

January 28, 2024

RESULT REPORT Q3 FY24 | Sector: Metals and Mining

Tata Steel Ltd

Indian operations remain steady; maintain ADD

Result Synopsis

Tata Steel's Q3FY24 performance came in above the consensus estimates on account of better cost mix especially on the coking coal front. The European operations, however, continue to remain a drag with the heavy-end loss making assets in UK continuing to bleed the company on the cash front. In the midst of the Q3FY24 results, the focus was on the company's plan to restructure its UK operations which have been financially destructive on the company's performance. The company announced its restructuring plans over the last week and stated that the two blast furnaces in UK will be shut down in a phased manner by the end of CY 2024. The first blast furnace and coke oven are expected to shut down mid-2024 and the second one will see the same fate by the end of 2024. During the year, the company plans to continue its operations at the UK plants as is which would continue to be a cash-loss business. The positive out here is that the relining at the Netherlands facility will be completed by the end of January and the plant will again be up and running thereby providing improved quantities in terms of production.

On the results front, the company performed tremendously beating margin estimates despite the overhang of the European operations. The company reported an EBITDA margin of 11.3% (vs 7.7% in Q2FY24 and 7.1% in Q3FY23). The margins grew on the back of better volumes and better raw material utilization despite coking coal prices rising globally. The top-line remained flat sequentially as the global and domestic steel prices did not see much movement.

In terms of the operational performance, the consolidated production stood at 7.58 mt, rising 3.7% on a QoQ basis and remaining flat on a YoY basis. The deliveries for the quarter came in at 7.15 mt, a 1.1% rise sequentially and remaining flat on a YoY basis.

Valuation & View

We retain our target price for Tata Steel at Rs 153/sh on a SOTP valuation basis and have an ADD recommendation for the company. We see Tata Steel Ltd to be rightly positioned in the Indian steel space, growing strongly with upcoming capacities and with relief on the European business. The company has been using leaner blends of coking coal thereby safeguarding themselves from the price volatility in coking coal over the recent months. We expect this trend to continue and be a good positive for the company on sustaining their margins going forward.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	553,119	595,614	578,107	-7%	-4%	Strong performance in India curtails over the European sorrows
EBITDA	64,915	59,707	55,265	9%	17%	
EBITDA Margin (%)	11.7%	10.0%	9.6%	17%	23%	
PAT	5,221	20,617	6,000	-75%	-13%	

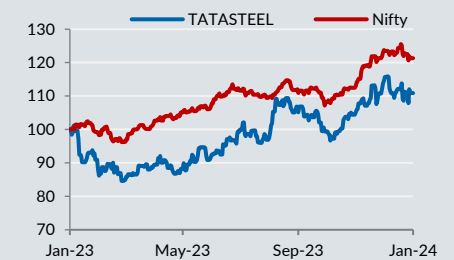
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 134
Target Price	: Rs 153
Potential Upside	: +14%

Stock data (as on Jan 25, 2024)

Nifty	21,353
52 Week h/l (Rs)	141 / 102
Market cap (Rs/USD mn)	1656337 / 19928
Outstanding Shares (mn)	12,386
6m Avg t/o (Rs mn):	4,093
Div yield (%):	2.7
Bloomberg code:	TATA IN
NSE code:	TATASTEEL

Stock performance



	1M	3M	1Y
Absolute return	-3.2%	11.6%	10.9%

Shareholding pattern (As of Dec'23 end)

Promoter	33.7%
FII+DII	43.3%
Others	23.0%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	153	153

Financial Summary

(Rs bn)	FY24E	FY25E	FY26E
Revenue	2,290	2,320	2,413
YoY Growth	-5.9%	1.3%	4.0%
EBITDA	240	320	416
EBITDA (%)	10.5%	13.8%	17.2%
PAT	46	107	180
EPS	4.4	9.5	15.5
ROE	4.4%	9.9%	15.0%
ROCE	2.5%	5.6%	9.0%

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Result Highlights

- Revenue for the quarter stood at Rs 553,119 (vs our estimate of Rs 595,614 mn), remaining flat on a QoQ basis and reporting a drop of 3.7% YoY due to low steel prices.
- EBITDA margins stood at 11.3% (vs our estimate of 10%), led by strong realizations and higher volumes in India. On a consolidated level, the margins came in at 7.7% and 7.1% for Q2FY24 and Q3FY23 respectively.
- Indian operations saw revenues remaining broadly stable and the company did not face much of the rising coking coal impact during the quarter. It would be expected that the Q4FY24 performance would take a significant hit due to the rising raw material pricing.
- The company has spent Rs 4,715 crores on capex during the quarter and Rs 13,357 crores for 9MFY24. The phased commissioning of the 5.0 mtpa plant expansion at Kalinganagar has commenced.
- Net debt stands at Rs 77,405 crores.
- Tata Steel India –
 - Crude steel production came in at 5.35 mt as compared to 5.02 mt in Q2FY24 and 5.00 mt in Q3FY23.
 - The deliveries in India also saw a rise by clocking in at 4.88 mt for the quarter as compared to 4.82 in Q2FY24 and 4.74 mt in Q3FY23.
- Tata Steel Europe –
 - UK revenues were £603 million and EBITDA loss stood at £159 million.
 - Liquid steel production was 0.72 million tons while deliveries stood at 0.64 million tons. Deliveries were lower QoQ due to subdued demand.
 - Tata Steel Netherlands’ revenues were £1,239 million and EBITDA loss stood at £117 million. Liquid steel production was broadly stable at 1.19 million tons but lower on YoY basis due to the relining of one of the blast furnaces at Ijmuiden.
 - Deliveries stood at 1.30 million tons and were up 5% QoQ basis.

Production Highlights

- The company reported a consolidated steel production of 7.58 mt in Q3FY24, a 3.7% rise from Q2FY24 and a flattish trend as compared to Q3FY23.
- Consolidated steel deliveries came in at 7.15 mt, a mere 1.1% growth on a QoQ basis and flat on a YoY basis.
- Consolidated EBITDA/t saw a rise from Rs 5,869/t in Q2FY24 to Rs 8,035/t in the current quarter despite facing challenges on managing the rising cost of coking coal.

Exhibit 2: Consolidated Operational Performance

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	% qoq	% yoy
Consolidated									
Production (mt)	7.74	7.56	7.56	7.80	7.13	7.31	7.58	3.7%	0.3%
Deliveries (mt)	6.62	7.23	7.15	7.78	7.20	7.07	7.15	1.1%	0.0%
Total Revenue	634,301	598,775	570,836	629,615	594,897	556,819	553,119	-0.7%	-3.1%
Realization/t	95,816	82,818	79,837	80,927	82,625	78,758	77,359	-1.8%	-3.1%
EBITDA/t	21,661	8,045	3,812	9,288	8,503	5,869	8,035	36.9%	110.8%

Source: Company, YES Sec

Exhibit 3: Consolidated Quarterly Snapshot

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	% qoq	% yoy
Revenue	634,301	598,775	570,836	629,615	594,897	556,819	553,119	-0.7%	-3.1%
COGS	232,206	313,390	300,226	286,561	274,752	259,031	224,465	-13.3%	-25.2%
Gross Profit	402,095	285,385	270,610	343,055	320,145	297,788	328,654	10.4%	21.4%
GPM %	63%	48%	47%	54%	54%	53%	59%	11.1%	25.3%
Employee Costs	59,634	53,183	53,424	57,953	59,254	59,165	65,271	10.3%	22.2%
Other Expenses	192,733	171,599	176,707	212,910	209,152	195,945	200,747	2.5%	13.6%
EBITDA	152,409	63,896	43,184	73,887	63,507	44,961	64,915	44.4%	50.3%
EBITDA %	24%	11%	8%	12%	11%	8%	12%	45.3%	55.1%
Other Income	2,681	3,293	2,706	1,695	11,768	2,282	2,279	-0.1%	-15.8%
Depreciation	22,368	23,478	23,684	23,822	24,123	24,799	24,220	-2.3%	2.3%
Finance Costs	12,181	15,191	17,679	17,936	18,252	19,594	18,808	-4.0%	6.4%
Share of P/L	1,595	1,019	605	963	-2,713	1,029	734	-28.7%	21.3%
PBT	119,063	26,051	4,030	33,208	18,554	-67,392	19,279	-128.6%	378.4%
Tax	41,923	13,081	29,049	17,545	13,305	-2,280	14,058	-716.5%	-51.6%
PAT	77,140	12,971	-25,020	15,662	5,249	-65,112	5,221	-108.0%	-120.9%

Source: Company, YES Sec

Exhibit 4: Tata Steel Europe

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	% qoq	% yoy
Tata Steel Europe									
Revenue	259,610	215,590	207,450	220,360	213,350	202,490	192,170	-5.1%	-7.4%
COGS	85,990	96,900	114,800	112,800	110,570	111,400	99,600	-10.6%	-13.2%
EBITDA	60,370	17,880	-15,510	-16,410	-15,690	-25,110	-28,710	14.3%	85.1%
Liquid Steel Production (mt)	2.44	2.40	2.24	2.27	1.79	1.95	1.91	-2.1%	-14.7%
Deliveries (mt)	2.14	1.87	1.99	2.16	1.99	1.96	1.94	-1.0%	-2.5%
EBITDA/t	28,220	9,540	-7,810	-7,610	-7,890	-12,811	-14,799	15.5%	89.5%

Source: Company, YES Sec

Exhibit 5: Tata Steel Standalone

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	% qoq	% yoy
Tata Steel Standalone									
Revenue	320,210	322,450	339,294	342,753	323,416	341,852	346,819	1.5%	2.2%
COGS	127,740	178,350	167,952	146,797	141,903	150,275	125,298	-16.6%	-25.4%
EBITDA	83,040	58,170	27,270	83,180	74,030	69,170	82,570	19.4%	202.8%
Production (mt)	4.73	4.64	4.77	4.82	4.65	4.91	5.13	4.5%	7.5%
Deliveries (mt)	3.89	4.76	4.59	4.98	4.62	4.82	4.88	1.2%	6.3%
EBITDA/t	21,326	8,045	3,812	16,719	16,014	13,401	16,903	26.1%	343.4%

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Industry Scenario

- Chinese domestic demand being weak has led to prices being under pressure in Asia. The Indian prices remained strong on the back of strong domestic demand. The Indian market was seeing a surge in the cheap Chinese imports during the Nov-Dec period due to rising Chinese exports.
- The demand in India remains to be strong and the company doesn't see any hiccups in the near term as all the sectors are seeing major investments in India. Price drop in India has been in the range of 3-4%, as compared to 7-8% in the international markets.
- Chinese steel producers at the current prices are not seeing any profitability. Either the raw material spot prices need to come down or we can see an uptick in the steel prices globally. Another price moving factor would be the Chinese steel exports. It is expected that in CY24, the exports should fall as China may shift its focus on exporting more of products on the end-use of steel rather than just the unfinished steel due to value-addition differences.

Tata Steel Europe

- The BF-6 is expected to start by the end of January or during early February at Tata Steel Netherlands (TSN) as the relining took more time than expected.
- For the UK (TSUK) business, both the high emission BF plants and coke ovens will be closed in a phased manner by the end of CY24. The new EAF plant won't be coming up at the same site as the current steel melting shop according to the engineering studies carried out by the company.
- The cost curve differential between the old and new plant remains the same as guided earlier - The management expects GBP 150-170/t of cost savings will take place because of lower carbon cost, raw material costs and consumables costs while shifting towards a greener production of steel through the new EAF plant in UK.
- The company made provisions of ~Rs 2,600 crores during Q2FY24 due to restructuring costs for the UK plant. The company doesn't expect to incur major incremental expenses apart from these.
- For TSN, in Q4FY24, the volumes should be higher 0.1 mt higher in Netherlands. For FY25, TSN is expected to produce 6.5 to 7.0 mt. However, a better guidance would be provided once the furnace relining is completed, and the plant is up and running.
- TSN is expected to be profitable in FY25 on the back of lower gas prices, energy costs and coal prices. In TSUK, the situation is expected to improve as the spreads in the region are currently between GBP 120-140/t as compared to GBP 200-220/t historically.
- TSUK net realizations are expected to increase by GBP 40/t and TSN will be seeing a reduction of GBP 14/t for Q4FY24.

Pricing Information

- For Q3FY24, the coking coal saw a rise by a mere \$4/t which was roughly lower by \$50-60/t than the spot prices. The company has been using the leaner blends of coking coal instead of the prime coking coal.
- For Q4FY24, in India the net realizations are expected to fall by roughly Rs 1,000/t and the costs are expected to see a rise by roughly \$10/t on the coking coal side. The absolute coking coal value would be \$250-255/t for Q4FY24.

Capital Expenditures

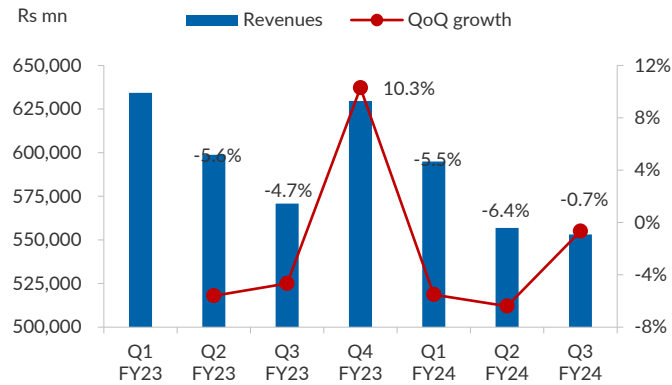
- KP-II can be expected to provide 0.7 mt for FY25. Another steel castor has started which helps the volumes. The blast furnace at the Kalinganagar expansion project is expected to start functioning by the end of September.

Tata Steel Ltd

- Post the Kalinganagar expansion, the company would shift to further expansions starting with NINL. The company plans to expand the current 1.0 mtpa NINL capacity to 5.0 mtpa in the next phase.
- Additionally, the company would also look for a third phase of expansion at Kalinganagar from 8.0 mtpa to 13.0 mtpa. The company is also exploring the expansion plants at the Meramandalli plant.
- Earlier, the pellets were bought at the market prices however, with the pellet plant coming in, the company will no longer have to look at the market for procuring the same.

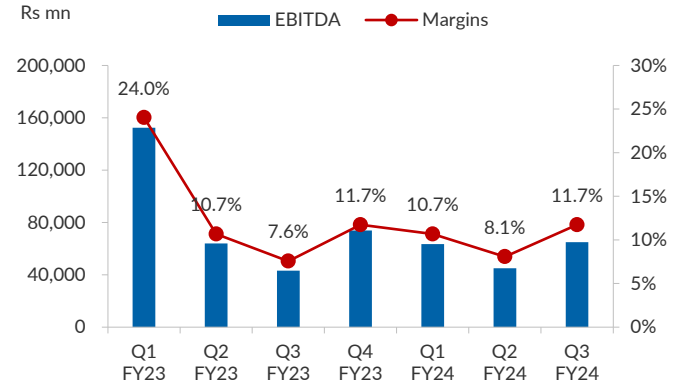
QUARTERLY TRENDS

Exhibit 6: Revenues remained flat sequentially...



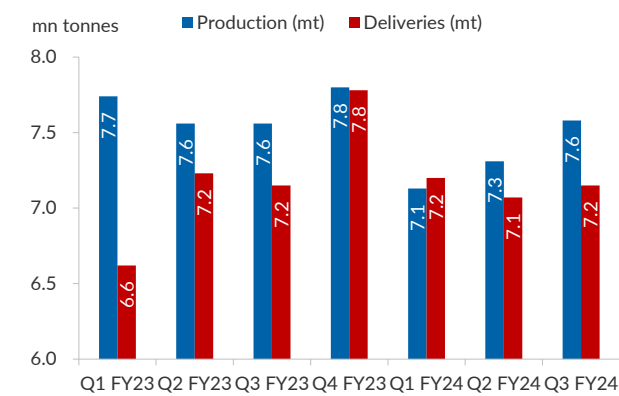
Source: Company, YES Sec

Exhibit 7: EBITDA margins fall down by 300bps QoQ...



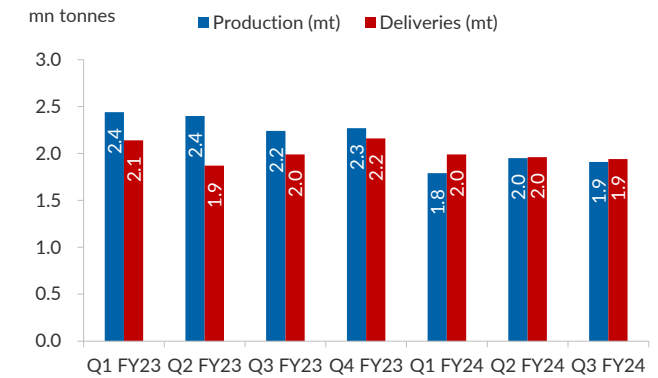
Source: Company, YES Sec

Exhibit 8: Consolidated Operational Highlights



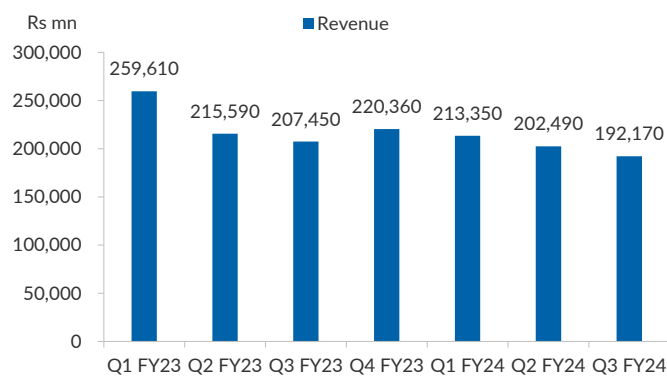
Source: Company, YES Sec

Exhibit 9: Tata Steel Europe Production Picture



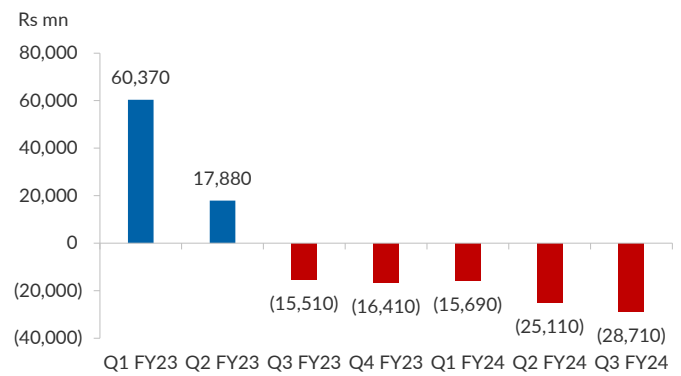
Source: Company, YES Sec

Exhibit 10: TSE revenues fall due to plant closures



Source: Company, YES Sec

Exhibit 11: TSE EBITDA remains a sorrow affair



Source: Company, YES Sec

FINANCIALS

Exhibit 12: Income Statement

Y/e 31 Mar (Rs bn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,330	1,577	1,398	1,565	2,440	2,434	2,290	2,320	2,413
COGS	522	608	575	566	835	1,132	1,045	1,107	1,116
Employee Cost	176	188	185	199	233	224	234	171	177
Other Expenses	424	504	487	512	766	754	797	739	722
Other Income	9	14	18	9	8	10	10	10	10
EBITDA	228	308	193	314	643	333	240	320	416
EBITDA (%)	17%	20%	14%	20%	26%	14%	10%	14%	17%
Depreciation	60	73	84	92	91	93	114	116	121
EBIT	168	235	109	222	552	240	125	204	295
EBIT (%)	13%	15%	8%	14%	23%	10%	5%	9%	12%
Interest	55	77	75	76	55	63	65	62	56
PBT	211	159	-2	138	502	182	62	143	240
Tax	34	67	-26	57	85	102	15	36	60
PAT	178	91	12	82	417	81	46	107	180
EPS	12.98	8.89	1.36	6.54	33.21	7.25	4.38	9.45	15.46

Exhibit 13: Balance Sheet

Y/e 31 Mar (Rs bn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Gross Block	1,364	1,690	1,783	1,925	1,909	2,021	2,175	2,268	2,364
Accumulated Dep	461	506	588	735	748	834	949	1,065	1,186
Net Block	903	1,185	1,195	1,190	1,162	1,187	1,226	1,203	1,179
CWIP	162	180	189	181	212	303	318	334	351
Other Non-current Assets	354	382	533	481	555	524	536	563	601
Inventory	283	317	311	333	488	544	458	501	520
Receivables	124	118	79	95	122	83	88	89	99
Cash & Bank	79	33	81	58	159	134	36	28	36
Other Current Assets	192	122	117	116	156	106	125	126	129
Total Assets	2,098	2,336	2,504	2,455	2,854	2,880	2,788	2,844	2,914
Share Capital	11	11	11	12	12	12	12	12	12
Reserves	575	655	702	723	1,132	1,019	1,009	1,057	1,166
Non-current Liabilities	923	1,013	1,126	971	778	856	825	819	800
Current Liabilities	557	610	617	709	906	973	920	934	914
Total Equity & Liabilities	2,098	2,336	2,504	2,455	2,854	2,880	2,788	2,844	2,914

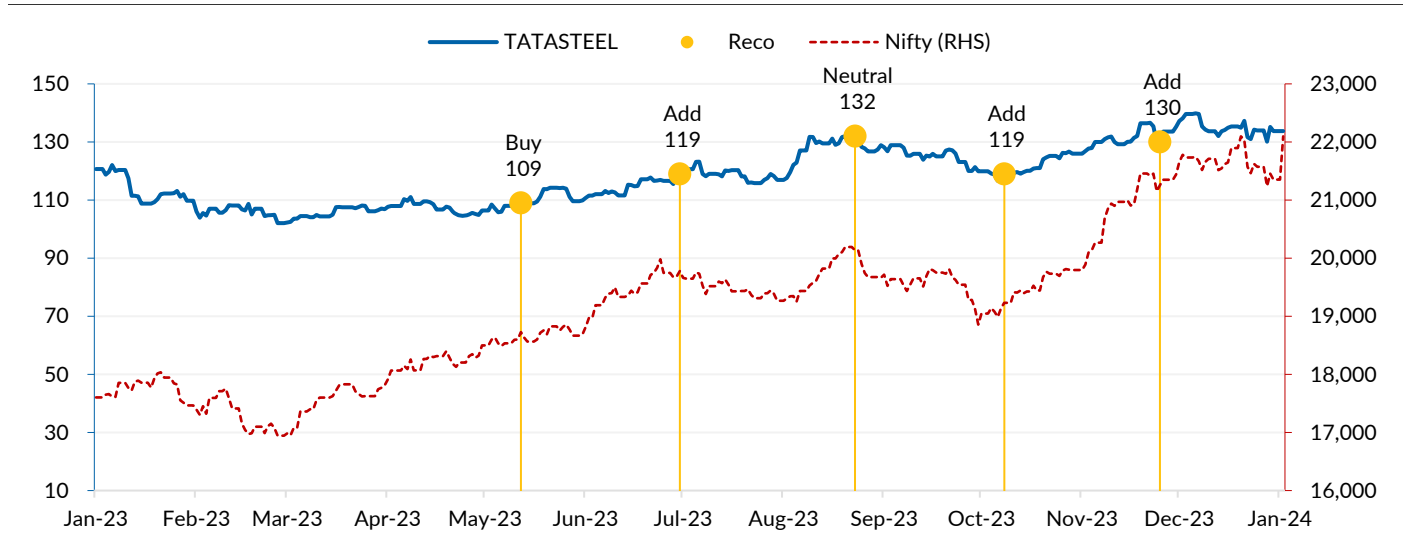
Exhibit 14: Cash Flow Statement

Y/e 31 Mar (Rs bn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before Tax	212	158	-14	138	502	182	-15	75	172
Add: Non-cash charges	-221	120	195	147	157	127	179	178	176
Profit before Working Capital changes	-10	278	181	285	659	309	164	253	348
Working capital changes	119	26	42	165	-96	-37	26	-33	-39
Cash flow from Operations	109	304	223	450	563	272	190	220	309
Taxes Paid	-29	-51	-21	-7	-119	-55	5	-19	-43
Net Cash flow from Operating Activities	80	253	202	443	444	217	195	201	266
Capex	-75	-91	-104	-70	-105	-141	-153	-93	-97
Other Investments	-45	-201	-41	-23	-4	-45	-15	-16	-17
Net Cash flow from Investing Activities	-120	-292	-145	-93	-109	-187	-169	-109	-113
Proceeds/(Repayment) from borrowings	44	83	86	-294	-139	65	-60	-30	-70
Other financial activities	22	-89	-103	-77	-95	-135	-63	-71	-75
Net Cash flow from Financing Activities	66	-7	-17	-371	-234	-70	-123	-101	-145
Opening Cash Balance	48	78	30	75	55	156	121	24	16
Net Change in Cash	26	-45	39	-21	101	-40	-97	-8	8
FX and Translation effects	3	-3	6	1	-0	5	-	-	-
Ending Cash Balance	78	30	75	55	156	121	24	16	24

Exhibit 15: Key Ratios

Y/e 31 Mar	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth (%)									
Total Sales	13%	19%	-11%	12%	56%	0%	-6%	1%	4%
EBITDA	30%	35%	-37%	63%	105%	-48%	-28%	34%	30%
EBIT	42%	39%	-54%	104%	149%	-56%	-48%	63%	44%
PAT	-526%	-49%	-87%	599%	410%	-81%	-43%	133%	68%
Profitability (%)									
GP Margins	61%	61%	59%	64%	66%	53%	55%	53%	54%
EBIDTA Margins	17%	20%	14%	20%	26%	14%	10%	14%	17%
EBIT Margins	13%	15%	8%	14%	23%	10%	5%	9%	12%
PAT Margins	13%	6%	1%	5%	17%	3%	2%	5%	7%
ROCE	12%	5%	1%	5%	21%	4%	2%	6%	9%
ROE	29%	13%	2%	11%	36%	8%	4%	10%	15%
Per Share Data (Rs)									
EPS	13.0	8.9	1.4	6.5	33.2	7.2	4.4	9.5	15.5
BVPS	59.7	62.1	66.5	67.6	96.8	87.0	86.2	90.2	99.2
Valuations (x)									
P/E	4.4	5.9	19.8	12.4	3.9	15.2	30.6	14.2	8.7
P/BV	1.0	0.8	0.4	1.2	1.3	1.3	1.6	1.5	1.4
EV/EBIDTA	6.1	4.8	7.1	5.6	3.4	6.2	9.7	7.2	5.3
Market Cap/Sales	0.4	0.4	0.2	0.6	0.6	0.5	0.7	0.7	0.7

Recommendation Tracker



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