

# Pick of the week



## Tata Steel

### Recommendation

**BUY**

### Time Period

**12 Months**

### Current Price

**₹1158**

### Target Price

**₹1400**

### Potential Upside

**20.9%**

## Investment Argument

- 4QFY21 Margins were at a record high and management confirmed further sequential expansion in coming quarters based on spot spreads. We estimate steel margins to peak in 1QFY22E and moderate to sustainable levels from 2HFY22E but see upside risk.
- With contained capex, strong margins and tight control on working capital, Tata Steel has reduced net debt to Rs.82,500 cr (-21% yoy) as on Mar'21. We estimate net debt to reduce further and net debt/EBIT-DA to reduce to 1.1x/1.3x in FY22/23E.
- Strong domestic/export prices and improved product mix should result in at least a Rs.6,000-7,000/ton sequential increase in realization in 1QFY22 as per management. For Europe, spreads are likely to be much higher than 4QFY21 averages led by sharp price hikes across regions.
- Management shared that they can reach 40 mtpa steel capacity in India from current 18 mtpa through brownfield expansions: Jamshedpur -14 mtpa (from 10 mtpa), KPO -16 mtpa (from 3 mtpa) and Angul (Tata BSL) – 10 mtpa (from 5 mtpa).
- We value India-6.5x, Europe-4x and South East Asia-4x on Mar'23E EBITDA & arrive at a fair value of Rs1,400. (EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization).