

Pick of the week

Tata Steel

Recommendation: **BUY**

Current Price: ₹1,255

Potential Upside: **29.5%**

Date: **14th February 2022**

Time Period: **12 Months**

Target Price: ₹1,625

Why invest?

- Management expects steel demand in India to recover sharply post the monsoon and regional festivities in 1HCY22
- Demand in Europe has recovered to pre-pandemic levels despite auto demand being impacted by semiconductor shortages.
- Management indicated that margin is expected to improve sequentially in Europe due to contract revisions, whereas in India it is expected to contract further.
- Management shared that they can reach 40-50 mtpa steel capacity in India from current 18 mtpa through brownfield expansions.
- TATA has reduced (adjusted) net debt by 8% qoq to Rs69300 cr (-25% yoy) as of 3QFY22.
- TATA's NINL acquisition, although expensive, opens growth options and internal cash-flows would comfortably fund growth projects without adding leverage.
- Stock trades at attractive 4.5X EV/EBITDA FY2023E despite assuming further moderation in margins.