

Macro Headwinds and Rich Valuations Caps Upside

Est. Vs. Actual for Q1FY25: Revenue – **MISS**; EBITDA – **BEAT**; Adj PAT – **BEAT**

Change in Estimates post Q1FY25:

FY25E/FY26E: Revenue -3%/-1%; EBITDA: -14%/-9%, PAT: -25%/-15%

Recommendation Rationale

- **Margin compression likely in Q2FY25:** Subdued Steel prices are likely to compress spreads in Q2FY25. NSR in India will be Rs 1,500/t lower QoQ, in the UK it will be flat and in the Netherlands, it will be down by £60/t QoQ. Coking coal consumption cost will be lower by \$15/t and \$26/t QoQ in India and the Netherlands respectively, while at UK coal consumption cost will not be relevant as it closes its BFs. Iron ore, in UK and Netherlands will be \$7/t and \$17/t lower QoQ in Q2FY25.
- **Costs to ease up in Europe in H2FY25:** TSUK closed down its BF4 in Jul'24 and BF5 will be closed by Sep'24. It will use slabs and HR coils (mainly from India and the Netherlands) to feed downstream assets until the 3.0 MT EAF commissions by FY27. UK business breakeven is expected in Q3FY25 and it will turn EBITDA positive from Q4FY25 (except for the one-off costs towards the separation package). Netherlands is operating at rated capacity (6.8 mtpa annualised run rate based on Q1FY25 production) and further reduction in conversion cost is expected towards Q3/Q4FY25. Net debt at UK and TSN stands at ~ £600-800 mn mostly a working capital debt; TSN will be net debt free in the next 18 months.
- **Enhancing Indian footprint:** In FY25, 1.7 MT of production is expected from the 5mtpa KPO Phase II expansion project which is on track.
- **Regulatory uncertainty:** The Supreme Court has ruled that the State governments have the power to levy tax on mineral rights. Tata Steel has been including contingent liabilities and now it stands at Rs 17,347 Cr assuming retrospective tax from the Odisha government. The matter will be an overhang until a limitation (which can cap the tax levy from the state governments) is brought in by an amendment in the MMDR act by the central government in future.

Sector Outlook: Cautious

Company Outlook & Guidance: Under the new labour government, the current grant funding agreement (£500 mn) for the 3.0 MT EAF transition is not disturbed. However, they want more investment opportunities for the steel industry in the UK from Tata Steel. The company will pursue it if there is a business case and government support. Cheaper and higher exports from China have led to a decline in steel prices across geographies. We downgrade our rating from BUY to HOLD due to the macro headwinds.

Current Valuation: SoTP using 1Y Fwd EV/EBITDA for India, Europe and Others at 7.5x, 4.0x, 5.0x on Mar'26 EBITDA (Unchanged)

Current TP: Rs 175/share (From Rs 187/share)

Recommendation: We downgrade to **HOLD** from BUY rating on the stock.

Financial Performance: Tata Steel reported a mixed set of numbers with consolidated revenue down 8%/7% YoY/QoQ on lower shipments and NSR, while EBITDA (up 29%/1% YoY/QoQ) stood up by 29%/1% YoY/QoQ, 5% ahead of consensus on better EBITDA from ex-Europe operations. Indian EBITDA/t (down 15%/9% YoY/QoQ) stood at Rs 13,661/t on lower operating leverage. European EBITDA/t loss narrowed to \$27/t from \$96/t YoY and \$37/t QoQ led by turnaround at TSN, while TSUK continued to post EBITDA losses. Consolidated PAT stood at Rs 960 Cr (up 51%/57% YoY/QoQ) on a lower base. Net Debt increased to Rs 82,162 Cr (up 6% QoQ) due to higher capex and working capital build-up.

Outlook: While increasing Indian footprint will drive profitability, capex requirement for the UK and TSN transition along with Indian expansion poses a key challenge amidst subdued steel prices. Debt escalation is the key risk.

Valuation & Recommendation: We use SoTP and ascribe a 1-year Fwd EV/EBITDA multiple of 7.5x, 5.0x, and 4.0x to India standalone, other operations, and Europe respectively on Mar'26 EBITDA (Unchanged) to arrive at our Mar'25 forward TP of Rs 175/share (from Rs 187/share). We revise our EBITDA for FY25-26E on lower steel prices. The TP implies a 7% upside from the CMP and as a result, we downgrade our rating from **BUY to HOLD on the stock**.

Key Financials (Consolidated)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	54,771	-7%	-8%	59,245	-8%
EBITDA	6,694	1%	29%	5,916	13%
Adj EBITDA/t	9,407	8%	9%	7,929	19%
Underlying Net Profit	1,318	9%	366%	1,183	11%
EPS (Rs)	1.1	9%	357%	0.95	11%

Source: Company, Axis Securities Research

(CMP as of 1st Aug 2024)

CMP (Rs)	163
Upside /Downside (%)	7%
High/Low (Rs)	184/114
Market cap (Cr)	2,03,542
Avg. daily vol. (6m) Shrs.	54,273,990
No. of shares (Cr)	1,248

Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter	33.70	33.19	33.19
FII	20.01	19.61	19.68
Mutual Funds / UTI	9.83	10.10	10.32
Financial Institutions	0.18	0.06	0.09
Others	36.28	37.04	36.72

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,29,171	2,24,700	2,55,359
EBITDA	22,306	29,885	36,987
Net Profit	(4,437)	9,337	13,694
EPS (Rs.)	(3.6)	7.5	11.0
PER (x)	-43.8x	21.8x	14.8x
P/BV (x)	2.1x	2.1x	1.9x
EV/EBITDA (x)	12.4x	9.3x	7.4x
ROE (%)	3%	10%	13%

Change in Estimates (%)

Y/E Mar	FY24	FY25E	FY26E
Sales		-3%	-1%
EBITDA		-14%	-9%
PAT (Attrib)		-25%	-15%

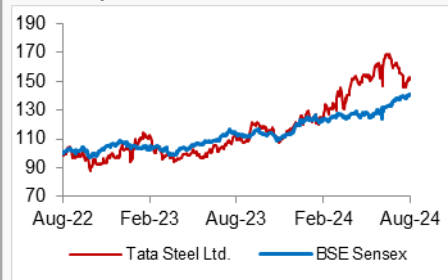
ESG disclosure Score**

Environmental Disclosure	60.77
Social Disclosure Score	25.73
Governance Disclosure Score	89.86
Total ESG Disclosure Score	58.83
Sector Average	50.60

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. Sector average is for NSE500 companies

Relative performance



Source: Ace Equity, Axis Securities

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Key Concall Highlights

- **UK asset restructuring:** The 3.0 MT EAF will be commissioned by 2027 (at a total Capex of £1.25 bn of which £500 Mn from UK government support, Grant funding agreement is not distributed under the new labour government) and the company has already commenced engineering design work and construction planning.
- **Kalinganagar project:** The total capex of KPO Phase II (including downstream and upstream capacity) is Rs 27,000 Cr. KPO-II will have the best EBITDA/t as compared to other legacy assets in India (Jamshedpur and Meramandali). The BF will start from Sep'24 and will contribute 1.7 MT in 6 months of FY25.
- **Netherlands Decarbonisation transition:** By 2030, there is a regulation to bring down CO2 emissions in the Netherlands as part of the 55% reduction rule in the EU. To reduce CO2 emissions the company is in engagement with the Netherlands government for potential subsidy for accelerating the decarbonization and moving towards lower CO2 to comply with the 2030 regulation as the free allowances of CO2 will keep coming down as per the EU regulation. The cost of operating the BFs will become significantly higher with the CO2 prices at the north of €80/t. The company will move in phases and will convert one BF into a DRI-EAF set-up. The first phase will help in covering for the compliance of 2030 and the second phase will follow thereafter. The CO2 allowances will go down to zero post-2032.
- **Expansion plan to 40 mtpa:** NINL will be the first on the priority list in the Indian expansion plan as it is more ready in terms of engineering work. Capacity at NINL will be increased from 1.1 to 5 mtpa, then KPO will move from 8 to 13 mtpa, 6 months after the KPO completes its 5 mtpa expansion from 3 to 8 mtpa. Bhushan will move from 5 to 6.5 mtpa. The existing 11 mtpa at Jamshedpur and 1.1 mtpa at Usha Martin along with these expansion projects will lead to a total capacity of 37 mtpa which then along with the 0.75 mtpa EAF in Ludhiana (by Mar'26, with volume impact from FY27) and optionality of bringing more EAFs in West and South India where there is scrap availability will take the total capacity to 40 mtpa by 2030.
- **Capex and WC:** In Q1FY25, Capex was Rs 3,770 Cr and net working capital was Rs 5,400 Cr which had a large proportion of India and UK.

Key Risks to Our Estimates and TP

- The key risk to our HOLD rating is the increase in the HRC prices in China, which could lead to higher prices in the rest of the world. Lower coking coal costs than our assumptions.

Change in Estimates

	New			Old			% Change		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Sales	2,29,171	2,24,700	2,55,359	2,29,171	2,31,352	2,57,972	-3%		-1%
EBITDA	22,306	29,885	36,987	22,306	34,677	40,737	-14%		-9%
PAT reported (Attrib)	(4,437)	9,337	13,694	(4,437)	12,451	16,131	-25%		-15%

Source: Company, Axis Securities Research

Tata Steel Q1FY25 Results Review

Consolidated		Q1FY24	Q4FY24	Q1FY25	Q1FY25	Q1FY25	YoY (%)	QoQ (%)	vs Axis Est	vs Consensus
		Actual	Actual	Axis Est	Consensus	Actual	%	%	%	%
Total Revenue from Operations	Rs Cr	59,490	58,687	59,245	56,340	54,771	-8%	-7%	-8%	-3%
EBITDA	Rs Cr	5,174	6,601	5,916	6,380	6,694	29%	1%	13%	5%
Adj EBITDA	Rs Cr	6,238	6,969	5,916	6,380	6,950	11%	0%	17%	9%
Adj EBITDA per tonne	Rs/tonne	8,664	8,735	7,929		9,407	9%	8%	19%	NA
EBITDA margin (%)	%	8.7%	11.2%	10.0%	11.3%	12.2%				
Underlying Attrib PAT	Rs Cr	283	1,206	1,183		1,318	366%	9%	11%	NA
Reported PAT (Attrib)	Rs Cr	634	611	1,183	1,215	960	51%	57%	-19%	-21%
Underlying Diluted EPS (Rs)	Rs/sh	0.23	0.97	0.95		1.06	357%	9%	11%	NA
Reported Diluted EPS (Rs)	Rs/sh	0.52	0.49	0.95		0.77	48%	57%	-19%	NA
Net Debt	Rs Cr	71,397	77,550			82,162	15%	6%	NA	NA

Source: Company, Axis Securities Research

Segmental EBITDA		Q1FY24	Q4FY24	Q1FY25	YoY(%)	QoQ(%)
		Actual	Actual	Actual	%	%
Tata Steel India	Rs Cr	7,348	8,190	6,750	-8%	-18%
NINL	Rs Cr	166	71	279	68%	296%
Other Indian operations	Rs Cr	230	264	104	-55%	-61%
Tata Steel Europe	Rs Cr	(1,569)	(659)	-499	NA	NA
Other trade related operations	Rs Cr	(13)	(193)	-33	NA	NA
SE Asian operations	Rs Cr	54	35	43	-21%	21%
Rest of the world	Rs Cr	27	(185)	-94	NA	NA
Total	Rs Cr	6,243	7,523	6,550	5%	-13%
Less: intersegment eliminations	Rs Cr	121	893	-272	NA	NA
Total segment EBITDA	Rs Cr	6,122	6,631	6,822	11%	3%
Adjustment	Rs Cr	(948)	(30)	-128	NA	NA
Total calculated EBITDA	Rs Cr	5,174	6,601	6,694	29%	1%

Source: Company, Axis Securities Research

		Q1FY24	Q4FY24	Q1FY25	Q1FY25	YoY(%)	QoQ(%)	vs Axis Est
		Actual	Actual	Axis Est	Actual	%	%	%
Consolidated Production	Mnt	7.13	7.92	8.00	8.00	12%	1%	0%
Consolidated Delivery Volumes	Mnt	7.20	7.98	7.39	7.39	3%	-7%	0%
Adj EBITDA per tonne Europe	Rs/t	-7,890	-3,110	-3,098	-2,321	NA	NA	-25%
Adj EBITDA per tonne Europe	\$/t	-96	-37	-37	-28	NA	NA	-25%
Adj EBITDA per tonne India	Rs/t	16,014	15,080	14,077	13,661	-15%	-9%	-3%
Adj EBITDA per tonne Consolidated	Rs/t	8,664	8,735	7,929	8,973	4%	3%	13%

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY 23A	FY 24A	FY 25E	FY 26E
Total Operating income	2,43,353	2,29,171	2,24,700	2,55,359
Total Expenditure	2,11,053	2,06,865	1,94,815	2,18,373
EBITDA	32,300	22,306	29,885	36,987
Depreciation and Amortization	9,335	9,882	10,548	11,167
EBIT	22,965	12,424	19,337	25,819
Other Income	1,037	1,809	1,990	2,189
Share Of P/L Of Associates (Net of Tax)	418	(58)	439	461
Less: Interest & Fin Chg.	6,299	7,508	7,402	7,402
Less: Exceptional Items	(113)	7,814	-	-
Profit before tax	18,235	(1,147)	14,364	21,067
Provision for Tax	10,160	3,763	5,027	7,373
Reported PAT	8,075	(4,910)	9,337	13,694
Minority Interest	(685)	(472)	-	-
Attributable PAT	8,760	(4,437)	9,337	13,694
EPS (Rs/sh) Basic	7.2	(3.6)	7.5	11.0
DPS (Rs/sh)	3.6	3.6	3.6	3.6

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY 23A	FY 24A	FY 25E	FY 26E
Net Block	1,18,697	1,23,538	1,26,590	1,28,173
Other Tangible assets	9,223	7,586	7,586	7,586
CWIP + ITUD + Other Intangible Assets	44,314	46,301	48,701	50,951
Goodwill	5,602	5,745	5,745	5,745
Investments	8,410	6,258	6,423	6,597
Inventories	54,415	49,158	48,199	54,775
Trade Receivables	8,257	6,264	6,141	6,979
Cash / Bank balance	12,130	7,081	7,628	11,142
Retirement Benefit Assets	6,991	23	24	24
Misc. Assets	19,984	21,471	22,329	23,228
Total assets	2,88,022	2,73,424	2,79,365	2,95,200
Equity capital	1,221	1,247	1,247	1,247
Hybrid Perpetual Securities/ Share warrants	-	-	-	-
Reserves	1,01,861	90,788	95,634	1,04,837
Minority Interests	2,093	397	397	397
Total Borrowings	78,018	81,574	81,574	81,574
Def Tax Liabilities	14,116	12,992	12,992	12,992
Retirement Benefit Obligations	3,094	3,366	3,535	3,711
Provisions	8,659	9,203	9,663	10,146
Trade Payables	37,833	35,435	34,743	39,484
Other Liabilities and Provision	41,128	38,421	39,579	40,810
Capital employed	2,88,022	2,73,424	2,79,365	2,95,200

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY 23A	FY 24A	FY 25E	FY 26E
Profit before tax	18,235	(1,147)	14,364	21,067
Depreciation	9,335	9,882	10,548	11,167
Interest Expenses	6,299	7,508	7,402	7,402
Non-operating / EO item	(2,961)	5,994	(242)	(254)
Change in W/C	(3,707)	3,384	1,393	(1,605)
Income Tax	(5,519)	(5,320)	(5,027)	(7,373)
Operating Cash Flow	21,683	20,301	28,437	30,404
Capital Expenditure	(14,142)	(18,207)	(16,000)	(15,000)
Free cash Flow	7,541	2,094	12,437	15,404
Other Investments	(4,537)	3,955	(166)	(174)
Investing Cash Flow	(18,680)	(14,251)	(16,166)	(15,174)
Proceeds from the issue of Equity shares	1	-	-	-
Proceeds / (Repayment) of Borrowings	5,428	1,230	-	-
Finance cost paid	(6,120)	(8,145)	(7,402)	(7,402)
Dividend paid	(6,293)	(4,429)	(4,491)	(4,491)
Other Financing activities	2	247	168	177
Financing Cash Flow	(6,981)	(11,097)	(11,724)	(11,716)
Change in Cash	(3,977)	(5,048)	547	3,514
Opening Cash	15,607	12,130	7,081	7,628
Closing Cash	12,130	7,081	7,628	11,142

Source: Company, Axis Securities Research

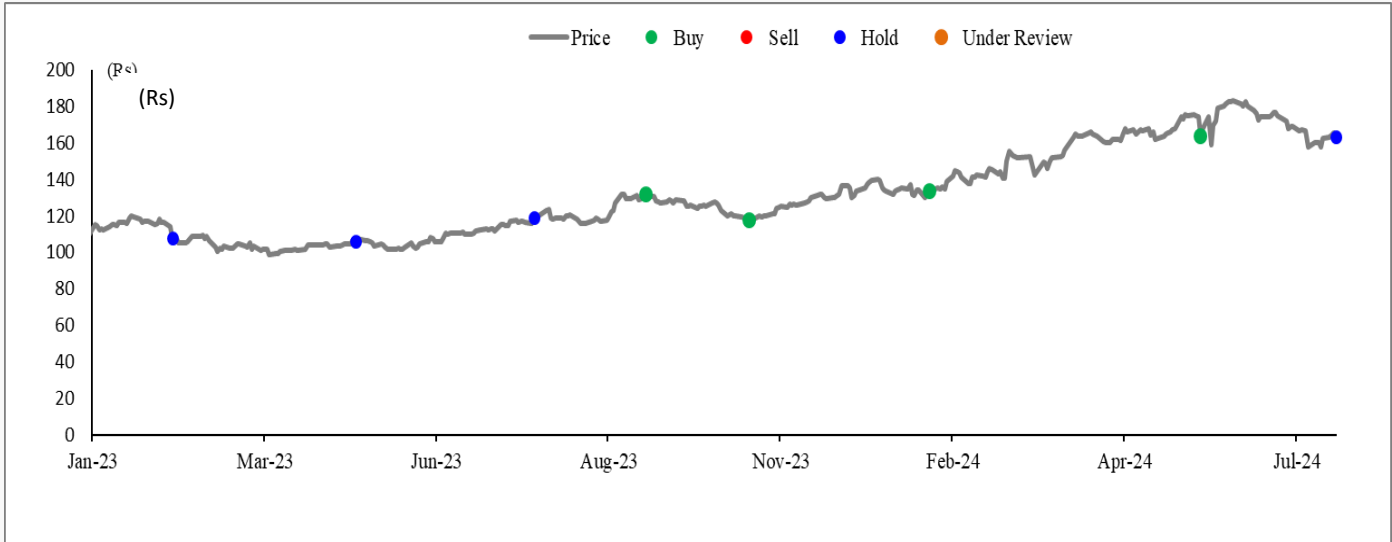
Ratio Analysis

(%)

Y/E March	FY 23A	FY 24A	FY 25E	FY 26E
Operational Ratios				
Sales growth (% YoY)	0%	-6%	-2%	14%
EBITDA growth (% YoY)	-49%	-31%	34%	24%
Op. profit growth (% YoY)	-58%	-46%	56%	34%
Net Profit growth (% YoY)	-78%	-151%	-310%	47%
EBITDA Margin %	13%	10%	13%	14%
Net profit Margin %	4%	-2%	4%	5%
EBITDA/t (Rs/tonne)	0%	0%	0%	0%
Tax Rate %	56%	-328%	35%	35%
Efficiency Ratios				
Total Asset turnover (x)	0.85	0.82	0.81	0.89
Sales/Gross block (x)	1.24	1.09	1.00	1.08
Sales/Net block(x)	2.07	1.89	1.80	2.00
Working capital/Sales (x)	0.10	0.09	0.09	0.09
Valuation Ratios				
PER (x)	14.6x	-43.8x	21.8x	14.8x
P/BV (x)	1.2x	2.1x	2.1x	1.9x
EV/Ebitda (x)	6.1x	12.4x	9.3x	7.4x
EV/Sales (x)	0.8x	1.2x	1.2x	1.1x
Dividend Yield (%)	3.4%	2.3%	2.3%	2.3%
Return Ratios				
ROE	0.08	0.03	0.10	0.13
ROCE	0.12	0.07	0.11	0.14
ROIC	0.06	0.31	0.07	0.09
Leverage Ratios				
Debt/equity (x)	0.82	0.95	0.90	0.82
Net debt/ Equity (x)	0.61	0.79	0.81	0.72
Net debt/Ebitda (x)	2.08	3.32	2.58	1.99
Interest Coverage ratio (x)	5.13	2.97	4.04	5.00

Source: Company, Axis Securities Research

Tata Steel Price Chart and Recommendation History



Source: Axis Securities Research

Date	Reco	TP	Research
08-Feb-23	HOLD	120	Result Update
04-May-23	HOLD	120	Result Update
26-Jul-23	HOLD	125	Result Update
18-Sep-23	BUY	145	Company Update
03-Nov-23	BUY	135	Result Update
29-Jan-24	BUY	150	Result Update
31-May-24	BUY	187	Result Update
02-Aug-24	HOLD	175	Result Update

Source: Axis Securities Research

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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

Note: Returns stated in the rating scale are our internal benchmark.

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