

METALS & MINING

Q2FY24 Preview

11 October 2023

Q2 to be a range-bound quarter

- Sector EBITDA to remain range-bound with JSTL likely to retain momentum, TATA faltering in Europe and SAIL set to recover from Q1 weakness
- EBITDA forecast to stabilise at mid-cycle level in H2FY24 with seasonal demand uptick in Sep-Oct and potential production cap in China
- We remain constructive on Indian ferrous players given benefits from upcoming brownfield expansion; prefer TATA

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Expect range-bound EBITDA: We expect aggregate consolidated EBITDA for the four majors under our coverage to remain range-bound in Q2FY24 after a sharp pullback in Q1. JSTL is likely to maintain EBITDA momentum with continuing volume growth while TATA and JSP could see a QoQ reduction on weaker European operations and mean reversion respectively, and SAIL looks poised for recovery as volumes rebound after a weak Q1.

India operations likely below mid-cycle profitability: We continue to expect profitability of India operations to remain below mid-cycle levels. Amongst the four majors, we expect SAIL to post sequential improvement in EBITDA/t on sharper volume recovery than peers. On absolute EBITDA, SAIL is likely to post a sequential recovery, JSTL India could continue to show improvement through volume growth, and we expect TATA India to sustain its EBITDA revival of last quarter. JSP is forecast to post lower EBITDA amid a patchy monsoon season.

Margins to stabilise to mid-cycle level over H2: We continue to expect steel margins to stabilise at mid-cycle levels during H2FY24 as the demand-supply balance in China gradually improves with potential production cuts during Q4CY23. Stronger demand trends in India could also help steady margins.

Raw materials prices could ease in H2: Whereas iron ore prices have benefitted from a steel production uptick in China during September, coking coal prices have surged with slower supply ramp-up from Australia. As iron ore supply from both Australia and Brazil remains resilient, we believe production cuts in China could help prices retrace to US\$ 100/t levels. For coking coal, stabilisation of Australian supply is essential to draw prices below US\$ 250. China-led pressure on the seaborne coking coal market has significantly reduced.

Constructive on Indian ferrous sector: We are constructive on Indian ferrous players given earnings prospects from ongoing expansion but continue to see margins only at mid-cycle levels medium term. We have a BUY on TATA (TP Rs 155) and JSP (TP Rs 810).

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	693	810	BUY
JSTL IN	777	845	HOLD
SAIL IN	89	90	HOLD
TATA IN	125	155	BUY

Price & Target in Rupees | Price as of 11 Oct 2023



Q2 EBITDA to remain below mid-cycle levels

We expect aggregate consolidated EBITDA for the four steel majors under our coverage to remain range-bound in Q2FY24 after a sharp pullback in Q1. The benefit of lower coking coal prices is likely to be offset by steel price cuts and seasonal demand weakness for long products. However, the trend diverges amongst players. JSTL is likely to maintain EBITDA momentum through volume growth while TATA and JSP could see a QoQ reduction on weaker European operations and mean reversion respectively even as SAIL looks poised for recovery as volumes rebound after a weak Q1.

- **Prices have eased sequentially.** Though steel prices have recovered in late August and early September, average prices for the quarter have fallen by ~Rs 2k/t for HRC (hot rolled coil) and Rs 2.5k/t for rebar, as per data from Asian Metal. While price recovery has continued for flat products in October, long products have begun to steady.
- **Industry volumes strong for a monsoon quarter.** Though the construction sector faces a seasonal slowdown during the monsoon, both production and sale volumes for the Indian steel industry grew 16% YoY in Q2 supported by higher infrastructure spend and increased consumption of flat products. Sequentially as well, while industry production moved up 3% QoQ, apparent consumption was up 7%.
- **Divergent volume trends amongst majors.** We forecast collective production/sale volumes for the four majors under our coverage to be in line with the industry (up 2%/9% QoQ), but the volume trend is likely to diverge amongst our coverage universe. TATA has reported flat sales volumes (0.4% QoQ) and we expect JSTL to clock an 8% increase, with the strongest recovery from SAIL at 24%. We believe that JSP would face the impact of seasonal monsoon weakness.
- **Coking coal price reduction to flow through cost base.** Steel producers will benefit from the US\$ 40-50/t reduction in coking coal costs in Q2 with the exhaustion of higher priced inventory. However, this benefit has been offset by lower realisation in Q2. Further, the rise in coking coal prices in September will likely impact the cost base only in H2.
- **Iron ore prices have inched up.** Prices of NMDC iron ore fines increased 3% QoQ on average during the quarter from the recent bottom in June.
- **Profitability to be range-bound below mid-cycle levels.** We expect profitability of India operations to remain range-bound below mid-cycle level. Amongst the four majors, SAIL is projected to post the best sequential improvement in EBITDA/t backed by sharper volume recovery than peers.
- **SAIL and JSTL India operations likely to post better sequential EBITDA.** We forecast an 83% QoQ recovery in EBITDA for SAIL on the back of a 24% QoQ rebound in sales volume. For JSTL India as well, we forecast a 17% pickup in EBITDA on the back of 8% volume growth. We expect TATA India operations to sustain the EBITDA recovery posted last quarter. However, we expect JSP to clock a 21% QoQ decline as profitability in Indian operations revert to mean.

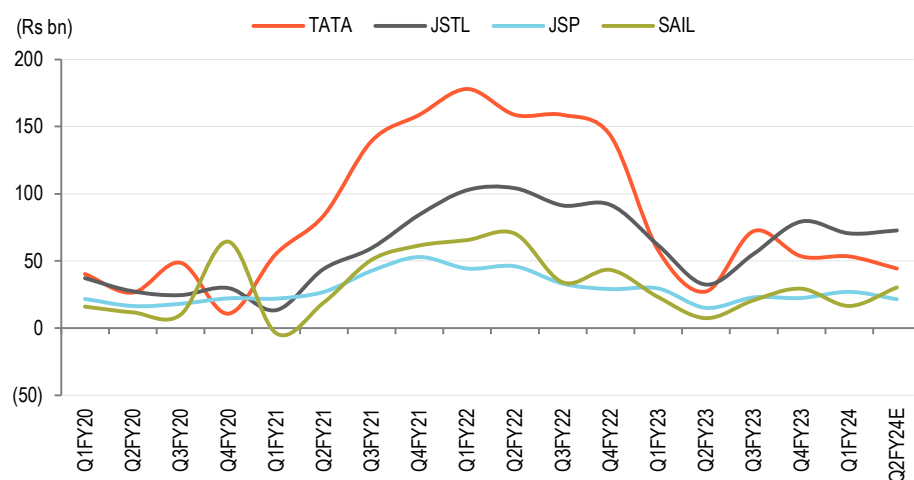
- **TATA likely to post weakest consolidated results.** We anticipate a widening of EBITDA losses in European operations amid the sharp correction in European steel prices during the quarter. We also expect JSP's results to be soft sequentially as a below-normal monsoon weighs on India operations.

Fig 1 – BOBCAPS Ferrous Universe: Q2FY24 estimates

Q2FY24E	Unit	TATA India	JSTL India	JSP India	SAIL	4 majors – India	TATA Europe
Operations							
Production	mt	5.0	6.1	1.8	5.0	17.9	2.0
QoQ	%	(0.6)	(1.3)	(11.5)	7.1	(0.1)	11.2
Sales	mt	4.8	6.0	1.9	4.8	17.5	1.8
QoQ	%	0.4	7.3	0.5	23.6	8.4	(10.1)
Per tonne							
Revenue/t	Rs'000/t	69.5	65.6	62.4	60.7	65.0	102.8
QoQ	Rs'000/t	(3.2)	(2.0)	(4.5)	(2.0)	(3.5)	(4.4)
EBITDA/t	Rs'000/t	14.0	10.7	11.4	6.3	10.5	(14.6)
QoQ	Rs'000/t	0.1	0.8	(3.1)	2.0	0.2	(6.7)
Financials – Indian operations							
Revenue	Rs bn	340.5	395.4	115.4	291.4	1,142.8	184.0
QoQ	%	(5.2)	4.1	(6.2)	19.6	3.3	(13.7)
EBITDA	Rs bn	67.5	64.7	21.1	30.2	183.5	(26.2)
QoQ	%	1.3	16.3	(20.8)	83.1	10.9	(66.8)
Financials – Consolidated operations							
Revenue	Rs bn	564.7	437.4	118.1	291.4	1411.6	-
QoQ	%	(5.1)	3.6	(6.2)	19.6	1.8	-
EBITDA	Rs bn	44.4	72.7	21.4	30.2	168.7	-
QoQ	%	(16.8)	3.2	(20.9)	83.1	0.8	-
Net profit	Rs bn	(0.6)	24.5	9.1	11.0	43.9	-
QoQ	%	(111.1)	4.8	(46.4)	415.5	(9.5)	-

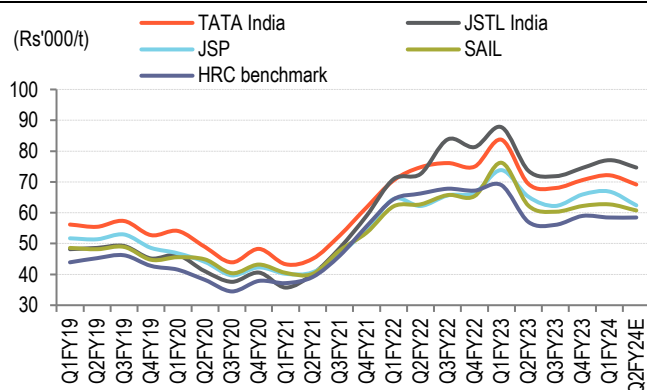
Source: Company, BOBCAPS Research

Fig 2 – Q2FY24E consolidated EBITDA: Flat QoQ collectively, down for TATA on European weakness and JSP on mean reversion, up for SAIL on volume rebound



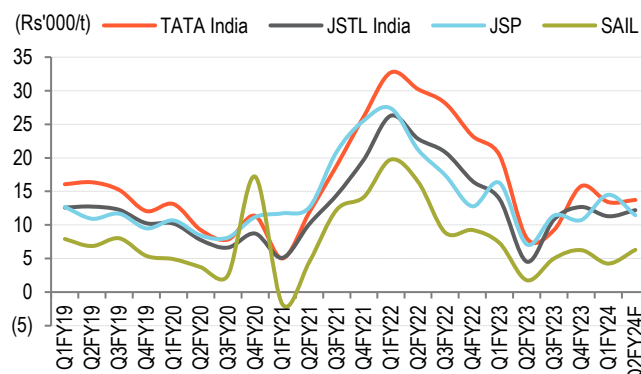
Source: Company, BOBCAPS Research

Fig 3 – Realisations likely to decline by Rs 3.5k/t QoQ on an aggregate basis for India operations of majors



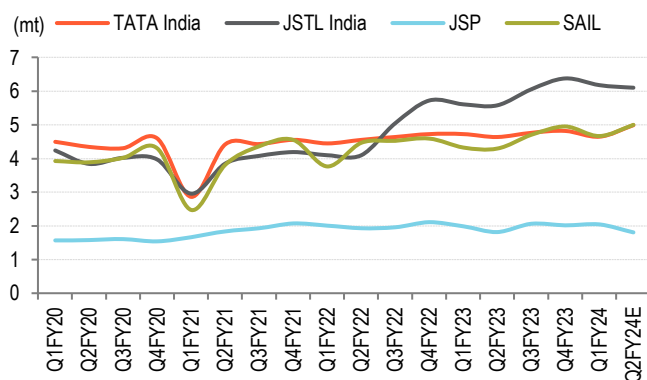
Source: Company, BOBCAPS Research

Fig 4 – EBITDA/t expected to remain range-bound as lower realisation offsets benefit of lower coking coal



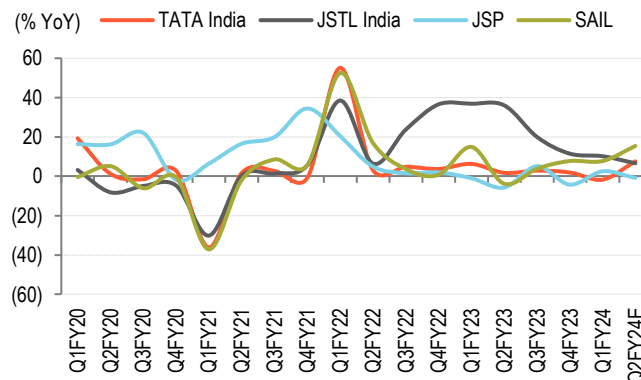
Source: Company, BOBCAPS Research

Fig 5 – Q2 production likely to be higher QoQ even in a monsoon quarter...



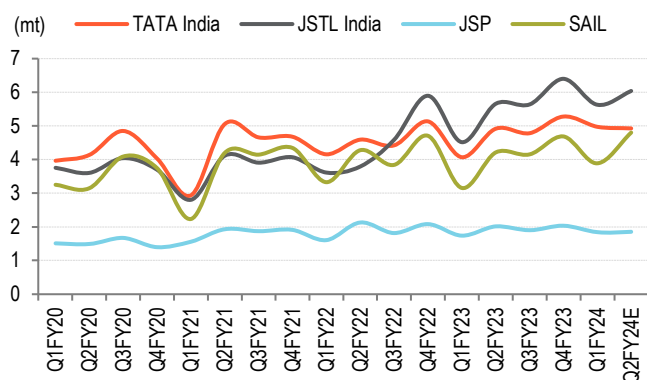
Source: Company, BOBCAPS Research

Fig 6 – ... and set to clock strong YoY growth as well



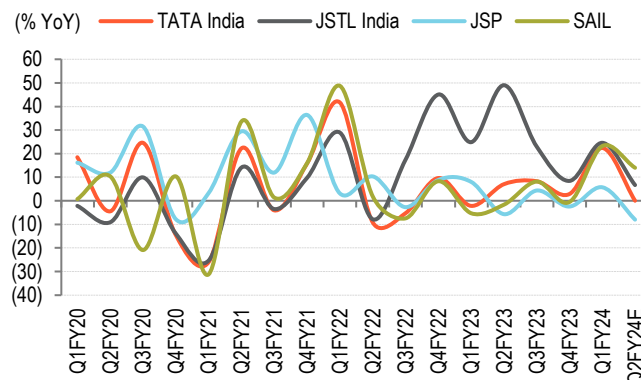
Source: Company, BOBCAPS Research

Fig 7 – Sales recovery likely to be stronger for SAIL and JSTL



Source: Company, BOBCAPS Research

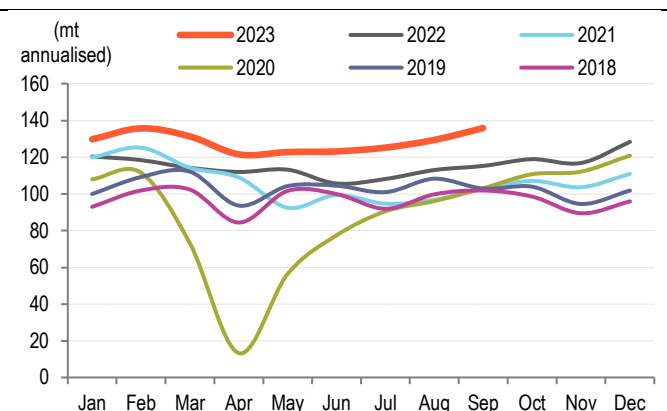
Fig 8 – Sales growth expected to be positive YoY for SAIL and JSTL



Source: Company, BOBCAPS Research

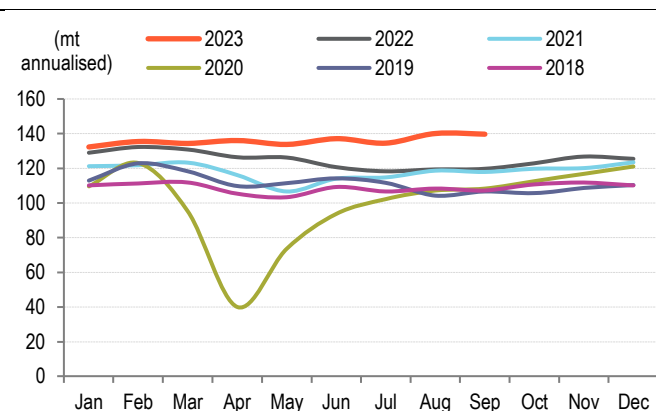
India steel demand-supply and prices

Fig 9 – India steel consumption up 16% YoY and 7% QoQ in Q2FY24



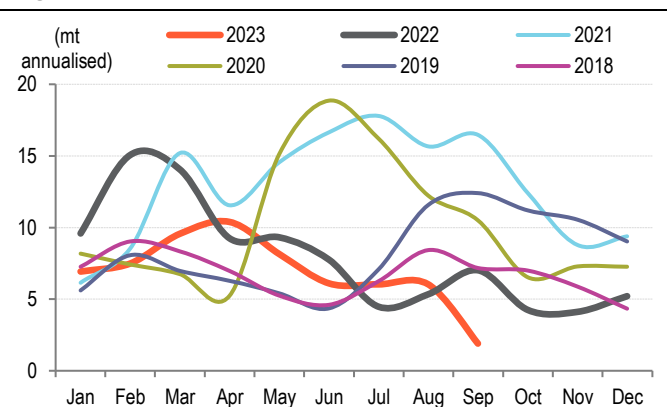
Source: CMIE, BOBCAPS Research

Fig 10 – India steel production up 16% YoY and 3% QoQ in Q2FY24



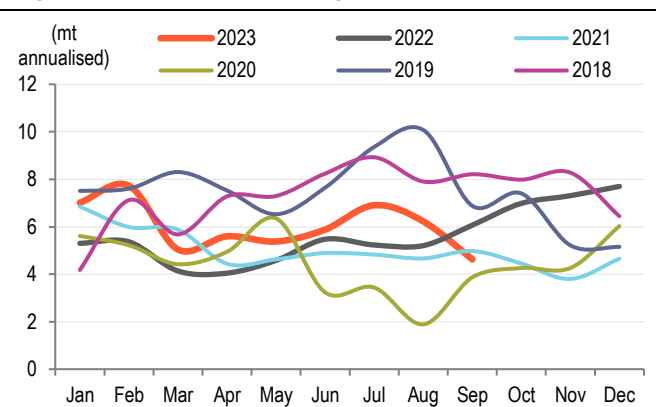
Source: CMIE, BOBCAPS Research

Fig 11 – India steel exports reached all-time low in Sep'23



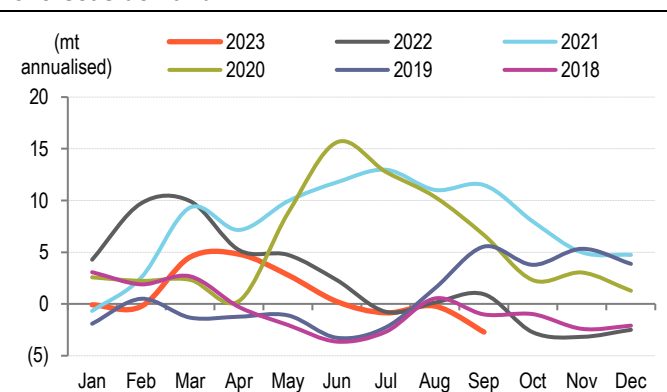
Source: CMIE, BOBCAPS Research

Fig 12 – India steel not facing import pressure



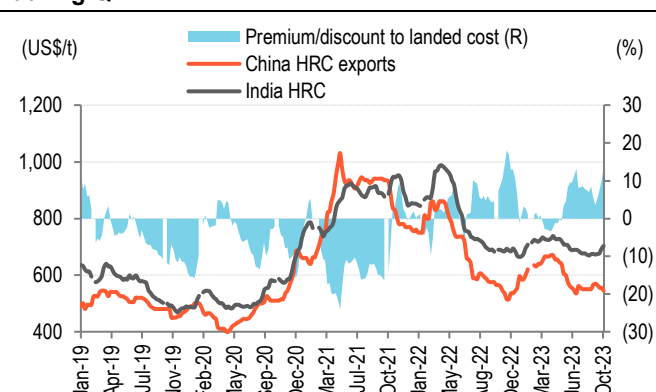
Source: CMIE, BOBCAPS Research

Fig 13 – India's lower net steel exports a result of weaker overseas demand



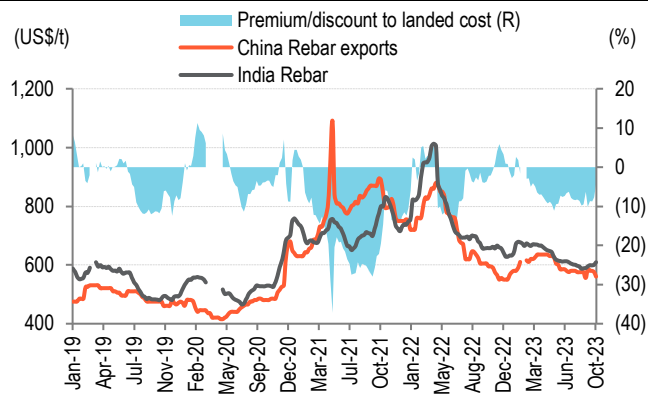
Source: CMIE, BOBCAPS Research

Fig 14 – Indian HRC prices at a premium to landed prices during Q2



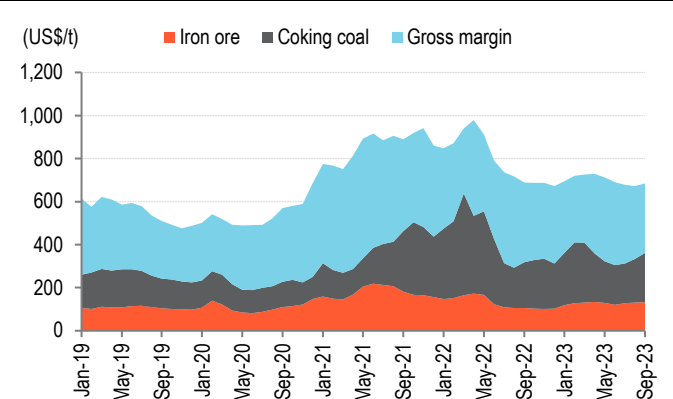
Source: CMIE, BOBCAPS Research

Fig 15 – Indian rebar prices remain at a discount to landed prices in Q2



Source: CMIE, BOBCAPS Research

Fig 16 – Decline in India HRC gross margin proxy (spot) indicates need for price increase to avoid margin squeeze



Source: CMIE, BOBCAPS Research

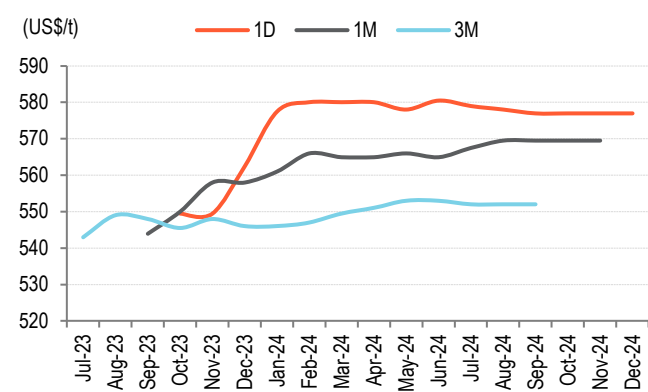
H2 outlook

Near-term support possible

We continue to expect steel margins to stabilise at mid-cycle levels during H2FY24 as the demand-supply balance in China gradually improves. Stronger demand trends in India are also supportive of margin stabilisation.

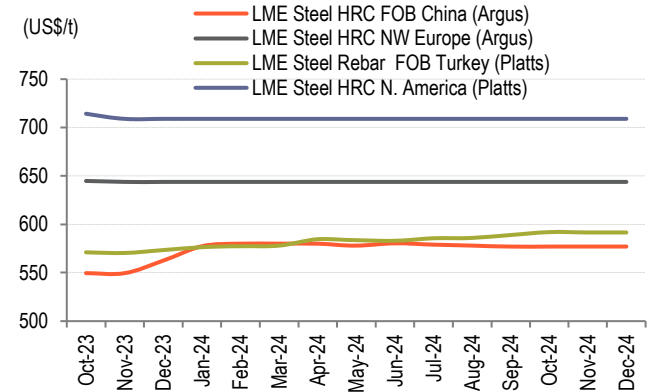
We see the possibility of near-term margin support from seasonal demand recovery in China during September-October, followed by potential production cuts in the country during Q4CY23. This is reflected in the futures curve as well, which has strengthened slightly over the last three months. The futures curve is yet to build in the increase in steel prices in response to the recent tightening of coking coal prices and is currently baking in the possibility of margin compression in Q3FY24.

Fig 17 – China steel futures continue to signal modest improvement in market balance



Source: Bloomberg, BOBCAPS

Fig 18 – Regional steel futures point to muted expectations across markets

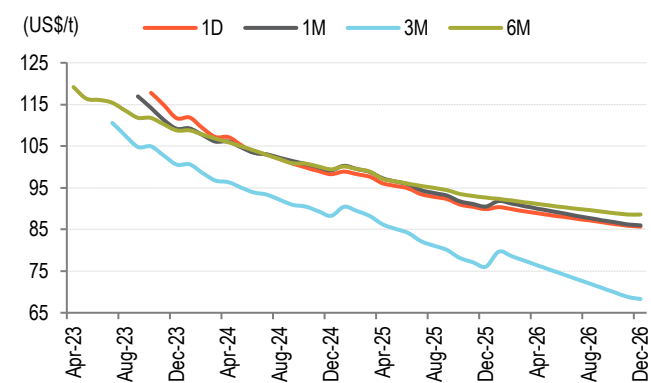


Source: Bloomberg, BOBCAPS, Notes: NW Europe: North West Europe, N America: North America

Raw materials prices could ease in H2FY24

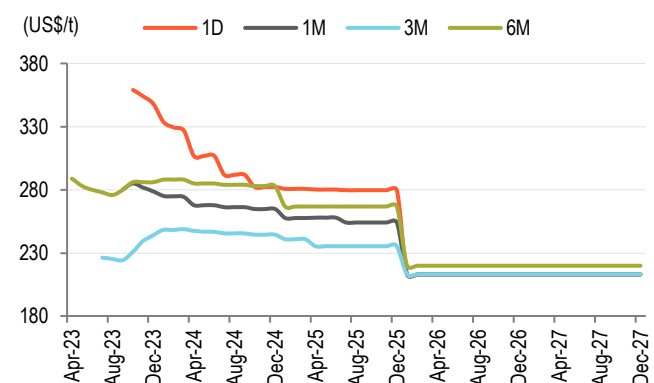
- **Raw material prices have risen....:** Whereas iron ore prices have benefitted from a steel production uptick in China during September, coking coal prices have surged amid slower supply ramp-up from Australia.
- **...but could ease with production cuts in China.** We believe that implementation of production cuts in China during Q4CY23 could lower demand for both inputs and, in turn, help cool prices.
- **Futures curve indicate only gradual easing of coking coal prices:** The iron ore futures curve seems to indicate expectations of resilient supply over the near- and medium-term. However, coking coal futures signal only a gradual easing of prices to ~US\$ 280/t levels by Apr'24, indicating a slow recovery in supply through the Australian monsoon.

Fig 19 – Iron ore futures curve assumes resilient supply ahead



Source: Bloomberg, BOBCAPS

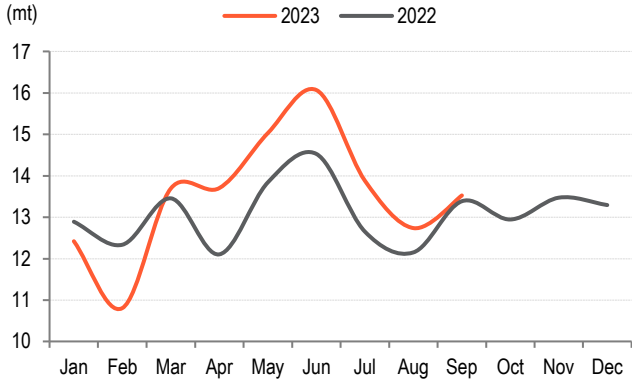
Fig 20 – Coking coal futures assume only a gradual easing through Australia's monsoon until Apr'24



Source: Bloomberg, BOBCAPS

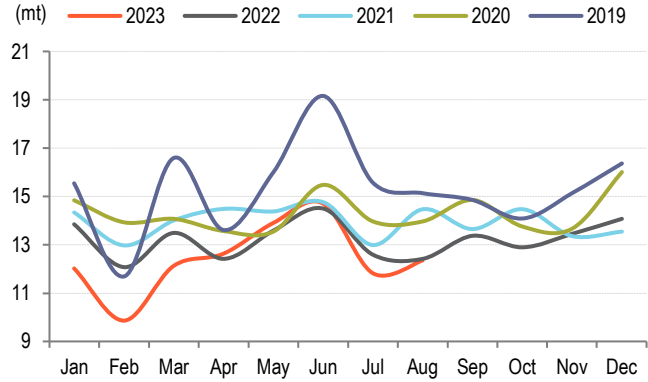
- **China steel production level a key driver of iron ore prices.** Iron ore prices found support in higher demand from China led by steel production during the seasonal consumption uptick in September that has continued into October. As supply from both Australia and Brazil remains resilient, we believe production cuts in China could see iron ore prices retracing to US\$ 100/t.
- **Normalisation of Australian supply needed to ease coking coal prices.** Coking coal prices have sharply reversed from the lows of US\$ 230/t in June-July to over US\$ 300. Although supported by higher demand from India (and to some extent China), we believe the price increase mainly reflects risks to supply.
- **Australian exports failed to sustain the recovery seen in May-June.** Australia's coking coal exports dropped seasonally to a monthly average of 12.1mt in July-August from 14.3mt over May-June, raising questions over the widely anticipated recovery. Further, a part of the operations at one of Australia's largest coking coal mines – Peak Downs – run by BMA (BHP Mitsubishi Alliance) has been suspended for safety checks after two trucking incidents.
- **Australian exports still forecast to rise in CY23 and H1CY24.** Australia still looks to marginally raise exports from 161mt in CY22 to 163mt in CY23 and further to 172mt in CY24, as per the forecast published on 3 October by the Australian government's Department of Industry, Science and Resources. During the upcoming monsoon season starting Nov'23, the risk of supply disruption is likely to be significantly lower than last year as the new El Nino season is likely to result in sustained dry conditions for the remainder of CY23.
- **China-led pressure on met coal prices has receded.** Outside Australia, coking coal supply has ramped up from Mongolia and remains resilient out of Russia. This has enabled China to meet close to 80% of its needs this year and has eased much of the pressure on the seaborne export market.

Fig 21 – Coking coal supply momentum slowed down in Jul-Aug...



Source: Bloomberg, BOBCAPS Research | Note: We have aggregated coking coal exports out of three key ports in Australia – Hay Point, Gladstone, Abott. We are accounting for both coking coal and unknown coal exports out of these ports

Fig 22 – ...and remains significantly below 2019 levels



Source: Refinitiv, BOBCAPS Research

Forecasts and Valuation

We continue to expect steel margins to stabilise at mid-cycle levels during H2FY24 as the demand-supply balance in China gradually improves with potential production cuts during Q4CY23. Stronger demand trends in India could also help steady margins.

We revise our steel, iron ore and coking coal price forecasts factoring in Q2FY24 actuals and the recent tightness in coking coal. Incorporating our Q2 expectations and revised commodity pricing assumptions, we lower our FY24/FY25/FY26 EBITDA estimates by 3%/1%/0.3% for the four majors under our coverage on an aggregate basis.

- **JSP:** We lower FY24 EBITDA by 4% factoring in weaker Q2 result expectations and FY25 EBITDA by 5% factoring in delay in implementation of projects announced at the Q1 result.
- **JSTL:** We broadly maintain our forecasts as our Q2 EBITDA expectations are in line with our previous forecasts.
- **SAIL:** We lower our FY24/ FY25 EBITDA forecasts by 3% factoring in higher impact of increase in coking coal prices on SAIL/
- **TATA:** We factor in 7% decline in FY24 EBITDA on weaker European results than our previous expectations.

Fig 23 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue									
JSP	493	575	703	493	576	680	(0.1)	(0.2)	3.4
JSTL	1,642	1,665	1,790	1,582	1,632	1,799	3.8	2.0	(0.5)
SAIL	1,074	1,009	1,005	1,038	988	1,011	3.5	2.2	(0.5)
TATA	2,184	2,236	2,362	2,145	2,199	2,372	1.8	1.7	(0.4)
Aggregate	4,900	4,911	5,157	4,765	4,819	5,182	2.8	1.9	(0.5)
EBITDA									
JSP	104	131	172	108	137	160	(3.8)	(4.7)	7.8
JSTL	319	368	422	317	369	424	0.7	(0.2)	(0.6)
SAIL	114	119	137	117	122	135	(3.0)	(2.8)	1.7
TATA	285	372	418	307	375	419	(7.2)	(0.8)	(0.4)
Aggregate	717	859	976	741	866	978	(3.2)	(0.8)	(0.2)
Net income (adjusted)									
JSP	50	68	98	53	73	89	(5.7)	(6.6)	10.3
JSTL	122	153	190	120	153	192	1.2	(0.4)	(0.9)
SAIL	42	45	57	44	47	55	(5.4)	(5.2)	3.0
TATA	97	162	195	113	164	196	(14.5)	(1.0)	(0.6)
Aggregate	261	360	441	278	364	443	(6.3)	(1.3)	(0.3)

Source: Company, BOBCAPS Research

Our aggregate EBITDA forecasts are broadly in line with consensus for FY24-FY25, but we are more optimistic than consensus on accrual of expansion benefits in FY26.

Fig 24 – BOBCAPS vs. Consensus estimates

(Rs bn)	Actuals	BOBCAPS			Consensus			Delta to Consensus (%)		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue										
JSP	527	493	575	703	523	596	688	(5.9)	(3.6)	2.2
JSTL	1,660	1,642	1,665	1,790	1,703	1,872	2,040	(3.6)	(11.1)	(12.3)
SAIL	1,044	1,074	1,009	1,005	1,032	1,058	1,107	4.1	(4.6)	(9.2)
TATA	2,416	2,184	2,236	2,362	2,286	2,345	2,629	(4.5)	(4.7)	(10.1)
Aggregate	5,120	4,900	4,911	5,157	5,022	5,276	5,776	(2.4)	(6.9)	(10.7)
YoY growth (%)	-	(4.3)	0.2	5.0	1.7	5.1	9.5	-	-	-
EBITDA										
JSP	99	104	131	172	111	137	163	(6.7)	(4.4)	5.8
JSTL	185	319	368	422	312	370	383	2.3	(0.5)	10.1
SAIL	80	114	119	137	108	118	131	5.0	0.7	5.1
TATA	323	285	372	418	308	379	396	(7.6)	(1.9)	5.5
Aggregate	589	717	859	976	728	867	909	(1.5)	(0.9)	7.4
YoY growth (%)	-	21.8	19.7	13.7	(41.2)	19.0	4.9	-	-	-
Net income adjusted										
JSP	32	50	68	98	53	70	86	(6.8)	(2.8)	14.2
JSTL	41	122	153	190	124	161	148	(1.4)	(5.2)	28.4
SAIL	22	42	45	57	35	42	51	18.5	6.6	10.9
TATA	88	97	162	195	107	156	176	(9.5)	4.3	10.5
Aggregate	151	261	360	441	266	358	375	(2.0)	0.3	17.6
YoY growth (%)	-	72.8	38.0	22.8	(63.9)	34.8	4.7	-	-	-

Source: Bloomberg, BOBCAPS Research

Fig 25 – Sector: Key assumptions

Parameter	Revised forecasts				Previous forecasts			Change (%)		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
USDINR exchange rate	80.4	82.2	82.0	83.7	82.1	82.0	83.7	0.2	0.0	0.0
Steel prices										
China HRC Export (US\$/t)	644	582	566	549	572	552	552	1.7	2.5	(0.6)
India HRC (US\$/t equ)	751	672	614	595	642	599	599	4.6	2.5	(0.6)
YoY Change (%)	(15.7)	(10.6)	(8.6)	(3.0)	(14.6)	(6.7)	0.0			
India HRC (Rs'000/t)	60.3	55.2	50.3	49.8	52.7	49.1	50.1	4.8	2.5	(0.6)
YoY Change (%)	(9.2)	(8.4)	(8.8)	(1.1)	(12.6)	(6.7)	2.0			
India Rebar (Rs'000/t)	56.3	51.5	47.8	47.3	50.0	46.7	47.6	2.9	2.5	(0.6)
YoY Change (%)	0.0	(8.6)	(7.0)	(1.1)	(11.1)	(6.6)	2.0			
Raw material prices										
Iron ore CFR China (US\$/t)	110	109	95	95	104	95	95	5.0	0.0	0.0
Iron ore India indicator (Rs'000/t)	4.6	5.2	4.1	4.2	4.9	4.1	4.2	4.9	0.0	0.0
Coking Coal Australia FOB (US\$/t)	330	270	250	225	238	225	225	13.5	11.1	0.0

Source: Bloomberg, BOBCAPS Research

Fig 26 – TATA: Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Sales India business (mt)	19.7	20.4	22.1	24.1
Sales Europe (mt)	8.2	8.7	8.5	8.5
India HRC benchmark price (US\$/t)	751	672	614	595
EBITDA/t Standalone (Rs '000/t)	14.7	15.5	15.5	15.5
EBITDA/t India business (Rs '000/t)	13.7	14.8	15.2	15.3
EBITDA/t Europe (US\$/t)	70	-42	36	50

Source: Company, BOBCAPS Research

Fig 27 – JSP: Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Sales (mt)	7.7	8.0	9.1	11.6
India HRC (US\$/t)	751	672	614	595
Realisation (Rs'000/t)	64.7	58.7	60.4	58.3
EBITDA/t (Rs'000/t)	12.4	11.8	13.3	14.1

Source: Company, BOBCAPS Research

Fig 28 – JSTL: Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Crude steel production (mt)	23.6	24.9	26.7	29.4
India HRC (US\$/t)	751	672	614	595
Realisation standalone (US\$/t)	850	746	697	671
EBITDA/t standalone (US\$/t)	97	149	160	164
Realisation standalone (Rs'000/t)	68.3	61.3	57.2	56.1
EBITDA/t standalone (Rs'000/t)	7.8	12.3	13.1	13.8

Source: Company, BOBCAPS Research

Fig 29 – SAIL: Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Sales (mt)	16.2	18.1	18.2	18.3
India HRC (US\$/t)	751	672	614	595
Realisation (Rs'000/t)	64.5	59.2	55.5	55.0
EBITDA/t (Rs'000/t)	5.0	6.3	6.5	7.5

Source: Company, BOBCAPS Research

Valuation

India's broader stock market remains within 5% of the recent peak, which reflects market optimism on the country's growth trajectory. We are constructive on the domestic steel sector as most majors have positioned themselves well to benefit from India's growth potential. Within our coverage, we have a BUY on TATA and HOLD ratings on JSP, JSTL and SAIL.

- We expect most steel players under our coverage to register an 18% earnings CAGR over FY23-FY26 as they deliver on capacity and efficiency improvement projects.
- We also highlight that returns from this round of brownfield expansion projects are likely to be higher due to significantly lower capital intensity than typical greenfield projects, owing to the use of available infrastructure and surplus capacity in intermediate or input processes at existing mills.
- We also believe that implementation of margin enhancements (such as value-added products) and efficiency drivers (pellet plant, coke oven plant, slurry pipeline) will reduce earnings volatility through the cycle.

Fig 30 – Peer comparison

Ticker	CMP (Rs)	Rating	Target price (Rs)	Upside (%)	EV/Sales (x)		EV/EBITDA (x)		Net income (Rs bn)		P/B (x)		P/E (x)	
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
TATA IN	125	BUY	155	24.0	1.0	1.0	7.8	5.7	88	113	1.5	1.3	15.8	9.4
JSTL IN	777	HOLD	845	8.7	1.5	1.5	7.8	6.7	41	120	2.9	2.1	15.4	12.3
JSP IN	693	BUY	810	17.0	1.6	1.4	7.7	6.0	32	53	1.8	1.4	14.3	10.3
SAIL IN	89	HOLD	90	1.6	0.6	0.6	5.4	5.0	22	44	0.7	0.6	8.7	8.2

Source: Bloomberg, BOBCAPS Research

For steel stocks under our coverage, we use FY26 as our valuation base to factor in market optimism on India's growth trajectory. We discount our SOTP value back to Sep'24 to arrive at one-year forward target prices for our coverage. We have valued the steel sector at an unchanged one-year forward EV/EBITDA multiple of 6x and steel stocks at graded multiples that reflect their relative growth and margin prospects over the medium term.

Fig 31 – Valuation basis for our target 1Y fwd EV/EBITDA multiple

Company	New Target Multiple	Change	Valuation basis
Sector	6.0x	No change	-
TATA India	6.0x	No change	Sector multiple
TATA Europe	5.5x	No change	Discount to sector multiple reflects relatively weaker margin and growth prospects
JSTL	6.5x	No change	Premium to sector multiple reflects aggressive growth delivery
JSP	5.5x	No change	Still at a discount which reflects the need for demonstration of a disciplined approach
SAIL	4.5x	No change	Discount reflects relative weaker margin and growth prospects

Source: BOBCAPS Research

Tata Steel (BUY, TP Rs 155)

Given the receding overhang on Tata Steel UK, we maintain our SOTP-based TP of Rs 155 for TATA and continue to value (i) the UK business at 5.5x FY26E EV/EBITDA to bake in an incremental fair value of Rs 6/sh for the proposed restructuring, and (ii) India operations at 6x. Upon discounting our fair value back to Sep'24, we arrive at our one-year forward target price.

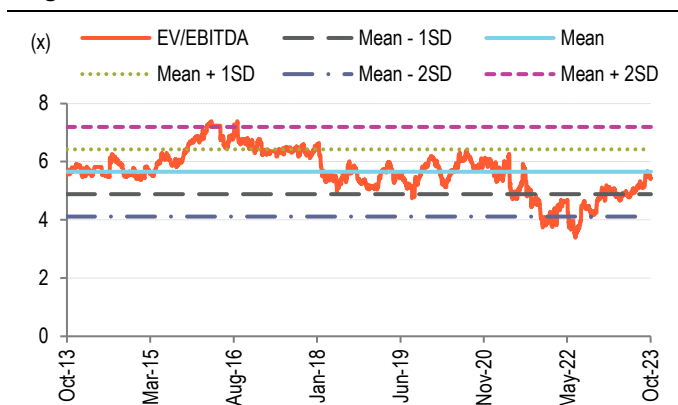
With a blueprint in place for moving the UK plant to more sustainable operations, we believe the overhang on the stock will be dispelled. We maintain BUY as we remain confident of TATA's ability to deliver earnings-accretive growth.

Fig 32 – TATA: Valuation summary

(Rs bn)	Tata Steel India	Tata Steel Europe	Tata Steel
FY26E EBITDA	382	36	418
Target EV/EBITDA multiple (x)	6.0	5.5	6.1
EV Mar'25E	2,291	197	2,559
Incremental EV from UK transition	-	71	-
EV Mar'25E	2,302	268	2,559
FY25E Net debt	-	-	598
Equity value Mar'25E	-	-	1,961
Fair value Mar'25E (Rs)	-	-	161
Fair value Sep'24E (Rs)	-	-	153
Target price Sep'24E (Rs) (rounded to nearest Rs 5)	-	-	155

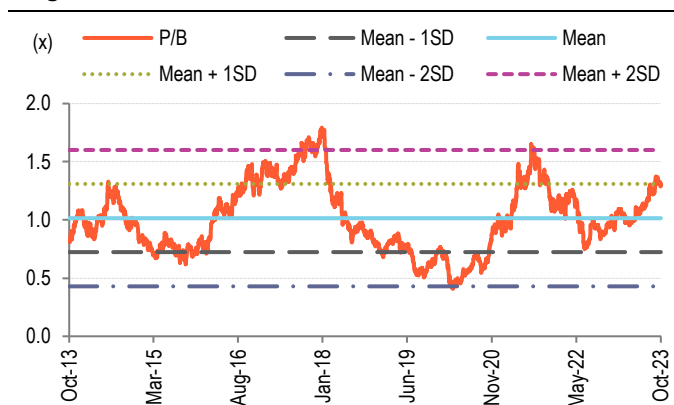
Source: Company, BOBCAPS Research

Fig 33 – TATA EV/EBITDA 2Y fwd



Source: Bloomberg, Company

Fig 34 – TATA P/B 1Y fwd



Source: Bloomberg, Company

JSTL (HOLD, TP Rs 845)

We raise our TP for JSTL from Rs 840 to Rs 845 factoring in changes to our estimates and rollover. Our target EV/EBITDA multiple remains at 6.5x. We use FY26 as a valuation base to give JSTL credit for the expansion drive underway, and then discount back to Sep'24 (Jul'24 previously) to arrive at a one-year forward target price. We maintain our HOLD rating given the 9% upside to the current stock price.

Our target one-year forward EV/EBITDA multiple reflects our expectation of steel margin stabilisation in FY24. To credit JSTL for delivering on aggressive growth, we ascribe the company the highest target multiple of 6.5x within the steel sector (vs. our current range of 4.5x-6.5x). Our multiple is also above the stock's historical trading average of 6.0-6.2x over the past five-year/ten-year period.

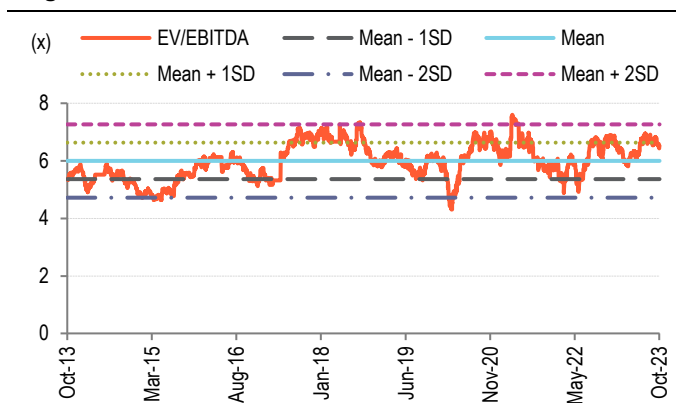
On one-year forward P/B valuation, the stock is currently trading at 2.2x, above its five-year/ten-year historical average of 1.9x/1.7x. The recent upcycle has helped all steel companies restore their balance sheets and embark upon the next phase of brownfield capital investments with significantly lower capital intensity. Given that we expect JSTL to deliver returns in excess of cost of capital through the cycle, we consider current valuations to be close to the mid-cycle levels.

Fig 35 – JSTL: Valuation summary

(Rs bn)	Value
FY26E EBITDA	422
Target EV/EBITDA multiple (x)	6.5
EV	2,740
FY25E Net debt	602
Equity investments	5
Equity Value Mar'25E	2,144
Fair value per share Mar'25E (Rs)	887
Fair value per share Sep'24E (Rs)	846
Target price Sep'24E (Rs) (rounded to nearest Rs 5)	845

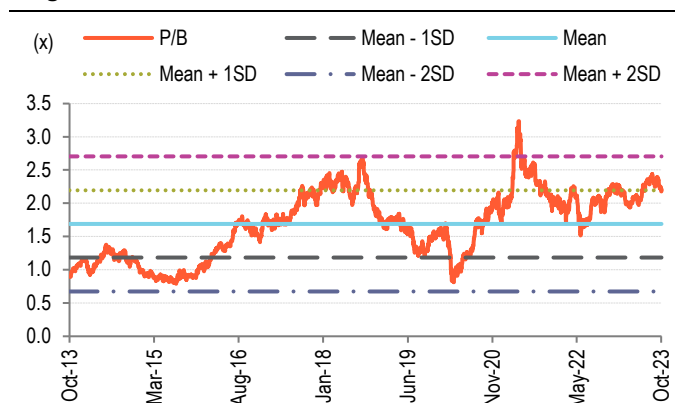
Source: BOBCAPS Research

Fig 36 – EV/EBITDA 2Y fwd



Source: Bloomberg, BOBCAPS Research

Fig 37 – P/B 1Y fwd



Source: Bloomberg, BOBCAPS Research

JSP (BUY, TP Rs 810)

We increase our TP for JSP to Rs 810 (from Rs 740) factoring in changes to our estimates while ascribing the stock an unchanged one-year forward EV/EBITDA multiple of 5.5x. We use FY26 as a valuation base to give JSP credit for the expansion drive underway, and then discount back to Sep'24 (Jul'24 previously) to arrive at a one-year forward target price. Our target multiple is above the stock's five-year average of 4.4x to reflect resumption of growth but is below our sector multiple of 6x as we await a demonstration of capital discipline by JSP over the next investment phase.

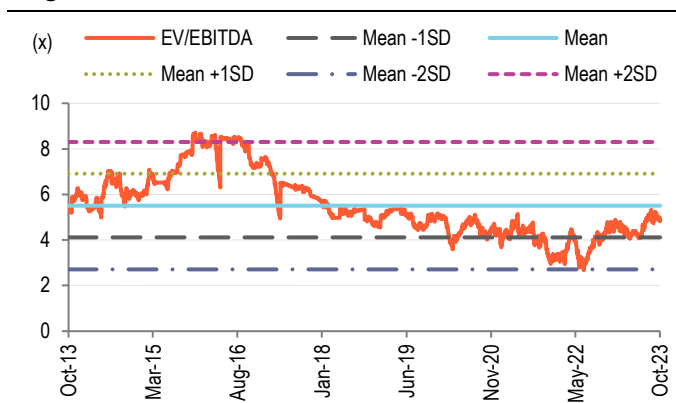
We believe the company is primed to deliver a 20% EBITDA CAGR over FY23-FY26 upon delivery of efficiency projects. Factoring in the usual delays for large-scale projects, we have conservative assumptions on efficiency improvement (4mt/8mt/12mt of captive coal in FY24/FY25/FY26, ~90% utilisation of the slurry pipeline in FY26), ramp-up of steel sales (8mt/9.1mt/11.6mt over FY24/FY5/FY26) and margin improvement (Rs 11.8k/Rs 13.3k/Rs 14.1k). Maintain BUY.

Fig 38 – JSP: Valuation summary

(Rs bn)	Value
FY26E EBITDA	172
Target EV/EBITDA multiple	5.5
EV	946
FY25E Net debt	79
Equity Value Mar'25E	866
Fair value per share Mar'25E (Rs)	849
Fair value per share Sep'24E (Rs)	810
Target price Sep'24E (Rs) (rounded to nearest Rs 5)	810

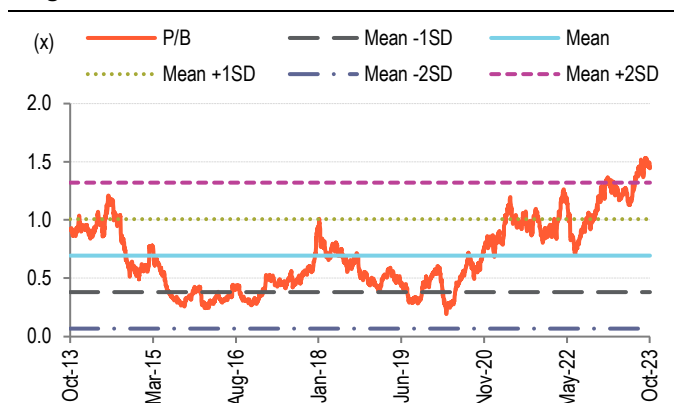
Source: Company, BOBCAPS Research

Fig 39 – JSP EV/EBITDA 2Y fwd



Source: Bloomberg, BOBCAPS Research

Fig 40 – JSP P/B 1Y fwd



Source: Bloomberg, BOBCAPS Research

SAIL (HOLD, TP Rs 90)

We maintain our TP at Rs 90 for SAIL, ascribing the stock an unchanged one-year forward EV/EBITDA multiple of 4.5x – below our target 6x mid-cycle valuation for the Indian steel sector to reflect the company's weak profitability and the pause in its capex programme over the past three years to stabilise operations after its previous modernisation drive. We use FY26 as a valuation base in line with our approach for other ferrous players, and then discount back to Sep'24 to arrive at a one-year forward target price.

We retain our HOLD rating as we expect SAIL to lag peers in the next growth phase and to face higher balance sheet risk. We reckon that the company will begin its expansion drive at a net debt-to-EBITDA ratio of 1.8x if it does succeed in starting over FY25. Given limited scope for operational improvement in the existing setup and heavy capex planned over FY27-FY28, we see increased risk of a stretched balance sheet.

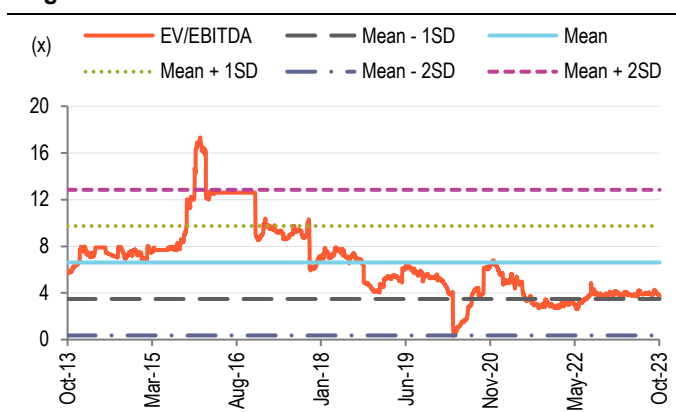
Fig 41 – SAIL: Valuation summary

(Rs bn)	Value (Rs bn)
FY26E EBITDA	137
Target EV/EBITDA multiple	4.5
EV	617
FY25E Net debt	227
Equity Value Mar'25E	390
Fair value per share Mar'25E (Rs)	94
Fair value per share Sep'24E (Rs)	89
Target price Sep'24E (Rs) (rounded to nearest Rs 5)	90

Source: Company, BOBCAPS Research

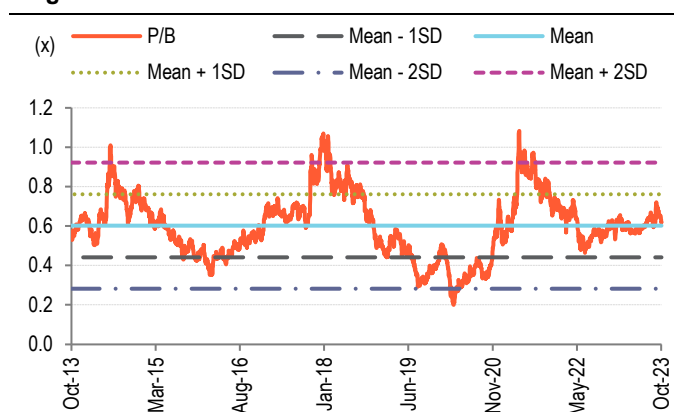
Our target multiple is broadly in line with the stock's historical trading average of 4.6x over the past five years but lower than the 7.8x seen over the past ten-year period.

Fig 42 – EV/EBITDA 2Y forward



Source: Bloomberg, BOBCAPS Research

Fig 43 – P/B 1Y forward



Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our BUY and HOLD calls:

- Steel producer valuations are highly sensitive to product and raw material prices. Key downside risks to our estimates are unfavourable changes in global demand-supply balance for steel and its raw materials, leading to lower prices and margins than assumed.
- TATA, JSTL and JSP are exposed to the risk of delayed implementation of their capital investment plans, including expansion, which could impact earnings growth.
- TATA is exposed to the risk of closure of its upstream operations in the UK in the absence of a viable replacement option. Restructuring in order to continue only with downstream operations could involve additional costs.
- JSTL is relatively more vulnerable than peers in the event of a protracted downturn in the steel cycle considering its aggressive growth policy.
- JSP is undertaking a review of its expansion plan to maximise margins from the same. This could enlarge the capex budget beyond the current guidance of Rs 240bn over FY22-27. While we bake this in by assuming a rise in net debt during FY24-FY25, any increase beyond our estimate poses an additional downside risk.
- For SAIL, slower ramp-up of crude steel and value-added production as well as weaker implementation of efficiency measures than our expectations represent downside risks to our earnings forecasts.

Key upside risks to our HOLD calls:

- Steel producer valuations are highly sensitive to product and raw material prices. Key upside risks to our estimates are favourable changes in global demand-supply balance for steel and its raw materials, leading to higher prices and margins than our assumptions.

- JSTL could derive higher benefits than peers from its accelerated expansion drive in the event of an upward turn in the steel cycle.

For SAIL, faster ramp-up of crude steel and value-added production as well as better implementation of efficiency measures than our expectations represent upside risks to our earnings forecasts.

Stock performance

Fig 44 – JSP

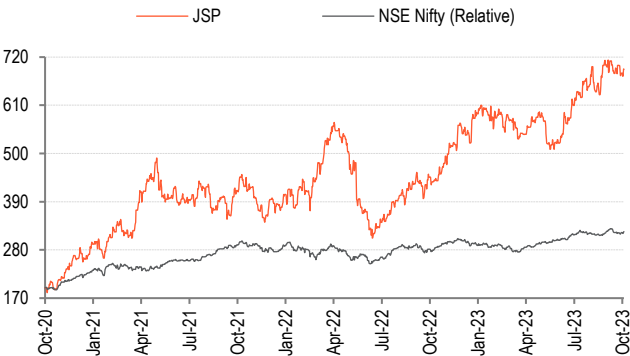


Fig 45 – JSTL

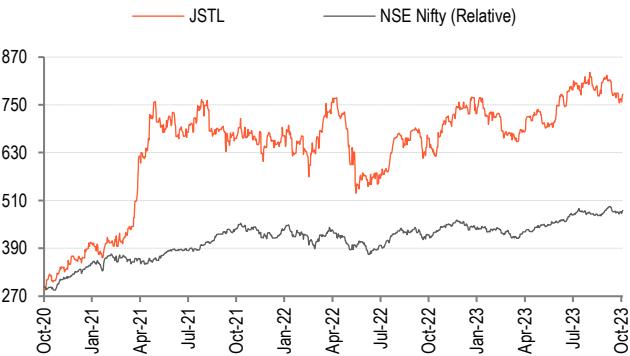
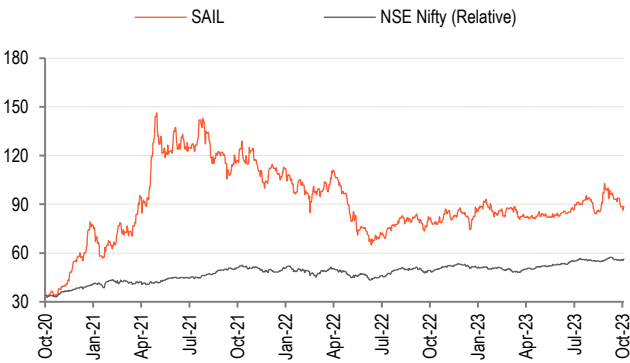
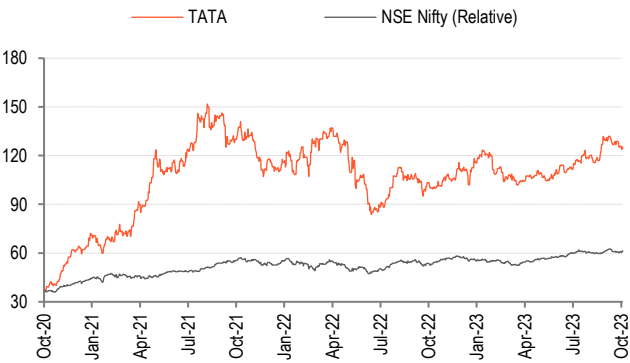


Fig 46 – SAIL



Source: NSE

Fig 47 – TATA



Financials – JSP

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	510,856	527,159	492,667	574,804	702,929
EBITDA	155,134	99,349	103,989	130,795	171,962
Depreciation	(20,968)	(26,910)	(25,447)	(27,664)	(30,017)
EBIT	134,167	72,439	78,543	103,131	141,946
Net interest inc./(exp.)	(20,065)	(15,646)	(13,046)	(13,046)	(12,046)
Other inc./(exp.)	1,689	1,757	2,165	2,051	2,311
Exceptional items	(4,062)	(13,695)	0	0	0
EBT	111,728	44,855	67,661	92,135	132,211
Income taxes	(29,245)	(12,923)	(17,592)	(23,034)	(33,053)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	82,550	31,511	49,569	68,410	97,671
Adjustments	0	0	0	0	0
Adjusted net profit	82,550	31,511	49,569	68,410	97,671

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	52,519	47,004	47,919	54,741	65,462
Other current liabilities	128,914	54,380	52,715	61,504	75,213
Provisions	888	971	907	1,058	1,294
Debt funds	135,016	130,463	130,463	120,463	100,463
Other liabilities	78,145	71,263	68,517	68,683	72,169
Equity capital	1,011	1,005	1,005	1,005	1,005
Reserves & surplus	355,236	386,061	433,151	498,141	590,928
Shareholders' fund	370,952	390,191	437,782	503,463	597,737
Total liab. and equities	766,435	694,272	738,304	809,912	912,339
Cash and cash eq.	36,685	47,168	39,935	41,135	70,430
Accounts receivables	12,641	9,745	10,363	14,173	17,332
Inventories	72,814	58,868	69,217	85,152	101,829
Other current assets	143,949	38,976	36,437	42,483	51,914
Investments	0	0	0	0	0
Net fixed assets	422,440	408,035	442,176	488,687	527,708
CWIP	17,362	71,059	81,059	76,059	76,059
Intangible assets	35,980	34,469	34,469	34,469	34,469
Deferred tax assets, net	0	0	0	0	0
Other assets	24,565	25,952	24,648	27,753	32,597
Total assets	766,435	694,272	738,304	809,912	912,339

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	126,349	101,030	77,418	98,849	135,860
Capital expenditures	58,857	(64,691)	(69,588)	(69,175)	(69,038)
Change in investments	0	0	0	0	0
Other investing cash flows	(3,771)	(199)	2,978	(1,628)	(3,234)
Cash flow from investing	55,086	(64,891)	(66,610)	(70,803)	(72,272)
Equities issued/Others	(9)	(6)	0	0	0
Debt raised/repaid	(164,081)	(4,553)	0	(10,000)	(20,000)
Interest expenses	(20,065)	(15,646)	(13,046)	(13,046)	(12,046)
Dividends paid	3,060	(2,040)	(2,478)	(3,421)	(4,884)
Other financing cash flows	(25,179)	(3,411)	(2,517)	(379)	2,636
Cash flow from financing	(206,273)	(25,656)	(18,042)	(26,846)	(34,293)
Chg in cash & cash eq.	(24,837)	10,483	(7,234)	1,201	29,295
Closing cash & cash eq.	61,522	36,685	47,168	39,935	41,135

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	80.9	30.9	48.6	67.1	95.7
Adjusted EPS	80.9	30.9	48.6	67.1	95.7
Dividend per share	(3.0)	2.0	2.4	3.4	4.8
Book value per share	349.3	379.4	425.6	489.3	580.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.9	1.7	1.6	1.4	1.1
EV/EBITDA	6.3	8.8	7.7	6.1	4.6
Adjusted P/E	8.6	22.4	14.3	10.3	7.2
P/BV	2.0	1.8	1.6	1.4	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	71.3	53.8	73.3	74.3	73.9
Interest burden (PBT/EBIT)	86.3	80.8	86.1	89.3	93.1
EBIT margin (EBIT/Revenue)	26.3	13.7	15.9	17.9	20.2
Asset turnover (Rev./Avg TA)	66.1	72.2	68.8	74.3	81.6
Leverage (Avg TA/Avg Equity)	2.3	2.0	1.7	1.7	1.6
Adjusted ROAE	24.5	8.5	12.1	14.7	17.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	47.9	3.2	(6.5)	16.7	22.3
EBITDA	18.5	(36.0)	4.7	25.8	31.5
Adjusted EPS	34.2	(61.8)	57.3	38.0	42.8
Profitability & Return ratios (%)					
EBITDA margin	30.4	18.8	21.1	22.8	24.5
EBIT margin	26.3	13.7	15.9	17.9	20.2
Adjusted profit margin	16.2	6.0	10.1	11.9	13.9
Adjusted ROAE	24.5	8.5	12.1	14.7	17.9
ROCE	21.6	12.6	13.1	15.8	19.7
Working capital days (days)					
Receivables	9	7	8	9	9
Inventory	52	41	51	54	53
Payables	(54)	(40)	(45)	(45)	(45)
Ratios (x)					
Gross asset turnover	0.7	0.7	0.7	0.7	0.8
Current ratio	1.2	1.0	1.0	1.1	1.2
Net interest coverage ratio	6.7	4.6	6.0	7.9	11.8
Adjusted debt/equity	0.3	0.2	0.2	0.2	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Financials – JSTL

Income Statement

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	1,464	1,660	1,642	1,665	1,790
EBITDA	390	185	319	368	422
Depreciation	(60)	(75)	(80)	(87)	(95)
EBIT	330	111	239	281	327
Net interest inc./(exp.)	(50)	(69)	(73)	(71)	(63)
Other inc./(exp.)	15	10	10	10	10
Exceptional items	(7)	6	0	0	0
EBT	297	57	175	219	273
Income taxes	(88)	(15)	(52)	(66)	(82)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	9	(1)	(2)	(2)	(2)
Reported net profit	207	41	122	153	190
Adjustments	(9)	0	0	0	0
Adjusted net profit	197	41	122	153	190

Balance Sheet

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	309	382	331	322	338
Other current liabilities	137	142	141	143	152
Provisions	3	3	3	3	3
Debt funds	722	809	809	759	634
Other liabilities	109	105	119	137	160
Equity capital	3	3	3	3	3
Reserves & surplus	670	654	759	890	1,055
Shareholders' fund	685	670	775	905	1,069
Total liab. and equities	1,965	2,111	2,177	2,268	2,355
Cash and cash eq.	174	207	189	157	133
Accounts receivables	75	71	89	90	97
Inventories	338	331	284	299	314
Other current assets	67	72	72	72	72
Investments	0	0	0	0	0
Net fixed assets	931	978	1,000	1,090	1,172
CWIP	168	219	309	324	329
Intangible assets	21	21	23	25	27
Deferred tax assets, net	0	5	5	5	5
Other assets	192	206	206	206	206
Total assets	1,965	2,111	2,177	2,268	2,355

Cash Flows

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	331	256	257	295	365
Capital expenditures	(246)	(173)	(194)	(194)	(184)
Change in investments	0	0	0	0	0
Other investing cash flows	1	(4)	10	10	10
Cash flow from investing	(245)	(177)	(184)	(184)	(174)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(9)	86	0	(50)	(125)
Interest expenses	(50)	(69)	(73)	(71)	(63)
Dividends paid	(42)	(8)	(17)	(21)	(25)
Other financing cash flows	60	(54)	(1)	(2)	(2)
Cash flow from financing	(41)	(45)	(91)	(143)	(214)
Chg in cash & cash eq.	46	33	(18)	(33)	(23)
Closing cash & cash eq.	174	207	189	157	133

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	85.5	17.1	50.4	63.1	78.6
Adjusted EPS	81.7	17.1	50.4	63.1	78.6
Dividend per share	17.4	3.4	7.1	8.8	10.2
Book value per share	278.4	271.8	315.1	369.4	437.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	0.9	0.8	0.8	0.8	0.7
EV/EBITDA	3.3	7.0	4.1	3.4	3.0
Adjusted P/E	9.5	45.3	15.4	12.3	9.9
P/BV	2.8	2.9	2.5	2.1	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	64.8	81.8	69.7	69.7	69.7
Interest burden (PBT/EBIT)	92.4	45.7	73.1	77.9	83.4
EBIT margin (EBIT/Revenue)	22.5	6.7	14.6	16.9	18.3
Asset turnover (Rev./Avg TA)	85.2	81.4	76.6	74.9	77.4
Leverage (Avg TA/Avg Equity)	3.0	3.1	3.0	2.7	2.4
Adjusted ROAE	35.0	6.2	17.2	18.4	19.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	83.3	13.4	(1.1)	1.4	7.5
EBITDA	93.7	(52.5)	72.1	15.3	14.5
Adjusted EPS	149.6	(79.0)	193.9	25.3	24.5
Profitability & Return ratios (%)					
EBITDA margin	26.6	11.2	19.4	22.1	23.6
EBIT margin	22.5	6.7	14.6	16.9	18.3
Adjusted profit margin	13.5	2.5	7.4	9.2	10.6
Adjusted ROAE	35.0	6.2	17.2	18.4	19.5
ROCE	24.9	7.8	15.2	16.6	18.4
Working capital days (days)					
Receivables	19	16	20	20	20
Inventory	84	73	63	66	64
Payables	105	95	91	91	90
Ratios (x)					
Gross asset turnover	0.9	0.8	0.8	0.7	0.8
Current ratio	1.1	1.0	1.0	1.0	0.9
Net interest coverage ratio	6.6	1.6	3.3	4.0	5.2
Adjusted debt/equity	0.8	0.9	0.8	0.7	0.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Financials – SAIL

Income Statement

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	1,035	1,044	1,074	1,009	1,005
EBITDA	213	80	114	119	137
Depreciation	(43)	(50)	(52)	(54)	(56)
EBIT	171	31	61	64	81
Net interest inc./.(exp.)	(17)	(20)	(19)	(18)	(19)
Other inc./.(exp.)	9	10	9	9	9
Exceptional items	(4)	3	0	0	0
EBT	163	29	56	60	76
Income taxes	(40)	(7)	(14)	(15)	(19)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	4	6	5	5	5
Reported net profit	122	22	42	45	57
Adjustments	0	0	0	0	0
Adjusted net profit	122	22	42	45	57

Balance Sheet

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	169	143	143	130	125
Other current liabilities	157	137	137	137	137
Provisions	12	14	16	15	15
Debt funds	173	308	243	228	233
Other liabilities	148	156	159	157	158
Equity capital	41	41	41	41	41
Reserves & surplus	501	506	536	567	607
Shareholders' fund	542	547	577	608	648
Total liab. and equities	1,201	1,305	1,274	1,274	1,316
Cash and cash eq.	8	6	(2)	0	4
Accounts receivables	48	54	53	50	50
Inventories	196	278	237	220	214
Other current assets	37	43	45	42	42
Investments	0	0	0	0	0
Net fixed assets	684	671	669	666	660
CWIP	40	49	64	94	144
Intangible assets	15	15	15	16	16
Deferred tax assets, net	0	0	0	0	0
Other assets	174	190	193	187	186
Total assets	1,201	1,305	1,274	1,274	1,316

Cash Flows

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	316	(38)	158	124	135
Capital expenditures	(37)	(46)	(66)	(81)	(101)
Change in investments	0	0	0	0	0
Other investing cash flows	(47)	(16)	(4)	6	0
Cash flow from investing	(84)	(62)	(69)	(74)	(100)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(204)	135	(65)	(15)	5
Interest expenses	(17)	(20)	(19)	(18)	(19)
Dividends paid	(36)	(13)	(13)	(13)	(17)
Other financing cash flows	25	(3)	0	0	0
Cash flow from financing	(232)	98	(97)	(47)	(31)
Chg in cash & cash eq.	0	(2)	(8)	3	4
Closing cash & cash eq.	8	6	(2)	0	4

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	29.6	5.3	10.2	10.8	13.7
Adjusted EPS	29.6	5.3	10.2	10.8	13.7
Dividend per share	8.7	3.2	3.1	3.2	4.1
Book value per share	131.2	132.5	139.7	147.2	156.8

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	0.8	0.6	0.6	0.6	0.6
EV/EBITDA	3.8	7.9	5.3	5.4	4.4
Adjusted P/E	3.0	16.8	8.7	8.2	6.5
P/BV	0.7	0.7	0.6	0.6	0.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	73.6	82.6	74.8	74.8	74.8
Interest burden (PBT/EBIT)	97.5	85.6	91.4	92.8	93.7
EBIT margin (EBIT/Revenue)	16.5	2.9	5.7	6.4	8.0
Asset turnover (Rev./Avg TA)	87.0	83.4	83.3	79.2	77.6
Leverage (Avg TA/Avg Equity)	2.4	2.3	2.3	2.2	2.1
Adjusted ROAE	24.6	4.0	7.5	7.5	9.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	49.7	0.9	2.8	(6.0)	(0.4)
EBITDA	67.5	(62.3)	41.2	4.4	15.7
Adjusted EPS	195.2	(82.2)	93.0	6.4	26.9
Profitability & Return ratios (%)					
EBITDA margin	20.6	7.7	10.6	11.7	13.6
EBIT margin	16.5	2.9	5.7	6.4	8.0
Adjusted profit margin	11.8	2.1	3.9	4.4	5.6
Adjusted ROAE	24.6	4.0	7.5	7.5	9.0
ROCE	20.3	4.3	7.1	7.4	8.8
Working capital days (days)					
Receivables	17	19	18	18	18
Inventory	69	97	80	79	78
Payables	75	54	54	53	53
Ratios (x)					
Gross asset turnover	0.9	0.8	0.8	0.8	0.8
Current ratio	0.7	0.8	0.8	0.8	0.8
Net interest coverage ratio	10.1	1.5	3.2	3.5	4.3
Adjusted debt/equity	0.3	0.6	0.4	0.4	0.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Financials – TATA

Income Statement

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	2,423	2,416	2,184	2,236	2,362
EBITDA	635	323	285	372	418
Depreciation	(91)	(93)	(100)	(105)	(113)
EBIT	544	230	185	267	305
Net interest inc./(exp.)	(55)	(63)	(65)	(58)	(52)
Other inc./(exp.)	8	10	19	19	22
Exceptional items	(1)	1	0	0	0
EBT	502	182	143	232	279
Income taxes	(85)	(102)	(49)	(70)	(84)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	6	4	4	4	4
Reported net profit	402	88	97	162	195
Adjustments	0	0	0	0	0
Adjusted net profit	402	88	97	162	195

Balance Sheet

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	368	378	364	357	373
Other current liabilities	260	279	251	257	271
Provisions	28	39	39	39	39
Debt funds	756	849	809	729	649
Other liabilities	273	283	282	271	284
Equity capital	12	12	12	12	12
Reserves & surplus	1,132	1,019	1,069	1,186	1,331
Shareholders' fund	1,171	1,052	1,101	1,217	1,362
Total liab. and equities	2,854	2,880	2,846	2,870	2,978
Cash and cash eq.	244	170	115	131	179
Accounts receivables	122	83	108	110	116
Inventories	488	544	494	460	479
Other current assets	71	70	44	45	45
Investments	58	48	48	48	48
Net fixed assets	1,162	1,187	1,199	1,251	1,331
CWIP	220	312	367	352	302
Intangible assets	171	279	283	286	289
Deferred tax assets, net	0	0	0	0	0
Other assets	376	235	235	235	235
Total assets	2,854	2,880	2,846	2,870	2,978

Cash Flows

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	455	252	248	337	342
Capital expenditures	(97)	(318)	(170)	(146)	(146)
Change in investments	(24)	10	0	0	0
Other investing cash flows	(39)	140	19	19	22
Cash flow from investing	(159)	(168)	(151)	(126)	(124)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(129)	93	(40)	(80)	(80)
Interest expenses	(55)	(63)	(65)	(58)	(52)
Dividends paid	(62)	(44)	(46)	(50)	(62)
Other financing cash flows	64	(146)	0	(7)	25
Cash flow from financing	(181)	(159)	(151)	(196)	(169)
Chg in cash & cash eq.	114	(74)	(54)	15	49
Closing cash & cash eq.	244	170	115	131	179

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	33.2	7.2	7.9	13.3	16.0
Adjusted EPS	33.2	7.2	7.9	13.3	16.0
Dividend per share	5.1	3.6	3.8	4.1	5.1
Book value per share	94.7	84.4	88.6	98.1	110.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.0	0.9	1.0	1.0	0.9
EV/EBITDA	3.8	6.7	7.5	5.9	5.2
Adjusted P/E	3.8	17.4	15.8	9.4	7.8
P/BV	1.3	1.5	1.4	1.3	1.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	79.7	48.3	67.4	70.0	69.8
Interest burden (PBT/EBIT)	92.6	78.9	77.6	86.9	91.4
EBIT margin (EBIT/Revenue)	22.4	9.5	8.5	11.9	12.9
Asset turnover (Rev./Avg TA)	91.3	84.3	76.3	78.2	80.8
Leverage (Avg TA/Avg Equity)	2.8	2.6	2.7	2.5	2.3
Adjusted ROAE	42.6	8.1	9.2	14.2	15.3

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	56.6	(0.3)	(9.6)	2.4	5.6
EBITDA	108.1	(49.1)	(11.9)	30.8	12.2
Adjusted EPS	408.5	(78.4)	10.4	67.8	20.0
Profitability & Return ratios (%)					
EBITDA margin	26.2	13.4	13.0	16.6	17.7
EBIT margin	22.4	9.5	8.5	11.9	12.9
Adjusted profit margin	16.6	3.6	4.4	7.3	8.2
Adjusted ROAE	42.6	8.1	9.2	14.2	15.3
ROCE	26.9	11.0	9.3	13.0	14.5
Working capital days (days)					
Receivables	18	12	18	18	18
Inventory	74	82	83	75	74
Payables	74	65	70	70	70
Ratios (x)					
Gross asset turnover	0.9	0.8	0.8	0.8	0.8
Current ratio	1.0	0.9	0.8	0.8	0.9
Net interest coverage ratio	10.0	3.6	2.9	4.6	5.9
Adjusted debt/equity	0.4	0.6	0.6	0.5	0.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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