

## Tata Steel

HOLD

Strong India Performance; UK Weakness Persists

## Summary

Tata Steel's Q2FY26 performance was above our expectations. Revenue increased 10% QoQ to Rs586bn, driven by 11% increase in volumes, aided by strong growth in India operations. However, this was partially offset by a 1% QoQ decrease in realizations owing to weak steel prices. Consolidated EBITDA increased 20% QoQ to Rs89bn, with EBITDA/t improving 8% QoQ to Rs11,247. UK operations saw EBITDA loss widen to Rs13,510/t in Q2FY26 from Rs7,829/t in Q1FY26, while the Netherland business posted improved EBITDA of Rs5,948/t, up from Rs4,074/t in Q1FY26. The improvement was supported by global cost transformation program, which delivered Rs5.45bn in savings in H1FY26. We assign an EV/EBITDA multiple of 7.5x to FY27E EBITDA to derive target price of Rs176 and maintain HOLD rating on the stock.

## Key Highlights and Investment Rationale

- Strong volumes growth in Indian operations:** Revenue from Indian operations increased 12% QoQ to Rs347bn, driven by a 17% QoQ rise in sales volumes to 5.55mn tonnes, aided by ramp-up of Kalinganagar capacity. However, realization declined 4% QoQ to Rs62,679 per tonne, owing to weak HRC prices. Consequently, EBITDA per tonne decreased by 1% QoQ to Rs15,580/t due to lower realisations. Management expects the coking coal costs to be higher by \$6 in Q3FY26, following the recent price increase.
- UK Breakeven Delayed:** UK operations witnessed a 5% QoQ decline in volumes, while realizations improved by 2% QoQ, resulting in a 3% QoQ fall in revenue to Rs 59.2bn. As a result, EBITDA loss widened. Management indicated that TSUK's breakeven in Q4 looks difficult without government intervention, given weak macro environment in the UK. Sales volume in Netherlands increased 3% QoQ and realisations improved by 5% QoQ, leading to an 8% QoQ increase in revenue. This was supported by better steel pricing after EU CBAM decision.

TP **Rs176**CMP **Rs177**

Potential upside/downside 0%

Previous Rating HOLD

## Price Performance (%)

	-1m	-3m	-12m
Absolute	2.1	10.3	26.8
Rel to Sensex	(0.5)	5.4	18.1

## V/s Consensus

EBITDA (Rs bn)	FY26E	FY27E
IDBI Capital	351	389
Consensus	353	417
% difference	(0.6)	(6.7)

## Key Stock Data

Bloomberg / Reuters	TATA IN / TISC.BO
Sector	Metal & Mining
Shares o/s (mn)	12,483
Market cap. (Rs mn)	2,204,578
3-m daily average value (Rs mn)	238.6
52-week high / low	Rs187 / 123
Sensex / Nifty	84,479 / 25,879

## Shareholding Pattern (%)

Promoters	33.2
FII	17.3
DII	25.3
Public	24.2

## 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)	25.0	65.5	51.7	21.5	17.9
Dividend Yield (%)	2.0	2.0	2.0	2.1	2.1
EV/EBITDA (x)	8.9	13.4	12.0	8.6	7.5
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	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)
<b>Net Sales</b>	<b>5,86,893</b>	<b>5,31,781</b>	<b>10.4</b>	<b>5,39,047</b>	<b>8.9</b>
Total expenditure	4,97,928	4,57,506	8.8	4,77,634	4.2
<b>EBITDA</b>	<b>88,965</b>	<b>74,275</b>	<b>19.8</b>	<b>61,413</b>	<b>44.9</b>
<i>EBITDA margin (%)</i>	<i>15.2%</i>	<i>14.0%</i>	<i>119bps</i>	<i>11.4%</i>	<i>377bps</i>
EBITDA/t	11,247	10,432	7.8	8,167	37.7
Interest	17,750	18,524	(4.2)	19,714	(10.0)
Depreciation	28,930	27,443	5.4	25,967	11.4
<b>PBT</b>	<b>42,225</b>	<b>31,195</b>	<b>35.4</b>	<b>21,643</b>	<b>95.1</b>
Tax	10,394	10,597	(1.9)	14,055	(26.0)
<b>Reported PAT</b>	<b>31,018</b>	<b>20,777</b>	<b>49.3</b>	<b>8,334</b>	<b>272.2</b>
<b>Adjusted PAT</b>	<b>35,222</b>	<b>22,098</b>	<b>59.4</b>	<b>8,154</b>	<b>332.0</b>
<b>Diluted EPS</b>	<b>2.8</b>	<b>1.8</b>	<b>59.4</b>	<b>0.7</b>	<b>332.0</b>

Source: Company; IDBI Capital Research

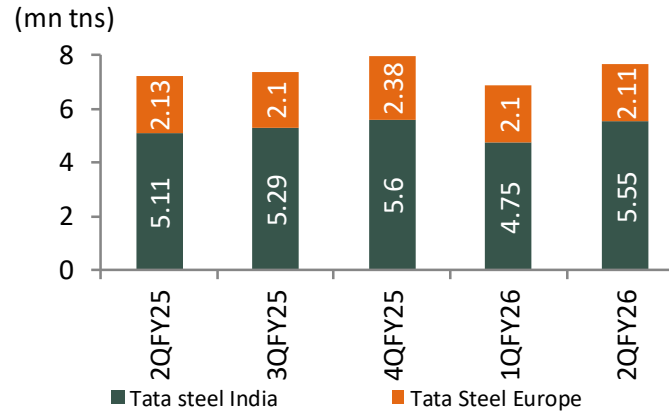
**Exhibit 2: Actual vs estimates**

(Rs mn)

	Q2FY26E	Q2FY26A	% Variance
Net sales	5,46,562	5,86,893	7.4
EBTIDA	83,337	88,965	6.8
<i>Margin (%)</i>	<i>15.2</i>	<i>15.2</i>	<i>-9bps</i>
<b>PAT</b>	<b>23,420</b>	<b>35,222</b>	<b>50.4</b>
Dil. EPS	1.9	2.8	50.4

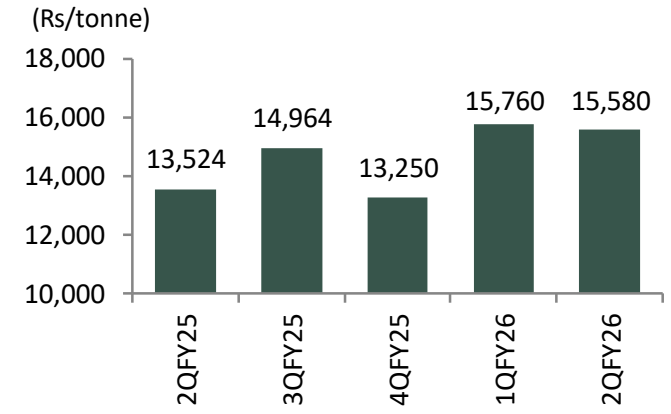
Source: Company; IDBI Capital Research

**Exhibit 3: Geographical sales mix**



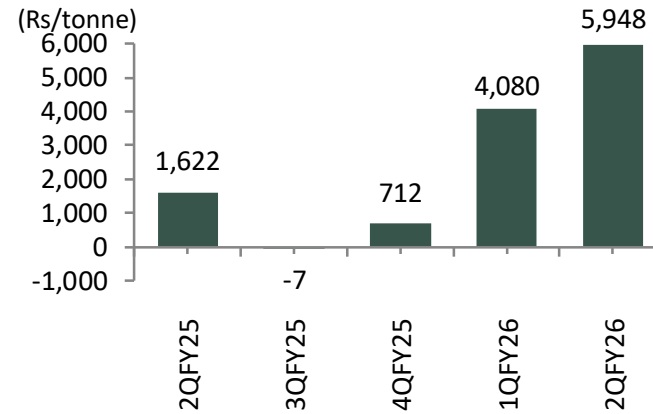
Source: Company; IDBI Capital Research

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



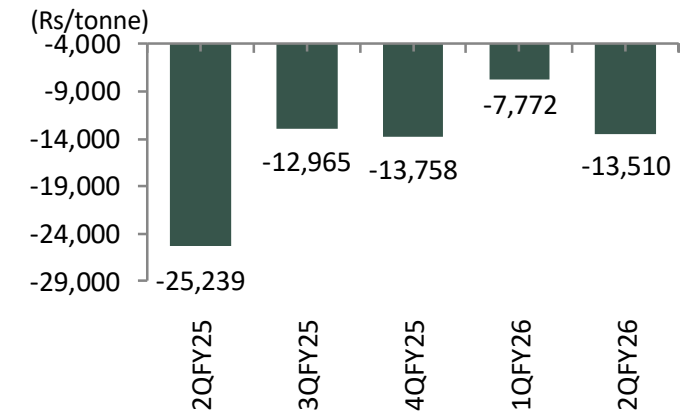
Source: Company; IDBI Capital Research

**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 Financial and Operational Overview

- Operating cash flows for H1 totaled about Rs 10,000cr. Net debt is approximately Rs 87,040cr. The consolidated Net Debt to EBITDA ratio stands at about 3x, maintaining the target range of 2.75x to 3x.

### Cost Transformation and Efficiency

- The global cost transformation program delivered tangible results, achieving around Rs. 5,450cr in H1 (94% compliance to plan). Cost improvement of more than Rs. 2,561cr was delivered during the quarter.
- India achieved full Q2 compliance, resulting in savings of about Rs. 1,036cr through measures like a leaner coal mix and optimization of stores and maintenance expenses.
- The program delivered about Rs. 1,059cr for the quarter, largely offsetting the increase in material costs. Full-year targets remain unchanged despite delays in people restructuring timelines in Netherlands.

### India Operations and Growth Pipeline

- Crude steel production growth was driven by the ongoing ramp-up at Kalinganagar and the completion of the G blast furnace relining.
- The drop in net realizations was limited to about Rs 1,700/t by an increase in volumes, offsetting the Rs. 2,300/ton drop in HRC spot prices.
- India Q3 realizations are guided to be about Rs 1,500/t lower than Q2. However, India expects a volume upside in Q3 of 0.5 mnT due to the Kalinganagar ramp-up. Demand remains strong, showing double-digit growth.
- Expansion timelines for NINL are expected to be 3 to 4 years post-Board approval, which is pending environment clearances. This expansion is a long products expansion, planned to increase capacity from 1.2 mnT up to 6 mnT initially, and eventually to 10 mnT.
- The company is pursuing volume growth across Kalinganagar starting from 8 mnT. After completing the 8 mnT expansion, the next phase aims to increase capacity to 13 mnT, and subsequently to 16 mnT.
- Meramandali, and Jamshedpur, aiming for a total potential capacity of 45 mnT across key sites.

- This EAF project, expected to yield almost one million tons of capacity, requires Capex of Rs. 3,000cr or less. This model is attractive due to its lower capital intensity and faster execution compared to greenfield iron ore and coal based expansions.
- Capex is also planned for debottlenecking and expansion at existing sites like Meramandali, including a plan to increase capacity from 5 mnT to 6.5 mnT.
- Tata Steel executed a Share Purchase Agreement to acquire the balance 50% in Tata BlueScope Private Limited, enhancing value-added downstream capacity.

### **European Operations and Policy Impact**

- Tata Steel UK EBITDA losses widened from GBP 41Mn in Q1 to GBP 66Mn in Q2. This widening loss is attributed to the UK being a vulnerable market exposed to cheap imports, weak economy, and declining domestic prices.
- Achieving EBITDA breakeven by Q4FY26 is difficult without policy intervention from the UK government. UK is negatively impacted by the protective measures taken by the EU.
- Netherlands Sentiment is positive due to EU announcements aimed at strengthening the European steel industry, including a 50% reduction in import quotas and a 50% import duty on volumes exceeding quotas. This is expected to positively impact TSN realizations and market conditions, particularly from Q4FY26 onwards.
- A non-binding Joint Letter of Intent was signed with the Dutch government to explore transitioning to low CO2 production (Phase 1), with potential government support of up to EUR 2 billion. The Final Investment Decision is scheduled for next year, pending regulatory clarity and negotiation with the new Dutch government.

### **Input Cost Outlook**

- Coking coal consumption costs for India are guided to be about \$6 higher in Q3 compared to Q2. This increase is due to coking coal having firmed up a little bit in the last few weeks.

- Coking coal consumption costs in the Netherlands are expected to be down about EUR5 to EUR10 in Q3. This decrease is largely attributed to the fact that they have more stocks in the system and will be consuming material they bought earlier.
- Tata Steel currently possesses approximately 500 to 600 mnT of iron ore available beyond 2030 from existing mines secured through auctions or acquisitions.

## 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

### 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)	5.4	25.0	65.5	51.7	21.5	17.9
Price/Book value (x)	1.9	2.1	2.4	2.4	2.3	2.1
EV/Net sales (x)	1.0	1.2	1.3	1.4	1.3	1.1
EV/EBITDA (x)	3.9	8.9	13.4	12.0	8.6	7.5
Dividend Yield (%)	3.1	2.0	2.0	2.0	2.1	2.1

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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