

Performance set to improve, going forward....

About the stock: Tata Steel Group is among 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

Q3FY23 Results: Tata Steel's consolidated EBITDA came in broadly in line with our estimate for Q3FY23.

- For Q3FY23, Tata Steel's standalone operations reported sales volume of 4.5 million tonnes (MT), up 6% YoY but down 4% QoQ (our estimate: 4.5 MT). Tata Steel standalone operations reported EBITDA/tonne of ₹ 11350/tonne, marginally lower than our estimate of ₹ 12500/tonne. For Q3FY23, Tata Steel's European operations reported negative EBITDA/tonne of US\$95/tonne (our estimate of negative EBITDA/tonne of US\$75/tonne)
- For Q3FY23, Tata Steel's consolidated operations reported a topline of ₹ 57084 crore, down 6% YoY, 5% QoQ. Consolidated reported EBITDA for the quarter was at ₹ 4048 crore, down 75% YoY and 33% QoQ, broadly in line with our estimate of ₹ 4279 crore
- The British Steel Pension Scheme (BSPS) with Tata Steel UK as sponsor has completed a substantial part of its de-risking journey with ~60% of its liabilities insured. The buy-in transaction along with actuarial movements has resulted in a non-cash deferred tax expense of ₹ 1783 crore & increased the overall deferred tax expense for the quarter to ₹ 2150 crore. The ensuing consolidated reported net loss for the quarter was at ₹ 2502 crore

What should investors do? Tata Steel's share price has given a return of ~59% in the last two years (from ~₹ 70 in February 2021 to ~₹ 111 in February 2023).

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value TSL at ₹ 130, based on SoTP valuation.

Key triggers for future price performance:

- Going forward, for the Tata Steel Standalone operations, we model EBITDA/tonne of ₹ 13500/tonne for FY23E and ₹ 17000/tonne for FY24E
- Going forward, for Tata Steel European operations, we model EBITDA/tonne of US\$100/tonne for FY23E and US\$60/tonne for FY24E

Alternate Stock Idea: In our metals and mining coverage, we also like JSL.

- Jindal Stainless (JSL) operates an integrated stainless steel plant at Jajpur, Odisha.
- BUY with a target price of ₹ 300

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%	2,39,174	2,44,869	0%
Reported EBITDA	29,383	17,463	30,504	63,490	30%	33,644	37,991	-15%
PAT	8,995	4,737	9,233	41,749	LP	9,609	15,055	-23%
EPS (₹)	7.9	4.1	7.7	34.3		7.9	12.3	
EV/EBITDA (x)	7.2	13.3	7.1	3.1		6.2	5.2	
RoCE (%)	13.8	4.8	13.1	28.5		11.5	13.1	
RoE (%)	13.0	6.4	12.4	36.4		7.9	11.3	

Source: Company, ICICI Direct Research



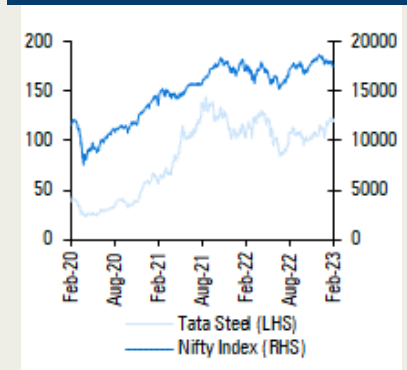
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,36,191
Total Debt (Q3FY23) (₹ Crore)	87,649
Cash & Cash Eq. (Q3FY23) (₹ Crore)	15,943
EV (₹ Crore)	2,07,897
52 week H/L (₹)	139 / 83
Equity capital	₹ 1221 Cr.
Face value	₹ 1

Shareholding Pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	33.9	33.9	33.9	33.9
FIs	22.9	22.0	21.5	21.9
DIs	20.4	19.0	18.2	19.6
Public	22.8	25.1	26.4	24.6
Total	100.0	100.0	100.0	100.0

Price Chart



Key Risks

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

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Key Highlights on conference call...

Indian Operations

- For Q4FY23, with respect to the Indian operations, realisations are expected to higher by ~₹ 1400-1500/tonne QoQ, compared to Q3FY23. For Q4FY23, with respect to Indian operations coking coal consumption cost is expected to decline by ~US\$10/tonne QoQ when compared with Q3FY23
- At Kalinganagar, phased commissioning of 6 million tonnes per annum (MTPA) pellet plant has begun. Work on 2.2 MTPA Cold Roll Mill complex and 5 MTPA expansion is ongoing
- Neelachal Ispat Nigam (NINL) has begun operations and is being ramped to rated capacity of around 1 MTPA

European Operations

- During the quarter, with respect to Tata Steel European operations, NRV loss on steel inventory was at ~ £ 55 million
- For Q4FY23, with respect to Tata Steel European operations, while realisations are expected to decline by ~ £ 70/tonne, the costs are expected to decline by ~ £ 100/tonne.
- The company has made further progress on de-risking the British Steel Pension Scheme (BSPS) by expanding the insurance coverage on liabilities from 30% to 60%. Depending on market conditions, the residual insurance of 40% of liabilities will be completed in the first half of the calendar year 2023 and there will be a commensurate non-cash deferred tax expense

Others

- For Q3FY23, Tata Steel incurred a capex to the tune of ₹ 3632 crore while for 9MFY23 capex was at ₹ 9746 crore. For Q4FY23E, the company plans to incur a capex to the tune of ~₹ 3000 crore
- For Q4FY23, Tata Steel's overall consolidated sales volumes are expected to 0.5 MT, higher compared to Q3FY23

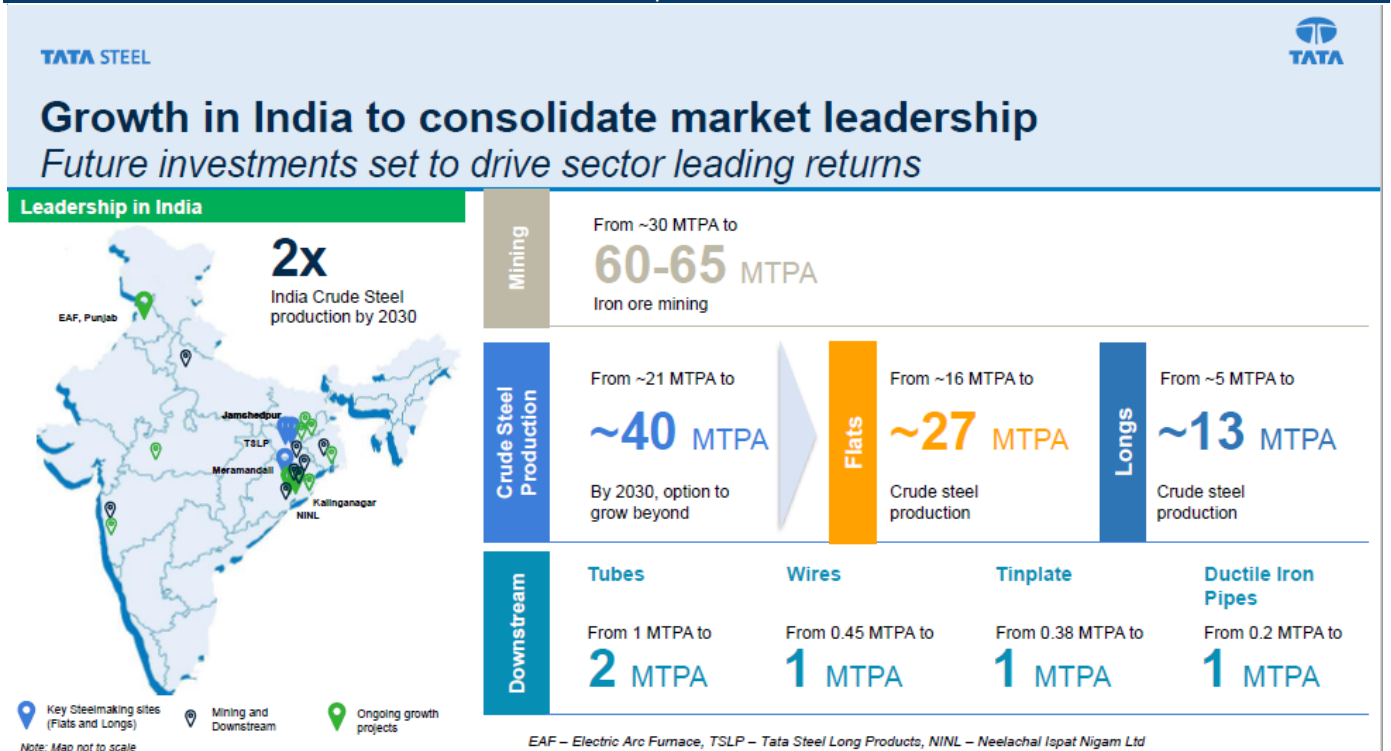
Tata Steel - ESG Disclosure Score*

ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	41.1	42.5	42.5
Social	50.5	38.5	44.1
Governance	89.9	89.9	83.6
Overall ESG Score	60.5	57.0	56.8

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Net consolidated debt was at ₹ 71706 crore as on December 31, 2022, flattish on a QoQ basis. Net debt to EBITDA was at 1.76x while net debt to equity was at 0.65x

Exhibit 1: Growth in India to consolidated market leadership....



Source: Company, ICICI Direct Research

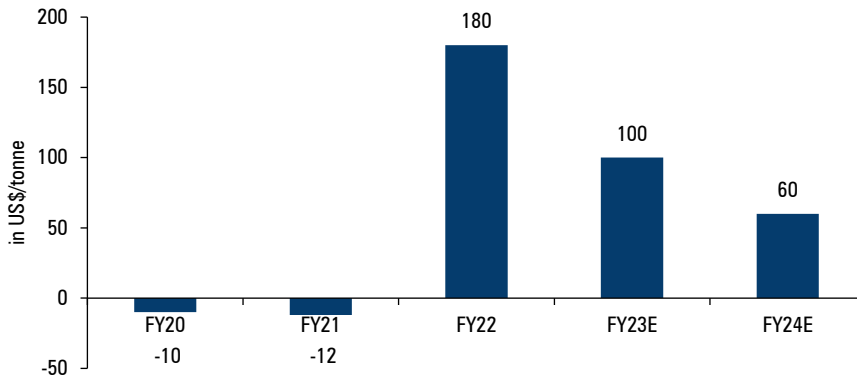
Exhibit 2: Variance Analysis (Consolidated Performance)

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	57084	52618	60783	-6%	59878	-5%	Consolidated topline came in higher than our estimate
Total Expenditure	53036	48339	44889	18%	53817	-1%	
Reported EBITDA	4048	4279	15894	-75%	6060	-33%	Reported consolidated EBITDA broadly came in line with our estimate
Reported EBITDA Margin (%)	7.1	8.1	26.1	(1900) Bps	10.1	(300) bps	
Depreciation	2368	2425	2244	6%	2348	1%	
Finance cost	1768	1550	1532	15%	1519	16%	Finance costs came in higher than our estimate
Other Income	271	325	60	355%	329	-18%	
Share of Profit from associate	60	125	182	-67%	102	-41%	
Exceptional Items	160	0	-193	LP	-19	LP	
PBT	403	754	12165	-97%	2605	-85%	
Tax Outgo	2905	190	2567	13%	1308	122%	The British Steel Pension Scheme (BSPS) with Tata Steel UK as sponsor has completed a substantial part of its de-risking journey with ~60% of its liabilities insured. The buy-in transaction along with actuarial movements has resulted in a non-cash deferred tax expense of ₹ 1783 crore and increased the overall deferred tax expense for the quarter to ₹ 2150 crore
Reported PAT	-2502	564	9598	PL	1297	PL	The ensuing bottomline was adversely impacted by higher tax expense during the quarter.
Key Metrics							
Tata Steel (Standalone operations) sales volumes (in MT)	4.5	4.5	4.3	6%	4.8	-4%	Tata Steel standalone operations sales volume came in broadly in line with our estimate
Tata Steel European operations sales volume (in MT)	2.0	2.0	2.2	-8%	1.9	6%	Tata Steel European operations sales volume came in broadly in line with our estimate
Tata Steel (Standalone operation) reported EBITDA/tonne (in ₹/tonne)	11350	12500	28631	-60%	10177	12%	Tata Steel standalone operations EBITDA/tonne came in marginally below our estimate
Tata Steel European operations reported EBITDA/tonne (in US\$/tonne)	-95	-75	182	PL	120	PL	Tata Steel European operations' negative EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

Financial story in charts

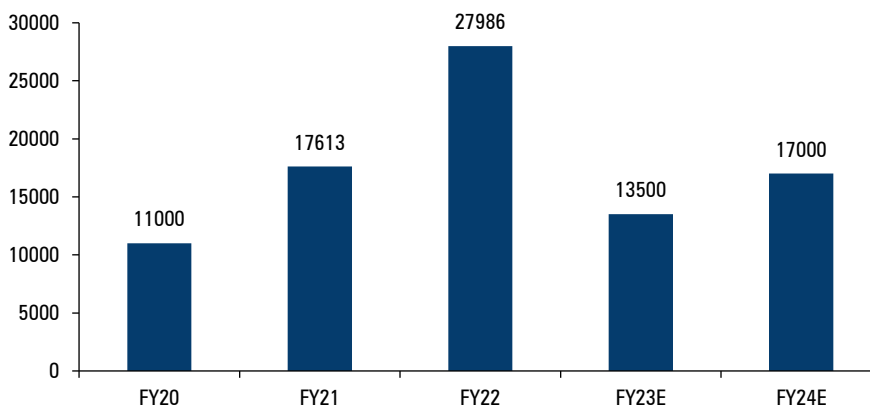
Exhibit 3: Tata Steel European operations EBITDA/tonne... (in US\$/tonne)



For Tata Steel European operations, we model EBITDA/tonne of US\$100/tonne for FY23E and US\$60/tonne for FY24E

Source: Company, ICICI Direct Research

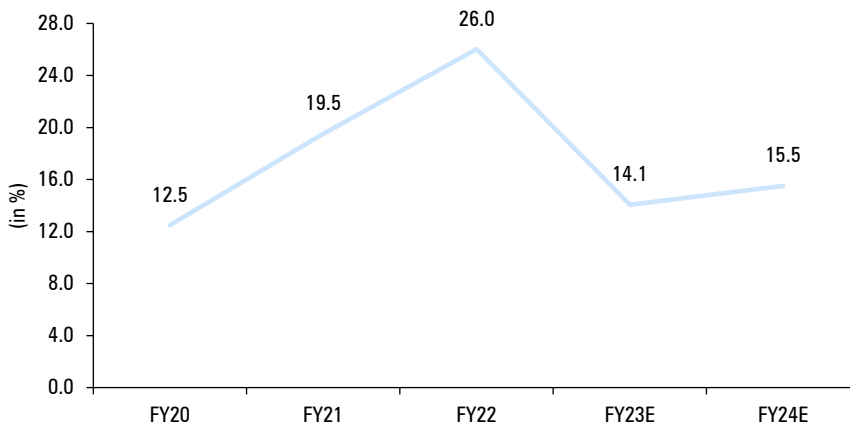
Exhibit 4: Standalone operation EBITDA... (in ₹/tonne)



For Tata Steel standalone operations, we model EBITDA/tonne of ₹ 13500/tonne for FY23E and ₹ 17000/tonne for FY24E

Source: Company, ICICI Direct Research

Exhibit 5: Consolidated EBITDA margins trend....(in %)



For the next couple of years, we expect consolidated EBITDA margin at ~14.1% for FY23E and ~15.5% for FY24E

Source: Company, ICICI Direct Research

Exhibit 6: 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	14.4	7.1	1.8	12.4	13.1
FY22	2,43,959	56.1	34.3	344.9	3.2	3.1	1.2	36.4	28.5
FY23E	2,39,174	(2.0)	7.9	(77.1)	14.1	6.2	1.1	7.9	11.5
FY24E	2,44,869	2.4	12.3	56.7	9.0	5.2	1.0	11.3	13.1

Source: Company, ICICI Direct Research

Exhibit 7: 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	17,000
Tata Steel Standalone operations EBITDA (FY24E)	₹ crore	31,960
Multiple	x	6.0
Tata Steel Standalone operations Target EV (A)	₹ crore	191760
Tata Steel European Operations		
Tata Steel European operations Sales volume (FY24E)	in MT	9
Tata Steel European operations EBITDA/tonne (FY24E)	₹/tonne	4800
Tata Steel European operations EBITDA (FY24E)	₹ crore	4,320
Multiple	x	4.0
Tata Steel European operations Target EV (B)	₹ crore	17280
Tata Steel Other Subsidiaries		
Tata Steel Other Subsidiaries EBITDA (FY24E)	₹ crore	1711
Multiple	x	5.0
Tata Steel Other Subsidiaries Target EV (C)	₹ crore	8553
Total Consolidated Target EV (A+B+C)	₹ crore	217593
Net Debt (FY24E)	₹ crore	59339
Equity value	₹ crore	158254
No. of Equity Shares	in crore	1221
Target price of Tata Steel	in ₹/share	130
CMP of Tata Steel	in ₹/share	111
Upside (%)	in %	17%

Source: Company, ICICI Direct Research, Net Debt is Gross Debt minus Cash and Cash Equivalent

Financial summary (Consolidated)

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Inc.	156294	243959	239174	244869
Growth (%)	12	56	-2	2
Total Operating Expend.	125790	180469	205529	206878
EBITDA	30504	63490	33644	37991
Growth (%)	75	108	-47	13
Depreciation	9234	9101	9782	10344
Interest	7607	5462	5885	5938
Other Income	896	785	1052	1074
PBT	14560	49712	19029	22783
Share of Profit from JV/Assoc	0	649	519	571
Exceptional Item	-1043	-134	0	0
Total Tax	5654	8478	9939	8299
PAT	7862	41749	9609	15055
Growth (%)	236	431	-77	57
Minorities, Associates, etc	327	0	0	0
Rep PAT after Assoc. MI	8190	41749	9609	15055
Adj PAT after Assoc. MI	9233	41883	9609	15055
Growth (%)	94.9	353.6	-77.1	56.7
EPS (₹)	7.7	34.3	7.9	12.3

Source: Company, ICICI Direct Research

Exhibit 10: 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	120389	131781
Total Shareholders funds	74239	115218	122385	133777
Total Debt	88501	75561	85061	77061
Deferred Tax Liability	9241	12326	12696	12949
Minority Interest & Others	18731	17628	20628	23628
Total Liabilities	190712	220733	240770	247416
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	47894	49546
Debtors	9540	12246	12575	12638
Loans and Advances	29692	33550	39800	36550
Other Current Assets	2410	3872	4272	4772
Cash	5782	15899	13963	15483
Total Current Assets	80701	114392	118505	118989
Current Liabilities	56651	65852	64545	64340
Provisions	4725	4826	4576	4326
Current Liabilities & Prov	61376	70678	69121	68666
Net Current Assets	19325	43715	49384	50323
others	5923	7335	7335	7335
Application of Funds	190712	220733	240770	247416

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	8190	41749	9609	15055
Add: Depreciation	9234	9101	9782	10344
(Inc)/dec in Current Assets	5843	-23575	-6048	1035
Inc/(dec) in CL and Prov.	18900	9302	-1557	-455
Others	-12821	7804	3370	3254
CF from operating activities	29345	44381	15156	29233
(Inc)/dec in Investments	-4397	-3668	-50	-50
(Inc)/dec in Fixed Assets	-7023	-10522	-24100	-16000
Others	683	-13132	-519	-571
CF from investing activities	-10737	-27321	-24669	-16621
Issue/(Buy back) of Equity	-1447	24	0	0
Inc/(dec) in loan funds	-24789	-12940	9500	-8000
Dividend paid & dividend tax	-2994	-6228	-2442	-3663
Inc/(dec) in Share Cap	0	0	0	0
Others	8349	12201	520	571
CF from financing activities	-20880	-6943	7577	-11093
Net Cash flow	-2273	10116	-1936	1519
Opening Cash	8055	5782	15899	13963
Closing Cash	5782	15899	13963	15483

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Adj EPS	7.7	34.3	7.9	12.3
Cash EPS	15.4	41.8	15.9	20.8
BV	62	94	100	110
DPS	2.5	5.1	2.0	3.0
Operating Ratios (%)				
EBITDA Margin	19.5	26.0	14.1	15.5
PBT / Total Operating income	9.3	20.4	8.0	9.3
Adj PAT Margin	5.9	17.2	4.0	6.1
Inventory days	83	115	115	120
Debtor days	30	30	27	27
Creditor days	145	150	150	150
Return Ratios (%)				
Adj RoE	12.4	36.4	7.9	11.3
Adj RoCE	13.1	28.5	11.5	13.1
Adj RoIC	13.6	31.1	12.3	14.2
Valuation Ratios (x)				
P/E	14.4	3.2	14.1	9.0
EV / EBITDA	7.1	3.1	6.2	5.2
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	1.8	1.2	1.1	1.0
Solvency Ratios				
Debt/EBITDA	2.7	0.8	1.9	1.4
Debt / Equity	1.1	0.5	0.6	0.5
Current Ratio	1.3	1.6	1.7	1.7
Quick Ratio	0.8	0.9	1.0	1.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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