

July 25, 2023

RESULT REPORT Q1 FY24 | Sector: Metals and Mining

Tata Steel Ltd.

Indian business firm, however European overhang still persists

Result Synopsis

Tata Steel's Q1FY24 performance was above the consensus estimates, riding on the back of better revenue realizations across geographies. The company has spent Rs 4,089 crores on capital expenditures during the quarter. 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, posting a loss of Rs 15,690mn on EBITDA level. Going forward, the company expects the Netherlands business to start becoming cash flow and EBITDA positive starting H1FY24 once the blast furnace relining is complete. The BF6 furnace in Netherlands underwent the process of relining in April 2023 and is expected to be completed by the end of Q2FY24. The UK business, however, is still struggling on the back of higher energy prices and softer revenue realizations. On the cost front, the company had to adjust to the higher cost inventory for coking coal however with the fall in the raw material prices during the start of the quarter, we expect better margin realizations in the upcoming quarter.

In terms of the operational performance, the consolidated production stood at 7.13mt, reporting a fall of 7.9% on a YoY basis and 8.6% on a QoQ basis. The production downfall is on the back of the blast furnace shutdown in Netherlands for relining purposes. The deliveries on the other did not drop as much because of the company's earlier efforts for stocking up on inventory. The deliveries for the quarter came in at 7.20mt, a rise of 8.8% on a YoY basis, however showing a fall of 7.5% on a QoQ basis.

We revise our rating from BUY to ADD as we believe the stock has shown good returns since the start of the Q2FY24 on the back of stabilizing raw material pricing. We maintain our positive outlook on the steel story in India and maintain our target price of Rs 133/sh for Tata Steel.

Result Highlights

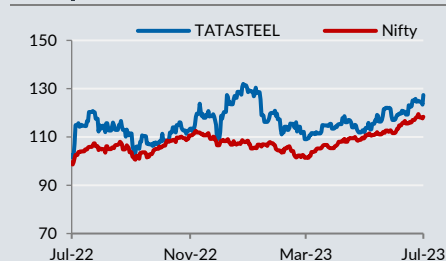
- Consolidated Revenue for the quarter stood at Rs 594Bn (V/s our est of Rs 503Bn), reporting a decline of 5.5% QoQ & 6.2% YoY.
- EBITDA Margins came in at 10.7% (V/s our est of 11.7%) as compared to 24%/12% in Q1FY23/Q4FY23 respectively.
- PAT came in at Rs 5.3bn, reporting a degrowth of 93.2% YoY, and 66.5% on a QoQ basis.
- Tata Steel Europe reported a revenue of Rs 213bn and loss at EBITDA level of Rs 15bn.
- Tata Steel India performance however reported a revenue of Rs. 349bn and an EBITDA of Rs. 75bn.
- The consolidated EBITDA/t fell down Rs. 9,289/t to Rs. 8,503/t on a QoQ basis with the European business being a drag on the overall company's profitability.
- The Indian business on the other hand reported an EBITDA/t of Rs. 15,651/t, down from Rs. 15,751/t on a QoQ basis on the back of high cost raw material (coking coal) utilization.

Reco	: ADD
CMP	: Rs 119
Target Price	: Rs 133
Potential Upside	: +12%

Stock data (as on July 25, 2023)

Nifty	19,782
52 Week h/l (Rs)	124 / 93
Market cap (Rs/USD mn)	1425031 / 17349
Outstanding Shares (mn)	12,223
6m Avg t/o (Rs mn)	4,548
Div yield (%)	3.1
Bloomberg code:	TATA IN
NSE code:	TATASTEEL

Stock performance



	1M	3M	1Y
Absolute return	8.8%	11.4%	24.1%

Shareholding pattern (As of June'23 end)

Promoter	33.9%
FII+DII	42.1%
Others	24.0%

Δ in stance

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

Financial Summary

(Rs bn)	FY23	FY24E	FY25E
Revenue	2,434	2,312	2,655
YoY Growth	-0.2%	-5.0%	14.8%
EBIDTA	333	317	394
EBIDTA (%)	13.7%	13.7%	14.8%
PAT	81	103	150
EPS	7.2	8.5	13.0
ROE	7.7%	9.1%	11.9%
ROCE	4.2%	5.3%	7.1%

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Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	594,897	502,607	564,670	18%	5%	European business overhang still lingers; Indian business remains strong.
EBITDA	63,507	58,821	50,860	8%	25%	
EBITDA Margin (%)	11%	12%	9%	-9%	19%	
PAT	5,249	18,249	-110	-71%	-4871%	

Source: Company, YES Sec

Production Highlights

- Consolidated steel production stood at 7.13mt for the quarter; down 7.9% YoY.
- Consolidated steel sales of 7.20mt, up 8.8% YoY.
- Tata Steel Europe reported a production figure of 1.79mt for the quarter, a fall of 27% on a QoQ basis. Tata Steel Netherland's BF6 plant has been going a relining procedure since April of this year and is expected to complete by the end of Q2FY24, post which we expect to see the volume growth from the European business.
- Deliveries on the other hand, did not fall in the same tandem and came in at 1.99, reporting a fall of 7% on the back of company's efforts to stocking of inventory during the early part of the year.
- The Indian business reported a production figure of 5.02mt down from 5.15mt in Q4FY23 and up from 4.92mt during Q1FY23. Tata Steel India continues to play a major role in the steel major's performance, constituting over 70% of the company's total production capabilities.
- The deliveries stood at 4.80mt for the Indian business, accounting for ~67% of the share of the total sales for the company.

Exhibit 2: Consolidated Quarterly Snapshot

Rs mn	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	% yoy	% qoq
Revenue	533,718	603,871	607,831	693,235	634,301	598,775	570,836	629,615	594,897	-6.2%	-5.5%
COGS	167,521	190,584	201,258	276,302	232,206	313,390	300,226	286,561	274,752	18.3%	-4.1%
Gross Profit	366,198	413,287	406,574	416,933	402,095	285,385	270,610	343,055	320,145	-20.4%	-6.7%
GPM(%)	69%	68%	67%	60%	63%	48%	47%	54%	54%	-15.1%	-1.2%
Employee Costs	56,626	58,619	56,834	60,562	59,634	53,183	53,424	57,953	59,254	-0.6%	2.2%
Other Expenses	148,466	190,107	190,802	206,075	192,733	171,599	176,707	212,910	209,152	8.5%	-1.8%
EBITDA	162,728	167,270	159,533	153,218	152,409	63,896	43,184	73,887	63,507	-58.3%	-14.0%
EBITDA %	30%	28%	26%	22%	24%	11%	8%	12%	11%	-55.6%	-9.0%
Other Income	1,622	2,709	596	2,922	2,681	3,293	2,706	1,695	11,768	339.0%	594.1%
Depreciation	23,245	22,889	22,441	22,434	22,368	23,478	23,684	23,822	24,123	7.8%	1.3%
Finance Costs	18,114	10,198	15,325	10,985	12,181	15,191	17,679	17,936	18,252	49.8%	1.8%
Share of P/L	1,223	1,853	1,823	1,594	1,595	1,019	605	963	-2,713	-270.1%	-381.8%
PBT	120,768	141,196	121,656	118,650	119,063	26,051	4,030	33,208	18,554	-84.4%	-44.1%
Tax	23,084	15,719	25,674	20,299	41,923	13,081	29,049	17,545	13,305	-68.3%	-24.2%
PAT	97,683	125,477	95,982	98,351	77,140	12,971	-25,020	15,662	5,249	-93.2%	-66.5%

Source: Company, YES Sec

Exhibit 3: Consolidated Operational Performance

Rs mn	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	% yoy	% qoq
Consolidated											
Production (mt)	7.88	7.77	7.76	7.62	7.74	7.56	7.56	7.80	7.13	-7.9%	-8.6%
Sales (mt)	7.11	7.39	7.01	8.01	6.62	7.23	7.15	7.78	7.20	8.8%	-7.5%
Revenue	533,718	603,871	607,831	693,235	634,301	598,775	570,836	629,615	594,897	-6.2%	-5.5%
Realization/t	75,066	81,715	86,709	86,546	95,816	82,818	79,837	80,927	82,625	-13.8%	2.1%
EBITDA/t	22,779	24,112	22,663	19,832	21,661	8,045	3,812	9,288	8,503	-60.7%	-8.5%

Source: Company, YES Sec

Exhibit 4: Tata Steel Europe

Rs mn	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	% yoy	% qoq
Revenue	194,410	214,240	227,690	263,890	259,610	215,590	207,450	220,360	213,350	-17.8%	-3.2%
COGS	83,270	81,400	84,150	102,660	85,990	96,900	114,800	112,800	110,570	28.6%	-2.0%
EBITDA	15,330	33,400	29,420	43,490	60,370	17,880	-15,510	-16,410	-15,690	-126.0%	-4.4%
Production (mt)	2.67	2.56	2.57	2.31	2.44	2.40	2.24	2.27	1.79	-26.6%	-21.1%
Deliveries (mt)	2.33	2.14	2.16	2.40	2.14	1.87	1.99	2.16	1.99	-7.0%	-7.9%
EBITDA/t	6,590	15,609	13,642	18,135	28,220	9,540	-7,810	-7,610	-7,890	-128.0%	3.7%

Source: Company, YES Sec

Exhibit 5: Tata Steel Standalone

Rs mn	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	% yoy	% qoq
Revenue	276,900	325,820	319,640	366,810	320,210	322,450	304,650	342,753	323,416	1.0%	-5.6%
COGS	55,910	81,810	93,370	144,730	127,740	178,350	150,490	154,239	141,903	11.1%	-8.0%
EBITDA	130,400	135,740	158,900	117,660	83,040	58,170	27,270	83,180	74,030	-10.9%	-11.0%
Production (mt)	4.45	4.56	4.64	4.73	4.73	4.64	4.77	4.82	4.65	-1.7%	-3.5%
Deliveries (mt)	3.99	4.42	4.25	4.97	3.89	4.76	4.59	4.98	4.62	18.8%	-7.2%
EBITDA/t	32,712	30,739	22,623	23,690	21,326	8,045	3,812	16,719	16,014	-24.9%	-4.2%

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Global Industry Scenario

- The economic slowdown in key regions have weighed down on commodity pricing and steel in general. China reopening has been more muted than anticipated forcing China to export more on a monthly basis starting May 2023 and reaching levels of 8mt of exports which was last recorded in 2016. However, with the Chinese emission targets, it is expected that the exports will come down in the upcoming months and the prices can have an uplift to the \$650/t HRC price.
- In India, the steel demand has been strong, rising 10% YoY, however the HRC prices dropped roughly Rs 4,000/t on the back of falling global steel prices and global sentiment.

Tata Steel Europe

- High energy costs and low demand because of the Ukraine-Russia war has been a challenge.
- Out of the 2 BF plants in the Netherlands, one has been shut down for 6 months for relining purposes which will get complete towards the end of Q2FY24, so the production quantities have been taking a hit. In the short term, the Netherlands business will start generating positive cash flows and EBITDA margins from H2FY24 onwards. The other BF plant will be up for relining starting 2026.
- The negotiations are still ongoing with the UK government on the new plant; however, it is expected that a decisive opportunity will come in by the end of this fiscal year.
- Lower energy prices expected by H2FY24. The lower prices with improving quantities will benefit the Netherlands business, however the UK business is expected to be similar due to pricing pressures and higher costs.

Capital Expenditures and Capacity Expansions

- KP-II BF plant to start commissioning by the end of FY24 (February-March 2024). The cold rolling and pellet plant have already started commissioning. FY2025 is where the volume impact will start flowing in the numbers.
- For the iron ore mines where the leases are ending in 2030, the company plans to keep bidding for more mines until 2030 and has the right to renew the current mines when the leases expire.
- Capex guidance of Rs 16,000 crores for FY24. Out of which, Rs 11,000 crores would be in India, largely for the Kalinganagar (KP-II) project.

Pricing Information

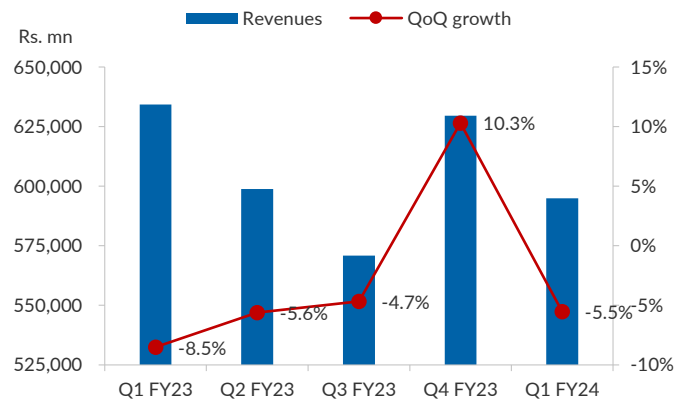
- Coking coal prices expected to be lower by over \$50/t for both the European and Indian business for Q2FY24 as compared to Q1FY24.
- Realizations are expected to be lower by GBP30/t for UK and Rs 3,200/t for India for the upcoming quarter.

Debt Reduction

- Net Debt/EBITDA target would be between 2-2.5x on a yearly basis. The company wants to focus on deleveraging with a target of reducing debt by \$1Bn by FY 2024.

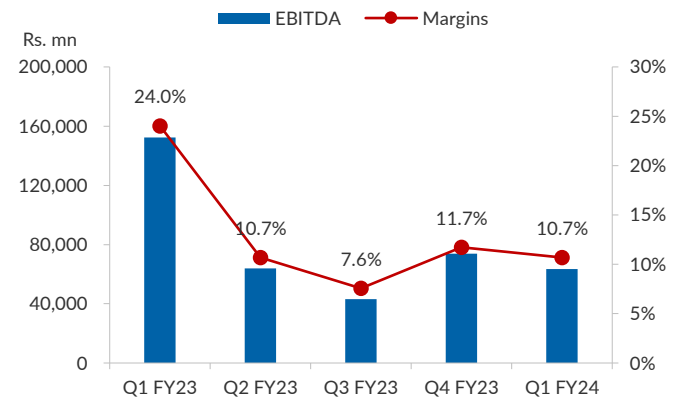
QUARTERLY TRENDS

Exhibit 6: Revenue decreased by 5.5% QoQ...



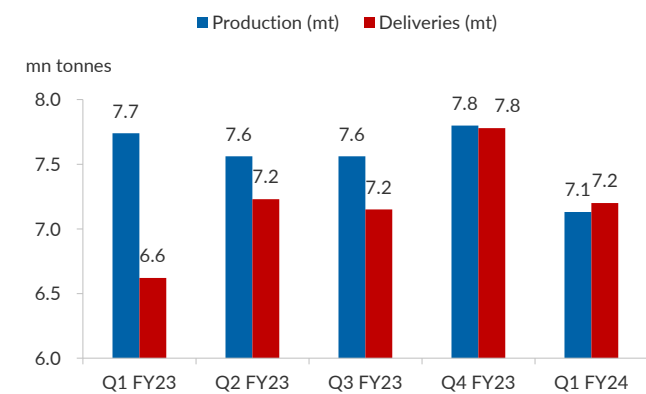
Source: Company, YES Sec

Exhibit 7: EBITDA margins fall down by a 100bps QoQ...



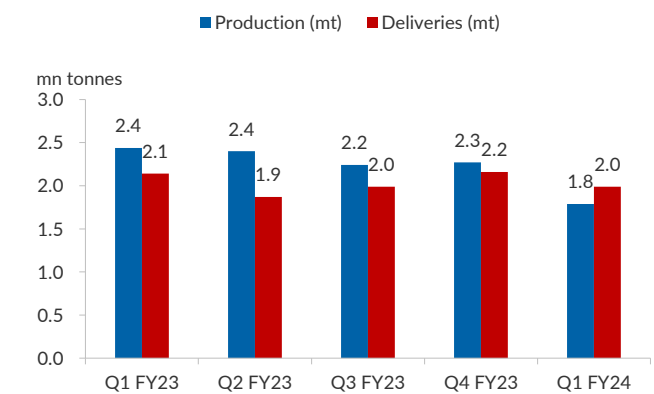
Source: Company, YES Sec

Exhibit 8: Consolidated Operational Highlights



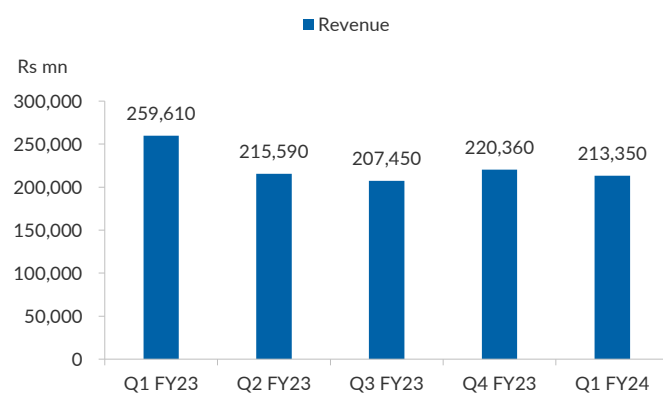
Source: Company, YES Sec

Exhibit 9: Tata Steel Europe Production Picture



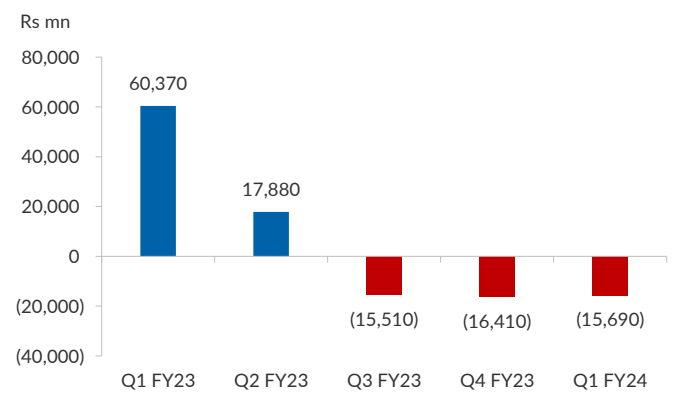
Source: Company, YES Sec

Exhibit 10: Tata Steel Europe decreased 3% QoQ...



Source: Company, YES Sec

Exhibit 11: Tata Steel Europe 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	2,312	2,655	2,837
COGS	522	608	575	566	835	1,132	951	1,139	1,304
Employee Cost	176	188	185	199	233	224	254	265	270
Other Expenses	424	504	487	512	766	754	809	876	880
Other Income	9	14	18	9	8	10	10	10	10
EBITDA	228	308	193	314	643	333	317	394	404
EBITDA (%)	17%	20%	14%	20%	26%	14%	14%	15%	14%
Depreciation	60	73	84	92	91	93	116	133	142
EBIT	168	235	109	222	552	240	201	261	262
EBIT (%)	13%	15%	8%	14%	23%	10%	9%	10%	9%
Interest	55	77	75	76	55	63	65	62	55
PBT	211	159	-2	138	502	182	137	200	208
Tax	34	67	-26	57	85	102	34	50	52
PAT	178	91	12	82	417	81	103	150	156
EPS	12.98	8.89	1.36	6.54	33.21	7.25	8.51	12.97	13.48

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	2,176	2,282	2,424
Accumulated Dep	461	506	588	735	748	834	950	1,083	1,225
Net Block	903	1,185	1,195	1,190	1,162	1,187	1,226	1,200	1,200
CWIP	162	180	189	181	212	303	318	334	351
Other Non-current Assets	354	382	533	481	555	524	539	610	664
Inventory	283	317	311	333	488	544	417	515	607
Receivables	124	118	79	95	122	83	89	102	117
Cash & Bank	79	33	81	58	159	134	134	184	157
Other Current Assets	192	122	117	116	156	106	126	136	141
Total Assets	2,098	2,336	2,504	2,455	2,854	2,880	2,848	3,081	3,237
Share Capital	11	11	11	12	12	12	12	12	12
Reserves	575	655	702	723	1,132	1,019	1,100	1,228	1,360
Non-current Liabilities	923	1,013	1,126	971	778	856	827	851	833
Current Liabilities	557	610	617	709	906	973	888	969	1,010
Total Equity & Liabilities	2,098	2,336	2,504	2,455	2,854	2,880	2,848	3,081	3,237

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	137	200	208
Add: Non-cash charges	-221	120	195	147	157	127	180	195	197
Profit before Working Capital changes	-10	278	181	285	659	309	318	395	405
Working capital changes	119	26	42	165	-96	-37	33	-57	-64
Cash flow from Operations	109	304	223	450	563	272	350	337	341
Taxes Paid	-29	-51	-21	-7	-119	-55	-41	-50	-52
Net Cash flow from Operating Activities	80	253	202	443	444	217	309	287	289
Capex	-75	-91	-104	-70	-105	-141	-155	-106	-142
Other Investments	-45	-201	-41	-23	-4	-45	-15	-16	-17
Net Cash flow from Investing Activities	-120	-292	-145	-93	-109	-187	-170	-122	-159
Proceeds/(Repayment) from borrowings	44	83	86	-294	-139	65	-60	-30	-80
Other financial activities	22	-89	-103	-77	-95	-135	-79	-85	-78
Net Cash flow from Financing Activities	66	-7	-17	-371	-234	-70	-139	-115	-158
Opening Cash Balance	48	78	30	75	55	156	121	121	172
Net Change in Cash	26	-45	39	-21	101	-40	0	51	-27
FX and Translation effects	3	-3	6	1	-0	5	-	-	-
Ending Cash Balance	78	30	75	55	156	121	121	172	144

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%	-5%	15%	7%
EBITDA	30%	35%	-37%	63%	105%	-48%	-5%	24%	3%
EBIT	42%	39%	-54%	104%	149%	-56%	-16%	30%	0%
PAT	-526%	-49%	-87%	599%	410%	-81%	27%	46%	4%
Profitability (%)									
GP Margins	61%	61%	59%	64%	66%	53%	59%	58%	55%
EBIDTA Margins	17%	20%	14%	20%	26%	14%	14%	15%	14%
EBIT Margins	13%	15%	8%	14%	23%	10%	9%	10%	9%
PAT Margins	13%	6%	1%	5%	17%	3%	4%	6%	6%
ROCE	12%	5%	1%	5%	21%	4%	5%	7%	7%
ROE	29%	13%	2%	11%	36%	8%	9%	12%	11%
Per Share Data (Rs)									
EPS	13.0	8.9	1.4	6.5	33.2	7.2	9.1	13.0	13.5
BVPS	59.7	62.1	66.5	67.6	96.8	87.0	93.7	104.3	115.3
Valuations (x)									
P/E	4.4	5.9	19.8	12.4	3.9	15.2	13.1	9.2	8.8
P/BV	1.0	0.8	0.4	1.2	1.3	1.3	1.3	1.1	1.0
EV/EBIDTA	6.1	4.8	7.1	5.6	3.4	6.2	6.4	5.0	4.7
Market Cap/Sales	0.4	0.4	0.2	0.6	0.6	0.5	0.6	0.5	0.5

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

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