

Industry	Metals
Bloomberg	TML IN
BSE CODE	513434

Healthy volume growth in DI pipe business, but de-growth in pig iron volume in FY19....

RATING	NEUTRAL
CMP	676
Price Target	670
Potential Upside	-1%

Rating Change	↔
Estimate Change	↓
Target Change	↔

Stock Info

52wk Range H/L	878/545
Mkt Capital (Rs Cr)	1710
Free float (%)	50%
Avg. Vol 1M (,000)	64
No. of Shares (Cr.)	3
Promoters Pledged %	0%

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4QFY19 Result Update

- ❑ 4QFY19 revenue at Rs.594cr (up 9% YoY and QoQ) and FY19 revenue came in at Rs.2155cr (up 15%).
- ❑ Hot metal volume for FY19 was at 518KT (vs.500KT in FY18) and DI pipe volume was at 236KT (vs. 209KT for FY19) and Pig Iron volume at 282KT (vs. 291KT in FY18).
- ❑ EBITDA for the quarter came in at Rs.81cr (down 8% YoY, up 8% QoQ) and FY19 EBITDA came in at Rs.307cr (up 11%).
- ❑ Gross and EBITDA margin for 4QFY19 were at 36% (vs.42% in 4QFY18 and 38% in 3QFY19) and at 13.6% (vs.16% in 4QFY18 and 13.7% in 3QFY19), and for FY19 at 38% (42% in FY18) and at 14.3% (vs.14.8% in FY18) respectively. Margins remain under pressure due to higher iron ore and coking coal prices, further, unstable performance of blast furnace throughout the year also impacted margins.
- ❑ Depreciation for the quarter came in at Rs.15cr (up 16% YoY and 12% QoQ) and for FY19 came in at Rs.58cr (vs.Rs.49cr in FY18).
- ❑ Interest cost was at Rs.12cr (down 35 % YoY, up 4% QoQ) in the quarter and for FY19 at Rs.43cr (vs.Rs.47cr in FY18).
- ❑ Deferred tax of Rs.19cr in 4QFY19 is on account of MAT credit entitlement of Rs.43cr for FY19, out of which Rs.25cr is included in 4QFY19. Company had paid MAT in FY11, FY12, FY13 and FY14 when it was incurring losses.
- ❑ Management expects to exceed 300KT in Pig iron in FY20 and DI volume is expected to be around FY19 level (236KT). EBITDA margin in DI business is expected to be around 20-21% and in PI around 8-10%.

View and Valuation

Tata Metaliks 4QFY19 revenue came in at Rs.594cr (up 8.7% YoY and QoQ), driven by strong performance in DI pipe business. On annual basis DI pipe volume registered healthy growth of 11% to 236KT, whereas, pig iron external sales registered de-growth of around 3% to 282KT due to operational and technical issues with blast furnace. Though company has a strong order book of 11 months but going ahead slowdown is expected over near term (1QFY20 and 2QFY20) primarily in DI pipe business on account of general elections coupled with seasonal weakness due to monsoon. In terms of volume growth, DI pipe volume is expected to be in the same range as of FY19 (236KT) as plants operate at over 100% capacity, however, pig iron volume (external) is expected to increase over FY19 volume which got impacted due to operational issues. Our FY20 revenue estimate stand increased by 3% on account of higher DI pipe volume assumptions but our PAT estimate is reduced by 1% on account of higher tax rate assumption. We expect Revenue/PAT CAGR of 6%/3% over FY18-20e and maintain our NEUTRAL stance with an unchanged target price of **Rs.670 (6.7x diluted EV/EBITDA FY20e)**.

Key Risks to our rating and target

- ❑ More than expected delay in order placing in DI pipe business due to general election.
- ❑ Volatility in coking coal and iron ore prices is a concern.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	1317	1318	1873	2155	2103
EBITDA	216	225	277	307	320
EBIT	183	189	228	250	257
PAT	112	116	159	182	170
EPS (Rs)	44	46	63	65	61
EPS growth (%)	3%	3%	37%	3%	-6%
Diluted EPS (Rs)	44	46	63	58	54
ROE (%)	113%	56%	44%	24%	18%
ROCE (%)	67%	52%	41%	31%	27%
BV	39	82	142	273	330
P/B (X)	2.5	7.2	5.2	2.4	2.1
P/E (x)	2.2	12.8	11.7	10.0	11.1

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4Q FY19 Results

margins still under pressure....

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	546	468	547	546	594	8.7%	8.7%	1,873	2,155	15.0%
Other Income	9	1	1	1	3	-70%	123.8%	20	7	-67%
Total Income	555	469	548	548	597	7%	8.9%	1,894	2,162	14.2%
COGS	316	278	335	339	381	21%	12.6%	1,088	1,333	22.4%
Staff Cost	26	27	27	28	29	13%	1.5%	100	112	11.7%
Other Exp.	116	97	100	105	103	-12%	-1.7%	407	403	-1.0%
Expenditure	458	402	462	472	513	12%	8.7%	1,596	1,848	15.8%
EBITDA	88	66	86	75	81	-8%	8.3%	277	307	10.8%
Depreciation	13	15	13	14	15	16%	12.3%	49	58	17.5%
EBIT	75	51	72	61	66	-12%	7.4%	228	250	9.4%
Interest	18	11	10	11	12	-35%	3.7%	47	43	-8.1%
PBT	66	42	63	51	57	-14%	11.0%	201	213	5.8%
Excpt. Item	0	0	0	0	0	-	-	-	-	-
Tax	11	11	15	11	-8	-167%	-	41	30	-26.8%
PAT	55	30	48	40	64	18%	62.4%	159	182	14.3%

Operating Matrix

Volume (ton)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %
Hot metal	102000	127526	135226	135857	115436	134718	128039	139807	2.9%
Pig iron	53000	81896	85046	71229	68393	83984	61503	68120	-4.4%
DI pipe	49000	45630	50180	64628	47043	50734	66536	71687	10.9%

DI pipe business delivers healthy growth

DI pipe business continued delivering good performance with 4QFY19 volume at 71.6KT (up 11% YoY and 8% QoQ) and FY19 volumes was at 236KT (up 11% YoY) backed by robust demand in water transportation segment across the country. However, slowdown is expected over short term (1QFY19 and 2QFY19) due to ongoing general election coupled with seasonal weakness in 1H due to monsoon. Company has been running its DI pipe capacity over 100% capacity utilization for last two years (FY18 and FY19), with FY19 volume at 236KT vs. installed capacity of 200KT. This has been possible on account of right product mix and choosing orders that can maximize the utilization levels. However, management stated that FY19 volume would be the optimum level of volume.

Pig iron's (external sales) quarterly as well as yearly volume registered decline

Pig iron (external sales) volume for 4QFY19 and FY19 came in at 68KT (down 4% YoY, up 11% QoQ) and 282KT (down 3%) respectively. Lower volume in pig iron was on account of unscheduled shutdown of the blast furnace in 3QFY19 and unstable operations in 4QFY19 as well. Management stated that annual maintenance shutdown is schedule in May'19 for 3-5 days which we expect will help to solve the operational and technical issues with the blast furnace and would lead to higher volume in FY20 as compare to FY19.

Margins continued to remain under pressure

Company's gross as well as EBITDA margin continued to remain under pressure in 4QFY19 at 36% (vs.42% in 4QFY18 and 38% in 3QFY19) and EBITDA at 13.6% (vs.16% in 4QFY18 and 13.7% in 3QFY19), and gross margin declined to 38% (42% in FY18) and EBITDA margin declined to 14.3% (vs.14.8% in FY18). Margins in FY19 have come under pressure primarily on account of higher iron ore and coking coal prices, further, unstable performance of blast furnace throughout the year also impacted performance.

Other updates

Decrease in borrowings and significant increase in trade payable in FY19 is on account of accounting of Rs.170cr of suppliers' credit and LC's in trade payables. Interest bearing borrowing in books is around Rs.170cr.

Iron ore sourcing from Tata Steel is currently around 70% and 30% is from market. Going ahead management is focusing on reducing share from Tata Steel to 50% due to issues related to rake availability.

Conference call highlights

- ❑ Hot metal volume for FY19 was at 518KT (vs.500KT in FY18) and DI pipe volume was at 236KT (vs. 209KT for FY19) and Pig Iron volume at 282KT (vs. 291KT in FY18).
- ❑ Pig iron business performance in FY19 got impacted by operational issues (technical issue with blast furnace) coupled with some market issues as well (fall in PI prices particularly in 4QFY19).
- ❑ In PI business spread has come down to Rs.3700-3800/t in 4QFY19 (vs.Rs.6000/t in 4QFY18).
- ❑ On prices front PI is trading around Rs.33000-34000/t, Coking coal is around USD 200-210/t and iron ore prices have stabilized. Overall the PI scenario in terms of prices is range bound.
- ❑ Increase in iron ore prices in 3QFY19 has come in 4QFY19 numbers, 1QFY20 the cost of iron ore is expected to come down as recent fall in iron ore prices would reflect in 1QFY20 numbers with a price lag.
- ❑ Decrease in borrowings and significant increase in trade payable is on account of accounting of Rs.170cr of supply credit and LC's in trade payables. Normal level of trade payable is around Rs.280-300cr.
- ❑ Interest bearing borrowing in books is around Rs.170cr. In FY20 finance cost is expected at around Rs.20cr. Currently company has zero long term debt.
- ❑ PCI plant which was commissioned in Jan'19 and is expected to ramp up in 1QFY20, and full benefit of close to Rs.7-8cr reduction in cost is expected to come in from 2QFY20 onwards only.
- ❑ Oxygen plant is expected to get commissioned by end of May'19, benefit from it are expected to come in from 2QFY20.
- ❑ Deferred tax asset is on account of MAT credit entitlement of Rs.43cr for FY19, out of which Rs.25cr is included in 4QFY19. Company had paid MAT in FY11, FY12, FY13 and FY14 when it was incurring losses. FY20 tax rate is expected to be around 27-28%.
- ❑ Iron ore sourcing from Tata Steel is currently around 70% and 30% from market. Going ahead management is focusing on reducing share from Tata Steel to 50% due to issues related to rake availability.
- ❑ Company currently has 10-11 months of order book.
- ❑ Andhra Pradesh is coming out with an order of 600KT-700KT to be executable over 2 years ,orders has been released to EPC contractors, however, EPC players have not passed it on to pipe players due to election.
- ❑ Management expects slowdown in DI business over near term (1QFY20 and 2QFY20) due to election, as fund flow required for uplifting the order would get delayed. The slowdown expected is over and above the seasonal slowdown in industry in 1H due to monsoon.
- ❑ Management said annual maintenance shutdown is expected in May'19, plants would be shut for 3-5 days.
- ❑ Capex in FY20 is expected to be around Rs.160-170cr (Rs.80cr-100cr for growth capex and Rs.60-80cr for automation and digitization). Major portion of Rs.555cr capex is expected to come in FY21.
- ❑ The capacity expansion of DI pipe to 400KT, 15MW power plant and 70kt of PI is expected to get complete in 1.5-2 year of time. DI capacity would come in 2 phases, 1st phase is expected to come in production from 2HFY21.
- ❑ Management expects to exceed 300KT in PI in FY20 and DI volume is expected to be around FY19 level (236KT). EBITDA margin in DI business is expected to be around 20-21% and in PI around 8-10%.
- ❑ Management stated next 5 year prospect in relation to demand looks very optimistic and 10-12% YoY growth is expected over the period.

Exhibit: Net sales and growth trend

Slowdown in growth due to high base effect....

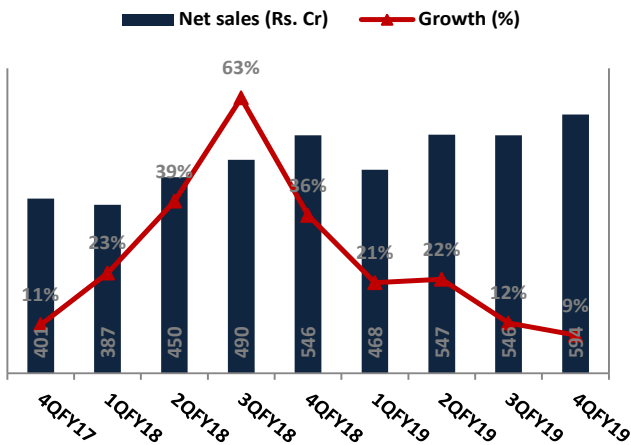


Exhibit: Cost of good sold and realization trend

gross margin still under pressure....

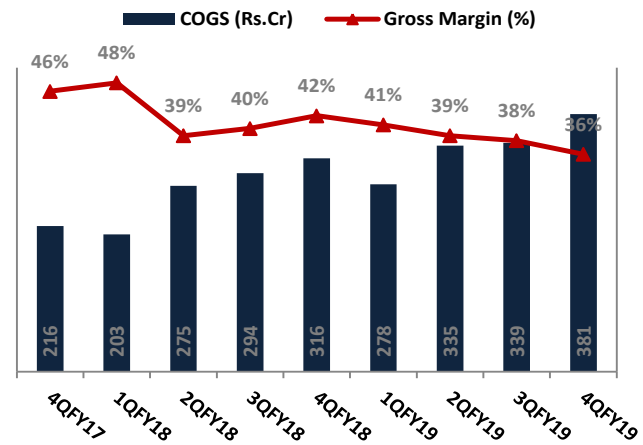


Exhibit: EBITDA and EBITDA margin trend

EBITDA margin also felt the pain of higher input cost but flattish other expense helped to reduce the fall....

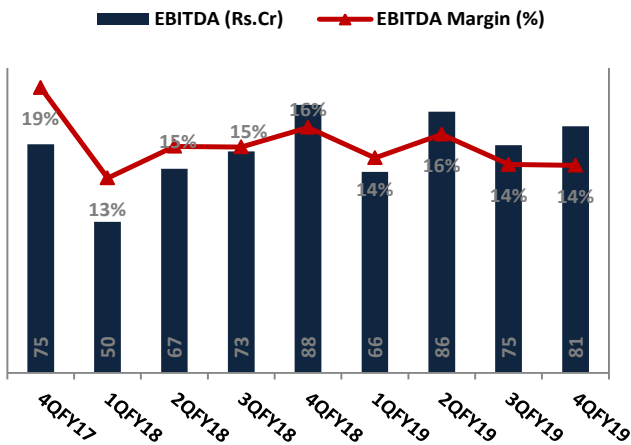


Exhibit: PAT and PAT margin trend

deferred tax asset lead to increase in PAT margin....

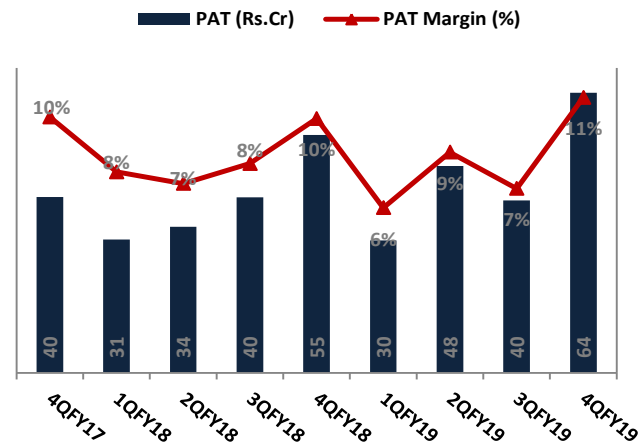


Exhibit: Pig iron volume trend

pig iron volume fell YoY on account of unstable operation in blast furnace....

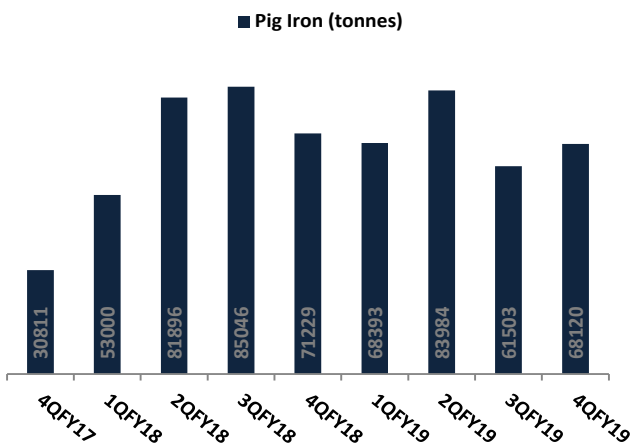


Exhibit: DI pipe volume trend

DI pipe volume continued healthy growth trend....

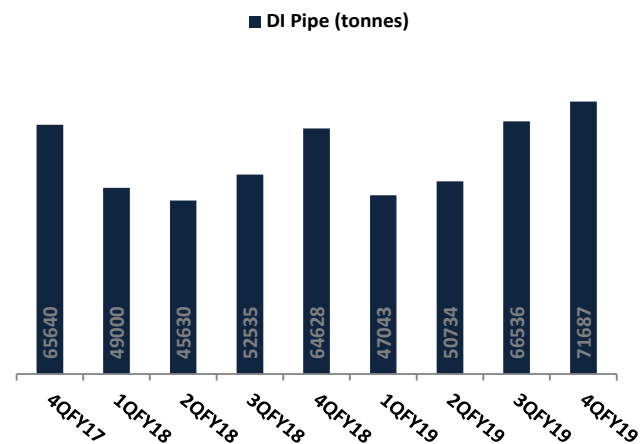


Exhibit: EBITDA/t trend

EBTIDA/t contracted on YoY basis on account of higher input cost and operational issue with blast furnace....

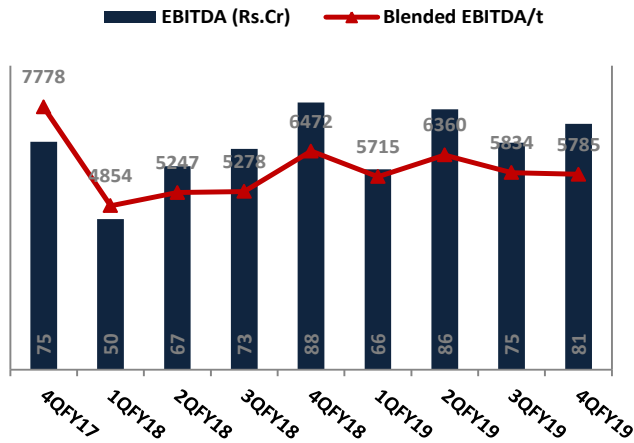


Exhibit: Coking coal price trend

coking coal prices remain volatile....

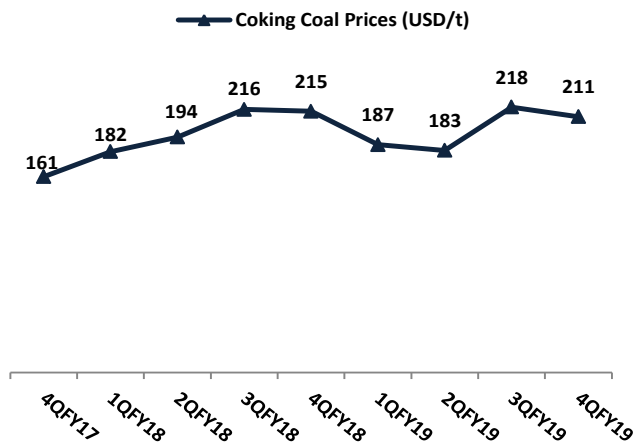


Exhibit: Pig iron and DI pipe share in total production

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

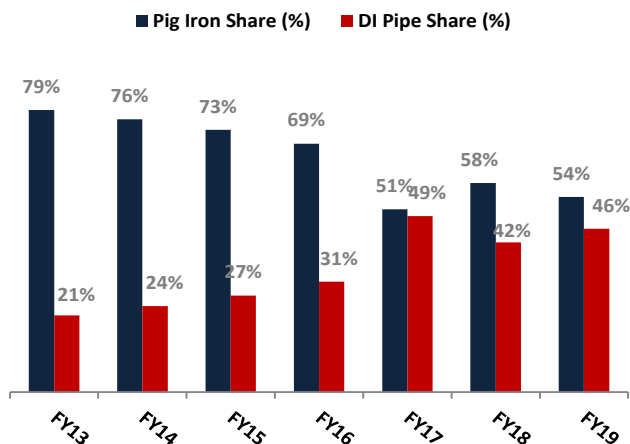


Exhibit: Domestic Pig iron price trend

pig iron prices trade stable on an average at around Rs.32000-32700 level....

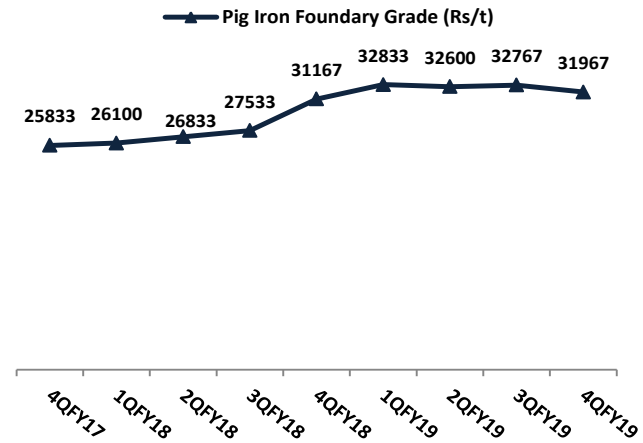
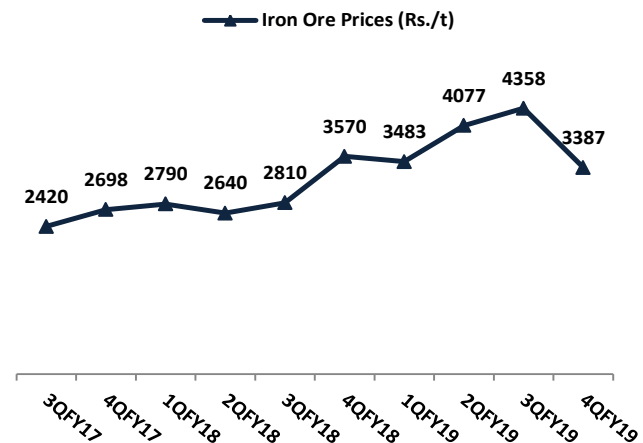


Exhibit: Iron ore price trend

iron ore prices have fallen from 3QFY19 levels, 1QFY20 iron ore cost for company is expected to reduce....



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	125	125	125	25	25	25	28	28
Reserves	(155)	(145)	(38)	74	182	333	739	898
Networth	(29)	(20)	87	99	207	359	767	926
Debt	432	265	174	307	331	418	39	208
Other Non Cur Liab	13	10	10	12	18	13	15	15
Total Capital Employed	403	246	261	406	538	776	806	1,134
Net Fixed Assets (incl CWIP)	436	401	379	440	623	610	661	837
Non Cur Investments	0	0	0	0	0	0	0	-
Other Non Cur Asst	2	3	3	54	18	9	9	9
Non Curr Assets	496	455	451	495	643	631	701	881
Inventory	217	118	103	120	160	199	315	288
Debtors	89	101	125	171	188	215	278	271
Cash & Bank	9	21	3	2	2	3	29	9
Other Curr Assets	4	2	2	59	53	38	23	21
Curr Assets	357	280	277	364	423	494	681	622
Creditors	280	302	278	249	171	208	481	288
Provisions (both)	7	11	23	31	41	17	20	16
Other Curr Liab	158	177	166	14	24	37	59	41
Curr Liabilities	438	480	457	442	510	335	562	354
Net Curr Assets	(81)	(199)	(180)	(77)	(87)	158	119	268
Total Assets	854	735	728	859	1,066	1,125	1,382	1,502

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	995	1,424	1,419	1,317	1,318	1,873	2,155	2,103
Change (%)	-19%	43%	0%	-7%	0%	42%	15%	-2%
Other Income	36	2	5	2	1	20	7	4
EBITDA	(27)	96	202	216	225	277	307	320
Change (%)	-80%	-448%	111%	7%	4%	23%	11%	4%
Margin (%)	-3%	7%	14%	16%	17%	15%	14%	15%
Depr & Amor.	28	31	31	33	36	49	58	63
EBIT	(56)	65	171	183	189	228	250	257
Int. & other fin. Cost	39	43	41	46	38	47	43	26
EBT	(58)	24	134	139	152	201	213	236
Exp Item	56	21	2	-	-	-	-	-
Tax	-	(7)	23	26	36	41	30	65
Minority Int & P/L share of Ass.	27	-	-	(1)	(1)	(1)	(1)	-
Reported PAT	(87)	9	109	112	116	159	182	170
Adj PAT *	(8)	38	110	113	117	160	183	170
Change (%)	-23%	-111%	1052%	3%	3%	37%	14%	-6%
Margin(%)	-9%	1%	8%	9%	9%	8%	8%	8%

*Adj PAT from contd. operation after minority interest

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	298.0%	-47.9%	124.8%	113.4%	56.0%	44.4%	23.7%	18.4%
ROCE	-37.5%	61.3%	81.5%	67.4%	51.7%	40.9%	31.0%	26.7%
Asset Turnover	1.16	1.94	1.95	1.53	1.24	1.67	1.56	1.40
Debtor Days	33	26	32	47	52	42	47	47
Inv Days	80	30	27	33	44	39	53	50
Payable Days	103	77	71	69	47	41	81	50
Int Coverage	(1.4)	1.5	4.1	4.0	5.0	4.8	5.8	10.0
P/E	(1.2)	13.9	2.8	2.2	12.8	11.7	10.0	11.1
Price / Book Value	(3.7)	(6.6)	3.5	2.5	7.2	5.2	2.4	2.1
EV/EBITDA	(10.1)	2.5	2.1	1.9	7.3	7.4	6.0	6.0
Diluted EV/EBITDA	(10.1)	2.5	2.1	1.9	7.3	7.4	6.7	6.8
Div Yield	0.0%	0.0%	0.0%	0.0%	0.3%	0.3%	0.5%	0.5%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	(114)	3	132	112	114	200	213	236
(inc)/Dec in Working Capital	150	134	(24)	(95)	(118)	(36)	48	(172)
Non Cash Op Exp	116	105	70	98	114	78	101	89
Int Paid (+)	39	43	41	46	38	47	43	26
Tax Paid	19	(2)	(23)	(24)	(33)	(46)	(30)	(65)
others								
CF from Op. Activities	171	239	155	91	77	196	331	87
(inc)/Dec in FA & CWIP	(126)	7	(48)	(80)	(126)	(60)	(109)	(239)
Free Cashflow	45	246	108	11	(49)	135	222	(152)
(Pur)/Sale of Inv	10	0	0	-	0	(10)	-	-
others								
CF from Inv. Activities	(112)	7	(48)	(79)	(125)	(70)	(109)	(239)
inc/(dec) in NW	-	-	-	-	-	-	180	-
inc/(dec) in Debt	(165)	(230)	(12)	(55)	60	(104)	(379)	169
Int. Paid	(36)	(44)	(42)	(38)	(38)	(48)	(43)	(26)
Div Paid (inc tax)	-	-	-	-	(6)	(7)	(12)	(12)
others								
CF from Fin. Activities	(130)	(234)	(125)	(13)	49	(125)	(196)	132
Inc(Dec) in Cash	(71)	12	(17)	(1)	0	1	27	(20)
Add: Opening Balance	79	8	20	3	1	2	3	29
Closing Balance	8	20	3	1	2	3	30	9

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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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