

Tata Steel | BUY

India beat driven by inventory movement, Europe continues to be a drag

Tata steel reported consol. EBITDA of INR57.4bn, ~22% higher than JMfe of INR47bn. The out-performance was largely on of account Indian operations amidst sustained losses in European operations. India business reported QoQ increase in EBITDA/t to INR16.9 k/t on account of favourable movement in closing inventory. Europe continued to report EBITDA loss of USD178/t vs. loss of USD168/t in 2Q due to delay in relining of BF in Netherlands. The company reported profit of INR5bn during 3Q. Net debt during the quarter increased marginally to INR774bn (up INR4bn QoQ).

Key takeaways from the call are – 1) Expected coking coal price movement in 4Q (a) India: (+)USD10/t (b) Netherlands: (+) USD18/t (c) UK: (+) USD11/t 2) Expected net realisation movement in 4Q: (a) India (-) INR1,000/t (b) Netherlands: (-) £40/t (c) UK (+) £40/t 3) Netherlands BF is likely to be operational by Jan'24 end, Netherland ops is expect to be EBITDA positive by FY25E 4) the company endeavors to cut UK losses by half in FY25E 5) Kalinganagar phased commissioning started with additional 0.7 mt volume expected in FY25E 6) Management endeavour is to make transition to EAF within 4 years. The sector awaits steel price increases in the back drop of recent sharp hikes in coking coal and iron ore costs. In the meanwhile, spot spreads continue to be under pressure. Maintain BUY.

- **Healthy performance by Indian operations – led by favourable inventory movement:** Tata Steel India standalone EBITDA came at INR82.5bn implying a blended EBITDA/t of INR16.9k/t (JMfe INR 14.7k/t), a sequential increase of ~INR3.4k/t primarily on account of favourable movement in closing inventory. PAT came in at ~INR46.5bn vs loss of ~INR62bn during 2Q (due to provisioning worth INR129.5bn for EAF based decarbonisation project and UK restructuring).
- **Europe losses to trend down in FY25E:** TSE reported an EBITDA loss of USD345mn vs loss of USD304mn in 2Q. EBITDA/t stood at negative USD178/t in 3Q vs USD167/t in 2Q. Within european operation TSE UK dragged overall profitability with EBITDA loss of INR16.5bn vs loss of INR13.7bn in 2Q driven by higher other expense. Company plans to continue operating its downstream rolling mills while transitioning to EAF in UK with slabs to be procured from sister mills (i.e. from India or Netherlands). Netherland EBITDA to turn profitable in FY25E. Further, management anticipates cutting the losses from the UK operation in FY25E by half compared to the losses incurred in FY24.
- **Growth capex on track:** Company incurred capex of INR47.1bn in 3Q and INR133.6bn for 9MFY24 and has started phased comissioning of the 5MTPA expansion at Kalinganagar. Further company has commenced production from 2.2 MTPA CRM facility in India (widest CRM in India) and has received approvals from OEM's for CRC. Further company will close its blast furnance, coke ovens in UK and would invest £1.25bn for scrap based EAF facility in Port Talbot, UK (with government grant of £500mn).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	145
Upside/(Downside)	7.5%
Previous Price Target	150
Change	-3.1%

Key Data – TATA IN

Current Market Price	INR135
Market cap (bn)	INR1,662.1/US\$20.0
Free Float	58%
Shares in issue (mn)	12,213.0
Diluted share (mn)	12,213.0
3-mon avg daily val (mn)	INR4,650.7/US\$55.9
52-week range	142/102
Sensex/Nifty	71,060/21,454
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	1.2	17.0	12.3
Relative*	1.3	9.3	-3.7

* To the BSE Sensex

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Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	2,456,402	2,433,527	2,076,715	2,207,029	2,240,465
Sales Growth (%)	57.0	-0.9	-14.7	6.3	1.5
EBITDA	651,710	323,002	182,787	349,816	377,343
EBITDA Margin (%)	26.5	13.3	8.8	15.9	16.8
Adjusted Net Profit	419,690	86,471	-11,761	148,627	182,282
Diluted EPS (INR)	34.4	7.1	-1.0	12.2	14.9
Diluted EPS Growth (%)	391.8	-79.4	0.0	0.0	22.6
ROIC (%)	29.5	5.7	-1.5	8.8	10.1
ROE (%)	44.7	8.0	-1.2	14.3	15.7
P/E (x)	3.9	19.1	-140.2	11.1	9.0
P/B (x)	1.4	1.6	1.7	1.5	1.3
EV/EBITDA (x)	3.4	7.5	13.2	6.6	5.9
Dividend Yield (%)	4.0	3.3	1.9	2.6	3.3

Source: Company data, JM Financial. Note: Valuations as of 24/Jan/2024

Exhibit 1. Quarterly performance (consolidated)							(INR mn)
Y/E March (Rs mn)	3QFY24	3QFY24E	Var%	3QFY23	YoY %	2QFY24	QoQ %
Net Sales	553,119	584,905	-5.4	570,836	-3.1	556,819	-0.7
EBITDA	57,420	47,046	22.1	27,270	110.6	41,470	38.5
PAT- Reported	5,134	2,110	143.3	-22,238		-61,962	
PAT- Adjusted	1,140	2,110	-46.0	-22,238	-105.1	5,818	-80.4
Key monitorables (INR bn)							
Net Debt	774	NA		717		770	
Capex	46	NA		34		41	

Source: Company, JM Financial

Exhibit 2. Quarterly performance (standalone)							(INR mn)
Y/E March (Rs mn)	3QFY24	3QFY24E	Var%	3QFY23	YoY %	2QFY24	QoQ %
Net Sales	346,819	344,776	0.6	304,653	13.8	341,852	1.5
Volumes (mntons)	4.88	4.92	-0.7	4.59	6.3	4.82	1.2
Realization (Rs/ton)	71,069	70,128	1.3	66,373	7.1	70,924	0.2
Raw material cost	134,522	151,984	-11.5	145,980	-7.8	144,570	-7.0
RM cost/t	27,566	30,914	-10.8	31,804	-13.3	29,994	-8.1
Change in stock	-9,224	0		4,512		5,705	
Change in stock/t	-1,890	0		983		1,184	
Gross profit	221,521	192,792	14.9	154,160	43.7	191,577	15.6
Gross margin (%)	63.9	55.9		50.6		56.0	
Gross margin/t	45,394	39,214		33,586		39,746	
Staff cost	18,665	17,207	8.5	16,098	15.9	18,635	0.2
Staff cost/t	3,825	3,500		3,507		3,866	
Other cost	111,161	103,244	7.7	94,945	17.1	113,337	-1.9
Other cost/t	22,779	21,000		20,685		23,514	
Total expenditure	264,349	272,436	-3.0	257,023	2.9	276,542	-4.4
EBITDA	82,470	72,340	14.0	47,630	73.1	65,310	26.3
EBITDA (%)	23.8	21.0		15.6		19.1	
Blended EBITDA/ton	16,900	14,714	14.9	10,377	62.9	13,550	24.7
Other income	3,286	8,500		9,070		8,240	
Depreciation	15,076	14,500	4.0	13,705		14,655	
EBIT	70,680	66,340	6.5	42,994	64.4	58,895	20.0
Interest	10,579	11,500	-8.0	10,733		11,374	
PBT	60,101	54,840	9.6	32,262	86.3	47,521	26.5
Tax	13,697	13,710		9,122		6,095	
Eff. Tax rate (%)	22.8	25.0		28.3		12.8	
XO items	127	0		3,911		-126,561	
PAT- Reported	46,530	41,130	13.1	27,051	72.0	-85,136	NA
PAT- Adjusted	46,404	41,130	12.8	23,140	100.5	41,426	12.0
EPS (Rs)	3.8	3.4		1.9		3.4	

Source: Company, JM Financial

Exhibit 3. Quarterly performance – TSE							(USD mn)
(USD mn)	3QFY24	3QFY24E	% Var	3QFY23	YoY %	2QFY24	QoQ %
Net Sales	2,179	2,320	-6.1	2,527	-13.8	2,280	-4.4
Deliveries (mn tons)	1.9	1.8		2.0	-3%	1.8	7%
Realisations (US\$/ton)	1,123	1,289	-12.9	1,270	-11.5	1,259	-10.8
EBITDA	-345	-319	8.3	-189		-304	13.5
EBITDA/ton (US\$/ton)	-178	-177		-95		-168	
PAT	-535	-509	NA	-379	NA	-494	NA

Source: Company, JM Financial

Exhibit 4. Quarterly Performance – TSE UK						(INR mn)
Particulars	2QFY24	3QFY23	YoY %	2QFY24	QoQ %	
Deliveries (in mn tons)	0.64	0.66	-3.0%	0.73	-12.3%	
Revenue	62,940	71,300	-11.7%	72,880	-13.6%	
Revenue/ton (in INR/Ton)	98,343.8	108,030.3		99,835.6		
EBITDA	(16,570)	(14,760)	-	(13,670)	21.2%	
EBITDA/ton (in INR/Ton)	(26,063)	(22,340)		(18,801)		

Source: Company, JM Financial

Exhibit 5. Quarterly Performance – TSE Netherlands						(INR mn)
Particulars (INR mn)	3QFY24	3QFY23	YoY %	2QFY24	QoQ %	
Deliveries (in mn tons)	1.30	1.40	-7.1%	1.23	5.7%	
Revenue	129,230	143,480	-9.9%	129,610	-0.3%	
Revenue/ton (in INR/Ton)	99,407.7	102,485.7		105,374.0		
EBITDA	(12,140)	(780)	1456.4%	(11,440)	6.1%	
EBITDA/ton (in INR/Ton)	(9,370)	(556)		(9,296)		

Source: Company, JM Financial

Exhibit 6. TATA steel – Key assumptions and estimates

Particulars	FY24E	FY25E	FY26E
Tata Steel Consolidated			
Net sales (INR bn)	2,077	2,207	2,240
EBITDA (INR bn)	183	350	377
EPS (INR)	(1.0)	12.2	14.9
Tata Steel Standalone (incl. BSL)			
Net sales (INR bn)	1,096	1,180	1,226
Sales volume (mn ton)	18.7	20.8	22.0
Blended realisation ('000 INR/ton)	58.8	56.7	55.8
EBITDA (INR bn)	267	306	330
EBITDA/t ('000 INR)	14.3	14.7	15.0
Tata Steel Long Products			
Net sales (INR bn)	95	99	100
Sales volume (mn ton) including sponge iron	2.4	2.5	2.5
Blended realisation ('000 INR/ton)	39.1	39.2	39.3
EBITDA (INR bn)	3.6	6.8	7.0
EBITDA/t ('000 INR)	1.5	2.7	2.7
Tata Steel Europe			
Net sales (USD mn)	9,305	9,765	9,533
Sales volume (mn tons)	9.3	9.3	9.3
EBITDA (USD mn)	(1,146)	344	339
EBITDA/t (USD/t)	(130)	37	36

Source: JM Financial

Exhibit 7. Tata Steel – SOTP valuation (INR bn)

Companies	FY26 EBITDA (INR bn)	Target EV (INR bn)
India business (incl. BSL/Tata Longs)	337	2,024
Corus	27	151
Others	15	75
Total EV		2,250
Total Net debt		551
Target M.Cap		1,699
Dilutive no. of shares (mn)		12,213
Value INR/share		139
Investments (INR/share)		3
Target Price (INR/share)		145

Source: JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	2,456,402	2,433,527	2,076,715	2,207,029	2,240,465	
Sales Growth	57.0%	-0.9%	-14.7%	6.3%	1.5%	
Other Operating Income	0	0	0	0	0	
Total Revenue	2,456,402	2,433,527	2,076,715	2,207,029	2,240,465	
Cost of Goods Sold/Op. Exp	834,787	1,326,704	1,193,914	1,063,428	462,583	
Personnel Cost	232,641	178,065	191,294	197,486	202,050	
Other Expenses	737,264	605,756	508,720	596,299	1,198,490	
EBITDA	651,710	323,002	182,787	349,816	377,343	
EBITDA Margin	26.5%	13.3%	8.8%	15.9%	16.8%	
EBITDA Growth	113.6%	-50.4%	-43.4%	91.4%	7.9%	
Depn. & Amort.	91,009	93,352	100,038	112,520	115,675	
EBIT	560,701	229,650	82,749	237,296	261,669	
Other Income	7,849	10,375	13,617	17,254	21,414	
Finance Cost	54,622	62,987	35,259	25,453	16,634	
PBT before Excep. & Forex	513,928	177,037	61,107	229,097	266,448	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	513,928	177,037	61,107	229,097	266,448	
Taxes	84,776	101,598	79,734	85,110	88,645	
Extraordinary Inc./Loss(-)	-1,341	1,133	0	0	0	
Assoc. Profit/Min. Int.(-)	9,462	-11,032	-6,866	-4,639	-4,478	
Reported Net Profit	418,350	87,604	-11,761	148,627	182,282	
Adjusted Net Profit	419,690	86,471	-11,761	148,627	182,282	
Net Margin	17.1%	3.6%	-0.6%	6.7%	8.1%	
Diluted Share Cap. (mn)	12,212.1	12,212.4	12,213.0	12,213.0	12,213.0	
Diluted EPS (INR)	34.4	7.1	-1.0	12.2	14.9	
Diluted EPS Growth	391.8%	-79.4%	0.0%	0.0%	22.6%	
Total Dividend + Tax	78,514	54,213	30,560	42,784	55,008	
Dividend Per Share (INR)	5.3	4.4	2.5	3.5	4.5	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	504,466	188,069	67,973	233,736	270,926	
Depn. & Amort.	91,009	93,352	100,038	112,520	115,675	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCAP.	-141,913	153,756	81,868	22,413	-10,719	
Others	-18,151	1,133	0	0	0	
Taxes Paid	-84,776	-101,598	-79,734	-85,110	-88,645	
Operating Cash Flow	350,635	334,712	170,145	283,559	287,237	
Capex	-142,274	-137,000	-140,000	-140,000	-140,001	
Free Cash Flow	208,361	197,712	30,145	143,559	147,236	
Inc (-) / Dec in Investments	-24,579	47,295	0	0	0	
Others	52,057	-5,623	-3,592	-1,365	-1,203	
Investing Cash Flow	-114,796	-95,328	-143,592	-141,365	-141,204	
Inc / Dec (-) in Capital	-1,200	-1,200	-1,198	-1,198	-1,197	
Dividend + Tax thereon	-78,514	-54,213	-30,560	-42,784	-55,008	
Inc / Dec (-) in Loans	-90,379	104,658	-121,426	-98,999	-88,998	
Others	35,422	-314,046	1,199	1,198	1,197	
Financing Cash Flow	-134,671	-264,801	-151,985	-141,783	-144,006	
Inc / Dec (-) in Cash	101,167	-25,417	-125,433	411	2,028	
Opening Cash Balance	57,822	158,989	133,573	8,140	8,551	
Closing Cash Balance	158,989	133,573	8,140	8,551	10,579	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	1,144,430	1,030,821	988,500	1,094,343	1,221,617	
Share Capital	12,212	12,212	12,213	12,213	12,213	
Reserves & Surplus	1,132,218	1,018,609	976,287	1,082,130	1,209,404	
Preference Share Capital	0	0	0	0	0	
Minority Interest	26,554	20,931	17,339	15,974	14,771	
Total Loans	802,386	907,043	785,618	686,619	597,621	
Def. Tax Liab. / Assets (-)	158,977	172,095	172,095	172,095	172,095	
Total - Equity & Liab.	2,132,347	2,130,890	1,963,551	1,969,030	2,006,103	
Net Fixed Assets	1,553,334	1,778,345	1,818,307	1,845,787	1,870,114	
Gross Fixed Assets	2,158,522	2,381,707	2,437,342	2,507,342	2,577,343	
Intangible Assets	43,112	56,017	56,017	56,017	56,017	
Less: Depn. & Amort.	868,756	971,509	1,071,547	1,184,067	1,299,742	
Capital WIP	220,456	312,130	396,496	466,496	536,496	
Investments	131,399	84,103	84,103	84,103	84,103	
Current Assets	1,169,724	1,017,770	781,124	799,029	820,980	
Inventories	488,244	544,153	512,034	516,600	520,661	
Sundry Debtors	122,464	82,572	65,785	73,779	72,672	
Cash & Bank Balances	158,989	133,573	8,140	8,551	10,579	
Loans & Advances	400,026	257,471	195,164	200,099	217,069	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	722,109	749,327	719,982	759,889	769,094	
Current Liabilities	646,164	662,742	626,906	662,813	667,593	
Provisions & Others	75,945	86,586	93,076	97,076	101,500	
Net Current Assets	447,615	268,442	61,142	39,140	51,887	
Total - Assets	2,132,347	2,130,890	1,963,551	1,969,030	2,006,103	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		17.1%	3.6%	-0.6%	6.7%	8.1%
Asset Turnover (x)		1.4	1.2	1.1	1.2	1.2
Leverage Factor (x)		1.9	1.8	1.9	1.7	1.6
RoE		44.7%	8.0%	-1.2%	14.3%	15.7%

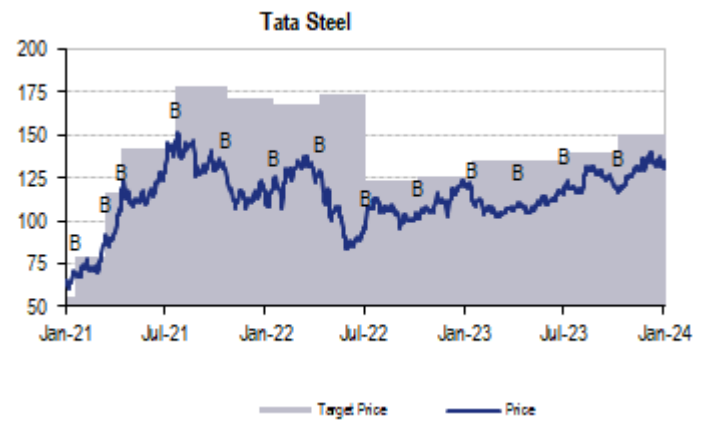
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		93.7	84.4	80.9	89.6	100.0
ROIC		29.5%	5.7%	-1.5%	8.8%	10.1%
ROE		44.7%	8.0%	-1.2%	14.3%	15.7%
Net Debt/Equity (x)		0.5	0.7	0.7	0.6	0.5
P/E (x)		3.9	19.1	-140.2	11.1	9.0
P/B (x)		1.4	1.6	1.7	1.5	1.3
EV/EBITDA (x)		3.4	7.5	13.2	6.6	5.9
EV/Sales (x)		0.9	1.0	1.2	1.0	1.0
Debtor days		18	12	12	12	12
Inventory days		73	82	90	85	85
Creditor days		131	115	121	130	131

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
7-Feb-20	Buy	58	
15-Apr-20	Buy	40	-31.0
30-Jun-20	Buy	40	0.0
14-Aug-20	Buy	46	14.5
23-Oct-20	Buy	50	9.2
14-Nov-20	Buy	56	11.0
10-Feb-21	Buy	79	41.4
8-Apr-21	Buy	116	47.8
6-May-21	Buy	142	22.4
13-Aug-21	Buy	178	25.4
12-Nov-21	Buy	172	-3.7
7-Feb-22	Buy	168	-2.0
4-May-22	Buy	174	3.5
26-Jul-22	Buy	123	-29.3
1-Nov-22	Buy	125	1.9
7-Feb-23	Buy	135	7.7
3-May-23	Buy	135	0.0
25-Jul-23	Buy	140	3.7
2-Nov-23	Buy	150	7.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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