

November 02, 2023

RESULT REPORT Q2 FY24 | Sector: Metals and Mining

Tata Steel Ltd.

European sorrows continue to hurt the consolidated performance

Result Synopsis

Tata Steel's Q2FY24 performance was below the consensus estimates on account of provisions created by the company for the restructuring and the impairment of assets of the UK business and the resulting poor performance on the European front. During H1FY24, the company has incurred Rs 8,642 crores of capex. Work on 5 MTPA expansion at Kalinganagar and EAF mill of 0.75 MTPA in Punjab is progressing as planned. Tata Steel Europe however was a drag on the consolidated performance of the steel major reporting an EBITDA loss of Rs 25,110 mn. The blast furnace in Netherlands will be soon functional and the Netherlands business is expected to turn cash positive and EBITDA positive by the end of the next quarter. For the UK business, the picture still looks gloomy as the company is still in formal talks with the unions. The company however created provisions for impairments and restructuring losses to be expected due to the closure of the heavy end assets at Port Talbot. On the cost front, the company did benefit from the falling coking coal prices however this was offset by falling realizations as well. The global steel pricing pressure has capped the top-line growth for the major steel producers; however, the management believes that the steel prices have largely bottomed out.

In terms of the operational performance, the consolidated production stood at 7.31 mt, reporting a fall of 3.3% on a YoY basis and a growth of 2.5% on a QoQ basis. The production downfall is on the back of the blast furnace shutdown in Netherlands for relining purposes. The deliveries also took an impact due to the bad macro-environment for steel demand in the US and the European regions. The deliveries for the quarter came in at 7.07mt, a fall of 2.2% on a YoY basis, and a fall of 1.8% on a QoQ basis.

We retain our target price for Tata Steel at Rs 133/sh and have an ADD recommendation for the company. We see the next couple of quarters to show slow growth in lieu of the rising coking coal prices. However, with the new capacities coming in for the Indian Steel Sector and Tata Steel, we expect margin expansion on the back of the volume growth.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	556,819	562,670	559,820	-1%	-1%	European business overhang still lingers; Indian business remains strong.
EBITDA	44,961	67,596	49,570	-33%	-9%	
EBITDA Margin (%)	8%	12%	9%	-33%	-9%	
PAT	-65,112	13,832	4,410	-571%	-1576%	

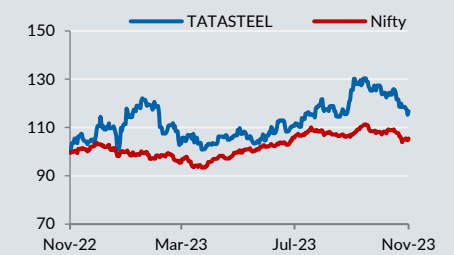
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 119
Target Price	: Rs 133
Potential Upside	: +13%

Stock data (as on Nov 2, 2023)

Nifty	19,133
52 Week h/l (Rs)	135 / 99
Market cap (Rs/USD mn)	1425031 / 17127
Outstanding Shares (mn)	12,223
6m Avg t/o (Rs mn):	4,143
Div yield (%):	3.0
Bloomberg code:	TATA IN
NSE code:	TATASTEEL

Stock performance



	1M	3M	1Y
Absolute return	-8.4%	-0.7%	16.6%

Shareholding pattern (As of Sep'23 end)

Promoter	33.9%
FII+DII	43.4%
Others	22.7%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	NEUTRAL
Target Price	133	133

Financial Summary

(Rs bn)	FY23	FY24E	FY25E
Revenue	2,434	2,368	2,464
YoY Growth	-0.2%	-2.7%	4.1%
EBIDTA	333	270	381
EBITDA (%)	13.7%	11.4%	15.4%
PAT	81	66	147
EPS	7.2	0.5	-5.1
ROE	7.7%	6.2%	13.1%
ROCE	4.2%	3.5%	7.5%

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Result Highlights

- Revenue from the quarter stood at Rs 556,819 mn (versus our estimate of Rs 562,670 mn), showing a 6.4% decline from Q1FY24 and a 7% decline over Q2FY23.
- EBITDA Margin came in at 8% as compared to 11%/11% in Q2FY23/Q1FY24 respectively. Absolute EBITDA stood at Rs 44,961, a 30% decline over Q2FY23 and a 29% decline over Q1FY24.
- The company has spent Rs 4,553 crores on capital expenditure during the quarter and Rs 8,642 crores for the half year.
- Net debt stands at Rs. 77,032 crores.
- Tata Steel India revenues were Rs 33,922 crores and EBITDA was Rs 6,841 crores.
 - Crude steel production was around 5 million tons and was broadly similar on QoQ basis but up 5% on YoY basis.
 - Deliveries at 4.82 million tons were marginally higher QoQ driven by rise in domestic deliveries.
 - EBITDA was Rs.6,841 crores which translates into an EBITDA margin of 20% for the Indian business.
- Europe revenues were £1,812 million and EBITDA loss stood at £242 million.
 - Liquid steel production was 1.95 million tons and the QoQ improvement was primarily driven by better operating efficiency at Netherlands.
 - Deliveries stood at 1.81 million tons and were marginally lower due to subdued demand and the ongoing relining of one of the blast furnaces at the Netherlands facility, which will be completed in 3QFY2024.

Production Highlights

- The company reported a consolidated steel production of 7.31 mt in Q2FY24, up 2.5% QoQ. Consolidated steel deliveries came in at 7.07 mt for the quarter, down 2% on a QoQ basis.
- Consolidated EBITDA/t fell down to Rs 5,869/t for Q2FY24 vs Rs 8,503/t during Q1FY24.

Exhibit 2: Consolidated Quarterly Snapshot

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% qoq	% yoy
Revenue	634,301	598,775	570,836	629,615	594,897	556,819	-6.4%	-7.0%
COGS	232,206	313,390	300,226	286,561	274,752	259,031	-5.7%	-17.3%
Gross Profit	402,095	285,385	270,610	343,055	320,145	297,788	-7.0%	4.3%
GPM(%)	63%	48%	47%	54%	54%	53%	-0.6%	12.2%
Employee Costs	59,634	53,183	53,424	57,953	59,254	59,165	-0.1%	11.2%
Other Expenses	192,733	171,599	176,707	212,910	209,152	195,945	-6.3%	14.2%
EBITDA	152,409	63,896	43,184	73,887	63,507	44,961	-29.2%	-29.6%
EBITDA %	24%	11%	8%	12%	11%	8%	-24.4%	-24.3%
Other Income	2,681	3,293	2,706	1,695	11,768	2,282	-80.6%	-30.7%
Depreciation	22,368	23,478	23,684	23,822	24,123	24,799	2.8%	5.6%
Finance Costs	12,181	15,191	17,679	17,936	18,252	19,594	7.4%	29.0%
Share of P/L	1,595	1,019	605	963	-2,713	1,029	-137.9%	1.0%
PBT	119,063	26,051	4,030	33,208	18,554	-67,392	-463.2%	-358.7%
Tax	41,923	13,081	29,049	17,545	13,305	-2,280	-117.1%	-117.4%
PAT	77,140	12,971	-25,020	15,662	5,249	-65,112	-1340.6%	-602.0%

Source: Company, YES Sec

Exhibit 3: Consolidated Operational Performance

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% qoq	% yoy
Consolidated								
Production (mt)	7.74	7.56	7.56	7.80	7.13	7.31	2.5%	-3.3%
Deliveries (mt)	6.62	7.23	7.15	7.78	7.20	7.07	-1.8%	-2.2%
Total Revenue (mn)	634,301	598,775	570,836	629,615	594,897	556,819	-6.4%	-7.0%
Realization/t	95,816	82,818	79,837	80,927	82,625	78,758	-4.7%	-4.9%
EBITDA/t	21,661	8,045	3,812	9,288	8,503	5,869	-31.0%	-27.0%

Source: Company, YES Sec

Exhibit 4: Tata Steel Europe

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% qoq	% yoy
Tata Steel Europe								
Revenue	259,610	215,590	207,450	220,360	213,350	202,490	-5.1%	-6.1%
COGS	85,990	96,900	114,800	112,800	110,570	111,400	0.8%	15.0%
EBITDA	60,370	17,880	-15,510	-16,410	-15,690	-25,110	60.0%	-240.4%
Liquid Steel Production (mt)	2.44	2.40	2.24	2.27	1.79	1.95	8.9%	-18.8%
Deliveries (mt)	2.14	1.87	1.99	2.16	1.99	1.96	-1.5%	4.8%
EBITDA/t	28,220	9,540	-7,810	-7,610	-7,890	-12,811	62.4%	-234.3%

Source: Company, YES Sec

Exhibit 5: Tata Steel Standalone

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% qoq	% yoy
Tata Steel Standalone								
Revenue	320,210	322,450	304,650	342,753	323,416	332,232	2.7%	3.0%
COGS	127,740	178,350	150,490	154,239	141,903	146,023	2.9%	-18.1%
EBITDA	83,040	58,170	27,270	83,180	74,030	69,170	-6.6%	18.9%
Production (mt)	4.73	4.64	4.77	4.82	4.65	4.91	5.6%	5.8%
Deliveries (mt)	3.89	4.76	4.59	4.98	4.62	4.82	4.3%	1.3%
EBITDA/t	21,326	8,045	3,812	16,719	16,014	13,401	-16.3%	66.6%

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Industry Scenario

- Chinese imports are not a big cause of concern as the Indian industry has significant demand. The bigger problem arising for the steel producers in India is the steel exports from China. The steel exports from China haven't yet fallen from the current 8.0-8.5 mt levels. The management expects these figures to fall to 5.0-6.0 mt for the rest of the year which can provide an uptick to the global steel prices and remove the price pressure for margin expansion.

Tata Steel Europe

- The restructuring amounts has been calculated on the difference between the discounted cash flows and the net carrying value of the assets in the UK. No more impairment costs are expected when it comes to the UK business.
- The EU business is expected to reach breakeven by the end of this financial year. The management remains assured that during the next couple of years during the transition period of the UK plant, the European business is expected to be cash and EBITDA positive.
- The company's focus would be on to keep on running the UK downstream plants. The bigger problems are to sustain the cost structure in UK which is expected to improve once the heavy end assets are out of the picture.
- Guidance for volumes for the year FY24: 9.0 to 10.0 million tonnes. Guidance for next financial year to be provided during the Q3FY24 results.

Capital Expenditures and Capacity Plans

- Capex has been in line of the yearly guidance of Rs 16,000 crores. During H1FY24, the company has incurred Rs 8,642 crores majorly on the two projects – the Kalinganagar 5.0MTPA expansion and the 0.75MTPA EAF plant coming up in Punjab.
- Project update at Kalinganagar – The pellet plant has already started functioning along with the cold rolled mill. The blast furnace is expected to be completed in the next 6 months.
- The next phase of capex plans majorly include the expansion at the current NINL plant sites from 1MTPA to 5MTPA. In addition to this, the company is also looking at the expansion at the Kalinganagar site post the current phase of expansion from 8MTPA to 13MTPA. Additionally, the Bhushan Steel Plant

Pricing Information

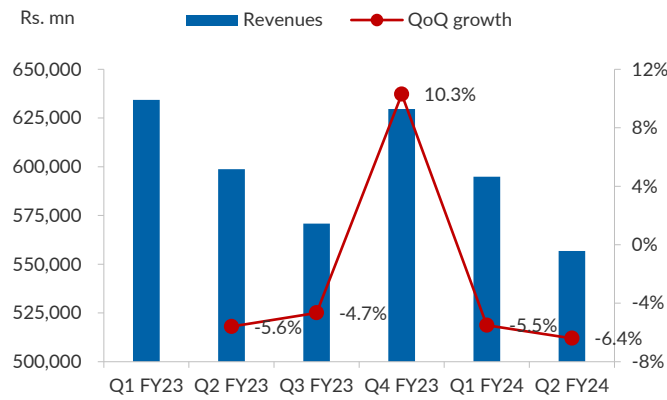
- Coking coal prices expected to be up by \$11/t for India during Q3FY24 vs Q2FY24. In Netherlands, the coking coal costs will see a decline of roughly \$50-60/t as during Q2FY24, the higher cost coking coal inventory was used. The UK will also be benefiting on the coking coal front by roughly \$20/t for the upcoming quarter.
- Coking coal cost for the Indian business for the quarter was down by \$59/t for Q2FY24.
- In India, the steel prices fell by Rs 2,400/t as against Rs 3,000/t earlier guided by the company. Realizations in Europe fell by GBP 50/t for the quarter. For Q3, the realizations are expected to be higher by roughly Rs 2,200/t for the domestic business.

Debt Reduction

- Current Net Debt stands at Rs 77,032 crores. The company doesn't expect any debt repayment for the next couple of quarters and has faced a setback due to market conditions on its debt reduction targets. However, the management ensures that its focus on debt reduction will continue once the financial year ends.

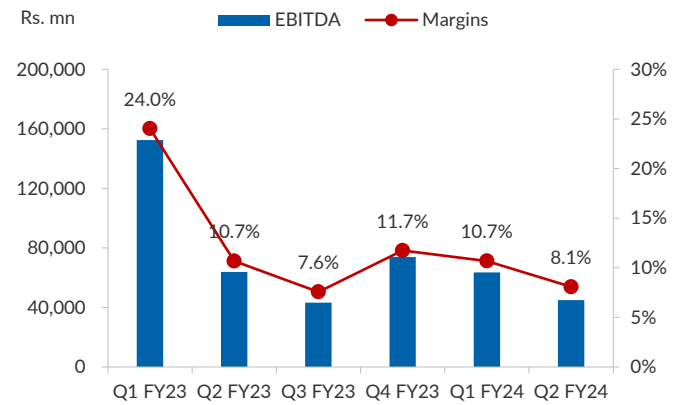
QUARTERLY TRENDS

Exhibit 6: Revenue decreased by 6.4% QoQ...



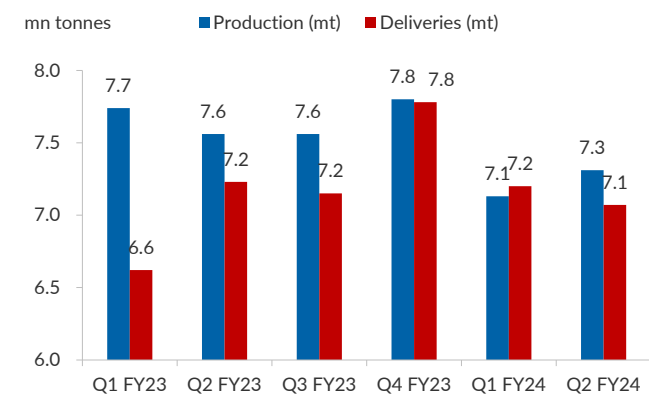
Source: Company, YES Sec

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



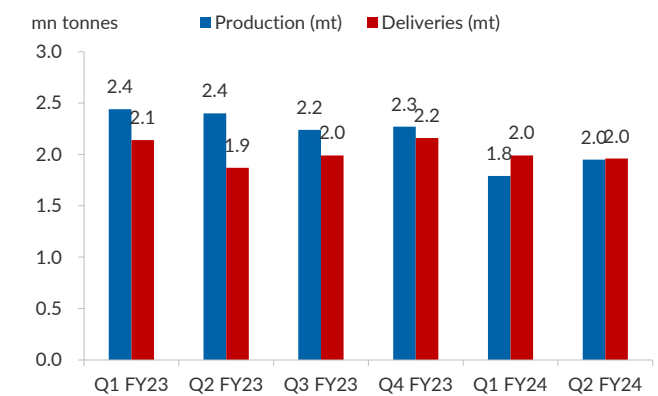
Source: Company, YES Sec

Exhibit 8: Consolidated Operational Highlights



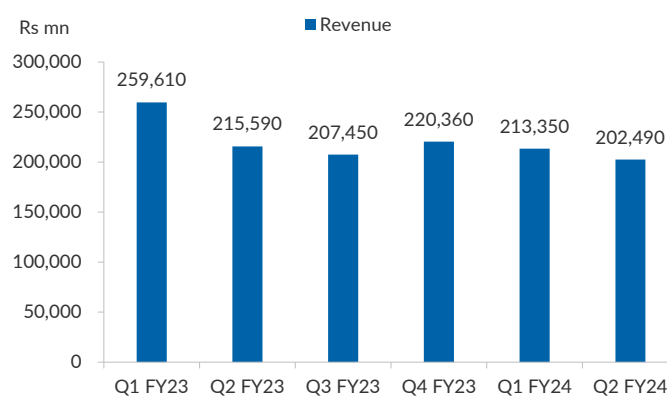
Source: Company, YES Sec

Exhibit 9: Tata Steel Europe Production Picture



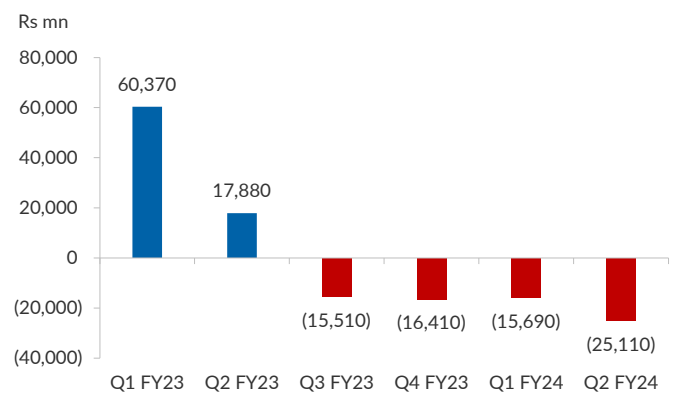
Source: Company, YES Sec

Exhibit 10: TSE revenue fell 5% QoQ...



Source: Company, YES Sec

Exhibit 11: TSE EBITDA Picture



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	2,368	2,464	2,446
COGS	522	608	575	566	835	1,132	1,135	1,198	1,196
Employee Cost	176	188	185	199	233	224	220	190	185
Other Expenses	424	504	487	512	766	754	782	736	705
Other Income	9	14	18	9	8	10	10	10	10
EBITDA	228	308	193	314	643	333	270	381	401
EBITDA (%)	17%	20%	14%	20%	26%	14%	11%	15%	16%
Depreciation	60	73	84	92	91	93	118	123	122
EBIT	168	235	109	222	552	240	151	257	279
EBIT (%)	13%	15%	8%	14%	23%	10%	6%	10%	11%
Interest	55	77	75	76	55	63	65	62	55
PBT	211	159	-2	138	502	182	88	196	225
Tax	34	67	-26	57	85	102	22	49	56
PAT	178	91	12	82	417	81	66	147	169
EPS	12.98	8.89	1.36	6.54	33.21	7.25	6.01	12.75	14.52

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	2,180	2,279	2,401
Accumulated Dep	461	506	588	735	748	834	953	1,076	1,198
Net Block	903	1,185	1,195	1,190	1,162	1,187	1,227	1,203	1,203
CWIP	162	180	189	181	212	303	318	334	351
Other Non-current Assets	354	382	533	481	555	524	546	583	605
Inventory	283	317	311	333	488	544	498	542	557
Receivables	124	118	79	95	122	83	91	95	101
Cash & Bank	79	33	81	58	159	134	38	51	11
Other Current Assets	192	122	117	116	156	106	127	130	130
Total Assets	2,098	2,336	2,504	2,455	2,854	2,880	2,845	2,938	2,957
Share Capital	11	11	11	12	12	12	12	12	12
Reserves	575	655	702	723	1,132	1,019	1,023	1,095	1,186
Non-current Liabilities	923	1,013	1,126	971	778	856	832	833	794
Current Liabilities	557	610	617	709	906	973	957	977	944
Total Equity & Liabilities	2,098	2,336	2,504	2,455	2,854	2,880	2,845	2,938	2,957

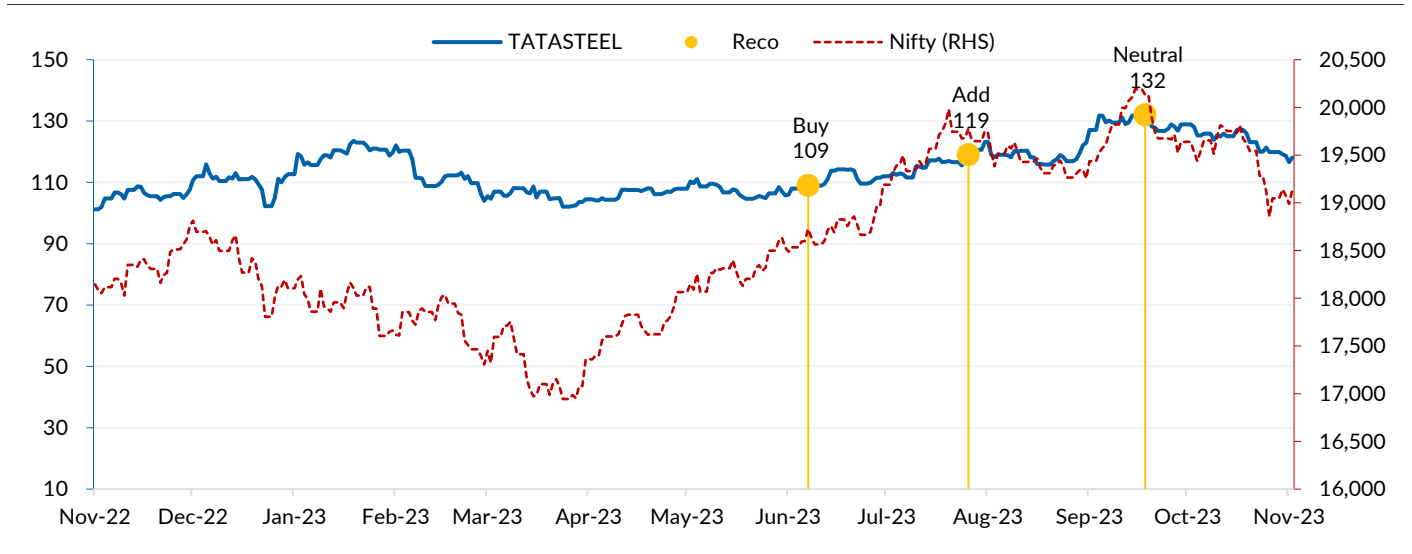
Exhibit 14: Cash Flow Statement

Y/e 31 Mar (Rs bn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before Tax	212	158	-14	138	502	182	7	114	142
Add: Non-cash charges	-221	120	195	147	157	127	183	185	177
Profit before Working Capital changes	-10	278	181	285	659	309	190	299	320
Working capital changes	119	26	42	165	-96	-37	16	-38	-34
Cash flow from Operations	109	304	223	450	563	272	205	262	285
Taxes Paid	-29	-51	-21	-7	-119	-55	-2	-28	-36
Net Cash flow from Operating Activities	80	253	202	443	444	217	203	233	250
Capex	-75	-91	-104	-70	-105	-141	-159	-99	-98
Other Investments	-45	-201	-41	-23	-4	-45	-15	-16	-17
Net Cash flow from Investing Activities	-120	-292	-145	-93	-109	-187	-174	-114	-115
Proceeds/(Repayment) from borrowings	44	83	86	-294	-139	65	-60	-30	-80
Other financial activities	22	-89	-103	-77	-95	-135	-66	-75	-71
Net Cash flow from Financing Activities	66	-7	-17	-371	-234	-70	-126	-105	-151
Opening Cash Balance	48	78	30	75	55	156	121	25	39
Net Change in Cash	26	-45	39	-21	101	-40	-96	14	-16
FX and Translation effects	3	-3	6	1	-0	5	-	-	-
Ending Cash Balance	78	30	75	55	156	121	25	39	23

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%	-3%	4%	-1%
EBITDA	30%	35%	-37%	63%	105%	-48%	-19%	41%	5%
EBIT	42%	39%	-54%	104%	149%	-56%	-37%	70%	8%
PAT	-526%	-49%	-87%	599%	410%	-81%	-19%	124%	15%
Profitability (%)									
GP Margins	61%	61%	59%	64%	66%	53%	53%	53%	53%
EBIDTA Margins	17%	20%	14%	20%	26%	14%	11%	15%	16%
EBIT Margins	13%	15%	8%	14%	23%	10%	6%	10%	11%
PAT Margins	13%	6%	1%	5%	17%	3%	3%	6%	7%
ROCE	12%	5%	1%	5%	21%	4%	3%	8%	8%
ROE	29%	13%	2%	11%	36%	8%	6%	13%	14%
Per Share Data (Rs)									
EPS	13.0	8.9	1.4	6.5	33.2	7.2	6.0	12.7	14.5
BVPS	59.7	62.1	66.5	67.6	96.8	87.0	87.3	93.3	100.8
Valuations (x)									
P/E	4.4	5.9	19.8	12.4	3.9	15.2	22.0	10.4	9.1
P/BV	1.0	0.8	0.4	1.2	1.3	1.3	1.5	1.4	1.3
EV/EBIDTA	6.1	4.8	7.1	5.6	3.4	6.2	8.5	5.9	5.5
Market Cap/Sales	0.4	0.4	0.2	0.6	0.6	0.5	0.7	0.6	0.7

Recommendation Tracker



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