

November 07, 2024

RESULT REPORT Q2 FY25 | Sector: Metals and Mining

# Tata Steel Ltd

## Europe transitions while Indian operations strengthen; Maintain NEUTRAL!

### Results Synopsis

Tata Steel's Q2FY25 performance was above the consensus expectations, primarily driven by volumes and falling coking coal prices, which offset the declines in NSR on a QoQ basis. Net revenue from operations decreased by 1.6% QoQ and 3.2% YoY, with EBITDA down 8.3% QoQ and up 43% YoY. Raw material costs were higher on a standalone basis due to change in value of chrome ore inventory.

The company's Kalinganagar 5.0 mtpa brownfield expansion remains on schedule, with the CRM complex addin annealing lines expected to be commissioned soon. Tata Steel is also advancing its expansion plans at the NINL production site as part of its broader strategy to achieve its Indian capacity targets for FY2031.

In Europe, the performance saw losses peaking in Q2FY25 due to TSUK blast furnace shutdowns, poor demand seen in the Netherlands and falling NSR. TSN saw an increase of deliveries on a QoQ basis by 2% with the BF relining now complete – the same trajectory is expected to continue.

### Port Talbot transition advances while Kalinganagar 5.0 mtpa brownfield expansion ramps up

Tata Steel's current operational capacity in India stands at 26.60 mtpa, which includes the 5.0 mtpa brownfield expansion at Kalinganagar. This expansion is expected to reach full ramp-up within the next few quarters. The 2.20 mtpa CRM complex is adding galvanizing and annealing facilities, which will contribute to an improved product mix by increasing the share of VAP thereby enhancing realizations. Once fully operational, the Kalinganagar facility is expected to deliver significant cost efficiencies, with potential savings of up to Rs 4,000/t.

While the KP-II progresses, the company's focus will be towards cost reductions on the European business which has been facing its challenges since the acquisition of Corus. The TSUK second blast furnace has been shut down and is now expected to undergo a transition period where only the downstream facilities are expected to provide the delivery volumes.

### Valuation and View

With steel prices anticipated to have bottomed out and China's stimulus measures expected to benefit the steel sector and likely boost steel prices, we expect an improvement in steel spreads from the lows seen during H1FY25.

We project Revenue/EBITDA growth for Tata Steel at a CAGR of 8%/26%, over FY25-27E. We value Tata Steel on a SOTP basis to arrive at our revised target price of Rs 157/sh.

### Exhibit 1: Actuals vs Estimates

Rs mn	Actuals	Estimates		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	539,047	512,487	531,043	5.2%	1.5%	Results upbeat despite challenging Q2 macro-environment
EBITDA	61,413	50,305	53,450	22.1%	14.9%	
EBITDA (%)	11.4%	9.8%	10.1%	161 bps	132 bps	
PAT	7,588	2,651	2,550	186.3%	197.6%	

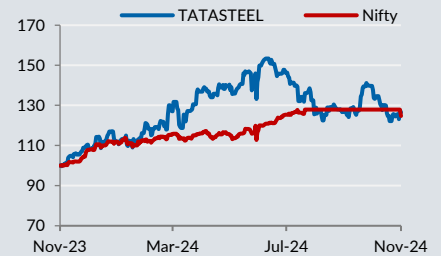
Source: YES Sec

Reco	: NEUTRAL
CMP	: Rs 151
Target Price	: Rs 157
Potential Upside	: +4%

### Stock data (as on Nov 7, 2024)

Nifty	24,199
52 Week h/l (Rs)	185 / 118
Market cap (Rs/USD mn)	1917720 / 22756
Outstanding Shares (mn)	12,485
6m Avg t/o (Rs mn):	7,750
Div yield (%):	2.2
Bloomberg code:	TATA IN
NSE code:	TATASTEEL

### Stock performance



	1M	3M	1Y
Absolute return	-8.2%	-1.9%	26.2%

### Shareholding pattern (As of Sep'24 end)

Promoter	33.2%
FII+DII	43.9%
Others	23.0%

### Δ in estimates

	New	Old
<b>FY26E</b>		
EBITDA/t	357,568	359,000
<b>FY27E</b>		
Sales (mt)	32.70	NA
EBITDA/t	407,190	NA

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	157	169

### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	2,167,394	2,336,220	2,526,025
YoY (%)	(5.4%)	7.8%	8.1%
EBIDTA	257,565	357,568	407,190
EBITDA (%)	11.9%	15.3%	16.1%
PAT	30,768	72,434	90,245
ROE (%)	3.2%	7.2%	8.4%
ROCE (%)	8.6%	13.4%	15.0%

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## RESULT HIGHLIGHTS

### Consolidated performance

- Consolidated revenue from operations for the quarter stood at Rs 539,047 mn (vs our estimate of Rs 512,487 mn) down 1.6% QoQ and 3.2% YoY.
- Absolute EBITDA for the quarter stood at Rs 61,413 mn (vs our estimate of Rs 50,305 mn). EBITDA margins stood at 11.4% for the quarter vs 12.7% in Q1FY25 and 8.1% in Q2FY24.
- Net profit for the quarter stood at Rs 7,588 mn (vs our estimate of Rs 2,651 mn) down 17.4% QoQ.
- The company has spent Rs 48,060 mn on capex during the quarter and Rs 85,830 mn for H1FY25.

### Exhibit 2: Consolidated Quarterly Snapshot

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% qoq	% yoy
Revenue	594,897	556,819	553,119	586,873	547,714	539,047	(1.6%)	(3.2%)
Cost of goods sold	274,752	259,031	224,465	260,909	224,230	239,431	6.8%	(7.6%)
Employee costs	59,254	59,165	65,271	61,407	64,669	63,266	(2.2%)	6.9%
Other expenses	209,152	195,945	200,747	198,556	191,870	174,938	(8.8%)	(10.7%)
EBITDA	51,739	42,678	62,636	66,002	66,945	61,413	(8.3%)	43.9%
EBITDA %	8.7%	7.7%	11.3%	11.2%	12.2%	11.4%	(6.8%)	48.6%
Depreciation	24,123	24,799	24,220	25,680	25,354	25,967	2.4%	4.7%
Other income	11,768	2,282	2,279	1,759	2,599	5,986	130.3%	162.3%
Finance costs	18,252	19,594	18,808	18,423	17,767	19,714	11.0%	0.6%
Share of profit/(loss)	(2,713)	1,029	734	370	925	(255)	(127.5%)	(124.8%)
Exceptional items	134	(68,989)	(3,341)	(5,945)	(3,579)	181	(105.1%)	(100.3%)
Profit before tax	18,554	(67,392)	19,279	18,084	23,768	21,643	(8.9%)	(132.1%)
Taxes	13,305	(2,280)	14,058	12,543	14,583	14,055	(3.6%)	(716.4%)
Profit after tax	5,249	(65,112)	5,221	5,541	9,186	7,588	(17.4%)	(111.7%)
Minority interest	(1,091)	(3,149)	88	(569)	(410)	(746)	81.8%	(76.3%)
Profit attributable to owners	6,340	(61,962)	5,134	6,110	9,596	8,335	(13.1%)	(113.5%)

Source: Company, YES Sec

### Exhibit 3: Consolidated Operational Performance

mtpa	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% qoq	% yoy
<b>Consolidated volumes</b>								
Production	7.13	7.31	7.58	7.92	8.00	7.69	(3.9%)	5.2%
Sales	7.20	7.07	7.15	7.98	7.39	7.52	1.8%	6.4%
Realization/t (Rs)	82,624.5	78,758.0	77,359.3	73,543.0	74,115.5	71,681.8	(3.3%)	(9.0%)
EBITDA/t (Rs)	7,185.9	6,036.5	8,760.2	8,270.9	9,058.8	8,166.6	(9.8%)	35.3%

Source: Company, YES Sec

## Exhibit 4: Standalone Quarterly Snapshot

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% qoq	% yoy
Revenue	354,868	341,978	346,819	365,401	329,579	323,995	(1.7%)	(5.3%)
Cost of goods sold	154,166	151,018	125,298	153,938	127,686	139,142	9.0%	(7.9%)
Employee costs	17,198	18,825	18,665	19,617	21,388	19,401	(9.3%)	3.1%
Other expenses	116,427	103,081	120,359	111,137	112,745	99,354	(11.9%)	(3.6%)
EBITDA	67,078	69,054	82,496	80,708	67,760	66,098	(2.5%)	(4.3%)
EBITDA %	18.9%	20.2%	23.8%	22.1%	20.6%	20.4%	(0.8%)	1.0%
Depreciation	14,837	14,823	15,076	15,203	15,238	15,564	2.1%	5.0%
Other income	14,843	8,220	3,286	4,774	3,744	8,515	127.4%	3.6%
Finance costs	10,203	11,162	10,579	9,255	9,248	11,329	22.5%	1.5%
Exceptional items	(112)	(129,928)	101	(6,417)	(2,366)	138	(105.8%)	(100.1%)
Profit before tax	56,767	(78,640)	60,228	54,607	44,653	47,858	7.2%	(160.9%)
Taxes	4,626	6,270	13,697	13,775	11,343	11,949	5.3%	90.6%
Profit after tax	52,142	(84,910)	46,530	40,832	33,310	35,910	7.8%	(142.3%)

Source: Company, YES Sec

## Exhibit 5: Standalone Operational Performance

mtpa	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% qoq	% yoy
<b>Standalone volumes</b>								
Production	4.84	4.91	5.13	5.24	5.01	5.06	1.0%	3.1%
Sales	4.79	4.82	4.88	5.42	4.94	5.11	3.4%	6.0%
Realization/t	74,085	70,950	71,069	67,417	66,716	63,404	(5.0%)	(10.6%)
EBITDA/t	14,004	14,326	16,905	14,891	13,716	12,935	(5.7%)	(9.7%)

Source: Company, YES Sec

## Exhibit 6: Tata Steel Netherlands quarterly performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% qoq	% yoy
Revenue	150,260	129,610	129,230	139,080	141,670	141,010	(0.5%)	8.8%
Cost of goods sold	86,370	70,100	66,000	68,300	66,720	64,360	(3.5%)	(8.2%)
Employee costs	26,910	25,360	30,680	27,710	27,830	27,650	(0.6%)	9.0%
Other expenses	48,710	45,600	44,690	46,030	42,600	46,570	9.3%	2.1%
EBITDA	(11,730)	(11,450)	(12,140)	(2,960)	4,520	2,430	(46.2%)	(121.2%)
EBITDA %	(7.8%)	(8.8%)	(9.4%)	(2.1%)	3.2%	1.7%	(46.0%)	(119.5%)
<b>Volumes (mt)</b>								
Production	0.94	1.19	1.19	1.48	1.69	1.66	(1.8%)	39.5%
Deliveries	1.37	1.23	1.30	1.43	1.47	1.50	2.0%	22.0%
Realization/t (Rs)	109,679	105,374	99,408	97,259	96,374	94,007	(2.5%)	(10.8%)
EBITDA/t (Rs)	(8,562)	(9,309)	(9,338)	(2,070)	3,075	1,620	(47.3%)	(117.4%)

Source: Company, YES Sec

## Exhibit 7: Tata Steel UK quarterly performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% qoq	% yoy
Revenue	77,380	72,880	62,940	68,000	68,100	65,150	(4.3%)	(10.6%)
Cost of goods sold	38,110	41,880	33,600	38,560	39,400	43,870	11.3%	4.8%
Employee costs	11,290	11,210	12,100	10,440	11,850	11,890	0.3%	6.1%
Other expenses	31,960	33,460	33,810	22,880	26,400	25,270	(4.3%)	(24.5%)
EBITDA	(3,980)	(13,670)	(16,570)	(3,880)	(9,550)	(15,880)	66.3%	16.2%
EBITDA %	(5.1%)	(18.8%)	(26.3%)	(5.7%)	(14.0%)	(24.4%)	73.8%	29.9%
<b>Volumes (mt)</b>								
Production	0.85	0.76	0.72	0.66	0.68	0.39	(42.6%)	(48.7%)
Deliveries	0.75	0.73	0.64	0.69	0.68	0.63	(7.4%)	(13.7%)
Realization/t (Rs)	103,173	99,836	98,344	98,551	100,147	103,413	3.3%	3.6%
EBITDA/t (Rs)	(5,307)	(18,726)	(25,891)	(5,623)	(14,044)	(25,206)	79.5%	34.6%

Source: Company, YES Sec

## KEY CONFERENCE CALL HIGHLIGHTS

### Macro-economic environment

- China's steel production shows no signs of slowing down and the steel exports continue to be on the rise which has remained a concern for the Indian steel industry.
- The property sector in China continues to be a drag on the steel industry however it was offset by strong growth in manufacturing and investments. In India, growth remains strong across sectors.
- The policy rate cuts, and China's stimulus package is expected to support consumption; however, geopolitical risks remain elevated.

### General business updates

- Kalinganagar Plant: ~7,500/t per day being produced by BF at Kalinganagar. The cold rolling mill complex (2.2 mtpa) and 6 mtpa pellet plant at Kalinganagar is on track.
- BF at Kalinganagar should be able to produce 15,000t/day at a steady state. Currently at 7,500t/day and are ramping up to 10,000t/day.
  - CRM and annealing lines are being commissioned.
- CRM complex: CRM has been operating for the last few months as per the plan. Annealing line is being commissioned next month. One galvanizing line by March 2025, with another one being added by June 2025.
  - The general margin differential between HRC and CRC is ~\$100/t. With the new annealing line, barring the conversion costs, an additional \$50/t can be expected on the margin front.
- Growth projects in India – NINL to be the next site for expansion while Kalinganagar ramps up. Focus on getting EC approvals and engineering before going to the Board for approval. NINL EC of 10 mtpa will have a hearing in November but an official announcement will disclose further details. Ludhiana steel plant of 0.8 mtpa – should be done by FY2026 end.
- NINL plant has now stabilized with an EBITDA margin of 13% for the quarter.
- Working capital levels increase happened due to inventory buildup in India (due to coal) and creditor payouts. In Europe, there was iron ore, coal and slab buildup at the TSUK operations.
- Oxygen cost is about Rs 2,000/t and is typically outsourced. The cost is partially dependent on power costs. Linde is the supplier for Kalinganagar.

### Tata Steel European Operations

- TSUK both the blast furnaces have been shut down successfully. TSN has seen lower demand. Production is back on track after furnace relining.
- UK fixed cost reduction of GBP 100/t expected during H2FY25. TSUK is buying substrate, converting it and then selling it to customers – this requires lowering of fixed costs to make up for cost of conversion.
- TSUK is expected to breakeven by Q1FY26 if the market conditions follow a favorable pattern.
- Netherlands decarbonization capex not to be seen for at least a year as the company is still in the process of negotiating with the Netherlands government and European commissions.
- TSUK capex – the first 18 to 20 months of spend not that significant, it's the last 16 months where most costs occur. Lower capex expected next year in comparison to last 2 years.
- Cost takeout over next 3 – 4 quarters in UK: Losses are peaking this quarter (Q2FY25), and as cost takeout is completed the negative profits will be reducing in the coming quarters. Employee strength to be reduced to a target of 5,000 employees.

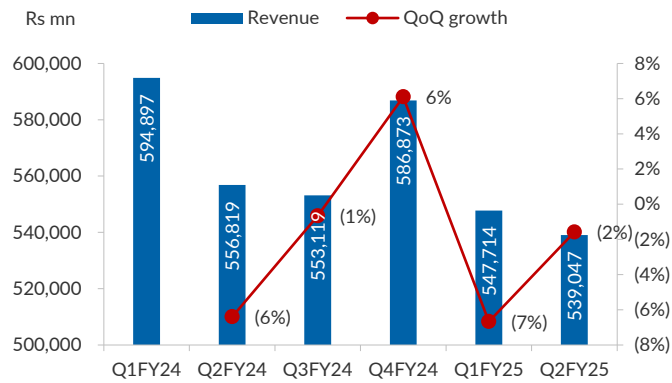
- Neutral cash flow from Netherlands is expected by second half.
- Restructuring costs of GBP 50 million in TSUK has been budgeted – this spend has not happened yet. The contract termination spend has been done. The remaining spend will happen during H2FY25 and Q1FY26.

## Guidance

- Expect consolidated capex in FY25 to be ~Rs 18,000-19,000 crores. The next two fiscals will see lower capex vs FY25 since no new large projects are yet in the pipeline.
- In India, NSR should be lower by ~ Rs 2,000/t in Q3FY25 vs Q2FY25.
- Consolidated volumes guidance: 1.4 mn tonnes more than FY24.

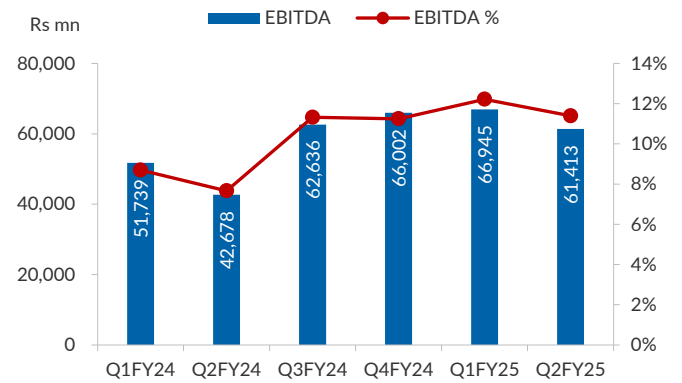
## QUARTERLY PERFORMANCE IN CHARTS

**Exhibit 8: Revenue fell ~1.7% QoQ**



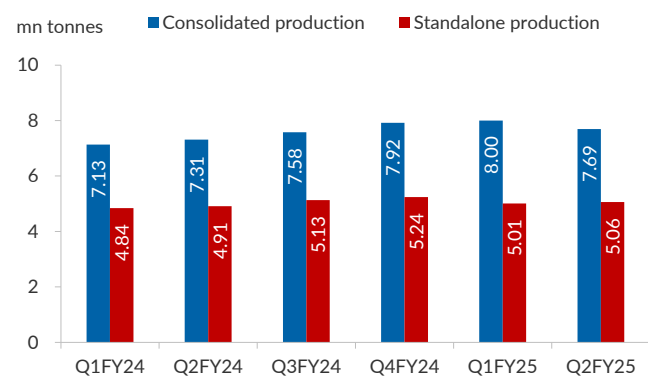
Source: Company, YES Sec

**Exhibit 9: EBITDA performance**



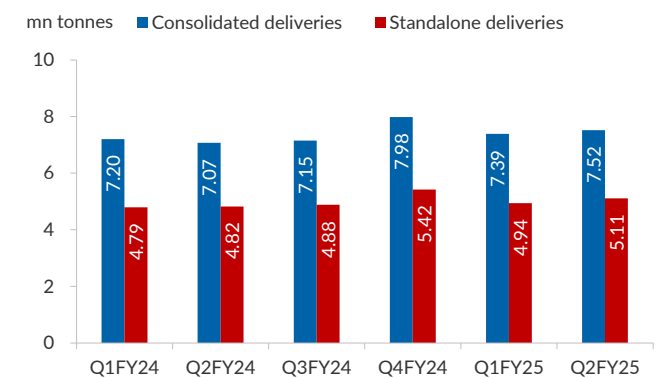
Source: Company, YES Sec

**Exhibit 10: Production volumes remain strong**



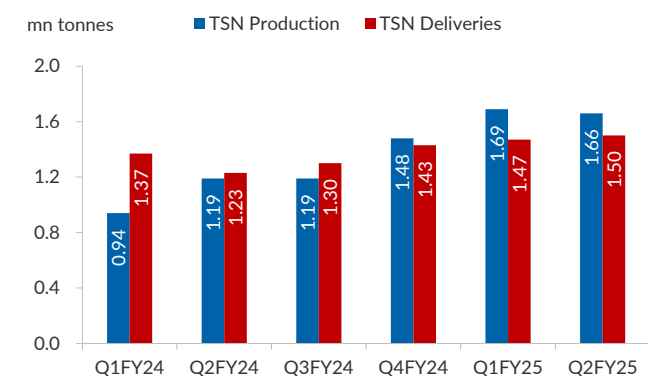
Source: Company, YES Sec

**Exhibit 11: Deliveries pick up post an undesirable Q1**



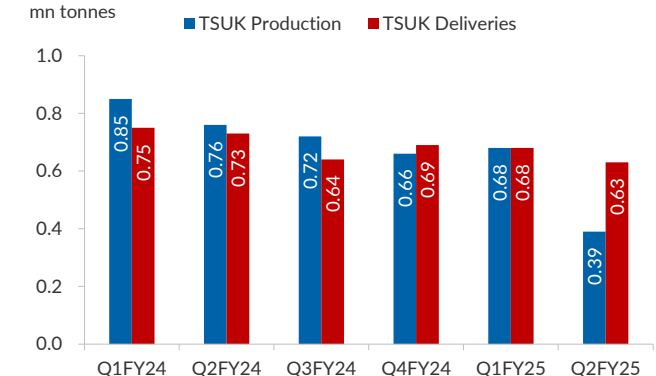
Source: Company, YES Sec

**Exhibit 12: TSN performance**



Source: Company, YES Sec

**Exhibit 13: TSUK performance**



Source: Company, YES Sec

## FINANCIALS OVERVIEW

### Exhibit 14: Income Statement

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net revenue	1,564,774	2,439,592	2,433,527	2,291,708	2,167,394	2,336,220	2,526,025
Cost of goods sold	566,176	834,787	1,132,383	1,019,157	950,972	983,043	1,048,758
Employee cost	199,088	232,641	224,193	245,096	243,383	242,736	256,403
Other expenses	494,468	737,264	753,949	804,396	715,475	752,872	813,674
EBITDA	305,043	634,900	323,002	223,059	257,565	357,568	407,190
% Margin	19.5%	26.0%	13.3%	9.7%	11.9%	15.3%	16.1%
Dep. & Amort.	92,336	91,009	93,352	98,822	101,868	105,130	113,671
Other income	8,956	7,849	10,375	18,089	8,585	-	-
Finance costs	76,067	54,622	62,987	75,076	80,656	85,376	85,376
Share of profit/(loss)	3,273	6,492	4,181	(580)	670	-	-
Exceptional items	(10,432)	(1,341)	1,133	(78,141)	(3,398)	-	-
Profit before tax	138,437	502,269	182,351	(11,470)	80,899	167,062	208,143
Taxes	56,539	84,776	101,598	37,626	50,131	94,629	117,898
Profit after tax	81,898	417,493	80,753	(49,096)	30,768	72,434	90,245

Source: Company, YES Sec

### Exhibit 15: Balance Sheet

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Assets</b>							
PPE	1,190,035	1,161,665	1,186,967	1,235,381	1,247,514	1,232,384	1,202,713
CWIP	181,287	212,276	303,079	333,702	409,702	469,702	525,702
Non-current assets	1,852,755	1,928,890	2,013,562	2,028,753	2,115,964	2,163,366	2,192,542
Inventories	332,764	488,244	544,153	491,575	442,918	457,856	488,463
Trade receivables	95,398	122,464	82,572	62,635	65,319	70,407	76,127
Cash and equivalents	55,321	156,047	121,299	70,808	2,947	20,602	16,448
Bank	2,501	2,943	12,274	15,969	22,846	70,918	109,297
Current assets	601,122	922,561	866,061	705,036	599,242	688,371	762,719
<b>Total assets</b>	<b>2,454,872</b>	<b>2,854,456</b>	<b>2,880,217</b>	<b>2,734,235</b>	<b>2,715,206</b>	<b>2,851,737</b>	<b>2,955,261</b>
<b>Equity and liabilities</b>							
Equity share capital	11,976	12,212	12,212	12,474	12,474	12,474	12,474
Other equity	722,662	1,132,218	1,018,609	907,883	930,959	985,284	1,052,968
Non-current liabilities	971,116	777,591	855,514	825,873	868,443	884,131	886,029
Current liabilities	708,671	903,969	972,951	984,035	899,360	965,877	999,820
<b>Total equity and liabilities</b>	<b>2,454,872</b>	<b>2,854,456</b>	<b>2,880,217</b>	<b>2,734,235</b>	<b>2,715,206</b>	<b>2,851,737</b>	<b>2,955,261</b>

Source: Company, YES Sec



## Exhibit 16: Cash Flow Statement

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>							
Profit before taxes	138,437	502,269	182,351	(11,470)	80,899	167,062	208,143
Depreciation & amortization	92,336	91,009	93,352	98,822	101,868	105,130	113,671
Finance costs	76,067	54,622	62,987	75,076	80,656	85,376	85,376
CFO before working cap changes	285,397	659,004	309,083	222,367	263,422	357,568	407,190
Working capital changes	164,913	(96,177)	(37,065)	33,837	(7,419)	(1,884)	(6,181)
Cash generated from operations	450,310	562,827	272,018	256,204	256,004	355,684	401,009
Taxes paid	(7,043)	(119,017)	(55,188)	(53,197)	(50,131)	(94,629)	(117,898)
<b>Net CFO</b>	<b>443,267</b>	<b>443,810</b>	<b>216,831</b>	<b>203,007</b>	<b>205,872</b>	<b>261,055</b>	<b>283,111</b>
<b>Cash flow from investing</b>							
Purchase of PPE	(69,786)	(105,222)	(141,425)	(182,066)	(114,000)	(90,000)	(84,000)
Sale of PPE	4,446	5,695	3,277	4,754	-	-	-
Change in non-current assets	-	-	-	-	921	(2,532)	(2,847)
Others	(27,889)	(9,285)	(48,651)	34,798	(76,000)	(60,000)	(56,000)
<b>Net CFI</b>	<b>(93,229)</b>	<b>(108,812)</b>	<b>(186,798)</b>	<b>(142,514)</b>	<b>(189,079)</b>	<b>(152,532)</b>	<b>(142,847)</b>
<b>Cash flow from financing</b>							
Proceeds from borrowings	98,006	124,389	167,687	133,295	50,000	59,000	-
Payments of borrowings	(391,772)	(263,596)	(102,261)	(109,600)	(32,000)	-	-
Finance costs paid	(68,034)	(46,867)	(61,197)	(81,446)	(80,656)	(85,376)	(85,376)
Dividends paid	(11,505)	(30,201)	(62,926)	(44,288)	(7,692)	(18,108)	(22,561)
<b>Net CFF</b>	<b>(370,897)</b>	<b>(234,011)</b>	<b>(69,807)</b>	<b>(110,970)</b>	<b>(77,778)</b>	<b>(42,796)</b>	<b>(106,039)</b>
Net change in cash	(20,859)	100,987	(39,775)	(50,478)	(60,984)	65,727	34,225
Cash at beginning	77,323	55,321	156,070	121,299	70,808	2,947	20,602
Cash at end	55,321	156,070	121,299	70,808	9,824	68,674	54,827

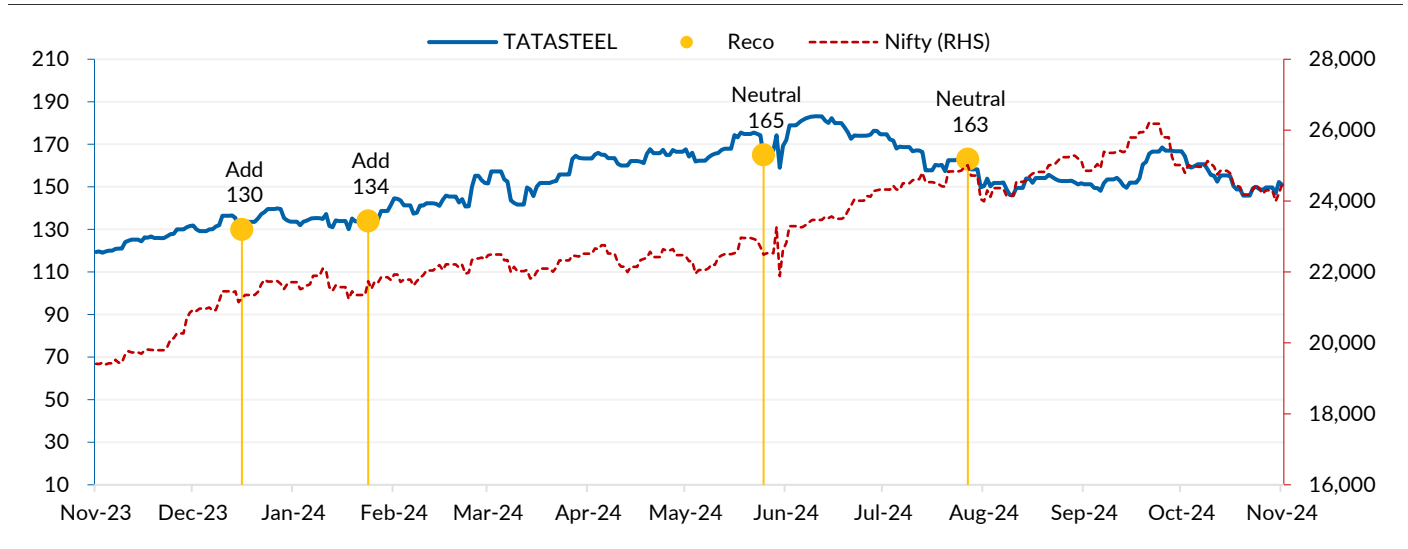
Source: Company, YES Sec

## Exhibit 17: Key Ratios

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth (%)</b>							
Revenues	5.0%	55.9%	(0.2%)	(5.8%)	(5.4%)	7.8%	8.1%
GP	17.0%	60.7%	(18.9%)	(2.2%)	(4.4%)	11.2%	9.2%
EBITDA	71.1%	108.1%	(49.1%)	(30.9%)	15.5%	38.8%	13.9%
EBIT	133.2%	155.7%	(57.8%)	(45.9%)	25.3%	62.1%	16.3%
PAT	598.5%	409.8%	(80.7%)	(160.8%)	(162.7%)	135.4%	24.6%
<b>Margins (%)</b>							
GP	63.8%	65.8%	53.5%	55.5%	56.1%	57.9%	58.5%
EBITDA	19.5%	26.0%	13.3%	9.7%	11.9%	15.3%	16.1%
EBIT	13.6%	22.3%	9.4%	5.4%	7.2%	10.8%	11.6%
PAT	5.2%	17.1%	3.3%	(2.1%)	1.4%	3.1%	3.6%
<b>Return profile (%)</b>							
ROE	10.6%	35.7%	7.7%	(5.3%)	3.2%	7.2%	8.4%
ROCE	12.2%	27.9%	12.0%	7.1%	8.6%	13.4%	15.0%

Source: Company, YES Sec

## Recommendation Tracker



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