

Tata Steel

HOLD

Softness in Indian operations; improvement visible in Europe

Summary

Tata Steel's Q1FY25 Revenue and EBITDA were in line with our expectations. Consolidated sales decreased by 8% QoQ to Rs547bn due to subdued steel demand across most regions. Consolidated sales volume decreased by 7% QoQ to 7.39mn tonnes. Nevertheless, consolidated EBITDA/t increased by 10% QoQ to Rs9,059. UK reported EBITDA loss of Rs14,076/t in Q1FY25 vs. loss of 5,614/t in Q4FY24, following the closure of BF-5. Additionally, Netherlands operations turned EBITDA positive to Rs3,075/t in Q1FY25 vs. loss of Rs2,063/t in Q4FY24, driven by improvement in input cost. Tata Steel re-iterated volume growth guidance of 1.4mn tonne in FY25. We have reduced our FY25/FY26 EPS estimate by 27%/15%, respectively. We value stock based on FY26E EV/EBITDA multiple of 6.5x, arriving at target price of Rs164 and maintain our HOLD rating on the stock.

Key Highlights and Investment Rationale

- Softness in Indian operations:** Revenue from Indian operations decreased by 10% QoQ, driven by a 9% QoQ drop in volume. This decline was attributed to reduced demand due to the heat wave and elections, as well as pricing pressures from Chinese dumping. EBITDA margin contracted 140bps QoQ to 21.2%, and EBITDA per tonne declined by 7% to Rs14,227/t. Tata Steel expects realization to decline by Rs1,500 per tonne in Q2FY25 on lower steel prices.
- Visible improvement in European operations:** Netherlands deliveries increased by 3% QoQ, boosted by relining of BF6, which turned the operations EBITDA positive. Furthermore, Tata steel's UK operations successfully completed the closure of BF-5 in Jul'24 and the closure of BF-4 is scheduled for the end of Sep'24. Management expects UK operations to break even in Q3FY25 following the closure of BF-4 and to turn EBITDA positive from Q4FY25 onwards.

TP **Rs164**CMP **Rs163**

Potential upside/downside 1%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(6.3)	(1.2)	32.3
Rel to Sensex	(9.4)	(11.1)	9.2

V/s Consensus

EBITDA (Rs bn)	FY25E	FY26E
IDBI Capital	322	385
Consensus	340	411
% difference	5.5	6.7

Key Stock Data

Bloomberg / Reuters	TATA IN / TISC.BO
Sector	Metal & Mining
Shares o/s (mn)	12,483
Market cap. (Rs mn)	2,035,427
3-m daily average value (Rs mn)	238.6
52-week high / low	Rs185 / 114
Sensex / Nifty	81,868 / 25,011

Shareholding Pattern (%)

Promoters	33.2
FII	19.7
DII	21.3
Public	25.8

Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	2,440	2,434	2,292	2,337	2,536
Change (yoy, %)	56	(0)	(6)	2	9
EBITDA	635	323	223	322	385
Change (yoy, %)	108	(49)	(31)	44	20
EBITDA Margin(%)	26.0	13.3	9.7	13.8	15.2
Adj.PAT	403	86	34	102	157
EPS (Rs)	33	7	3	8	13
Change (yoy, %)	363.0	(78.5)	(61.8)	202	54
PE(x)	4.9	23.0	60.3	20.0	12.9
Dividend Yield (%)	3.3	2.2	2.2	2.2	2.3
EV/EBITDA (x)	3.7	7.5	11.3	7.9	6.5
RoE (%)	42.7	8.0	3.5	10.8	14.5
RoCE (%)	29.4	11.9	6.8	12.2	14.5

Source: IDBI Capital Research

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Exhibit 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
Net Sales	5,47,714	5,86,873	(6.7)	5,94,897	(7.9)
Total expenditure	4,80,769	5,20,867	(7.7)	5,43,158	(11.5)
EBITDA	66,945	66,006	1.4	51,739	29.4
<i>EBITDA margin (%)</i>	<i>12.2%</i>	<i>11.2%</i>	<i>98bps</i>	<i>8.7%</i>	<i>353bps</i>
Interest	17,767	18,423	(3.6)	18,252	(2.7)
Depreciation	25,354	25,680	(1.3)	24,123	5.1
PBT	23,768	23,663	0.4	18,554	28.1
Tax	14,583	12,543	16.3	13,305	9.6
Reported PAT	9,596	6,115	56.9	6,339	51.4
Adjusted PAT	12,765	11,490	11.1	6,205	105.7
Diluted EPS	1.0	0.9	11.1	0.5	105.7

Source: Company; IDBI Capital Research

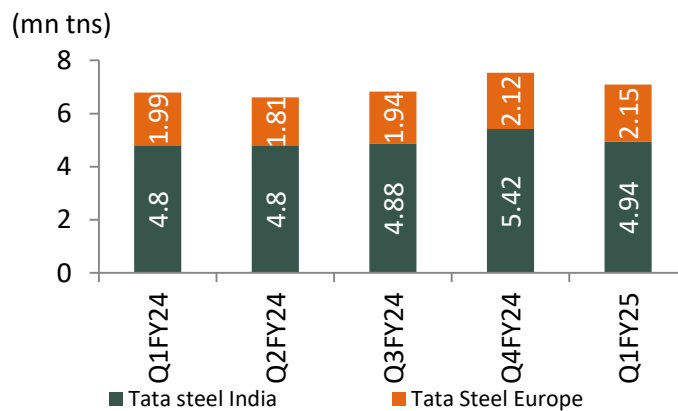
Exhibit 2: Actual vs estimates

(Rs mn)

	Q1FY25E	Q1FY25A	% Variance
Net sales	5,45,280	5,47,714	0.4
EBTIDA	67,069	66,945	(0.2)
<i>Margin (%)</i>	<i>12.3</i>	<i>12.2</i>	<i>-8bps</i>
PAT	17,249	12,765	(26.0)
Dil. EPS	1.4	1.0	(26.0)

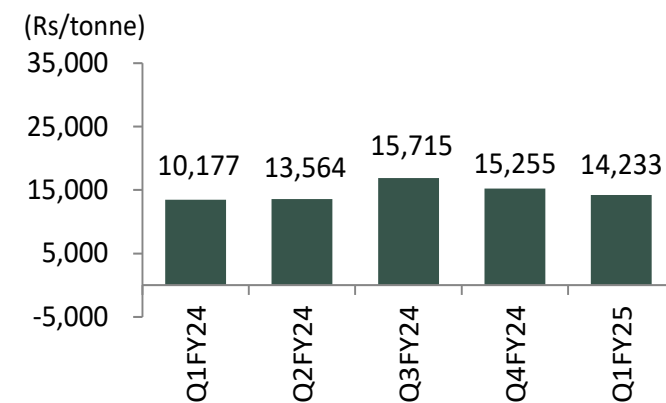
Source: Company; IDBI Capital Research

Exhibit 3: Geographical sales mix



Source: Company; IDBI Capital Research

Exhibit 4: Standalone EBIDTA/ton down by 7% QoQ



Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

	FY25E			FY26E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs bn)	2,436	2,337	(4.1)	2,611	2,536	(2.9)
EBITDA (Rs bn)	363	322	(11.4)	428	385	(10.0)
EBITDA margin (%)	14.9	13.8	-113bps	16.4	15.2	-120bps
Adj. Net profit (Rs bn)	140	102	(26.9)	184	157	(14.6)
Adj. EPS (Rs)	11.2	8.2	(26.9)	14.7	12.6	(14.6)

Source: Company; IDBI Capital Research

Conference call highlights

- Tata Steel reported a subdued performance with a decline in revenue attributed to decreased sales volume amid softened demand and price pressure due to Chinese steel dumping. Additionally, steel production declined quarter-over-quarter (QoQ) due to plant maintenance shutdowns during the quarter
- The company incurred ₹3,770 crore in Capex, primarily allocated to the Kalinganagar expansion and the EAF at the Ludhiana facility. The priority is expanding the Nilanchal capacity, followed by increasing Kalinganagar from 8 to 13 million tonnes and the Miramandli plant from 5 to 6.5 million tonnes, as well as the EAF in Ludhiana. These expansions are expected to start contributing by FY26/FY27.
- There has been an increase in the value of chrome ore inventory due to the accrual of higher royalty charges payable. The cost of coking coal consumption decreased by \$11 per tonne due to a 2-3 month lag between contract and consumption.
- The company experienced a working capital build-up during the quarter, driven by stock accumulation in the UK and seasonality in the Indian business.
- Tata Steel UK's operations successfully closed its BS5 in early July, with BS4 scheduled to be closed by September. The execution of the EAF project grant funding agreement is under discussion post-elections
- The Netherlands operations are expected to improve further in Q2 and turn debt free in 18 months. Tata Steel is in discussions for support in the decarbonisation of steel and will submit a detailed report on this initiative.
- Management has guided for an NSR approximately ₹1,500 per tonne lower than Q1 NSR for India operations, GBP 60 per tonne lower for Netherlands operations, and GBP 7 per tonne lower for UK operations

Financial Summary

Profit & Loss Account

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	1,563	2,440	2,434	2,292	2,337	2,536
<i>Change (yoy, %)</i>	4.9	56	(0)	(6)	2	9
Operating expenses	(1,258)	(1,805)	(2,111)	(2,069)	(2,016)	(2,151)
EBITDA	305	635	323	223	322	385
<i>Change (yoy, %)</i>	71.1	108	(49)	(31)	44	20
<i>Margin (%)</i>	19.5	26.0	13.3	9.7	13.8	15.2
Depreciation	(92)	(91)	(93)	(99)	(104)	(113)
EBIT	213	544	230	124	218	272
Interest paid	(76)	(55)	(63)	(75)	(71)	(67)
Other income	9	8	10	18	10	10
Pre-tax profit	138	502	182	(11)	161	220
Tax	(57)	(85)	(102)	(38)	(60)	(65)
<i>Effective tax rate (%)</i>	40.8	16.9	55.7	(328.0)	37.5	29.5
Minority Interest	(7.0)	(16.0)	6.9	4.7	1.5	2.4
Net profit	75	402	88	(44)	102	157
Exceptional items	(10)	(1)	1	(78)	-	-
Adjusted net profit	85	403	86	34	102	157
<i>Change (yoy, %)</i>	31.6	372	(79)	(61)	202	54
EPS	7.1	33.0	7.1	2.7	8.2	12.6
Dividend per share	21.0	5.4	3.6	3.6	3.6	3.8
<i>Dividend Payout %</i>	295.0	16.4	50.9	133	44	30

Balance Sheet

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	742	1,144	1,031	920	977	1,087
Share capital	12	12	12	12	12	12
Reserves & surplus	730	1,132	1,019	908	965	1,075
Total Debt	724	505	573	561	551	501
Other liabilities	247	273	283	265	277	791
Curr Liab & prov	709	906	973	984	1,034	1,062
Current liabilities	661	878	934	946	996	1,025
Provisions	47	28	39	38	38	38
Total liabilities	1,680	1,683	1,828	1,810	1,862	1,816
Total equity & liabilities	2,455	2,854	2,880	2,734	2,842	2,903
Net fixed assets	1,548	1,553	1,778	1,832	1,888	1,851
Investments	35	46	48	55	55	55
Other non-curr assets	270	329	187	142	142	142
Current assets	602	926	867	705	757	855
Inventories	333	488	544	492	576	667
Sundry Debtors	95	122	83	63	77	76
Cash and Bank	58	159	134	87	40	47
Other current assets	116	156	106	64	64	64
Total assets	2,455	2,854	2,880	2,734	2,842	2,903

Cash Flow Statement

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	138	502	182	(11)	161	220
Depreciation	92	91	93	99	104	113
Tax paid	(7)	(119)	(55)	(53)	-	-
Chg in working capital	155	38	46	85	(49)	(100)
Other operating activities	64	(68)	(50)	84	-	-
Cash flow from operations (a)	443	444	217	203	216	233
Capital expenditure	(65)	111	(138)	(177)	(160)	(77)
Chg in investments	(1)	(12)	49	32	-	-
Other investing activities	(27)	(208)	(97)	3	-	-
Cash flow from investing (b)	(93)	(109)	(187)	(143)	(160)	(77)
Equity raised/(repaid)	32	3	0	-	(2)	(2)
Debt raised/(repaid)	(703)	(139)	65	(110)	(10)	(50)
Dividend (incl. tax)	(12)	(30)	(63)	(44)	(45)	(47)
Chg in minorities	-	-	-	-	-	-
Other financing activities	311	(68)	(72)	43	12	13
Cash flow from financing (c)	(371)	(234)	(70)	(111)	(44)	(87)
Net chg in cash (a+b+c)	(21)	101	(40)	(50)	12	70

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	62	94	84	74	78	87
Adj EPS (Rs)	7.1	33.0	7.1	2.7	8.2	12.6
Adj EPS growth (%)	25.8	363	-79	-62	202	54
EBITDA margin (%)	19.5	26.0	13.3	9.7	13.8	15.2
Pre-tax margin (%)	8.9	20.6	7.5	-0.5	6.9	8.7
Net Debt/Equity (x)	0.9	0.3	0.4	0.5	0.5	0.4
ROCE (%)	11.1	29	12	7	12	14
ROE (%)	11.5	43	8	3	11	14

DuPont Analysis

Asset turnover (x)	0.6	0.9	0.8	0.8	0.8	0.9
Leverage factor (x)	3.4	2.8	2.6	2.9	2.9	2.7
Net margin (%)	5.5	16.5	3.6	1.5	4.4	6.2

Working Capital & Liquidity ratio

Inventory days	78	73	82	78	90	96
Receivable days	22	18	12	10	12	11
Payable days	103	123	111	115	128	118

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	22.9	4.9	23.0	60.3	20.0	12.9
Price/Book value (x)	2.6	1.7	1.9	2.2	2.1	1.9
EV/Net sales (x)	1.7	1.0	1.0	1.1	1.1	1.0
EV/EBITDA (x)	8.6	3.7	7.5	11.3	7.9	6.5
Dividend Yield (%)	12.9	3.3	2.2	2.2	2.2	2.3

Source: Company; IDBI Capital Research



Notes

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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