

10 April 2025

India | Equity Research | Company Update

## Tata Steel

Metals &amp; Mining

### Sustained focus on cost – transformation plan announced at TSN

Tata Steel (TSL) has embarked on a major transformation plan at Tata Steel Netherlands (TSN) – built on a multi-pronged approach to maximise production efficiencies, lower fixed costs, optimise product mix and margins. Key points according to management: 1) The envisaged duration of the transformation plan is one year. 2) Expected to result in redundancies of 1,600 personnel. 3) Benefits in excess of EUR 500mn to be realised in FY26, followed by another EUR 50–60mn in FY27. Despite TSN being among the most efficient plants globally, management is considering the major transformation plan due to recent inflationary pressures pursuant to Russia-Ukraine war and unsustainably low spreads in Europe. We will keep close tabs on the development. Retain **BUY** on Tata Steel; unchanged TP of INR 180 on 6.8x FY27E EBITDA.

### Continuous focus on containing cost

While the structural transformation at TSUK is ongoing, TSL has embarked on a major transformation plan at TSN. Key points: 1) Focus to reduce controllable cost structurally in the areas of procurement, blast furnace fuel rates and increasing capacity utilisation to 7mtpa etc. 2) Controllable cost represents 40% of overall and management expects to reduce it by 15% YoY (over FY25 baseline), resulting in a benefit in excess of EUR 500mn in FY26, followed by another EUR 50–60mn in FY27. 3) Manpower reduction of 1,600 over a base of 9,000 (at Ijmuiden) and 12,000 (overall, including downstream operations). 4) The benefits of the transformation plan are likely to commence progressively from Q2FY26. In our view, this may result in EBITDA/te improvement of EUR 70–80/te on a sustainable basis. Currently, we estimate EBITDA/te for TSN at EUR 13–15 for FY26E and FY27E.

### Limited exposure to US

During the analyst call, management mentioned that the impact of recently announced tariffs by US is likely to be limited as: 1) India operations accounting for 75% of consolidated sales volume has direct and indirect exports of 1–2kte and 10–15kte to US (0.1% of sales). 2) TSUK exports 88kte to US (of total 2.6mte). The UK is subjected to 10% tariff. 3) TSN has downstream units in US and ships ~670kte (of 6.1mte) of automotive, packaging and plating grade steel.

### Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	22,91,708	21,91,306	23,59,093	24,75,414
EBITDA	2,23,059	2,52,488	3,67,212	4,09,112
EBITDA Margin (%)	9.7	11.5	15.6	16.5
Net Profit	22,271	44,095	1,11,672	1,40,024
EPS (INR)	1.8	3.6	9.1	11.4
EPS % Chg YoY	(175.0)	(175.7)	153.2	25.4
P/E (x)	(25.7)	33.9	13.4	10.7
EV/EBITDA (x)	10.2	9.5	6.1	5.3
RoCE (%)	2.2	5.2	9.1	10.3
RoE (%)	2.1	4.6	11.8	14.2

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#### Market Data

Market Cap (INR)	1,588bn
Market Cap (USD)	18,310mn
Bloomberg Code	TATA IN
Reuters Code	TISC.BO
52-week Range (INR)	185 /123
Free Float (%)	66.0
ADTV-3M (mn) (USD)	60.7

Price Performance (%)	3m	6m	12m
Absolute	(2.1)	(20.0)	(23.4)
Relative to Sensex	2.7	(10.7)	(22.3)

ESG Score	2023	2024	Change
ESG score	69.6	69.0	(0.6)
Environment	57.1	54.2	(2.9)
Social	68.0	71.2	3.2
Governance	78.5	81.4	2.9

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

#### Previous Reports

29-01-2025: [Q3FY25 results review](#)

08-11-2024: [Q2FY25 results review](#)

### Outlook: Transformation journey at TSN has commenced

We are positive on TSL management's adherence to cost reduction and value enhancement, one of the four strategic objectives for CY30. In our view, in light of unsustainably low spreads in the Europe at EUR 170/te (in Q3FY25) compared to multi-year average of USD 240/te and the recent inflationary pressures, pursuant to Russia-Ukraine conflict have resulted in a need to drive cost reduction. Besides, management reiterated that the green steel transition plan, under which one of the two blast furnaces would be replaced by a new DRI and EAF by 2030, is also being closely worked on through consultation with the Dutch government and various stakeholders. While we keep our estimates unchanged at this juncture, we believe that the incremental benefit from the transformation plan could be EUR 70–80/te, much higher than our current EBITDA estimates of EUR 13–15/te for TSN. We maintain **BUY** on Tata Steel with an unchanged TP of INR 180 on 6.8x FY27E EBITDA.

### Key risks

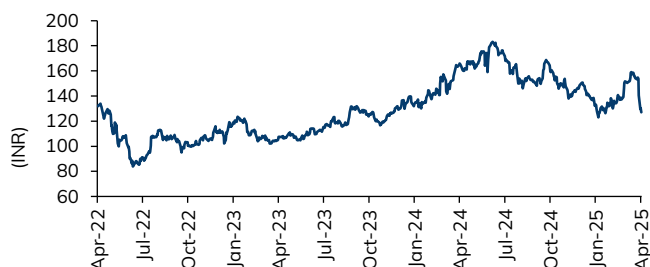
- Delay in TSUK transition plan
- Higher-than-expected restructuring cost at TSUK
- Domestic demand in India not picking up as expected

**Exhibit 1: Shareholding pattern**

%	Jun'24	Sep'24	Dec'24
Promoters	33.2	33.2	33.2
Institutional investors	42.3	42.8	41.6
MFs and others	10.3	10.6	11.7
FIs/Banks	0.8	1.4	0.3
Insurance	10.9	10.6	10.6
FIIIs	20.3	20.2	19.0
Others	24.5	24.0	25.2

Source: Bloomberg

**Exhibit 2: Price chart**



Source: Bloomberg

## Financial Summary

### Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	22,91,708	21,91,306	23,59,093	24,75,414
<b>Operating Expenses</b>	<b>10,49,491</b>	<b>10,28,631</b>	<b>10,02,844</b>	<b>10,10,109</b>
EBITDA	2,23,059	2,52,488	3,67,212	4,09,112
<b>EBITDA Margin (%)</b>	<b>9.7</b>	<b>11.5</b>	<b>15.6</b>	<b>16.5</b>
Depreciation & Amortization	98,822	1,05,021	1,10,539	1,14,953
EBIT	1,24,237	1,47,467	2,56,674	2,94,159
Interest expenditure	-	-	-	-
Other Non-operating Income	6,593	2,848	3,294	6,710
Recurring PBT	55,755	71,505	1,79,665	2,25,048
<b>Profit / (Loss) from Associates</b>	<b>(580)</b>	<b>(586)</b>	<b>(591)</b>	<b>(597)</b>
<b>Less: Taxes</b>	<b>37,626</b>	<b>25,027</b>	<b>62,883</b>	<b>78,767</b>
PAT	18,129	46,478	1,16,782	1,46,281
Less: Minority Interest	(4,722)	1,798	4,518	5,660
Extraordinaries (Net)	(78,141)	-	-	-
Net Income (Reported)	(60,592)	45,893	1,16,191	1,45,684
<b>Net Income (Adjusted)</b>	<b>22,271</b>	<b>44,095</b>	<b>1,11,672</b>	<b>1,40,024</b>

Source Company data, I-Sec research

### Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	7,22,404	7,05,165	7,50,690	7,70,838
of which cash & cash eqv.	86,777	12,528	1,04,599	1,49,161
Total Current Liabilities & Provisions	6,74,368	6,65,818	7,06,843	7,15,564
<b>Net Current Assets</b>	<b>48,036</b>	<b>39,346</b>	<b>43,847</b>	<b>55,274</b>
Investments	62,576	62,576	62,576	62,576
Net Fixed Assets	13,11,240	13,56,219	13,45,681	13,30,727
ROU Assets	-	-	-	-
Capital Work-in-Progress	3,33,702	3,48,702	3,63,702	3,78,702
Total Intangible Assets	1,86,757	1,86,757	1,86,757	1,86,757
Other assets	99,948	99,948	99,948	99,948
Deferred Tax Assets	41,111	41,111	41,111	41,111
<b>Total Assets</b>	<b>20,84,101</b>	<b>21,35,390</b>	<b>21,44,352</b>	<b>21,55,826</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>8,70,822</b>	<b>9,20,822</b>	<b>8,70,822</b>	<b>8,20,822</b>
<b>Deferred Tax Liability</b>	<b>1,29,923</b>	<b>1,29,923</b>	<b>1,29,923</b>	<b>1,29,923</b>
provisions	29,104	29,104	29,104	29,104
other Liabilities	1,29,923	1,29,923	1,29,923	1,29,923
Equity Share Capital	12,474	12,474	12,474	12,474
Reserves & Surplus	9,07,883	9,09,173	9,68,134	10,29,609
<b>Total Net Worth</b>	<b>9,20,358</b>	<b>9,21,647</b>	<b>9,80,609</b>	<b>10,42,083</b>
Minority Interest	3,970	3,970	3,970	3,970
<b>Total Liabilities</b>	<b>20,84,101</b>	<b>21,35,390</b>	<b>21,44,352</b>	<b>21,55,826</b>

Source Company data, I-Sec research

### Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Mar-24	Jun-24	Sep-24	Dec-24
Net Sales	5,86,873	5,47,714	5,39,047	5,36,483
% growth (YOY)	(15.3)	(13.7)	(10.0)	(6.0)
EBITDA	66,006	66,945	61,413	59,035
Margin %	11.2	12.2	11.4	11.0
Other Income	1,759	2,599	5,986	2,210
Extraordinaries	(5,945)	(3,579)	181	(1,262)
Adjusted Net Profit	6,115	9,596	8,335	3,266

Source Company data, I-Sec research

### Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Operating Cashflow</b>	<b>2,03,007</b>	<b>83,556</b>	<b>3,09,781</b>	<b>2,88,112</b>
Working Capital Changes	29,796	(65,560)	87,570	33,135
Capital Commitments	(1,82,066)	(1,65,000)	(1,15,000)	(1,15,000)
<b>Free Cashflow</b>	<b>20,941</b>	<b>(81,444)</b>	<b>1,94,781</b>	<b>1,73,112</b>
<b>Other investing cashflow</b>	<b>39,552</b>	-	-	-
Cashflow from Investing Activities	(1,42,514)	(1,65,000)	(1,15,000)	(1,15,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	23,695	50,000	(50,000)	(50,000)
Dividend paid	(44,288)	(42,805)	(52,711)	(78,549)
Others	(90,377)	-	-	-
Cash flow from Financing Activities	(1,10,970)	7,195	(1,02,711)	(1,28,549)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(50,478)</b>	<b>(74,249)</b>	<b>92,071</b>	<b>44,563</b>
Closing cash & balance	86,777	12,528	1,04,599	1,49,161

Source Company data, I-Sec research

### Exhibit 7: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Per Share Data (INR)</b>				
Reported EPS	(5.0)	3.8	9.5	11.9
Adjusted EPS (Diluted)	1.8	3.6	9.1	11.4
Cash EPS	9.9	12.2	18.2	20.8
Dividend per share (DPS)	3.5	4.3	6.4	7.4
Book Value per share (BV)	75.3	75.4	80.2	85.2
Dividend Payout (%)	(70.6)	114.9	67.6	61.9
<b>Growth (%)</b>				
Net Sales	(5.8)	(4.4)	7.7	4.9
EBITDA	(30.9)	13.2	45.4	11.4
EPS (INR)	(175.0)	(175.7)	153.2	25.4
<b>Valuation Ratios (x)</b>				
P/E	(25.7)	33.9	13.4	10.7
P/CEPS	12.8	10.4	7.0	6.1
P/BV	1.7	1.7	1.6	1.5
EV / EBITDA	10.2	9.5	6.1	5.3
P / Sales	0.7	0.7	0.7	0.6
Dividend Yield (%)	2.8	3.4	5.1	5.8
<b>Operating Ratios</b>				
Gross Profit Margins (%)	55.5	58.5	58.1	57.3
EBITDA Margins (%)	9.7	11.5	15.6	16.5
Effective Tax Rate (%)	67.5	35.0	35.0	35.0
Net Profit Margins (%)	0.8	2.1	5.0	5.9
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.8	0.9	0.7	0.6
Net Debt / EBITDA (x)	3.2	3.3	1.9	1.5
<b>Profitability Ratios</b>				
RoCE (%)	2.2	5.2	9.1	10.3
RoE (%)	2.1	4.6	11.8	14.2
RoIC (%)	2.4	5.6	9.8	11.2
Fixed Asset Turnover (x)	1.1	0.9	1.0	1.0
Inventory Turnover Days	75	87	79	73
Receivables Days	10	10	12	11
Payables Days	54	55	62	62

Source Company data, I-Sec research

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