

September 18, 2023

## Event Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	144		137	
Sales (Rs. m)	24,76,495	26,35,273	24,76,495	26,35,273
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,05,976	4,11,016	3,05,976	3,92,289
% Chng.	-	4.8	-	-
EPS (Rs.)	6.2	14.1	6.0	12.8
% Chng.	3.6	9.7	-	-

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	2,434	2,476	2,635	2,806
EBITDA (Rs. bn)	323	306	411	432
Margin (%)	13.3	12.4	15.6	15.4
PAT (Rs. bn)	86	76	172	195
EPS (Rs.)	7.1	6.2	14.1	16.0
Gr. (%)	(78.5)	(12.5)	126.8	13.8
DPS (Rs.)	3.6	4.0	4.4	4.8
Yield (%)	2.7	3.0	3.3	3.7
RoE (%)	8.0	7.2	15.3	15.5
RoCE (%)	12.6	11.5	16.9	17.2
EV/Sales (x)	0.9	0.9	0.8	0.7
EV/EBITDA (x)	6.9	7.4	5.4	4.8
PE (x)	18.6	21.3	9.4	8.3
P/BV (x)	1.6	1.5	1.4	1.2

### Key Data

TISC.BO | TATA IN

52-W High / Low	Rs.134 / Rs.95
Sensex / Nifty	67,839 / 20,192
Market Cap	Rs.1,613bn / \$ 19,387m
Shares Outstanding	12,221m
3M Avg. Daily Value	Rs.4495.85m

### Shareholding Pattern (%)

Promoter's	33.90
Foreign	21.01
Domestic Institution	21.11
Public & Others	23.98
Promoter Pledge (Rs bn)	7.72

### Stock Performance (%)

	1M	6M	12M
Absolute	11.7	21.4	23.3
Relative	7.7	3.0	8.9

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## Tata Steel UK: end of an era of cash losses

**Tata Steel has announced a proposal to setup a 3mtpa Electric Arc Furnace at its Port Talbot steel making facility for capex of GBP 1.25bn. The proposed project will get GBP500mn grant (40% of the project cost) from UK government and adequate policy support for smooth transition to green steel making in UK at competitive landscape. While first stage of the process stands complete with this agreement, consultations with unions involved are expected to close in next three months. Capex is planned over next three years post successful consultation and subject to relevant regulatory approvals.**

**We believe that the Tata Steel UK (TSUK) transition is EPS accretive given a) current cash losses will end, as company will import substrate instead of producing at old facilities, b) one-time cost will exist, but TSUK is expected to be in better situation than earlier case of recurring cash burn, c) volatility in coking coal prices won't directly affect TSUK earnings, and d) likely fall in energy costs, as UK moves towards renewable sources. We revise our FY25E EBITDA estimates upwards by 5% to Rs411bn and introduce FY26E earnings estimates. Maintain 'Buy' at revised TP of Rs 144 (Rs 137 earlier) assigning EV/EBITDA multiple of 5x for FY25E EBITDA for TSE.**

**Cash losses to end:** The proposed project would also involve TATA's balance sheet being restructured with potential elimination of current cash losses in TSUK operations and non-cash impairment of legacy investments. Current TSUK operations are deteriorating its balance sheet with FY23 EBITDA losses of GBP 127m. TSUK has ~USD 2bn accumulated losses on balance sheet.

**Usage of scrap to reduce carbon emissions:** Usage of scrap in EAF will save costs, as dependence on coking coal reduces while improving degree of circularity that can lead to sustainable spread of GBP150-170/t vis-a-vis current ageing and uncompetitive upstream assets. TATA relies on abundant scrap supplies in the UK market (generation of 10mt per year- which gets exported). The proposed investment would reduce Port Talbot site's carbon emissions by ~5 million tonnes a year; equivalent to ~7% reduction in UK business sector. TSUK carbon emission intensity is to reduce from existing 2.16 to 0.4 tons per ton of crude steel produced.

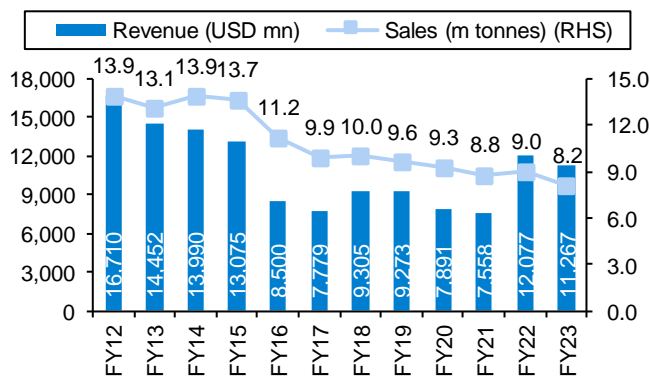
**Journey towards sustainable & profitable future:** With this transition, TSUK is expected to be structurally competitive and reap benefits of new greener steel manufacturing. This includes implementation of carbon border leakage controls for which UK govt. began consultations in Mar-23 and mandatory product standards to help market to grow for low carbon products. EU has also outlined the Carbon Border Adjustment Mechanism (CBAM); the transitional phase starts in Oct-23, which is expected to keep steel prices higher across regions.

**Valuation & view:** We have incorporated TSUK capex of USD1.55bn (GBP1.25bn) over FY25-27E and reduced maintenance capex a bit as old assets won't require maintenance anymore. With ongoing efforts by TSUK, sustainable EBITDA/t of USD100/t for consolidated TSE (Tata Steel Europe) looks achievable as importing substrate will resume from FY25; Tata Steel Netherlands is profitable; although production from new TSUK project will only come FY28 onwards. We have revised our FY25E EBITDA estimates upwards by 5% to Rs411bn and introduced FY26E earnings estimates. Maintain **Buy** with revised TP of Rs 144 (from Rs 137 earlier) assigning EV/EBITDA multiple of 5x for FY25E EBITDA for TSE.

### Other Key Highlights of Conference Call:

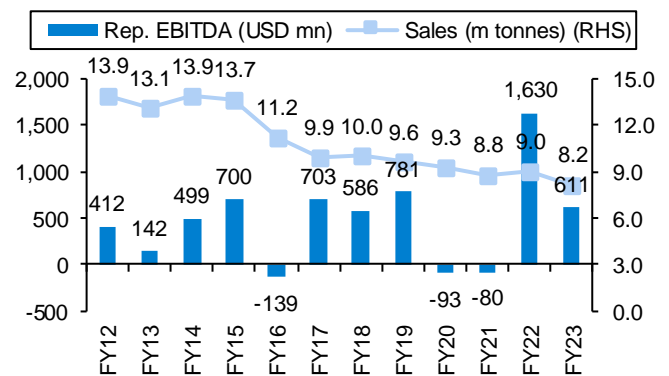
- Majority of the GBP 1.25bn capex is for setting up of 3mtpa EAF and rest will be utilized for upgrading casters, Hot Strip Mill and Cold Rolling Mill. TATA will contribute rest of GBP 750mn via equity and internal accruals over next three years.
- TSUK had completed an important part of its financial de-risking in FY23 after completion of 100% insurance buy-in of the British Steel Pension Scheme securing a stable and assured outcome for all scheme members, after an earlier restructuring in FY18.
- With this proposal TATA will be able to solve few key issues it was facing over last few years:
  - a) **Maintain its market share:** UK market steel consumption is ~9mtpa and TATA has significant market share in various user industries viz. Auto (50%), construction (43%) and Packaging (62%);
  - b) **Import of substrate:** Even during transition phase & project phase, TSUK will ensure uninterrupted supplies to customers through import of additional steel substrate to feed its downstream units which would aid FY25 margins;
  - c) **Decarbonisation & cost savings:** EAF emits just 20% of the carbon emission as compared to existing BF-BOF process. With UK govt's focus on renewable energy, overall energy costs are expected to come down over next few years;
  - d) **Competitiveness:** State of the art EAF would make TSUK competitive and cut down the cash losses; as most of TSUK's ageing and uncompetitive upstream assets are also approaching end of life;
  - e) **Employment:** Preserve employment especially at South Wales, ~8,000 employees at TSUK; some of the roles may get rationalized post consultation process & can lead to one-time restructuring cost.

Exhibit 1: TSE historical revenue Vs volumes trend



Source: Company, PL

Exhibit 2: TSE EBITDA Vs volumes trend



Source: Company, PL

**Exhibit 3: Valuation summary**

<b>Figures in Rs mn</b>	<b>EV/EBITDA (FY25E)</b>	<b>EBITDA (Rs mn)</b>	<b>Value (Rs mn)</b>
Indian operations	6.0	312,629	1,875,771
Other domestic operations	6.0	35,131	210,787
Tata steel Europe	5.0	56,182	280,908
South East Asean operations	5.0	7,075	35,374
<b>Total EV</b>			<b>2,402,840</b>
Debt			728,931
Cash			56,761
Net debt			672,170
Shareholder's value			1,730,671
<b>Value per share</b>			<b>144</b>

Source: PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>24,33,527</b>	<b>24,76,495</b>	<b>26,35,273</b>	<b>28,05,763</b>
YoY gr. (%)	(0.2)	1.8	6.4	6.5
Cost of Goods Sold	11,32,383	10,09,620	9,98,927	10,26,860
Gross Profit	13,01,144	14,66,876	16,36,346	17,78,903
Margin (%)	53.5	59.2	62.1	63.4
Employee Cost	2,24,193	2,60,462	2,74,918	3,02,205
Other Expenses	7,53,949	9,00,437	9,50,412	10,44,745
<b>EBITDA</b>	<b>3,23,002</b>	<b>3,05,976</b>	<b>4,11,016</b>	<b>4,31,954</b>
YoY gr. (%)	(49.1)	(5.3)	34.3	5.1
Margin (%)	13.3	12.4	15.6	15.4
Depreciation and Amortization	93,352	1,00,095	1,04,551	1,09,195
<b>EBIT</b>	<b>2,29,650</b>	<b>2,05,881</b>	<b>3,06,465</b>	<b>3,22,758</b>
Margin (%)	9.4	8.3	11.6	11.5
Net Interest	62,987	66,016	58,665	50,855
Other Income	10,375	8,110	8,511	8,951
<b>Profit Before Tax</b>	<b>1,78,170</b>	<b>1,47,976</b>	<b>2,56,311</b>	<b>2,80,855</b>
Margin (%)	7.3	6.0	9.7	10.0
Total Tax	1,01,598	68,299	80,708	81,568
Effective tax rate (%)	57.0	46.2	31.5	29.0
<b>Profit after tax</b>	<b>76,572</b>	<b>79,676</b>	<b>1,75,602</b>	<b>1,99,287</b>
Minority interest	(6,851)	7,500	7,500	7,500
Share Profit from Associate	4,181	3,500	3,500	3,500
<b>Adjusted PAT</b>	<b>86,471</b>	<b>75,676</b>	<b>1,71,602</b>	<b>1,95,287</b>
YoY gr. (%)	(78.5)	(12.5)	126.8	13.8
Margin (%)	3.6	3.1	6.5	7.0
Extra Ord. Income / (Exp)	1,133	-	-	-
<b>Reported PAT</b>	<b>87,604</b>	<b>75,676</b>	<b>1,71,602</b>	<b>1,95,287</b>
YoY gr. (%)	(78.2)	(13.6)	126.8	13.8
Margin (%)	3.6	3.1	6.5	7.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	87,604	75,676	1,71,602	1,95,287
<b>Equity Shares O/s (m)</b>	<b>12,212</b>	<b>12,212</b>	<b>12,212</b>	<b>12,212</b>
<b>EPS (Rs)</b>	<b>7.1</b>	<b>6.2</b>	<b>14.1</b>	<b>16.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>23,81,707</b>	<b>24,86,475</b>	<b>25,98,441</b>	<b>27,12,345</b>
Tangibles	23,81,707	24,86,475	25,98,441	27,12,345
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>9,71,509</b>	<b>10,71,604</b>	<b>11,76,156</b>	<b>12,85,351</b>
Tangibles	9,71,509	10,71,604	11,76,156	12,85,351
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>14,10,198</b>	<b>14,14,871</b>	<b>14,22,285</b>	<b>14,26,994</b>
Tangibles	14,10,198	14,14,871	14,22,285	14,26,994
Intangibles	-	-	-	-
Capital Work In Progress	3,25,963	3,95,963	4,35,963	4,35,963
Goodwill	56,017	56,017	56,017	56,017
Non-Current Investments	57,593	61,093	64,593	68,093
Net Deferred tax assets	(1,14,897)	(1,21,542)	(1,28,494)	(1,35,478)
Other Non-Current Assets	1,37,533	1,37,533	1,37,533	1,37,533
<b>Current Assets</b>				
Investments	36,301	36,301	36,301	36,301
Inventories	5,44,153	5,22,439	5,55,934	5,91,901
Trade receivables	82,572	1,35,698	1,44,399	1,53,740
Cash & Bank Balance	1,33,573	19,640	20,460	65,470
Other Current Assets	49,474	54,474	59,474	64,474
<b>Total Assets</b>	<b>28,80,217</b>	<b>28,81,369</b>	<b>29,80,799</b>	<b>30,84,826</b>
<b>Equity</b>				
Equity Share Capital	12,212	12,212	12,212	12,212
Other Equity	10,18,609	10,50,320	11,73,073	13,14,625
<b>Total Networkth</b>	<b>10,30,821</b>	<b>10,62,533</b>	<b>11,85,285</b>	<b>13,26,838</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	7,80,177	7,20,177	6,60,177	5,80,177
Provisions	47,758	47,758	47,758	47,758
Other non current liabilities	1,33,421	1,18,421	1,03,421	88,421
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,78,325	3,88,384	4,09,726	4,35,662
Other current liabilities	3,28,912	3,49,149	3,65,031	3,82,086
<b>Total Equity &amp; Liabilities</b>	<b>28,80,217</b>	<b>28,81,369</b>	<b>29,80,799</b>	<b>30,84,826</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	1,82,351	1,47,976	2,56,311	2,80,855
Add. Depreciation	93,252	1,00,095	1,04,551	1,09,195
Add. Interest	62,987	66,016	58,665	50,855
Less Financial Other Income	10,375	8,110	8,511	8,951
Add. Other	(29,507)	(4,218)	(4,619)	(5,060)
Op. profit before WC changes	3,09,083	3,09,868	4,14,908	4,35,845
Net Changes-WC	(37,065)	(21,616)	(25,471)	(22,818)
Direct tax	(55,188)	(61,654)	(73,756)	(74,584)
<b>Net cash from Op. activities</b>	<b>2,16,831</b>	<b>2,26,597</b>	<b>3,15,680</b>	<b>3,38,443</b>
Capital expenditures	(2,42,144)	(1,74,768)	(1,51,965)	(1,13,905)
Interest / Dividend Income	5,651	4,218	4,619	5,060
Others	49,695	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(1,86,798)</b>	<b>(1,70,550)</b>	<b>(1,47,346)</b>	<b>(1,08,845)</b>
Issue of share cap. / premium	14	-	-	-
Debt changes	54,281	(60,000)	(60,000)	(80,000)
Dividend paid	(62,926)	(43,965)	(48,850)	(53,735)
Interest paid	(61,197)	(66,016)	(58,665)	(50,855)
Others	22	-	-	-
<b>Net cash from Fin. activities</b>	<b>(69,807)</b>	<b>(1,69,980)</b>	<b>(1,67,515)</b>	<b>(1,84,589)</b>
<b>Net change in cash</b>	<b>(39,775)</b>	<b>(1,13,932)</b>	<b>820</b>	<b>45,009</b>
Free Cash Flow	75,406	51,829	1,63,715	2,24,539

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>5,98,775</b>	<b>5,70,836</b>	<b>6,29,615</b>	<b>5,94,897</b>
YoY gr. (%)	(0.7)	(6.1)	(9.2)	(6.2)
Raw Material Expenses	3,15,271	3,00,226	2,86,561	2,74,752
Gross Profit	2,83,504	2,70,610	3,43,055	3,20,145
Margin (%)	47.3	47.4	54.5	53.8
<b>EBITDA</b>	<b>60,603</b>	<b>40,478</b>	<b>72,192</b>	<b>51,739</b>
YoY gr. (%)	(63.2)	(74.5)	(52.0)	(65.4)
Margin (%)	10.1	7.1	11.5	8.7
Depreciation / Depletion	23,478	23,684	23,822	24,123
<b>EBIT</b>	<b>37,125</b>	<b>16,795</b>	<b>48,370</b>	<b>27,616</b>
Margin (%)	6.2	2.9	7.7	4.6
Net Interest	15,191	17,679	17,936	18,252
Other Income	3,293	2,706	1,695	11,768
<b>Profit before Tax</b>	<b>25,033</b>	<b>3,569</b>	<b>32,245</b>	<b>21,266</b>
Margin (%)	4.2	0.6	5.1	3.6
Total Tax	13,081	29,049	17,545	13,305
Effective tax rate (%)	52.3	813.9	54.4	62.6
<b>Profit after Tax</b>	<b>11,952</b>	<b>(25,480)</b>	<b>14,700</b>	<b>7,961</b>
Minority interest	-	(2,781)	(1,386)	(1,091)
Share Profit from Associates	1,019	605	963	(2,713)
<b>Adjusted PAT</b>	<b>13,063</b>	<b>(9,617)</b>	<b>16,996</b>	<b>6,289</b>
YoY gr. (%)	(89.2)	(109.9)	(83.1)	(91.9)
Margin (%)	2.2	(1.7)	2.7	1.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>12,971</b>	<b>(22,094)</b>	<b>17,049</b>	<b>6,339</b>
YoY gr. (%)	(89.7)	(123.0)	(82.7)	(91.8)
Margin (%)	2.2	(3.9)	2.7	1.1
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>12,971</b>	<b>(22,094)</b>	<b>17,049</b>	<b>6,339</b>
Avg. Shares O/s (m)	12,212	12,212	12,212	12,212
<b>EPS (Rs)</b>	<b>1.1</b>	<b>(0.8)</b>	<b>1.4</b>	<b>0.5</b>

Source: Company Data, PL Research

**Key Financial Metrics**

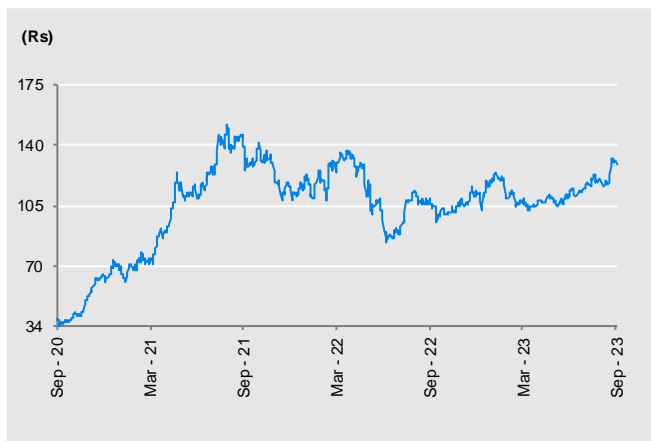
Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	7.1	6.2	14.1	16.0
CEPS	14.7	14.4	22.6	24.9
BVPS	84.4	87.0	97.1	108.6
FCF	6.2	4.2	13.4	18.4
DPS	3.6	4.0	4.4	4.8
<b>Return Ratio(%)</b>				
RoCE	12.6	11.5	16.9	17.2
ROIC	6.0	6.4	11.9	12.9
RoE	8.0	7.2	15.3	15.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.6	0.6	0.5	0.4
Net Working Capital (Days)	37	40	40	40
<b>Valuation(x)</b>				
PER	18.6	21.3	9.4	8.3
P/B	1.6	1.5	1.4	1.2
P/CEPS	14.7	14.4	22.6	24.9
EV/EBITDA	6.9	7.4	5.4	4.8
EV/Sales	0.9	0.9	0.8	0.7
Dividend Yield (%)	2.7	3.0	3.3	3.7

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY23	FY24E	FY25E	FY26E
Rev. Indian Op. (US\$ m)	16,126	17,025	17,883	18,850
Rev.TSE (US\$ m)	11,267	11,284	11,700	12,125
Rev. South East (US\$ m)	726	1,020	1,063	1,063
EBITDA-India (US\$ m)	3,463	3,539	3,756	3,643
EBITDA-TSE (US\$ m)	611	(268)	675	970
EBITDA-South East (US\$ m)	42	54	85	54
Sales volume India (mt)	19	21	22	24
Real./t - India (Rs)	68,366	66,631	67,519	67,069
EBITDA/t- India (Rs)	14,680	13,852	14,182	12,962
Sales volume TSE (mt)	8	9	9	10
Real./t-TSE (US\$)	1,379	1,265	1,300	1,250
EBITDA/Tonne-TSE (US\$)	75	(30)	75	100
Sales volume South East (mt)	1	2	2	2
Real./Tonne-SEAN (US\$)	600	600	625	625
EBITDA/Tonne-SEAN (US\$)	35	32	50	32

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	28-Aug-23	BUY	137	117

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Hindalco Industries	BUY	557	450
2	Jindal Stainless	BUY	484	422
3	Jindal Steel & Power	BUY	812	634
4	JSW Steel	BUY	926	773
5	National Aluminium Co.	Accumulate	97	88
6	NMDC	Accumulate	136	119
7	Steel Authority of India	Accumulate	95	86
8	Tata Steel	BUY	137	117

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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