

Industry
Bloomberg
BSE CODE

Metals
TML IN
513434

| RATING | NEUTRAL |
|------------------|---------|
| CMP | 616 |
| Price Target | 510 |
| Potential Upside | -17% |

| | |
|-----------------|---|
| Rating Change | ↔ |
| Estimate Change | ↓ |
| Target Change | ↔ |

| STOCK INFO | |
|---------------------|---------|
| 52wk Range H/L | 715/481 |
| Mkt Capital (Rs Cr) | 1729 |
| Free float (%) | 50% |
| Avg. Vol 1M (,000) | 49 |
| No. of Shares (Crs) | 3 |
| Promoters Pledged % | 0% |

RESEARCH ANALYST

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DI pipe business continues to perform well, slowdown in pig iron industry impacting margins

2QFY20 Result update

- TATAMETALIC reported a revenue of Rs. 511 Cr. (vs our estimate of Rs. 466 Cr.) de-grew by 6.6% YoY largely on account of Pig Iron business.
 - Pig iron business revenue was Rs. 383 Cr. with the decline of 8% YoY in volumes as well as realization. While DI pipes revenue was at Rs. 277 Cr. with a growth in volumes of 10% YoY and the realization remains flat on YoY basis.
 - Reduced Pig iron volumes due to lower demand because of slowdown in the automobile sector and other engineering castings also both the furnaces were at shutdown for 6-7 days during the quarter.
 - Order book for DI pipe business is lined up with the company for the next 10-11 months and Jal Shakti ministry new plans will come which will help the margins to move further in double digit.
 - Raw material prices during the quarter reduced yet the lag effect of the reduced prices in terms of margins expansion will be seen in 2HFY20.
 - EBITDA margins contracted by 100 bps QoQ to 8% on account of pig iron margins being negative during the quarter. However, management is confident to maintain the margins in the range of 14-16% in FY20.
 - PAT during the quarter stood at Rs. 24 Cr. due to higher other income and negative tax (as benefit of section 115BBA as per ITA, 1961).
- CAPEX Guidance**
- Power Plant: 15MW power project given to thermax and it starter construction.
 - Coke Plant: Expansion of Coke plant consent to establish by state pollution control board filing is pending.
 - DI pipe business: Expansion for DI pipe business is ordered and it's imported within India.

View and Valuation

Margins contracted in 2QFY20 due to lower volumes and realization from the pig iron business segment. Slowdown in the automobile sector also the shutdown of both the furnace reduced the volumes for Pig iron. However, DI pipe business continues to outperform. Robust order book of DI pipes will further help the margins to expand going ahead. Decline in the raw material prices with the capacity expansion of Power and Coke plant will also help to improve the margins. Management is confident enough to maintain the margins in the range of 14-16% for FY20. We continue to maintain our NEUTRAL stance on the stock with the target price of Rs. 510.

Key Risks to our rating and target

- Slow down in pig iron industry.
- Volatility in coking coal and iron ore prices is a concern.

Fig in Rs Cr

| KEY FINANCIAL/VALUATIONS | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------------|------|------|------|-------|-------|
| Net Sales | 1318 | 1873 | 2155 | 2121 | 2223 |
| EBITDA | 225 | 277 | 307 | 307 | 303 |
| EBIT | 189 | 228 | 250 | 244 | 235 |
| PAT | 116 | 159 | 182 | 168 | 152 |
| EPS (Rs) | 46 | 63 | 65 | 60 | 51 |
| EPS growth (%) | 46 | 63 | 58 | 53 | 48 |
| Diluted EPS (Rs) | 3% | 37% | 3% | -8% | -15% |
| ROE (%) | 56% | 44% | 24% | 18% | 13% |
| ROCE (%) | 52% | 41% | 31% | 25% | 18% |
| BV | 82 | 142 | 273 | 329 | 392 |
| P/B (X) | 7.2 | 5.2 | 2.4 | 1.6 | 1.4 |
| P/E (x) | 12.8 | 11.7 | 10.0 | 9.0 | 10.6 |

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Margins contraction due to slowdown in Pig iron business

2QFY20 Results

Fig in Rs Cr

| FINANCIALS | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | YoY % | QoQ% | FY18 | FY19 | YoY % |
|--------------|--------|--------|--------|--------|--------|-------|--------|------|------|--------|
| Net Sales | 547 | 546 | 594 | 499 | 511 | -6.6% | 2.5% | 1873 | 2155 | 15.0% |
| Other Income | 1 | 1 | 3 | 4 | 6 | 421% | 29.1% | 20 | 7 | -67% |
| Total Income | 548 | 548 | 597 | 503 | 517 | -6% | 2.7% | 1894 | 2162 | 14.2% |
| COGS | 335 | 339 | 381 | 312 | 316 | -5% | 1.5% | 1088 | 1333 | 22.4% |
| Staff Cost | 27 | 28 | 29 | 30 | 30 | 10% | 2.3% | 100 | 112 | 11.7% |
| Other Exp. | 100 | 105 | 103 | 113 | 124 | 24% | 9.6% | 407 | 403 | -1.0% |
| Expenditure | 462 | 472 | 513 | 454 | 470 | 2% | 3.6% | 1596 | 1848 | 15.8% |
| EBITDA | 86 | 75 | 81 | 45 | 41 | -52% | -8.7% | 277 | 307 | 10.8% |
| Depreciation | 13 | 14 | 15 | 14 | 16 | 20% | 11.4% | 49 | 58 | 17.5% |
| EBIT | 72 | 61 | 66 | 30 | 25 | -65% | -18.2% | 228 | 250 | 9.4% |
| Interest | 10 | 11 | 12 | 7 | 8 | -24% | 4.2% | 47 | 43 | -8.1% |
| PBT | 63 | 51 | 57 | 28 | 23 | -64% | -16.6% | 201 | 213 | 5.8% |
| Excpt. Item | 0 | 0 | 0 | 0 | 0 | - | - | 0 | 0 | - |
| Tax | 15 | 11 | -8 | 8 | -1 | -104% | - | 41 | 30 | -26.8% |
| PAT | 48 | 40 | 64 | 20 | 23 | -51% | 19.2% | 159 | 182 | 14.3% |

Operating Matrix

| VOLUME (TON) | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | YoY % |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| Hot metal | 137581 | 135857 | 115436 | 134718 | 128039 | 139807 | 125100 | 133000 | -1.3% |
| Pig iron | 85046 | 71229 | 68393 | 83984 | 61503 | 68120 | 71500 | 77000 | -8.3% |
| DI pipe | 52535 | 64628 | 47043 | 50734 | 66536 | 71687 | 53600 | 56000 | 10.4% |

Decline in revenue by 6.6% YoY led by lower volumes and realization in Pig iron business

Net sales during the quarter stood at Rs. 511 Cr. de-grew by 6.6% YoY due to decline in volumes and realization of Pig iron business by 8% YoY. Reduction in volumes was due to slowdown in the automobile sector which is the major consumer of Pig iron. Both the furnaces were at shutdown for 6-7 days of which one is planned and the other is for factory repairing. However, DI pipe business contributed better in terms of volumes with a growth of 10% YoY and order book for the same is lined up for the next 10-11 months.

Margins hampered due to negative margins in Pig iron business

Pig iron business margins were negative in 2QFY20 which reduced the EBITDA margins by 100 bps QoQ to 8%. While DI pipe business helps to sustain the margins during the quarter. Reduction in the raw material prices like coking coal prices came down by \$15-20, coke prices reduced by around 4K and iron prices remained almost flat in 2QFY20 as compared to 1QFY20. The lag effect of this reduced raw material prices will be seen in 2HFY20. However, margins are expected to be in the range of 14-16% for FY20.

Higher other income and negative tax expense provided cushion to PAT

PAT during the quarter stood at Rs. 24 Cr. on account of higher other income of Rs. 6 Cr. and negative tax expense of Rs. 1 Cr. has provided cushion from further decline. However, Pig iron business reported loss of Rs. 16.5 Cr. during the quarter

Concall Highlights

- Sales volumes of DI pipes and Pig iron increased to 77000 Tonnes and 56000 Tonnes in 2QFY20.
- EBITDA margins during the quarter reduced due to negative margins in Pig iron business due to slowdown in the automotive business. Overall EBITDA of FY20 is expected to be maintained from 14-16%.
- Pig iron operations during the quarter underperformed due to shutdown of both the furnaces of which one is planned and the other one is due to factory repair (furnace pushed to very high level of production which it take too).
- Cost incurred for the plant shutdown is around Rs. 4-5 Cr. due to ramping up of the plant, power and the fuel consumption being high increased the cost during the quarter.
- Margins of DI pipe business is further expected to expand going ahead on account of robust order book for next 10-11 months along with Jal Shakti ministry new plans will come.
- Raw material prices are expected to go down further due to decrease in Coking coal prices and coke prices while iron ore prices remained flat. The lag effect of the reduced raw material prices are expected to be in 2HFY20.
- Decrease in the spread that is the difference between the Pig iron price and the coke prices and the transfer prices improved the margins of DI pipe business in 2QFY20.
- Loss of Rs. 16.5 Cr. in pig iron business due to the decrease in spread by around Rs. 1000 per tonne basis.
- Production guidance for 2HFY20 is to outperform the performance of 1HFY20, the lag effect in reduced raw material prices will help. Management is focusing more towards cost reduction like improving fuel rate, increase in oxygen, PCI etc which will improve the overall EBITDA margins.
- Oxygen blast commissioned in 2QFY20 will have an annual benefit of Rs. 10-15 Cr. which could be seen from 2HFY20.

- **CAPEX guidance:**
 - DI pipe business: Expansion for DI pipe business is ordered and it's imported within India.
 - Power Plant: 15MW power project given to thermax and it starter construction.
 - Coke Plant: Expansion of Coke plant consent to establish by state pollution control board filing is pending.

Exhibit: Net sales and growth trend

Decline in pig iron volumes and realization by 8 YoY reduced sales by 6.6% YoY basis

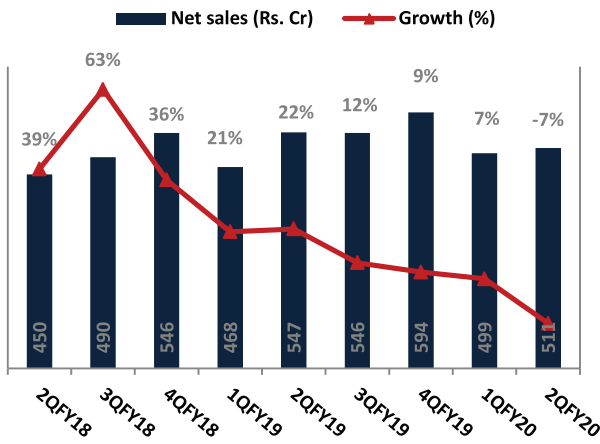


Exhibit: Cost of good sold and realization trend

Gross margin improved QoQ due to lower iron ore and coking coal prices, however, still lower on YoY basis....

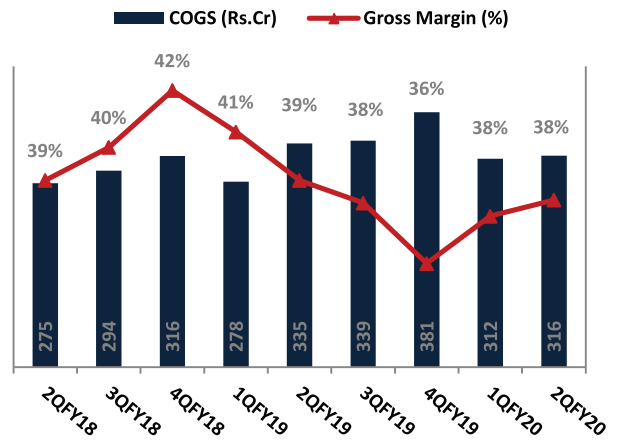


Exhibit: EBITDA and EBITDA margin trend

Margin contraction by 100 bps to 8% due to negative margin in pig iron business

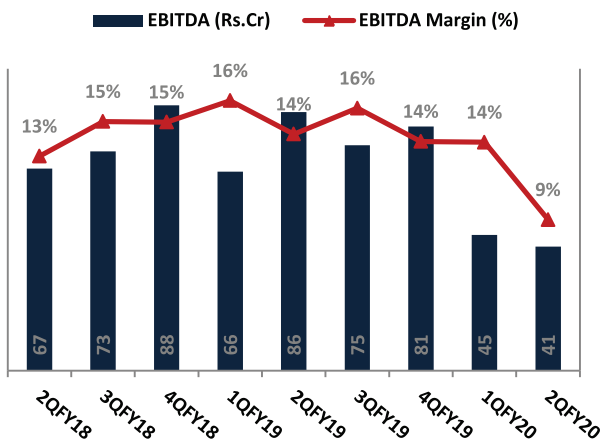


Exhibit: PAT and PAT margin trend

Higher other income and negative tax helps PAT to sustain at a level

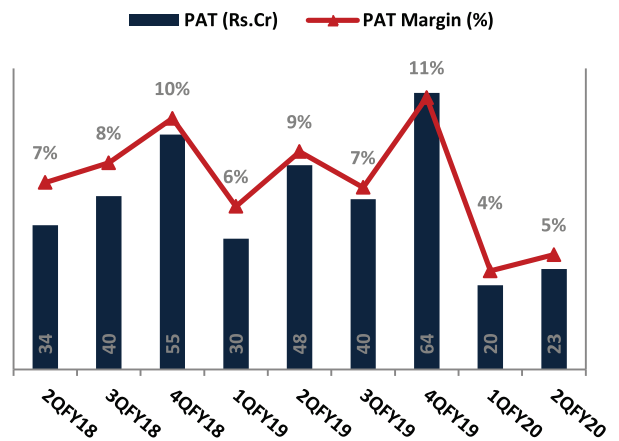


Exhibit: Pig iron volume trend

Pig iron volume declined by around 8% on YoY basis in 2QFY20

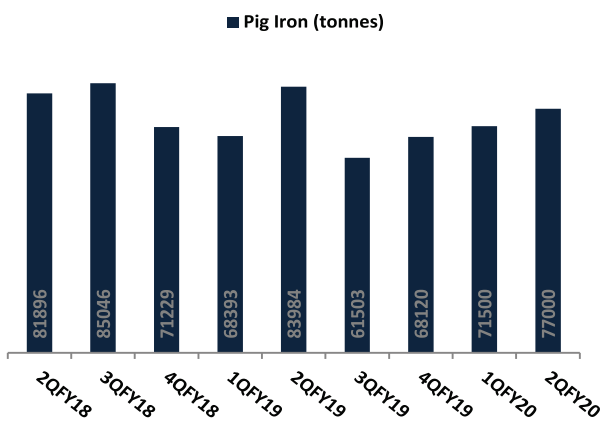


Exhibit: DI pipe volume trend

DI pipe volumes increase by 10% YoY during the quarter.

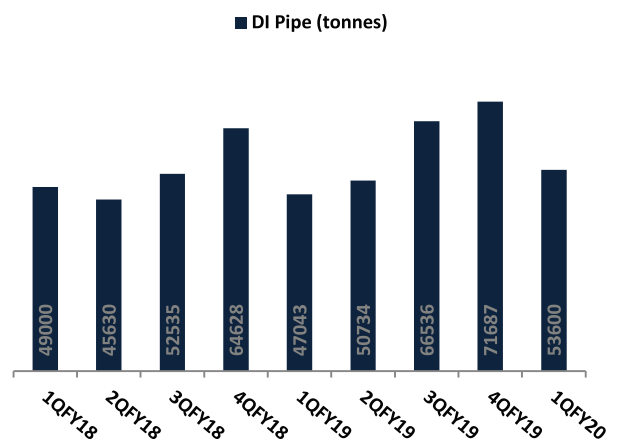


Exhibit: EBITDA/t trend

EBITDA/t declined significantly on the back of lower volumes in Pig Iron business.

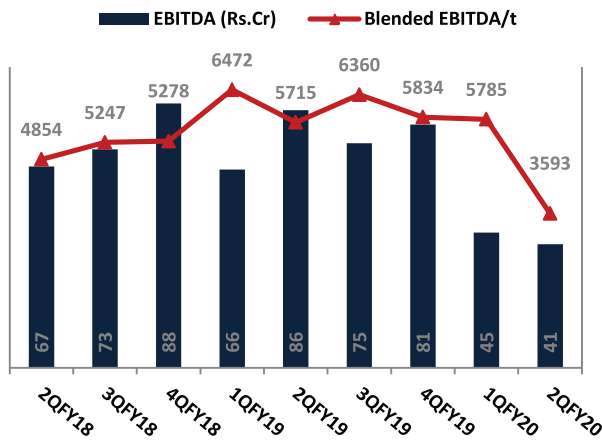


Exhibit: Domestic Pig iron price trend

pig iron prices reduced to a level around Rs.30000-31000 level.

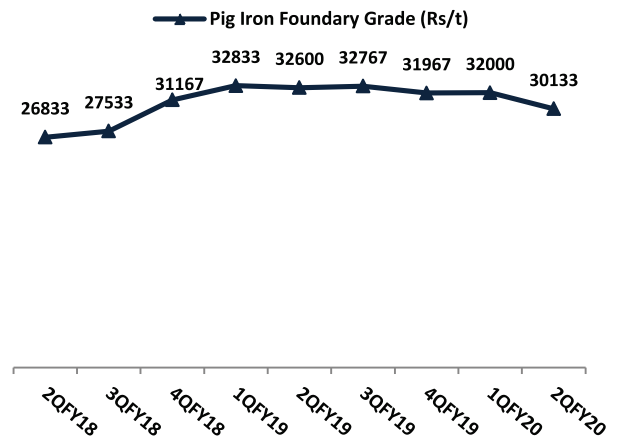


Exhibit: Coking coal price trend

coking coal prices reduced will benefit in 2HFY20.

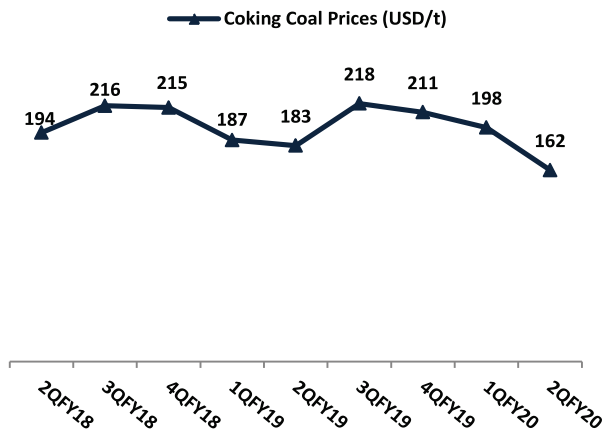


Exhibit: Iron ore price trend

Domestic Iron ore price on an average remained flat on QoQ basis....

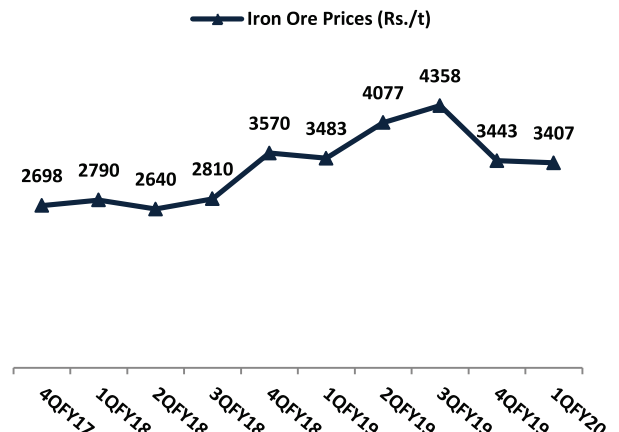
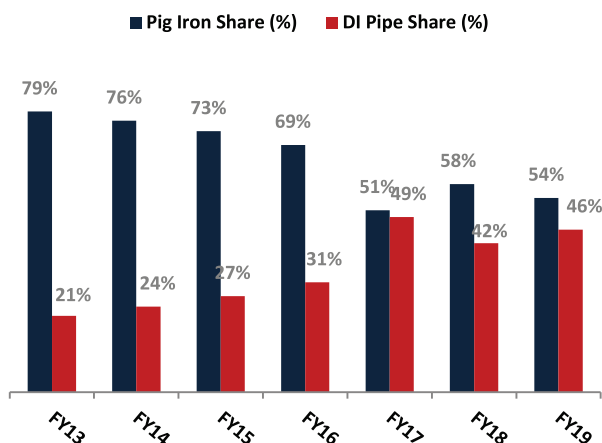


Exhibit: Pig iron and DI pipe share in total production

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



Financial Details

Balance Sheet

Fig in Rs Cr

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|-------------------------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|
| Share Capital | 125 | 125 | 25 | 25 | 25 | 28 | 28 | 30 |
| Reserves | -145 | -38 | 74 | 182 | 333 | 739 | 895 | 1147 |
| Networth | -20 | 87 | 99 | 207 | 359 | 767 | 923 | 1177 |
| Debt | 265 | 174 | 307 | 331 | 418 | 39 | 208 | 250 |
| Other Non Cur Liab | 10 | 10 | 12 | 18 | 13 | 15 | 15 | 15 |
| Total Capital Employed | 246 | 261 | 406 | 538 | 776 | 806 | 1131 | 1427 |
| Net Fixed Assets (incl CWIP) | 401 | 379 | 440 | 623 | 610 | 661 | 797 | 1019 |
| Non Cur Investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Non Cur Asst | 3 | 3 | 54 | 18 | 9 | 9 | 9 | 0 |
| Non Curr Assets | 455 | 451 | 495 | 643 | 631 | 701 | 813 | 1019 |
| Inventory | 118 | 103 | 120 | 160 | 199 | 315 | 291 | 311 |
| Debtors | 101 | 125 | 171 | 188 | 215 | 278 | 273 | 287 |
| Cash & Bank | 21 | 3 | 2 | 2 | 3 | 29 | 20 | 78 |
| Other Curr Assets | 2 | 2 | 59 | 53 | 38 | 23 | 21 | 23 |
| Curr Assets | 280 | 277 | 364 | 423 | 494 | 681 | 638 | 737 |
| Creditors | 302 | 278 | 249 | 171 | 208 | 481 | 291 | 305 |
| Provisions (both) | 11 | 23 | 31 | 41 | 17 | 20 | 16 | 16 |
| Other Curr Liab | 177 | 166 | 14 | 24 | 37 | 59 | 42 | 42 |
| Curr Liabilities | 480 | 457 | 442 | 510 | 335 | 562 | 357 | 366 |
| Net Curr Assets | -199 | -180 | -77 | -87 | 158 | 119 | 281 | 371 |
| Total Assets | 735 | 728 | 859 | 1066 | 1125 | 1382 | 1451 | 1756 |

Income Statement

Fig in Rs Cr

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenue from Operation | 1424 | 1419 | 1317 | 1318 | 1873 | 2155 | 2121 | 2223 |
| Change (%) | 43% | 0% | -7% | 0% | 42% | 15% | -2% | 5% |
| Other Income | 2 | 5 | 2 | 1 | 20 | 7 | 12 | 4 |
| EBITDA | 96 | 202 | 216 | 225 | 277 | 307 | 307 | 303 |
| Change (%) | -448% | 111% | 7% | 4% | 23% | 11% | 0% | -2% |
| Margin (%) | 7% | 14% | 16% | 17% | 15% | 14% | 14% | 14% |
| Depr & Amor. | 31 | 31 | 33 | 36 | 49 | 58 | 63 | 68 |
| EBIT | 65 | 171 | 183 | 189 | 228 | 250 | 244 | 235 |
| Int. & other fin. Cost | 43 | 41 | 46 | 38 | 47 | 43 | 26 | 30 |
| EBT | 24 | 134 | 139 | 152 | 201 | 213 | 231 | 209 |
| Exp Item | 21 | 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tax | -7 | 23 | 26 | 36 | 41 | 30 | 62 | 56 |
| Minority Int & P/L share of Ass. | 0 | 0 | -1 | -1 | -1 | -1 | 0 | 0 |
| Reported PAT | 9 | 109 | 112 | 116 | 159 | 182 | 168 | 152 |
| Adj PAT * | 38 | 110 | 113 | 117 | 160 | 183 | 168 | 152 |
| Change (%) | -111% | 1052% | 3% | 3% | 37% | 14% | -8% | -9% |
| Margin(%) | 1% | 8% | 9% | 9% | 8% | 8% | 8% | 7% |

*Adj PAT from contd. operation after minority interest

Financial Details

Key Ratios

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------|--------|--------|--------|-------|-------|-------|-------|-------|
| ROE | -47.9% | 124.8% | 113.4% | 56.0% | 44.4% | 23.7% | 18.2% | 12.9% |
| ROCE | 61.3% | 81.5% | 67.4% | 51.7% | 40.9% | 31.0% | 25.4% | 18.4% |
| Asset Turnover | 1.94 | 1.95 | 1.53 | 1.24 | 1.67 | 1.56 | 1.46 | 1.27 |
| Debtor Days | 26 | 32 | 47 | 52 | 42 | 47 | 47 | 47 |
| Inv Days | 30 | 27 | 33 | 44 | 39 | 53 | 50 | 51 |
| Payable Days | 77 | 71 | 69 | 47 | 41 | 81 | 50 | 50 |
| Int Coverage | 1.5 | 4.1 | 4.0 | 5.0 | 4.8 | 5.8 | 9.5 | 7.8 |
| P/E | 13.9 | 2.8 | 2.2 | 12.8 | 11.7 | 10.0 | 9.0 | 10.6 |
| Price / Book Value | (6.6) | 3.5 | 2.5 | 7.2 | 5.2 | 2.4 | 1.6 | 1.4 |
| EV/EBITDA | 3.9 | 2.3 | 2.5 | 8.0 | 8.2 | 6.0 | 5.5 | 6 |
| Diluted EV/EBITDA | 3.9 | 2.3 | 2.5 | 8.0 | 8.2 | 6.7 | 6.1 | 6.2 |
| Div Yield | 0.0% | 0.0% | 0.0% | 0.3% | 0.3% | 0.5% | 0.7% | 1.3% |

Cash Flow Statement

Fig in Rs Cr

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|
| PBT | 3 | 132 | 112 | 114 | 200 | 212 | 231 | 209 |
| (inc)/Dec in Working Capital | 134 | -24 | -95 | -118 | -36 | 102 | -147 | -15 |
| Non Cash Op Exp | 105 | 70 | 98 | 114 | 78 | 103 | 89 | 98 |
| Int Paid (+) | 43 | 41 | 46 | 38 | 47 | 43 | 26 | 30 |
| Tax Paid | -2 | -23 | -24 | -33 | -46 | -49 | -62 | -56 |
| others | | | | | | | | |
| CF from Op. Activities | 239 | 155 | 91 | 77 | 196 | 369 | 110 | 235 |
| (inc)/Dec in FA & CWIP | 7 | -48 | -80 | -126 | -60 | -97 | -199 | -290 |
| Free Cashflow | 246 | 108 | 11 | -49 | 135 | 272 | -88 | -55 |
| (Pur)/Sale of Inv | 0 | 0 | 0 | 0 | -10 | 10 | 0 | 0 |
| others | | | | | | | | |
| CF from Inv. Activities | 7 | -48 | -79 | -125 | -70 | -87 | -199 | -290 |
| inc/(dec) in NW | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 124 |
| inc/(dec) in Debt | -230 | -12 | -55 | 60 | -104 | -210 | 169 | 42 |
| Int. Paid | -44 | -42 | -38 | -38 | -48 | -56 | -26 | -30 |
| Div Paid (inc tax) | 0 | 0 | 0 | -6 | -7 | -9 | -12 | -25 |
| others | | | | | | | | |
| CF from Fin. Activities | -234 | -125 | -13 | 49 | -125 | -257 | 132 | 113 |
| Inc(Dec) in Cash | 12 | -17 | -1 | 0 | 1 | 25 | 44 | 58 |
| Add: Opening Balance | 8 | 20 | 3 | 1 | 2 | 3 | 29 | 20 |
| Closing Balance | 20 | 3 | 1 | 2 | 3 | 28 | 72 | 78 |

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| | |
|---|-----|
| Analyst's ownership of the stocks mentioned in the Report | NIL |
|---|-----|

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