

August 1, 2024

RESULT REPORT Q1 FY25 | Sector: Metals and Mining

Tata Steel Ltd

Europe undergoing transition period; Indian operations remain steady; maintain NEUTRAL!

Result Synopsis

Tata Steel's Q1FY25 performance was broadly in line with the consensus estimates despite lower volumes. The standalone business saw falling volumes on a QoQ basis however the realizations witnessed a Rs 800/t fall vs Rs 1,000-1,500/t steel price corrections that were witnessed during the quarter. The standalone operations remained strong with an EBITDA/t of Rs 13,670/t. The European operations saw losses negate substantially as the Netherlands blast furnace was commissioned into production after the completion of its relining which had been earlier delayed by a quarter. March 2024 saw the company announcing the shutting down of its coke ovens due to operational reasons followed by the closure of one blast furnace in the UK during July 2024. The company also announced its plans on shutting down the heavy end assets completely in UK by the end of this financial year with the blast furnaces to not be operational post September 2024.

On the results front, the company reported a strong performance on the margin estimates despite the overhang of the European operations. The company reported a consolidated EBITDA margin of 12.7% (vs 11.5% in Q4FY24 and 10.7% in Q1FY24). The increase in margin was majorly on the back of lower coking coal consumption costs.

In terms of the operational performance, the consolidated crude steel production stood at 8.00 mt, rising 1.0% on a QoQ basis and 12.2% on a YoY basis. The deliveries for the quarter came in at 7.39 mt, a fall of 7.4% sequentially and up 2.6% on a YoY basis.

Valuation & View

We see Tata Steel Ltd to be rightly positioned in the Indian steel space, growing strongly with upcoming capacities coupled with the expected relief on the European front. The company is on the path to decarbonize its European operations starting with TSUK which shall be seeing the complete closure of the heavy-end assets by the end of Q2FY25, followed by discussions with the Netherlands' government on a possible DRI-BF transition. We value the company on a SOTP basis to arrive at an unchanged target price of Rs 169/sh.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	547,714	590,407	563,397	(7.2)	(2.8)	Low volumes and weak global pricing still causing worries.
EBITDA	69,544	64,936	63,799	7.1	9.0	
EBITDA Margin (%)	12.7%	11.0%	11.3%	15.4	12.1	
PAT	9,186	9,983	10,329	(8.0)	(11.1)	

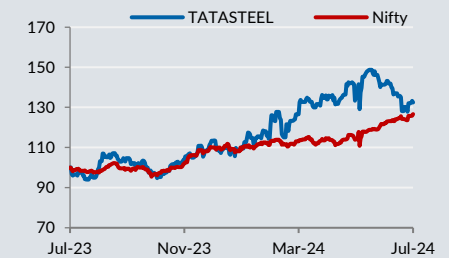
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 163
Target Price	: Rs 169
Potential Upside	: +3.6%

Stock data (as on Aug 1, 2024)

Nifty	25,011
52 Week h/l (Rs)	185 / 115
Market cap (Rs/USD mn)	2063902 / 24655
Outstanding Shares (mn)	12,485
6m Avg t/o (Rs mn):	6,916
Div yield (%):	2.1
Bloomberg code:	TATA IN
NSE code:	TATASTEEL

Stock performance



	1M	3M	1Y
Absolute return	-6.3%	-1.2%	32.4%

Shareholding pattern (As of Jun'24 end)

Promoter	33.2%
FII+DII	44.0%
Others	22.9%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	169	169

Financial Summary

(Rs bn)	FY24	FY25E	FY26E
Revenue	2,292	2,277	2,696
YoY Growth	(5.8%)	(0.7%)	18.4%
EBIDTA	241	306	359
EBITDA (%)	10.5%	13.5%	13.3%
PAT	(49)	40	75
ROE	(2.8%)	2.2%	3.9%
ROCE	(5.3%)	4.1%	6.9%

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Result Highlights

- Consolidated revenue from operations for the quarter stood at Rs 54,771 crores (vs our estimate of Rs 59,040 crores), down ~7% QoQ and ~8% YoY.
- EBITDA margins stood at 12.2%. The absolute EBITDA stood at Rs 6,694 crores (vs our estimate of Rs 6,494 crores), up 2.6% QoQ and 9.5% YoY.
- Consolidated adjusted PAT stood at Rs 960 crores (vs our estimate of Rs 998 crores).
- Tata Steel also announced an acquisition of 26% equity stake in TP Parivart Ltd for an amount of up to Rs 35 crores.
- The company incurred Rs 3,777 crores on Capex during Q1FY25. The commissioning of the 5.0 mtpa expansion at Kalinganagar is expected to be commissioned in September 2024.
- The board approved Infusion of funds up to Rs 6,000 crores for subscription to equity shares of NINL.

Production Highlights

- Consolidated production for the quarter stood at 8.00 mt.
- Consolidated sales for the quarter stood at 7.39 mt.
- Consolidated EBITDA/t stood at Rs 9,407/t vs Rs 8,735/t in Q4FY24.

Exhibit 2: Consolidated Operational Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ %	YoY %
Consolidated							
Production (mt)	7.13	7.31	7.58	7.92	8.00	1.0%	12.2%
Deliveries (mt)	7.20	7.07	7.15	7.98	7.39	(7.4%)	2.6%
Revenue from operations	594,897	556,819	553,119	586,873	547,714	(6.7%)	(7.9%)
Realization/t	82,625	78,758	77,359	73,543	74,116	0.8%	(10.3%)
EBITDA/t	8,503	5,869	8,035	8,735	9,407	7.7%	10.6%

Source: Company, YES Sec

Exhibit 3: Consolidated Quarterly Snapshot

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ %	YoY %
Revenue	594,897	556,819	553,119	586,873	547,714	(6.7%)	(7.9%)
COGS	274,752	259,031	224,465	260,909	224,230	(14.1%)	(18.4%)
Employee Costs	59,254	59,165	65,271	61,406	64,669	5.3%	9.1%
Other Expenses	209,152	195,945	200,747	198,552	191,870	(3.4%)	(8.3%)
EBITDA	63,507	44,961	64,915	67,765	66,945	(1.2%)	5.4%
EBITDA %	10.7%	8.1%	11.7%	11.5%	12.2%	5.9%	14.5%
Other Income	11,768	2,282	2,279	1,759	2,599	47.8%	(77.9%)
Depreciation	24,123	24,799	24,220	25,680	25,354	(1.3%)	5.1%
Finance Costs	18,252	19,594	18,808	18,423	17,767	(3.6%)	(2.7%)
Share of P/L	-2,713	1,029	734	370	925	150.0%	(134.1%)
PBT	18,554	-67,392	19,279	18,089	21,169	17.0%	14.1%
Tax	13,305	-2,280	14,058	12,543	14,583	16.3%	9.6%
PAT	5,249	-65,112	5,221	5,546	6,587	18.8%	25.5%

Source: Company, YES Sec

Exhibit 4: Tata Steel Europe

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ %	YoY %
Tata Steel Europe							
Revenue	213,350	202,490	192,170	207,080	209,770	1.3%	(1.7%)
COGS	110,570	111,400	99,600	106,860	106,120	(0.7%)	(4.0%)
EBITDA	(15,690)	(25,110)	(28,710)	(6,840)	(5,030)	(26.5%)	(67.9%)
Liquid Steel Production (mt)	1.79	1.95	1.91	2.14	2.37	10.7%	32.4%
Deliveries (mt)	1.99	1.96	1.94	2.12	2.15	1.4%	8.0%
EBITDA/t	(7,890)	(12,811)	(14,799)	(3,226)	(2,340)	(27.5%)	(70.3%)

Source: Company, YES Sec

Exhibit 5: Tata Steel Standalone

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ %	YoY %
Tata Steel Standalone							
Revenue	323,416	341,852	346,819	366,348	329,597	(10.0%)	1.9%
COGS	141,903	150,275	125,298	152,000	127,627	(16.0%)	(10.1%)
EBITDA	74,030	69,170	82,920	82,000	67,530	(17.6%)	(8.8%)
Production (mt)	4.65	4.91	5.13	5.40	5.01	(7.2%)	7.7%
Deliveries (mt)	4.62	4.82	4.88	5.42	4.94	(8.9%)	6.9%
EBITDA/t	16,014	13,401	16,994	15,125	13,667	(9.6%)	(14.7%)

Source: Company, YES Sec

CONFERENCE CALL TAKEAWAYS

Industry Scenario and General Company Updates

- Chinese domestic demand remaining weak has led to prices being under pressure globally. The Indian prices remained more or less stable for the better part of Q1FY25 on the back of good domestic demand however saw a correction due to the seasonal impact of monsoons. The production in China remains strong, thereby leading to elevated exports from the country.
- Current market share in the auto industry in India stands at ~50%. Overall, the domestic market share is ~20%. Steel consumption demand is expected to grow by 8-10% on an annual basis.
- Usha Martin steel plant shall be functional by the second half of the financial year.
- Cost of raw materials saw an increase due to increase in the royalties for chrome ore; however, the same was offset by lower coking coal prices.
- The growth from 21 mtpa to 40 mtpa in Indian capacities will see Kalinganagar moving from 3 mtpa to 8 mtpa in the current phase.
 - The capacity can then be expanded to 13 mtpa. The company has enough land to expand capacities to 16 mtpa at the Kalinganagar facilities.
 - The focus after the current expansion of Kalinganagar will be NINL expansion which would see the capacities ramping up to 5 mtpa and can be expanded to 10 mtpa beyond that.
 - A new EAF plant of 2 mtpa will be coming up in Chandigarh. Meramandalli to see the capacities expand to 7 mtpa from the current 5 mtpa.
- Land acquisitions have already done for 40 mtpa capacity.
- Capex incurred during Q1FY25 – Rs 3,700 crores
- Net working capital – Rs 5,400 crores
- Net debt – Rs 82,162 crores

Tata Steel Europe

- One BF was closed during July 2024. The second BF will be closed by the end of September 2024. Tata Steel UK will continue to operate the hot strip mill during the transition period. TSUK is expected to become EBITDA positive from Q3FY25 onwards.
- TSN turned EBITDA positive in Q1FY25 and should continue to do so. The Netherlands government have given the approval for a transition.
 - Commenced discussions with Dutch government with respect to the decarbonization strategy for TSN.
 - This shall happen in 2 phases – Replacing one BF plant by 2030 with a DRI plant which shall run on natural gas initially and later transition to using hydrogen once the technology becomes cost competitive.
- FY26 is where the European business will be EBITDA positive. TSUK shall turn EBITDA positive from Q3FY25 onwards, since the Blast furnace is expected to be shut down in Q2FY25 by the end of September 2024.
- The Labour party winning the UK elections poses no threat to the current transition period for the blast furnace shutdown and the company expects to continue with the plan already devised.

- The Labour Party wants to explore more manufacturing expansions in the country and wants to generate more employment through investments from the treasury in the UK steel space.
- In Netherlands, production resumed after the BF's relining got completed. The company wants to maintain a run-rate of 7 mtpa of production annually. Currently, the same is at about 6.7 mtpa.
 - Once the TSN plant runs without any bottlenecks, more cost savings can be expected through lower conversion costs.
- UK and TSN have 600 to 800 GBP of debt mostly for working capital needs. TSN was debt-free 12 to 15 months ago and the plan is to be debt free over the course of the next 18 months. The debt taken during this period was majorly for incurring maintenance capex for the BF relining in FY24.

Pricing Information

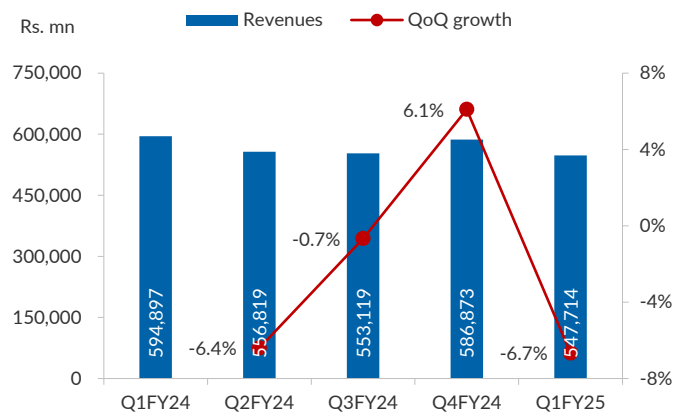
- Pricing guidance for Q2FY25:
 - Indian operations - Q2FY25 should see a fall of Rs 1,500/t in NSR. Coking coal will be \$15-20/t lower on a blended basis.
 - TSN: Coking coal is expected to be lower by \$26/t and the NSR is expected to fall by \$60/t.
 - TSUK: Iron ore is expected to be lower by \$7/t.
- Tata Steel sees margin compression in Q2, as the spreads have not been favourable for the steel players.
- Chinese pricing is expected to have bottomed out, and the company expects prices to go up from the current levels as at the current prices, even the Chinese steel producers are losing money.

Guidance and Capital Expenditures

- KP-II phase volume guidance for FY25 would be 1.7 mn tonnes more. NINL will see 200 kt of additional volume for the year.
- Consolidated volumes guidance: 1.4 mn tonnes more than FY24.
- UK production volume to be lower than last year since the BF will shut down by Q2FY25. UK to procure around 1.7mn tonnes of slabs for its downstream operations. 0.6 mn tonnes to flow in from the Netherlands operations and 1.1 mn from the Indian operations.
- Netherlands' production to be higher than last year since the plant will be running at peak utilization on the capacity.
- Capex guidance for FY25: Rs 16,000 crores. 75% of this amount would be utilized for the Indian capex.
- Incremental volume over the next two years: 5.0 mt from Kalinganagar, 400 kt to come from Usha Martin assets and 2.0 mt of volumes coming in from Ludhiana.

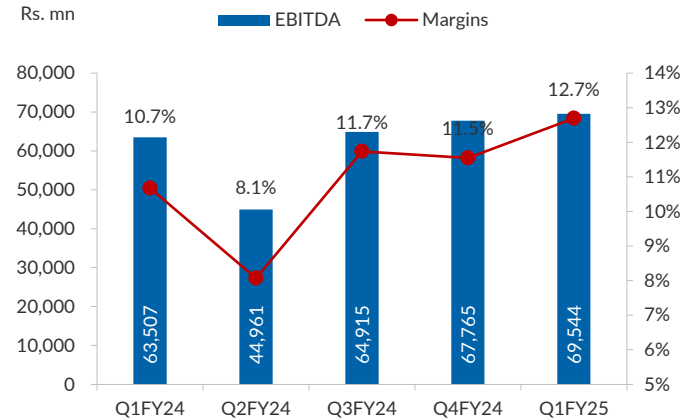
QUARTERLY TRENDS

Exhibit 6: Lower NSR and volumes impact top-line



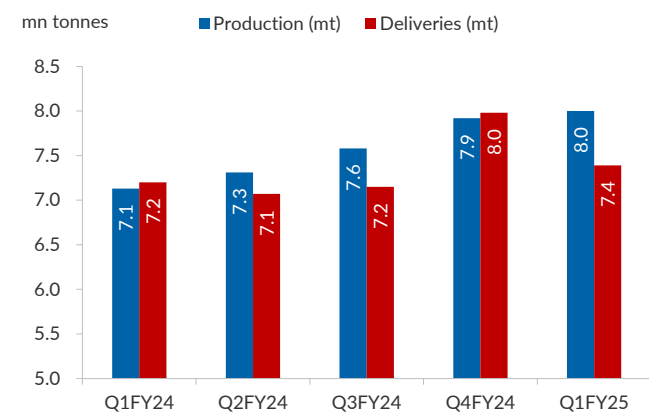
Source: Company, YES Sec

Exhibit 7: Margins improve on better cost profile



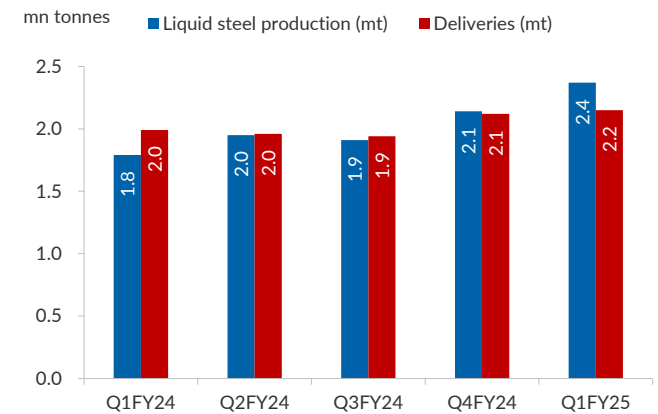
Source: Company, YES Sec

Exhibit 8: Consolidated Operational Highlights



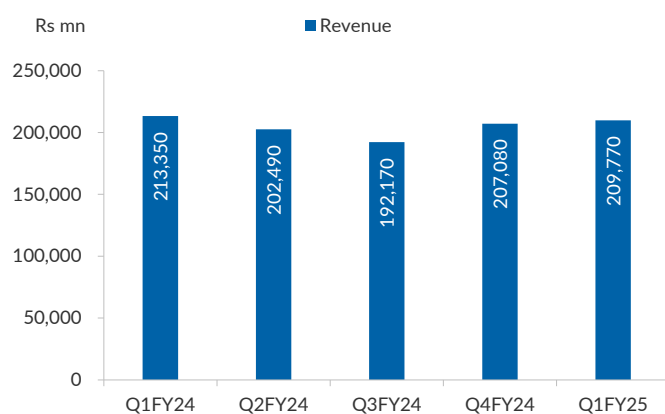
Source: Company, YES Sec

Exhibit 9: Tata Steel Europe Operational Highlights



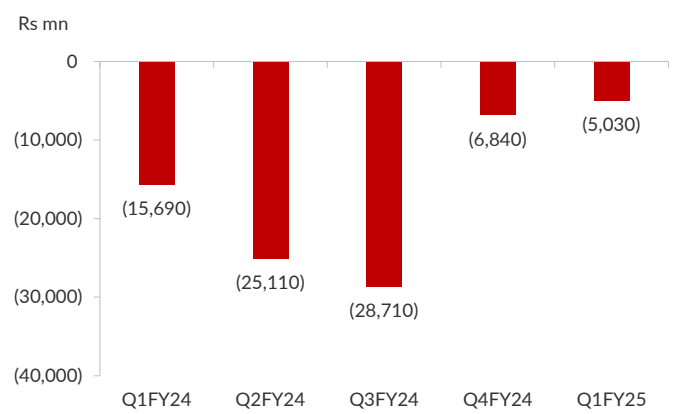
Source: Company, YES Sec

Exhibit 10: TSE revenues pick up post plant ramping up



Source: Company, YES Sec

Exhibit 11: TSE EBITDA shows signs of turnaround



Source: Company, YES Sec

FINANCIAL OVERVIEW

Exhibit 12: Income Statement

Y/e 31 Mar (Rs bn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue from operations	1565	2440	2434	2292	2277	2697
Cost of goods sold	566	835	1132	1019	1059	1312
Employee cost	199	233	224	245	228	239
Other expenses	512	766	754	804	738	802
Other income	9	8	10	18	18	18
EBITDA	314	643	333	241	307	359
EBITDA (%)	20.1%	26.3%	13.7%	10.5%	13.5%	13.3%
Depreciation	92	91	93	99	98	116
EBIT	222	552	240	142	209	243
EBIT (%)	14.2%	22.6%	9.9%	6.2%	9.2%	9.0%
Finance costs	76	55	63	75	77	64
Profit before taxes	138	502	182	(11)	54	100
Taxes	57	85	102	38	14	25
Profit after taxes	82	417	81	(49)	41	75

Exhibit 13: Balance Sheet

Y/e 31 Mar (Rs bn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Gross Block	1,925	1,909	2,021	2,169	2,334	2,494
Accumulated Dep	735	748	834	933	1,031	1,147
Net Block	1,190	1,162	1,187	1,235	1,302	1,347
CWIP	181	212	303	334	350	368
Other Non-current Assets	481	555	524	460	468	506
Inventory	333	488	544	492	435	539
Receivables	95	122	83	63	94	111
Cash & Bank	58	159	134	87	49	92
Other Current Assets	116	156	106	64	78	88
Total Assets	2,455	2,854	2,880	2,734	2,777	3,051
Share Capital	12	12	12	12	12	12
Reserves	723	1,132	1,019	908	959	1,079
Non-current Liabilities	971	778	856	826	805	843
Current Liabilities	709	906	973	984	996	1,112
Total Equity & Liabilities	2,455	2,854	2,880	2,734	2,777	3,051

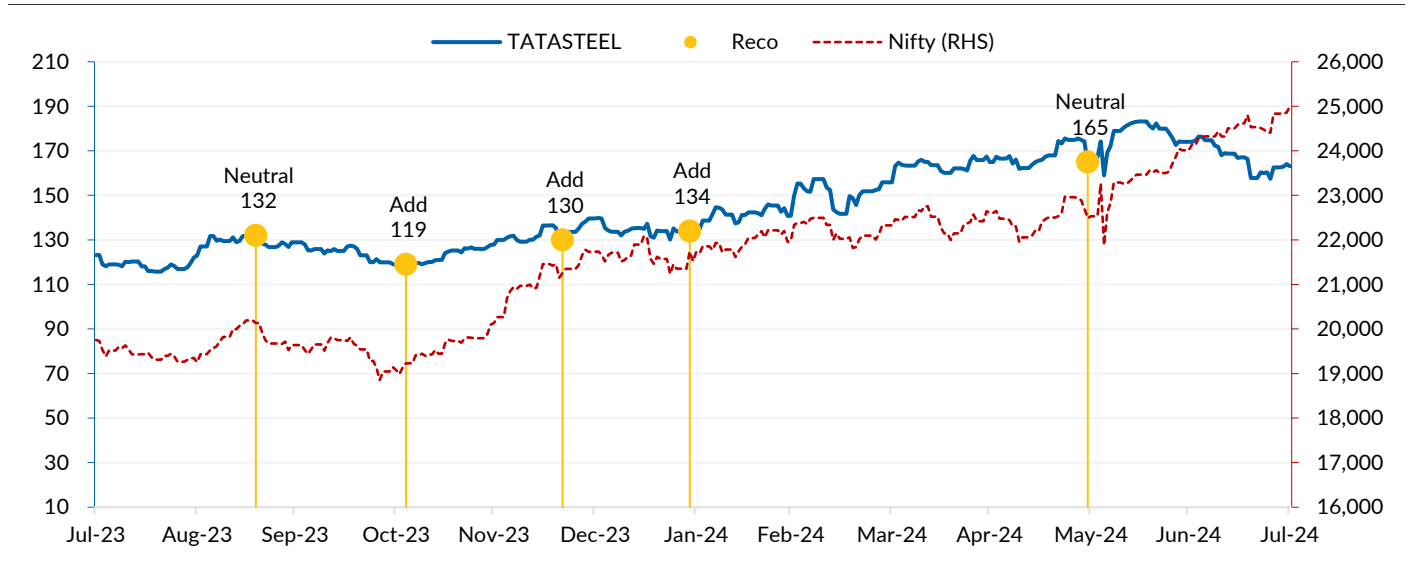
Exhibit 14: Cash Flow Statement

Y/e 31 Mar (Rs bn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Profit before Tax	138	502	182	(11)	93	160
Add: Non-cash charges	147	157	127	234	174	180
Profit before working capital changes	285	659	309	222	267	341
Working capital changes	165	(96)	(37)	34	5	(16)
Cash flow from Operations	450	563	272	256	272	325
Taxes Paid	(7)	(119)	(55)	(53)	(42)	(40)
Net Cash flow from Operating Activities	443	444	217	203	231	285
Capex	(70)	(105)	(141)	(182)	(165)	(160)
Other Investments	(23)	(4)	(45)	40	(17)	(18)
Net Cash flow from Investing Activities	(93)	(109)	(187)	(143)	(182)	(178)
Proceeds/(Repayment) from borrowings	(294)	(139)	65	23	(10)	0
Other financial activities	(77)	(95)	(135)	(134)	(77)	(64)
Net Cash flow from Financing Activities	(371)	(234)	(70)	(111)	(87)	(64)
Opening Cash Balance	75	55	156	121	71	33
Net Change in Cash	(21)	101	(40)	(50)	(38)	43
FX and Translation effects	1	(0)	5	(0)	0	0
Ending Cash Balance	55	156	121	71	33	76

Exhibit 15: Key Ratios

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E
Growth (%)						
Revenue	12%	56%	(0%)	(6%)	(1%)	18%
EBITDA	63%	105%	(48%)	(28%)	27%	17%
EBIT	104%	149%	(56%)	(41%)	47%	17%
PAT	599%	410%	(81%)	(161%)	(181%)	88%
Profitability (%)						
EBIDTA Margins	20%	26%	14%	11%	13%	13%
EBIT Margins	14%	23%	10%	6%	9%	9%
PAT Margins	5%	17%	3%	(2%)	2%	3%
ROCE	5%	21%	4%	(3%)	2%	4%
ROE	11%	36%	8%	(5%)	4%	7%
Per Share Data (Rs)						
EPS	6.5	33.2	7.2	(3.6)	3.6	6.5
BVPS	67.6	96.8	87.0	75.4	79.6	89.4
Valuations (x)						
P/E	12.4	3.9	15.2	(47.0)	44.8	25.0
P/BV	1.2	1.3	1.3	2.3	2.0	1.8

Recommendation Tracker



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