

# Tata Steel

## HOLD

### Strong Volume Growth Offsets Price Pressure

#### Summary

Tata Steel's Q4FY25 profitability exceeded our expectations. Revenue rose 5% QoQ at Rs562bn, driven by 8% QoQ volume growth, despite a 3% QoQ drop in realizations. Volume growth was supported by strong performance across both India and European operations. Consolidated EBITDA increased by 11% QoQ to Rs66bn, with EBITDA/t rising 3% QoQ to Rs7,874. UK operations reported an EBITDA loss of Rs13,758/t in Q4FY25 compared to a loss of 12,965/t in Q3FY25. Meanwhile, Netherland operations turned EBITDA positive at Rs712/t in Q4FY25, compared to a loss of Rs7/t in Q3FY25, supported by cost reductions and operational efficiencies. We slightly tweak our FY26 & FY27 EBITDA estimates and assign an EV/EBITDA multiple of 6.5x to FY27E EBITDA to derive target price of Rs145 and maintain HOLD rating on the stock.

#### Key Highlights and Investment Rationale

- Stable volume growth in Indian operations:** Revenue from Indian operations increased 5% QoQ at Rs347bn, driven by a 6% QoQ increase in sales volumes to 5.60mn tonnes. This was led by strong demand from the retail segment and seasonality. However, realization declined by 1% QoQ to Rs61,895 per tonne due to the weak steel prices amid a surge in cheap steel imports. EBITDA per tonne decreased by 12% QoQ to Rs13,250/t, due to increased other overheads.
- Recovery in European operations:** Deliveries in Netherlands grew 14% QoQ, leading to a 7% QoQ increase in revenue. However, a 7% QoQ drop in realizations tempered the overall benefit. UK operations witnessed an 11% QoQ increase in volumes, leading to a 6% QoQ revenue growth. However, realizations dropped 4% QoQ as the UK business focused on servicing downstream capacities using substrates from India and Netherlands. This led to a higher QoQ EBITDA loss in the UK due to elevated substrate costs during the quarter.

TP **Rs145**

CMP **Rs150**

Potential upside/downside -3%

Previous Rating **HOLD**

#### Price Performance (%)

	-1m	-3m	-12m
Absolute	12.0	9.8	(8.8)
Rel to Sensex	4.1	3.2	(20.3)

#### V/s Consensus

EBITDA (Rs bn)	FY26E	FY27E
IDBI Capital	351	389
Consensus	354	400
% difference	(0.8)	(2.8)

#### Key Stock Data

Bloomberg / Reuters	TATA IN / TISC.BO
Sector	Metal & Mining
Shares o/s (mn)	12,483
Market cap. (Rs mn)	1,866,277
3-m daily average value (Rs mn)	238.6
52-week high / low	Rs185 / 123
Sensex / Nifty	81,148 / 24,578

#### Shareholding Pattern (%)

Promoters	33.2
FII	18.3
DII	23.2
Public	25.3

#### 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)	21.2	55.5	43.8	18.3	15.1
Dividend Yield (%)	2.4	2.4	2.4	2.5	2.5
EV/EBITDA (x)	7.9	11.9	10.7	7.6	6.7
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	Q4FY25	Q3FY25	QoQ (%)	Q4FY24	YoY (%)
<b>Net Sales</b>	<b>5,62,181</b>	<b>5,36,483</b>	<b>4.8</b>	<b>5,86,873</b>	<b>(4.2)</b>
Total expenditure	4,96,589	4,77,448	4.0	5,20,867	(4.7)
<b>EBITDA</b>	<b>65,592</b>	<b>59,035</b>	<b>11.1</b>	<b>66,006</b>	<b>(0.6)</b>
<i>EBITDA margin (%)</i>	<i>11.7%</i>	<i>11.0%</i>	<i>66bps</i>	<i>11.2%</i>	<i>42bps</i>
EBITDA/t	<b>7,874</b>	<b>7,647</b>	<b>3.0</b>	<b>8,271</b>	<b>(4.8)</b>
Interest	17,888	18,041	(0.9)	18,423	(2.9)
Depreciation	27,200	25,692	5.9	25,680	5.9
<b>PBT</b>	<b>21,997</b>	<b>17,512</b>	<b>25.6</b>	<b>18,089</b>	<b>21.6</b>
Tax	9,988	13,765	(27.4)	12,543	(20.4)
<b>Reported PAT</b>	<b>13,008</b>	<b>3,266</b>	<b>298.2</b>	<b>6,115</b>	<b>112.7</b>
<b>Adjusted PAT</b>	<b>16,894</b>	<b>4,528</b>	<b>273.1</b>	<b>12,060</b>	<b>40.1</b>
<b>Diluted EPS</b>	<b>1.4</b>	<b>0.4</b>	<b>273.1</b>	<b>1.0</b>	<b>40.1</b>

Source: Company; IDBI Capital Research

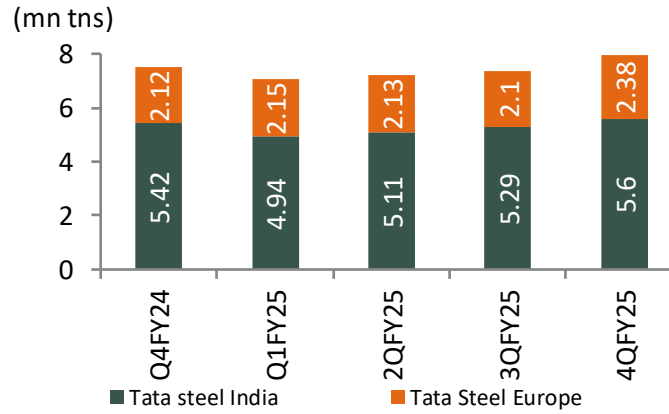
**Exhibit 2: Actual vs estimates**

(Rs mn)

	Q4FY25E	Q4FY25A	% Variance
Net sales	5,52,736	5,62,181	1.7
EBTIDA	66,148	65,592	(0.8)
<i>Margin (%)</i>	<i>12.0</i>	<i>11.7</i>	<i>-30bps</i>
<b>PAT</b>	<b>10,839</b>	<b>16,894</b>	<b>55.9</b>
Dil. EPS	0.9	1.4	55.5

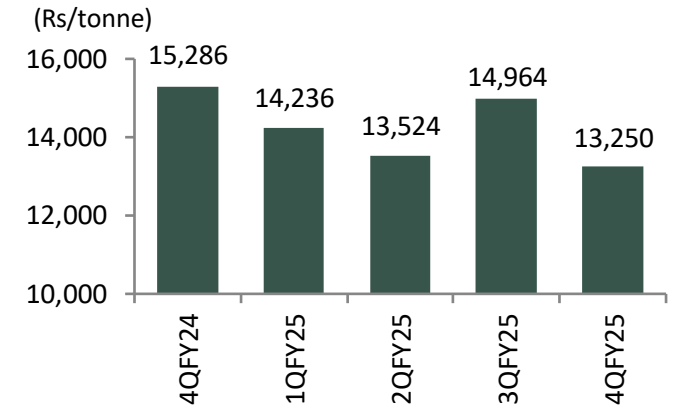
Source: Company; IDBI Capital Research

**Exhibit 3: Geographical sales mix**



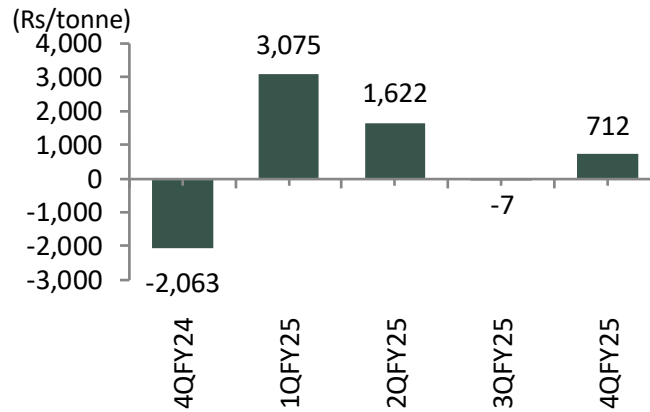
Source: Company; IDBI Capital Research

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



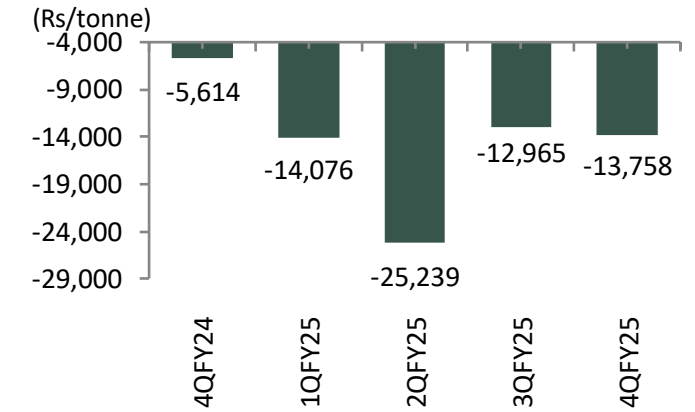
Source: Company; IDBI Capital Research

**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)	2,423	2,386	(1.5)	2,650	2,629	(0.8)
EBITDA (Rs bn)	356	351	(1.5)	392	389	(0.7)
EBITDA margin (%)	14.7	14.7	0bps	14.8	14.8	0bps
Adj. Net profit (Rs bn)	105	103	(2.3)	124	124	(0.2)
Adj. EPS (Rs)	8.4	8.2	(2.2)	9.9	9.9	0.1

Source: Company; IDBI Capital Research

## Conference call highlights

### India Operations Highlights

- Achieved highest ever crude steel production (21.7 mn tons) and deliveries (20.9 mn tons) for the full year.
- Performance was aided by the commissioning of blast furnace at Kalinganagar. Capacity utilization was close to 100%, excluding the ramping-up Kalinganagar plant.
- Deliveries to the automotive segment were strong due to new product development and localization efforts.
- Branded products and retail volumes reached around 7 mn tons, with record sales for Tata Tiscon, Tata Astrum, and Tata Steelium. Tata Tiscon volumes grew by 19% YoY, reaching 2.4 mn tons.
- The e-commerce platform Ashiana served over 100,000 unique customers with a gross merchandise value over Rs 35 bn, 90% of which was Tata Tiscon.
- Nilachal Ispat Nigam showed consistent improvement, recording Rs 10 bn EBITDA and Rs 10 bn cash flow in the year.

### UK & Netherlands Operations

- In the UK, both blast furnaces at Port Talbot have been safely decommissioned, and the company is now serving customers via downstream processing of purchased substrate. Fixed costs improved by about GBP 230 mn annually. Planning permission for the EAF has been received, with civil work expected to begin by July.
- In the Netherlands, liquid steel production was the highest in many years at 6.75 mn tons. This led to a 17% YoY increase in deliveries. EBITDA was positive for the full year.

### Cost Transformation & Outlook

- Building on FY25 savings, Tata Steel is targeting further structural cost takeouts of almost Rs 115 bn (approximately \$1.3 bn) across geographies in FY26.
- In India, the target is Rs 40 bn through operating KPIs, employee productivity, supply chain optimization, and low CapEx projects. A conversion cost optimization of Rs 1000-1200 per ton is targeted.

- In the UK, a further fixed cost reduction of about GBP 220 mn (29% YoY) is targeted for FY26.
- In Netherlands, a cost competitiveness program targeting EUR 500 mn in savings in FY26 has been launched.

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

- Net debt reduced by over Rs 62 bn in the last six months to Rs 825.79 bn as of March FY25.
- FY26 CapEx plan is around Rs 150 bn, with close to 75% allocated to Indian projects.
- Discussions around a \$2.5 bn infusion represent a rebalancing of overseas debt towards the India balance sheet, not new investment.

#### **Market & Pricing**

- Q1 FY26 steel prices in India are guided to be around Rs 3000 per ton higher QoQ; Europe prices EUR 20-30 higher.
- Domestic price premium over China exists partly due to concerns about dollar volatility and import timing (monsoon), and safeguard duty in India also helps.

#### **Expansion Plans**

- FY26 CapEx includes completing Kalinganagar and the Ludhiana EAF (aiming for 1 mn tons capacity eventually).
- The next major expansion project is at NINL, targeting up to 9.5 mn tons. This is the most ready project for board approval.

#### **Accounting Change**

- Tata Steel voluntarily changed its standalone accounting policy for investments in subsidiaries to fair value under Ind AS 109.
- This change, routing movements through other comprehensive income (OCI), resulted in a non-cash adjustment of around Rs 236.06 bn in FY25 OCI.

## 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>	<b>1,553</b>	<b>1,778</b>	<b>1,832</b>	<b>1,925</b>	<b>1,964</b>	<b>1,950</b>
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
<b>DuPont Analysis</b>						
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
<b>Working Capital &amp; Liquidity ratio</b>						
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)	4.5	21.2	55.5	43.8	18.3	15.1
Price/Book value (x)	1.6	1.8	2.0	2.1	1.9	1.8
EV/Net sales (x)	0.9	1.0	1.2	1.2	1.1	1.0
EV/EBITDA (x)	3.4	7.9	11.9	10.7	7.6	6.7
Dividend Yield (%)	3.6	2.4	2.4	2.4	2.5	2.5

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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