

# Tata Steel

**HOLD**

European operations profitability continue to remain weak

## Summary

Tata Steel's Q1FY24 profitability was below with our expectations. India sales volumes decreased by 7% QoQ at 4.8 mn tonnes while EBITDA/t remained flattish QoQ to Rs15,651. However, European operations profitability continued to remain weak, EBITDA remained negative for two consecutive quarters (EBITDA loss of Rs7,890/t in Q1FY24 and Rs7,610/t in Q4FY23) due to higher coking coal cost, lower realization and inflationary pressure. Consolidated net debt increased by Rs36 bn QoQ to Rs714 bn mainly due to capital expenditure of Rs48 bn spent during the quarter. We cut our FY24 EBITDA estimate by 8% while we make minor changes to our FY25 forecasts. We revise our SOTP-based target price to Rs118 (earlier Rs110) and maintain our HOLD rating on the stock.

## Key Highlights and Investment Rationale

- European operations profitability remains weak:** Lower realizations and higher raw material costs led to EBITDA loss of Rs16 bn at European operations (EBITDA loss of Rs16 bn in Q4FY23). European operations profitability is likely to rebound in H1FY24. Tata Steel Thailand's EBITDA stood at Rs0.3 bn (EBITDA/t of Rs1,146). Tata Steel Long Products reported an EBITDA of Rs1.66 bn vs EBITDA of Rs0.02 bn in Q4FY23.
- Project updates:** During the quarter, the company has spent Rs48 bn on capital projects. The expansion project in Kalinganagar, which aims to increase capacity to 5 MTPA, is progressing well, along with the ongoing establishment of a 0.75 MTPA EAF mill in Punjab. Neelachal Ispat Nigam Limited has steadily ramped up its operations is currently running at a run rate of approximately 1 mn tons (crude steel plus pig iron) on an annualized basis. Post feasibility studies, the company plans to expedite the expansion.

**TP Rs118**
**CMP Rs115**

Potential upside/downside 2%

Previous Rating HOLD

## Price Performance (%)

	-1m	-3m	-12m
Absolute	5.3	8.4	23.3
Rel to Sensex	(0.1)	(2.1)	5.0

## V/s Consensus

EBITDA (Rs bn)	FY24E	FY25E
IDBI Capital	312	371
Consensus	326	383
% difference	(4.2)	(3.1)

## Key Stock Data

Bloomberg / Reuters	TATA IN / TISC.BO
Sector	Metal & Mining
Shares o/s (mn)	12,221
Market cap. (Rs mn)	1,410,968
3-m daily average value (Rs mn)	238.6
52-week high / low	Rs124 / 93
Sensex / Nifty	66,385 / 19,672

## Shareholding Pattern (%)

Promoters	33.9
FII	20.3
DII	19.5
Public	26.3

## Financial snapshot

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,563	2,440	2,434	1,817	1,962
Change (yoy, %)	5	56	(0)	(25)	8
EBITDA	305	635	323	312	371
Change (yoy, %)	71	108	(49)	(3)	19
EBITDA Margin(%)	19.5	26.0	13.3	17.2	18.9
Adj.PAT	92	419	80	121	163
EPS (Rs)	7.7	34.3	6.5	9.9	13.3
Change (yoy, %)	45	345	(81)	52	35
PE(x)	15.6	3.5	18.4	12.1	9.0
Dividend Yield (%)	17.5	4.5	3.0	3.3	3.5
EV/EBITDA (x)	6.9	2.9	5.9	6.0	4.8
RoE (%)	12.5	44.4	7.3	11.3	14.1
RoCE (%)	11.1	29.4	11.9	11.5	14.5

Source: IDBI Capital Research

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**Exhibit 1: Quarterly Snapshot**

(Rs mn)

Financial snapshot	Q1FY24	Q4FY23	QoQ (%)	Q1FY23	YoY (%)
<b>Net Sales</b>	<b>5,94,897</b>	<b>6,29,615</b>	<b>(5.5)</b>	<b>6,34,301</b>	<b>(6.2)</b>
Total expenditure	5,43,158	5,57,423	(2.6)	4,84,573	12.1
<b>EBITDA</b>	<b>51,739</b>	<b>72,192</b>	<b>(28.3)</b>	<b>1,49,728</b>	<b>(65.4)</b>
<i>EBITDA margin (%)</i>	8.7%	11.5%	-277bps	23.6%	-1491bps
Interest	18,252	17,936	1.8	12,181	49.8
Depreciation	24,123	23,822	1.3	22,368	7.8
<b>PBT</b>	<b>18,554</b>	<b>32,129</b>	<b>(42.3)</b>	<b>1,19,063</b>	<b>(84.4)</b>
Tax	13,305	17,545	(24.2)	41,923	(68.3)
<b>PAT</b>	<b>5,248</b>	<b>15,662</b>	<b>(66.5)</b>	<b>77,140</b>	<b>(93.2)</b>
<b>Diluted EPS</b>	<b>0.4</b>	<b>1.3</b>	<b>(66.5)</b>	<b>6.3</b>	<b>(93.2)</b>

Source: Company; IDBI Capital Research

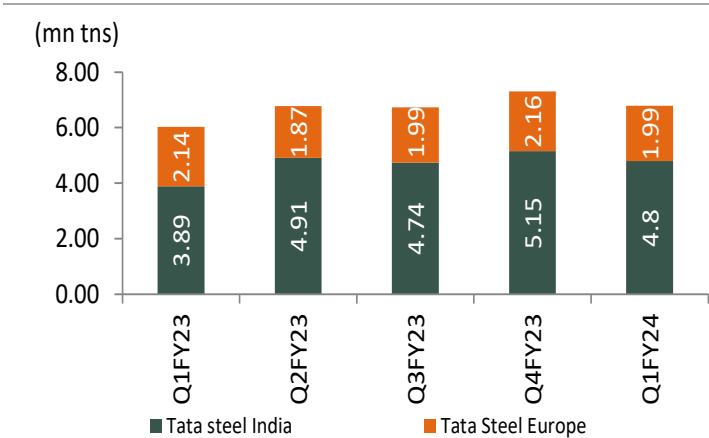
**Exhibit 2: Actual vs estimates**

(Rs mn)

	Q1FY24E	Q4FY23A	% Variance
Net sales	6,27,841	5,94,897	(5.2)
EBTIDA	66,420	51,739	(22.1)
<i>Margin (%)</i>	10.6	8.7	-188bps
PAT	20,525	5,248	(74.4)
Dil. EPS	1.7	0.4	(74.4)

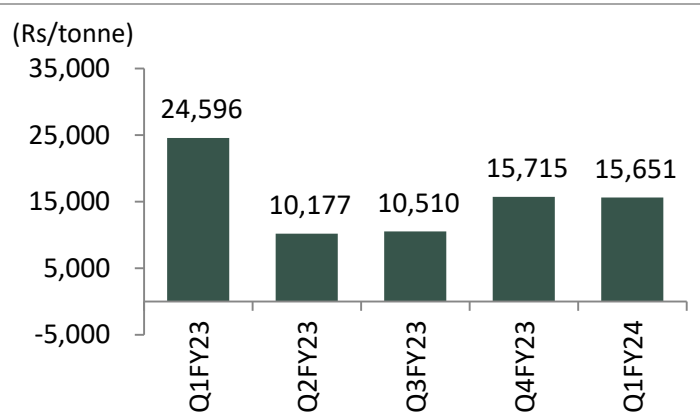
Source: Company; IDBI Capital Research

Exhibit 3: Geographical sales mix



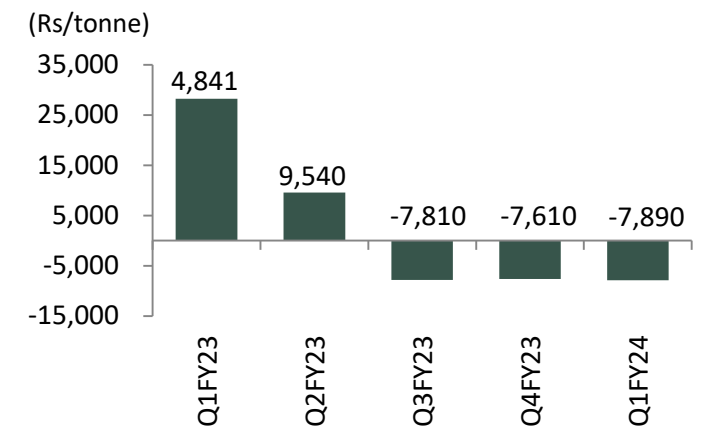
Source: Company; IDBI Capital Research

Exhibit 4: Standalone EBIDTA/tonne remain flattish QoQ



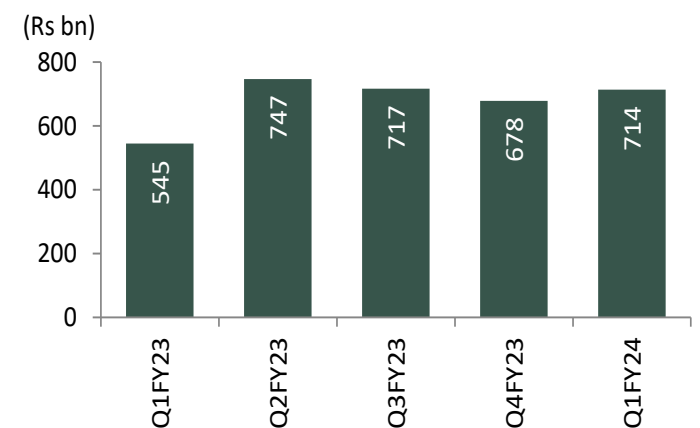
Source: Company; IDBI Capital Research

Exhibit 5: Tata Steel Europe EBITDA/tonne weak



Source: Company; IDBI Capital Research

Exhibit 6: Net debt increased QoQ



Source: Company; IDBI Capital Research

**Exhibit 7: Change in estimates**

	FY24E			FY25E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs bn)	1,817	1,817	-	1,962	1,962	-
EBITDA (Rs bn)	341	312	(8.4)	381	371	(2.5)
EBITDA margin (%)	18.7	17.2	-157bps	19.4	18.9	-48bps
Net profit (Rs bn)	141	121	(14.2)	170	163	(3.9)
EPS (Rs)	12	10	(14.2)	14	13	(3.9)

Source: Company; IDBI Capital Research

### Conference call highlights

- Net realization in Q1FY24 improved by Rs1,000/ton QoQ driven by a better product mix.
- The company stated that other income was higher due to the execution of a long-term lease agreement with Tata BlueScope regarding color-coated lines at Angul and Khopoli. The company has a 50:50 JV with Bluescope.
- The volatility in the steel market affected working capital; however, working capital remained stable at 34 days.
- Capex spent this quarter was Rs48 bn, and Rs155 bn was spent in the last 12 months. In Kaliganagar, the capex spent till date was Rs189 bn.
- Tata Steel has 200 distributors and over 2000 dealers.
- The European market, particularly Neithererland, faced some challenges in the last 2 quarters, such as high energy prices and a blast furnace shutdown for 6 months. However, the company expects Neitherland to return to normal levels of operation with a positive EBITDA in second half of CY23.
- The company is exploring a different model for the UK operations.
- Net/EBITDA will be at a 2-2.5x level in the coming years. The company will maintain a guidance of Rs1 bn debt reduction.
- The company expects the realization to reduce by Rs3,100/ton reduction in India operations in Q2.
- The company mentioned that it requires 60-65 mn tons of iron ore to meet the 40 mn tons capacity by 2030. The company has 500 mn tons of iron ore in reserves.
- The capex for FY 24 is Rs160 bn, of which Rs110-120 bn is for Indian operations.

**Exhibit 8: SOTP-based valuation**

	FY25E EBITDA	Multiple	(Rs bn)
India operations	352	4.5	1,585
TSE	19	3.0	57
Other operations	4	3.0	13
CWIP @ 70%			106
<b>Derived enterprise value</b>			<b>1,761</b>
Less: Net debt			409
Derived equity value			1,352
<b>Target price (Rs/share)</b>			<b>118</b>

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs bn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net sales</b>	<b>1,490</b>	<b>1,563</b>	<b>2,440</b>	<b>2,434</b>	<b>1,817</b>	<b>1,962</b>
<i>Change (yoy, %)</i>	(6)	5	56	(0)	(25)	8
Operating expenses	(1,311)	(1,258)	(1,805)	(2,111)	(1,505)	(1,590)
<b>EBITDA</b>	<b>178</b>	<b>305</b>	<b>635</b>	<b>323</b>	<b>312</b>	<b>371</b>
<i>Change (yoy, %)</i>	(39)	71	108	(49)	(3)	19
<i>Margin (%)</i>	12.0	19.5	26.0	13.3	17.2	18.9
Depreciation	(87)	(92)	(91)	(93)	(94)	(95)
<b>EBIT</b>	<b>91</b>	<b>213</b>	<b>544</b>	<b>230</b>	<b>218</b>	<b>276</b>
Interest paid	(76)	(76)	(55)	(63)	(62)	(61)
Other income	18	9	8	10	10	11
<b>Pre-tax profit</b>	<b>(16)</b>	<b>135</b>	<b>496</b>	<b>178</b>	<b>166</b>	<b>225</b>
Tax	26	(57)	(85)	(102)	(50)	(68)
<i>Effective tax rate (%)</i>	163	42	17	57	30	30
Minority Interest	2	3	6	4	5	5
<b>Net profit</b>	<b>12</b>	<b>82</b>	<b>417</b>	<b>81</b>	<b>121</b>	<b>163</b>
Exceptional items	(49)	(10)	(1)	1	-	-
<b>Adjusted net profit</b>	<b>61</b>	<b>92</b>	<b>419</b>	<b>80</b>	<b>121</b>	<b>163</b>
<i>Change (yoy, %)</i>	(34)	51	354	(81)	52	35
EPS	5	8	34	7	10	13
Dividend per share	1	21	5	4	4	4
<i>Dividend Payout %</i>	29	273	16	55	40	32

**Balance Sheet**

(Rs bn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Shareholders' funds</b>	<b>736</b>	<b>742</b>	<b>1,144</b>	<b>1,031</b>	<b>1,103</b>	<b>1,214</b>
Share capital	11	12	12	12	12	12
Reserves & surplus	724	730	1,132	1,019	1,091	1,202
<b>Total Debt</b>	<b>1,133</b>	<b>724</b>	<b>505</b>	<b>573</b>	<b>473</b>	<b>373</b>
Other liabilities	185	247	273	283	296	310
<b>Curr Liab &amp; prov</b>	<b>425</b>	<b>709</b>	<b>906</b>	<b>973</b>	<b>930</b>	<b>987</b>
Current liabilities	408	661	878	934	892	948
Provisions	17	47	28	39	39	39
<b>Total liabilities</b>	<b>1,743</b>	<b>1,680</b>	<b>1,683</b>	<b>1,828</b>	<b>1,699</b>	<b>1,669</b>
<b>Total equity &amp; liabilities</b>	<b>2,504</b>	<b>2,455</b>	<b>2,854</b>	<b>2,880</b>	<b>2,823</b>	<b>2,904</b>
<b>Net fixed assets</b>	<b>1,540</b>	<b>1,548</b>	<b>1,553</b>	<b>1,778</b>	<b>1,804</b>	<b>1,829</b>
Investments	41	35	46	48	48	48
Other non-curr assets	370	270	329	187	207	228
<b>Current assets</b>	<b>553</b>	<b>602</b>	<b>926</b>	<b>867</b>	<b>764</b>	<b>799</b>
Inventories	311	333	488	544	491	531
Sundry Debtors	79	95	122	83	91	98
Cash and Bank	81	58	159	134	63	39
Other current assets	83	116	156	106	118	131
<b>Total assets</b>	<b>2,504</b>	<b>2,455</b>	<b>2,854</b>	<b>2,880</b>	<b>2,823</b>	<b>2,904</b>



**Cash Flow Statement**

(Rs bn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	(16)	135	496	178	166	225
Depreciation	87	92	91	93	94	95
Tax paid	(11)	(60)	(68)	(80)	(50)	(68)
Chg in working capital	(32)	245	15	51	2	10
Other operating activities	(15)	60	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>13</b>	<b>473</b>	<b>533</b>	<b>243</b>	<b>212</b>	<b>263</b>
Capital expenditure	(197)	(100)	(97)	(318)	(120)	(120)
Chg in investments	23	7	(12)	(2)	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(174)</b>	<b>(93)</b>	<b>(108)</b>	<b>(320)</b>	<b>(120)</b>	<b>(120)</b>
Equity raised/(repaid)	-	1	0	0	-	-
Debt raised/(repaid)	221	(409)	(219)	68	(100)	(100)
Dividend (incl. tax)	(18)	(252)	(66)	(44)	(49)	(51)
Chg in minorities	4	10	0	(1)	5	5
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>208</b>	<b>(650)</b>	<b>(285)</b>	<b>23</b>	<b>(144)</b>	<b>(146)</b>
<b>Net chg in cash (a+b+c)</b>	<b>47</b>	<b>(270)</b>	<b>140</b>	<b>(55)</b>	<b>(52)</b>	<b>(4)</b>

**Financial Ratios**

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	64	62	94	84	90	99
Adj EPS (Rs)	5	8	34	7	10	13
Adj EPS growth (%)	(34)	44.7	344.9	(81.0)	51.9	34.7
EBITDA margin (%)	12.0	19.5	26.0	13.3	17.2	18.9
Pre-tax margin (%)	(1.1)	8.6	20.3	7.3	9.1	11.5
Net Debt/Equity (x)	1.4	0.9	0.3	0.4	0.4	0.3
ROCE (%)	4.7	11.1	29.4	11.9	11.5	14.5
ROE (%)	8.6	12.5	44.4	7.3	11.3	14.1
<b>DuPont Analysis</b>						
Asset turnover (x)	0.6	0.6	0.9	0.8	0.6	0.7
Leverage factor (x)	3.4	3.4	2.8	2.6	2.7	2.5
Net margin (%)	4.1	5.9	17.2	3.3	6.7	8.3
<b>Working Capital &amp; Liquidity ratio</b>						
Inventory days	76	78	73	82	99	99
Receivable days	19	22	18	12	18	18
Payable days	60	103	123	111	139	137

**Valuations**

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	22.5	15.6	3.5	18.4	12.1	9.0
Price/Book value (x)	1.9	1.9	1.3	1.4	1.3	1.2
EV/Net sales (x)	1.6	1.3	0.7	0.8	1.0	0.9
EV/EBITDA (x)	13.6	6.9	2.9	5.9	6.0	4.8
Dividend Yield (%)	1.1	17.5	4.5	3.0	3.3	3.5

Source: Company; IDBI Capital Research



# Notes

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**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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