

Tata Metaliks Limited

Industry	Metals
Bloomberg	TML IN
BSE CODE	513434

Subdued demand and lower volume hampered performance

1QFY21 Result Update

- Revenue in 1QFY21 is Rs. 210 Cr. (down 57.9% YoY) due to lower volume of both DI pipe as well as pig iron business on account of COVID impact on business.
- Fall in prices of DI pipe and Pig iron prices reduced realization during the quarter.
- Gross margin during the quarter is 45.7% (down 8.1% YoY and 3.3% QoQ) largely on account of lower realization and higher raw material prices.
- EBITDA in 1QFY21 is Rs. 10 Cr. with an EBITDA margin of 4.9%.
- NET loss reported during the quarter was Rs. 12 Cr.
- Delay in expansion project further for the next 2-3 months looking towards the current scenario and muted demand. However, Power plant and coke plant which will benefit on the immediate returns and reached on the final stage on expansion will come on stream by 4QFY21 as per management.

RATING	NEUTRAL
CMP	488
Price Target	500
Potential Upside	2%

Rating Change	↓
Estimate Change	↓
Target Change	↓

View and Valuation

Lower volumes of DI pipe and Pig iron business due to lower production in 1QFY21. Demand still remain uncertain as DI pipe business is muted for 1HFY21 due to monsoon. Various government projects are lined up yet the economic situation will decide the funding and execution of those projects. Margins remain under pressure due to reduced prices and higher cost of production. Expansion project deferred looking towards the current scenario. We maintain our stance to remain NEUTRAL with the target price of Rs. 500 at 11x 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.

Stock Info

52wk Range H/L	590/298
Mkt Capital (Rs Cr)	1289
Free float (%)	51%
Avg. Vol 1M (,000)	56
No. of Shares (Cr.)	3
Promoters Pledged %	0%

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Fig. in Rs. Cr.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	1318	1873	2155	2051	1328
EBITDA	225	277	307	285	160
EBIT	189	228	250	220	83
PAT	116	159	182	167	42
EPS (Rs)	46	63	65	59	15
Diluted EPS (Rs)	46	63	58	53	13
EPS growth (%)	3	37	3	-8	-75
ROE (%)	56	44	24	18	4
ROCE (%)	52	41	31	24	7
BV	82	142	273	327	395
P/B (X)	7.2	5.2	2.4	1.5	1.2
P/E (x)	12.8	11.7	10.0	8.4	32.8

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1QFY21 Results

Margins remain under pressure

Fig in Rs. Cr.

Financials	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY %	QoQ%	FY19	FY20	YoY %
Net Sales	499	511	519	522	210	-57.9%	-59.8%	2155	2051	-4.8%
Other Income	4	6	3	3	1	-76%	-60.4%	7	16	138%
Total Income	503	517	522	524	211	-58%	-59.8%	2162	2066	-4.4%
COGS	312	316	309	267	114	-63%	-57.2%	1333	1204	-9.7%
Staff Cost	30	30	31	35	29	0%	-14.6%	112	125	12.0%
Other Exp.	113	124	100	100	56	-50%	-44.0%	403	437	8.4%
Expenditure	454	470	440	401	200	-56%	-50.2%	1848	1766	-4.4%
EBITDA	45	41	78	120	10	-77%	-91.5%	307	285	-7.4%
Depreciation	14	16	17	17	20	35%	12.4%	58	65	12.5%
EBIT	30	25	61	103	-9	-131%	-109.2%	250	220	-11.9%
Interest	7	8	9	9	8	10%	-10.1%	43	33	-23.7%
PBT	28	23	55	97	-16	-160%	-117.1%	213	203	-4.9%
Excpt. Item	0	0	0	0	0	-	-	0	0	-
Tax	8	-1	9	19	-4	-156%	-	30	35	17.4%
PAT	20	23	46	77	-12	-162%	-115.8%	182	167	-8.5%

Operating Matrix

Volume (ton)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY %
Hot metal	134718	128039	139807	125100	133000	140000	133500	59000	-52.8%
Pig iron	83984	61503	68120	71500	77000	86000	79500	32000	-55.2%
DI pipe	50734	66536	71687	53600	56000	54000	54000	27000	-49.6%

Degrowth in Pig iron volumes

Pig iron contributed revenue of Rs. 138 Cr. (down by 39% YoY) on account of fall in realization by 19% YoY due to reduced steel grade pig iron prices. However, external pig iron volumes in 1QFY21 were at 32000 T due to 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 1QFY21 is Rs. 121 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 1QFY21 declined by 9% 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 1QFY21 is 4.9% YoY based on lower realization and higher raw material cost. 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. Net loss during the quarter stood at Rs. 12 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

- Volume for Pig iron and DI pipe in 1QFY20 was 32000T and 27000T respectively.
- Sales dispatches in 1Q was started from April end and the vertical ramp up of production took place in the month of May with the no. of employee back to work.
- Collection was on time in 1Q including government orders for DI pipes and management is trying to reduce the working capital.
- Revenue was declined by 55-60% in 1Q and PIG iron prices were down from 4QFY20 to 1QFY21 while DI pipe prices were down by 4-5%.
- Segmental EBITDA was around 9% in DI pipe business which was 16% in 1QFY20.
- Mainly due to lockdown and volume gap and till mid of may there was no production took place.
- Management is positive on the pig iron volumes from 2Q onwards. However, DI pipe business is seasonal in 1HFY21.
- Order book was muted for DI pipe in 1Q while from July onwards various states have booked their order with the tenders floated like UP, Haryana (RC tender), Odisha (roll water scheme).
- Execution of these robust order book will start by the end of 3Q in FY21.
- Due to uncertainty and pressure in respect to prices there are sites impacting locally and that can impact business.
- Expansion project will get delayed further for the next two to three months being a bit conservative with cash.
- Power plant and coke plant which will benefit on the immediate returns and reached on the final stage on expansion will come on stream by 4QFY21 as per management
- Power plant has major benefit on the bottom line which is expected by the management could be seen from FY22.
- DI plants some equipment are required and management is particularly delaying this for 2-3 months.
- Demand outlook remain uncertain due to the impact of COVID in the economy.

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...

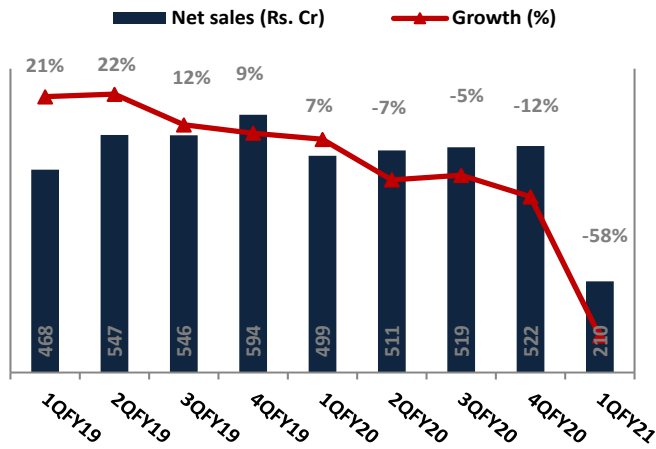


Exhibit: Cost of good sold and realization trend

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

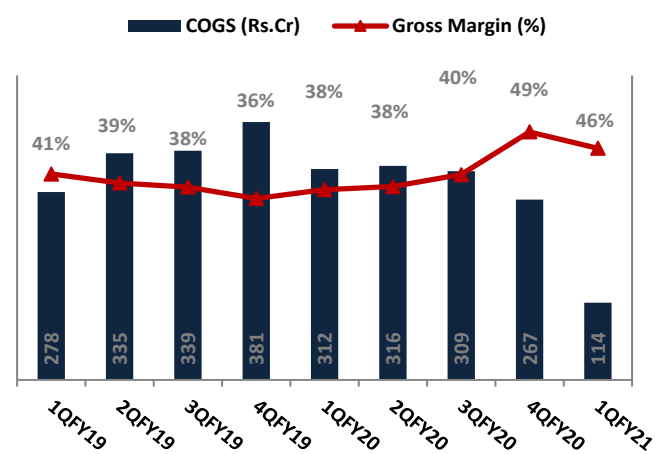


Exhibit: EBITDA and EBITDA margin trend

Margin expansion based on better operating efficiencies.

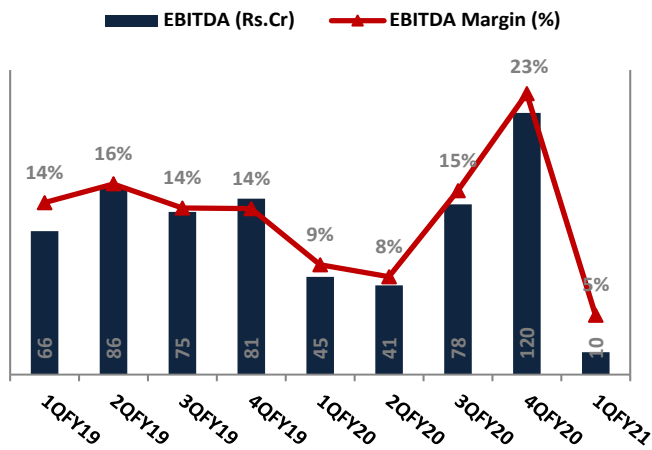


Exhibit: PAT and PAT margin trend

PAT margins expansion due to operating leverage benefit.

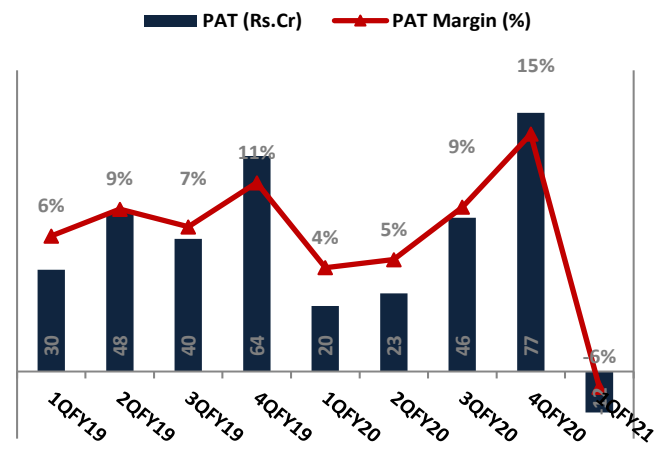


Exhibit: Pig iron volume trend

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

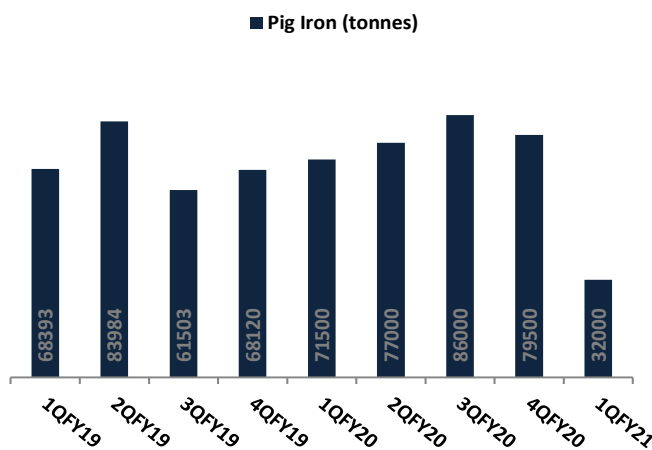


Exhibit: DI pipe volume trend

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

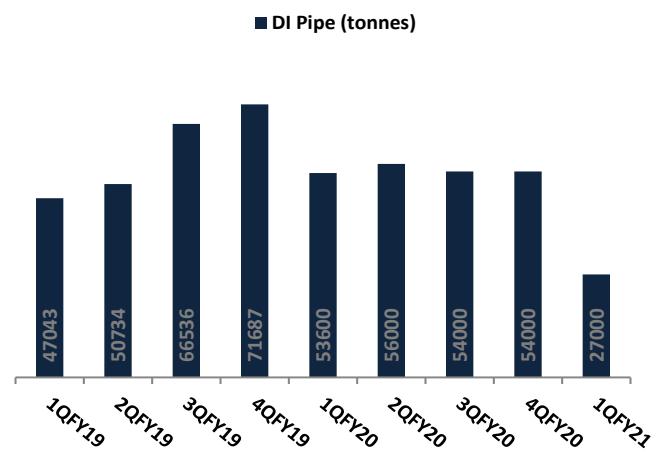


Exhibit: EBITDA/t trend

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

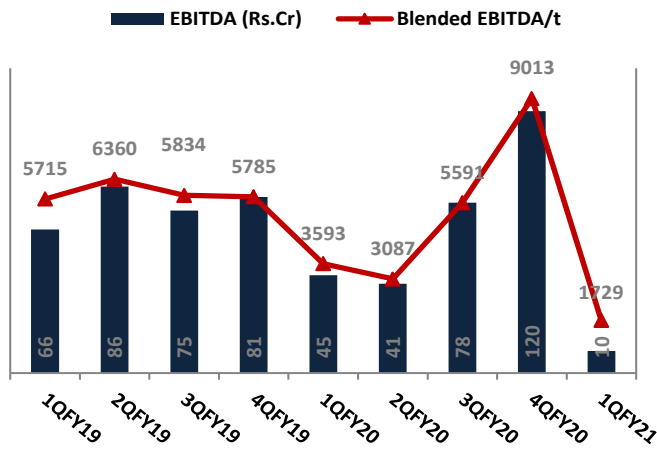


Exhibit: Coking coal price trend

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

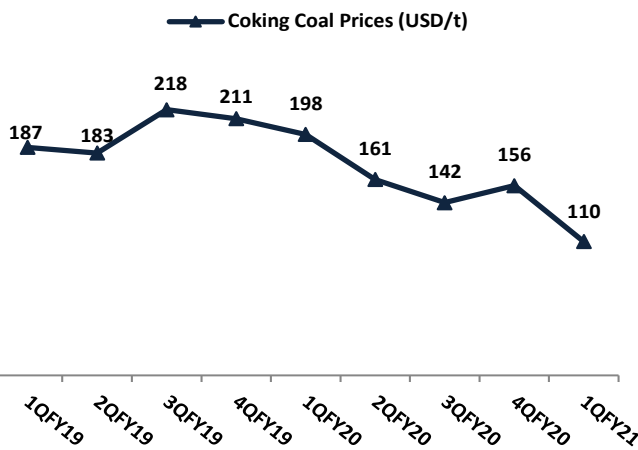


Exhibit: Pig iron and DI pipe share in total production

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

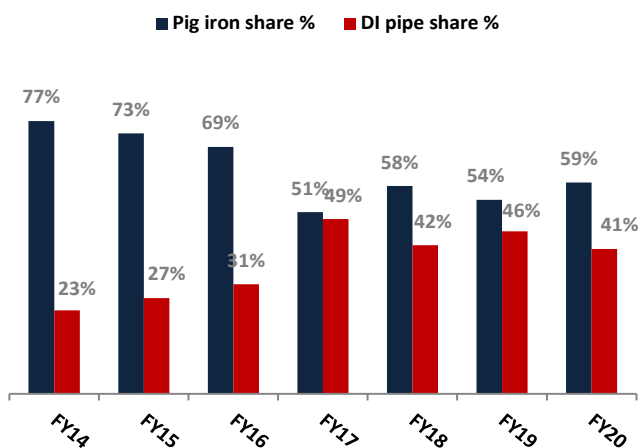


Exhibit: Domestic Pig iron price trend

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

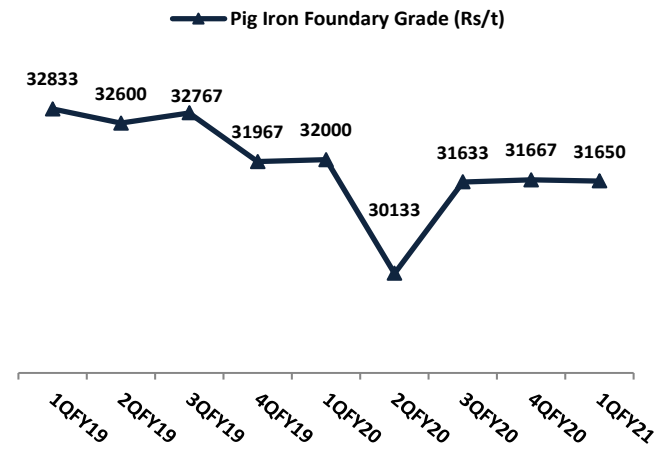
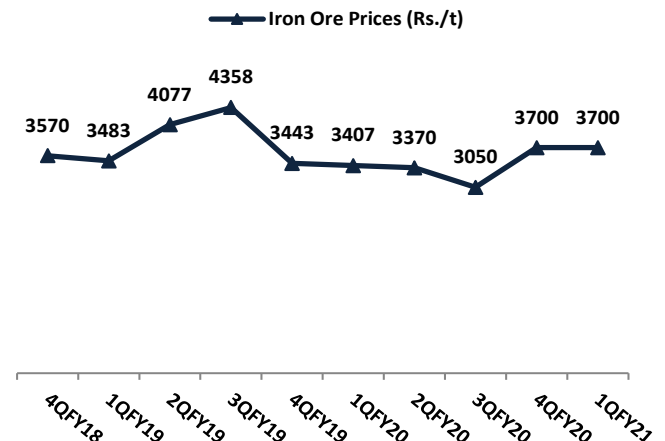


Exhibit: Iron ore price trend

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



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	1077
Networth	-20	87	99	207	359	767	919	1108
Debt	265	174	307	331	418	39	211	280
Other Non Cur Liab	10	10	12	18	13	15	104	104
Total Capital Employed	246	261	406	538	776	806	1131	1388
Net Fixed Assets (incl CWIP)	401	379	440	623	610	661	767	1180
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	1259
Inventory	118	103	120	160	199	315	385	250
Debtors	101	125	171	188	215	278	280	181
Cash & Bank	21	3	2	2	3	29	110	111
Other Curr Assets	2	2	59	53	38	23	32	14
Curr Assets	280	277	364	423	494	681	849	589
Creditors	302	278	249	171	208	481	390	291
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	356
Net Curr Assets	-199	-180	-77	-87	158	119	389	233
Total Assets	735	728	859	1066	1125	1382	1695	1848

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	1424	1419	1317	1318	1873	2155	2051	1328
Change (%)	43%	0%	-7%	0%	42%	15%	-5%	-35%
Other Income	2	5	2	1	20	7	16	4
EBITDA	96	202	216	225	277	307	285	160
Change (%)	448%	111%	7%	4%	23%	11%	-7%	-44%
Margin (%)	7%	14%	16%	17%	15%	14%	14%	12%
Depr & Amor.	31	31	33	36	49	58	65	76
EBIT	65	171	183	189	228	250	220	83
Int. & other fin. Cost	43	41	46	38	47	43	33	35
EBT	24	134	139	152	201	213	203	52
Exp Item	21	2	0	0	0	0	0	0
Tax	-7	23	26	36	41	30	35	10
Minority Int & P/L share of Ass.	0	0	-1	-1	-1	-1	-1	0
Reported PAT	9	109	112	116	159	182	167	42
Adj PAT *	38	110	113	117	160	183	167	42
Change (%)	111%	1052%	3%	3%	37%	14%	-8%	-75%
Margin(%)	1%	8%	9%	9%	8%	8%	8%	3%

*Adj PAT from contd. operation after minority interest

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	-47.94%	124.82%	113.36%	56.01%	44.38%	23.71%	18.11%	3.77%
ROCE	61.33%	81.50%	67.42%	51.69%	40.86%	31.01%	23.90%	7.50%
Asset Turnover	1.94	1.95	1.53	1.24	1.67	1.56	1.21	0.72
Debtor Days	26	32	47	52	42	47	50	50
Inv Days	30	27	33	44	39	53	69	69
Payable Days	77	71	69	47	41	81	69	80
Int Coverage	1.51	4.14	3.99	5.03	4.85	5.77	6.66	2.37
P/E	13.85	2.77	2.18	12.77	11.74	10.02	8.41	32.77
Price / Book Value	-6.64	3.46	2.48	7.15	5.21	2.38	1.52	1.24
EV/EBITDA	3.93	2.34	2.55	8.05	8.23	5.96	5.28	9.65
Diluted EV/EBITDA	3.93	2.34	2.55	8.05	8.23	6.70	5.89	10.72
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	FY21E
PBT	3	132	112	114	200	212	406	52
(inc)/Dec in Working Capital	134	-24	-95	-118	-36	102	-130	163
Non Cash Op Exp	105	70	98	114	78	103	45	111
Int Paid (+)	43	41	46	38	47	43	33	35
Tax Paid	-2	-23	-24	-33	-46	-49	-106	-10
others								
CF from Op. Activities	239	155	91	77	196	369	215	316
(inc)/Dec in FA & CWIP	7	-48	-80	-126	-60	-97	-298	-490
Free Cashflow	246	108	11	-49	135	272	-83	-174
(Pur)/Sale of Inv	0	0	0	0	-10	10	48	0
others								
CF from Inv. Activities	7	-48	-79	-125	-70	-87	-357	-490
inc/(dec) in NW	0	0	0	0	0	0	0	0
inc/(dec) in Debt	-230	-12	-55	60	-104	-210	179	69
Int. Paid	-44	-42	-38	-38	-48	-56	-13	-35
Div Paid (inc tax)	0	0	0	-6	-7	-9	-98	-24
others								
CF from Fin. Activities	-234	-125	-13	49	-125	-257	47	178
Inc(Dec) in Cash	12	-17	-1	0	1	25	-95	5
Add: Opening Balance	8	20	3	1	2	3	29	110
Closing Balance	20	3	1	2	3	28	-66	114

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