

Retail Equity Research

Tata Steel Limited

Metals & Mining

BSE CODE: 500470

NSE CODE: TATASTEEL

Bloomberg CODE: TATA:IN

SENSEX: 72,086

HOLD

12 Months Investment Period Rating as per Large Cap

CMP Rs. 139 TARGET Rs. 151 RETURN 9% ↑
(Closing: 02-02-24)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↓

Stretched valuation; cautious outlook

Tata Steel is a leader in the global steel industry with operations spanning over 26 countries with key operations in India, Netherlands and United Kingdom. Tata steel primarily caters to customers in automotive, construction, engineering, energy and power sectors.

- Tata Steel reported a revenue decline of 3.1% YoY to Rs.55,312cr in Q3FY24, due to lower revenue from international operations.
- In Q3FY24, EBITDA grew 54.7% YoY to Rs.6,264cr. EBITDA margin expanded 420 bps YoY to 11.3%, aided by lower input costs. PAT stood at Rs.513cr in Q3FY24, as against a net loss of Rs.2,224cr in Q3FY23.
- Domestic growth was offset by subdued global performance. Strong domestic demand, improving spot prices in Europe, commissioning of the Kalinganagar blast furnace, coupled with the conversion of its UK business blast furnaces to electric arc furnaces are key growth factors in the medium-to-long term. However, valuation appears expensive at current levels and the stock is adequately priced in. Hence, we downgrade our rating on the stock to HOLD, with a rolled-forward target price of Rs. 151, based on sum-of-the-parts (SOTP) valuation.

Weak international demand impacts top-line growth

In Q3FY24, revenue decreased 3.1% YoY to Rs.55,312cr, due to a 12.5% YoY decrease in revenue from Europe amid subdued demand across consuming sectors. However, revenue from Indian operations grew 2.2% YoY to Rs.34,682cr in Q3FY24. Domestic production volume grew 3.8% YoY and delivery volume grew 3.0% YoY. Domestic steel consumption rose 11% YoY in Q3FY24, driven by government spending.

Higher consumption costs expected to impact margins

EBITDA stood at Rs.6,264cr (+54.7% YoY) in Q3FY24. EBITDA margin improved 420bps YoY to 11.3%, supported by lower consumption costs. EBITDA/tonne rose to Rs.8,760/t from 5,661/t in Q3FY23. Management expects domestic net realisation to decline by Rs.1000/tonne and consumption cost of coking coal to increase by \$10/tonne in Q4FY24. Conversely, spot prices in Europe increased, and net realisation in the UK is expected to rise by GBP40/tonne (USD 51/tonne) in Q4FY24, while the Netherlands is expected to see a decline of GBP14/tonne (~USD18/tonne), as previous contracts were fixed at lower rates. Coking coal consumption costs in the Netherlands and the UK are expected to increase by \$18/tonne and \$11/tonne, respectively.

Key concall highlights

- Blast furnace 6(BF6) lining in the Netherlands is expected to start operations shortly which is expected to improve volume.
- In the UK, two BF's and coke ovens are expected to be shut down in phases in FY24, to potentially reduce fixed costs.
- Management expects demand from railways, transportation and infrastructure sectors to drive growth in steel in the coming quarters.

Valuation

Growth in domestic operations was offset by weak demand for international operations. Factors such as robust domestic demand, rising spot prices in Europe, asset restructuring, and new operations in Europe are expected to support growth in the long term. However, we remain cautious due to the recent uptick in raw material costs, which could limit margin expansion in the near term. Further, the stock's valuation looks expensive at the current levels. Hence, we downgrade our rating to HOLD, with a rolled-forward target price of Rs. 151 based on SOTP valuation.

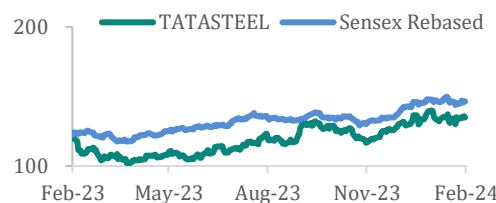
Company Data

Market Cap (cr)	Rs. 169,386
Enterprise Value (cr)	Rs. 242,863
Outstanding Shares (cr)	1,228.8
Free Float	66.0%
Dividend Yield	2.6%
52 week high	Rs. 142
52 week low	Rs. 102
6m average volume (lacs)	24.3
Beta	1.2
Face value	Rs. 1

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	33.9	33.9	33.7
FII's	21.0	21.0	20.7
MFs/Insti	21.1	22.4	23.3
Public	22.9	21.7	21.3
Others	1.1	1.1	1.0
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	17.4%	16.6%	15.7%
Absolute Sensex	12.5%	9.6%	20.3%
Relative Return*	4.9%	7.0%	-4.6%

*over or under performance to benchmark index



Consolidated (cr)	FY24E	FY25E	FY26E
Sales	229,860	238,782	253,695
Growth (%)	(5.5)	3.9	6.2
EBITDA	22,986	34,026	39,323
EBITDA Margin (%)	10.0	14.3	15.5
Adj. PAT	4,507	13,141	17,400
Growth (%)	(47.9)	191.6	32.4
Adj. EPS	3.7	10.7	14.2
Growth (%)	(48.2)	191.6	32.4
P/E	37.8	13.0	9.8
P/B	1.8	1.6	1.4
EV/EBITDA	10.6	7.1	6.0
ROE (%)	(3.2)	12.7	14.9
D/E	0.8	0.8	0.7

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs.cr	Q3FY24	Q3FY23	YoY Growth(%)	Q2FY24	QoQ Growth(%)	9MFY24	9MFY23	YoY Growth(%)
Revenue	55,312	57,084	(3.1)	55,682	(0.7)	170,483	180,391	(5.5)
EBITDA	6,264	4,048	54.7	4,268	46.8	15,705	25,081	(37.4)
EBITDA margins	11.3	7.1	420bps	7.7	360bps	9.2	13.9	(470bps)
Depreciation	2,422	2,368	2.3	2,480	(2.3)	7,314	6,953	5.2
EBIT	3,842	1,679	128.7	1,788	114.9	8,391	18,128	(53.7)
Interest	1,881	1,768	6.4	1,959	(4.0)	5,665	4,505	25.8
Other Income	228	271	(15.8)	228	(0.1)	1,633	868	88.1
Exceptional Items	(334)	160	n.m.	(6,899)	95.2	(7,220)	102	n.m.
Share of profit from Associate	73	60	21.3	103	(28.7)	(95)	322	n.m.
PBT	1,928	403	378.4	(6,739)	n.m.	(2,956)	14,914	n.m.
Tax	1,406	2,905	(51.6)	(228)	n.m.	2,508	8,405	(70.2)
Reported PAT	522	(2,502)	n.m.	(6,511)	n.m.	(5,464)	6,509	n.m.
Minority Interest	9	(278)	n.m.	(315)	n.m.	(415)	(546)	24.0
PAT att. to shareholders	513	(2,224)	n.m.	(6,196)	n.m.	(5,049)	7,056	n.m.
Adjustments	334	(160)	n.m.	6,899	(95.2)	7,220	(102)	n.m.
Adj. PAT	848	(2,384)	n.m.	703	20.6	2,171	6,954	(68.8)
No. of shares	1,228.8	1,221.2	0.6	1,221.2	0.6	1,228.8	1,221.2	0.6
Adj. EPS (Rs.)	0.7	(2.0)	n.m.	0.6	19.9	1.8	5.7	(69.0)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY26E	FY24E	FY25E
Revenue	226,851	235,207	229,860	238,782	253,695	1.3	1.5
EBITDA	32,326	38,339	22,986	34,026	39,323	(28.9)	(11.2)
Margins (%)	14.3	16.3	10.0	14.3	15.5	(425bps)	(205bps)
Adj. PAT	12,523	16,692	4,507	13,141	17,400	(64.0)	(21.3)
Adj. EPS	10.3	13.7	3.7	10.7	14.2	(64.0)	(21.3)

Sum-of-the-parts Valuation

Particulars	Basis	Multiple	Year	Value (Rs. cr.)	Value/share (Rs.)
India	EV/EBITDA	6.8x	FY26E	225,874	184
Europe	EV/EBITDA	4.6x	FY26E	21,604	18
Others	EV/EBITDA	5.6x	FY26E	7,915	6
Enterprise Value				255,393	208
Net Debt				(67,596)	(55)
Minority Interest				(2,093)	(2)
Equity Value				185,704	151

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	243,959	243,353	229,860	238,782	253,695
% change	55.9	(0.2)	(5.5)	3.9	6.2
EBITDA	63,490	32,300	22,986	34,026	39,323
% change	108.1	(49.1)	(28.8)	48.0	15.6
Depreciation	9,101	9,335	10,024	10,306	10,497
EBIT	54,389	22,965	12,962	23,721	28,825
Interest	5,462	6,299	7,550	5,659	5,206
Other Income*	1,300	1,569	(5,435)	901	458
PBT	50,227	18,235	(23)	18,962	24,077
% change	262.8	(63.7)	n.m.	n.m.	27.0
Tax	8,478	10,160	3,095	5,689	6,501
Tax Rate (%)	16.9	55.7	n.m.	30.0	27.0
Reported PAT	41,749	8,075	(3,118)	13,274	17,576
PAT att. to common shareholders	40,154	8,760	(2,713)	13,141	17,400
Adj*	134	(113)	7,220	-	-
Adj PAT	40,288	8,647	4,507	13,141	17,400
% change	305.6	(78.5)	(47.9)	191.6	32.4
No. of shares (cr)	1221.2	1221.2	1228.8	1228.8	1228.8
Adj EPS (Rs.)	33.0	7.1	3.7	10.7	14.2
% change	301.3	(78.5)	(48.2)	191.6	32.4
DPS (Rs.)	5.1	3.6	3.6	3.6	3.6

*: - Non operating Income (Loss), Exceptional/ Non-recurring items (pre-tax), Share of Results of Associates

BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	15,899	13,357	11,215	13,034	16,939
Accounts Receivable	12,246	8,257	7,799	9,551	11,416
Inventories	48,824	54,415	50,569	56,932	60,164
Other Cur. Assets	15,587	10,636	10,525	10,598	10,721
Investments	4,615	4,780	4,980	5,480	5,980
Gross Fixed Assets	195,501	209,316	222,674	236,551	251,294
Net Fixed Assets	116,166	127,140	128,848	130,741	133,257
CWIP	21,228	21,864	22,520	23,196	23,892
Intangible Assets	17,939	28,830	29,612	30,416	31,243
Def. Tax (Net)	6,809	6,995	6,995	6,995	6,995
Other Assets	26,131	11,746	11,935	12,134	12,342
Total Assets	285,446	288,022	284,999	299,077	312,947
Current Liabilities	65,487	69,659	73,179	77,906	80,175
Provisions	4,826	4,776	4,919	5,067	5,219
Debt Funds	76,551	80,953	81,953	82,453	80,903
Other Liabilities	21,483	27,458	27,314	27,167	27,015
Equity Capital	1,221	1,221	1,221	1,221	1,221
Reserves & Surplus	113,222	101,861	94,724	103,441	116,418
Shareholder's Fund	114,443	103,082	95,945	104,663	117,639
Minority Interest	2,655	2,093	1,688	1,820	1,996
Total Liabilities	285,446	288,022	284,999	299,077	312,947
BVPS (Rs.)	94	84	78	85	96

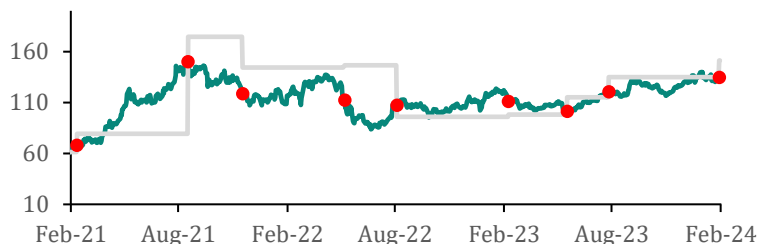
CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	50,850	17,411	6,906	23,579	28,073
Non-cash adj.	10,448	8,304	11,491	6,309	6,293
Changes in W.C	(16,917)	(4,031)	3,994	(4,110)	(4,037)
C.F. Operation	44,381	21,683	22,390	25,778	30,329
Capital exp.	(9,953)	(13,815)	(13,358)	(13,877)	(14,744)
Change in inv.	(1,146)	(5,515)	(200)	(500)	(500)
Other invest.CF	218	650	-	-	-
C.F - Investment	(10,881)	(18,680)	(13,558)	(14,377)	(15,244)
Issue of equity	326	1	-	-	-
Issue/repay debt	(13,921)	6,543	1,000	500	(1,550)
Dividends paid	(3,064)	(6,293)	(4,424)	(4,424)	(4,424)
Other finance.CF	(6,742)	(7,232)	(7,550)	(5,659)	(5,206)
C.F - Finance	(23,401)	(6,981)	(10,974)	(9,583)	(11,180)
Chg. in cash	10,099	(3,977)	(2,142)	1,818	3,905
Closing cash	15,899	13,357	11,215	13,034	16,939

RATIOS

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	26.0	13.3	10.0	14.3	15.5
EBIT margin (%)	22.3	9.4	5.6	9.9	11.4
Net profit mgn.(%)	16.5	3.6	(1.2)	5.5	6.9
ROE (%)	36.5	7.8	(3.2)	12.7	14.9
ROCE (%)	28.1	12.3	7.2	12.6	14.4
W.C & Liquidity					
Receivables (days)	18.3	12.4	12.4	14.6	16.4
Inventory (days)	213.5	175.4	182.5	186.2	186.2
Payables (days)	160.7	121.9	135.4	135.8	131.8
Current ratio (x)	1.0	0.9	0.8	0.9	0.9
Quick ratio (x)	0.4	0.3	0.2	0.2	0.3
Turnover & Leverage					
Gross asset T.O (x)	1.3	1.2	1.1	1.0	1.0
Total asset T.O (x)	0.9	0.8	0.8	0.8	0.8
Int. coverage ratio (x)	10.0	3.6	1.7	4.2	5.5
Adj. debt/equity (x)	0.7	0.8	0.8	0.8	0.7
Valuation					
EV/Sales (x)	0.9	0.8	1.1	1.0	0.9
EV/EBITDA (x)	3.5	6.1	10.6	7.1	6.0
P/E (x)	4.0	14.8	37.8	13.0	9.8
P/BV (x)	1.4	1.2	1.8	1.6	1.4

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
18-Aug-21	HOLD	174
18-Nov-21	BUY	144
9-May-22	BUY	147
5-Aug-22	REDUCE	96
9-Feb-23	REDUCE	98
19-May-23	HOLD	115
28-Jul-23	BUY	135
5-Feb-24	HOLD	151

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review

DISCLAIMER & DISCLOSURES

Certification: I, Antu Eapan Thomas, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

For General disclosures and disclaimer: Please Visit : <https://www.geojit.com/research-disclosures#fundamental-research>

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

Regulatory Disclosures:

Group companies of Geojit Financial Services Limited are Geojit Technologies Private Limited (Software Solutions provider), Geojit Credits Private Limited (NBFC), Geojit Investment Limited (financial Services Company (yet to start operations)), Geojit Techloan Private Ltd(P2P lending (yet to start operations)), Geojit IFSC Ltd (a company incorporated under IFSC Regulations(yet to start operations)), Qurum Business Group Geojit Securities LLC (a joint venture in Oman engaged in Financial Services), Barjeel Geojit Financial Services LLC (a joint venture in UAE engaged in Financial Services), Aloula Geojit Capital Company (a joint venture in Saudi Arabia (Under Liquidation)) and BBK Geojit Securities Co. K.S.C.C (a subsidiary in Kuwait-engaged in Financial services). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc. that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership of 1% or more in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

(i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

(ii) He, his associates and his relatives have no actual/beneficial ownership of 1% or more in the subject company covered.

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Antu Eapan Thomas, Research Analyst (s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

6. "Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors."

7. Standard Warning: "Investment in securities market are subject to market risks. Read all the related documents carefully before investing."

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing. Geojit Financial Services Ltd. Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com. **Compliance officer:** Ms. Indu K. Address: Geojit Financial Services Limited, 34/659 P, Civil Lane Road, Padivattom, Kochi - 682024; Phone: +91 484-2901367; Email: compliance@geojit.com. **For grievances: Grievance Officer:** Mr Nitin K; Address: Geojit Financial Services Limited, 34/659 P, Civil Lane Road, Padivattom, Kochi - 682024; Phone: +91 484-2901363; Email: grievances@geojit.com. Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226.