

Tata Steel (TATSTE)

Approves phase-II expansion at Kalinganagar

Following the successful implementation of Phase-I of the 3 million tonne (MT) at Kalinganagar, Odisha, the board of directors of Tata Steel have approved Phase-II expansion at the facility. The company will expand Kalinganagar by 5 MT taking total capacity at the location to 8 MT in 48 months from the date of commencement of construction. The project configuration and costs includes investment in raw material capacity expansion, upstream and mid-stream facilities, infrastructure and downstream facilities including a cold rolling mill complex. The proposed expansion is expected to entail an investment of ₹ 23500 crore, which is likely to be funded through a combination of debt and equity. The company has undertaken expansion to meet the requirements of automotive, general engineering and other value added segments. The aggregate capacity of Tata Steel India following the above expansion will be 18 MT.

Exhibit 1: Details of the proposed expansion

Proposed Capacity Expansion (MT)	5.0
Timeframe	48 months
Investment Required	₹ 23500 crore
Mode of Financing: Combination of Debt & Equity	
Rationale: To meet requirements of automotive, general engineering and value added segment	

Source: Company, ICICIdirect.com Research

To raise funds of ₹ 12800 crore through equity & equity linked instruments

The company also reviewed the financial strategy in light of its organic, inorganic growth strategy. The board has approved the plan to raise capital for the said expansion plan, deleveraging the balance sheet and other general corporate purposes. The company will issue equity and equity linked instruments including ordinary shares (equity shares) by way of a right issue to the existing shareholders on the record date for an amount not exceeding ₹ 12800 crore. Further, for the purpose of giving effect to the issue, the board has authorised its executive committee to decide the structure, terms and conditions of the issue including the instrument options, right entitlement ratio, issue price, record date, timing of the issue and other related matters.

Phase – II expansion/fund raising plans augur well, maintain BUY...

Tata Steel has chalked out a plan to double the capacity of Indian operations in the next five years. The company's successful implementation of Phase – I at Kalinganagar laid the foundation for the phase-II expansion with access to shared infrastructure for blast furnace and other upstream, downstream facilities. The brownfield expansion (phase-II) thus comes at a relatively lower capex cost of ~US\$725/tonne compared to phase-I cost of ~US\$1300/tonne, auguring well. Tata Steel's proposed JV with Thyssenkrupp is expected to deleverage the balance sheet significantly providing a platform to pursue organic/inorganic growth. The right issue of ₹ 12800 crore will further aid the company in minimising any stretch on the balance sheet while focusing on such organic/inorganic growth domestically. We value the stock on an SOTP basis and arrive at a target price of ₹ 785. We maintain **BUY** rating.

Rating matrix	
Rating	: Buy
Target	: ₹ 785
Target Period	: 12 months
Potential Upside	: 12%

What's Changed?	
Target	Unchanged
EPS FY18E	Unchanged
EPS FY19E	Unchanged
Rating	Unchanged

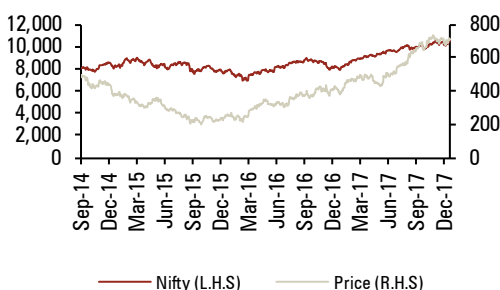
Key Financials				
(₹ Crore)	FY16	FY17	FY18E	FY19E
Net Sales	117151.6	112299.4	130858.4	134790.1
EBITDA	7585.6	17007.8	19256.6	22202.1
Adj Net Profit	-2243.2	4092.1	5324.2	6817.5
EPS (₹)	-23.1	42.2	54.9	70.3

Valuation summary				
	FY16	FY17	FY18E	FY19E
PE (x)	NA	16.6	12.8	10.0
Target PE (x)	NA	18.6	14.3	11.2
EV/EBITDA(x)	19.7	8.7	7.5	6.4
P/BV (x)	2.2	1.8	2.0	1.7
Adj RoNW (%)	-7.3	10.8	15.5	17.0
Adj RoCE (%)	2.1	9.4	11.5	12.3

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	67,917
Total Debt (FY17) (₹ Crore)	83,014
Cash & Cash Eq. (FY17) (₹ Crore)	17,458
EV (₹ Crore)	133,473
52 week H/L (₹)	735 / 366
Equity capital	₹ 970.2 Crore
Face value	₹ 10

Price performance (%)				
Return %	1M	3M	6M	12M
JSW Steel	-3.8	-2.0	28.7	60.4
Tata Steel	1.3	5.0	36.7	73.1

Share Price Chart



Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Akshay Kadam
akshay.kadam@icicisecurities.com

Disclaimer

ANALYST CERTIFICATION

We /I, Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia*, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.