

Debt increases sharply QoQ due to NINL payout....

About the stock: Tata Steel Group is among the top global steel companies with an annual steel production capacity of ~34 million tonnes per annum (MTPA).

- Tata Steel (TSL) is one of the world's most geographically diversified steel producers, with operations and commercial presence across the world
- TSL has been a part of the DJSI Emerging Markets Index since 2012 and has been consistently ranked among top 10 steel companies in the DJSI Corporate Sustainability Assessment since 2016

Q2FY23 Results: Tata Steel reported a steady operational performance in Q2FY23.

- For Q2FY23, Tata Steel's consolidated operations reported a topline of ₹ 59878 crore, down 1% YoY, 6% QoQ (our estimate of ₹ 59697 crore)
- Consolidated reported EBITDA for the quarter was at ₹ 6060 crore against our estimate of ₹ 6465 crore. For consolidated operations, effective tax rate during Q2FY23 was at 50%, notably higher than our estimate of 25%. Hence, on the back of higher-than-expected effective tax rate, reported PAT came in lower than our estimate. Consolidated reported PAT for Q2FY23 was at ₹ 1297 crore (our estimate of ₹ 2350 crore)
- On the balance-sheet front, Tata Steel's consolidated net debt increased sequentially by ~ ₹ 17249 crore and was at ₹ 71753 crore as on September 30, 2022. The increase in net debt was on account of bunching of large payouts during Q2FY23, which included NINL acquisition, FY22 dividend payout and growth capex

What should investors do? Tata Steel's share price has given a return of ~153% in the last three years (from ~₹ 40 in November 2019 to ~₹ 101 in November 2022).

- On the back of significant increase in consolidated net debt levels sequentially coupled with an expected decline in EBITDA/tonne of Tata Steel European operations during H2FY23E (when compared with H1FY23), we downgrade the stock from BUY to **HOLD**

Target Price and Valuation: We value TSL at ₹ 110, based on SoTP valuation.

Key triggers for future price performance:

- Going forward, for the Tata Steel Standalone operations, we model EBITDA/tonne of ₹ 14000/tonne for FY23E and ₹ 16000/tonne for FY24E
- Going forward, for the Tata Steel European operations, we model EBITDA/tonne of US\$140/tonne for FY23E and US\$120/tonne for FY24E

Alternate Stock Idea: In our metals and mining coverage, we like Coal India.

- Coal India (CIL) is one of the largest coal producers in the world. In FY22, CIL produced 623 million tonnes (MT) while offtake was at 622 MT
- BUY with a target price of ₹ 275



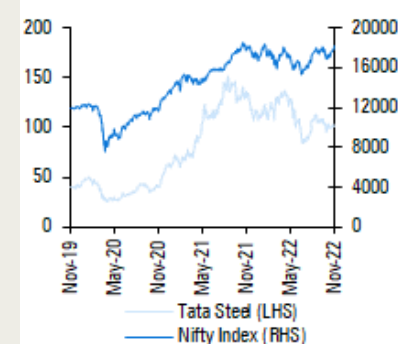
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,23,583
Total Debt (Q2FY23) (₹ Crore)	87,516
Cash & Cash Eq. (Q2FY23) (₹ Crore)	15,763
EV (₹ Crore)	1,95,336
52 week H/L (₹)	139 / 83
Equity capital	₹ 1221 Cr.
Face value	₹ 1

Shareholding Pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	33.9	33.9	33.9	33.9
FIs	21.4	22.9	22.0	21.5
DIs	18.1	20.4	19.0	18.2
Public	26.6	22.8	25.1	26.4
Total	100.0	100.0	100.0	100.0

Price Chart



Key Risks

- Key risks: (i) Steep decline in steel prices (ii) Lower than expected increase in operating costs

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR (FY17-22)	FY23E	FY24E	CAGR (FY22-24E)
Net Sales	1,57,669	1,39,817	1,56,294	2,43,959	17%	2,40,500	2,42,183	0%
Reported EBITDA	29,383	17,463	30,504	63,490	30%	37,280	40,430	-15%
PAT	8,995	4,737	9,233	41,749	LP	16,174	17,063	-23%
EPS (₹)	7.9	4.1	7.7	34.3		13.5	14.3	
EV/EBITDA (x)	7.0	12.9	6.9	3.0		5.4	4.9	
RoCE (%)	13.8	4.8	13.1	28.5		12.7	13.3	
RoE (%)	13.0	6.4	12.4	36.4		12.9	12.3	

Source: Company, ICICI Direct Research

Key Highlights on conference call and other highlights...

Indian Operations

- For Q3FY23, with respect to the Indian operations, realisations are expected to decline by ~₹ 800/tonne QoQ, compared to Q2FY23
- For Q3FY23, with respect to the Indian operations coking coal consumption cost is expected to decline by ~US\$80/tonne QoQ, when compared with Q2FY23. Hence, for Indian operations, EBITDA/tonne is likely to improve on a QoQ basis primarily aided by lower coking coal costs
- The 6 million tonnes per annum (MTPA) pellet plant will be commissioned in Q3FY23 and will be followed by the cold roll mill complex in phases. The 5 MTPA expansion at Kalinganagar is on track to be commissioned by the end of FY24
- Neelachal Ispat Nigam's blast furnace was restarted in October 2022, within three months of completion of the acquisition and is being ramped up
- Work has commenced on setting up 0.75 MTPA electric arc furnace (EAF) in Punjab, which will leverage the growth in the construction segment and is an important milestone in transition to net zero

European Operations

- For Q3FY23, with respect to European operations, coking coal consumption cost is expected to decline by ~US\$100/tonne QoQ compared to Q2FY23. For European operations, during Q3FY23, iron ore costs are expected to decline by ~US\$15/tonne compared to Q2FY23
- For Tata Steel Netherlands operations, all the earlier tax losses have been absorbed. Going forward, Tata Steel Netherlands operations will be taxed at 25%

Others

- Net debt as on September 30, 2022 was at ₹ 71753 crore. Net debt to EBITDA as on September 30, 2022 was at 1.37x and net debt to equity was at 0.63x
- For Q2FY23, Tata Steel incurred a capex to the tune of ₹ 3198 crore
- As per relevant standards, the BSPS pension scheme has a surplus of £1.49 billion

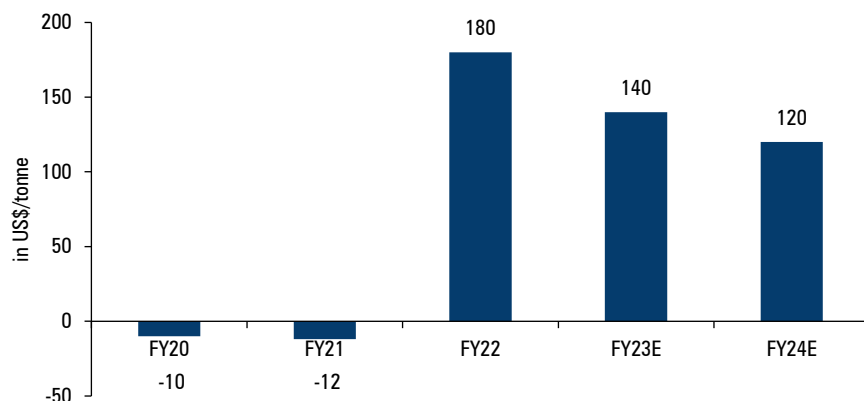
Exhibit 1: Variance Analysis (Consolidated Performance)

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	59878	59697	60387	-1%	63430	-6%	Consolidated topline came in broadly in line with our estimate
Total Expenditure	53817	53232	43931	23%	48457	11%	
Reported EBITDA	6060	6465	16456	-63%	14973	-60%	
Reported EBITDA Margin (%)	10.1	10.8	27.3	(1720) bps	23.6	(1350) bps	
Depreciation	2348	2350	2289	3%	2237	5%	
Finance cost	1519	1250	1020	49%	1218	25%	
Other Income	329	275	271	22%	268	23%	
Share of Profit from associate	102	0	185	-45%	160	-36%	
Exceptional Items	-19	0	516	PL	-39	-50%	
PBT	2605	3140	14120	-82%	11906	-78%	
Tax Outgo	1308	790	1572	-17%	4192	-69%	Consolidated tax expenses came in higher than our estimate
Reported PAT	1297	2350	12548	-90%	7714	-83%	On the back of higher than expected tax expenses, consolidated PAT came in lower than our estimate
Key Metrics							
Tata Steel (Standalone operations) sales volumes (in MT)	4.8	4.8	4.4	8%	3.9	22%	Tata Steel (standalone operations) sales volume came in line with our estimate
Tata Steel European operations sales volume (in MT)	1.9	1.9	2.1	-11%	2.1	-13%	Tata Steel European operations sales volume came in line with our estimate
Tata Steel (Standalone operation) reported EBITDA/tonne (in ₹/tonne)	10177	10000	30385	-67%	21326	-52%	Tata Steel (standalone operations) EBITDA/tonne came in broadly in line with our estimate
Tata Steel European operations reported EBITDA/tonne (in US\$/tonne)	120	100	211	-43%	365	-67%	Tata Steel European operations EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

Financial story in charts

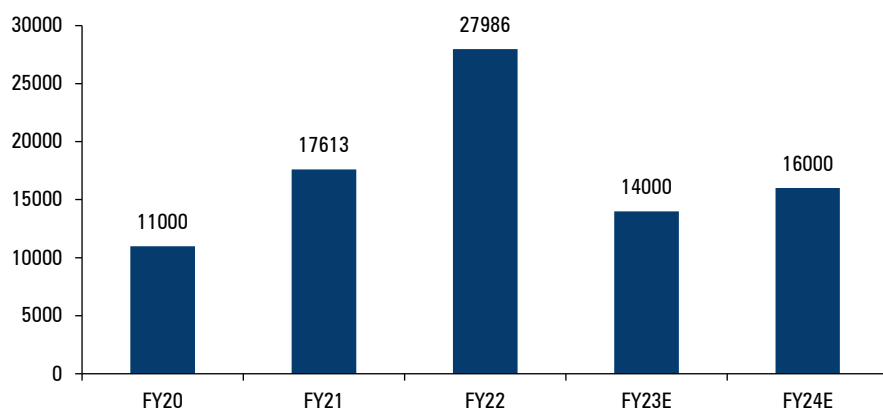
Exhibit 2: Tata Steel European operations EBITDA/tonne... (in US\$/tonne)



For Tata Steel European operations, we model EBITDA/tonne of US\$140/tonne for FY23E and US\$ 120/tonne for FY24E

Source: Company, ICICI Direct Research

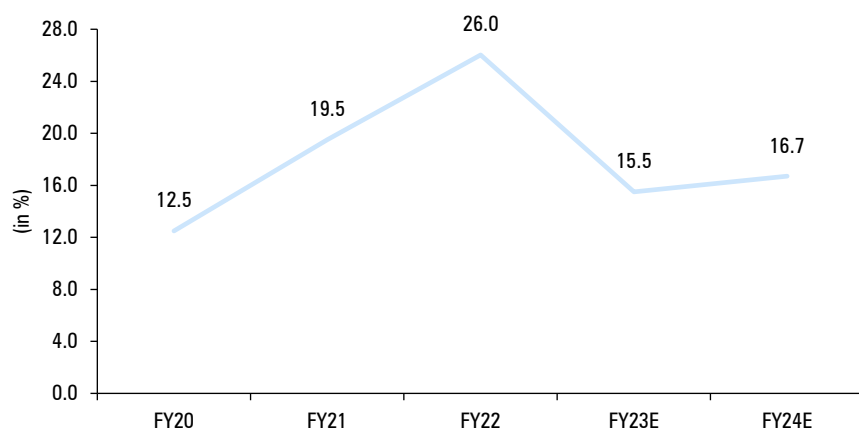
Exhibit 3: Standalone operation EBITDA... (in ₹/tonne)



For Tata Steel standalone operations, we model EBITDA/tonne of ₹ 14000/tonne for FY23E and ₹ 16000/tonne for FY24E

Source: Company, ICICI Direct Research

Exhibit 4: Consolidated EBITDA margins trend....(in %)



For the next couple of years, we expect consolidated EBITDA margin at ~15.5% for FY23E and ~16.7% for FY24E

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Matrix

	Total Op. Income	Growth	EPS	Growth	PE	EV/EBIDTA	P/ BV	RoNW	RoCE
	(₹ Crore)	% YoY	(₹)	% YoY	(x)	(x)	(x)	(%)	(%)
FY21	1,56,294	11.8	7.7	86.4	13.1	6.9	1.6	12.4	13.1
FY22	2,43,959	56.1	34.3	344.9	2.9	3.0	1.1	36.4	28.5
FY23E	2,40,500	(1.4)	13.5	(60.6)	7.5	5.4	1.0	12.9	12.7
FY24E	2,42,183	0.7	14.3	5.4	7.1	4.9	0.9	12.3	13.3

Source: Company, ICICI Direct Research

Exhibit 6: SoTP Valuation

Particulars	Units	Mar-24E
Tata Steel Standalone Operations		
Tata Steel Standalone operations Sales volume (FY24E)	in MT	18.8
Tata Steel Standalone operations EBITDA/tonne (FY24E)	₹/tonne	16,000
Tata Steel Standalone operations EBITDA (FY24E)	₹ crore	30,080
Multiple	x	5.5
Tata Steel Standalone operations Target EV (A)	₹ crore	165440
Tata Steel European Operations		
Tata Steel European operations Sales volume (FY24E)	in MT	9
Tata Steel European operations EBITDA/tonne (FY24E)	₹/tonne	9600
Tata Steel European operations EBITDA (FY24E)	₹ crore	8,640
Multiple	x	3.0
Tata Steel European operations Target EV (B)	₹ crore	25920
Tata Steel Other Subsidiaries EBITDA (FY24E)	₹ crore	1710
Multiple	x	4.0
Tata Steel Other Subsidiaries Target EV (C)	₹ crore	6840
Total Consolidated Target EV (A+B+C)	₹ crore	198200
Gross Debt (FY24E)	₹ crore	84061
Net Cash and Cash Equivalents (FY24E)	₹ crore	19898
Net Debt (FY24E)	₹ crore	64163
Equity value	₹ crore	134037
No. of Equity Shares	in crore	1221
Target price of Tata Steel	in ₹/share	110
CMP of Tata Steel	in ₹/share	101
Upside (%)	in %	9%

Source: Company, ICICI Direct Research

Financial summary (Consolidated)

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Inc.	156294	243959	240500	242183
Growth (%)	12	56	-1	1
Total Operating Expend.	125790	180469	203220	201752
EBITDA	30504	63490	37280	40430
Growth (%)	75	108	-41	8
Depreciation	9234	9101	9782	10344
Interest	7607	5462	6025	6323
Other Income	896	785	852	849
PBT	14560	49712	22325	24613
Share of Profit from JV/Associates	0	649	682	750
Exceptional Item	-1043	-134	0	0
Total Tax	5654	8478	6832	8299
PAT	7862	41749	16174	17063
Growth (%)	236	431	-61	5
Minorities, Associates, etc	327	0	345	353
Rep PAT after Assoc. MI	8190	41749	16519	17417
Adj PAT after Assoc. MI	9233	41883	16519	17417
Growth (%)	94.9	353.6	-60.6	5.4
EPS (₹)	7.7	34.3	13.5	14.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	8190	41749	16519	17417
Add: Depreciation	9234	9101	9782	10344
(Inc)/dec in Current Assets	5843	-23575	-10808	3390
Inc/(dec) in CL and Prov.	18900	9302	-4967	-9557
Others	-12821	7804	3370	3254
CF from operating activities	29345	44381	13896	24848
(Inc)/dec in Investments	-4397	-3668	-50	-50
(Inc)/dec in Fixed Assets	-7023	-10522	-24100	-16000
Others	683	-13132	-337	-396
CF from investing activities	-10737	-27321	-24487	-16446
Issue/(Buy back) of Equity	-1447	24	0	0
Inc/(dec) in loan funds	-24789	-12940	13500	-5000
Dividend paid & dividend tax	-2994	-6228	-3663	-3663
Inc/(dec) in Share Cap	0	0	0	0
Others	8349	12201	682	750
CF from financing activities	-20880	-6943	10518	-7913
Net Cash flow	-2273	10116	-73	488
Opening Cash	8055	5782	15899	15826
Closing Cash	5782	15899	15826	16314

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Share Capital	1198	1221	1221	1221
Hybrid Perpetual securities	775	775	775	775
Reserve and Surplus	72266	113222	126077	139831
Total Shareholders funds	74239	115218	128074	141827
Total Debt	88501	75561	89061	84061
Deferred Tax Liability	9241	12326	12696	12949
Minority Interest & Others	18731	17628	20973	24327
Total Liabilities	190712	220733	250803	263164
Assets				
Gross Block	262887	269440	289540	301540
Less: Impairment	0	0	0	0
Less: Acc Depreciation	126233	135334	145116	155460
Net Block	136654	134106	144424	146080
CWIP	18129	21228	25228	29228
Net Fixed Assets (Incl. CWIP)	154783	155333	169651	175308
Investments	10682	14350	14400	14450
Inventory	33276	48824	50506	49546
Debtors	9540	12246	13972	14042
Loans and Advances	29692	33550	40550	37550
Other Current Assets	2410	3872	4272	4772
Cash	5782	15899	15826	16314
Total Current Assets	80701	114392	125127	122225
Current Liabilities	56651	65852	61134	51828
Provisions	4725	4826	4576	4326
Current Liabilities & Prov	61376	70678	65710	56154
Net Current Assets	19325	43715	59417	66072
others	5923	7335	7335	7335
Application of Funds	190712	220733	250803	263164

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Adj EPS	7.7	34.3	13.5	14.3
Cash EPS	15.4	41.8	21.5	22.7
BV	62.0	94.4	104.9	116.1
DPS	2.5	5.1	3.0	3.0
Operating Ratios (%)				
EBITDA Margin	19.5	26.0	15.5	16.7
PBT / Total Operating income	9.3	20.4	9.3	10.2
Adj PAT Margin	5.9	17.2	6.9	7.2
Inventory days	83	115	120	130
Debtor days	30	30	30	30
Creditor days	145	150	145	135
Return Ratios (%)				
Adj RoE	12.4	36.4	12.9	12.3
Adj RoCE	13.1	28.5	12.7	13.3
Adj RoIC	13.6	31.1	13.7	14.4
Valuation Ratios (x)				
P/E	13.1	2.9	7.5	7.1
EV / EBITDA	6.9	3.0	5.4	4.9
EV / Net Sales	1.6	0.8	1.0	0.9
Market Cap / Sales	0.9	0.5	0.6	0.6
Price to Book Value	1.6	1.1	1.0	0.9
Solvency Ratios				
Debt/EBITDA	2.7	0.8	1.7	1.5
Debt / Equity	1.1	0.5	0.6	0.5
Current Ratio	1.3	1.6	1.9	2.2
Quick Ratio	0.8	0.9	1.1	1.3

Source: Company, ICICI Direct Research

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