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FIRST LIGHT

06 May 2022

RESEARCH

Tata Steel | Target: Rs 1,700 | +32% | BUY

Results in line; growth allocation to improve – BUY

Havells India | Target: Rs 1,500 | +20% | BUY

Plenty of positives – BUY

SUMMARY

Tata Steel

- Q4 results in line with consensus, dividend payout raised to 15% with improved gearing, and 10:1 stock split announced
- Key catalysts include timely delivery on capital projects, sustained viability of European operations and clarity on next wave of projects
- Maintain BUY with reduced TP of Rs 1,700 (vs. Rs 1,755) based on lower target EV/EBITDA of 6.0x (from 6.5x) to reflect economic uncertainty

Click here for the full report.

Havells India

- Strong Q4 topline aided by Lloyd and the wires & cables business, though RM inflation remained a drag on margins
- Intense summer to spur cooling product sales and pickup in real estate and infrastructure projects to buoy other segments
- Robust macros, solid brand and distribution, and healthy balance sheet are key positives – assume coverage with BUY and TP of Rs 1,500

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Daily macro indicators

Indicator	03-May	04-May	Chg (%)
US 10Y yield (%)	2.97	2.93	(4bps)
India 10Y yield (%)	7.12	7.38	26bps
USD/INR	76.52	76.42	0.1
Brent Crude (US$/bbl)	105	110.1	4.9
Dow	33,129	34,061	2.8
Hang Seng	21,102	20,870	(1.1)
Sensex	56,976	55,669	(2.3)
India FII (US$ mn)	**29-Apr**	**02-May**	**Chg ($ mn)**
FII-D	36.4	(186.5)	(222.9)
FII-E	(435.0)	174.6	609.6

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 1,700 | ⮝ 32%

TATA STEEL | Metals & Mining | 05 May 2022

Results in line; growth allocation to improve – BUY

- **Q4 results in line with consensus, dividend payout raised to 15% with improved gearing, and 10:1 stock split announced**
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Results in line: TATA's Q4FY22 adjusted EBITDA at Rs 158.9bn and net income at Rs 97.6bn were broadly in line with consensus. The company has reduced net debt by Rs 240bn YoY to Rs 510bn, bringing the net debt/EBITDA ratio below 1x. With lower leverage, TATA has doubled its dividend payout to Rs 51/sh, ahead of consensus estimates of Rs 38, offering a 4% trailing yield. It has also announced a 10:1 stock split.

Capital allocation on growth projects set to improve: With a decline in leverage, TATA is evaluating higher capital allocation to growth projects in order to channelise its surplus cash flow after a US$ 1bn reduction in net debt and 15-20% shareholder payout. This could help accelerate investments aimed at delivering its 5mtpa Kalinganagar expansion by FY25 and defining the next wave of growth projects. The company is looking to raise steel capacity to 25mtpa by FY25 and 40mtpa by 2030.

Steel margins to stabilise at healthy cycle average: Steel prices have recently been supported by supply disruptions due to the Russia-Ukraine conflict and a tight coking coal market. However, with a weakening demand outlook, prices could eventually soften from current levels as disruptions ease. We expect an improving supply-demand balance to support steel at a healthy cyclical average of US$ 650/t in FY24 – our base for valuation. Key price supports are (a) stabilisation of real estate demand in China, (b) decarbonisation measures limiting exports out of China, (c) a balanced ex-China market, and (d) gradual stabilisation of coking coal and iron ore supply chains.

Maintain BUY: We raise our FY23 EBITDA estimate for TATA by 29% (no change for FY24) as we cautiously increase our India HRC price forecast to US$ 800/t. At the same time, we lower our target 1Y forward EV/EBITDA multiple to 6.0x (from 6.5x) to reflect economic uncertainty and also roll valuations forward to FY24 with India HRC price forecast of US$650/t. Our TP thus reduces to Rs 1,700 (from Rs 1,755). We maintain our rating at BUY given the company's healthy growth and margin profile. TATA is trading at 4.4x FY24E EV/EBITDA compared to its 5Y/10Y mean of 5.5x/5.8x.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	TATA IN/Rs 1,284
Market cap	US$ 20.6bn
Free float	66%
3M ADV	US$ 141.9mn
52wk high/low	Rs 1,535/Rs 1,043
Promoter/FPI/DII	34%/23%/22%

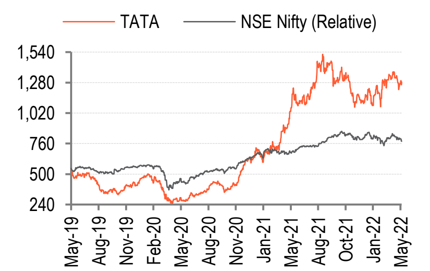
Source: NSE | Price as of 5 May 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	2,423	2,313	2,029
EBITDA (Rs mn)	635	517	419
Adj. net profit (Rs mn)	402	280	200
Adj. EPS (Rs)	328.5	229.4	164.0
Consensus EPS (Rs)	0.0	215.9	188.9
Adj. ROAE (%)	42.6	22.2	13.7
Adj. P/E (x)	3.9	5.6	7.8
EV/EBITDA (x)	3.9	4.3	4.9
Adj. EPS growth (%)	436.1	(30.2)	(28.5)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY

TP: Rs 1,500 | ⮝ 20%

HAVELLS INDIA | Consumer Durables | 05 May 2022

Plenty of positives – BUY

- **Strong Q4 topline aided by Lloyd and the wires & cables business, though RM inflation remained a drag on margins**
- **Intense summer to spur cooling product sales and pickup in real estate and infrastructure projects to buoy other segments**
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Strong topline but RM cost continues to dent margins: HAVL's Q4FY22 revenue increased 33% YoY to Rs 44bn driven by growth across segments, especially cables and Lloyd's consumer business which were up 45% and 63% YoY respectively. Gross margin contracted 820bps YoY to 29.3% as the company was unable to pass on higher raw material prices. EBIT margin declined 310bps YoY to 10.1% primarily due to a lower gross margin which was partially offset by higher operating leverage. Net income stood at Rs 3.5bn, up 16% YoY.

Sharp uptick in construction and housing bodes well: Following unlocking of the economy, demand for housing has surged given lower interest rates coupled with stagnating property prices. This has led to a faster-than-expected pickup in new construction. HAVL will be a key beneficiary, being the market leader in cables, switches and switchgears, all categories closely linked to construction activity. Additionally, being the market leader, the company is in a better position to pass on the higher raw material costs as compared to peers in these segments.

Lloyd continues to improve but profits awaited: The room AC (RAC) market is highly competitive with 20+ players, but Lloyd has done well in terms of its positioning. Raw material inflation has led to a ~20% rise in AC prices over the last two years but this increase is not flowing into margins as the company has been limiting prices hikes in order to gain market share. HAVL's segment margin ex-Lloyd has remained in the mid-to-high teens, whereas Lloyd has reported a negative margin for three consecutive quarters despite strong topline growth. However, as market share rises and commodity prices cool off, we expect Lloyd to turn profitable in FY23.

BUY – TP Rs 1,500: HAVL's will continue to benefit from its diversified product categories and market leadership. We expect a robust macro climate, solid brand and distribution, and healthy balance sheet will underpin growth. Margin improvement is the only box to be checked, which we believe will occur once commodity prices stabilise. Since the pandemic, the stock has rerated and is currently trading at 44.9x FY24E P/E. We value HAVL at 53x FY24E EPS, a 10% premium to its 5Y average, for a TP of Rs 1,500 and assume coverage with BUY.

Key changes

Target	Rating
▲	▲

Ticker/Price	HAVL IN/Rs 1,253
Market cap	US$ 10.3bn
Free float	41%
3M ADV	US$ 16.5mn
52wk high/low	Rs 1,504/Rs 958
Promoter/FPI/DII	59%/24%/8%

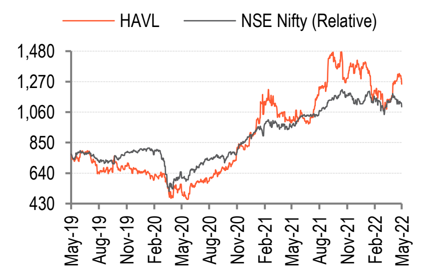
Source: NSE | Price as of 4 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	1,39,385	1,58,815	1,82,106
EBITDA (Rs mn)	17,604	22,324	25,753
Adj. net profit (Rs mn)	11,965	15,080	17,473
Adj. EPS (Rs)	19.1	24.1	27.9
Consensus EPS (Rs)	19.2	23.2	26.9
Adj. ROAE (%)	21.4	23.1	22.8
Adj. P/E (x)	65.6	52.0	44.9
EV/EBITDA (x)	44.0	34.5	29.8
Adj. EPS growth (%)	22.0	26.0	15.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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