

Industry
Bloomberg
BSE CODE

Metals
TML IN
513434

Margin expansion serve in this current pandemic

RATING	NEUTRAL
CMP	498
Price Target	500
Potential Upside	0%

Rating Change	↑
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	688/311
Mkt Capital (Rs Cr)	1400
Free float (%)	50%
Avg. Vol 1M (,000)	56
No. of Shares (Cr)	3
Promoters Pledged %	0%

RESEARCH ANALYST

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4QFY20 Result update

- Revenue in 4QFY20 is Rs. 522 Cr. (down 12% YoY) due to lower DI pipe volume by 25% YoY. However, Pig iron volume grew by 17% YoY.
- Fall in DI pipe volumes by 25% YoY due to shut down in operations, lockdown and disruption in supply chain management despite order lined up by management. Sales dispatches got hit because of lockdown.
- Gross margin during the quarter is 48.9% (up 13.1% YoY and 8.4% QoQ) largely on account of reduced raw material prices and commissioning of PCI and oxygen plant in FY19.
- EBITDA in 4QFY20 is Rs. 120 Cr. with the margin expansion to 23.1% on the back of operating leverage benefit.
- Better spread in 1QFY20 is not expected as compare to 4QFY20 performance. In April it was completely washed out and from May it was started production with one blast furnace.
- PAT during the quarter stood at Rs. 31 Cr. with the PAT margin of 14.8% based on higher gross margins.
- Expansion plan for DI pipe delayed by around 6 months due to imported equipment which is mainly from China and it was the first country stuck with COVID and had lockdown.

View and Valuation

Reduced raw material prices and margin expansion sequentially on the back of benefits arrived from commissioning of Oxygen and PCI plant in FY20. However, the same will not be sustainable completely in 1QFY21 due to the year's low raw material prices will not be available further and due to COVID operations started in May-20 with only one blast furnace. From June both the blast furnace was operational. Delay in expansion plan through debottlenecking in DI pipe business also affected due to current pandemic. Thus, our stance of NEUTRAL with the target price of Rs. 500 at 4.6 times EV/EBITDA of FY21E.

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	1318	1873	2155	2051	2114
EBITDA	225	277	307	285	302
EBIT	189	228	250	220	226
PAT	116	159	182	167	165
EPS (Rs)	46	63	65	59	59
Diluted EPS (Rs)	46	63	58	53	52
EPS growth (%)	3	37	3	-8	-1
ROE (%)	56	44	24	18	13
ROCE (%)	52	41	31	24	18
BV	82	142	273	327	439
P/B (X)	7.2	5.2	2.4	1.5	1.3
P/E (x)	12.8	11.7	10.0	8.4	9.5

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Margin expansion based on operating efficiencies

4QFY20 Results

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY %
Net Sales	594	499	511	519	522	-12.2%	0.6%	2155	2051	-4.8%
Other Income	3	4	6	3	3	-6%	-14.0%	7	16	138%
Total Income	597	503	517	522	524	-12%	0.5%	2162	2066	-4.4%
COGS	381	312	316	309	267	-30%	-13.7%	1333	1204	-9.7%
Staff Cost	29	30	30	31	35	19%	10.7%	112	125	12.0%
Other Exp.	103	113	124	100	100	-2%	-0.2%	403	437	8.4%
Expenditure	513	454	470	440	401	-22%	-8.9%	1848	1766	-4.4%
EBITDA	81	45	41	78	120	49%	53.7%	307	285	-7.4%
Depreciation	15	14	16	17	17	14%	2.8%	58	65	12.5%
EBIT	66	30	25	61	103	57%	67.8%	250	220	-11.9%
Interest	12	7	8	9	9	-22%	-1.4%	43	33	-23.7%
PBT	57	28	23	55	97	70%	74.7%	213	203	-4.9%
Excpt. Item	0	0	0	0	0	-	-	0	0	-
Tax	-8	8	-1	9	19	-351%	-	30	35	17.4%
PAT	64	20	23	46	77	20%	68.2%	182	167	-8.5%

Operating Matrix

VOLUME (TON)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%
Hot metal	115436	134718	128039	139807	125100	133000	140000	133500	-4.5%
Pig iron	68393	83984	61503	68120	71500	77000	86000	79500	16.7%
DI pipe	47043	50734	66536	71687	53600	56000	54000	54000	-24.7%

Strong growth in Pig iron volumes

Pig iron contributed revenue of Rs. 387 Cr. (down by 9% YoY) on account of fall in realization by 5% YoY due to reduced steel grade pig iron prices. However, external pig iron volumes in 4QFY20 were at 79500 T (up 16.7 YoY and down 25% QoQ) despite the poor market scenario and near term slowdown in the economy.

Revenue decline of DI pipe business led by disruption in supply chain

Revenue contributed by DI pipe business in 4QFY20 is Rs. 267 Cr. (down by 23% YoY) on the back of reduced volume due to lockdown and shutdown in operations disrupted supply chain management despite the orders lined up by management. However, realization in 4QFY20 improved by 3% YoY. By the end of April, logistics reopened and then the orders supplied to customers. The operations of DI pipe business resumed in the month of May with one of the blast furnace and the other blast furnace became operational in the month of June.

Margins expanded on account of better operating efficiencies

EBITDA margins in 4QFY20 expanded by 9.4% YoY and 8% QoQ based on reduced fuel cost by 8% QoQ, PCI plant and oxygen plant commenced in 1HFY20 helps in enhancing the efficiency of blast furnace. Although, In 1QFY21, cost is not expected to sustain further at this level due to COVID impact on business operations. PAT during the quarter stood at Rs. 77 Cr. with the PAT margin of 14.8% led by operating leverage benefit.

Other Updates

Capacity expansion plan of 200000T in DI pipe business which is expected to commence 1st phase of 120000T in 3QFY21 delayed atleast by 6 months due to unavailability of project equipments and technical manpower in lockdown. In FY21 volume contribution are not expected much from such commencement yet it will be benefited in FY22. Project equipment are imported from China which was first to be impacted from COVID-19.

Concall Highlights

- COVID impact on business
 - Fall in DI pipe volumes by 25% YoY due to shut down in operations, lockdown and disruption in supply chain management despite order lined up by management.
 - Sales dispatches got hit because of lockdown.
 - Towards end of April dispatches was allowed (interstate dispatches) and from 10-May onwards production started with one of the blast furnaces of DI pipe.
 - From 1ST Jun manpower was allowed at 100% the DI pipe production ramped up and 2ND blast furnace was also started as well.
 - DI iron performing well and PIG iron is still subdued due to shortage of labour, lower demand in auto industry and other engineering, 2ND blast furnace was started from 10TH June which could not benefit much.
 - Currently ramping up of DI pipe is at 80-90% and for PIG iron it's 50% utilization level.
- Financial Performance
 - Pig iron and DI pipes volume during the quarter was 79500 T and 54000 T respectively.
 - EBITDA margin expansion during the quarter was on account of sales volume of PIG iron (up 13% YoY), improved operational performance in both Pig iron and DI pipe division.
 - 10-15% reduction in cost benefit in 4QFY20 sequential is not sustainable. The reduction was on account of reduced raw material prices, usage of coal inspite of coke, yet part of its will be sustainable.
 - Replacing coke with coal injections post commissioning of Coal injection plant a year back helps in expanding margin.
 - Oxygen plant was also commissioned 6-8 months back also helped in improving operational performance.
 - Reduction in coke cost by around 8% sequentially increased the spread between net revenue and EBITDA during the quarter.
 - Pig iron prices went up by 7% and DI pipe prices by 3% sequentially however, DI pipe orders are more stable as compare to Pig Iron and they are based on long term contracts.
 - Pig iron prices are directly impacted by the raw material prices. However, in 4QFY20 it was not impacted much due to shortage of raw material supply.
 - A consultant hired by management last year for 6 months which helped in improving the performance of blast furnace which helped in terms of fuel, cost and productivity.
 - Better spread in 1QFY20 is not expected as compare to 4QFY20 performance. In April it was completely washed out and from May it was started production with one blast furnace.
 - Order book for DI pipe facing problem from last year onwards due to COVID which reduced volumes along with the market of DI pipe de-grow.
 - Odisha, Maharashtra, Haryana are the states for orders coming in for DI pipes in FY21.
 - Order book for the next 8 months lined up by the management and it came down a bit due to last two months.
 - UP, MP, Odisha, Jharkhand, AP are showing optimism in terms of order book yet there are states like Maharashtra declared they have no money. However, management is waiting how much of it will convert it in terms of money.
 - Collections are hardly there in the months of April. However, Collection is not a problem, there are no bad debt yet there is delay in payments of 1-2 Months.
 - Net Debt position is Rs. 200 Cr. in 4QFY20.
- CAPEX Update
 - Expansion plan for DI pipe delayed by around 6 months due to imported equipment which is mainly from China and it was the first country stuck with COVID and had lockdown.
 - Delay in the expansion plan is based on factors like supply, manpower (project labour) etc.
 - CAPEX spent in Oxygen injection plant commissioned has discounted payback period will be around 5 years.
 - PCI plant has spent around Rs. 50 Cr. has discounted pay-back period of 2.5 years.

Exhibit: Net sales and growth trend

Decline in DI pipe volume of both DI pipe and Pig iron business decline the overall revenue in 4QFY20...

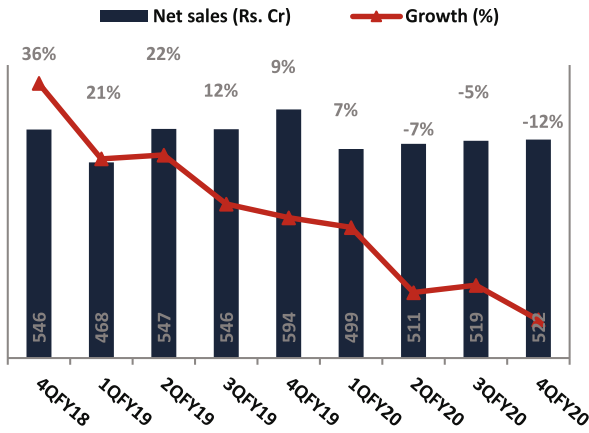


Exhibit: Cost of good sold and realization trend

Gross margin improved sequentially due to lower iron ore and coking coal prices along with operating efficiencies.

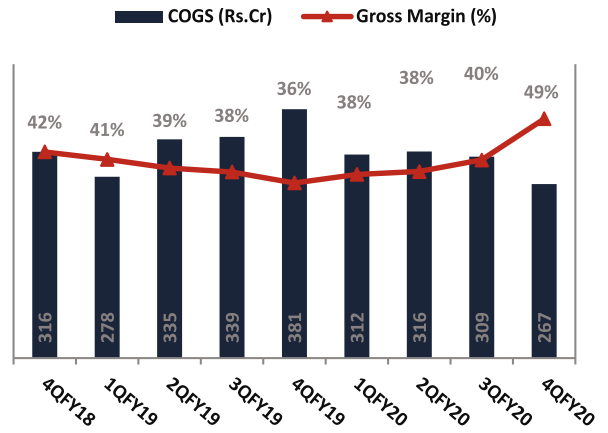


Exhibit: EBITDA and EBITDA margin trend

Margin expansion based on better operating efficiencies.

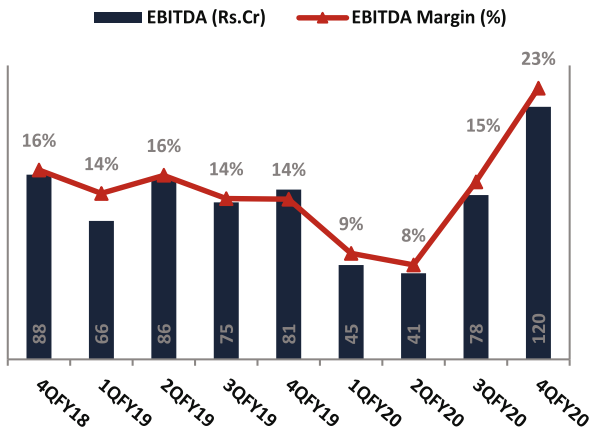


Exhibit: PAT and PAT margin trend

PAT margins expansion due to operating leverage benefit.

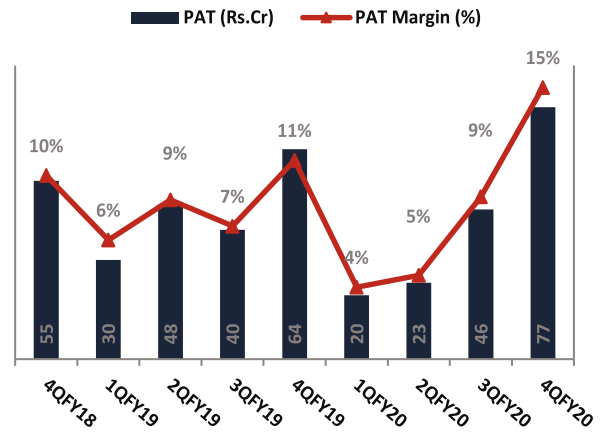


Exhibit: Pig iron volume trend

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

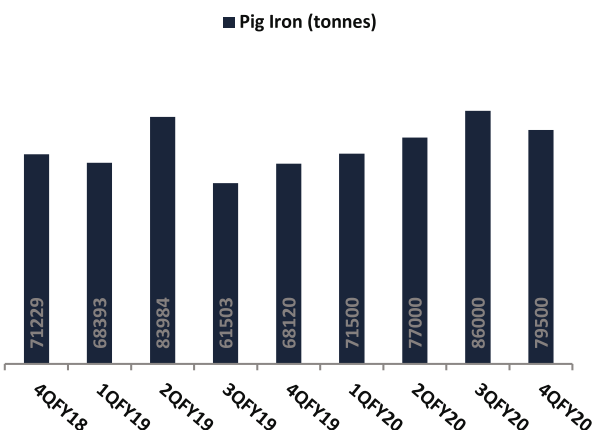


Exhibit: DI pipe volume trend

DI pipe volume reduced on the back of disruption in supply chain

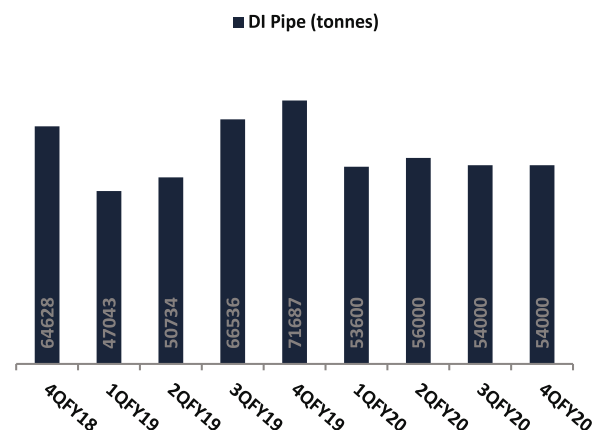


Exhibit: EBITDA/t trend

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

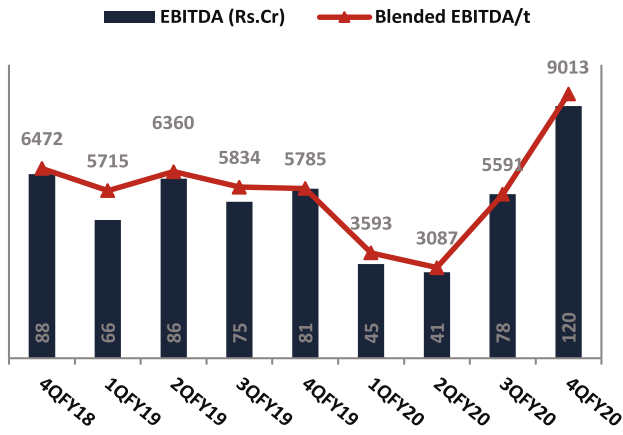


Exhibit: Domestic Pig iron price trend

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

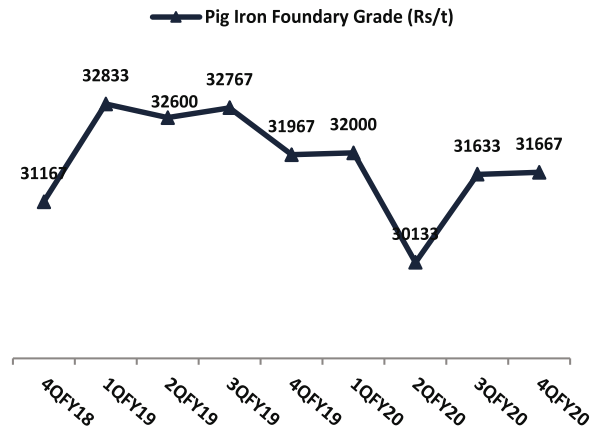


Exhibit: Coking coal price trend

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

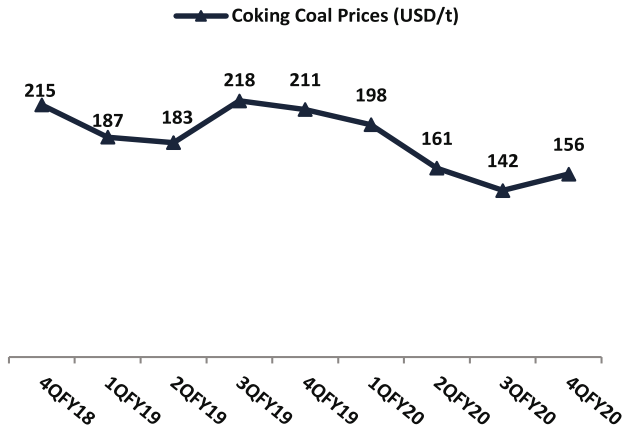


Exhibit: Iron ore price trend

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

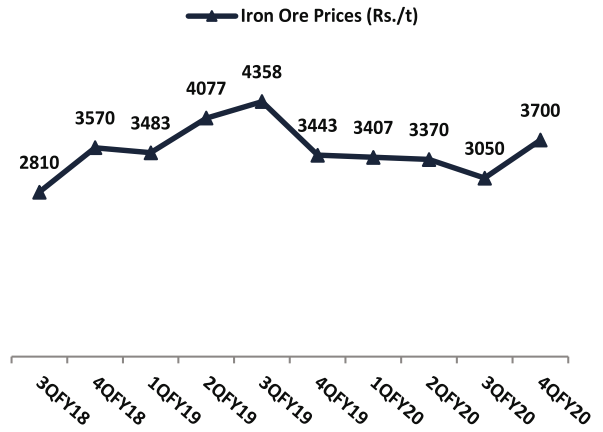
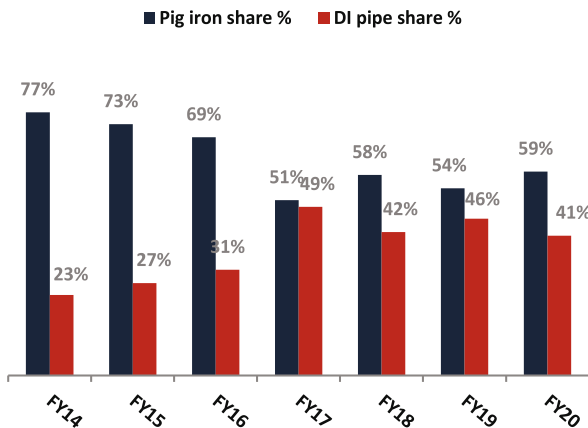


Exhibit: Pig iron and DI pipe share in total production

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



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Share Capital	125	125	25	25	25	28	28	32
Reserves	-145	-38	74	182	333	739	891	1200
Networth	-20	87	99	207	359	767	919	1232
Debt	265	174	307	331	418	39	211	80
Other Non Cur Liab	10	10	12	18	13	15	104	104
Total Capital Employed	246	261	406	538	776	806	1131	1312
Net Fixed Assets (incl CWIP)	401	379	440	623	610	661	767	1140
Non Cur Investments	0	0	0	0	0	0	0	0
Other Non Cur Asst	3	3	54	18	9	9	51	51
Non Curr Assets	455	451	495	643	631	701	845	1218
Inventory	118	103	120	160	199	315	385	290
Debtors	101	125	171	188	215	278	280	273
Cash & Bank	21	3	2	2	3	29	110	101
Other Curr Assets	2	2	59	53	38	23	32	22
Curr Assets	280	277	364	423	494	681	849	721
Creditors	302	278	249	171	208	481	390	472
Provisions (both)	11	23	31	41	17	20	26	26
Other Curr Liab	177	166	14	24	37	59	29	29
Curr Liabilities	480	457	442	510	335	562	460	524
Net Curr Assets	-199	-180	-77	-87	158	119	389	197
Total Assets	735	728	859	1066	1125	1382	1695	1940

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	1,424	1,419	1,317	1,318	1,873	2,155	2,051	2,114
Change (%)	43%	0%	-7%	0%	42%	15%	-5%	3%
Other Income	2	5	2	1	20	7	16	16
EBITDA	96	202	216	225	277	307	285	302
Change (%)	448%	111%	7%	4%	23%	11%	-7%	6%
Margin (%)	7%	14%	16%	17%	15%	14%	14%	14%
Depr & Amor.	31	31	33	36	49	58	65	76
EBIT	65	171	183	189	228	250	220	226
Int. & other fin. Cost	43	41	46	38	47	43	33	35
EBT	24	134	139	152	201	213	203	207
Exp Item	21	2	0	0	0	0	0	0
Tax	-7	23	26	36	41	30	35	41
Minority Int & P/L share of Ass.	0	0	-1	-1	-1	-1	-1	0
Reported PAT	9	109	112	116	159	182	167	165
Adj PAT *	38	110	113	117	160	183	167	165
Change (%)	111%	1052%	3%	3%	37%	14%	-8%	-1%
Margin(%)	1%	8%	9%	9%	8%	8%	8%	8%

*Adj PAT from contd. operation after minority interest

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	-47.9%	124.8%	113.4%	56.0%	44.4%	23.7%	18.1%	13.4%
ROCE	61.3%	81.5%	67.4%	51.7%	40.9%	31.0%	23.9%	18.3%
Asset Turnover	1.94	1.95	1.53	1.24	1.67	1.56	1.21	1.09
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	6.7	6.5
P/E	13.9	2.8	2.2	12.8	11.7	10.0	8.4	8.5
Price / Book Value	(6.6)	3.5	2.5	7.2	5.2	2.4	1.5	1.1
EV/EBITDA	3.9	2.3	2.5	8.0	8.2	6.0	5.3	5
Diluted EV/EBITDA	3.9	2.3	2.5	8.0	8.2	6.7	5.9	5.2
Div Yield	0.0%	0.0%	0.0%	0.3%	0.3%	0.5%	0.7%	1.4%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY20E
PBT	3	132	112	114	200	212	203	207
(inc)/Dec in Working Capital	134	-24	-95	-118	-36	102	-230	188
Non Cash Op Exp	105	70	98	114	78	103	98	111
Int Paid (+)	43	41	46	38	47	43	33	35
Tax Paid	-2	-23	-24	-33	-46	-49	-35	-41
others	-	-	-	-	-	-	-	-
CF from Op. Activities	239	155	91	77	196	369	35	465
(inc)/Dec in FA & CWIP	7	-48	-80	-126	-60	-97	-170	-450
Free Cashflow	246	108	11	-49	135	272	-135	16
(Pur)/Sale of Inv	0	0	0	0	-10	10	0	0
others	-	-	-	-	-	-	-	-
CF from Inv. Activities	7	-48	-79	-125	-70	-87	-170	-450
inc/(dec) in NW	0	0	0	0	0	0	0	0
inc/(dec) in Debt	-230	-12	-55	60	-104	-210	173	-131
Int. Paid	-44	-42	-38	-38	-48	-56	-33	-35
Div Paid (inc tax)	0	0	0	-6	-7	-9	-12	-24
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	-234	-125	-13	49	-125	-257	219	-22
Inc(Dec) in Cash	12	-17	-1	0	1	25	84	-6
Add: Opening Balance	8	20	3	1	2	3	29	110
Closing Balance	20	3	1	2	3	28	113	104

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