33.0	71.4	84.8
EPS Growth (%)	*(1,122.3)*	*(18.8)*	*116.6*	*18.7*
Diluted P/E (x)	13.1	16.2	7.5	6.3
EV/EBITDA (x)	7.5	6.1	6.5	5.1
ROAE (%)	11.9	16.8	13.9	14.9

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA *(R: TISC.BO, B: TATA IN)*

CMP	: INR 524
Target Price	: INR 720
52-week range (INR)	: 748 / 493
Share in issue (mn)	: 1,126.5
M cap (INR bn/USD mn)	: 598 / 6,962
Avg. Daily Vol.BSE/NSE('000)	: 8,295.1

SHARE HOLDING PATTERN (%)

	Current	Q1FY19	Q4FY18
Promoters *	32.3	33.1	33.2
MF's, FI's & BK's	30.8	29.4	26.8
FII's	15.8	15.8	18.5
Others	21.0	21.7	21.5

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	1.7	2.0	(0.4)
3 months	4.1	(7.4)	2.3
12 months	(13.6)	0.7	(12.4)

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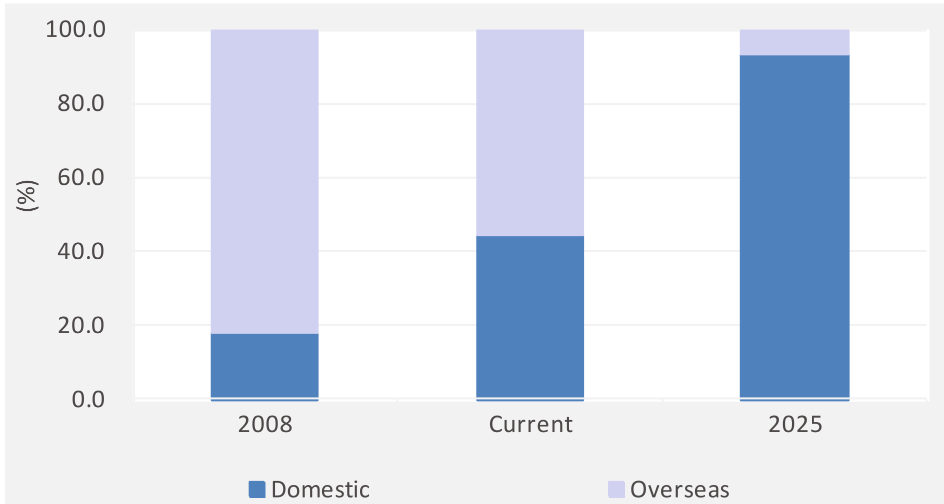
Driving scale in the bastion of structural strength

We see the company turning full circle on its expansion strategy. In CY08, Corus was acquired to complement the structural strength of domestic operations with scale overseas. However, assets inherited at Corus required recurring investments, resulting in the benefits not flowing in as initially envisaged. Now, the company has changed course by building scale in India through organic and inorganic routes. As a result, domestic capacity is expected to comprise 93% of total by CY25 compared to 43% currently and 18% in CY08 (post Corus acquisition).

Chart 1: Domestic capacity to comprise 93% of total by CY25

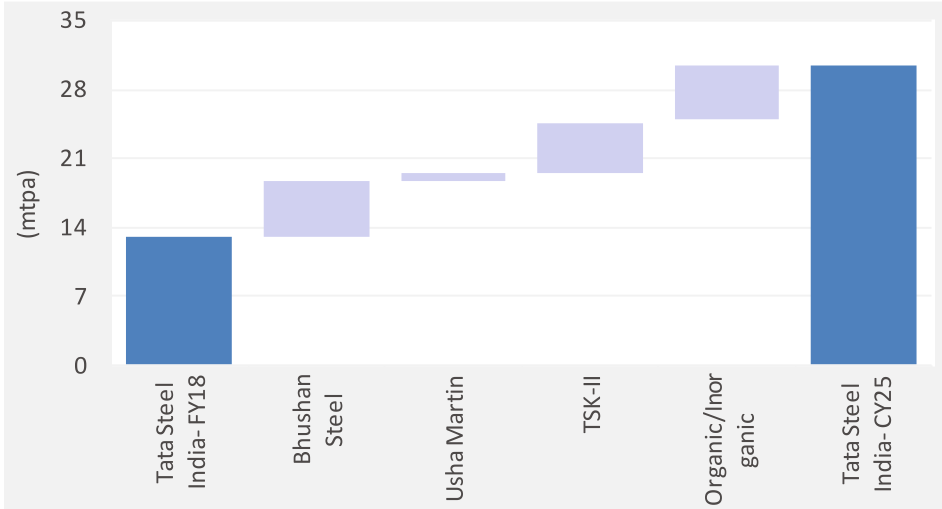


Source: Company, Edelweiss research

TSL's domestic capacity is expected to jump 2.3x to 30mtpa by CY25 compared to FY18 spurred by: 1) Bhushan Steel acquisition (5.6mtpa); 2) Usha Martin steel business buyout (1mtpa); and 3) TSK-II (5mtpa) by FY22.

Additionally, TSL has an optionality for organic expansion: 1) Bhushan Steel can be further expanded to 8mtpa; 2) KPO-II has enough land to support expansion up to 15mtpa; 3) Usha Martin has an adjacent150acres plot that can further aid expansion; and 4) replacement of smaller furnaces at Jamshedpur plant by a larger and more efficient one.

Chart 2: Capacity to jump 2.3x by CY25



Source: Company, Edelweiss research

Focus on augmenting longs portfolio by a further 3mtpa

TSL has traditionally been a flats-heavy company focusing on automotive and general engineering sectors. The company is not in the construction sector (longs focused) in proportion to domestic consumption as longs comprise merely 3mt of overall 13mt of domestic capacity currently.

Chart 3: Break down of India's steel consumption

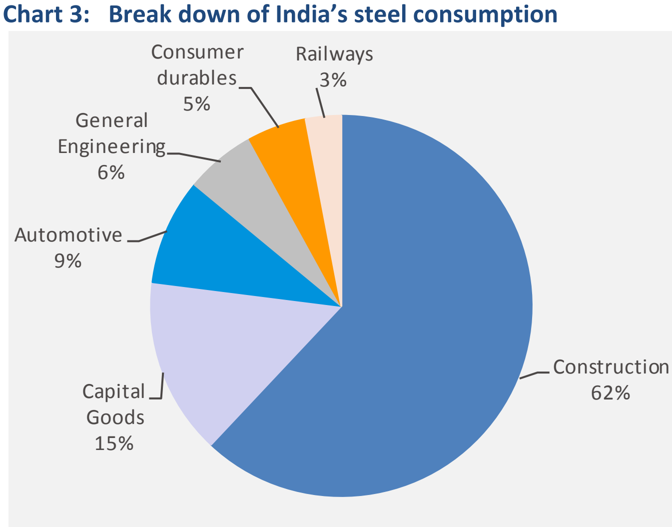
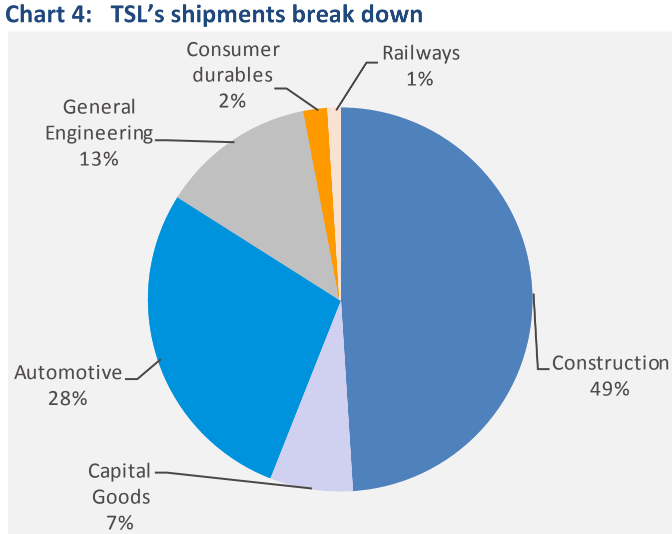


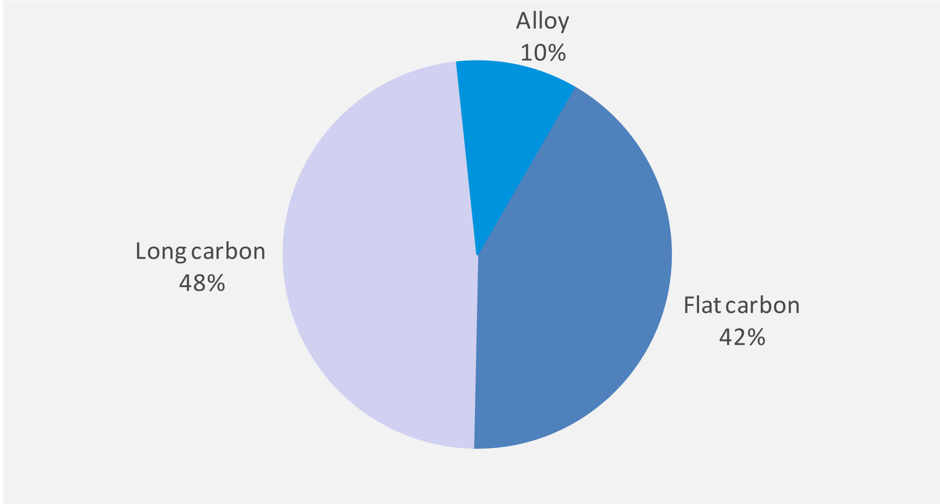
Chart 4: TSL's shipments break down



Source: Company, Edelweiss research

In terms of products coverage, TSL is present in 85% of domestic carbon steel market. While the company is present in all the flat products, its presence in longs is restricted to bars and rods.

Chart 5: India's market segmentation



Source: Company, Edelweiss research

Chart 6: India's market segmentation—Flat products

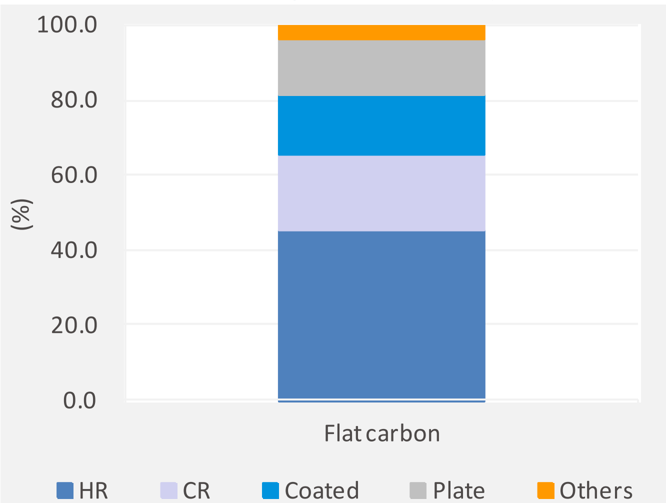
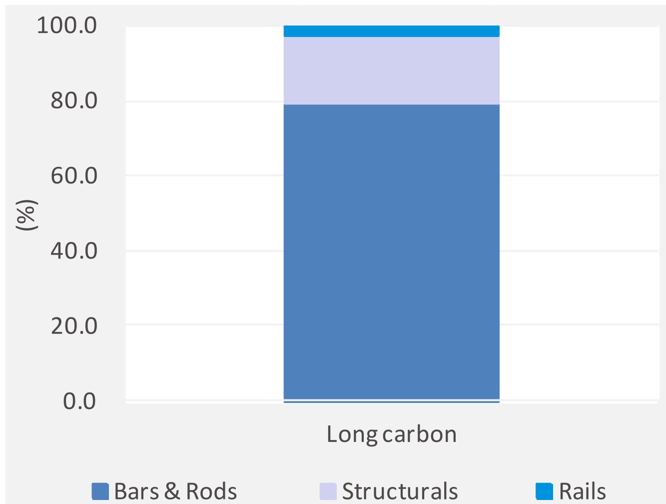


Chart 7: India's market segmentation—Longs products



Source: Company, Edelweiss research

The company sees buyout of Usha Martin's steel business through slump sale as the first step in building its longs portfolio. The acquisition enables TSL to retain market share in wire rods and opens doors to the special steel market comprising 10% of total domestic steel consumption. Besides, TSL will be able to enhance product offerings for automotive customers in longs (r**efer to:** https://www.edelresearch.com/showreportpdf-41683/EDELFLASH - TATA STEEL - EMBARKING ON A LONG(S) JOURNEY-25-OCT-18).

TSL perceives potential to expand into steel recycling and eventually to EAF band steel making. Good expertise and control over scrap value chain are as essential to longs products as iron ore value chain is for flats. Additionally, longs facilities have relatively smaller furnaces with configuration flexible enough to produce a large range of customised products. For instance, **NatSteel operates 1mtpa facility in mere 150 acres.**

Going ahead, TSL is looking to augment its longs portfolio by a further 3mtpa from the current 4mtpa (including Usha Martin) through organic (utilising adjacent land parcel of 150acres at Usha Martin) and/or inorganic acquisitions.

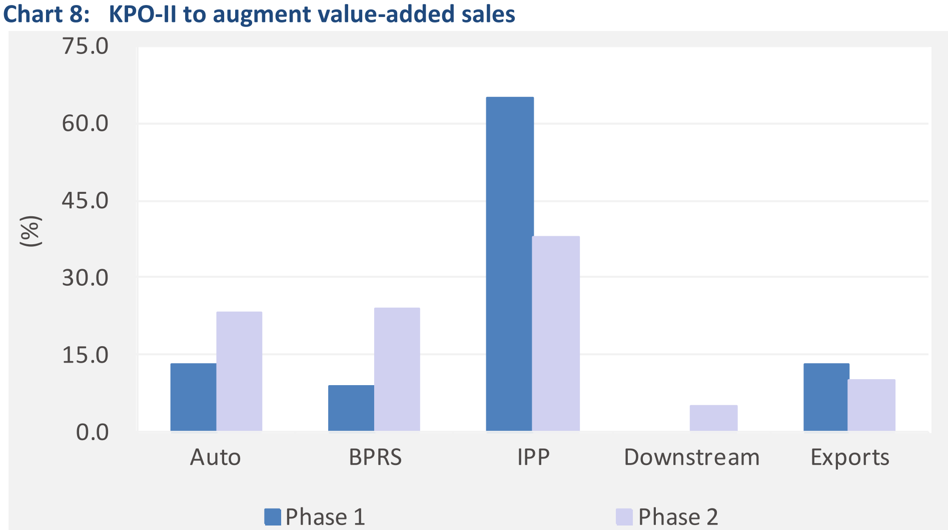
TSL sees selective acquisitions and distributed & green manufacturing sites closer to market as competitive edge as it eliminates logistics cost. **The company wishes to follow the Gerdau model in Brazil of restricting entire supply chain within 500km**.

KPO II to drive cost efficiencies through better plant balance

KPO II 5mtpa brownfield expansion including 2.2mtpa cold rolling complex comprising continuous annealing line (0.9mtpa) and galvanizing lines—auto (0.45mtpa) and non-auto (0.45mtpa)—will further augment downstream capabilities.

Driven by the **widest (1,870mm) cold rolling mill in India, KPO** II has the potential to further improve product mix by: 1) focusing on more profitable auto (wheel grade, internal panels) & BPRS segments; and 2) introducing downstream products specifically catering to oil & gas, PEB, high carbon and tube grades.

Chart 8: KPO-II to augment value-added sales



Source: Company, Edelweiss research

Table 1: KPOs more suitable offerings for value-added segments

	HSM at Kalinganagar	TSCR at Jamshedpur	HSM at Jamshedpur
Maximum thickness	25	16	12
Width range	800-2050	900-1680	860-1540
Maximum tensile strength	1200	600	450
Max special coil weight	22	19.5	19

Source: Company, Edelweiss research

KPO I has been significant value enhancer

KPO I products have helped TSL target other value-added segments such as construction & projects, PEB, oil & gas, lifting & excavation and ship building. Management mentioned KPO's progress here is notable so far:

1. Gained entry in the PEB segment.
2. Successful trials and commencements of supplies to major players in lifting & excavation segment.
3. Supply of API grade steel.
4. Ventured into large diameter pipeline segments.

Table 2: Value-added segments targeted from KPO-I

Segments	Market size (mt)
Construction & Projects	3.4
PEB	0.7
Oil & Gas	2.1
Lifting & Excavation	0.8
Shipbuilding	0.2
Total	7.2

Source: Company, Edelweiss research

Management mentioned that these segments are expected to comprise 30% of KPO's sales volume on full ramp up. In our view, this will boost profitability as these are high-margin products with relatively lower competition. Management also stated that KPO has potential to eliminate the need of importing steel by developing indigenous capability of producing the same.

Table 3: New products at KPO to cater to value-added segments

Products	Applications	Benefits
High tensile grades ASTM A572 Gr50 Type II/EN 10025 S355 J2	Yellow goods and PEB customers	Suitable for laser and plasma cutting tech
High Ti bearing SPFH 590 steel	Wheel rim applications	Superior stretch flange-ability
High end GWT- HS800, C45	M&HCVs and LCVs	Chassis reinforcement
Thinner high strength steel IS2062 E350 Gr.A	Solar panels	Thinner sections due to better GWT
sae 1018, sae 1020, SAE 1026	Tubes in high end auto applications	High strength

Source: Company, Edelweiss research

On the cost front, competitiveness is expected to improve as focus shifts from ramp up to operational KPIs. Going ahead, labour productivity (already significantly ahead of Jamshedpur) is expected to improve further. Energy cost is also expected to reduce significantly with better balancing and optimal utilisation of all facilities.

We believe KPO has high growth potential as there is space and logistical feasibility to expand. While the 1,800acres Jamshedpur plant supports capacity of 11mtpa, Kalinganagar spread over 3,000acres can support more than the capacity planned through Phase 2, giving TSL an optionality to expand the plant up to 15mtpa. Besides, Kalinganagar is close to the port and in a relatively better location to serve southern markets.

Synergies from Bhushan Steel could be upwards of INR15bn per annum

The Bhushan Steel acquisition complements TSL's product portfolio through addition of wide (>1,540mm) cold rolled products, <0.5mm thin products, colour collated products, API tubes and Galvalume. With value-added products comprising 45% of the overall product mix, Bhushan Steel has rich exposure in downstream business: 1) first Indian company to supply skin panels to auto makers—Maruti; 2) market leader in colour coated supplies to the appliance segment; and 3) large diameter pipes. Besides, there is an optionality to scale up through brownfield expansion in the future (**refer to** https://www.edelresearch.com/showreportpdf-40724/TATA_STEEL_-_COMPANY_UPDATE-JUL-18-EDEL).

Currently, integration is underway and TSL is focusing on enhancing capacity utilisation and improving operating efficiency: 1) H1FY19 capacity utilisation for HRC & CRC mill has been improved to 71% (FY18- 66%) & 86% (FY18- 76%), respectively; 2) H1FY19 coke rate has been cut to 399kg/tonne compared to 416kg/tonne in FY18; and 3) H1FY19 PCI rate has been improved to 134kg/tonne compared to 119kg/tonne in FY18.

Chart 9: Bhushan Steel—Improvement in capacity utilisation

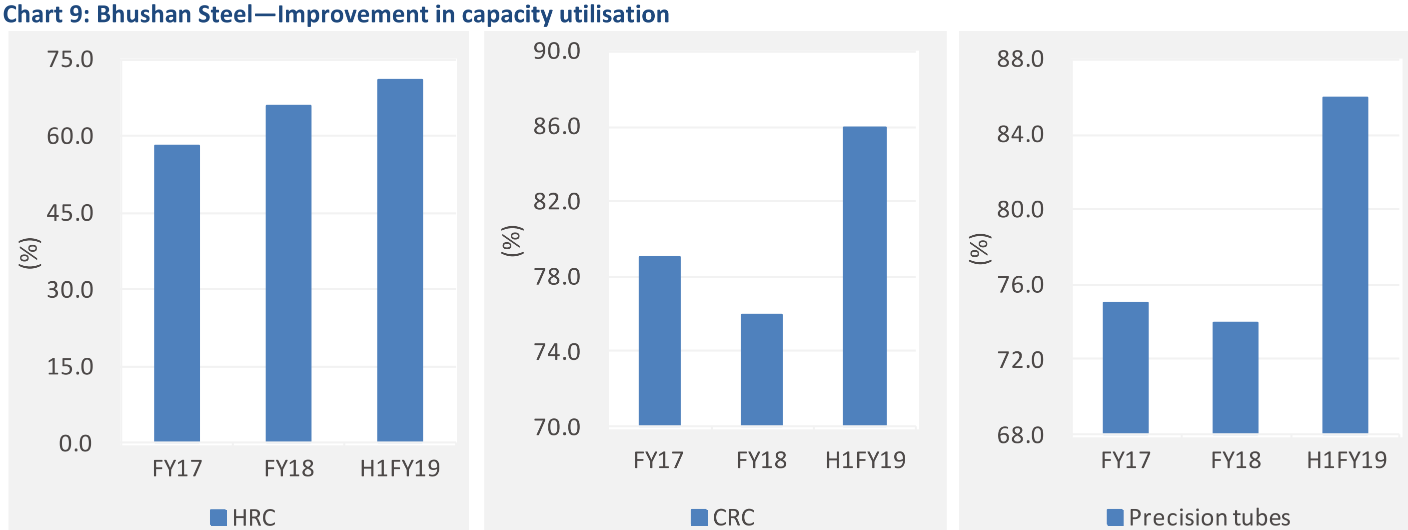
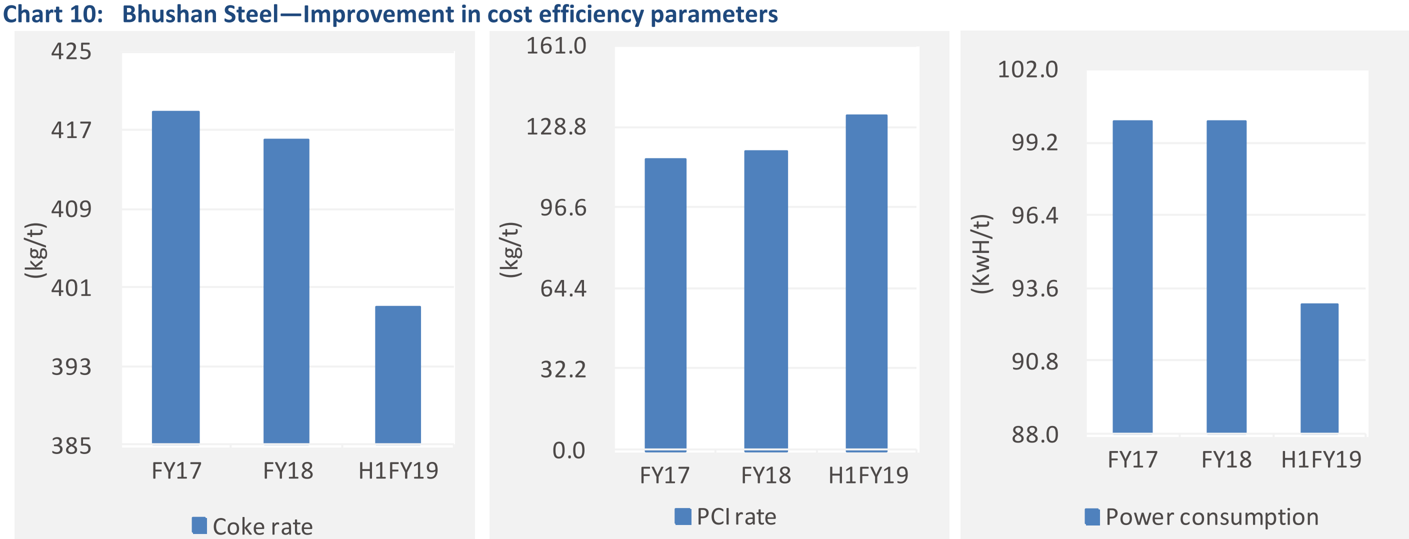


Chart 10: Bhushan Steel—Improvement in cost efficiency parameters



Source: Company, Edelweiss research

In the short term, TSL is focusing on strengthening asset health via thorough maintenance and balancing facilities to plug design gaps. This will require intermittent capex. Further, the company is engaging with employees and unifying corporate governance and CSR activities at all its plants to ensure that corporate culture of the entire organisation is similar.

In the medium term, it is pursuing over 60 initiatives with a potential of generating minimum INR15bn of revenue per year in synergies at the consolidated level through: 1) common sales & operations planning; 2) access to TSL's distribution channel, migration to common brand & use of TSL's facilities to plug operational bottlenecks; 3) benefits of scale through combined procurement of key raw materials; and 4) stock yard optimisation & clubbing of logistics.

We see reducing cost through CONARC route (10% higher cost than BOF route) as a key to ramp up capacity beyond 4.5mtpa. We estimate Bhushan Steel's EBITDA/t at INR12,000 once the capacity is ramped up to 4.5mtpa without any captive iron ore sourcing. Bhushan Steel's EBITDA can further inch up closer to TSL's if: 1) capacity is ramped up beyond 5mtpa; and 2) there is captive iron ore sourcing.

Focus on retail/innovative products to further boost profit margin

We believe TSL's focus on retail/innovative products will boost profitability further as retail/branded products are typically sold at a premium of ~USD100/t. Additionally, the company is expanding its offerings on the solutions front (innovative products) in urban infrastructure, housing and construction sectors. These innovative products are expected to de-link the earnings partially from fluctuations in steel prices as these are sold on per piece instead of per tonne basis. We also expect the company's superior distribution network to help ensure faster last-mile connectivity.

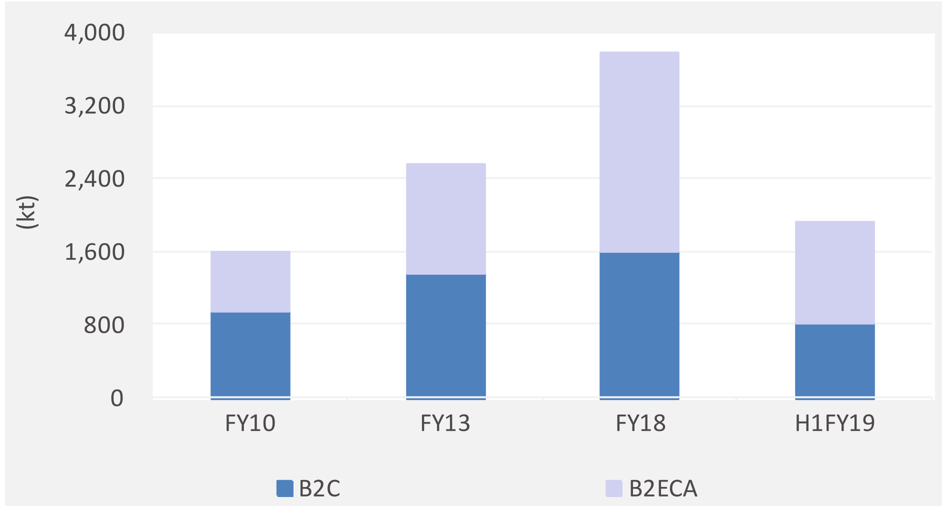
Shift of focus to B2C from B2B to drive profitability

Apart from its traditional bastion such as auto segment where TSL enjoys highest market share of 43% with 1.94mt of direct shipments in FY18, management is focusing on ensuring last mile connectivity with retail customers by leveraging its distribution base.

Branded and retail sales as a percentage of revenue have jumped to ~31% in FY18 from 14-16% in FY12.

TSL has created and nurtured several brands—*TISCON* and *SHAKTI*—which have not only resulted in better margin (~USD100/t), but also provided hedge against downward price correction as retail prices are generally slow to react to changed market conditions. The company is also able to fetch a premium of 45%, 25% and 20% on durashine, colour coated roofing and colorbond steel, respectively, versus competitors as well as wholesale channels.

Chart 11: B2C and B2ECA sales have jumped



Source: Company, Edelweiss research

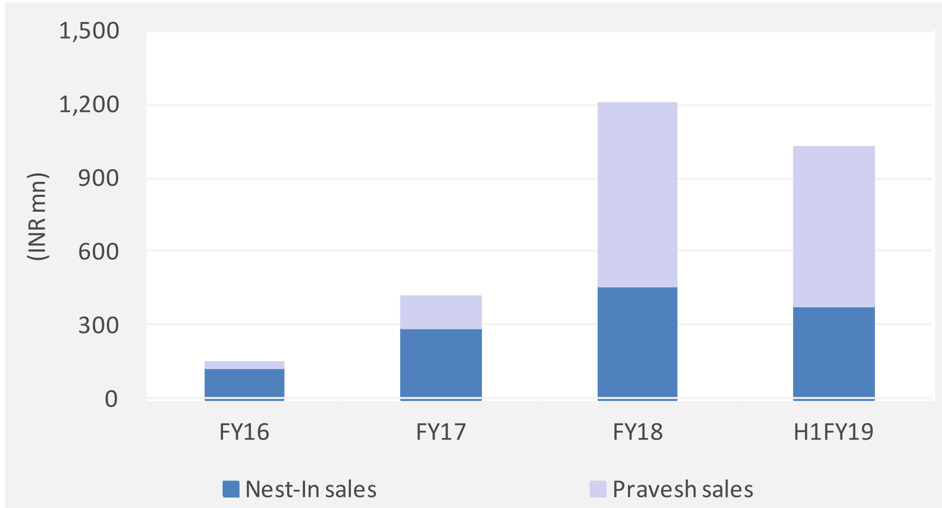
Makeover from steel producer to solution provider has commenced

TSL's endeavour is to make inroads in the incremental value pool untapped for construction solutions and urban infrastructure. The company intends to change the way steel is sold to retail customers in India by deploying alternate units of measurement (from per tonne to per unit). This is an attempt to decommoditise steel and ensure that solutions for retail customers are relatively unaffected by prices.

While in the services & solution portfolio steel doors & windows, wardrobes, water kiosks, portable cabin and urban sanitation solutions are in scale up mode, smart bus shelters and solar panels are in pilot and trial modes. The market size of doors and windows is INR500bn each per year.

Revenue from Nest-in sales and Pravesh (door) jumped 94% and 512% CAGR, respectively, over FY16-18. By CY25, this product line is expected to account for almost 20% of total revenue from domestic operations.

Chart 12: Services and solution sales are also up



Source: Company, Edelweiss research

Relatively superior distribution network to ensure last mile connectivity

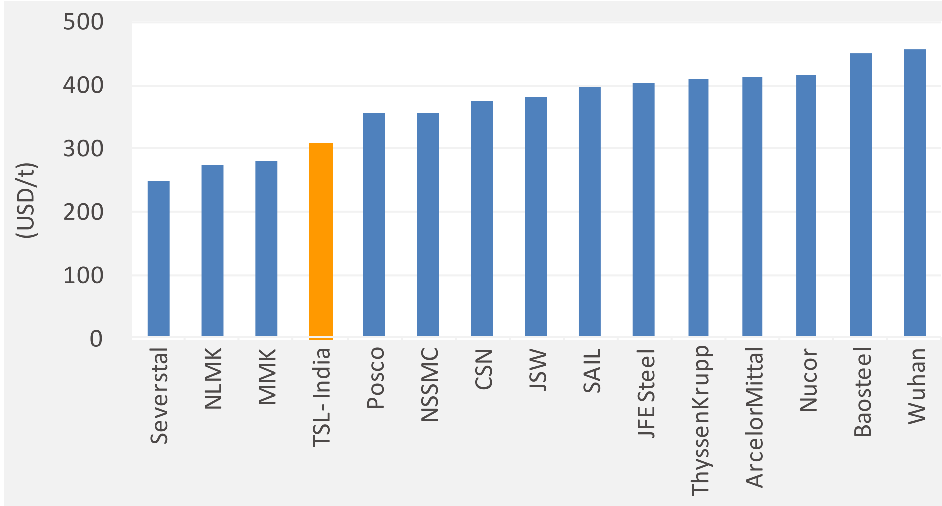
Management believes that distribution network is likely to be key differentiator in the future when it comes to capturing market share in the retail segment. TSL has an extensive network of 147 distributors and 12,600 dealers/retailers (some exclusive) and operates through six hubs and 14 spokes. Additionally, the company is a pioneer in special freight transit operations (SFTO) lending it an edge as ~60% of deliveries are via rail. It has an advanced system of vehicle/compliance tracing, resulting in almost 90% delivery compliance.

Management mentioned that unlike peers, TSL did not get any tax holiday, which was a blessing in disguise as it compelled the company to set up its own stockyards at different locations in India. This helps it meet the compliance requirements of GST without changing its existing structure materially.

Focus on cost leadership continues

TSL's Jamshedpur is the only facility in the world (except in Russia) with less than ~USD325/t of production cost at HRC level. As the chart below indicates, its nearest domestic peers are at least 25-30% higher.

Chart 13: TSL—India one of the most cost effective operations globally

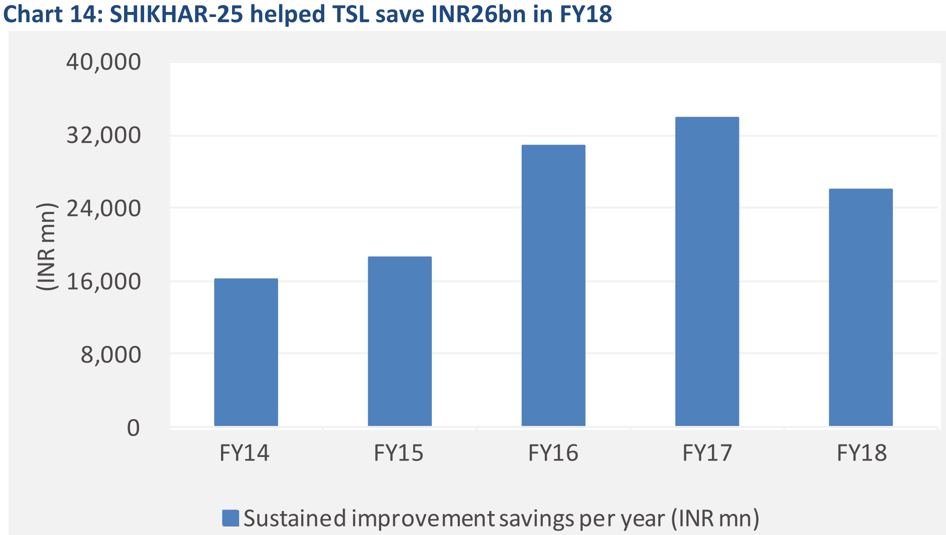


Source: Edelweiss research

We believe that apart from captive raw material, operating efficiency initiatives such as *SHIKHAR-25* have also played an important role in controlling the cost of operations. As a part of *SHIKHAR 25*, TSL intends to achieve steady-state EBITDA margin of 25% by focusing on different operating efficiency initiatives. This spans two themes—steel value chain (FY12-17) covering mining, iron making, steel making & downstream mills and cross functional (FY15-17) covering procurement, logistics, reliability, by-products and energy.

Several initiatives across the organisation focus on continuous improvements. In FY18, the key cost saving areas were: 1) fuel rate in blast furnace; 2) increase in throughput in West Bokaro; and 3) reduction in spend base of inbound/outbound logistics.

Chart 14: SHIKHAR-25 helped TSL save INR26bn in FY18

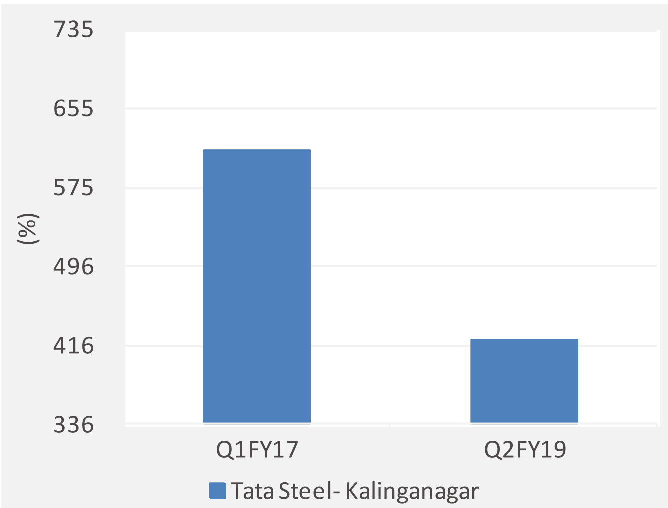


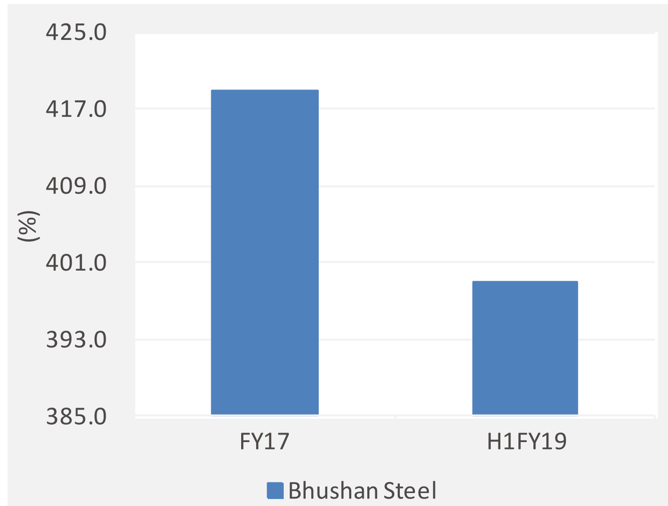
Source: Company data, Edelweiss research

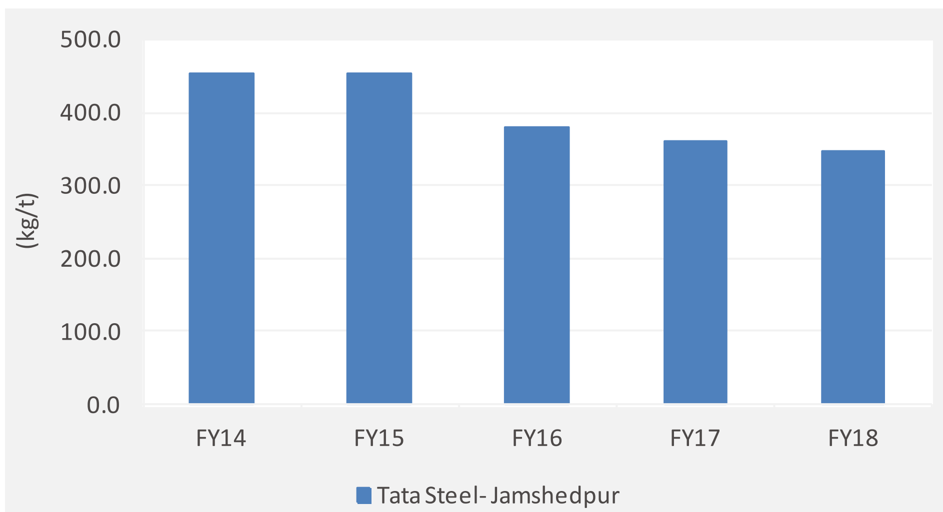
Focus on fuel rate and labour productivity

TSL has been focusing on reducing costs, particularly coal charges through increased use of pulverised coal and reducing coking coal. Currently, the coke rate is at 348kg/t of crude steel and PCI injection is at 260kg/t, the highest in India at blast furnace I in Jamshedpur. The company is trying to improve its coal charging rate at other furnaces as well. In Tata Steel-Kalinganagar, coke rate has been cut from 612kg/t of crude steel in Q1FY17 to 421kg/t in Q2FY19. At Bhushan Steel, coke rate has been reduced to 399kg/t of crude steel in H1FY19 from 419kg/t in FY17.

Chart 15: Coke rate has improved across all facilities



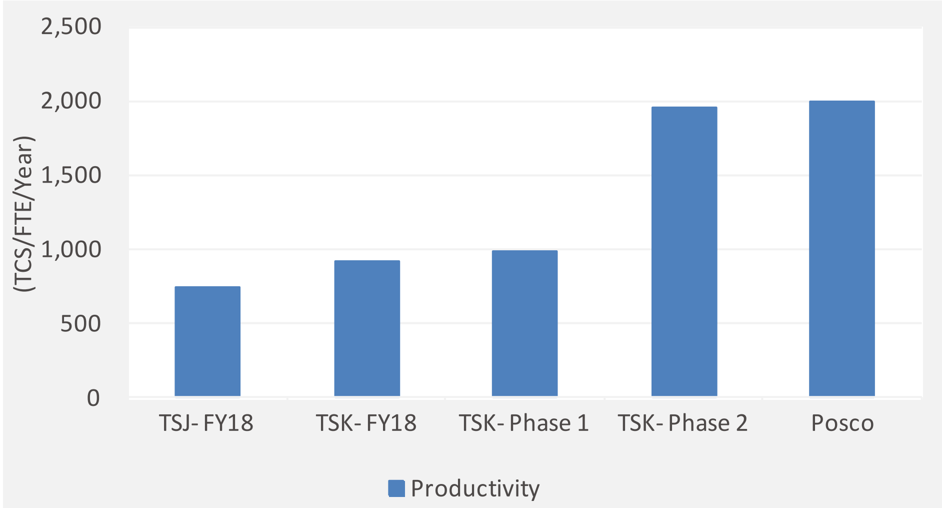




Source: Company, Edelweiss research

TSE is cognizant of improving productivity at Jamshedpur plant. While 1,000 employees retire every year, the replacement ratio is only 40% . Further, wage structure and escalation rate of new joinees is different from older employees. TSL is trying to benchmark the productivity to Posco, which is at 2,000 TCS/FTE/Year (tones crude steel/full time equivalent/year).

Chart 16: Potential of labour productivity improvement in Jamshedpur



Source: Company, Edelweiss research

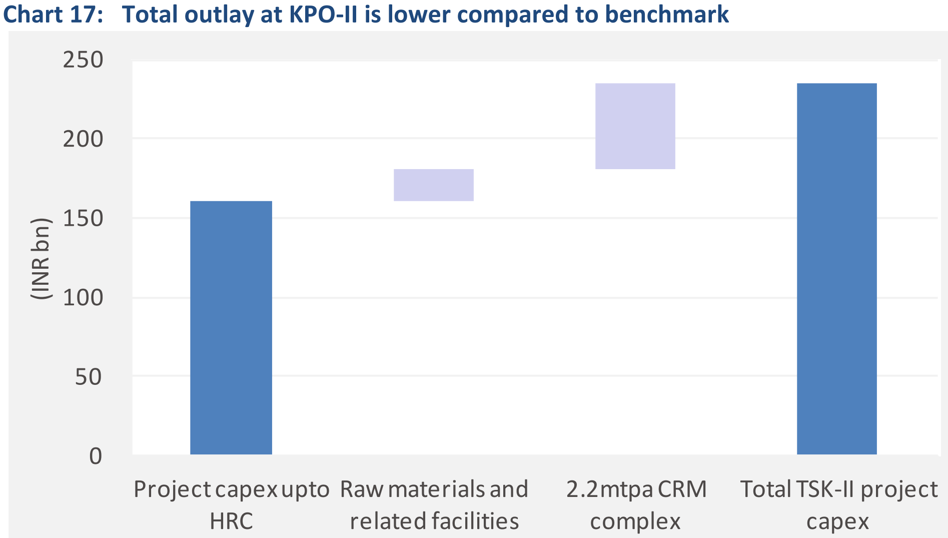
Bulk of capex is over; limited to INR80-100bn per year through to FY22

We believe that bulk of the capital expenditure is over with acquisition of Bhushan Steel and buyout of Usha Martin's steel business. Key capex areas going ahead are expected to be: 1) organic expansion at Jamshedpur; 2) KPO II; 3) expansion at Bhushan Steel; 4) mining capabilities; and 5) inorganic acquisitions.

KPO II: Total outlay at USD650/t

As a result of well planned layout in Phase 1 and enabling civil works already completed as part of phase 1, KPO II's capex requirement is relatively lower at USD650/t (overall plant) and USD445/t (HRC stage).

Chart 17: Total outlay at KPO-II is lower compared to benchmark



Source: Company, Edelweiss research

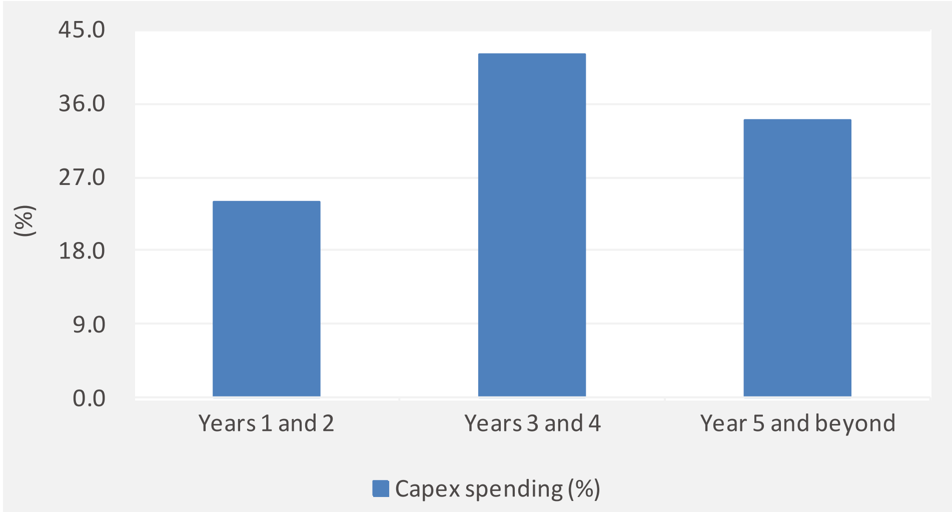
Some of the significant measures resulting in lower capex requirement in phase II are:

1. Non-plant civil works such as leveling of land and drainage done with phase 1.
2. Shop layout in HSM and SMS aligned for future expansion.
3. Executing contracts through ECPM mode than turnkey arrangement as in phase 1.

Despite lower capital expenditure, key equipment is from reputed suppliers: 1) blast furnace is from China; 2) pellet plant is from METSO; and 3) SMS & other steel making equipment from SMS Seimag, Hitachi and other reputed European suppliers.

Capex is significantly back-ended with less than 25% to be spent in the first two years. This will ensure better returns as some of the project funding can be serviced from project cash flows.

Chart 18: Capex spending at KPO-II is significantly back ended



Source: Company, Edelweiss research

Mining capex to take care of steel capacity expansion

TSL's domestic operations (including Kalinganagar) continue to be self sufficient in iron ore. However, coking coal self sufficiency has dipped to 25% (FY08-70%) due to increased blending requirement pursuant to capacity expansion.

In iron ore, currently TSE has environmental clearance for 38mt (current output 22mt) and is working with the authorities to extend it to 45mt. This will be sufficient to meet requirement of 30mt steel capacity. However, there could be periods when iron ore will have to be procured externally due to: 1) logistical advantage of KPO as it is located closer to merchant iron ore miners than captive Noamundi iron ore complex; and 2) periods where steel capacity expansion does not overlap mining capacity expansion. As iron ore mines are coming up for bidding in 2030, benefit can be obtained from mine for a significant period of time.

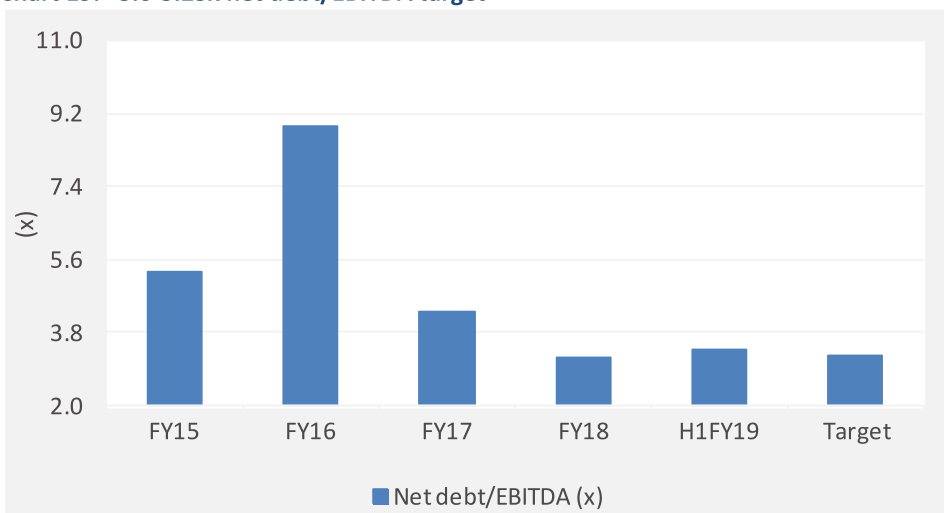
On the coal front, West Bokaro mining capacity is 250kt per month. TSL is planning to expand it further despite constraints due to rehabilitation issues. This will ensure that coking coal self sufficiency, even at expanded capacity, will continue to remain at 25%.

Gross debt expected to peak at INR950bn by FY20

Gross debt is expected to dip by INR2.5bn post the JV with ThyssenKrupp is consummated. Management expects it to increase slightly given capex commitments for KPO in FY20. However, gross debt is expected to peak out at INR950bn by FY20E end. TSE is looking to divest other non-core assets such as Sedibeng, Cogent, TRL Krosaki and South East Asia cluster. Of these, the South Asia cluster is expected be major, while others are relatively minor. All consideration received from divestiture of these assets is expected to be utilised for deleveraging.

Management expects net debt/EBITDA to fall to 3.0-3.2x from the current 3.4x. As a result of proposed portfolio restructuring, management expects a 300bps increase in RoIC (excluding CWIP) from the current 16% at the consolidated level in FY18.

Chart 19: 3.0-3.25x net debt/EBITDA target



Source: Company, Edelweiss research

Update on JV with ThyssenKrupp

Management mentioned that TSE and ThyssenKrupp are in constructive discussion with the European Commission on phase II investigations. Management mentioned that current investigations are expected to take 90 working days and there is a holiday between December 20 and January 07. At the end of the investigation, either go ahead for the merger will be given or certain remedies are likely to be proposed. It is also likely that the merger could be allowed to go ahead with certain timeframe for remedial actions in parallel.

The concerns on European Commission on auto, packaging and electrical divisions are being addressed as follows:

1. At this stage, TSE has electrical steel units in UK & Canada and its potential divestments in this area will prevent overlap with Thyssenkrupp. The company has already completed sale of German aluminum roofing and cladding business Kalzip. Earlier in FY19, TSE announced the sale of some of its business units including UK electrical steel producer Cogent.
2. In case of the auto division, TSE does not see any issue as the auto operations created by the merger are of lower capacity than that precedent ArcelorMittal-Ilva transaction.
3. In packaging, TSE has sold some units earlier this year and is in consultation with the European Commission.

Refer to our note post discussion with ThyssenKrupp on the issue: https://www.edelresearch.com/showreportpdf-41777/EDELFLASH - TATA STEEL-EUROPEAN COMMISSION INVESTIGATIONS-31-OCT-18.

Company Description

Established 100 years ago in 1907, Tata Steel is Asia's first and India's second largest private sector steel company. With the take over of Corus Steel (Europe's second largest steel producer), Tata Steel is now the sixth largest steel company in the world with over 30mtpa of steel capacity.Tata Steel India has one of the lowest-cost steel-making facilities in the world comprising the 9.7mtpa steel facility at Jamshedpur in Jharkhand and the recently commissioned 3.0mtpa Kalinganagar unit in Odisha.

Investment Theme

The outlook for global steel industry is improving primarily on capacity cuts being implemented in China. We expect Tata Steel's domestic operations to deliver consistent EBITDA of INR13,000-14,000/t on an average due to better spreads and ramp up of Kalinganagar operations. In case of European operations, there is higher probability that pension liabilities will be sorted out and restructuring efforts will bear fruits.

Key Risks

Sharp fall in global steel prices/ spreads

Demand contraction in India/World

Supply cuts being undermined in China

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Sector				
HRC price-Europe (USD/t)	424	579	653	618
HRC price-India(INR k/t)	34	41	44	45
Hard coking coal (USD/t)	168	166	199	206
Soft coking coal (USD/t)	141	140	168	174
India steel demand (%)	5	5	5	5
Company				
Shipments (mn tonnes)	24	25	25	25
India	11.0	12.2	12.7	12.8
Europe	10.1	10.0	9.3	9.8
SEA	2.6	2.5	2.6	2.6
Blended (INR/t)				
India	48,331	49,833	54,132	53,770
Europe	52,514	60,426	67,486	66,083
SEA	31,318	37,631	39,338	40,595
Key costs/t of steel				
India (INR/t)				
Iron ore (cost/t)	2,988	2,988	2,988	2,988
Coking coal (cost/t)	11,306	10,713	13,753	14,832
Power (cost/t)	2,872	2,872	2,872	2,872
Europe (USD)	-	1	-	-
Iron ore (cost/t)	91	79	74	63
Coking coal (cost/t)	131	173	206	216
Staff Cost (GBP mn)	1,488	1,625	1,619	1,675
Avg. Interest rate (%)	6.3	6.2	6.2	6.2
Depreciation rate (%)	7.4	6.7	6.6	6.4
EBITDA (USD/tonne)	-	1	-	-
India	160.4	199.9	239.7	219.8
Europe	67	82	75	73
SEA	30.0	19.5	16.4	15.1
Tax rate (%)	112.7	30.0	34.0	34.0
Dividend payout (%)	(257.9)	8.6	14.0	11.8
Capex (INR mn)	77,000	70,000	368,615	65,000
Net borrowings (INR mn)	745,654	713,229	1,007,918	865,850
Debtor days	36	33	29	29
Inventory days	210	186	223	223
Payable days	181	136	149	147
Cash conversion cycle	65	82	104	106

Income statement (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	1,174,199	1,330,164	1,670,828	1,766,836
Materials costs	393,049	521,646	515,820	546,615
Employee costs	172,522	176,062	217,188	225,975
Total SG&A expenses	313,661	278,698	569,414	578,514
Power and Freight	124,889	134,853	117,430	124,966
Total operating expenses	1,004,121	1,111,258	1,419,853	1,476,070
EBITDA	170,078	218,905	250,975	290,767
Depreciation	56,729	59,617	70,298	79,785
EBIT	113,349	159,289	180,678	210,982
Less: Interest Expense	50,722	55,018	65,948	76,878
Add: Other income	5,274.7	9,094.5	12,864.33	17,856.95
Profit Before Tax	67,902	113,365	127,594	151,961
Less: Provision for Tax	27,780	34,054	43,382	51,667
Less: Minority Interest	722	43,285	4,211	5,015
Associate profit share	77	1,741	1,793	1,847
Profit- Discontinued Ops	(31,757)	95,991	-	-
Profit- Discontinued Ops	(31,757)	-	-	-
Reported Profit	7,719	133,759	81,795	97,126
Exceptional Items	-	95,991	-	-
Adjusted Profit	39,476	37,768	81,795	97,126
Shares o /s (mn)	971	1,145	1,145	1,145
Adjusted Basic EPS	40.6	33.0	71.4	84.8
Diluted shares o/s (mn)	971	1,145	1,145	1,145
Adjusted Diluted EPS	40.6	33.0	71.4	84.8
Adjusted Cash EPS	99.0	85.1	132.8	154.5
Dividend per share (DPS)	8.0	10.0	8.0	8.0
Dividend Payout Ratio(%)	35.8	22.4	18.0	18.0

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	85.5	83.5	85.0	83.5
Depreciation	4.8	4.5	4.2	4.5
Interest Expense	4.3	4.1	3.9	4.4
EBITDA margins	14.5	16.5	15.0	16.5
Net Profit margins	3.4	6.1	5.1	5.8

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	0.2	13.3	25.6	5.7
EBITDA	124.2	28.7	14.7	15.9
PBT	(505.6)	67.0	12.6	19.1
Adjusted Profit	(1,122.3)	(4.3)	116.6	18.7
EPS	(1,122.3)	(18.8)	116.6	18.7

Balance sheet (INR mn)

As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	9,702	11,450	11,450	11,450
Reserves & Surplus	345,741	574,507	614,261	700,396
Shareholders' funds	355,443	585,956	625,710	711,845
Minority Interest	16,017	9,365	13,576	18,591
Long term borrowings	662,973	750,641	1,102,967	1,102,967
Short term borrowings	187,736	191,056	191,056	191,056
Total Borrowings	850,709	941,697	1,294,023	1,294,023
Def. Tax Liability (net)	100,301	105,699	105,699	105,699
Sources of funds	**1,417,658**	**1,732,022**	**2,128,312**	**2,219,462**
Tangible assets	868,806	903,228	1,236,545	1,256,760
Intangible Assets	157,841	166,144	131,144	96,144
CWIP (incl. intangible)	16,312	16,827	16,827	16,827
Total net fixed assets	1,042,960	1,086,199	1,384,516	1,369,731
Non current investments	181,152	332,609	332,609	332,609
Cash and Equivalents	105,054	228,468	286,105	428,173
Inventories	248,038	283,310	346,979	320,939
Trade receivables	115,868	124,155	143,730	141,838
Loans & Advances	18,316	11,748	11,748	11,748
Other Current Assets	21,944	31,090	31,090	31,090
Current Assets (ex cash)	404,166	450,303	533,547	505,615
Trade payable	185,745	204,138	215,996	224,198
Other Current Liab	129,930	161,420	161,420	161,420
Net Curr Assets-ex cash	88,492	84,746	156,131	119,997
Uses of funds	**1,417,658**	**1,732,022**	**2,128,312**	**2,219,462**
BVPS (INR)	365.9	511.8	546.5	621.7

Free cash flow (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Reported Profit	7,719	133,759	81,795	97,126
Add: Depreciation	56,729	59,617	70,298	79,785
Interest (Net of Tax)	29,971	38,491	43,526	50,739
Others	24,758	257,688	285,590	81,559
Less: Changes in WC	113,569	314,364	396,290	91,149
Operating cash flow	5,608	175,191	84,917	218,060
Less: Capex	77,000	70,000	368,615	65,000
Free Cash Flow	**(71,392)**	**105,191**	**(283,698)**	**153,060**

Cash flow metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	5,608	175,191	84,917	218,060
Financing cash flow	17,090	(223,306)	(368,615)	(65,000)
Investing cash flow	(325)	81,706	341,334	(10,992)
Net cash Flow	22,372	33,591	57,637	142,068
Capex	(77,000)	(70,000)	(368,615)	(65,000)
Dividend paid	(11,657)	(13,739)	(10,992)	(10,992)

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	11.9	16.8	13.9	14.9
ROACE (%)	9.9	12.2	11.2	11.6
Inventory Days	210	186	223	223
Debtors Days	36	33	29	29
Payable Days	181	136	149	147
Cash Conversion Cycle	65	82	104	106
Current Ratio	1.6	1.9	2.2	2.4
Gross Debt/EBITDA	500.2	430.2	515.6	445.0
Gross Debt/Equity	229.0	158.2	202.4	177.2
Adjusted Debt/Equity	229.0	158.2	202.4	177.2
Net Debt/Equity	200.7	119.8	157.7	118.5
Interest Coverage Ratio	223.5	289.5	274.0	274.4

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	0.9	0.8	0.9	0.8
Fixed Asset Turnover	1.7	1.5	1.5	1.4
Equity Turnover	3.5	2.8	2.7	2.6

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	40.6	33.0	71.4	84.8
Y-o-Y growth (%)	*(1,122.3)*	*(18.8)*	*116.6*	*18.7*
Adjusted Cash EPS (INR)	99.0	85.1	132.8	154.5
Diluted P/E (x)	13.1	16.2	7.5	6.3
P/B (x)	1.5	1.0	1.0	0.9
EV / EBITDA (x)	7.5	6.1	6.5	5.1
Market cap/Sales (x)	1.1	1.1	1.0	0.9
Dividend Yield (%)	1.5	1.9	1.5	1.5

Peer comparison valuation

	Market cap	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
Name	(USD mn)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Tata Steel	8,551	7.5	6.3	6.5	5.1	13.9	14.9
Jindal Steel & Power	2,104	9.5	6.2	5.7	4.7	5.2	7.4
JSW Steel	10,686	8.1	7.2	5.7	5.2	30.3	27.0
Steel Authority of India	3,276	6.6	4.9	5.6	4.7	9.2	11.2
Median	-	7.8	6.2	5.7	4.9	11.5	13.1
AVERAGE	-	7.9	6.1	5.9	4.9	14.7	15.1

Source: Edelweiss research

Additional Data

Directors Data

Aman Mehta	Director	Deepak Kapoor	Director
Mallika Srinivasan	Additional Director	Koushik Chatterjee	Whole-time Director
O P Bhatt	Additional Director	D. K. Mehrotra	Independent, Non-Executive Director
T. V. Narendran	Managing Director - India and South East Asia	N. Chandrasekaran	Chairman
Peter Blauwhoff	Additional (Independent) Director	Saurabh Agrawal	Additional Non-Executive Director

Auditors - Deloitte Haskins & Sells

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Tata sons ltd	30.46	Life insurance corp	9.15
Hdfc asset managemen	4.15	Reliance capital tru	3.44
Aditya birla sun lif	2.55	Sbi funds management	1.24
Franklin resources	1.21	Dimensional fund adv	1.2
Icici prudential ass	1.14	Blackrock	1.13

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Coal India	BUY	SP	M	Hindalco Industries	BUY	SO	M
Hindustan Zinc	BUY	SO	L	Jindal Stainless Ltd	BUY	SO	H
Jindal Steel & Power	BUY	SO	M	JSW Steel	BUY	SO	M
NMDC	BUY	SO	M	Steel Authority of India	BUY	SP	M
Tata Steel	BUY	SO	M	Vedanta	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect

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Date: 2018.11.29 17:43:47 +05'30'

Coverage group(s) of stocks by primary analyst(s): Metals and Mining

Coal India, Hindalco Industries, Hindustan Zinc, Jindal Stainless Ltd, Jindal Steel & Power, JSW Steel, NMDC, Steel Authority of India, Tata Steel, Vedanta

Recent Research

Date	Company	Title	Price (INR)	Recos
27-Nov-18	**NMDC**	October fest: Raising a toast to volume uptick; *Company Update*	95	Buy
26-Nov-18	**Metals and Mining**	October non-ferrous volumes: On expected lines; *Sector Update*		
22-Nov-18	**ThyssenKrupp**	A forgettable quarter; better times ahead; *Global Pulse*		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

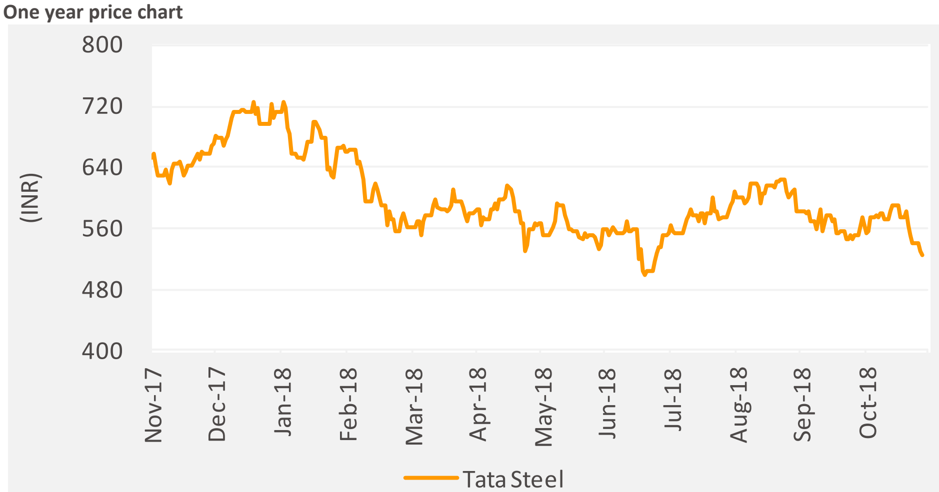
* 1stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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