

Tata Steel

HOLD

Healthy India operations; Encouraging Signs in Europe

Summary

Tata Steel's Q4FY24 EBITDA was ahead of our and street forecast as India operations reported stronger than expected margins. India sales volumes increased by 11% QoQ at 5.42 mn tonnes; nevertheless, EBITDA/t dropped 10.8% QoQ to Rs15,080. However, European operations profitability continued to remain weak but losses declined in Q4FY24. UK reported EBITDA loss of Rs5,614/t in Q4FY24 vs. loss of Rs26,063/t in Q3FY24 on carbon credit of GBP51 mn. Also, Netherlands operations reduced its EBITDA loss to Rs2,063/t in Q4FY24 vs. loss of Rs9,370/t in Q3FY24. Tata Steel expects Netherland operations to turn EBITDA positive from Q1FY25 onwards, while UK operation to break even in Q3FY25 onwards. We cut FY25 EPS estimate by 6% and increase FY26 EPS forecast by 5%. We revise our SOTP-based target price to Rs143 (earlier Rs138) and maintain our HOLD rating on the stock.

Key Highlights and Investment Rationale

- Robust volume growth in India operations:** Despite 11.1% QoQ volume growth, revenue from India operations grew only by 5.6% QoQ due to weak realization (down 4.9% QoQ) on lower steel prices in Q4FY24. EBITDA margin contracted 150bps QoQ to 22.4% due to higher cost of coking coal in Q4FY24. Tata Steel expects volume to grow by 1.4mn tonne in FY25 led by increase of 1.7mn tonne from Kalinganagar and 0.2mn tonne from Nilachal with a decline of 0.5mn tonne in Jamshedpur due to closure of G-blast furnace for relining.
- Restructuring of European operations:** Reline of blast furnace in Netherlands was completed in Feb'24 with a delay, impacting its product mix and cost profile. Furthermore, Tata Steel UK will commence closure of heavy end assets and proceed with its GBP1.25 bn investment in an Electric Arc Furnace at Port Talbot.

TP	Rs143			Key Stock Data	
CMP	Rs164				
Potential upside/downside	-13%				
Previous Rating	HOLD				
Price Performance (%)					
	-1m	-3m	-12m		
Absolute	(0.5)	9.5	53.2		
Rel to Sensex	0.3	9.3	35.9		
V/s Consensus				Shareholding Pattern (%)	
EBITDA (Rs bn)	FY25E	FY26E			
IDBI Capital	363	428		Promoters	33.2
Consensus	348	410		FII	19.6
% difference	4.3	4.4		DII	21.4
				Public	25.8

	(Rs bn)				
Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	2,440	2,434	2,292	2,436	2,611
Change (yoY, %)	56	(0)	(6)	6	7
EBITDA	635	323	223	363	428
Change (yoY, %)	108	(49)	(31)	63	18
EBITDA Margin(%)	26.0	13.3	9.7	14.9	16.4
Adj.PAT	403	86	34	140	184
EPS (Rs)	33	7	3	11	15
Change (yoY, %)	363.0	(78.5)	(61.8)	313	32
PE(x)	5.0	23.2	60.6	14.7	11.1
Dividend Yield (%)	3.3	2.2	2.2	2.2	2.3
EV/EBITDA (x)	3.7	7.6	11.3	6.9	5.7
RoE (%)	42.7	8.0	3.5	14.4	16.0
RoCE (%)	29.4	11.9	6.8	14.2	16.2

Source: IDBI Capital Research

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Exhibit 1: Quarterly Snapshot

Financial snapshot	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	(Rs mn) YoY (%)
Net Sales	5,86,873	5,53,119	6.1	6,29,615	(6.8)
Total expenditure	5,20,867	4,90,483	6.2	5,57,423	(6.6)
EBITDA	66,006	62,636	5.4	72,192	(8.6)
<i>EBITDA margin (%)</i>	11.2%	11.3%	-8bps	11.5%	-22bps
Interest	18,423	18,808	(2.0)	17,936	2.7
Depreciation	25,680	24,220	6.0	23,822	7.8
PBT	18,089	21,886	(17.4)	33,208	(45.5)
Tax	12,543	14,058	(10.8)	17,545	(28.5)
Reported PAT	6,115	5,134	19.1	17,049	(64.1)
Adjusted PAT	11,490	8,475	35.6	16,933	(32.1)
Diluted EPS	0.9	0.7	33.6	1.4	(33.6)

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs estimates

	Q4FY24E	Q4FY23A	% Variance
Net sales	5,95,106	5,86,873	(1.4)
EBTIDA	58,223	66,006	13.4
Margin (%)	9.8	11.2	146bps
PAT	14,584	6,115	(58.1)
Dil. EPS	1.2	0.9	(22.4)

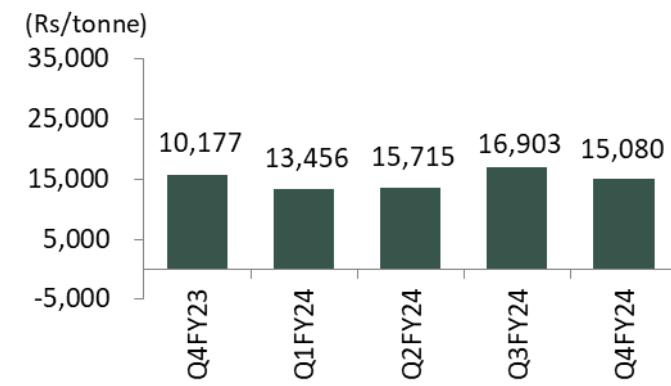
Source: Company; IDBI Capital Research

Exhibit 3: Geographical sales mix



Source: Company; IDBI Capital Research

Exhibit 4: Standalone EBITDA/ton down by 11% QoQ



Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

	FY25E			FY26E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs bn)	1,962	2,436	24.2	2,043	2,611	27.8
EBITDA (Rs bn)	362	363	0.3	399	428	7.3
<i>EBITDA margin (%)</i>	<i>18.4</i>	<i>14.9</i>	<i>-350bps</i>	<i>19.5</i>	<i>16.4</i>	<i>-310bps</i>
Adj. Net profit (Rs bn)	73	140	91.2	171	184	7.7
Adj. EPS (Rs)	11.9	11.2	(6.1)	14.0	14.7	5.3

Source: Company; IDBI Capital Research

Conference call highlights

- Tata steels have achieved the highest level of crude steel production of 20.8 million tons as well as deliveries of around 19.9 million tons. Leveraging the persistent demand in the domestic market automotive volumes were aided by high deliveries of hot-rolled and cold-rolled coils to the automotive OEMs. Tata Tiscon, had a 15% year-on-year growth and crossed 2 million tons on an annual basis.
- The India EBITDA margin was higher at 22% but this was offset by the operating losses in the UK and Netherlands.
- The kalinagar with 6 million ton per annum pellet plant, company has initiated 2.2 million ton per annum cold rolling mill. Last year company spent Rs 6000cr and has guided for Rs. 5500cr this year
- The company has given net volume guidance for consolidated business at 1.4mn tonnes. India business improvement in realisation guidance at Rs 300-350 per tonne. The UK business will have flat realisations and the Netherlands business is expected to see improvements by GBP 90 per tonne.
- The capacity expansion map is as follows : 1)Kalinganagar plant which is going to be from 3 million to 8 million, next phase from 8 million to 13 million and from 13 million to 16 million. 2) Nilachal at 1mn first phase will increase it to 4.8-5mn and next phase to 9.5mn tonnes. 3) Miramandli plant in phase to expand from 5 mn to 7 mn. EF coming up in Ludhiana in the next two years
- Tata steel UK business will be closing one blast furnace by the end of June, The coke ovens was closed in March. The revenue per ton was down by about GBP143 per ton, while material costs improved by about GBP50 per ton, and conversion costs improved by about GBP6 per ton. Company is also progressing on the EAF project as per plan It is at advanced stage of engineering and expect to place equipment orders by September 2024 and will be in construction phase of EAF project by August 2025
- Tata Steel Netherlands, there was an EBITDA loss of GBP368 million versus EBITDA profit of GBP600 million in financial year '23. This was primarily caused by the delay in the ramp-up of the coal rolling pump of the cold rolling mill and the relining of the blast furnace 6, which weighed on the product mix as well as on the cost profile

Exhibit 6: SOTP-based valuation

	FY26E EBITDA	Multiple	(Rs bn)
India operations	377	5.0	1,883
TSE	50	3.0	149
Other operations	1	3.0	4
CWIP and Investments			139
Derived enterprise value			2,175
Less: Net debt			384
Derived equity value			1,791
Target price (Rs/share)			143

Source: Company; IDBI Capital Research

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	2,436	2,611
Change (yoY, %)	4.9	56	(0)	(6)	6	7
Operating expenses	(1,258)	(1,805)	(2,111)	(2,069)	(2,073)	(2,183)
EBITDA	305	635	323	223	363	428
Change (yoY, %)	71.1	108	(49)	(31)	63	18
Margin (%)	19.5	26.0	13.3	9.7	14.9	16.4
Depreciation	(92)	(91)	(93)	(99)	(107)	(113)
EBIT	213	544	230	124	256	315
Interest paid	(76)	(55)	(63)	(75)	(74)	(70)
Other income	9	8	10	18	18	18
Pre-tax profit	138	502	182	(11)	200	263
Tax	(57)	(85)	(102)	(38)	(60)	(79)
Effective tax rate (%)	40.8	16.9	55.7	(328.0)	30.1	30.0
Minority Interest	(7.0)	(16.0)	6.9	4.7	-	-
Net profit	75	402	88	(44)	140	184
Exceptional items	(10)	(1)	1	(78)	-	-
Adjusted net profit	85	403	86	34	140	184
Change (yoY, %)	31.6	372	(79)	(61)	313	32
EPS	7.1	33.0	7.1	2.7	11.2	14.7
Dividend per share	21.0	5.4	3.6	3.6	3.6	3.8
Dividend Payout %	295.0	16.4	50.9	133	32	26

Balance Sheet							(Rs bn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Shareholders' funds	742	1,144	1,031	920	1,015	1,152	
Share capital	12	12	12	12	12	12	12
Reserves & surplus	730	1,132	1,019	908	1,002	1,139	
Total Debt	724	505	573	561	551	501	
Other liabilities	247	273	283	265	277	791	
Curr Liab & prov	709	906	973	984	1,064	1,083	
Current liabilities	661	878	934	946	1,026	1,045	
Provisions	47	28	39	38	38	38	
Total liabilities	1,680	1,683	1,828	1,810	1,892	1,836	
Total equity & liabilities	2,455	2,854	2,880	2,734	2,911	2,992	
 Net fixed assets	 1,548	 1,553	 1,778	 1,832	 1,884	 1,848	
Investments	35	46	48	55	55	55	
Other non-curr assets	270	329	187	142	142	142	
Current assets	602	926	867	705	830	947	
Inventories	333	488	544	492	601	687	
Sundry Debtors	95	122	83	63	80	79	
Cash and Bank	58	159	134	87	84	117	
Other current assets	116	156	106	64	64	64	
Total assets	2,455	2,854	2,880	2,734	2,911	2,992	

Cash Flow Statement							(Rs bn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Pre-tax profit	138	502	182	(11)	200	263	
Depreciation	92	91	93	99	107	113	
Tax paid	(60)	(68)	(80)	(64)	(60)	(79)	
Chg in working capital	245	15	51	84	(47)	(103)	
Other operating activities	60	-	-	-	-	-	
Cash flow from operations (a)	476	540	247	107	200	194	
Capital expenditure	(100)	(97)	(318)	(152)	(160)	(77)	
Chg in investments	7	(12)	(2)	(7)	-	-	
Other investing activities	-	-	-	-	-	-	
Cash flow from investing (b)	(93)	(108)	(320)	(160)	(160)	(77)	
Equity raised/(repaid)	1	0	0	0	-	-	
Debt raised/(repaid)	(409)	(219)	68	(11)	(10)	(50)	
Dividend (incl. tax)	(252)	(66)	(44)	(45)	(45)	(47)	
Chg in minorities	(0)	(22)	1	(12)	-	-	
Other financing activities	-	-	-	-	-	-	
Cash flow from financing (c)	(660)	(307)	25	(68)	(55)	(97)	
Net chg in cash (a+b+c)	(277)	124	(48)	(121)	(15)	20	

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	62	94	84	74	81	92
<i>Adj EPS (Rs)</i>	7.1	33.0	7.1	2.7	11.2	14.7
<i>Adj EPS growth (%)</i>	25.8	363	-79	-62	313	32
<i>EBITDA margin (%)</i>	19.5	26.0	13.3	9.7	14.9	16.4
<i>Pre-tax margin (%)</i>	8.9	20.6	7.5	-0.5	8.2	10.1
<i>Net Debt/Equity (x)</i>	0.9	0.3	0.4	0.5	0.5	0.3
<i>ROCE (%)</i>	11.1	29	12	7	14	16
<i>ROE (%)</i>	11.5	43	8	3	14	16
DuPont Analysis						
Asset turnover (x)	0.6	0.9	0.8	0.8	0.9	0.9
Leverage factor (x)	3.4	2.8	2.6	2.9	2.9	2.6
<i>Net margin (%)</i>	5.5	16.5	3.6	1.5	5.7	7.1
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	129	120

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	23.0	5.0	23.2	60.6	14.7	11.1
Price/Book value (x)	2.6	1.8	1.9	2.2	2.0	1.8
EV/Net sales (x)	1.7	1.0	1.0	1.1	1.0	0.9
EV/EBITDA (x)	8.6	3.7	7.6	11.3	6.9	5.7
<i>Dividend Yield (%)</i>	12.8	3.3	2.2	2.2	2.2	2.3

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

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