

Industry Metals
Bloomberg TML IN
BSE CODE 513434

Strong volume growth in DI business, cost pressure continued..

RATING	NEUTRAL
CMP	624
Price Target	660
Potential Upside	6%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	954/545
Mkt Capital (Rs Cr)	1583
Free float (%)	50%
Avg. Vol 1M (,000)	53
No. of Shares (Cr.)	3
Promoters Pledged %	0%

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Key Highlights

- ❑ Tata Metaliks is a Kharagpur, West Bengal based high quality pig iron (foundry grade) and DI pipe producer with a hot metal capacity of 5 lakh tonnes and DI pipe capacity of 2 lakh tonnes.
- ❑ Company has steadily increased share of DI pipe business in overall turnover from 19% in FY12 to 53% in FY18. Margins in DI pipes are higher and more stable as compare to pig iron business.
- ❑ PCI plant has been commissioned and oxygen plant is expected to get started by 1QFY20. Benefits out of commissioning of PCI plant is expected to start from 4QFY19 onward.
- ❑ Management indicated, current softness in raw material prices may lead to fall in realization going ahead.

3Q FY19 Result Update

Tata Metaliks 3QFY19 revenue came in at Rs.546cr. (up 12% YoY, flat QoQ), YoY increase in revenue was primarily on account higher DI pipe sales volume in the quarter at 66536 tonnes (up 27% YoY, 31% QoQ). Pig iron external sales volume was lower at 61503 tonnes (down 28% YoY, 27% QoQ) due to increase in captive consumption (higher DI production) and unscheduled shutdown. EBITDA came in at Rs.75cr (up 3% YoY, down 13% QoQ), and EBITDA margins contracted 1% YoY and 2% QoQ to 13.7% due higher input cost and higher other expenses. Depreciation for the quarter was at Rs.14cr (vs. Rs.12cr in 3QFY18 and Rs.13cr in 2QFY19); finance cost for the quarter came in at Rs.11cr (vs.Rs.10cr in 3QFY18 and Rs.10cr in 2QFY19). PAT for the quarter came in at Rs.40cr (down 1.8% YoY and 17% QoQ).

View and Valuation

Tata Metaliks 3QFY19 sales grew by 12% YoY to Rs.546cr, margins remain under pressure due to high input cost. 3QFY19 DI pipe volume was strong but Pig Iron (PI) volume was lower due to operational issues with both the blast furnace and increased captive consumption for DI pipe. Management stated that operations are back on track in PI business and 4QFY19 is expected to be better. PI prices have started to fall in line with fall in steel prices. However, DI business is expected to remain healthy with strong order inflow, recent orders from Andhra Pradesh Govt. of 600-700KT are also positive. We have cut our EBITDA/PAT estimates by 4%/7% for FY19 and by 2%/5% for FY20 on account of higher other expenses and higher finance cost. Management has still not taken a final call on capacity expansion and there is no concrete plan out yet. Tata Metalik is already operating at 100% capacity and correction in PI prices leaves limited scope in terms of growth in revenue and PAT. We expect Revenue/EBITDA/PAT CAGR of 4%/7%/4% over FY18-20e and believe all the positives are factored in at current prices and value the stock at **Rs.660 (5.5x EV/EBITDA FY20e) and maintain our NEUTRAL stance.**

Key Risks to our rating and target

- ❑ On margin side highly volatile coking coal price is a concern.
- ❑ INR depreciation is a concern, as coking coal (major raw material) is imported.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1317	1318	1873	2084	2041
EBITDA	216	225	277	301	320
EBIT	183	189	228	250	268
PAT	112	116	159	160	172
EPS (Rs)	44	46	63	63	68
EPS growth (%)	3%	3%	37%	1%	7%
ROE (%)	113%	56%	44%	31%	26%
ROCE (%)	67%	52%	41%	41%	35%
BV	39	82	142	202	265
P/B (X)	2.5	7.2	5.2	3.1	2.4
P/E (x)	2.2	12.8	11.7	9.8	9.2

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3Q FY19 Results

Realization may drop going ahead due to moderation in raw material prices....

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	490	546	468	547	546	11.5%	-0.2%	1,318	1,873	42.1%
Other Income	0	9	1	1	1	1160%	15.6%	1	20	1290%
Total Income	490	555	469	548	548	12%	-0.2%	1,320	1,894	43.5%
COGS	294	316	278	335	339	15%	1.2%	653	1,088	66.6%
Staff Cost	25	26	27	27	28	14%	4.1%	85	100	18.1%
Other Exp.	99	116	97	100	105	6%	5.0%	355	407	14.8%
Expenditure	417	458	402	462	472	13%	2.2%	1,093	1,596	46.0%
EBITDA	73	88	66	86	75	3%	-12.8%	225	277	23.3%
Depreciation	12	13	15	13	14	11%	1.1%	36	49	34.7%
EBIT	60	75	51	72	61	1%	-15.4%	189	228	21.0%
Interest	10	18	11	10	11	11%	11.1%	38	47	25.6%
PBT	50	66	42	63	51	2%	-19.1%	152	201	32.0%
Excpt. Item	0	0	0	0	0	-	-	-	-	-
Tax	10	11	11	15	11	15%	-27.2%	36	41	15.7%
PAT	40	55	30	48	40	-2%	-16.6%	116	159	37.2%

Operating Matrix

Volume/Realization	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %
Hot metal volume (ton)	96451	102000	127526	135226	135857	115436	134718	128039	-5.3%
Pig iron volume (ton)	30811	53000	81896	85046	71229	68393	83984	61503	-27.7%
DI pipe volume (ton)	65640	49000	45630	50180	64628	47043	50734	66536	32.6%

Strong growth in DI pipe volume

DI pipes volume in the quarter registered robust growth of 27% YoY and 31% QoQ to 66536 tonnes on the back of robust order pipeline and good pull from projects, 9MFY19 DI pipe sales volume has been at 164313 tonnes (82% of the designed capacity of 200000 tonnes) which signals towards a lower sales volume in DI business in 4QFY19 even after assuming 105% of capacity utilization (management had indicated that capacity can be increased by 5-10% by debottlenecking process).

Pig iron volume drops due to increased captive consumption and shutdown

External pig iron sales volume for the quarter came in at 61503 (down 28% YoY and 27% QoQ), primarily due to higher captive consumption led by increased volume in DI pipe segment and furthermore, pig iron volume also got impacted by unscheduled shutdown of the blast furnace in the quarter. However, management stated that furnace is now fully operational and management also expect improved performance in pig iron business from 4QFY19 led by start of Pulverised Coal Injection in furnace from 4QFY19.

Softening of raw material prices may impact the realization

3QFY19 saw cost push due to increase in prices of iron ore, coal and coke but management indicated that raw material prices have moderated from 3QFY19 levels which may impact the realization of the finished product going ahead.

Conference call highlights:

- ❑ Issue with both the blast furnace led to lower pig iron production .Production loss due to the same was around 12000 tonnes in the quarter.
- ❑ PCI plant is installed and commissioning and ramping up of the same is in process.
- ❑ Oxygen plant is progressing well and is expected to get commissioned by 1QFY20.
- ❑ DI pipe order book is close to 9-10 months. And good order inflow of around 600-700KT is expected from Andhra Pradesh state govt. Tender for the same is out and company is in talks with EPC to get its share of orders.
- ❑ Current receivable days in Pig iron business is close to around 30, 62 in DI business and 48 at combined level.
- ❑ On capacity expansion front company has still not taken a final call.
- ❑ Management expects improvement in margins going ahead, particularly in DI business as finished good prices are fixed at higher prices and raw material prices have fall. However, the new orders which would be priced lower would eventually neutralize the effect.
- ❑ Management expects slow 1QFY20 due to issues with funding of govt. projects because of election.

Exhibit: Net sales and growth trend

growth slows down as high base effect catches up....

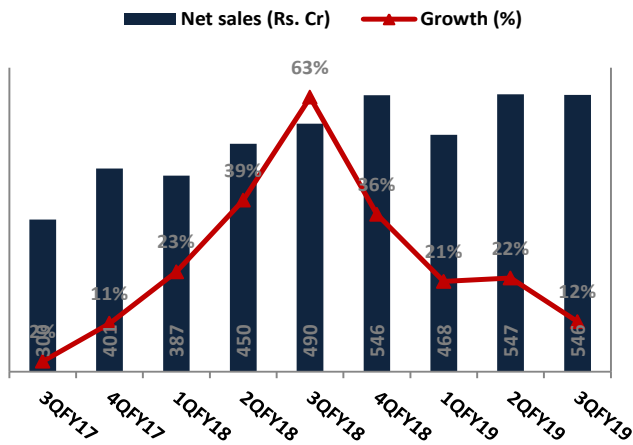


Exhibit: Cost of good sold and realization trend

gross margin still under pressure due to high input cost....

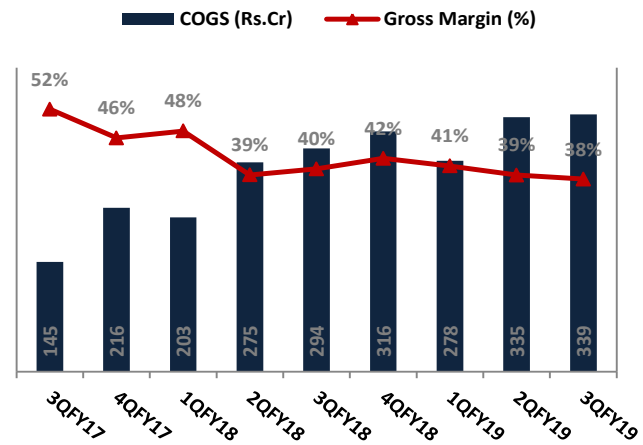


Exhibit: EBITDA and EBITDA margin trend

higher other expenses coupled with increase in input cost led to contraction in margins....

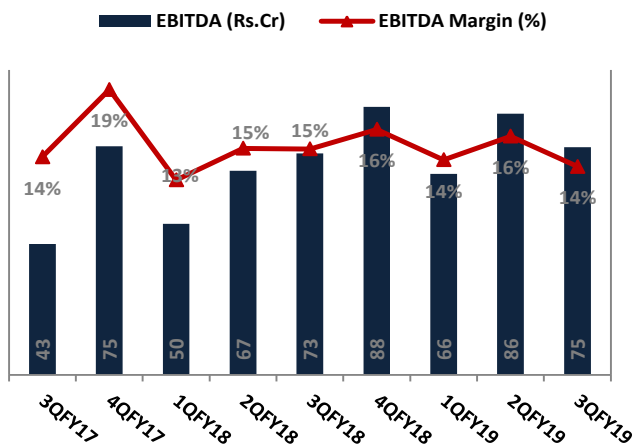


Exhibit: PAT and PAT margin trend

PAT margin also contracted in line with contraction in EBITDA margin....

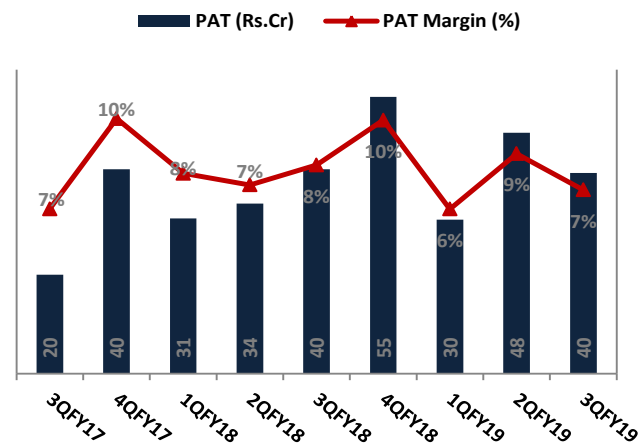


Exhibit: Pig iron volume trend

external pig iron sales falls due to higher captive consumption....

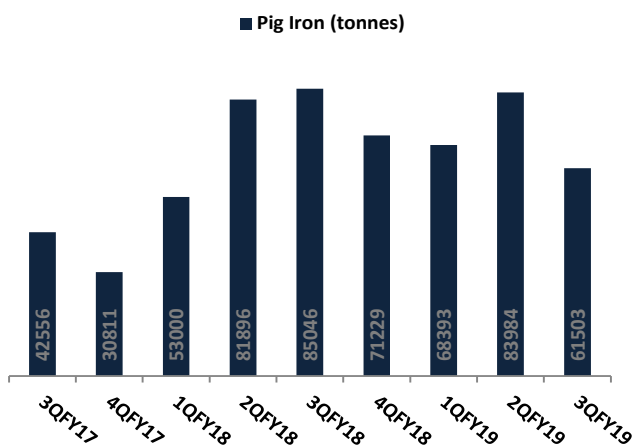


Exhibit: DI pipe volume trend

DI Pipe volume picks up on the back of robust order pipeline and good pull from projects....

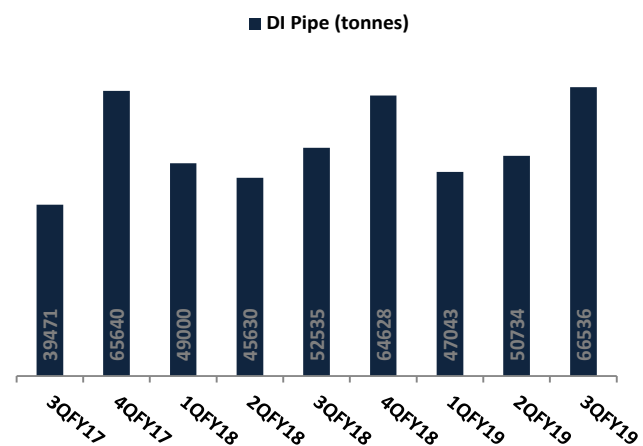


Exhibit: EBITDA/t trend

EBITDA/t falls back to 1QFY19 level....

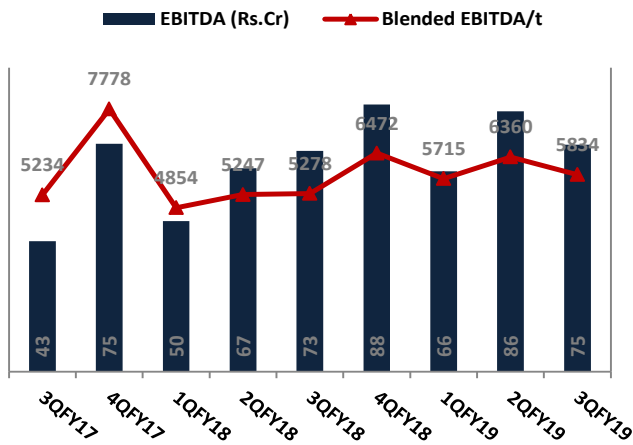


Exhibit: Domestic Pig iron price trend

pig iron prices trade stable on an average at around Rs.32700 level....

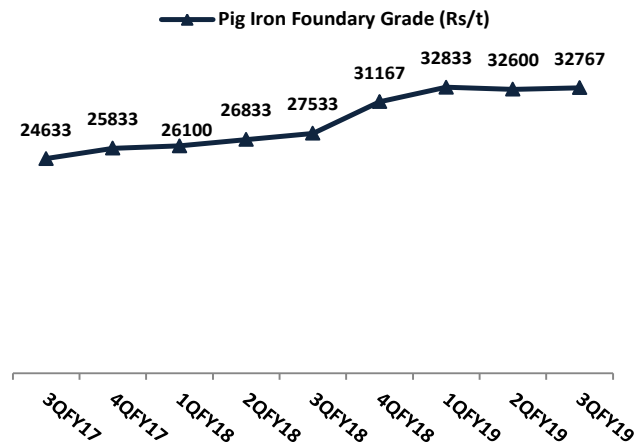


Exhibit: Coking coal price trend

coking coal prices remain volatile....

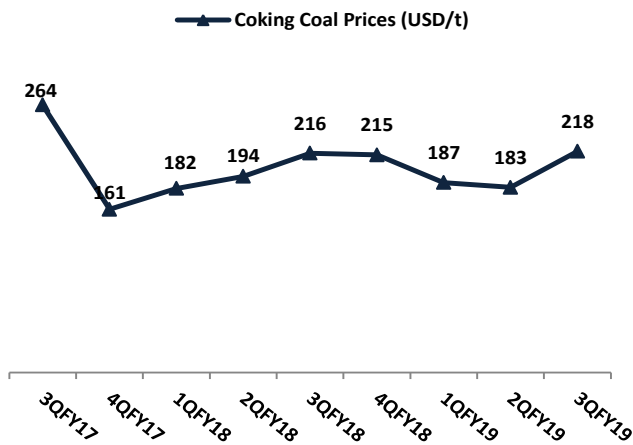


Exhibit: Domestic iron ore price (Odisha) trend

average 3QFY19 Iron ore prices remain on higher side however; prices have started to fall....

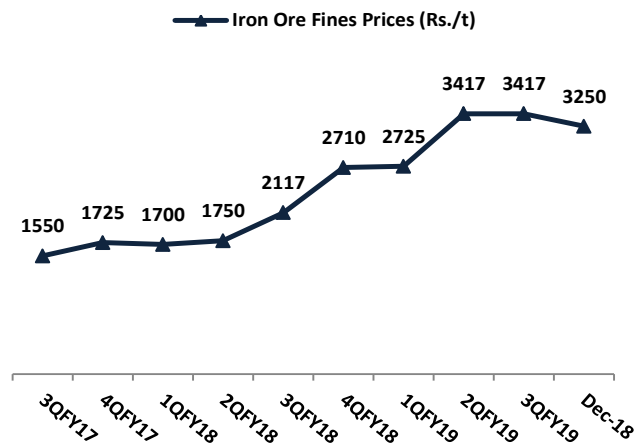
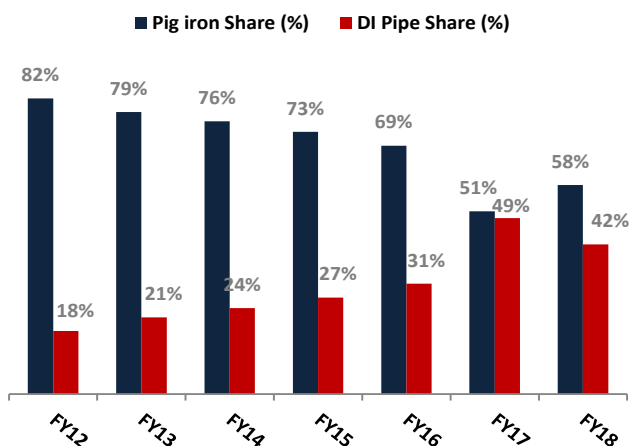


Exhibit: Pig iron and DI pipe share in total production

management has steadily increased its DI pipe share in total production....



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	125	125	125	25	25	25	25	25
Reserves	(155)	(145)	(38)	74	182	333	485	645
Networth	(29)	(20)	87	99	207	359	510	670
Debt	432	265	174	307	331	418	353	300
Other Non Cur Liab	13	10	10	12	18	13	13	13
Total Capital Employed	403	246	261	406	538	776	863	970
Net Fixed Assets (incl CWIP)	436	401	379	440	623	610	619	657
Non Cur Investments	0	0	0	0	0	0	32	34
Other Non Cur Asst	2	3	3	54	18	9	1	24
Non Curr Assets	496	455	451	495	643	631	651	716
Inventory	217	118	103	120	160	199	286	280
Debtors	89	101	125	171	188	215	297	291
Cash & Bank	9	21	3	2	2	3	5	5
Other Curr Assets	4	2	2	59	53	38	30	30
Curr Assets	357	280	277	364	423	494	647	635
Creditors	280	302	278	249	171	208	232	227
Provisions (both)	7	11	23	31	41	17	15	15
Other Curr Liab	158	177	166	14	24	37	35	35
Curr Liabilities	438	480	457	442	510	335	422	367
Net Curr Assets	(81)	(199)	(180)	(77)	(87)	158	225	267
Total Assets	854	735	728	859	1,066	1,125	1,298	1,351

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	995	1,424	1,419	1,317	1,318	1,873	2,084	2,041
Change (%)	-19%	43%	0%	-7%	0%	42%	11%	-2%
Other Income	36	2	5	2	1	20	4	-
EBITDA	(27)	96	202	216	225	277	301	320
Change (%)	-80%	-448%	111%	7%	4%	23%	9%	6%
Margin (%)	-3%	7%	14%	16%	17%	15%	14%	16%
Depr & Amor.	28	31	31	33	36	49	51	52
EBIT	(56)	65	171	183	189	228	250	268
Int. & other fin. Cost	39	43	41	46	38	47	43	45
EBT	(58)	24	134	139	152	201	211	224
Exp Item	56	21	2	-	-	-	-	-
Tax	-	(7)	23	26	36	41	50	51
Minority Int & P/L share of Ass.	27	-	-	(1)	(1)	(1)	(1)	-
Reported PAT	(87)	9	109	112	116	159	160	172
Adjusted PAT	(87)	9	109	112	114	159	160	172
Change (%)	-23%	-111%	1052%	3%	3%	37%	1%	7%
Margin(%)	-9%	1%	8%	9%	9%	8%	8%	8%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	298.0%	-47.9%	124.8%	113.4%	56.0%	44.4%	31.4%	25.7%
ROCE	-37.5%	61.3%	81.5%	67.4%	51.7%	40.9%	41.0%	34.8%
Asset Turnover	1.16	1.94	1.95	1.53	1.24	1.67	1.61	1.51
Debtor Days	33	26	32	47	52	42	52	52
Inv Days	80	30	27	33	44	39	50	50
Payable Days	103	77	71	69	47	41	41	41
Int Coverage	(1.4)	1.5	4.1	4.0	5.0	4.8	5.8	6.0
P/E	(1.2)	13.9	2.8	2.2	12.8	11.7	9.8	9.2
Price / Book Value	(3.7)	(6.6)	3.5	2.5	7.2	5.2	3.1	2.4
EV/EBITDA	(10.1)	2.5	2.1	1.9	7.3	7.4	5.6	5.2
Div Yield	0.0%	0.0%	0.0%	0.0%	0.3%	0.3%	0.5%	0.6%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	(114)	3	132	112	114	200	211	224
<i>(inc)/Dec in Working Capital</i>	150	134	(24)	(95)	(118)	(36)	(76)	(69)
<i>Non Cash Op Exp</i>	116	105	70	98	114	78	94	96
<i>Int Paid (+)</i>	39	43	41	46	38	47	43	45
<i>Tax Paid</i>	19	(2)	(23)	(24)	(33)	(46)	(50)	(51)
<i>others</i>								
CF from Op. Activities	171	239	155	91	77	196	180	199
<i>(inc)/Dec in FA & CWIP</i>	(126)	7	(48)	(80)	(126)	(60)	(60)	(90)
<i>Free Cashflow</i>	45	246	108	11	(49)	135	120	109
<i>(Pur)/Sale of Inv</i>	10	0	0	-	0	(10)	-	-
<i>others</i>								
CF from Inv. Activities	(112)	7	(48)	(79)	(125)	(70)	(60)	(90)
<i>inc/(dec) in NW</i>	-	-	-	-	-	-	-	-
<i>inc/(dec) in Debt</i>	(165)	(230)	(12)	(55)	60	(104)	(65)	(53)
<i>Int. Paid</i>	(36)	(44)	(42)	(38)	(38)	(48)	(43)	(45)
<i>Div Paid (inc tax)</i>	-	-	-	-	(6)	(7)	(9)	(12)
<i>others</i>								
CF from Fin. Activities	(130)	(234)	(125)	(13)	49	(125)	(117)	(110)
<i>Inc(Dec) in Cash</i>	(71)	12	(17)	(1)	0	1	3	(0)
<i>Add: Opening Balance</i>	79	8	20	3	1	2	3	5
Closing Balance	8	20	3	1	2	3	5	5

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