

## Standalone operations perform well....

**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

**Q4FY23 Results:** For the quarter, healthy performance from standalone operations aided Tata Steel's overall consolidated performance.

- For Q4FY23, Tata Steel's standalone operations reported sales volume of 5.0 million tonnes (MT), up 8% QoQ, higher than our estimate of 4.9 MT. Tata Steel's standalone operations reported EBITDA/tonne of ₹ 16326/tonne, higher than our estimate of ₹ 13250/tonne. Tata Steel's European operations reported negative EBITDA/tonne of US\$93/tonne against our estimate of negative EBITDA/tonne of US\$110/tonne
- Tata Steel's consolidated operations reported a topline of ₹ 62962 crore, up 10% QoQ but down 9% YoY (our estimate of ₹ 59854 crore)
- Consolidated reported EBITDA for the quarter was at ₹ 7219 crore, up 78% QoQ but down 52% YoY, higher than our estimate of ₹ 5364 crore. Consolidated EBITDA margin for the quarter was at 11.5%, higher than our estimate of 9.0% (7.1% in Q3FY23 and 21.7% in Q4FY22). Better than expected performance from Tata Steel standalone operations aided Tata Steel's consolidated performance in Q4FY23. Ensuing consolidated PAT for the quarter was at ₹ 1566 crore, higher than our estimate of ₹ 443 crore

**What should investors do?** Tata Steel's share price has given a return of ~6% in the last six months (from ~₹ 105 in November 2022 to ~₹ 111 in May 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 ₹ 15000/tonne for FY24E and ₹ 16000/tonne for FY25E
- Going forward, we expect Tata Steel to report consolidated EBITDA margin of 14.1% in FY24E and 16.4% in FY25E

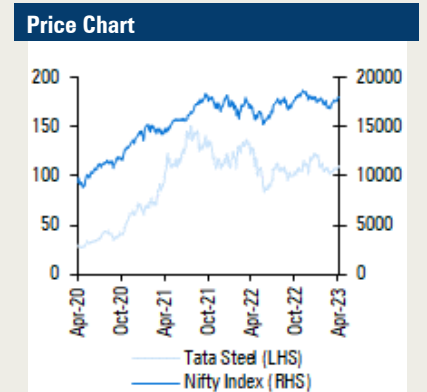
**Alternate Stock Idea:** In our metals and mining coverage, we also like Coal India.

- CIL is one of the largest coal producers in the world. In FY23, CIL produced 703 million tonnes (MT) while offtake was at 695 MT
- BUY with a target price of ₹ 260



Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	1,36,496
Total Debt (Q4FY23) (₹ Crore)	84,893
Cash & Cash Eq. (Q4FY23) (₹ Crore)	17,083
EV (₹ Crore)	2,04,306
52 week H/L (₹)	133 / 83
Equity capital	₹ 1221 Cr.
Face value	₹ 1

Shareholding Pattern				
(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	33.9	33.9	33.9	33.9
FIs	22.0	21.5	21.9	20.6
DIs	19.0	18.2	19.6	20.7
Public	25.1	26.4	24.6	24.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



### Key Risks

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

### Research Analyst

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### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	FY23	CAGR (FY18-23)	FY24E	FY25E	CAGR (FY23-25E)
Net Sales	1,39,817	1,56,294	2,43,959	2,43,353	13%	2,36,396	2,47,785	1%
Reported EBITDA	17,463	30,504	63,490	32,300	8%	33,253	40,562	12%
Reported PAT	1,172	8,190	41,749	8,075	-15%	11,672	18,905	53%
EPS (₹)	4.1	7.7	34.3	6.5		9.6	15.5	
EV/EBITDA (x)	13.4	7.2	3.1	6.4		5.9	4.7	
RoCE (%)	4.8	13.7	28.6	12.2		12.3	15.3	
RoE (%)	6.4	12.4	36.6	7.7		10.5	15.0	

## Key Highlights of conference call...

- For Q1FY24, with respect to the Indian operations, realisations are expected to be higher by ~₹ 1000-1200/tonne QoQ, compared to Q4FY23. For Q1FY24, with respect to Indian operations coking coal consumption cost is expected to be higher by ~US\$10/tonne QoQ compared to Q4FY23. The benefit of the recent fall in coking coal prices to the tune of ~ US\$25/tonne is expected to flow in Q2FY24.
- Neelachal Ispat Nigam has steadily ramped up during the last two quarters and is currently operating with a run rate of ~1 million tonnes (crude steel plus pig iron) on an annualised basis
- With respect to Tata Steel European operation, cost declined by ~£60/tonne QoQ in Q4FY23, missing the earlier guidance of ~£100/tonne QoQ reduction. There are energy hedges in place in Europe. Hence, the cost did not drop sharply. By Q2FY24/Q3FY24, spot and contract energy prices are likely to converge
- For Q1FY24, with respect to Tata Steel European operations, realisations are expected to be higher by ~ £15/tonne, compared to Q4FY23
- The company has incurred a capex of ₹ 4396 crore during Q4FY23 and ₹ 14142 crore for FY23. For FY24E, for the consolidated entity, Tata Steel has planned a capex of ~ ₹ 16000 crore
- Of the total capex of ₹ 16000 crore for FY24E,
  - total ~₹ 10000 crore is likely to be incurred for the Indian operations of which ~ ₹ 7000 crore will be spent on the Kalinganagar expansion and balance ~ ₹ 3000 crore would be spent on sustenance capex and other projects
  - the expected capex for Indian subsidiaries is ~ ₹ 2000 crore
  - with respect to European operations, ~ ₹ 3000 crore is the capex for the Netherlands' operation, of which ~₹ 1100 crore is for the one-off blast furnace re-alignment. Also, ~₹ 600-800 crore is the capex for the UK operation. The UK operations' capex includes critical licenses to operate, safety certificates and other crucial maintenance capex to run the UK operations
- For FY24E, Tata Steel's overall consolidated sales volumes are expected to ~1.5 MT, higher compared to FY23. The incremental volume is split equally between India and European operations
- Debt reduction guidance for FY24 is at US\$1 bn, including working capital unlocking in H2FY24
- Tata Steel's net consolidated debt was at ₹ 67810 crore as on March 31, 2023, declining by ~₹ 3900 crore on a QoQ basis. Net debt to EBITDA was at 2.07x while net debt to equity was at 0.61x

### Tata Steel - ESG Disclosure Score\*

ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	59.4	60.8	60.8
Social	20.6	16.4	25.3
Governance	89.9	89.9	83.6
<b>Overall ESG Score</b>	<b>56.6</b>	<b>55.7</b>	<b>56.6</b>

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

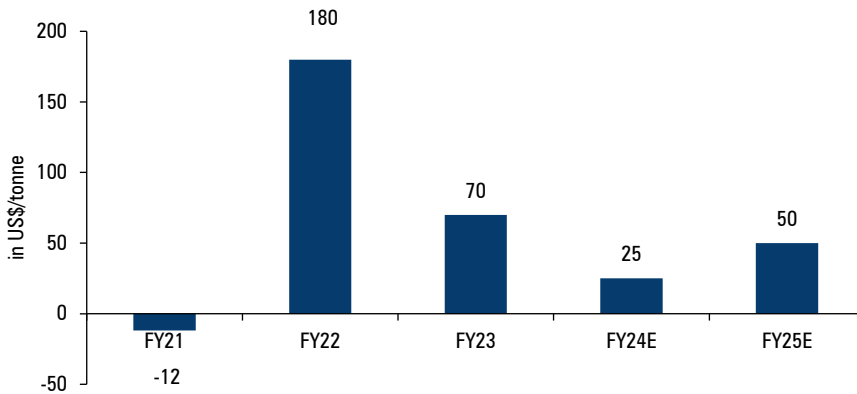
**Exhibit 1: Variance Analysis (Consolidated Performance)**

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
<b>Revenue</b>	62962	59854	69324	-9%	57084	10%	For the quarter, Tata Steel's consolidated topline came in higher than our estimate
Total Expenditure	55742	54490	54294	43%	53036	-68%	
Reported EBITDA	7219	5364	15030	-52%	4048	78%	Aided by better than expected standalone performance, Tata Steel's consolidated EBITDA came in higher than our estimate
<b>Reported EBITDA Margin (%)</b>	11.5	9.0	21.7	(1020) Bps	7.1	440 bps	Consolidated EBITDA margin came in higher than our estimate
Depreciation	2382	2500	2243	6%	2368	1%	
Finance cost	1794	1850	1099	63%	1768	1%	
Other Income	170	250	292	-42%	271	-37%	
Share of Profit from associate	96	100	159	-40%	60	59%	
Exceptional Items	12	0	-274	-104%	160	-93%	
PBT	3321	1364	11865	-72%	403	724%	
Tax Outgo	1755	921	2030	-14%	2905	-40%	
Reported PAT	1566	443	9835	-84%	-2502	LP	Consolidated reported PAT came in higher than our estimate
<b>Key Metrics</b>							
Tata Steel (Standalone operations) sales volumes (in MT)	5.0	4.9	5.0	0%	4.6	8%	
Tata Steel European operations sales volume (in MT)	2.2	2.1	2.4	-10%	2.0	9%	
Tata Steel (Standalone operation) reported EBITDA/tonne (in ₹/tonne)	16326	13250	23690	-31%	11350	44%	Tata Steel Standalone operations EBITDA/tonne came in higher than our estimate
Tata Steel European operations reported EBITDA/tonne (in US\$/tonne)	-93	-110	241	PL	-95	-3%	

Source: Company, ICICI Direct Research

## Financial story in charts

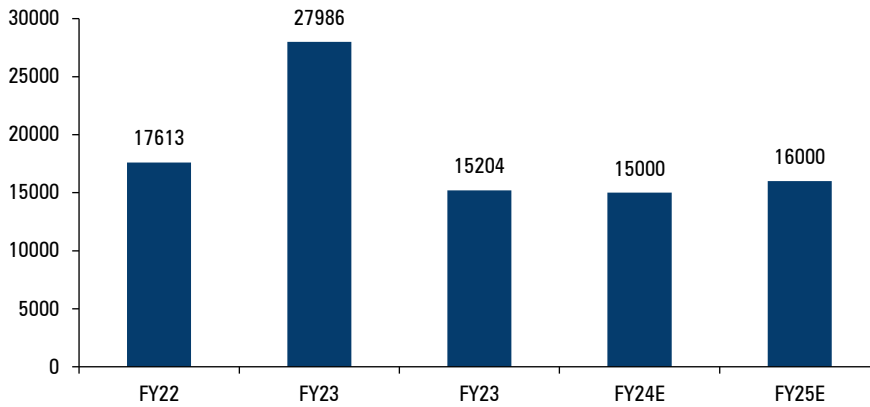
**Exhibit 2: Tata Steel European operations EBITDA/tonne... (in US\$/tonne)**



Source: Company, ICICI Direct Research

For Tata Steel European operations, we model EBITDA/tonne of US\$25/tonne for FY24E and US\$50/tonne for FY25E

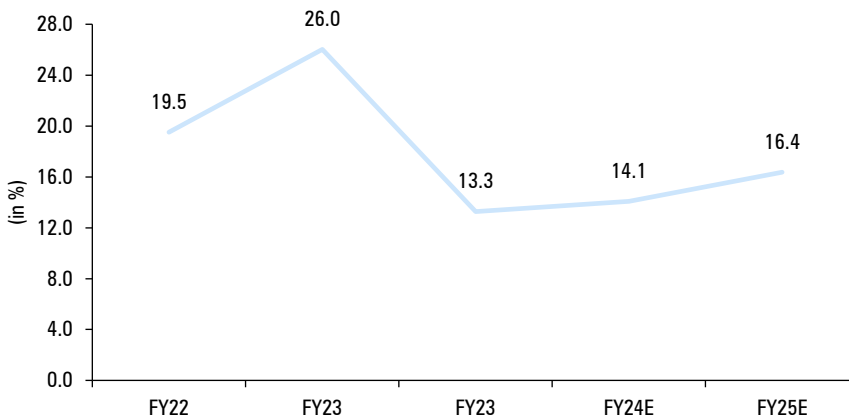
**Exhibit 3: Standalone operation EBITDA... (in ₹/tonne)**



Source: Company, ICICI Direct Research

For Tata Steel standalone operations, we model EBITDA/tonne of ₹ 15000/tonne for FY25E and ₹ 16000/tonne for FY24E

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



Source: Company, ICICI Direct Research

For the next couple of years, we expect consolidated EBITDA margin at ~14.1% for FY24E and ~16.4% for FY25E

**Exhibit 5: Valuation Matrix**

	Total Op. Income	Growth	EPS	Growth	PE	EV/EBIDTA	P/ BV	RoNW	RoCE
	(₹ Crore)	% YoY	(₹)	% YoY	(x)	(x)	(x)	(%)	(%)
FY22	2,43,959	56.1	34.3	353.6	3.2	3.1	1.2	36.6	28.6
FY23	2,43,353	(0.2)	6.5	(81.0)	17.0	6.4	1.3	7.7	12.2
FY24E	2,36,396	(2.9)	9.6	46.6	11.6	5.9	1.2	10.5	12.3
FY25E	2,47,785	4.8	15.5	62.0	7.2	4.7	1.1	15.0	15.3

Source: Company, ICICI Direct Research

**Exhibit 6: SoTP Valuation**

<b>Particulars</b>	<b>Units</b>	<b>Mar-25E</b>
<b>Tata Steel Standalone Operations</b>		
Tata Steel Standalone operations Sales volume (FY25E)	in MT	21.0
Tata Steel Standalone operations EBITDA/tonne (FY25E)	₹/tonne	16,000
Tata Steel Standalone operations EBITDA (FY25E)	₹ crore	33,600
Multiple	x	5.5
<b>Tata Steel Standalone operations Target EV (A)</b>	<b>₹ crore</b>	<b>184800</b>
<b>Tata Steel European Operations</b>		
Tata Steel European operations Sales volume (FY25E)	in MT	9
Tata Steel European operations EBITDA/tonne (FY25E)	₹/tonne	4100
Tata Steel European operations EBITDA (FY25E)	₹ crore	3,690
Multiple	x	4.0
<b>Tata Steel European operations Target EV (B)</b>	<b>₹ crore</b>	<b>14760</b>
<b>Tata Steel Other Subsidiaries</b>		
Tata Steel Other Subsidiaries EBITDA (FY25E)	₹ crore	3272
Multiple	x	4.0
<b>Tata Steel Other Subsidiaries Target EV (C)</b>	<b>₹ crore</b>	<b>13088</b>
<b>Total Consolidated Target EV (A+B+C)</b>	<b>₹ crore</b>	<b>212648</b>
Gross Debt (FY25E)	₹ crore	68893
Net Cash and Cash Equivalents (FY25E)	₹ crore	14632
Net Debt (FY25E)	₹ crore	54261
<b>Equity value</b>	<b>₹ crore</b>	<b>158388</b>
No. of Equity Shares	in crore	1221
<b>Target price of Tata Steel</b>	<b>in ₹/share</b>	<b>130</b>
CMP of Tata Steel	in ₹/share	111
<b>Upside (%)</b>	<b>in %</b>	<b>17%</b>

Source: Company, ICICI Direct Research,

## Financial summary (Consolidated)

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Total Operating Inc.</b>	<b>243959</b>	<b>243353</b>	<b>236396</b>	<b>247785</b>
Growth (%)	56	0	-3	5
Total Operating Expend.	180469	211053	203143	207223
<b>EBITDA</b>	<b>63490</b>	<b>32300</b>	<b>33253</b>	<b>40562</b>
Growth (%)	108	-49	3	22
Depreciation	9101	9335	10157	10665
Interest	5462	6299	5926	6074
Other Income	785	1037	1074	1095
<b>PBT</b>	<b>49712</b>	<b>17704</b>	<b>18244</b>	<b>24919</b>
Share of Profit from JV/Ass	649	418	571	628
Exceptional Item	-134	113	0	0
Total Tax	8478	10160	7143	6642
<b>PAT</b>	<b>41749</b>	<b>8075</b>	<b>11672</b>	<b>18905</b>
Growth (%)	431	-81	45	62
Minorities, Associates, etc	0	0	0	0
Rep PAT after Assoc. MI	41749	8075	11672	18905
<b>Adj PAT after Assoc. MI</b>	<b>41883</b>	<b>7962</b>	<b>11672</b>	<b>18905</b>
Growth (%)	353.6	-81.0	46.6	62.0
<b>EPS (₹)</b>	<b>34.3</b>	<b>6.5</b>	<b>9.6</b>	<b>15.5</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Liabilities</b>				
Equity Share Capital	1221	1221	1221	1221
Hybrid Perpetual securities	0	0	0	0
Reserve and Surplus	113222	101861	109870	125110
Total Shareholders funds	114443	103082	111091	126332
Total Debt	75561	84893	76893	68893
Deferred Tax Liability	12326	14116	14398	14758
Minority Interest & Others	2655	2093	2145	2188
<b>Total Liabilities</b>	<b>204985</b>	<b>204183</b>	<b>204527</b>	<b>212171</b>
<b>Assets</b>				
Gross Block	269440	292195	314196	332196
Less: Acc Depreciation	135334	144669	154826	165491
Net Block	134106	147526	159370	166705
CWIP	21228	30308	24308	21308
Net Fixed Assets (Incl. CWI)	155333	177834	183677	188013
Investments	10178	5177	4678	4428
Inventory	48824	54415	51813	54309
Debtors	12246	8257	9067	9504
Loans and Advances	35902	21975	19535	18535
Other Current Assets	7062	7006	5475	5075
Cash	15899	13357	14856	14632
Total Current Assets	119934	105010	100746	102055
Current Liabilities	72866	75179	76615	74866
Provisions	7594	8659	7959	7459
Current Liabilities & Prov	80460	83838	84574	82325
Net Current Assets	39474	21173	16172	19730
<b>Application of Funds</b>	<b>204985</b>	<b>204183</b>	<b>204527</b>	<b>212171</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	41749	8075	11672	18905
Add: Depreciation	9101	9335	10157	10665
(Inc)/dec in Current Assets	-27319	-5312	5763	-1533
Inc/(dec) in CL and Prov.	2390	3378	736	-2249
Others	0	0	0	0
<b>CF from operating activities</b>	<b>25921</b>	<b>15476</b>	<b>28328</b>	<b>25787</b>
(Inc)/dec in Investments	-1972	5001	499	250
(Inc)/dec in Fixed Assets	-9652	-14142	-16000	-15000
Others	2470	1228	335	403
<b>CF from investing activities</b>	<b>-9154</b>	<b>-7913</b>	<b>-15167</b>	<b>-14347</b>
Issue/(Buy back) of Equity	-751	0	0	0
Inc/(dec) in loan funds	-5106	9332	-8000	-8000
Dividend paid & dividend tax	-6228	-4396	-3664	-3664
Inc/(dec) in Share Cap	0	0	0	0
Others	5435	-15040	0	0
<b>CF from financing activities</b>	<b>-6651</b>	<b>-10104</b>	<b>-11664</b>	<b>-11664</b>
Net Cash flow	10117	-2542	1498	-223
Opening Cash	5782	15899	13357	14856
<b>Closing Cash</b>	<b>15899</b>	<b>13357</b>	<b>14856</b>	<b>14632</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
Adj EPS	34.3	6.5	9.6	15.5
Cash EPS	41.7	14.2	17.9	24.2
BV	94	84	91	103
DPS	5.1	3.6	3.0	3.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	26.0	13.3	14.1	16.4
PBT / Total Operating income	20.4	7.3	7.7	10.1
Adj PAT Margin	17.2	3.3	4.9	7.6
Inventory days	73	82	80	80
Debtor days	18	12	14	14
Creditor days	109	113	118	110
<b>Return Ratios (%)</b>				
Adj RoE	36.6	7.7	10.5	15.0
Adj RoCE	28.6	12.2	12.3	15.3
Adj RoIC	31.2	13.2	13.3	16.6
<b>Valuation Ratios (x)</b>				
P/E	3.2	17.0	11.6	7.2
EV / EBITDA	3.1	6.4	5.9	4.7
EV / Net Sales	0.8	1.0	0.9	0.8
Market Cap / Sales	0.5	0.6	0.6	0.5
Price to Book Value	1.2	1.3	1.2	1.1
<b>Solvency Ratios</b>				
Debt/EBITDA	0.8	2.0	1.6	1.1
Debt / Equity	0.5	0.7	0.6	0.4
Current Ratio	1.5	1.3	1.2	1.2
Quick Ratio	0.9	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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## ANALYST CERTIFICATION

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