

January 26, 2024

Q3FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	137		140	
Sales (Rs. bn)	2,695	2,872	2,695	2,872
% Chng.	-	-	-	-
EBITDA (Rs. bn)	331	408	349	402
% Chng.	(5.2)	1.6	-	-
EPS (Rs.)	11.1	16.1	11.8	15.0
% Chng.	(6.1)	7.3	-	-

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	2,434	2,428	2,695	2,872
EBITDA (Rs. bn)	323	235	331	408
Margin (%)	13.3	9.7	12.3	14.2
PAT (Rs. bn)	87	53	136	197
EPS (Rs.)	7.1	4.4	11.1	16.1
Gr. (%)	(78.4)	(39.0)	155.7	44.8
DPS (Rs.)	3.6	3.0	4.0	4.0
Yield (%)	2.7	2.2	3.0	3.0
RoE (%)	8.0	5.3	13.3	17.2
RoCE (%)	12.6	7.8	12.9	16.0
EV/Sales (x)	0.9	1.0	0.9	0.8
EV/EBITDA (x)	6.9	9.9	7.0	5.6
PE (x)	18.7	30.7	12.0	8.3
P/BV (x)	1.6	1.7	1.5	1.3

Key Data

TISC.BO | TATA IN

52-W High / Low	Rs.142 / Rs.102
Sensex / Nifty	70,701 / 21,353
Market Cap	Rs.1,645bn / \$ 19,789m
Shares Outstanding	12,297m
3M Avg. Daily Value	Rs.4678.33m

Shareholding Pattern (%)

Promoter's	33.90
Foreign	21.02
Domestic Institution	22.35
Public & Others	22.72
Promoter Pledge (Rs bn)	7.59

Stock Performance (%)

	1M	6M	12M
Absolute	0.1	12.2	10.5
Relative	0.7	5.3	(5.9)

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TSE drag to continue in near term

Quick Pointers:

- Tata Steel Netherlands (TSN) blast furnace VI to start production in Feb'24, targeting 6.5-7mt volume from TSN in FY25.
- Phased commissioning at ongoing 5mtpa KPO-II expansion in India (TSI) started; targeting 0.75mt incremental volume in FY25.

We cut our FY24E/25E EBITDA estimates by 14%/5% on poor performance from TSE. Tata Steel's (TATA) 3Q consolidated operating performance was better than PLe on account of stronger TSI. Tata Steel Europe (TSE) continued to disappoint on weak volumes at TSN, higher operating costs at TSUK and weak steel pricing. TSI EBITDA/t of Rs16,905 was above estimates on efficient blending of coking coal and higher sourcing of intermediates. In 4Q, TSN volumes are expected to improve and lower energy costs, higher operating leverage to reduce TSN losses.

Key parameters to watch are a) progress on closure of TSUK blast furnaces and b) commissioning of Kalinganagar blast furnace (KPO II) & stabilization which will drive volume growth in FY26E. We expect Revenue/EBITDA/PAT CAGR of 6%/8%/31% over FY23-26E. At CMP, stock is trading at 7x/5.6x EV of FY25E/FY26E EBITDA. Retain 'Accumulate' rating with revised TP of Rs137 (earlier Rs140) valuing at 6x EV of Mar'26E TSI EBITDA.

- Revenue impacted by weak NSR QoQ:** Std. revenue stood at Rs347bn (+2% YoY/ 1% QoQ; PLe Rs346bn) as realization was flat QoQ at Rs71,069/t (PLe Rs70k/t). Sales volume was up 1% QoQ at 4.9mt. Consolidated revenue declined 1% QoQ to Rs 553bn (lower than PLe Rs 565bn).
- Strong TSI EBITDA:** Std. EBITDA grew 61%/20% on YoY/QoQ basis to Rs 82.5bn (better than PLe Rs 71bn) led by efficient blending of coking coal (only USD4/t increase in coking coal cost) and efficient purchase of scrap, pellets and other increase of finished goods inventory (that led to Rs800/t of positive surprise on EBITDA per ton). Adjusting for release of inventories and Fx impact of 2Q, net improvement in EBITDA/t was Rs2,200 QoQ. EBITDA/t stood at Rs 16,905 (PLe Rs 14,300).
- Targeting TSE losses to halve in FY25:** Consolidated EBITDA stood at Rs 62.6bn (+55% YoY/+47% QoQ). TSE EBITDA loss widened to USD178/t from USD 169/t in 3QFY24. TSN was impacted due to higher BF#6 relining costs and lower NSR while TSUK was impacted due to lower volumes and higher operating costs. Sales volume improved 7% QoQ to 1.94mt and it is expected to improve further as TSN BF to start in Feb'24. For FY25, mgmt. is targeting 6.5-7mt from TSN, however we believe TSUK drag will continue till shutdown of furnaces. First BF is expected to get mothballed in mid-2024 and another in 2HCY24.

- Concall highlights:** **(1)** TSN Blast furnace VI (40% of TSN volumes) to start production from February; expect 6.5-7mt in FY25. **(2)** Statutory consultation process at TSUK is going on; expect Heavy end assets at TSUK to be mothballed in two phases. **(3)** Restructuring costs expected to be paid in phases post shutdown. **(4)** TSN operations are expected to be EBITDA positive in 1QFY25. **(5)** Expansion projects at TSI are on track and KPO II blast furnace is expected to be commissioned in 1QFY25. **(6)** Absolute consumption cost of coking coal at TSI was USD 250/t in 3Q (to increase by USD 10/t QoQ in 4Q). **(7)** Rs 47.2bn spent on capex in 3QFY24 taking 9M capex to Rs 133.5bn. **(8)** Next phase of expansion can come at NINL or KPO site, to be decided in next two quarters.

Exhibit 1: Q3FY24 Result Overview

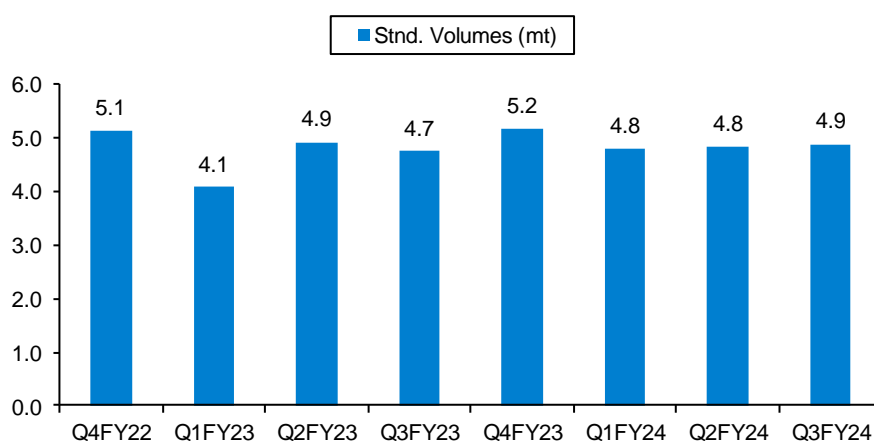
Y/e March (Rs bn)	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Net Sales	553.1	570.8	(3.1)	556.8	(0.7)	1,704.8	1,803.9	(5.5)
Raw Material	224.5	300.2	(25.2)	259.0	(13.3)	758.2	845.8	(10.4)
<i>% of Net Sales</i>	<i>40.6</i>	<i>52.6</i>		<i>46.5</i>		<i>44.5</i>	<i>46.9</i>	
Staff Costs	65.3	53.4	22.2	59.2	10.3	183.7	166.2	10.5
<i>% of Net Sales</i>	<i>11.8</i>	<i>9.4</i>		<i>10.6</i>		<i>10.8</i>	<i>9.2</i>	
Other Expenses	200.7	176.7	13.6	195.9	2.5	605.8	541.0	12.0
<i>% of Net Sales</i>	<i>36.3</i>	<i>31.0</i>		<i>35.2</i>		<i>35.5</i>	<i>30.0</i>	
Total Expenditure	490.5	530.4	(7.5)	514.1	(4.6)	1,548	1,553	(0.3)
EBITDA	62.6	40.5	54.7	42.7	46.8	157.1	250.8	(37.4)
<i>Margin (%)</i>	<i>11.3</i>	<i>7.1</i>		<i>7.7</i>		<i>9.2</i>	<i>13.9</i>	
Depreciation	24.2	23.7	2.3	24.8	(2.3)	73.1	69.5	5.2
Other income	2.3	2.7	(15.8)	2.3	(0.1)	16.3	8.7	88.1
EBIT	40.7	19.5	108.7	20.2	101.8	100.2	190.0	(47.2)
Interest	18.8	17.7	6.4	19.6	(4.0)	56.7	45.1	25.8
PBT	21.9	1.8	1,101.6	0.6	3,752.6	43.6	144.9	(69.9)
Extraordinary income/(expense)	(3.3)	1.7	NA	(69.0)	NA	(72.2)	1.0	NA
PBT (After EO)	18.5	3.6	419.6	(68.4)	(127.1)	(28.6)	145.9	NA
Tax	14.1	29.0	NA	(2.3)	(716.5)	25.1	84.1	(70.2)
<i>% PBT</i>	<i>75.8</i>	<i>813.9</i>		<i>3.3</i>		<i>-87.7</i>	<i>57.6</i>	
Reported PAT	4.5	(25.5)	NA	(66.1)	NA	(53.7)	61.9	NA
Minority interest	0.1	(2.78)	NA	(3.15)	(103)	(4.15)	(5.46)	NA
Share of profit/(loss) of associates	0.7	0.6	21.3	1.0	NA	(0.9)	3.2	NA
Net Profit attributable to shareholders	5.1	(22.1)	NA	(62.0)	NA	(50.5)	70.6	NA
Adjusted Net Profit attributable to shareholders	5.9	(9.6)	NA	4.7	25.7	17.0	83.0	(79.6)

Source: Company, PL

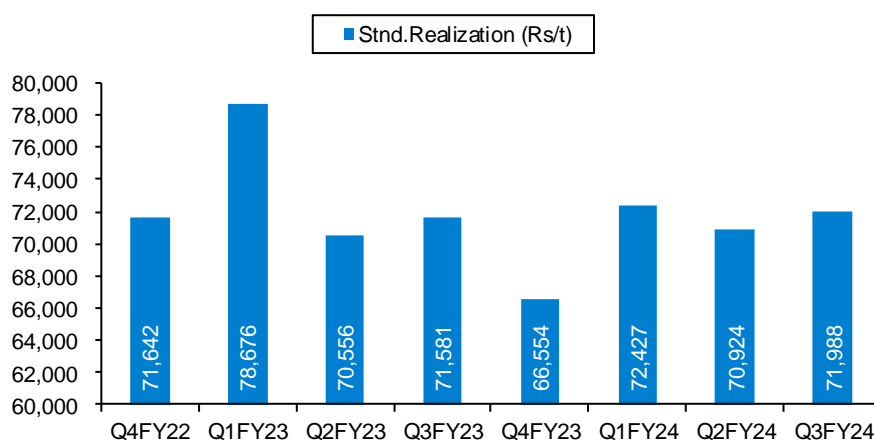
Exhibit 2: Operating Performance

Y/e March	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Indian Operations								
Volume (mt)	4.9	4.7	3.0	4.8	1.2	14.5	13.7	5.6
Revenue (Rs bn)	346.8	339.3	2.2	341.9	1.5	1,035.6	1,005.9	2.9
EBITDA (Rs bn)	82.5	51.4	60.6	68.7	20.1	217.3	193.7	12.2
Realization (Rs/t)	71,069	71,581	(0.7)	70,924	0.2	71,470	73,319	(2.5)
EBITDA (Rs/t)	16,905	10,835	56.0	14,248	18.6	14,997	14,118	6.2
Europe operations (TSUK +TSN)								
Volume (mt)	1.9	2.0	(2.5)	1.8	7.2	5.7	6.0	(4.3)
Revenue (USD mn)	2,308	2,523.4	(8.5)	2,460.7	(6.2)	7,364	8,575	(14.1)
EBITDA (USD mn)	(345)	(188.7)	NA	(305.3)	NA	(841)	811	NA
Realization/t (USD)	1,190	1,268	(6.2)	1,359	(12.5)	1,283	1,429	(10.2)
EBITDA/t (USD)	(178)	(95)	NA	(169)	NA	(146)	135	NA

Source: Company, PL

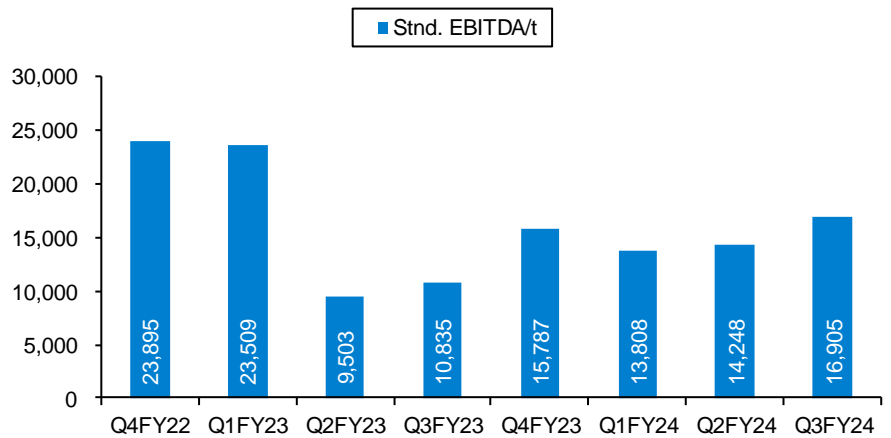
Exhibit 3: TSI Volumes increased 3% YoY


Source: Company, PL

Exhibit 4: TSI realization increased 1% YoY


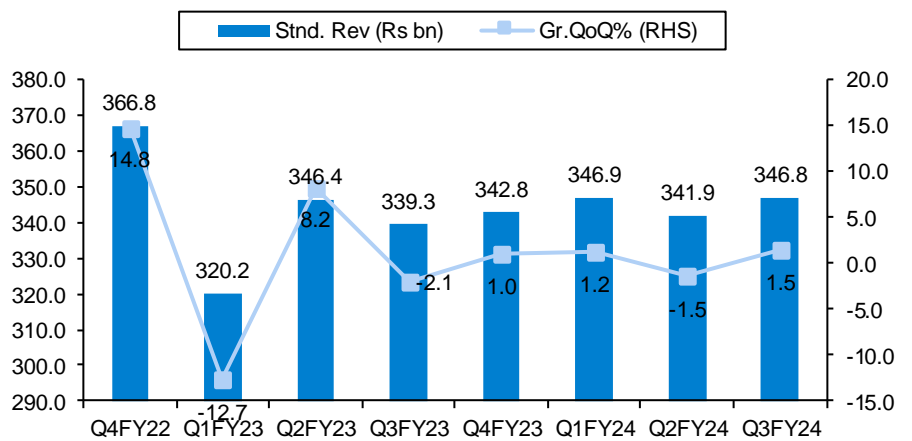
Source: Company, PL

Exhibit 5: TSI EBITDA/t improved 56% YoY on lower RM costs



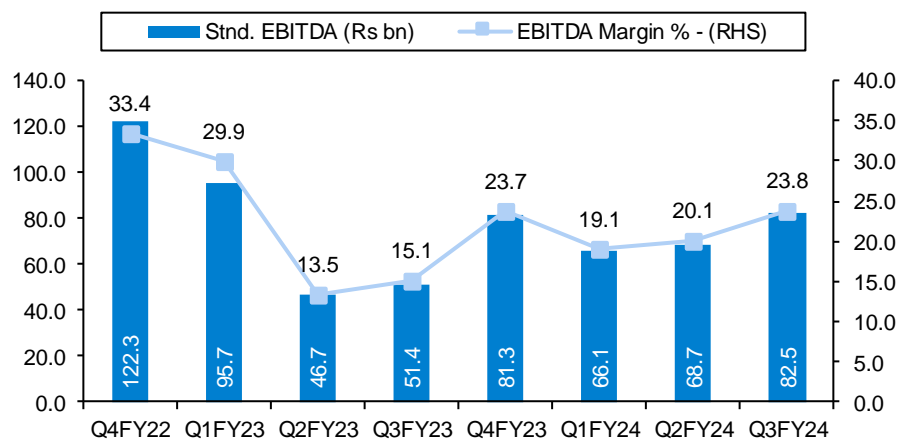
Source: Company, PL

Exhibit 6: Std. revenue increased 2% YoY led by volume growth



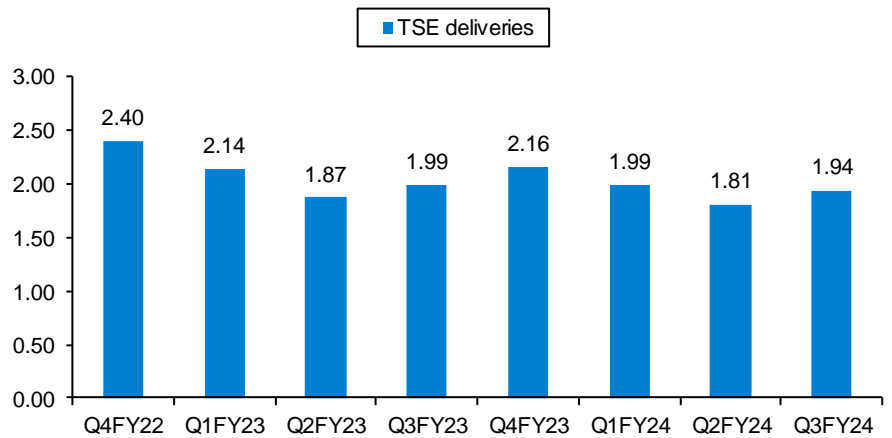
Source: Company, PL

Exhibit 7: Margins improved on efficient blending of coking coal



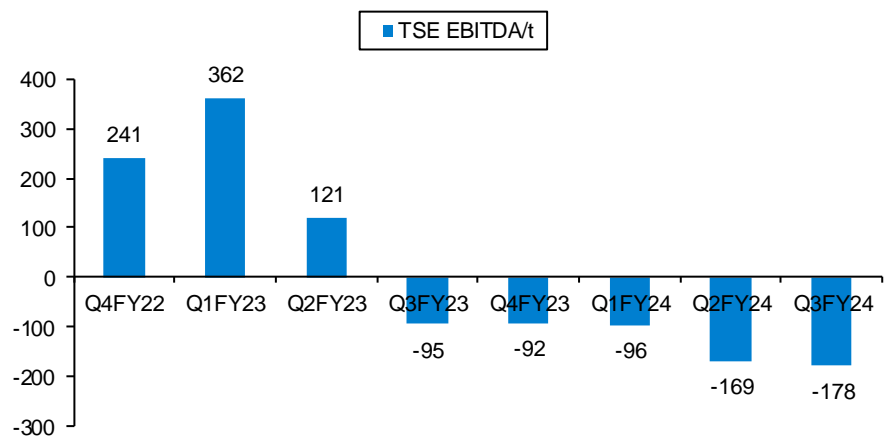
Source: Company, PL

Exhibit 8: TSE volumes declined 3% YoY due to TSUK



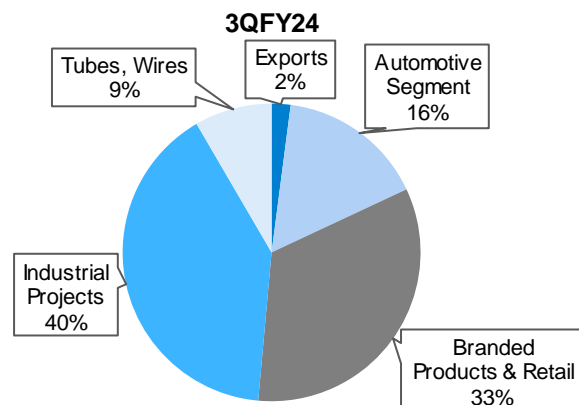
Source: Company, PL

Exhibit 9: EBITDA/t affected on weak realization and higher op. costs (USD/t)



Source: Company, PL

Exhibit 10: TSI Volume (4.9mt) break up among business verticals



Source: Company, PL

Exhibit 11: Valuation Summary

Figures in Rs bn	EV/EBITDA (Mar-26E)	EBITDA (Rs bn)	Value (Rs bn)
Indian operations	6.0	336	2,018
Other domestic operations	6.0	32	191
Tata steel Europe	5.0	34	172
South East Asean operations	5.0	6	29
Total EV			2,410
Debt			849
Cash			82
Net debt			767
Shareholder's value			1,643
Value per share			137

Source: PL

Financials

Income Statement (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	2,434	2,428	2,695	2,872
YoY gr. (%)	(0.2)	(0.2)	11.0	6.6
Cost of Goods Sold	1,132	1,020	1,061	1,066
Gross Profit	1,301	1,408	1,633	1,806
Margin (%)	53.5	58.0	60.6	62.9
Employee Cost	224	263	292	314
Other Expenses	754	910	1,010	1,084
EBITDA	323	235	331	408
YoY gr. (%)	(49.1)	(27.2)	40.8	23.3
Margin (%)	13.3	9.7	12.3	14.2
Depreciation and Amortization	93	96	98	105
EBIT	230	140	233	304
Margin (%)	9.4	5.7	8.6	10.6
Net Interest	63	73	70	65
Other Income	10	22	21	21
Profit Before Tax	178	17	183	260
Margin (%)	7.3	0.7	6.8	9.1
Total Tax	102	37	58	73
Effective tax rate (%)	57.0	217.4	31.8	28.2
Profit after tax	77	(20)	125	187
Minority interest	(7)	(4)	(8)	(7)
Share Profit from Associate	4	0	4	4
Adjusted PAT	87	53	136	197
YoY gr. (%)	(78.4)	(39.0)	155.7	44.8
Margin (%)	3.6	2.2	5.0	6.9
Extra Ord. Income / (Exp)	0	(69)	-	-
Reported PAT	88	(15)	136	197
YoY gr. (%)	(78.2)	(117.6)	(979.5)	44.8
Margin (%)	3.6	(0.6)	5.0	6.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	88	(15)	136	197
Equity Shares O/s (bn)	12	12	12	12
EPS (Rs)	7.1	4.4	11.1	16.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	2,382	2,402	2,521	2,707
Tangibles	2,382	2,402	2,521	2,707
Intangibles	-	-	-	-
Acc: Dep / Amortization	972	1,067	1,166	1,270
Tangibles	972	1,067	1,166	1,270
Intangibles	-	-	-	-
Net fixed assets	1,410	1,335	1,356	1,437
Tangibles	1,410	1,335	1,356	1,437
Intangibles	-	-	-	-
Capital Work In Progress	326	396	436	436
Goodwill	56	56	56	56
Non-Current Investments	58	58	61	65
Net Deferred tax assets	(115)	(101)	(103)	(106)
Other Non-Current Assets	138	138	138	138
Current Assets				
Investments	36	36	36	36
Inventories	544	512	568	606
Trade receivables	83	133	148	157
Cash & Bank Balance	134	42	46	41
Other Current Assets	49	54	59	64
Total Assets	2,880	2,807	2,952	3,084
Equity				
Equity Share Capital	12	12	12	12
Other Equity	1,019	959	1,058	1,206
Total Networkth	1,031	971	1,071	1,219
Non-Current Liabilities				
Long Term borrowings	780	780	780	740
Provisions	48	48	48	48
Other non current liabilities	133	118	103	88
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	378	383	422	447
Other current liabilities	329	344	371	389
Total Equity & Liabilities	2,880	2,807	2,952	3,084

Source: Company Data, PL Research

Cash Flow (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	182	89	183	260
Add. Depreciation	93	96	98	105
Add. Interest	63	73	70	65
Less Financial Other Income	10	22	21	21
Add. Other	(30)	(4)	(5)	(5)
Op. profit before WC changes	309	253	347	424
Net Changes-WC	(37)	(19)	(26)	(25)
Direct tax	(55)	(51)	(56)	(71)
Net cash from Op. activities	217	183	265	329
Capital expenditures	(242)	(163)	(159)	(186)
Interest / Dividend Income	6	4	5	5
Others	50	-	-	-
Net Cash from Invst. activities	(187)	(159)	(154)	(181)
Issue of share cap. / premium	0	-	-	-
Debt changes	54	-	-	(40)
Dividend paid	(63)	(44)	(37)	(49)
Interest paid	(61)	(73)	(70)	(65)
Others	0	-	-	-
Net cash from Fin. activities	(70)	(117)	(107)	(153)
Net change in cash	(40)	(92)	4	(5)
Free Cash Flow	75	20	107	143

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	7.1	4.4	11.1	16.1
CEPS	14.8	12.2	19.2	24.7
BVPS	84.4	79.5	87.7	99.8
FCF	6.2	1.7	8.7	11.7
DPS	3.6	3.0	4.0	4.0
Return Ratio(%)				
RoCE	12.6	7.8	12.9	16.0
ROIC	6.0	(9.6)	9.2	11.9
RoE	8.0	5.3	13.3	17.2
Balance Sheet				
Net Debt : Equity (x)	0.6	0.7	0.7	0.5
Net Working Capital (Days)	37	39	40	40
Valuation(x)				
PER	18.7	30.7	12.0	8.3
P/B	1.6	1.7	1.5	1.3
P/CEPS	14.8	12.2	19.2	24.7
EV/EBITDA	6.9	9.9	7.0	5.6
EV/Sales	0.9	1.0	0.9	0.8
Dividend Yield (%)	2.7	2.2	3.0	3.0

Source: Company Data, PL Research

Quarterly Financials (Rs bn)

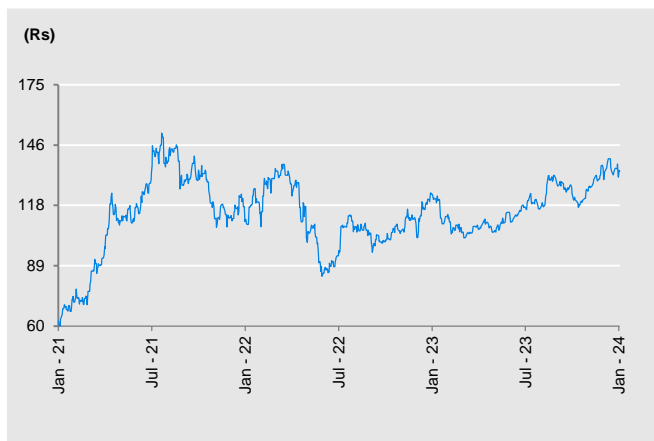
Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	571	630	595	557
YoY gr. (%)	(6.1)	(9.2)	(6.2)	(7.0)
Raw Material Expenses	300	287	275	259
Gross Profit	271	343	320	298
Margin (%)	47.4	54.5	53.8	53.5
EBITDA	40	72	52	43
YoY gr. (%)	(74.5)	(52.0)	(65.4)	(29.6)
Margin (%)	7.1	11.5	8.7	7.7
Depreciation / Depletion	24	24	24	25
EBIT	17	48	28	18
Margin (%)	2.9	7.7	4.6	3.2
Net Interest	18	18	18	20
Other Income	3	2	12	2
Profit before Tax	4	32	21	(68)
Margin (%)	0.6	5.1	3.6	(12.3)
Total Tax	29	18	13	(2)
Effective tax rate (%)	813.9	54.4	62.6	3.3
Profit after Tax	(25)	15	8	(66)
Minority interest	(3)	(1)	(1)	(3)
Share Profit from Associates	1	1	(3)	1
Adjusted PAT	(10)	17	6	5
YoY gr. (%)	(109.9)	(83.1)	(91.9)	(69.0)
Margin (%)	(1.7)	2.7	1.1	0.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(22)	17	6	(62)
YoY gr. (%)	(123.0)	(82.7)	(91.8)	(509.1)
Margin (%)	(3.9)	2.7	1.1	(11.1)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(22)	17	6	(62)
Avg. Shares O/s (bn)	12	12	12	12
EPS (Rs)	(0.8)	1.4	0.5	0.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Rev. Indian Op. (USD mn)	16,126	16,540	17,524	18,768
Rev.TSE (USD mn)	11,253	10,753	12,350	12,500
Rev. South East (USD mn)	726	1,020	1,020	1,063
EBITDA-India (USD mn)	3,463	3,531	3,824	3,903
EBITDA-TSE (USD mn)	612	(1,105)	(333)	400
EBITDA-South East (USD mn)	42	43	60	68
Sales volume India (mt)	19	20	22	24
Real./t - India (Rs)	68,366	68,130	67,136	67,033
EBITDA/t- India (Rs)	14,680	14,545	14,649	13,941
Sales volume TSE (mt)	8	9	10	10
Real./t-TSE (USD)	1,377	1,265	1,300	1,250
EBITDA/Tonne-TSE (USD)	75	(130)	(35)	40
Sales volume South East (mt)	1	2	2	2
Real./Tonne-SEAN (USD)	600	600	600	625
EBITDA/Tonne-SEAN (USD)	35	25	35	40

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-24	Accumulate	140	134
2	02-Nov-23	BUY	138	118
3	07-Oct-23	BUY	144	126
4	18-Sep-23	BUY	144	132
5	28-Aug-23	BUY	137	117

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Hindalco Industries	BUY	673	591
2	Jindal Stainless	Accumulate	660	581
3	Jindal Steel & Power	BUY	826	745
4	JSW Steel	BUY	992	837
5	National Aluminium Co.	Accumulate	101	131
6	NMDC	BUY	261	224
7	Steel Authority of India	Accumulate	95	119
8	Tata Steel	Accumulate	140	134

PL's Recommendation Nomenclature (Absolute Performance)

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

ANALYST CERTIFICATION

(Indian Clients)

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