

Pick of the week



Tata Steel

Recommendation

BUY

Time Period

12 Months

Current Price

₹ 1280

Target Price

₹ 1400

Potential Upside

9.4%

Investment Argument

- TATA is aiming to double its India steel capacity, from currently at 20 mtpa to 40 mtpa by 2030. Mix of value added steel and longs would increase and Europe's contribution to overall portfolio to decline.
- Tata Steel is working on group simplification and looking to conclude the merger of Tata BSL and demerger of UK-Netherland business in FY22E. Ongoing group simplification should continue to enhance cost efficiency.
- TATA aims to maintain 2X net debt/EBITDA across cycle despite growth capex. It targets to reduce debt by a minimum of US\$1 bn per annum but ~ US\$2 bn in FY22E.
- TATA is working on new business, which could have Rs3000-4000cr of revenue by 2030. At TSE, Management aims to achieve over £20 cr of savings in fixed costs.
- 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).