

## Tata Steel

HOLD

## Shutdowns Hurt Volumes, Margins Strong!

## Summary

Tata Steel's Q1FY26 performance was above our expectations on all fronts. Revenue declined 5% QoQ to Rs532bn, impacted by a 5% QoQ drop in volumes due to maintenance shutdowns at Jamshedpur and NINL. However, this was partially cushioned by a 11% QoQ increase in realizations. Consolidated EBITDA increased by 13% QoQ to Rs74bn, with EBITDA/t improving 32% QoQ to Rs10,432. The UK operations significantly reduced their EBITDA loss to Rs7,772/t in Q1FY26 from Rs13,758/t in Q4FY25 while Netherland business reported EBITDA of Rs4,080/t up from Rs712/t in Q4FY25, supported by global cost transformation program that has delivered Rs 2.9 billion in savings since H2FY25. We assign an EV/EBITDA multiple of 7x to FY27E EBITDA to derive target price of Rs160 and maintain HOLD rating on the stock.

## Key Highlights and Investment Rationale

- Improved profitability in Indian operations:** Revenue from Indian operations decreased 10% QoQ to Rs310bn, driven by a 15% QoQ drop in sales volumes to 4.75mn tonnes owing to planned maintenance shutdown at Jamshedpur and NINL. However, realization improved by 6% QoQ to Rs65,293 per tonne supported by improvement in steel prices post implementation of safeguard duty. EBITDA per tonne increased by 18% QoQ to Rs15,711/t aided by improved realisations and operational efficiencies.
- Turnaround in European operations:** Deliveries in Netherlands declined 14% QoQ, leading to a 1% QoQ drop in revenue. However, a 15% QoQ increase in realizations cushioned the adverse volume impact. UK operations witnessed an 5% QoQ decrease in volumes, while realisations improved by 7% QoQ leading to a 2% QoQ increase in revenue to Rs 609bn. As a result, EBITDA loss reduced by 44% QoQ and management expects UK operations to breakeven by the end of FY26.

TP	Rs160
CMP	Rs158
Potential upside/downside	2%
Previous Rating	HOLD

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(1.3)	12.9	(4.6)
Rel to Sensex	1.7	11.7	(3.9)

V/s Consensus		
EBITDA (Rs bn)	FY26E	FY27E
IDBI Capital	351	389
Consensus	358	411
% difference	(2.0)	(5.4)

Key Stock Data	
Bloomberg / Reuters	TATA IN / TISC.BO
Sector	Metal & Mining
Shares o/s (mn)	12,483
Market cap. (Rs mn)	1,969,889
3-m daily average value (Rs mn)	238.6
52-week high / low	Rs170 / 123
Sensex / Nifty	81,186 / 24,768

Shareholding Pattern (%)	
Promoters	33.2
FII	17.2
DII	24.4
Public	25.2

## Financial snapshot

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	2,434	2,292	2,185	2,386	2,629
Change (yoy, %)	(0.2)	(5.8)	(4.6)	9.2	10.2
EBITDA	323	223	253	351	389
Change (yoy, %)	(49.1)	(30.9)	13.4	38.6	11.0
EBITDA Margin(%)	13.3	9.7	11.6	14.7	14.8
Adj.PAT	86	34	43	103	124
EPS (Rs)	7.1	2.7	3.4	8.2	9.9
Change (yoy, %)	(78.5)	(61.8)	26.6	140.0	20.6
PE(x)	22.9	59.9	47.3	19.7	16.3
Dividend Yield (%)	2.2	2.2	2.2	2.3	2.3
EV/EBITDA (x)	8.3	12.5	11.2	8.1	7.1
RoE (%)	8.0	3.5	4.7	10.6	11.9
RoCE (%)	11.1	5.9	7.1	11.1	12.5

Source: IDBI Capital Research

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**Exhibit 1: Quarterly Snapshot**

(Rs mn)

Financial snapshot	Q1FY26	Q4FY25	QoQ (%)	Q1FY25	YoY (%)
<b>Net Sales</b>	<b>5,31,781</b>	<b>5,62,181</b>	<b>(5.4)</b>	<b>5,47,714</b>	<b>(2.9)</b>
Total expenditure	4,57,506	4,96,589	(7.9)	4,80,769	(4.8)
<b>EBITDA</b>	<b>74,275</b>	<b>65,592</b>	<b>13.2</b>	<b>66,945</b>	<b>11.0</b>
<i>EBITDA margin (%)</i>	<i>14.0%</i>	<i>11.7%</i>	<i>230bps</i>	<i>12.2%</i>	<i>174bps</i>
EBITDA/t	10,432	7,874	32.5	9,059	15.2
Interest	18,524	17,888	3.6	17,767	4.3
Depreciation	27,443	27,200	0.9	25,354	8.2
<b>PBT</b>	<b>30,671</b>	<b>25,115</b>	<b>22.1</b>	<b>23,768</b>	<b>29.0</b>
Tax	10,597	9,988	6.1	14,583	(27.3)
<b>Reported PAT</b>	<b>20,777</b>	<b>13,008</b>	<b>59.7</b>	<b>9,596</b>	<b>116.5</b>
<b>Adjusted PAT</b>	<b>22,098</b>	<b>16,894</b>	<b>30.8</b>	<b>13,175</b>	<b>67.7</b>
<b>Diluted EPS</b>	<b>1.8</b>	<b>1.4</b>	<b>30.8</b>	<b>1.1</b>	<b>67.7</b>

Source: Company; IDBI Capital Research

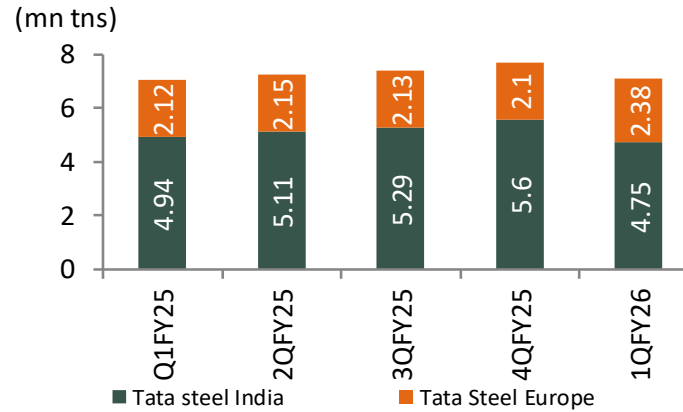
**Exhibit 2: Actual vs estimates**

(Rs mn)

	Q1FY26E	Q1FY26A	% Variance
Net sales	5,03,420	5,31,781	5.6
EBTIDA	69,856	74,275	6.3
<i>Margin (%)</i>	<i>13.9</i>	<i>14.0</i>	<i>9bps</i>
<b>PAT</b>	<b>16,957</b>	<b>22,098</b>	<b>30.3</b>
Dil. EPS	1.4	1.8	30.3

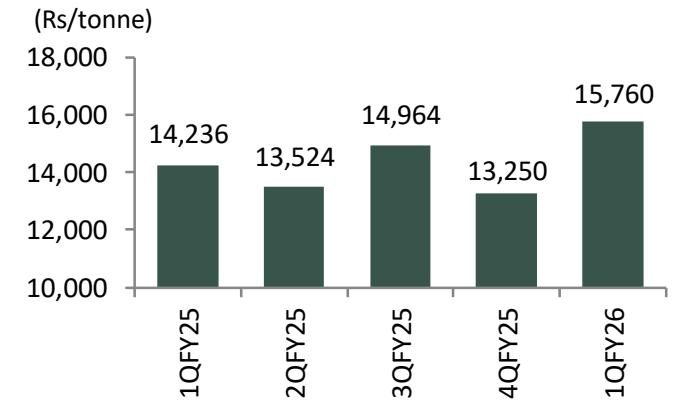
Source: Company; IDBI Capital Research

**Exhibit 3: Geographical sales mix**



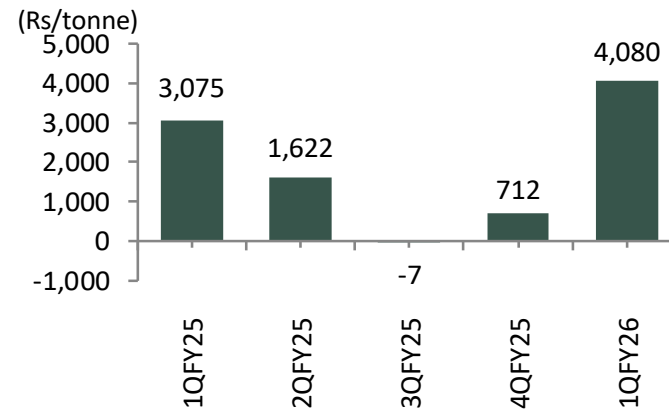
Source: Company; IDBI Capital Research

**Exhibit 4: EBITDA/tonne - India Operations**



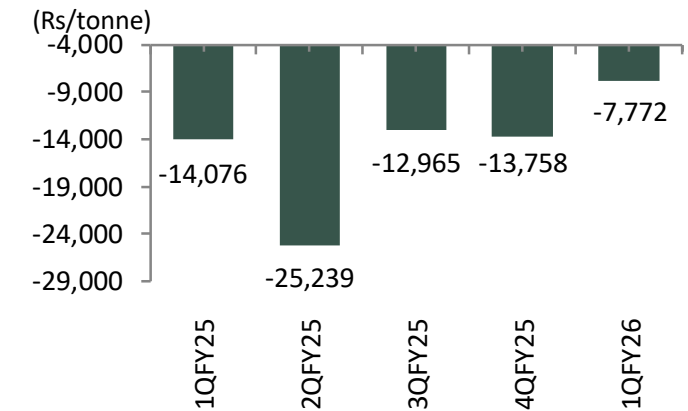
Source: Company; IDBI Capital Research

**Exhibit 5: EBITDA/tonne - Netherlands Operations**



Source: Company; IDBI Capital Research

**Exhibit 6: EBITDA/tonne - UK Operations**



Source: Company; IDBI Capital Research

**Exhibit 7: Change in estimates**

	FY26E			FY27E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs bn)	2,386	2,386	(0.0)	2,629	2,629	(0.0)
EBITDA (Rs bn)	351	351	(0.0)	389	389	0.0
EBITDA margin (%)	14.7	14.7	0bps	14.8	14.8	0bps
Adj. Net profit (Rs bn)	103	103	(0.0)	124	124	(0.0)
Adj. EPS (Rs)	8.2	8.2	(0.0)	9.9	9.9	(0.0)

Source: Company; IDBI Capital Research

## Conference call highlights

### Consolidated Performance & Strategic Outlook

- EBITDA improvement was driven by moderation in coking coal and iron ore prices, alongside internally focused cost takeout initiatives.
- The company aims to sustain a trend where consolidated EBITDA is broadly similar to India EBITDA, through transformation processes in the UK and Netherlands.

### Global Cost Transformation Program

- Cost savings do not include price effects; they focus on raw material efficiency, leaner blends, and contractual terms.
- India: Delivered approximately Rs. 1.1 billion in cost transformation, achieving 100% compliance. Initiatives included leaner coal mix, optimization of stores/repairs/maintenance, reduced scrap consumption, and improved operating KPIs.
- Netherlands: Achieved about Rs. 1.4 billion in cost transformation, driven by better product mix, downstream sales optimization, and supply chain/procurement cost improvements.
- UK: Contributed approximately Rs. 400 million in cost transformation, exceeding plan due to maintenance cost reductions, higher leasing, and optimizing purchased substrate costs.

### India Standalone Performance

- Despite lower volumes from maintenance shutdowns, EBITDA increased by 2% due to controllable cost improvements. Material costs declined by Rs. 2.9 billion (coking coal consumption down \$12/ton), and conversion costs decreased by Rs. 700 million.
- Capital expenditure of Rs. 5.5 billion was capitalized, primarily for the Kalinganagar expansion.
- The Board approved expansion of the tin plate business to double capacity in Jamshedpur and investment in captive coking coal mining sustainability.
- Q2 price outlook for India is INR 2,000/ton less in net realizations compared to Q1, with coking coal costs expected to be \$10/ton lower.

- The Ludhiana EAF plant (0.75 million tons) and Jamshedpur Combi Mill (0.5 million tons) are expected to add volumes and value.

#### **Tata Steel UK Performance**

- Managed to halve its EBITDA loss in Q1 despite challenging market conditions.
- Total costs decreased by 9% or \$55 million, leading to an EBITDA improvement of approximately \$40 million or GBP 58 per ton.
- Fixed costs improved by \$17 million, with an annualized reduction of over \$200 million for FY'26 versus FY'25.
- The company aims to achieve breakeven by the end of FY'26.

#### **Tata Steel Netherlands Performance**

- EBITDA improved by approximately \$50 million or EUR 35 per ton, with total costs declining by 10% or EUR 155 million.
- Material costs declined by EUR 184 million, largely due to inventory movement and lower coking coal consumption.
- The net adverse impact on EBITDA from US Customs duty was around \$14 million.
- Q2 price outlook for the UK and Netherlands is flat or slightly higher, with coking coal costs expected to be \$10/ton lower and Netherlands iron ore costs \$7-8/ton lower.

#### **Debt Reduction & Capital Allocation**

- Net debt was approximately Rs. 84.835 billion, with group liquidity strong at Rs. 43.578 billion (including Rs. 14.118 billion cash and equivalents).
- Despite a marginal increase in net debt, the company remains committed to deleveraging, with an enterprise strategy to contain debt by about Rs. 6-8 billion for FY'26.
- Capital expenditure during Q1 was Rs. 3.829 billion.
- Conversion of inter-company FX variations into equity is expected to reduce future FX volatility.

## Financial Summary

### Profit & Loss Account

(Rs bn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
<b>Net sales</b>	<b>2,440</b>	<b>2,434</b>	<b>2,292</b>	<b>2,185</b>	<b>2,386</b>	<b>2,629</b>
<i>Change (yoy, %)</i>	56.1	(0.2)	(5.8)	(4.6)	9.2	10.2
Operating expenses	(1,805)	(2,111)	(2,069)	(1,932)	(2,035)	(2,240)
<b>EBITDA</b>	<b>635</b>	<b>323</b>	<b>223</b>	<b>253</b>	<b>351</b>	<b>389</b>
<i>Change (yoy, %)</i>	108.1	(49.1)	(30.9)	13.4	38.6	11.0
<i>Margin (%)</i>	26.0	13.3	9.7	11.6	14.7	14.8
Depreciation	(91)	(93)	(99)	(104)	(111)	(114)
<b>EBIT</b>	<b>544</b>	<b>230</b>	<b>124</b>	<b>149</b>	<b>240</b>	<b>275</b>
Interest paid	(55)	(63)	(75)	(73)	(75)	(70)
Other income	8	10	18	15	15	15
<b>Pre-tax profit</b>	<b>502</b>	<b>182</b>	<b>(11)</b>	<b>84</b>	<b>183</b>	<b>222</b>
Tax	(85)	(102)	(38)	(52)	(81)	(99)
<i>Effective tax rate (%)</i>	16.9	55.7	(328.0)	62.3	44.5	44.6
Minority Interest	(16.0)	6.9	4.7	2.5	1.2	0.6
<b>Net profit</b>	<b>402</b>	<b>88</b>	<b>(44)</b>	<b>34</b>	<b>103</b>	<b>124</b>
Exceptional items	(1)	1	(78)	(9)	-	-
<b>Adjusted net profit</b>	<b>403</b>	<b>86</b>	<b>34</b>	<b>43</b>	<b>103</b>	<b>124</b>
<i>Change (yoy, %)</i>	372.1	(78.5)	(61.0)	26.6	140.0	20.6
EPS	33.0	7.1	2.7	3.4	8.2	9.9
Dividend per share	5.4	3.6	3.6	3.6	3.8	3.8
<i>Dividend Payout %</i>	16.4	50.9	133.1	105.1	46.2	38.3

**Balance Sheet**

(Rs bn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
<b>Shareholders' funds</b>	<b>1,144</b>	<b>1,031</b>	<b>920</b>	<b>912</b>	<b>967</b>	<b>1,043</b>
Share capital	12	12	12	12	12	12
Reserves & surplus	1,132	1,019	908	899	954	1,031
<b>Total Debt</b>	<b>505</b>	<b>838</b>	<b>861</b>	<b>938</b>	<b>888</b>	<b>838</b>
Other liabilities	273	283	265	286	298	1,150
<b>Curr Liab &amp; prov</b>	<b>906</b>	<b>707</b>	<b>684</b>	<b>657</b>	<b>756</b>	<b>835</b>
Current liabilities	878	668	646	618	717	796
Provisions	28	39	38	39	39	39
<b>Total liabilities</b>	<b>1,683</b>	<b>1,828</b>	<b>1,810</b>	<b>1,880</b>	<b>1,942</b>	<b>1,946</b>
<b>Total equity &amp; liabilities</b>	<b>2,854</b>	<b>2,880</b>	<b>2,734</b>	<b>2,794</b>	<b>2,911</b>	<b>2,991</b>
<b>Net fixed assets</b>	1,553	1,778	1,832	1,925	1,964	1,950
Investments	46	48	55	58	58	58
Other non-curr assets	329	187	142	127	127	127
<b>Current assets</b>	<b>926</b>	<b>867</b>	<b>705</b>	<b>684</b>	<b>762</b>	<b>856</b>
Inventories	488	544	492	446	549	605
Sundry Debtors	122	83	63	53	59	65
Cash and Bank	159	134	87	116	85	117
Other current assets	156	106	64	69	69	69
<b>Total assets</b>	<b>2,854</b>	<b>2,880</b>	<b>2,734</b>	<b>2,794</b>	<b>2,911</b>	<b>2,991</b>

**Cash Flow Statement**

(Rs bn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	502	182	(11)	84	183	222
Depreciation	91	93	99	104	111	114
Tax paid	(119)	(55)	(53)	(26)	-	-
Chg in working capital	38	(219)	51	(40)	(10)	(22)
Other operating activities	(68)	216	118	113	-	-
<b>Cash flow from operations (a)</b>	<b>444</b>	<b>217</b>	<b>203</b>	<b>235</b>	<b>283</b>	<b>314</b>
Capital expenditure	111	(138)	(177)	(152)	(150)	(100)
Chg in investments	(12)	49	32	2	-	-
Other investing activities	(208)	(97)	3	8	-	-
<b>Cash flow from investing (b)</b>	<b>(109)</b>	<b>(187)</b>	<b>(143)</b>	<b>(142)</b>	<b>(150)</b>	<b>(100)</b>
Equity raised/(repaid)	3	0	-	-	-	-
Debt raised/(repaid)	(139)	65	(110)	(176)	(50)	(50)
Dividend (incl. tax)	(30)	(63)	(44)	(45)	(47)	(47)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(68)	(72)	43	151	13	14
<b>Cash flow from financing (c)</b>	<b>(234)</b>	<b>(70)</b>	<b>(111)</b>	<b>(70)</b>	<b>(85)</b>	<b>(84)</b>
<b>Net chg in cash (a+b+c)</b>	<b>101</b>	<b>(40)</b>	<b>(50)</b>	<b>23</b>	<b>49</b>	<b>131</b>

### Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	94	84	74	73	77	84
Adj EPS (Rs)	33.0	7.1	2.7	3.4	8.2	9.9
Adj EPS growth (%)	363.0	-78.5	-61.8	26.6	140.0	20.6
EBITDA margin (%)	26.0	13.3	9.7	11.6	14.7	14.8
Pre-tax margin (%)	20.6	7.5	-0.5	3.8	7.7	8.4
Net Debt/Equity (x)	0.3	0.7	0.8	0.9	0.8	0.7
ROCE (%)	29.4	11.1	5.9	7.1	11.1	12.5
ROE (%)	42.7	8.0	3.5	4.7	10.6	11.9

### DuPont Analysis

Asset turnover (x)	0.9	0.8	0.8	0.8	0.8	0.9
Leverage factor (x)	2.8	2.6	2.9	3.0	3.0	2.9
Net margin (%)	16.5	3.6	1.5	2.0	4.3	4.7

### Working Capital & Liquidity ratio

Inventory days	73	82	78	74	84	84
Receivable days	18	12	10	9	9	9
Payable days	123	65	63	55	70	70

### Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	4.9	22.9	59.9	47.3	19.7	16.3
Price/Book value (x)	1.7	1.9	2.2	2.2	2.1	1.9
EV/Net sales (x)	1.0	1.1	1.2	1.3	1.2	1.0
EV/EBITDA (x)	3.7	8.3	12.5	11.2	8.1	7.1
Dividend Yield (%)	3.3	2.2	2.2	2.2	2.3	2.3

Source: Company; IDBI Capital Research

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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