



UK Restructuring: £500Mn Grant a Positive First Step; Full Impact To Be Known Post Employee Union Consultation

Grant of £500Mn positive: Tata Steel has finally struck a deal with the UK government to provide support for green steel transition at its UK-based Port Talbot facility. The upstream (3.5 MT Blast furnace and coke oven facilities) in the UK are coming near their end of life. Tata Steel will transition to a 3.0 MT Electric arc furnace (EAF) replacing the old 3.5 MT blast furnace (BF) wherein the UK government has agreed to grant £500 Mn for the transition while Tata Steel will infuse the remaining £750 Mn (from internal equity) of the total Capex of £1.25 Bn required for the EAF steelmaking. The EAF will reduce the carbon footprint of the asset to 0.4 tonne per tonne of crude steel vs. the current level of 2.16 tonne per tonne of crude steel. The EAF is expected to be operational within 36 months after all relevant approvals.

Positive Investment case for transition to EAF: The UK operations posted an EBITDA loss of £123 Mn in FY23 and £39 Mn in Q1FY24 and were a drag on the performance of TSE (Tata Steel Europe). The BF to EAF shift will lead to cost savings in the range of £150-170/t which includes a potential reduction of employee and carbon cost (£70-80Mn/year). The management has not asked for specific Opex support from the UK government. However, the government will be the critical enabler for this transition with its broader policy towards reducing network power costs and developing a global scrap support system in the UK. As the UK generates ~10Mn tons of scrap annually, scrap security will not be a constraint for the EAF operations.

Negotiations with employee union to determine full restructuring cost: We expect the capital support from Indian operations will be needed for TSUK on account of 1) **Employee severance cost:** Currently, UK operations employ over 8,000 employees. As per the media reports, this will come down to 5,000 employees as EAF is less labour-intensive. Tata Steel will need to incur severance pay for the 3,000 employees once the UK consultation with the employee unions is over in the next 45-60 days. The management said it will be able to quantify the full restructuring cost post consultation with employee unions, 2) **Operations during the project phase:** In the meantime, during the transition phase, UK operations will import steel for its downstream operations and fulfil customer orders. The cash flow profit/(loss) is not yet clear on the operations using steel substrate.

The group will restructure its balance sheet with the potential elimination of the current cash losses in the UK operations and non-cash impairment of legacy investments in the UK.

Outlook: In the short to medium term, we expect the company will not be able to meet its deleveraging target of \$1Bn per annum as capital support from Indian operations will be needed at TSE. Capex at TSUK (Tata Steel UK) and further development at TSN (Tata Steel Netherlands) for green steel transition will keep the free cash flow under pressure. On the flip side, the 5mtpa TSK phase II will be accretive in both value and volume terms from FY26 onwards. We don't see much downside to stock price despite the European operations putting pressure on the cash flows as Indian operations grow in size in the next few years.

Valuation & Recommendation: We revise our rating and TP post the removal of the overhang of the UK business restructuring. We value the company now using SoTP and ascribe 1-year Fwd EV/EBITDA multiple of 7.0x (from 6.4x), 5.0x, and 4.0x (from 3.5x) to India standalone, other operations (excl. standalone), and Europe respectively on FY25 EBITDA to arrive at a 1-year forward **TP of Rs 145** (From Rs 125). The TP implies an upside of 10% from the CMP. We revise our rating on the stock from HOLD to **BUY**.

Key Financials (Consolidated)

Y/E Mar (Rs. Cr)	FY 23A	FY 24E	FY 25E	FY 26E
Net Sales	2,43,353	2,38,541	2,34,853	2,52,169
EBITDA	32,300	29,935	32,931	37,979
Net Profit	8,760	9,662	11,752	14,744
EPS (Rs.)	7.2	7.9	9.6	12.1
PER (x)	18.4x	16.7x	13.7x	10.9x
P/BV (x)	1.6x	1.5x	1.4x	1.2x
EV/EBITDA (x)	6.1x	7.7x	6.8x	5.6x
ROE (%)	8%	9%	10%	12%

Source: Company, Axis Research

(CMP as of 15th Sep 2023)

CMP (Rs)	132
Downside (%)	10%
High/Low (Rs)	134/95
Market cap (Cr)	1,61,384
Avg. daily vol. (6m) Shrs.	36,204,617
No. of shares (Cr)	1,222

Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	33.9	33.9	33.9
FII	21.9	20.6	20.3
Mutual Funds / UTI	8.2	9.1	8.9
Financial Institutions	0.1	0.1	0.2
Others	36.0	36.3	36.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY 24E	FY 25E	FY 26E
Net Sales	2,38,541	2,34,853	2,52,169
EBITDA	29,935	32,931	37,979
Net Profit	9,662	11,752	14,744
EPS (Rs)	7.9	9.6	12.1
PER (x)	16.7x	13.7x	10.9x
P/BV (x)	1.5x	1.4x	1.2x
EV/EBITDA (x)	7.7x	6.8x	5.6x
ROE (%)	9%	10%	12%

Change in Estimates (%)

Y/E Mar	FY24E	FY25E	FY26E
Sales	0%	1%	1%
Adj EBITDA	0%	3%	5%
PAT (Attrib)	0%	6%	9%

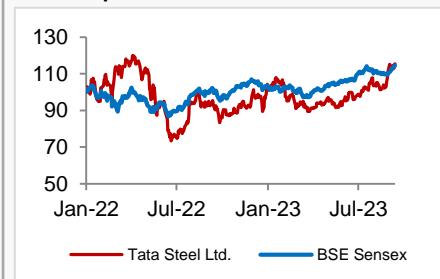
ESG disclosure Score**

Environmental Disclosure	60.77
Social Disclosure Score	25.73
Governance Disclosure	89.86
Total ESG Disclosure	58.83
Sector Average	50.39

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures. The Sector average is for NSE500 companies

Relative performance



Source: Ace Equity, Axis Securities

Aditya Welekar
Sr. Research Analyst
Email: aditya.welekar@axissecurities.in

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY 22A	FY 23A	FY 24E	FY 25E
Total Operating income	2,43,959	2,43,353	2,38,541	2,34,853
Total Expenditure	1,80,469	2,11,053	2,08,606	2,01,922
EBITDA	63,490	32,300	29,935	32,931
Depreciation and Amortization	9,101	9,335	9,939	10,523
EBIT	54,389	22,965	19,996	22,408
Other Income	785	1,037	1,089	1,144
Share Of P/L Of Associates (Net of Tax)	649	418	439	461
Less: Interest & Fin Chg.	5,462	6,299	6,660	5,933
Less: Exceptional Items	134	(113)	-	-
Profit before tax	50,227	18,235	14,864	18,080
Provision for Tax	8,478	10,160	5,203	6,328
Reported PAT	41,749	8,075	9,662	11,752
Minority Interest	1,595	(685)	-	-
Attributable PAT	40,154	8,760	9,662	11,752
EPS (Rs/sh) Basic	332.4	7.2	7.9	9.6
DPS (Rs/sh)	51.0	3.6	2.5	2.5

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY 22A	FY 23A	FY 24E	FY 25E
Net Block	1,16,166	1,18,697	1,22,358	1,22,884
Other Tangible assets	8,338	9,223	9,223	9,223
CWIP + ITUD + Other Intangible Assets	26,518	44,314	46,714	48,664
Goodwill	4,311	5,602	5,882	6,176
Investments	13,140	8,410	8,669	8,941
Inventories	48,824	54,415	53,339	52,515
Trade Receivables	12,246	8,257	8,094	7,969
Cash / Bank balance	15,605	12,130	13,564	20,606
Retirement Benefit Assets	20,399	6,991	7,131	7,273
Misc. Assets	19,898	19,984	20,767	21,589
Total assets	2,85,446	2,88,022	2,95,740	3,05,839
Equity capital	1,221	1,221	1,221	1,221
Hybrid Perpetual Securities/ Share warrants	-	-	-	-
Reserves	1,13,222	1,01,861	1,08,470	1,17,169
Minority Interests	2,655	2,093	2,093	2,093
Total Borrowings	68,829	78,018	78,018	78,018
Def tax Liabilities	12,326	14,116	14,116	14,116
Retirement Benefit Obligations	3,572	3,094	3,249	3,411
Provisions	7,594	8,659	9,091	9,546
Trade Payables	36,765	37,833	37,084	36,511
Other Liabilities and Provision	39,261	41,128	42,398	43,754
Capital employed	2,85,446	2,88,022	2,95,740	3,05,839

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY 22A	FY 23A	FY 24E	FY 25E
Profit before tax	50,227	18,235	14,864	18,080
Depreciation	9,101	9,335	9,939	10,523
Interest Expenses	5,462	6,299	6,660	5,933
Non-operating / EO item	1,110	(2,961)	(364)	(378)
Change in W/C	(9,618)	(3,707)	1,635	1,601
Income Tax	(11,902)	(5,519)	(5,203)	(6,328)
Operating Cash Flow	44,381	21,683	27,531	29,431
Capital Expenditure	(10,522)	(14,142)	(16,000)	(13,000)
Free cash Flow	33,859	7,541	11,531	16,431
Other Investments	(359)	(4,537)	(539)	(566)
Investing Cash Flow	(10,881)	(18,680)	(16,539)	(13,566)
Proceeds from issue of Equity shares	326	1	-	-
Proceeds / (Repayment) of Borrowings	(15,231)	5,428	-	-
Finance cost paid	(4,687)	(6,120)	(6,660)	(5,933)
Dividend paid	(3,020)	(6,293)	(3,053)	(3,053)
Other Financing activities	(789)	2	155	162
Financing Cash Flow	(23,401)	(6,981)	(9,558)	(8,823)
Change in Cash	10,099	(3,977)	1,434	7,042
Opening Cash	5,532	15,607	12,130	13,564
Closing Cash	15,607	12,130	13,564	20,606

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY 22A	FY 23A	FY 24E	FY 25E
Operational Ratios				
Sales growth (% YoY)	56%	0%	-2%	-2%
EBITDA growth (% YoY)	108%	-49%	-7%	10%
Op. profit growth (% YoY)	156%	-58%	-13%	12%
Net Profit growth (% YoY)	436%	-78%	10%	22%
EBITDA Margin %	26%	13%	13%	14%
Net profit Margin %	16%	4%	4%	5%
EBITDA/t (Rs/tonne)	0%	0%	0%	0%
Tax Rate %	17%	56%	35%	35%
Efficiency Ratios				
Total Asset turnover (x)	0.92	0.85	0.82	0.78
Sales/Gross block (x)	1.27	1.24	1.14	1.06
Sales/Net block(x)	2.07	2.07	1.98	1.92
Working capital/Sales (x)	0.10	0.10	0.10	0.10
Valuation Ratios				
PER (x)	4.0x	18.4x	16.7x	13.7x
P/BV (x)	1.4x	1.6x	1.5x	1.4x
EV/Ebitda (x)	3.4x	6.1x	7.7x	6.8x
EV/Sales (x)	0.9x	0.8x	1.0x	0.9x
Dividend Yield (%)	3.9%	3.4%	1.9%	1.9%
Return Ratios				
ROE	0.41	0.08	0.09	0.10
ROCE	0.29	0.12	0.10	0.11
ROIC	0.27	0.06	0.07	0.08
Leverage Ratios				
Debt / equity (x)	0.66	0.82	0.77	0.72
Net debt/ Equity (x)	0.53	0.61	0.61	0.51
Net debt/Ebitda (x)	0.80	2.07	2.21	1.79
Interest Coverage ratio (x)	11.62	5.13	4.49	5.55

Source: Company, Axis Securities

Tata Steel Price Chart and Recommendation History



Source: Axis Securities

Date	Reco	TP	Research
05-Apr-22	BUY	170	Initiating Coverage
04-May-22	BUY	170	Result Update
25-May-22	BUY	139	Sector Update
26-Jul-22	HOLD	104	Result Update
19-Sep-22	HOLD	115	Sector Update
01-Nov-22	HOLD	110	Result Update
21-Nov-22	BUY	117	Sector Update
08-Feb-23	HOLD	120	Result Update
04-May-23	HOLD	120	Result Update
27-Jul-23	HOLD	125	Result Update
18-Sep-23	BUY	145	Company Update

Source: Axis Securities

About the analyst

Analyst: Aditya Welekar

Email: aditya.welekar@axissecurities.in

Sector: Metals & Mining

Analyst Bio: Aditya Welekar is PGDBM in Finance with 12 years of experience in Equity Market/Research.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.

ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.

ASL has no material adverse disciplinary history as on the date of publication of this report.

I/We, Aditya Welekar, MBA Finance, author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period. Any holding in stock – No

5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.

In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or; Managed or co-managed public offering of the securities from the subject company of this research report and / or; Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report; ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term & Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- 1st Floor, I-Rise Building, Q Parc, Loma Park, Thane, Ghansoli, Navi Mumbai-400701, Regd. off.- Axis House,8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706