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Positioned at inflection point; margin uplift insight...

About the stock: Tata Steel (TSL), the flagship company of TATA group, is amongst top 10 global steel companies and one of the world's most geographically diversified steel producers with operations and presence across the regions.

- Annual Crude Steel Production Capacity: India- 26.6 million ton (MT), Netherland- 7 MT, UK- 3.2 MT (upcoming), and Thailand- 1.7 MT.

Investment Rationale

- India: Legacy player poised for aggressive capacity expansion:** Tata Steel, a century-old industry veteran and the second-largest crude steel producer in India, is aggressively expanding capacity to tap into the strong domestic steel demand, underpinned by the government's infrastructure-led growth agenda. With the government targeting a national crude steel capacity of ~300 MT by FY31 and aiming to raise per capita steel consumption from ~103 kg to ~160 kg, the demand outlook for the sector remains robust. In line with this, TSL has recently completed Phase 2 of its Kalinganagar expansion, ramping up capacity from 3 MT to 8 MT and thereby increasing its total India crude steel capacity to ~26.6 MT. It aims to further scale this to ~40 MT by 2030, with the next major expansion planned at Neelachal Ispat Nigam Ltd. (NINL), where capacity is targeted to grow from 1 MT to 9.5 MT over the next decade. Backed by this aggressive capacity build-up, we estimate Indian sales volume to grow at a CAGR of ~6% over FY25-27E, reaching ~23.4 MT by FY27E. Moreover, its Indian operations are expected to maintain industry leading EBITDA/tonne, supported by robust integration benefits.
- Europe: Restructuring plan in focus, coupled with cost optimization across regions, to drive profitability turnaround:** TSL is undertaking a comprehensive restructuring of its European operations with a clear focus on restoring profitability. In UK, it is transitioning to a 3.2 MTPA Electric Arc Furnace (EAF) facility, expected to commission by 2027, backed by £500 million in government support as part of a total capex of £1.25 billion. In Netherlands, its advancing green steel roadmap by planning to replace one of its two blast furnaces with a DRI and EAF setup by 2030. Moreover, it has launched a group wide cost transformation program, targeting total savings of ₹11,500 crore in FY26, including ₹4,000 crore from Indian operations, ₹4,500 crore from Netherland, and ₹3,000 crore from UK. This, along with the recovery in domestic steel price followed by DGTR's recommendation to impose 12% safeguard duty and lower coking costs, is likely to lift EBITDA/tonne at Indian operations to ~₹16k/₹16.2k for FY26E/27E. Consequently, consolidated EBITDA is expected to grow a healthy 28% CAGR over FY25-27E, reaching ₹41,565 crores by FY27E.

Rating and Target Price

- We maintain a positive view on Tata Steel, driven by its strategic capacity expansion in India, levers for profitability improvement at both its Indian and European operations amid continued focus on cost optimization. Consequently, we assign a **BUY** rating on Tata Steel with SOTP-based target price of **₹200** (8x/4x EV/EBITDA to India/Europe business on FY27E).

Key Financial Summary

Key Financials	FY21	FY22	FY23	FY24	FY25	5 year CAGR (FY20-25)	FY26E	FY27E	2 year CAGR (FY25-27E)
Net Sales	1,56,294	2,43,959	2,43,353	2,27,296	2,16,840	9.8%	2,30,996	2,46,240	6.6%
EBITDA	30,504	63,490	32,300	22,306	25,298	9.1%	38,091	41,565	28.2%
EBITDA Margins (%)	19.5	26.0	13.3	9.8	11.7		16.5	16.9	
Net Profit	7,490	40,154	8,760	(4,437)	3,421	NA	14,005	16,229	117.8%
EPS (₹/share)	6.3	32.9	7.2	(3.6)	2.7		11.2	13.0	
P/E	25.6	4.9	22.3	(45.0)	58.4		14.3	12.3	
RoNW (%)	10.9	35.2	8.5	33.0	4.1		14.0	14.6	
RoCE (%)	11.5	25.4	10.8	6.2	7.2		12.7	13.7	

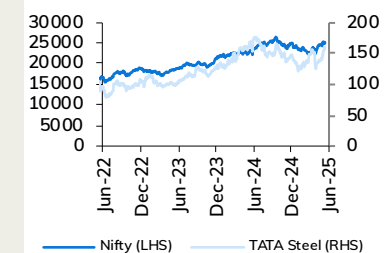
Source: Company, ICICI Direct Research

TATA STEEL**Particulars**

Particulars	₹ crore
Market capitalisation	1,99,590
Total Debt (FY25)	88,964
Cash & Investment (FY25)	12,090
EV (₹ crore)	2,76,464
52 week H/L (₹)	178 / 123
Equity capital (₹ crore)	1,247
Face value (₹)	1.0

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	33.2	33.2	33.2	33.2
FII	19.7	19.3	18.5	18.3
DII	23.3	22.7	23.5	24.5
Other	23.8	24.9	24.8	24.0

Price Chart**Recent event & key risks**

- Commissioned ~5 MT brownfield expansion at Kalinganagar in Odisha, taking its total Indian crude steel capacity to ~26.6 MT.
- Key Risk: (i) Delay in executing costs optimisation plan, leading to subdued profitability at European operations (ii) lower than anticipated improvement in EBITDA/ton at Indian operations

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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