

Industry  
Bloomberg  
BSE CODE

Metals  
TML IN  
513434

RATING	NEUTRAL
CMP	654
Price Target	630
Potential Upside	-4%

Rating Change	↓
Estimate Change	↓
Target Change	↑

STOCK INFO	
52wk Range H/L	704/480
Mkt Capital (Rs Cr)	1837
Free float (%)	50%
Avg. Vol 1M (,000)	76
No. of Shares (Crs)	3
Promoters Pledged %	0%

## RESEARCH ANALYST

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KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1318	1873	2155	2077	2196
EBITDA	225	277	307	258	295
EBIT	189	228	250	192	215
PAT	116	159	182	142	158
EPS (Rs)	46	63	65	51	56
EPS growth (%)	46	63	58	45	50
Diluted EPS (Rs)	3%	37%	3%	-22%	11%
ROE (%)	56%	44%	24%	16%	13%
ROCE (%)	52%	41%	31%	21%	18%
BV	82	142	273	319	427
P/B (X)	7.2	5.2	2.4	2.0	1.5
P/E (x)	12.8	11.7	10.0	12.8	11.5

Fig in Rs Cr

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## Uncertain demand for DI pipe impact volume going ahead

### 3QFY20 Result update

- TATAMETALI reported revenue of Rs. 519 Cr. (down by 5.1% YoY) largely on account of DI pipe business revenue falling by 18% YoY at Rs. 261 Cr. and pig iron business down by 4% YoY at Rs. 386 Cr.
- Pig iron volumes during the quarter was at 86000 T (up 40% YoY and 12% QoQ) while reduced pig iron prices dropped the realization by 4% QoQ.
- DI pipes volumes were at 54000 T (down 19% YoY and 4% QoQ) and reduced demand turn down realization by 2% QoQ.
- Liquidity issues faced due to change in the government of Maharashtra and Jharkhand reduced the volume growth of DI pipe business despite healthy order book lined up for the next nine months. Overall volume growth for FY20 remains muted for DI pipes business.
- Fall in realization is further expected in DI pipe business on account of reduced raw material prices.
- Spread of pig iron and coke prices expanded by Rs. 1000-1200/t during 3QFY20 and is further expected to expand in 4QFY20 based on the improvement of Rs. 700-800/t in the month of January.
- EBITDA margins improved by 710bps QoQ to 15.1% based on various cost control measures like improvement in fuel rates by 6% QoQ, PCI and Oxygen plant came in 1HFY20 helps in cost reduction.
- In 4QFY20, further improvement in margin is expected based on PCI plant front as in 3QFY20 its only 70% utilized.
- PAT during the quarter stood at Rs. 46 Cr. with the PAT growth of 15.8% YoY on account of reduced taxes, finance cost and higher other income.

### View and Valuation

Volume growth of Pig iron business in 3QFY20 based on reduced iron ore prices while volume for Di pipe business remain subdued. Overall industry demand for DI pipe is expected to grow by 8-10%, while management expects to grow beyond industry based on incremental capacity coming forward. Pig iron and coking coal spread improved margins and expected to enhance further in 4QFY20. However, with this reduced coking coal prices spread expansion will not sustain for long run. Various cost control measures helps like setting oxygen plant and PCI plant will maintain operating efficiencies. We continue to remain NEUTRAL stance on the stock with the target price of Rs. 630 with 6x FY21E diluted EV/EBITDA.

### Key Risks to our rating and target

- Demand outlook for DI pipe industry.
- Volatility in coking coal and iron ore prices is a concern.

## Margin expansion based on operating efficiencies

### 3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	546	594	499	511	519	-5.1%	1.4%	1873	2155	15.0%
Other Income	1	3	4	6	3	144%	-45.8%	20	7	-67%
Total Income	548	597	503	517	522	-5%	0.9%	1894	2162	14.2%
COGS	339	381	312	316	309	-9%	-2.4%	1088	1333	22.4%
Staff Cost	28	29	30	30	31	10%	3.1%	100	112	11.7%
Other Exp.	105	103	113	124	100	-4%	-18.7%	407	403	-1.0%
Expenditure	472	513	454	470	440	-7%	-6.4%	1596	1848	15.8%
EBITDA	75	81	45	41	78	5%	90.6%	277	307	10.8%
Depreciation	14	15	14	16	17	25%	5.3%	49	58	17.5%
EBIT	61	66	30	25	61	0%	145.8%	228	250	9.4%
Interest	11	12	7	8	9	-18%	19.5%	47	43	-8.1%
PBT	51	57	28	23	55	8%	140.5%	201	213	5.8%
Excpt. Item	0	0	0	0	0	-	-	0	0	-
Tax	11	-8	8	-1	9	-19%	-	41	30	-26.8%
PAT	40	64	20	23	46	16%	96.3%	159	182	14.3%

### Operating Matrix

VOLUME (TON)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %
Hot metal	135857	115436	134718	128039	139807	125100	133000	140000	9.3%
Pig iron	71229	68393	83984	61503	68120	71500	77000	86000	39.8%
DI pipe	64628	47043	50734	66536	71687	53600	56000	54000	-18.8%

#### Strong growth in Pig iron volumes

Pig iron contributed revenue of Rs. 386 Cr. (down by 4% YoY) on account of fall in realization by 4% QoQ due to reduced steel grade pig iron prices. However, external pig iron volumes in 3QFY20 were at 86000 T (up 40% YoY and 12% QoQ) despite the poor market scenario and near term slowdown in the economy.

#### Revenue decline of DI pipe business led by reduced demand

Revenue contributed by DI pipe business in 3QFY20 is Rs. 261 Cr. (down by 18% YoY) on the back of reduced volume due to funding issues faced by the EDC contractor in collecting the money from government. Change in government of Maharashtra and Jharkhand which is around 18-20% in the overall volume mix of DI pipes impacted the volume growth. Realization in 3QFY20 also fall by 2% QoQ however, it's expected further to reduce in 4QFY20 based on the lag effect of reduced raw material prices.

#### Margins expanded on account of better operating efficiencies

EBITDA margins in 3QFY20 expanded by 710 bps based on reduced fuel cost by 6% QoQ, PCI plant and oxygen plant commenced in 1HFY20 helps in enhancing the efficiency of blast furnace. In 4QFY20, cost is expected to go down further with the complete utilization of PCI plant (currently 70% utilized in 3QFY20). PAT during the quarter stood at Rs. 46 Cr. with the reduced taxes, finance cost and higher other income which maintain PAT margin at 8.9%.

#### Other Updates

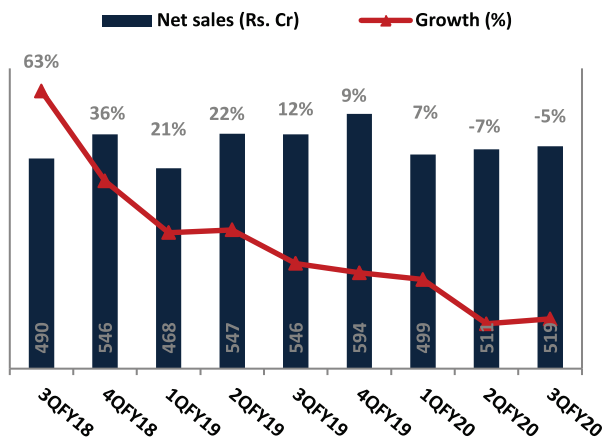
Capacity expansion plan of 200000T in DI pipe business will commence 1st phase of 120000T in 3QFY21. However, in FY21 volume contribution are not expected much from such commencement yet it will be benefited in FY22. The 2ND phase will commence in 2HFY22 with remaining 80000 T of capacity whose benefit could be seen in FY23. Other cost reduction measures through setting up power plant is expected to commission in 4QFY21.

## Concall Highlights

- Volumes in 3QFY20 of Pig iron and DI Pipe are 86000 Tonnes and 54000 Tonnes respectively.
- Volumes for 4QFY20 in DI pipe business expected to be muted based on pressure from demand side due to issues relating to fund flow from government.
- Management expects DI pipe industry to grow by 8-10% moving forward. Management is confident enough to grow over an above industry.
- DI pipes realization is expected to fall further in the coming quarter based on the lag effect of reduced raw material prices.
- Product mix is expected to be adverse in 4QFY20 which will further reduce volumes.
- Order book still remains strong on the DI pipes business, the fund flow is the major issue from government side where EPC contractors are facing the problem in receiving the money on time. Change of government in Maharashtra and Jharkhand from where orders were lined up.
- Contribution from Maharashtra and Jharkhand in the overall mix of DI pipe sales volumes is around 15-18%.
- Spreads of pig iron to coke in 3QFY20 improved by Rs. 1000-1200/t as compared to 2QFY20 and in the month of January it's further expanded by Rs. 700-800/t.
- EBITDA margins improved during the quarter due to improved realizations pig iron business, operational efficiencies through increased coal injections, cost control measures (PCI and oxygen plant commenced in 1HFY20), stable blast furnace operations etc.
- EBITDA margins for DI pipes business in 3QFY20 is 24%, while margins are expected to remain in the range of 18-20% moving ahead.
- Improvement in fuel rates by 6% QoQ in 3QFY20. PCI and Oxygen plant came in 1HFY20 helps in cost reduction. Further improvement in 4QFY20 is expected based on PCI plant front as in 3QFY20 its 70% utilized.
- Expansion project: DI pipe 1ST phase will come in FY21 (in 3QFY21) with the incremental volumes of 120000 Tonnes and the benefits could be seen from FY22 and 2ND phase will come in FY22 (in 2HFY22) with volumes of 80000 Tonnes and the benefit of the same will come in Fy23.
- Power plant which will help in cost reduction will commence in 4QFY21.

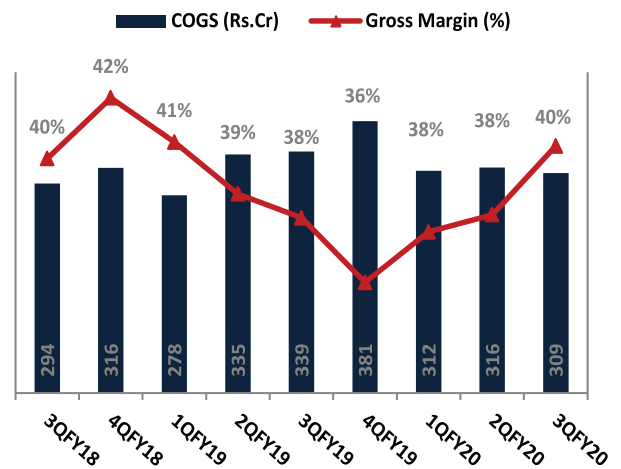
## Exhibit: Net sales and growth trend

Decline in DI pipe volume and realisation of both DI pipe and Pig iron business decline the overall revenue in 3QFY20...



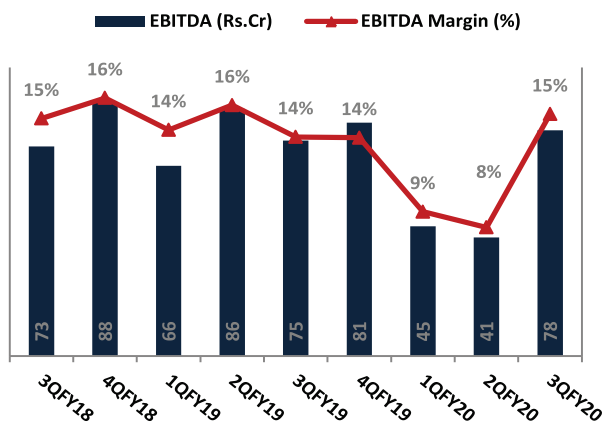
## Exhibit: Cost of good sold and realization trend

Gross margin improved QoQ due to lower iron ore and coking coal prices.



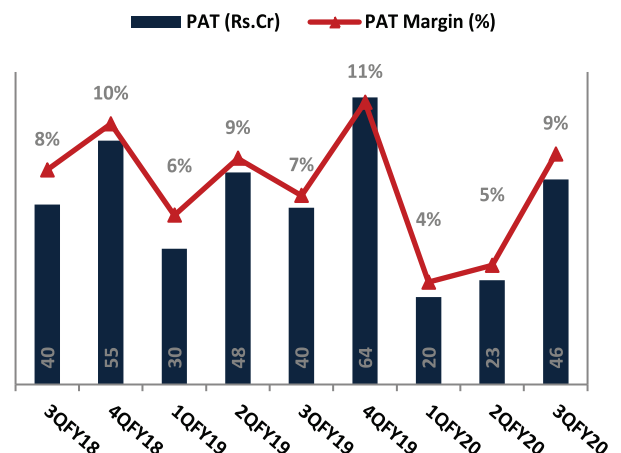
## Exhibit: EBITDA and EBITDA margin trend

Margin expansion by 710 bps QoQ based on better operating efficiencies.



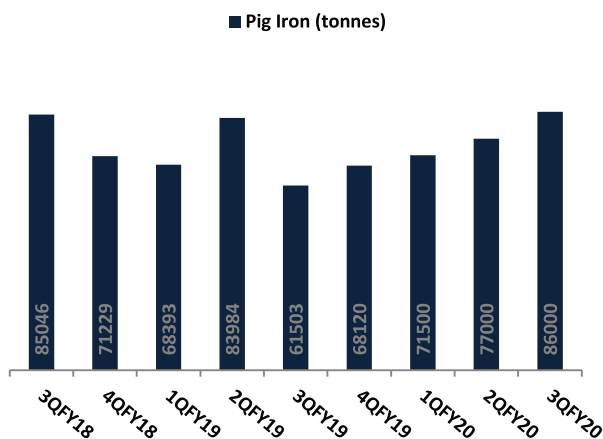
## Exhibit: PAT and PAT margin trend

Higher other income reduced taxes and depreciation helps PAT margins for further expansion.



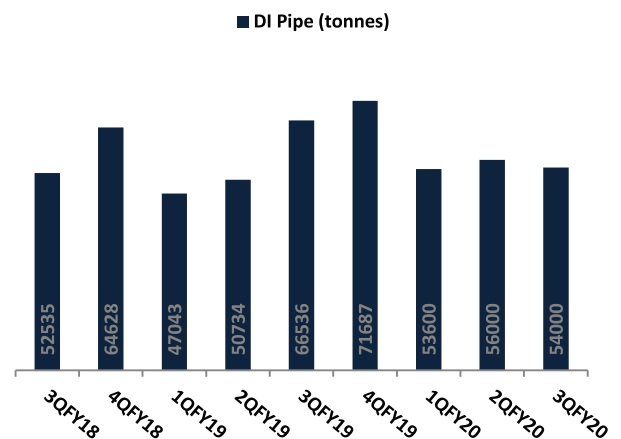
## Exhibit: Pig iron volume trend

Pig iron volume expanded with the reduced iron ore prices..



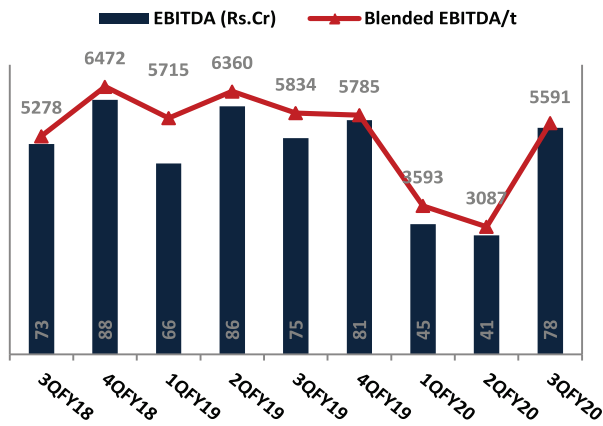
## Exhibit: DI pipe volume trend

DI pipe volume reduced on the back of uncertain demand outlook



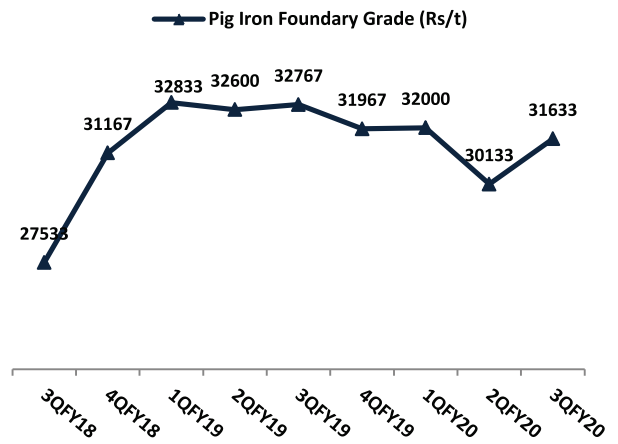
## Exhibit: EBITDA/t trend

EBITDA/t improved significantly on the back improvement in cost reduction.



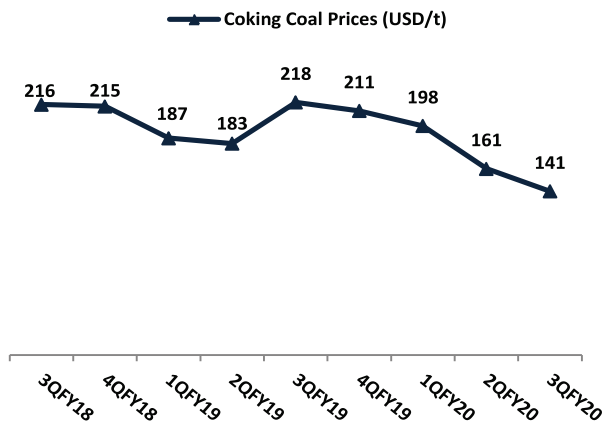
## Exhibit: Domestic Pig iron price trend

Increase in pig iron prices helps to extend the Spread during the quarter.



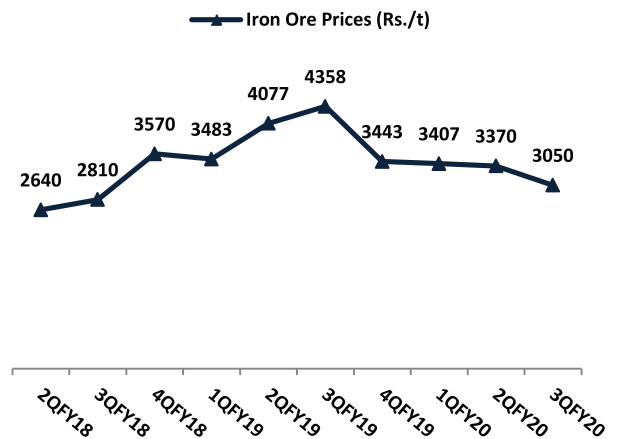
## Exhibit: Coking coal price trend

Reduced coking coal prices helps spread for further expansion and improve margin



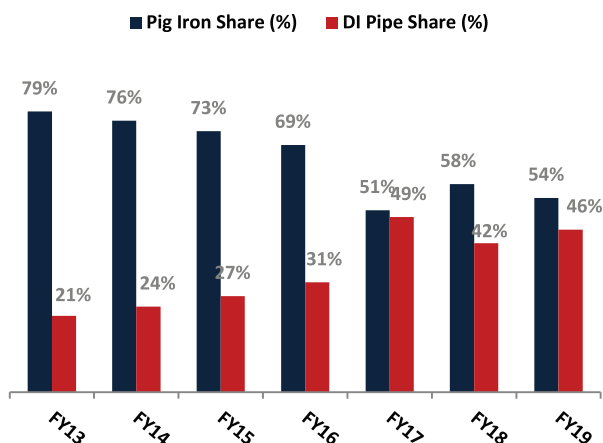
## Exhibit: Iron ore price trend

Domestic Iron ore price fall by 9% on QoQ basis reduced realizations of pig iron business.



## 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	32
Reserves	-145	-38	74	182	333	739	869	1168
<b>Networth</b>	<b>-20</b>	<b>87</b>	<b>99</b>	<b>207</b>	<b>359</b>	<b>767</b>	<b>897</b>	<b>1200</b>
Debt	265	174	307	331	418	39	50	80
Other Non Cur Liab	10	10	12	18	13	15	15	15
<b>Total Capital Employed</b>	<b>246</b>	<b>261</b>	<b>406</b>	<b>538</b>	<b>776</b>	<b>806</b>	<b>947</b>	<b>1280</b>
Net Fixed Assets (incl CWIP)	401	379	440	623	610	661	795	1115
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	826	1115
<b>Inventory</b>	<b>118</b>	<b>103</b>	<b>120</b>	<b>160</b>	<b>199</b>	<b>315</b>	<b>284</b>	<b>301</b>
<b>Debtors</b>	<b>101</b>	<b>125</b>	<b>171</b>	<b>188</b>	<b>215</b>	<b>278</b>	<b>268</b>	<b>283</b>
<b>Cash &amp; Bank</b>	<b>21</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>29</b>	<b>59</b>	<b>86</b>
Other Curr Assets	2	2	59	53	38	23	21	23
Curr Assets	280	277	364	423	494	681	664	731
Creditors	302	278	249	171	208	481	464	490
Provisions (both)	11	23	31	41	17	20	16	16
Other Curr Liab	177	166	14	24	37	59	41	41
Curr Liabilities	480	457	442	510	335	562	528	551
<b>Net Curr Assets</b>	<b>-199</b>	<b>-180</b>	<b>-77</b>	<b>-87</b>	<b>158</b>	<b>119</b>	<b>136</b>	<b>180</b>
<b>Total Assets</b>	<b>735</b>	<b>728</b>	<b>859</b>	<b>1066</b>	<b>1125</b>	<b>1382</b>	<b>1491</b>	<b>1846</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>1424</b>	<b>1419</b>	<b>1317</b>	<b>1318</b>	<b>1873</b>	<b>2155</b>	<b>2077</b>	<b>2196</b>
Change (%)	43%	0%	-7%	0%	42%	15%	-4%	6%
Other Income	2	5	2	1	20	7	18	18
<b>EBITDA</b>	<b>96</b>	<b>202</b>	<b>216</b>	<b>225</b>	<b>277</b>	<b>307</b>	<b>258</b>	<b>295</b>
Change (%)	-448%	111%	7%	4%	23%	11%	-16%	14%
Margin (%)	7%	14%	16%	17%	15%	14%	12%	13%
Depr & Amor.	31	31	33	36	49	58	66	80
<b>EBIT</b>	<b>65</b>	<b>171</b>	<b>183</b>	<b>189</b>	<b>228</b>	<b>250</b>	<b>192</b>	<b>215</b>
Int. & other fin. Cost	43	41	46	38	47	43	33	35
<b>EBT</b>	<b>24</b>	<b>134</b>	<b>139</b>	<b>152</b>	<b>201</b>	<b>213</b>	<b>177</b>	<b>198</b>
Exp Item	21	2	0	0	0	0	0	0
Tax	-7	23	26	36	41	30	34	40
Minority Int & P/L share of Ass.	0	0	-1	-1	-1	-1	-1	0
<b>Reported PAT</b>	<b>9</b>	<b>109</b>	<b>112</b>	<b>116</b>	<b>159</b>	<b>182</b>	<b>142</b>	<b>158</b>
<b>Adj PAT *</b>	<b>38</b>	<b>110</b>	<b>113</b>	<b>117</b>	<b>160</b>	<b>183</b>	<b>142</b>	<b>158</b>
Change (%)	-111%	1052%	3%	3%	37%	14%	-22%	11%
Margin(%)	1%	8%	9%	9%	8%	8%	7%	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%	15.8%	13.2%
ROCE	61.3%	81.5%	67.4%	51.7%	40.9%	31.0%	21.4%	17.9%
Asset Turnover	1.94	1.95	1.53	1.24	1.67	1.56	1.39	1.19
Debtor Days	26	32	47	52	42	47	47	47
Inv Days	30	27	33	44	39	53	50	50
Payable Days	77	71	69	47	41	81	81	81
Int Coverage	1.5	4.1	4.0	5.0	4.8	5.8	5.8	6.1
P/E	13.9	2.8	2.2	12.8	11.7	10.0	12.8	11.5
Price / Book Value	(6.6)	3.5	2.5	7.2	5.2	2.4	2.0	1.5
EV/EBITDA	3.9	2.3	2.5	8.0	8.2	6.0	7.0	6
Diluted EV/EBITDA	3.9	2.3	2.5	8.0	8.2	6.7	7.8	6.9
Div Yield	0.0%	0.0%	0.0%	0.3%	0.3%	0.5%	0.5%	1.1%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>3</b>	<b>132</b>	<b>112</b>	<b>114</b>	<b>200</b>	<b>212</b>	<b>177</b>	<b>198</b>
(inc)/Dec in Working Capital	134	-24	-95	-118	-36	102	23	14
Non Cash Op Exp	105	70	98	114	78	103	99	115
Int Paid (+)	43	41	46	38	47	43	33	35
Tax Paid	-2	-23	-24	-33	-46	-49	-34	-40
others								
<b>CF from Op. Activities</b>	<b>239</b>	<b>155</b>	<b>91</b>	<b>77</b>	<b>196</b>	<b>369</b>	<b>264</b>	<b>287</b>
(inc)/Dec in FA & CWIP	7	-48	-80	-126	-60	-97	-200	-400
Free Cashflow	246	108	11	-49	135	272	64	-113
(Pur)/Sale of Inv	0	0	0	0	-10	10	0	0
others								
<b>CF from Inv. Activities</b>	<b>7</b>	<b>-48</b>	<b>-79</b>	<b>-125</b>	<b>-70</b>	<b>-87</b>	<b>-200</b>	<b>-400</b>
inc/(dec) in NW	0	0	0	0	0	0	0	0
inc/(dec) in Debt	-230	-12	-55	60	-104	-210	11	30
Int. Paid	-44	-42	-38	-38	-48	-56	-33	-35
Div Paid (inc tax)	0	0	0	-6	-7	-9	-12	-24
others								
<b>CF from Fin. Activities</b>	<b>-234</b>	<b>-125</b>	<b>-13</b>	<b>49</b>	<b>-125</b>	<b>-257</b>	<b>-33</b>	<b>140</b>
Inc(Dec) in Cash	12	-17	-1	0	1	25	31	27
Add: Opening Balance	8	20	3	1	2	3	29	59
<b>Closing Balance</b>	<b>20</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>28</b>	<b>60</b>	<b>86</b>



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#### Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com), [www.bseindia.com](http://www.bseindia.com).

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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 Commerce Limited (Formerly Microsec Commerce 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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