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METALS & MINING

21 June 2024

Steel sector risk-reward has turned unfavourable

- **Ferrous steel stock valuations are now higher than the 10-year average as well as current valuation of their global peers**
- **We believe ferrous majors are largely pricing in volume growth, and we see lower possibility of margin surprise during the early recovery phase**
- **Raise TPs to account for full benefit of expansion and early recovery phase; retain HOLD on JSP, JSTL and TATA; downgrade SAIL to SELL**

Kirtan Mehta, CFA
research@bobcaps.in

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	1,077	1,055	HOLD
JSTL IN	937	940	HOLD
SAIL IN	155	110	SELL
TATA IN	180	175	HOLD

Price & Target in Rupees | Price as of 21 Jun 2024

Steel sector valuations are no longer cheap: The four steel majors are currently trading within the 2Y fwd EV/EBITDA valuation range of 6.5x-7.4x, which is already above the 10-year mean range of 5.5x-6.5x. While JSTL and TATA, the stocks with relatively lower volatility, are trading close to 2 standard deviations (SD) above the 10-year mean, JSP is trading at least 1SD above the 10-year mean multiple. Besides its own history, the stocks are trading at a premium to their global peers.

Constructive on earnings growth: We have tweaked our FY25/FY26 EBITDA estimates by -0.3%/ +1.7% for the four majors under our coverage on an aggregate basis. We believe the steel majors on an aggregate basis are geared to deliver 25% CAGR over FY24-26 with the delivery of expansion projects.

Possibility of margin surprise low: While commodity stocks generally benefit from margin expansion during the early recovery phase, we see lower possibility of the same in the ferrous space during this recovery. We expect demand to normalise at some time next year as the western world kicks in interest cuts and China succeeds in arresting demand destruction in the real estate sector. However, we remain concerned about surplus in China, limiting regional margin below mid-cycle levels.

Raise TPs: We raise valuation to factor in (a) full benefit of committed expansion, ie, even incremental EBITDA beyond our FY26 valuation base, (b) raised sector target multiple of 6.5x (from 6.0x) to allow for uplift in the early economic recovery period, (c) roll forward of valuation to Jun'25. We apply a graded target multiple across four stocks with JSTL at 7x (for aggressive growth delivery), TATA India at 6.5x (sector), JSP at 6x (still to demonstrate delivery on growth) and SAIL at 5x (weaker margin and growth prospects). This results in increased TPs for JSP to Rs 1,055 (from Rs 805), JSTL to Rs 940 (Rs 830), SAIL to Rs 110 (Rs 90), TATA to Rs 175 (Rs 170).

Sector pricing in volume growth: With the recent 48% rally since Nov'23 vs 23% in NIFTY 50, we believe ferrous majors are now largely pricing in the benefits of expansion. We retain our HOLD ratings on TATA, JSTL and JSP, and downgrade the rating on SAIL to SELL from HOLD.

Our stance on the sector is neutral with our downgrade of TATA to HOLD, from BUY, on 1 Jun 2024, and now have HOLD ratings on three out of four stocks. In this note, we cut our rating on SAIL to SELL from HOLD. While we are constructive on earnings growth ahead, we believe risk-reward has turned unfavourable at this stage with a sharp run-up across the sector.

Fig 1 – Peer comparison

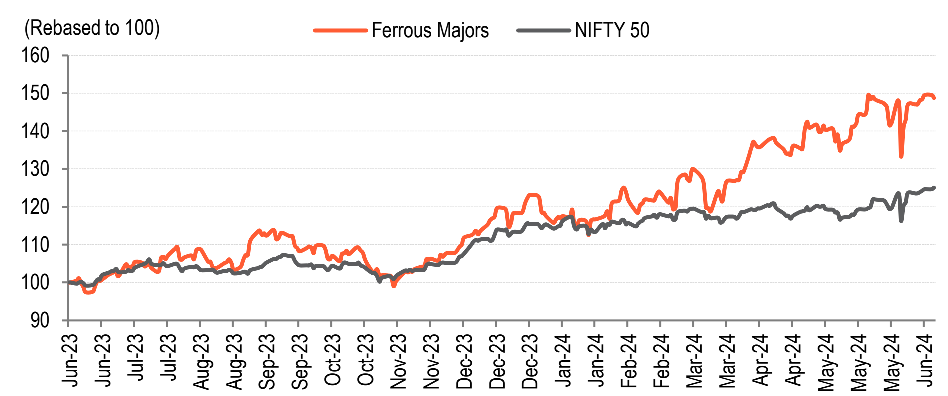
Ticker	CMP (Rs)	Rating	Target price (Rs)	Upside (%)	EV/Sales (x)		EV/EBITDA (x)		Net income (Rs bn)		P/B (x)		P/E (x)	
					FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY24E	FY25E	FY25E	FY26E
TATA IN	180	HOLD	175	-2.7	1.3	1.2	8.8	6.8	116	183	2.4	2.0	17.6	11.9
JSTL IN	937	HOLD	940	0.3	1.6	1.5	8.6	7.4	153	186	2.9	2.2	16.7	13.4
JSP IN	1,077	HOLD	1,055	-2.1	2.3	1.6	9.5	7.0	65	91	2.5	1.8	16.8	11.4
SAIL IN	155	SELL	110	-29.2	0.8	0.8	7.5	6.7	43	55	1.1	1.0	14.4	12.2

Source: Bloomberg, BOBCAPS Research

Ferrous sector has outperformed since Nov'23

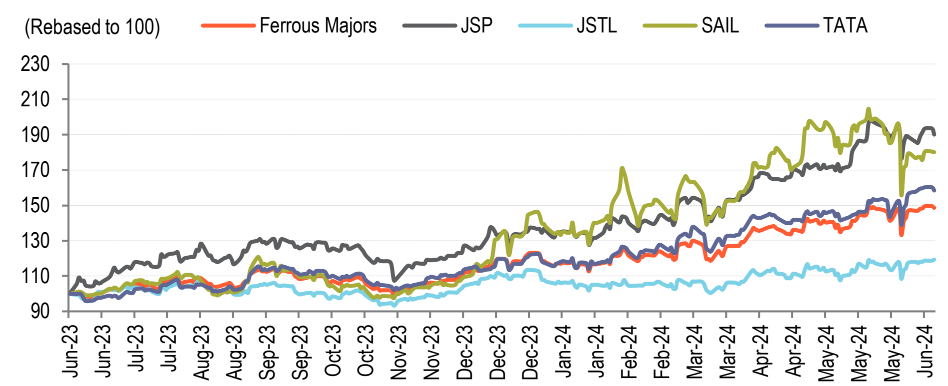
The four ferrous majors we cover collectively outperformed the NIFTY 50 since early Nov'23. Against NIFTY 50's 23% rise, the ferrous majors in our coverage rose by 48%. Of the four majors, JSP and SAIL outperformed the NIFTY 50, TATA was in line and JSTL underperformed over the past one year. Besides the domestic market benchmark, Indian ferrous majors have outperformed their global peers over the past year.

Fig 2 – Ferrous majors in our coverage collectively outperformed NIFTY 50 YTD



Source: LSEG Workspace, BOBCAPS Research

Fig 3 – Stock price performance over past one year



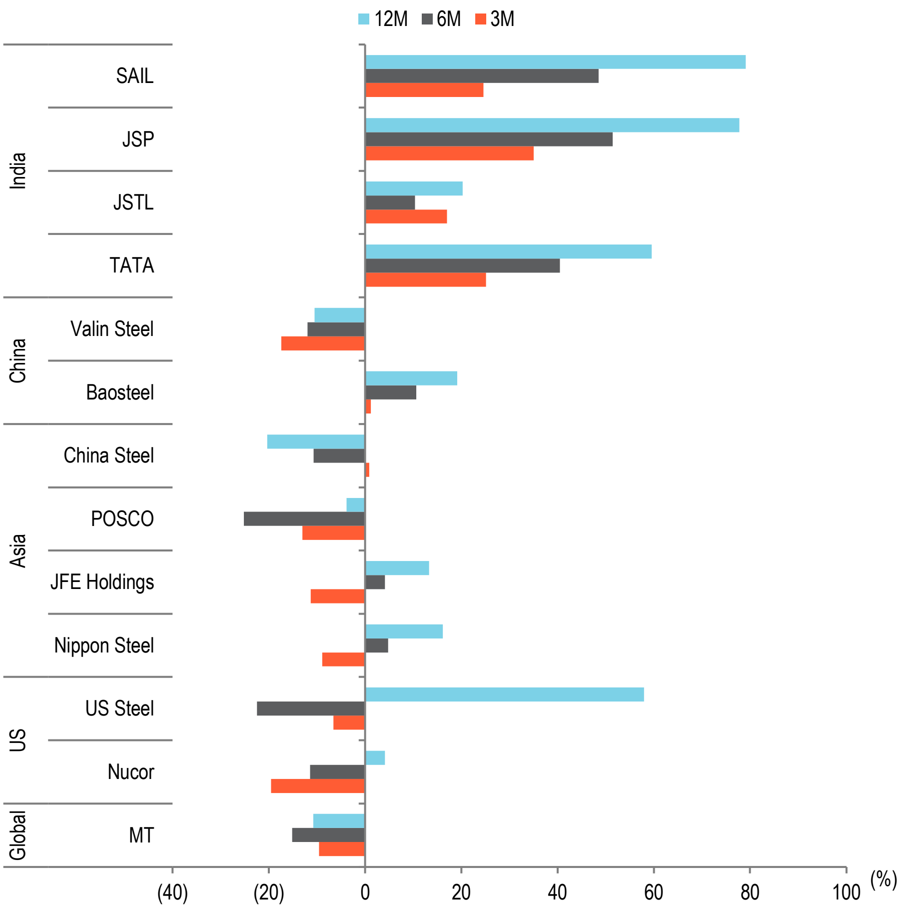
Source: LSEG Workspace, BOBCAPS Research

Fig 4 – Ferrous sector performance

(%)	NIFTY 50	Ferrous Majors	JSP	JSTL	SAIL	TATA
Price performance (% change)						
Past 3M	8.0	22.0	33.0	16.1	25.7	22.5
Past 6M	9.9	26.0	44.8	8.3	38.7	34.6
Since 3 Nov'23	22.5	48.4	77.0	24.6	81.4	55.4
Past 1Y	25.2	48.2	77.8	20.2	79.1	59.5

Source: LSEG Workspace, BOBCAPS Research

Fig 5 – Indian ferrous majors have also outperformed global peers



Source: Bloomberg, BOBCAPS Research

Valuation is no longer cheap

We normally look at 2Y fwd EV/EBITDA on consensus estimates as an indicator of relative valuation of the stocks/sector.

- The four majors are currently trading within the valuation range of 6.5x-7.4x, which is already above the 10-year mean range of 5.5x-6.5x – which we believe reflects the through-the-cycle average
- JSTL and TATA, the stocks with relatively lower volatility, are trading close to 2 standard deviations (SD) above 10-year mean. Relative lower volatility of these

stocks is reflected in the lower standard deviation of 0.6x and 0.8x, respectively. Even JSP is trading at least 1SD above the 10-year mean multiple.

- The valuation trend does not change even on the 1Y fwd EV-EBITDA multiple, which is coloured by short-term commodity price volatility.

Fig 6 – Valuation multiples

(x)	JSP	JSTL	SAIL	TATA
EV/EBITDA 2Y fwd				
Current	7.0	7.4	6.5	7.1
Standard deviation above 10Y mean	1.0	2.0	0.0	1.8
Mean				
- 3Y	4.5	6.3	4.1	5.0
- 5Y	4.5	6.2	4.3	5.3
- 10Y	5.5	6.1	6.5	5.7
Standard deviation 10Y	1.4	0.6	3.1	0.8
EV/EBITDA 1Y fwd				
Current	8.7	8.4	7.5	8.4
Standard deviation above 10Y mean	1.2	1.7	0.0	1.7
Mean				
- 3Y	5.2	7.1	4.6	5.4
- 5Y	5.2	7.2	4.6	5.8
- 10Y	6.5	6.9	7.7	6.3
Standard deviation 10Y	1.8	0.9	4.4	1.3

Source: LSEG Workspace, BOBCAPS Research

Indian stocks valuation at a premium to their global peers

Indian stocks are also trading at a higher EV/EBITDA valuation multiple than most of their global peers, although it is partly justified by higher relative earnings growth driven by committed expansion.

Fig 7 – Indian ferrous majors' valuations at a premium to their global peers

Company	Ticker	Price	Currency	Market cap (US$ bn)	FY25/ CY24 EV/ EBITDA (x)	FY26/ CY25 EV/ EBITDA (x)
India						
JSP	JSP IN	1,077.3	INR	13.2	9.4	7.3
JSTL	JSTL IN	936.9	INR	27.4	8.8	7.5
SAIL	SAIL IN	155.4	INR	7.7	7.7	6.9
TATA	TATA IN	179.9	INR	26.9	8.6	7.1
Global						
MT	MT NA	22.2	EUR	20.3	3.7	3.3
US						
Nucor	NUE US	157.8	USD	37.8	8.2	7.5
US Steel	X US	36.8	USD	8.3	6.3	4.8
Asia						
Nippon Steel	5401 JT	3,332.0	JPY	20.1	6.5	5.3
JFE Holdings	5411 JP	2,268.5	JPY	9.1	6.1	5.5
POSCO	005490 KS	3,66,500.0	KRW	2,232.9	6.1	5.3
China Steel	2002 TT	23.6	TWD	11.5	13.0	13.0

Company	Ticker	Price	Currency	Market cap (US$ bn)	FY25/ CY24 EV/ EBITDA (x)	FY26/ CY25 EV/ EBITDA (x)
China						
Baosteel	600019 CH	6.6	CNY	20.0	4.9	4.7
Valin Steel	000932 CH	4.5	CNY	4.2	6.6	6.0

Source: Bloomberg, BOBCAPS Research

Sector is pricing in volume growth

With the recent rally, we believe ferrous stocks are now pricing in the benefits of expansion. While these ferrous stocks are positioned well with expansions underway to capitalise on the country's growth trajectory, we believe that earnings expansion from known expansions is largely priced in although still with conservative ramp-up assumptions.

Remain constructive on earnings growth ahead

- We expect most steel players under our coverage to register 25% EBITDA CAGR over FY24-FY26 as they deliver on capacity and efficiency improvement projects.
- We believe 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.
- Also, we believe 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.

Accounting for incremental value of expansion from earnings growth beyond FY26

Fig 8 – EBITDA earnings base used for our valuation

Company	FY24	FY26	Growth CAGR	Incremental beyond FY26	As % of FY26
	(Rs bn)	(Rs bn)	(%)	(Rs bn)	(%)
JSP	102	169	28.8	23	13.7
JSTL	282	406	19.9	20	4.8
SAIL	111	133	9.3	0	0.0
TATA	223	422	37.6	5	1.2
Aggregate	**617**	**962**	**24.8**	**48**	**5.0**

Source: Company, BOBCAPS Research

- For steel stocks under our coverage, we have been using FY26 as our valuation base to factor in value accretion from expansion. We roll forward our SOTP value to Jun'25 to arrive at one-year forward target prices for our coverage.
- In our valuation base, we now account for full benefit of committed expansions (with visibility on delivery) as we have started accounting for incremental EBITDA even beyond FY26 from the expansion. We adjust enterprise value applying appropriate time-value discount for earnings beyond FY26.

Raise target multiple to account for early economic recovery stage

On this enhanced valuation base, we now apply a one notch higher sector target multiple of 6.5x above the cycle-average of 6x to allow for valuation uplift during the early economic recovery phase. Commodity stocks generally rally ahead of the economic recovery as demand improves significantly in the early recovery stage giving rise to a possibility of uptick in margin as supply fails to keep pace with demand recovery.

Fig 9 – Basis for our target 1Y fwd EV/EBITDA valuation

(x)	New	Previous	Valuation basis
Sector	6.5x	6x	During the early economic recovery phase, raise target multiple above through-the-cycle average
JSP	6x	5.75x	At a discount to sector multiple till management proves itself on disciplined growth delivery
JSTL	7x	6.5x	Premium to sector multiple as credit for aggressive growth delivery
SAIL	5x	4.5x	Discount to sector multiple to account for relatively weaker margin and growth prospects
TATA India operations	6.5x	6x	Sector multiple
TATA Europe	5.5x	5.5x	Discount to sector multiple to account for relatively weaker margin and growth prospects

Source: BOBCAPS Research

Even with higher valuation base and a multiple one notch higher than the cycle-average multiple, our TPs imply upside within the HOLD range for three stocks and SELL range for one stock.

Possibility of margin surprise low

While commodity stocks generally benefit from margin expansion during the early recovery phase, we see lower possibility of the same in the ferrous space during this recovery.

Western and China markets working towards demand recovery

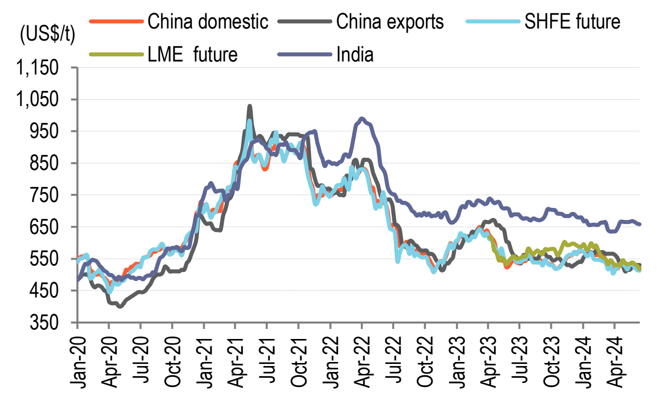
While apparent steel demand is likely to recover in the western world, stabilisation of steel demand in China is contingent on arresting the decline in the real estate sector. China continues to support infrastructure investments and additional policy measures to offset the impact of continuing decline. Recent policy support for equipment upgrade has started to translate into investments already, accounting for 52% of total investment growth. China recently relaxed mortgage restrictions across the country and offered relending facility of CNY 300bn (US$ 41.3bn) to help local governments buy unsold homes to clear excess inventory, in addition to earlier measures. However, these recent measures have not yet been successful in arresting demand decline.

China surplus is likely to cap steel margins over next couple of years

Besides success in arresting demand decline in China's real estate, China needs to address surplus in the country. China is working on improving consolidation within domestic industry to improve market balance. However, till the time China restores market balance, this surplus is likely to transfer outside China as an elevated exports, keeping regional margins in check. At this point, we assume the mid-cycle margin environment for our forecasts for Indian steel majors.

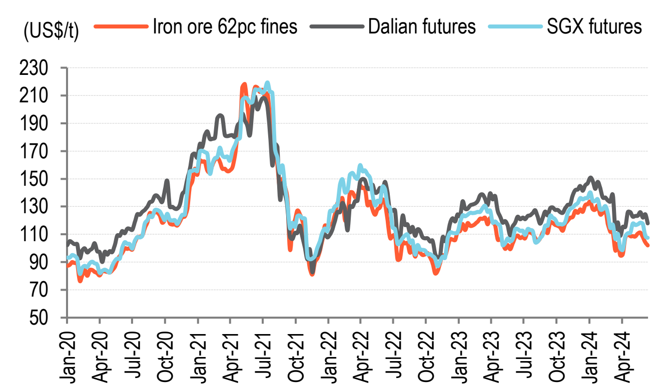
- At this point, we see that Chinese domestic steel margins have been under pressure with the recent downturn in demand. Chinese steel gross margin proxy indicator has recovered from recent lows of US$ 115/t over Nov-Dec'23 to US$ 170/t in Q2CY24 but remains significantly below the mid-cycle levels of US$ 230/t. China export steel prices have fallen 7% YTD, partly passing on the benefit of reduced coking coal prices.
- China's steel production has remained high at 1.05bnt annualised run rate, higher than the underlying demand forecast of 0.9bnt for CY24 by World Steel Exports. This has kept exports elevated at 100mt annualised run-rate over Jan-May'24, up 20% YoY.
- Indian steel market has been successful in insulating itself from weakness in China over the past couple of months, with increase in domestic price premium to landed prices. Nonetheless, lower China export prices keep steel margins in India below mid-cycle levels.

Fig 10 – HRC steel prices (China and India)



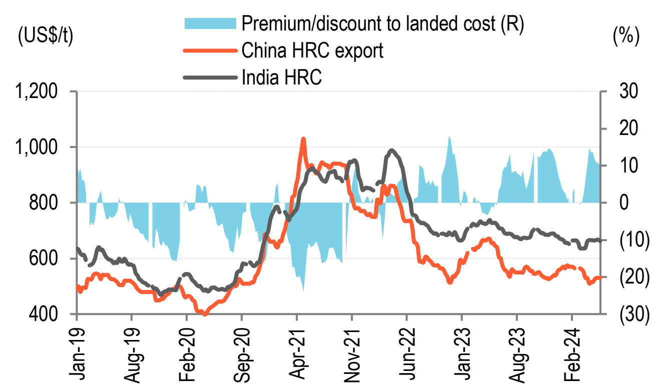
Source: Bloomberg, BOBCAPS Research | HRC: Hot Rolled Coil

Fig 11 – Iron ore prices



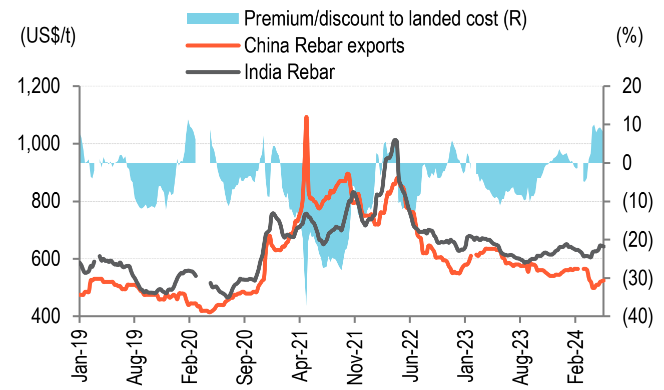
Source: Bloomberg, BOBCAPS Research

Fig 12 – India HRC premium/discount



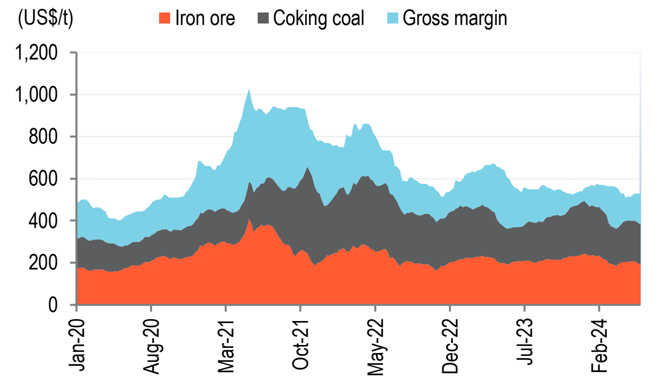
Source: Bloomberg, BOBCAPS Research

Fig 13 – India rebar premium/discount



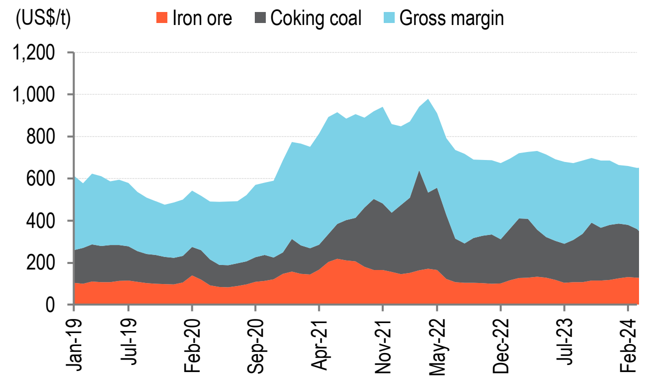
Source: Bloomberg, BOBCAPS Research

Fig 14 – China HRC spot gross margin proxy (on export price)



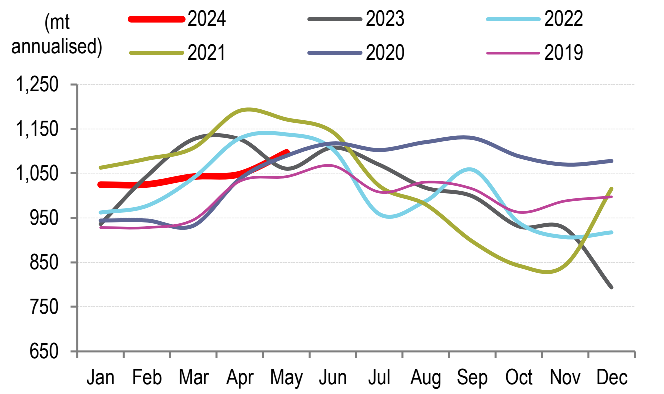
Source: Bloomberg, BOBCAPS Research

Fig 15 – India HRC spot gross margin proxy (monthly)



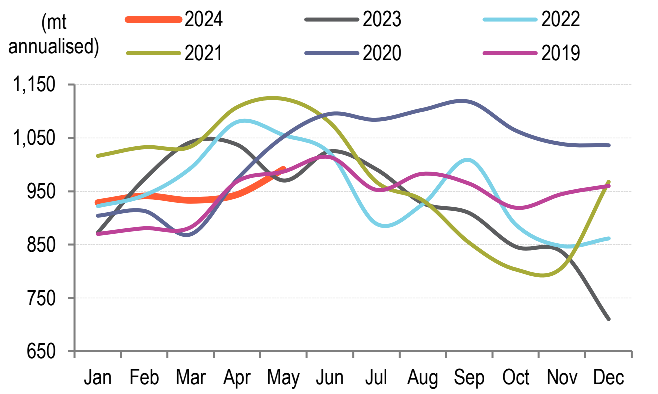
Source: Bloomberg, BOBCAPS Research

Fig 16 – China steel production



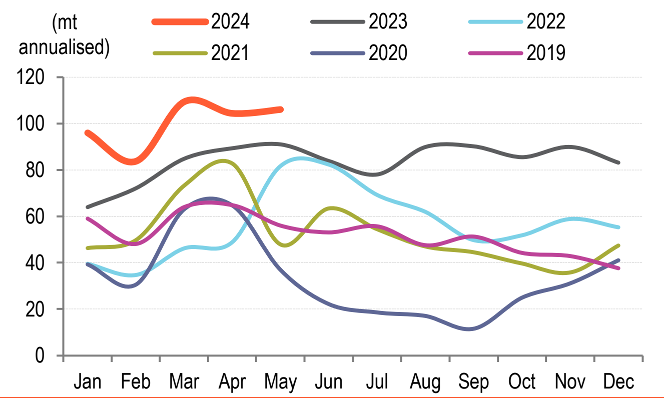
Source: Bloomberg, BOBCAPS Research

Fig 17 – China apparent steel consumption



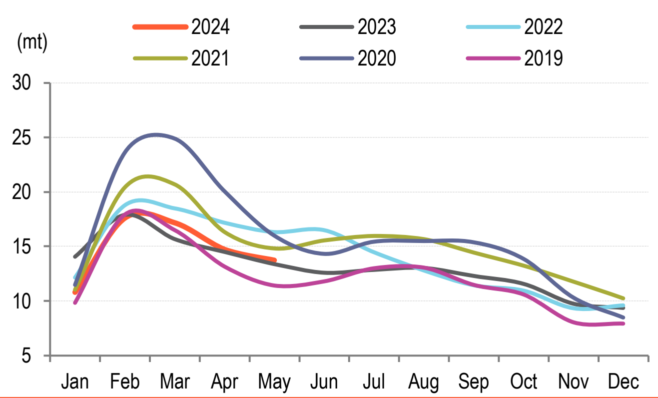
Source: Bloomberg, BOBCAPS Research

Fig 18 – China net steel exports



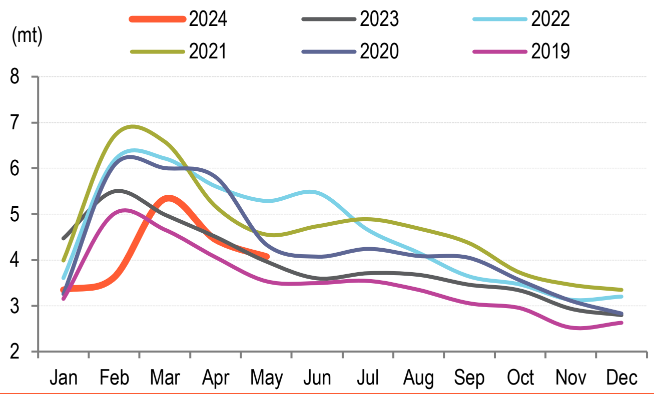
Source: Bloomberg, BOBCAPS Research

Fig 19 – China steel inventory for marketplace



Source: Bloomberg, BOBCAPS Research

Fig 20 – China steel inventory of traders



Source: Bloomberg, BOBCAPS Research

Forecast changes

Incorporating recent FY24 results, revisions to our commodity price assumptions and the latest company guidance, we tweak our FY25/FY26 EBITDA estimates by -0.3%/ +1.7% for the four majors under our coverage on an aggregate basis.

We believe the steel majors on an aggregate basis are geared to deliver 25% CAGR over FY24-26 with the delivery of expansion projects. Among the majors, TATA's apparent growth is higher at 38% CAGR as it arrests losses in Europe while progressing on the UK transition. We believe SAIL will deliver the least growth of 9% CAGR among the four majors in the absence of a near-term expansion pipeline.

- **JSP:** We raise FY25E/FY26E EBITDA by 4%/ 7% increasing our sales assumptions.

  We believe the company is primed to deliver 29% EBITDA CAGR over FY24-FY26E through expansion even with our conservative assumptions accounting for buffer against the usual delays for large-scale projects.

- **JSTL:** We lower our FY25E/FY26E EBITDA by -4%/-2% as cut in margin assumption is partially offset by higher sales assumptions.

  We believe the company can deliver 20% EBITDA CAGR over FY24-26E upon delivery of expansion under our conservative assumptions on project delivery.

- **SAIL:** While we raise FY25E EBITDA by 2.7% factoring in a higher-sales assumption, we revise FY26E EBITDA by -3.6% factoring in lower EBITDA margin.

  We believe SAIL is likely to lag its peers in earnings growth over the next two years with our estimate of EBITDA CAGR at 9.3% over FY24-26 in the absence of any material expansion underway.

- **TATA:** We retain our estimates, which were updated in our note on 1 Jun 2024 post Q4FY24 results.

  TATA is geared to deliver 38% CAGR over FY24-26 from a lower base in FY24, impacted by significant losses in its European operations. While we expect TATA to deliver 13% EBITDA CAGR over FY24-26 in India operations on the ramp-up of TSK-2 expansion, we expect European operations to deliver a modest EBITDA of Rs 34bn in FY26E from an EBITDA loss of Rs 74bn in FY24.

Fig 21 – Revised estimates

(Rs bn)	New			Old		Change (%)	
	FY24E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue							
JSP	500	532	735	498	677	6.9	8.5
JSTL	1,750	1,927	2,076	1,870	2,034	3.1	2.1
SAIL	1,054	1,100	1,069	1,020	1,037	7.9	3.1
TATA	2,273	2,323	2,507	2,323	2,507	0.0	0.0
Aggregate	**5,077**	**5,351**	**5,653**	**5,213**	**5,578**	**2.6**	**1.3**
EBITDA							
JSP	102	127	169	121	158	4.3	6.8

(Rs bn)	New			Old		Change (%)	
	FY24E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
JSTL	282	350	406	362	414	(3.5)	(2.0)
SAIL	111	123	133	120	138	2.7	(3.6)
TATA	223	341	422	341	422	0.0	0.0
Aggregate	**617**	**814**	**962**	**823**	**975**	**(1.1)**	**(1.4)**
Net income (adjusted)							
JSP	59	66	97	65	91	1.3	6.6
JSTL	88	137	171	153	186	(10.6)	(7.8)
SAIL	31	45	53	43	55	3.8	(3.8)
TATA	-44	128	189	128	189	0.0	0.0
Aggregate	**74**	**309**	**413**	**324**	**429**	**(4.5)**	**(3.9)**

Source: Company, BOBCAPS Research

Our aggregate EBITDA forecasts are broadly within -3% to +5% of Bloomberg consensus for FY25-FY26.

Fig 22 – BOBCAPS vs Consensus estimates

(Rs bn)	Actuals	BOBCAPS		Consensus		Delta to consensus (%)	
	FY24P	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue							
JSP	500	532	735	553	664	(3.8)	10.6
JSTL	1,750	1,927	2,076	1,911	2,148	0.9	(3.4)
SAIL	1,054	1,100	1,069	1,106	1,151	(0.5)	(7.1)
TATA	2,273	2,323	2,507	2,375	2,579	(2.2)	(2.8)
Aggregate	**5,577**	**5,883**	**6,387**	**5,944**	**6,542**	**(1.0)**	**(2.4)**
YoY growth (%)	**(1.2)**	**5.5**	**8.6**	**6.6**	**10.1**	**-**	**-**
EBITDA							
JSP	102	127	169	128	161	(0.9)	5.0
JSTL	282	350	406	346	404	1.0	0.4
SAIL	111	123	133	119	131	3.4	1.4
TATA	223	341	422	349	415	(2.5)	1.8
Aggregate	**719**	**940**	**1,131**	**943**	**1,112**	**(0.3)**	**1.7**
YoY growth (%)	**4.5**	**30.8**	**20.2**	**31.2**	**17.9**	**-**	**-**
Net income adjusted							
JSP	59	66	97	64	87	2.6	11.8
JSTL	88	137	171	140	176	(2.0)	(2.3)
SAIL	31	45	53	39	47	14.3	11.0
TATA	(44)	128	189	127	178	0.1	6.1
Aggregate	**134**	**375**	**509**	**370**	**487**	**1.3**	**4.5**
YoY growth (%)	**(26.6)**	**180.2**	**35.9**	**176.7**	**31.6**	**-**	**-**

Source: Company, Bloomberg, BOBCAPS Research

Margin likely to remain at mid-cycle level over next 2 years

We maintain our view that Indian steel margins are likely to stay at mid-cycle level over the next two years. While we expect global steel demand to stabilise gradually, we believe supply pressure from a likely surplus in China will keep a lid on margins. Factoring in recent trends, we tweak our commodity price forecasts.

- We raise marginally FY25E HRC (hot rolled coil) and rebar prices in India by 3.9% and 4.8%, respectively, factoring in Indian steel sector's ability to hold against weakness in Chinese steel prices.
- We raise international iron ore price forecasts by 6.6% and domestic by 8.5% in FY25, factoring in the recent strength in iron ore prices. We still expect it to gradually normalise to US$ 90-100/t by FY26E.

Fig 23 – Sector: Key assumptions

Parameter	Actuals	New		Old		Change (%)	
	FY24P	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
USD/INR exchange rate	82.8	83.5	83.5	82.0	83.7	1.8	(0.2)
Steel prices							
China HRC export (US$/t)	557	564	549	566	549	(0.4)	0.0
India HRC (US$/t)	684	627	595	614	595	2.1	0.0
YoY change (%)	(9.0)	(8.4)	(5.0)	(0.1)	0.0	-	-
India HRC (Rs'000/t)	56.6	52.3	49.7	50.3	49.8	3.9	(0.2)
YoY Change (%)	(6.1)	(7.6)	(5.0)	(0.1)	0.0	-	-
India rebar (Rs'000/t)	51.3	50.1	47.2	47.8	47.3	4.8	(0.2)
YoY change (%)	(8.7)	(2.4)	(5.8)	(0.1)	0.0		
Raw material prices							
Iron ore CFR China (US$/t)	115	101	95	95	95	6.6	0.0
Iron ore India indicator (Rs'000/t)	4.7	4.4	4.2	4.1	4.2	8.5	(0.2)
Coking Coal Australia FOB (US$/t)	288	250	225	250	225	0.0	0.0

Source: Bloomberg, BOBCAPS Research

JSP – Key assumptions

Fig 24 – JSP: Key assumptions

Parameter	FY24P	FY25E	FY26E
Sales (mt)	7.7	8.5	12.0
India HRC (US$/t)	684	627	595
Realisation (Rs'000/t)	62.3	59.2	58.9
EBITDA/tonne (Rs'000/t)	13.3	14.6	14.0

Source: Company, BOBCAPS Research

Volume assumptions

- **Steel sales:** We have raised our FY25E/FY26E steel sales assumptions to 8.5mt/12.0mt from 8.2mt/11.2mt. While the Rashtriya Ispat Nigam Ltd (RINL) plant is still facing ramp-up issues owing to the workers' strike, now we assume availability of additional billets from Q4. We remain conservative on the ramp-up of new plants accounting for 70% utilisation of 3.3mt blast furnaces (BF) and 60%

utilisation in H2FY26 for the 3mt blast furnace capacity, allowing a buffer for start-up beyond management guidance. Upon full ramp-up of expansion, JSP could potentially deliver 13.5mt.

- **Hot strip mill:** We continue to assume 50%/90% utilisation for HSM (hot strip mill) in FY25/FY26, which is broadly in line with management guidance of HRC production of 3.0-3.5mt in FY25. JSP will now need to stabilise delivery of HRC across specifications and gradually move up the chain to maximise margins. The company will start with the sale of coils to cold rolling mills/tube manufacturers and to players in construction sectors while working in parallel to get products qualified by white goods and automotive players.
- **Coal mines:** We raise our estimates for captive coal availability to 9mt/12mt in FY25/FY26 from 7mt/10mt as JSP ramped-up operations of Gare Palma IV/6 and Utkal C to the rated capacity by the end of FY24. The company is further targeting the start-up of Utkal B1 and B2 over FY25.
- **Pellets:** We assume external sales of 3mt in FY26 only after the ramp-up of pellet plant-II.
- **Slurry pipeline:** We continue to assume ~25%/90% utilisation in FY25/FY26.

Margin assumptions

- **Modest improvement:** We continue to assume modest improvement in EBITDA/t to Rs 14.6k/Rs 14.0k over FY25/FY26, from Rs 13.3k in FY24, with the implementation of cost-efficiency projects (captive coal production, pellets) and value-enhancing projects (HSM). Our uptick in margin for FY24 is the result of our assumption of a reduction in semis with HSM ramp-up and benefits of captive coal on a smaller scale of operations prior to ramp-up.

JSTL – Key assumptions

Fig 25 – JSTL: Key assumptions

Parameter	FY24P	FY25E	FY26E
Crude steel production - India operations (mt)	25.4	27.4	30.6
India HRC (US$/t)	684	627	595
Realisation India operations (US$/t)	777	752	737
EBITDA/t India operations (US$/t)	124	143	152
Realisation India operations (Rs '000/t)	64.3	62.8	61.6
EBITDA/t India operations (Rs '000/t)	10.2	12.0	12.7

Source: Company, BOBCAPS Research

Volume assumptions

We pencil in volume growth of 5.1mt to reach 30.6mt of crude steel production in India operations by FY26, based on the planned capacity addition of 8-8.5mt by FY25.

- JSTL is targeting 1.5mtpa of BPSL expansion by Oct’24 and 5mtpa of Vijayanagar expansion by Dec’24, and replacement of a smaller 2mtpa BF in Vijayanagar with a larger 3.5mt BF by the end of FY25. At this stage, we conservatively assume 50% utilisation for the new expanded BF in FY26.

- The full ramp-up of the expanded BF could add another 1.5mt to steel sales beyond our sales assumption for FY26.

Margin assumptions

We continue to assume the EBITDA margin of JSTL's India operations will improve to Rs 12.0k/t in FY25 and to Rs 12.7k/t in FY26 from Rs 10.2k/t in FY24 as the company stabilises new expansion projects. Our revised assumptions are lower than our prior assumptions of Rs 12.6k/t in FY25 and Rs 13.3k/t in FY26 as we align the same with company guidance.

SAIL – Key assumptions

Fig 26 – SAIL: Key assumptions

Parameter	FY24P	FY25E	FY26E
Sales	17.0	19.0	19.0
India HRC (US$/t)	684	627	595
Realisation (Rs '000/t)	61.9	57.9	56.4
EBITDA/tonne (Rs '000/t)	6.5	6.5	7.0

Source: Company, BOBCAPS Research

Volume assumptions

We raise our sales forecast for FY25 to 19mt from 18.4mt, factoring in sustained production momentum during FY24 and availability of excess inventory at the end of FY24. We expect sales to sustain at 19mt (18.9mt previously) for FY26, with the addition of caster at the Bhilai plant adding another 0.8mt of capacity. The company has commissioned beam caster and is progressing commissioning of bloom caster.

Asset sweating: SAIL plans to add 3-4mt of capacity through debottlenecking of existing plants over the next three to four years. The company plans to add 1.4mt of capacity at Rourkela with a new caster, 0.9mt at Durgapur with an upgrade of its BF plant, and 0.4mt at IISCO Burnpur with the addition of coke oven batteries. We do not yet account for its full benefit either in forecasts or in valuation, owing to low visibility on its start-up and ramp-up.

Growth to lag peers: Management guidance implies capex for the first greenfield plant (4.5mt at IISCO) is likely to start only from FY26, which would mean that most of the growth from the expansion drive is likely to be back ended over FY24-FY31, by when the company aims to add 13mt for a total of 35mt.

- **IISCO Burnpur:** For the 4.5mt greenfield expansion at IISCO Burnpur, the company is in the process of tendering major packages after securing stage 1 approval from the board. The company plans to secure stage 2 approval by Oct'24 for going ahead with the project.

- **Bokaro and Durgapur:** For the other two expansions at Bokaro and Durgapur, SAIL is preparing a DPR (detailed project report) to submit to the company's board for stage 1 approval.

Margin assumptions

SAIL's apparent EBITDA margin of Rs 6.5k/t in FY24 included an uplift of Rs 1.5k/t due to the benefit of prior-period rail revenue recovery. Adjusting for the same, underlying EBITDA profitability was Rs 5k/t in FY24. We expect EBITDA margin to improve to Rs 6.5k/Rs 7.0k over FY25/FY26 as higher sales volume results in lower fixed costs per tonne. While SAIL aims to add 2-3mt capacity by debottlenecking existing plants, we have limited visibility on the delivery.

Legacy blast furnace to weigh on profits: Our forecasts assume a negative impact of legacy blast furnaces on SAIL's average margins. These furnaces still account for half of production and earn US$ 80-90/t lower EBITDA margins than new furnaces.

Employee cost per tonne to soften gradually: We expect a creeping improvement in employee cost per tonne as SAIL's annual manpower reduction by 3,000-4,000 staff is being partly negated by cost inflation.

TATA – Key assumptions

Fig 27 – TATA: Key assumptions

Parameter	FY24P	FY25E	FY26E
Sales India business (mt)	20.5	21.9	24.9
Sales Europe (mt)	8.0	8.0	9.0
India HRC benchmark price (US$/t)	684	627	595
EBITDA/t India business (Rs'000/t)	14.6	14.8	15.4
EBITDA/t Europe (US$/t)	(115)	19	46

Source: Company, BOBCAPS Research

Volume assumptions

Our FY25 production and sales forecasts are in line with company guidance. In FY26, we assume further ramp-up of TSK-2 and stable volumes in Europe.

- **FY25 India guidance:** TATA has guided for a 1.4mt increase in India sales with a contribution of 1.7mt from the start-up of the TSK-2 blast furnace by Sep'25, 0.2mt increase in production at Neelachal Ispat Nigam Ltd (NINL) which will be partially offset by 0.5mt of lower production from Jamshedpur as it shuts down one blast furnace for relining. For FY26, we account for ramp-up of TSK-2.

- **5mtpa TSK-2 expansion:** We now assume utilisation for TSK-2 at ~35% in FY25 and 85% in FY26 based on the company's guidance of operation of a new BF at a utilisation level of 70% in H2FY25 despite the delay in startup to Sep'25.

- **FY25 Europe guidance:** The company's guidance implied no net change outside India. A decrease in production at Tata Steel UK Limited (TSUK) is likely to be offset by an increase at Tata Steel Netherlands (TSN). Further, TATA plans to supply 1.7mt of slabs to UK in H2FY25 from TSN and India for the continuation of its downstream operations in the UK.

- **0.75mtpa EAF in Ludhiana:** We have not factored in any benefits from the electric arc furnace (EAF) at this stage as it will take time to develop a scrap-based chain in the region.

Margin assumptions

India business: We assume only a gradual improvement in EBITDA margin to Rs 14.6k/t in FY25 and to Rs 15.4k/t in FY26 from Rs 14.4k/t in FY24 as TATA stabilises operations at TSK-2.

2.2mtpa CRM complex: With the CRM complex scaling up gradually through FY24, we continue to assume a US$ 100-150/t improvement over HRC realisation on 1-2mt of cold rolled and related flat products over FY25-FY26 as the entire CRM complex is commissioned.

Europe operations: We now assume a modest EBITDA profit of Rs 12bn in FY25 (Rs 76bn in FY24), factoring in positive EBITDA in TSN from Q1 and in TSUK in H2. We expect Europe EBITDA to improve further to a modest profit of Rs 34bn (US$ 46/t) in FY26, with UK operations breaking even for the full year and recovery in Europe supporting improvement in profitability.

Valuation

We believe risk-reward has turned unfavourable at this stage after a sharp run-up across the ferrous majors we cover. We remain constructive on earnings growth ahead. Within our coverage, we retain our ratings – HOLD on JSP, JSTL and TATA, and SELL on SAIL.

JSP – HOLD with a revised TP of Rs 1,055

We increase our TP for JSP to Rs 1,055 (from Rs 805) factoring in (i) the increase in target multiple to 6.0x (from 5.75x), (ii) benefit of full ramp-up of the expansion, and (iii) rolling forward our valuation to Jun'25 (from Jan'25). Given 2.1% downside to our TP, we reiterate our HOLD rating.

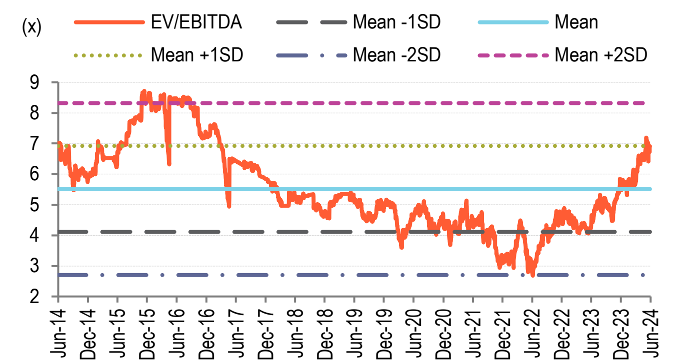
- Our target multiple is above the stock's five-year average of 4.5x to reflect resumption of growth but is below our sector target multiple of 6.5x for the early recovery phase as we await disciplined growth delivery by JSP over the next investment phase.
- While we use FY26 as a valuation base to give JSP credit for the expansion drive underway, it does not fully capture the full benefit of expansion. Hence, we account for incremental value from the full ramp-up of expansion by valuing incremental EBITDA from expansion at the same target multiple and then discounting back to Jun'25 to arrive at a one-year forward TP.

Fig 28 – JSP: Valuation summary

(Rs bn)	Value
FY26E EBITDA	169
Target EV/EBITDA (x)	6
EV	**1015**
Incremental value from full ramp-up	139
EV including benefit of full ramp-up as of Mar'25	**1,154**
FY25E Net debt	103
Equity Value Mar'25E	**1,051**
Fair value per share Mar'25E (Rs)	1,031
Fair value per share Jun'25E (Rs)	1,056
Target price Jun'25E (Rs) (rounded to nearest Rs 5)	**1,055**

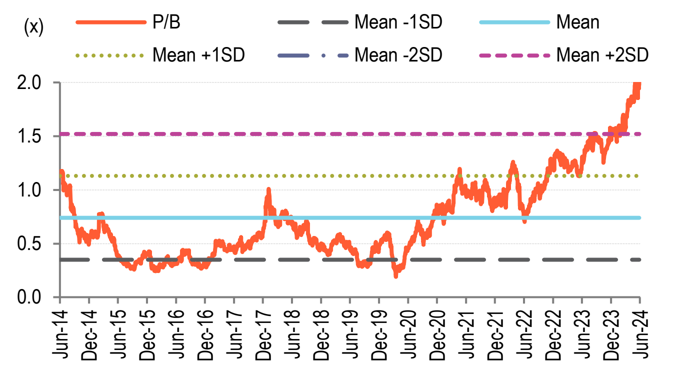
Source: Company, BOBCAPS Research

Fig 29 – JSP EV/EBITDA 2Y fwd



Source: Bloomberg, BOBCAPS Research

Fig 30 – JSP P/B 1Y fwd



Source: Bloomberg, BOBCAPS Research

JSTL – HOLD with a revised TP Rs 940

We raise our TP for JSTL to Rs 940 from Rs 830 factoring in (i) changes to our estimates, (ii) the benefit of the full ramp-up of expansion, (iii) the increase in target multiple and (iv) rollover to Jun'25 (from Jan'25). Our rating remains at HOLD given the 0.3% upside to the current stock price.

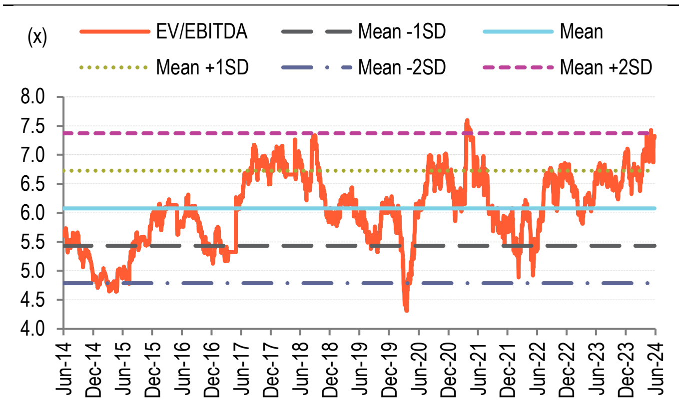
- We raise our target EV/EBITDA to 7x from 6.5x during the early economic recovery phase. To credit JSTL for delivering aggressive growth, we ascribe the company the highest target multiple of 7.0x within the steel sector (vs. our sector target multiple of 6.5x). Our multiple is also above the stock's historical trading average of 6.1-6.3x over the past five-year/10-year period.
- While we use FY26 as a valuation base to give JSTL credit for its current expansion drive, we now account for incremental value from the ramp-up of full expansion by valuing incremental EBITDA at the same target multiple and then discounting back to Jun'24.

Fig 31 – JSTL: Valuation summary

(Rs bn)	Value
FY26E EBITDA	406
Target EV/EBITDA (x)	7
EV Mar'25	**2,841**
Incremental EV from full ramp-up	137
EV including benefit of full ramp-up Mar'25	2,978
FY25E net debt	729
Equity Value Mar'25E	**2,249**
Fair value per share Mar'25E (Rs)	920
Fair value per share Jun'25E (Rs)	942
Target price Jun'25E (Rs) (rounded to nearest Rs 5)	**940**

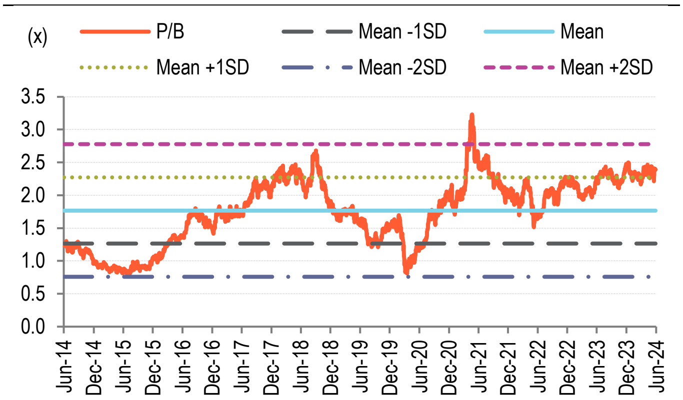
Source: BOBCAPS Research

Fig 32 – JSTL EV/EBITDA 2Y fwd



Source: Bloomberg, BOBCAPS Research

Fig 33 – JSTL P/B 1Y fwd



Source: Bloomberg, BOBCAPS Research

SAIL – Downgrade to SELL with higher TP of Rs 110

We raise our TP for SAIL to Rs 110 from Rs 90 raising (a) 1-year fwd EV/EBITDA multiple to 5x (from 4.5x) to account for early economic recovery phase, and (b) rolling forward valuation to Jun'25 (from Sep'24). The benefit of this is partially offset by a significant increase in net debt to Rs 356bn as against our prior forecast of Rs 256bn.

Our target valuation for SAIL at 5x is below our target 6.5x mid-cycle valuation for the Indian steel sector, reflecting 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. Our target multiple is higher than the stock's historical trading average of 4.3x over the past five years but lower than the 6.5x seen over the past ten years.

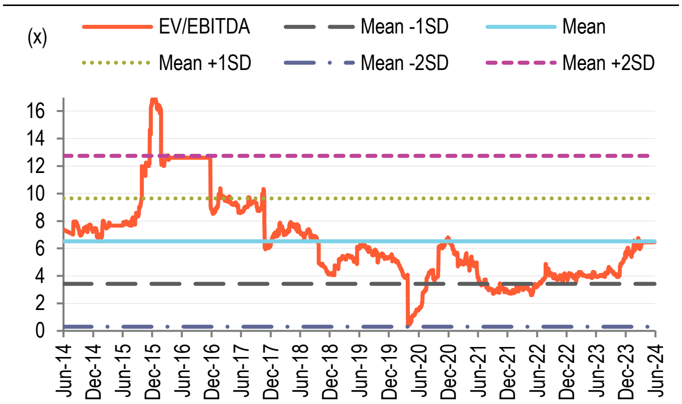
Given -29% downside to our TP, we downgrade our rating on SAIL to SELL from HOLD. We expect SAIL to lag its peers under our coverage in the next growth phase and to face higher balance sheet risk. We reckon the company will begin its expansion drive at a net debt-to-EBITDA ratio of 2.3x if it succeeds in starting over in FY25. Given limited scope for operational improvement in the existing set-up and heavy capex planned over FY27-FY28, we see increased risk of a stretched balance sheet.

Fig 34 – SAIL: Valuation summary

(Rs bn)	Value (Rs bn)
FY26E EBITDA	133
Target EV/EBITDA (x)	5.5
EV Mar'25	**733**
FY25E Net debt	283
Equity Value Mar'25E	**449**
Fair value per share Mar'25E (Rs)	109
Fair value per share Jun'25E (Rs)	111
Target price Jun'25E (Rs) (rounded to nearest Rs 5)	**110**

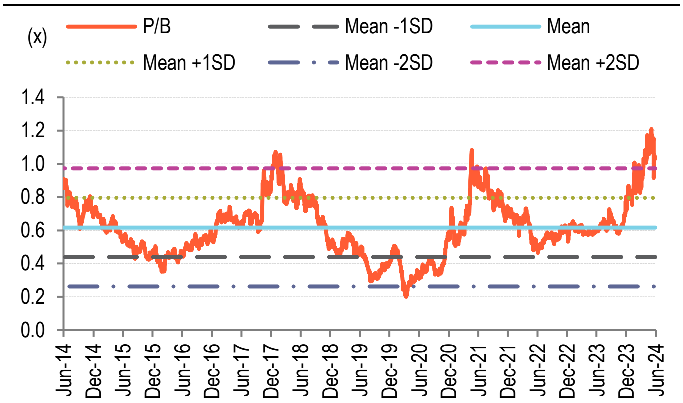
Source: Company, BOBCAPS Research

Fig 35 – SAIL's EV/EBITDA 2Y forward



Source: Bloomberg, BOBCAPS Research

Fig 36 – SAIL's P/B 1Y forward



Source: Bloomberg, BOBCAPS Research

Tata Steel – HOLD with a higher TP of Rs 175

We raise our SOTP-based TP for TATA to Rs 175, from Rs 170, as we now factor in the value of incremental EBITDA from the full ramp-up of TSK-2 expansion and also roll forward our valuation to Jun'25 from May'25.

In our note of 1 Jun 2024, we raised our target 1Y fwd EV/EBITDA multiple for TATA's India operations to 6.5x in line with the mid-cycle multiple for the sector factoring in the early economic recovery phase. We continue to value the European business at an unchanged multiple of 5.5x, and bake in an incremental fair value of Rs 6.1/sh for the proposed UK restructuring. Please refer to our note of 25 Sep 2023, **UK transition to dispel overhang**, for details.

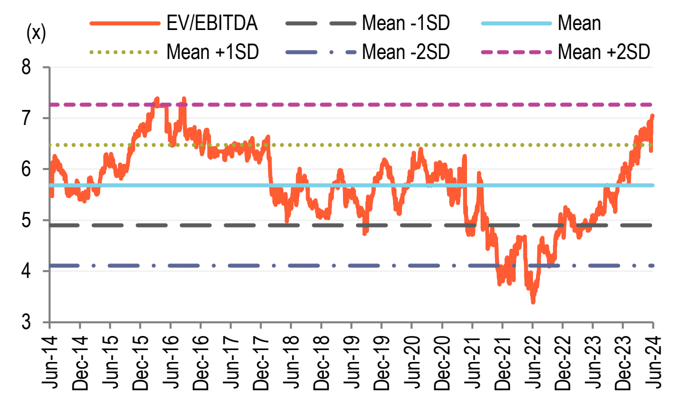
Our rating for TATA remains at HOLD given 2.7% downside to our revised TP. The stock price has run up 55% from the lows in Nov'23 as the overhang on the stock has been dispelled with a credible move on plan for the UK plant transition to more sustainable operations. While we remain confident of TATA's ability to deliver earnings-accretive growth, we consider the risk-reward unfavourable at the current valuation. The stock is now trading at more than 1 standard deviation above its historical mean/median valuation over the past 10 years.

Fig 37 – TATA: Valuation summary

(Rs bn)	Tata Steel India	Tata Steel Europe	Tata Steel
FY26E EBITDA	388	34	422
Target EV/EBITDA (x)	6.5	5.5	6.7
Incremental valuation from full ramp-up of TSK2- Kalinganagar expansion	33	-	33
Incremental EV from UK transition	0	70	70
EV Mar'25E	**2,555**	**260**	**2,815**
FY25E Net debt	-	-	741
Equity value Mar'25E	**-**	**-**	**2,074**
Fair value Mar'25E (Rs)	-	-	170
Fair value May'25E (Rs)	-	-	174
Target price May'25 (rounded to nearest Rs 5)	**-**	**-**	**175**

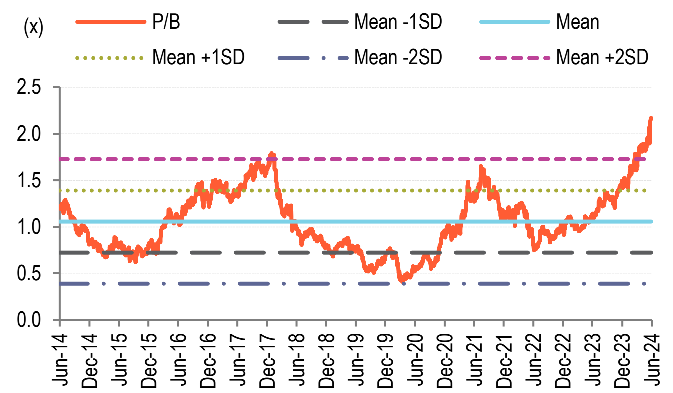
Source: Company, BOBCAPS Research

Fig 38 – TATA EV/EBITDA 2Y fwd



Source: Bloomberg, Company

Fig 39 – TATA P/B 1Y fwd



Source: Bloomberg, Company

Key risks

Key downside risks to our HOLD calls for JSP, JSTL and TATA are:

- 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 delays in the implementation of the UK decarbonisation plan, higher restructuring costs for transition and higher operational costs during the transition period
- JSTL is relatively more vulnerable than its peers in the event of a protracted downturn in the steel cycle considering its aggressive growth policy.

Key upside risks to our HOLD calls for JSP, JSTL and TATA and SELL call on SAIL:

- 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.
- Similarly, the faster implementation of capital investment plans (including expansion) than our conservative assumptions could lead to upside risks to our earnings.
- JSTL could derive higher benefits than peers from its accelerated expansion drive in the event of an upward turn in the steel cycle.

Stock performance

Fig 40 – JSP

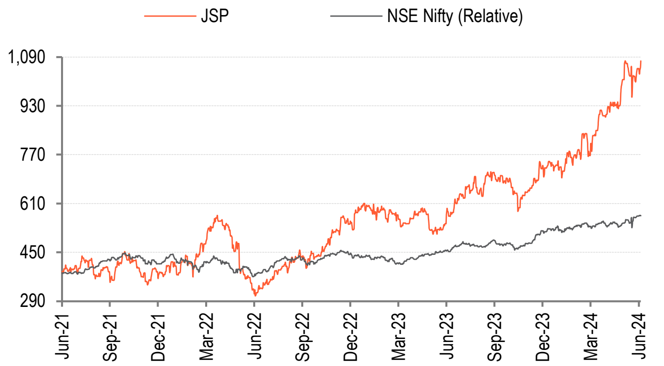


Fig 41 – JSTL

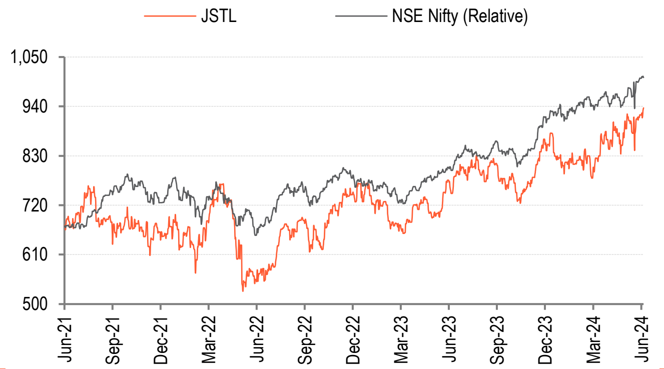


Fig 42 – SAIL

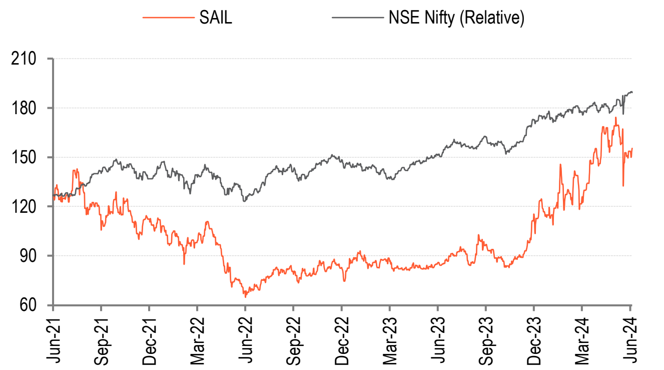
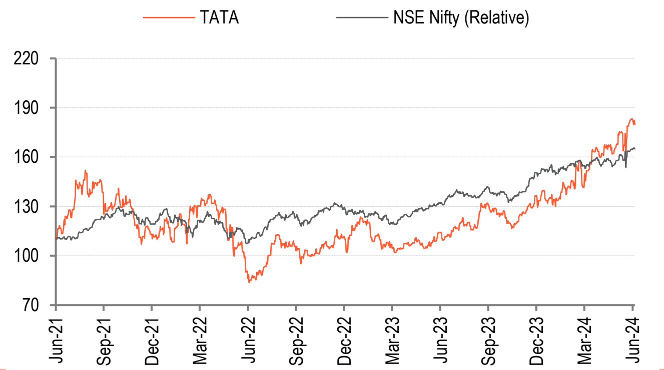


Fig 43 – TATA



Source: NSE

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Financials – JSP

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**5,10,856**	**5,27,112**	**5,00,268**	**5,32,101**	**7,34,828**
EBITDA	1,55,134	99,349	1,02,008	1,26,675	1,69,143
Depreciation	(20,968)	(26,910)	(28,218)	(30,692)	(34,626)
EBIT	1,34,167	72,439	73,790	95,983	1,34,517
Net interest inc./(exp.)	(20,065)	(16,164)	(14,648)	(16,472)	(16,472)
Other inc./(exp.)	1,689	2,274	3,270	2,984	3,876
Exceptional items	(4,062)	(13,695)	0	0	0
EBT	1,11,728	44,855	62,413	82,494	1,21,920
Income taxes	(29,245)	(12,923)	(2,980)	(16,499)	(24,384)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**82,550**	**31,511**	**59,384**	**65,501**	**96,805**
Adjustments	0	0	0	0	0
Adjusted net profit	**82,550**	**31,511**	**59,384**	**65,501**	**96,805**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	52,519	47,004	46,815	53,316	74,391
Other current liabilities	1,28,914	54,380	54,025	63,852	88,179
Provisions	888	971	734	780	1,078
Debt funds	1,35,016	1,30,463	1,64,721	1,64,721	1,54,721
Other liabilities	78,145	71,410	73,350	70,581	75,569
Equity capital	1,011	1,005	1,002	1,002	1,002
Reserves & surplus	3,55,236	3,86,061	4,42,158	5,04,711	5,97,159
Shareholders' fund	3,70,952	3,90,191	4,47,507	5,10,555	6,03,735
Total liab. and equities	**7,66,435**	**6,94,419**	**7,87,152**	**8,63,805**	**9,97,674**
Cash and cash eq.	36,685	47,168	40,241	61,951	67,255
Accounts receivables	12,641	9,745	16,645	10,934	15,099
Inventories	72,814	58,868	70,774	72,199	1,00,738
Other current assets	1,43,949	38,976	49,822	52,884	72,385
Investments	0	0	0	0	0
Net fixed assets	4,22,440	4,08,035	4,57,897	5,27,684	6,15,247
CWIP	17,362	71,059	88,720	73,720	53,720
Intangible assets	35,980	34,469	32,783	32,783	32,783
Deferred tax assets, net	0	0	0	0	0
Other assets	24,565	26,099	30,270	31,651	40,448
Total assets	**7,66,435**	**6,94,419**	**7,87,152**	**8,63,805**	**9,97,674**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**1,26,349**	**1,01,176**	**70,673**	**1,28,579**	**1,40,725**
Capital expenditures	58,857	(64,691)	(94,054)	(85,479)	(1,02,189)
Change in investments	0	0	0	0	0
Other investing cash flows	(3,771)	172	(2,466)	1,072	(5,654)
Cash flow from investing	**55,086**	**(64,519)**	**(96,520)**	**(84,407)**	**(1,07,844)**
Equities issued/Others	(9)	(6)	(3)	0	0
Debt raised/repaid	(1,64,081)	(4,553)	34,258	0	(10,000)
Interest expenses	(20,065)	(16,164)	(14,648)	(16,472)	(16,472)
Dividends paid	3,060	(2,040)	(2,040)	(2,948)	(4,356)
Other financing cash flows	(25,179)	(3,411)	1,352	(3,042)	3,250
Cash flow from financing	**(2,06,273)**	**(26,174)**	**18,920**	**(22,462)**	**(27,578)**
Chg in cash & cash eq.	**(24,837)**	**10,483**	**(6,927)**	**21,710**	**5,303**
Closing cash & cash eq.	**61,522**	**36,685**	**47,168**	**40,241**	**61,951**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	80.9	30.9	58.2	64.2	94.9
Adjusted EPS	80.9	30.9	58.2	64.2	94.9
Dividend per share	(3.0)	2.0	2.0	2.9	4.3
Book value per share	349.3	379.4	434.4	495.8	586.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.7	2.4	2.4	2.3	1.7
EV/EBITDA	8.8	12.8	11.7	9.5	7.2
Adjusted P/E	13.3	34.9	18.5	16.8	11.4
P/BV	3.1	2.8	2.5	2.2	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	71.3	53.8	95.1	79.4	79.4
Interest burden (PBT/EBIT)	86.3	80.8	84.6	85.9	90.6
EBIT margin (EBIT/Revenue)	26.3	13.7	14.8	18.0	18.3
Asset turnover (Rev./Avg TA)	66.1	72.2	67.5	64.5	79.0
Leverage (Avg TA/Avg Equity)	2.3	2.0	1.8	1.7	1.7
Adjusted ROAE	24.5	8.5	14.3	13.8	17.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	47.9	3.2	(5.1)	6.4	38.1
EBITDA	18.5	(36.0)	2.7	24.2	33.5
Adjusted EPS	34.2	(61.8)	88.5	10.3	47.8
Profitability & Return ratios (%)					
EBITDA margin	30.4	18.8	20.4	23.8	23.0
EBIT margin	26.3	13.7	14.8	18.0	18.3
Adjusted profit margin	16.2	6.0	11.9	12.3	13.2
Adjusted ROAE	24.5	8.5	14.3	13.8	17.5
ROCE	21.6	12.7	12.1	13.8	17.5
Working capital days (days)					
Receivables	9	7	12	8	8
Inventory	52	41	52	50	50
Payables	(54)	(40)	(43)	(48)	(48)
Ratios (x)					
Gross asset turnover	0.7	0.7	0.7	0.6	0.8
Current ratio	1.2	1.0	1.1	1.1	1.1
Net interest coverage ratio	6.7	4.5	5.0	5.8	8.2
Adjusted debt/equity	0.3	0.2	0.3	0.2	0.1

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

Financials – JSTL

Income Statement

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	**1,464**	**1,660**	**1,750**	**1,927**	**2,076**
EBITDA	390	185	282	350	406
Depreciation	(60)	(75)	(82)	(93)	(102)
EBIT	330	111	201	257	304
Net interest inc./(exp.)	(50)	(69)	(81)	(82)	(83)
Other inc./(exp.)	15	10	10	10	10
Exceptional items	(7)	6	6	0	0
EBT	297	57	134	183	229
Income taxes	(88)	(15)	(44)	(46)	(57)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	9	(1)	(2)	(2)	(2)
Reported net profit	**207**	**41**	**88**	**137**	**171**
Adjustments	(9)	0	0	0	0
Adjusted net profit	**197**	**41**	**88**	**137**	**171**

Balance Sheet

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	309	382	334	321	330
Other current liabilities	137	142	137	165	176
Provisions	3	3	4	4	4
Debt funds	722	809	880	850	820
Other liabilities	109	105	129	138	146
Equity capital	3	3	3	3	3
Reserves & surplus	670	654	774	890	1,036
Shareholders' fund	685	670	798	914	1,060
Total liab. and equities	**1,965**	**2,111**	**2,282**	**2,392**	**2,536**
Cash and cash eq.	174	207	123	121	99
Accounts receivables	75	71	75	91	98
Inventories	338	331	378	362	390
Other current assets	67	72	68	68	68
Investments	0	0	0	0	0
Net fixed assets	931	978	1,053	1,137	1,213
CWIP	168	219	292	317	372
Intangible assets	21	21	25	28	30
Deferred tax assets, net	0	5	3	3	3
Other assets	192	206	263	263	263
Total assets	**1,965**	**2,111**	**2,282**	**2,392**	**2,536**

Cash Flows

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	**331**	**256**	**163**	**325**	**342**
Capital expenditures	(246)	(173)	(234)	(205)	(235)
Change in investments	0	0	0	0	0
Other investing cash flows	1	(4)	(42)	10	10
Cash flow from investing	**(245)**	**(177)**	**(276)**	**(195)**	**(225)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(9)	86	71	(30)	(30)
Interest expenses	(50)	(69)	(81)	(82)	(83)
Dividends paid	(42)	(8)	(18)	(21)	(26)
Other financing cash flows	60	(54)	57	0	0
Cash flow from financing	**(41)**	**(45)**	**29**	**(133)**	**(140)**
Chg in cash & cash eq.	**46**	**33**	**(84)**	**(2)**	**(23)**
Closing cash & cash eq.	**174**	**207**	**123**	**121**	**99**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	85.5	17.1	36.0	56.1	70.1
Adjusted EPS	81.7	17.1	36.0	56.1	70.1
Dividend per share	17.4	3.4	7.4	8.4	10.5
Book value per share	278.4	271.8	317.6	365.3	424.9

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	1.2	1.0	1.0	0.8	0.7
EV/EBITDA	4.4	9.2	6.1	4.6	3.8
Adjusted P/E	11.5	54.6	26.0	16.7	13.4
P/BV	3.4	3.4	2.9	2.6	2.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	64.8	81.8	68.9	74.9	74.9
Interest burden (PBT/EBIT)	92.4	45.7	63.8	71.3	75.3
EBIT margin (EBIT/Revenue)	22.5	6.7	11.5	13.3	14.6
Asset turnover (Rev./Avg TA)	85.2	81.4	79.7	82.5	84.3
Leverage (Avg TA/Avg Equity)	3.0	3.1	3.1	2.8	2.6
Adjusted ROAE	35.0	6.2	12.3	16.4	17.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	83.3	13.4	5.5	10.1	7.7
EBITDA	93.7	(52.5)	52.2	23.8	16.1
Adjusted EPS	149.6	(79.0)	110.2	55.7	25.0
Profitability & Return ratios (%)					
EBITDA margin	26.6	11.2	16.1	18.1	19.6
EBIT margin	22.5	6.7	11.5	13.3	14.6
Adjusted profit margin	13.5	2.5	5.0	7.1	8.3
Adjusted ROAE	35.0	6.2	12.3	16.4	17.7
ROCE	24.9	7.8	12.4	14.4	16.0
Working capital days (days)					
Receivables	19	16	16	17	17
Inventory	84	73	79	69	68
Payables	105	95	83	74	72
Ratios (x)					
Gross asset turnover	0.9	0.8	0.8	0.8	0.8
Current ratio	1.1	1.0	1.0	1.0	0.9
Net interest coverage ratio	6.6	1.6	2.5	3.1	3.6
Adjusted debt/equity	0.8	0.9	0.9	0.8	0.7

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**	**1,054**	**1,100**	**1,069**
EBITDA	213	80	111	123	133
Depreciation	(43)	(50)	(53)	(53)	(54)
EBIT	171	31	59	70	79
Net interest inc./(exp.)	(17)	(20)	(25)	(23)	(22)
Other inc./(exp.)	9	10	11	10	10
Exceptional items	(4)	3	(8)	0	0
EBT	163	29	41	60	70
Income taxes	(40)	(7)	(10)	(15)	(18)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	4	6	4	3	3
Reported net profit	**122**	**22**	**31**	**45**	**53**
Adjustments	0	0	0	0	0
Adjusted net profit	**122**	**22**	**31**	**45**	**53**

Balance Sheet

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	167	143	153	141	134
Other current liabilities	160	137	153	153	153
Provisions	12	14	13	17	16
Debt funds	173	308	363	313	288
Other liabilities	148	156	153	160	164
Equity capital	41	41	41	41	41
Reserves & surplus	501	506	530	561	598
Shareholders' fund	542	547	571	602	639
Total liab. and equities	**1,201**	**1,305**	**1,407**	**1,386**	**1,394**
Cash and cash eq.	8	6	7	30	39
Accounts receivables	48	54	84	66	59
Inventories	196	278	327	281	256
Other current assets	37	43	64	67	65
Investments	0	0	0	0	0
Net fixed assets	684	671	654	641	638
CWIP	47	49	61	86	126
Intangible assets	15	15	15	15	14
Deferred tax assets, net	0	0	0	0	0
Other assets	167	190	195	200	196
Total assets	**1,201**	**1,305**	**1,407**	**1,386**	**1,394**

Cash Flows

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**316**	**(39)**	**39**	**180**	**158**
Capital expenditures	(44)	(39)	(48)	(65)	(90)
Change in investments	0	0	0	0	0
Other investing cash flows	(41)	(22)	(6)	(5)	3
Cash flow from investing	**(85)**	**(62)**	**(54)**	**(70)**	**(87)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(204)	135	55	(50)	(25)
Interest expenses	(17)	(20)	(25)	(23)	(22)
Dividends paid	(36)	(6)	(8)	(13)	(16)
Other financing cash flows	25	(10)	(7)	0	0
Cash flow from financing	**(232)**	**98**	**16**	**(87)**	**(62)**
Chg in cash & cash eq.	**0**	**(2)**	**1**	**23**	**9**
Closing cash & cash eq.	**8**	**6**	**7**	**30**	**39**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	29.6	5.3	7.4	10.8	12.7
Adjusted EPS	29.6	5.3	7.4	10.8	12.7
Dividend per share	8.7	1.5	2.0	3.2	3.8
Book value per share	131.2	132.5	138.2	145.8	154.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.0	0.9	0.8	0.9	0.9
EV/EBITDA	5.1	11.3	7.9	7.9	7.2
Adjusted P/E	5.2	29.5	20.9	14.4	12.2
P/BV	1.2	1.2	1.1	1.1	1.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	73.6	82.6	62.6	74.8	74.8
Interest burden (PBT/EBIT)	97.5	85.6	83.5	84.9	88.7
EBIT margin (EBIT/Revenue)	16.5	2.9	5.6	6.4	7.4
Asset turnover (Rev./Avg TA)	87.0	83.4	77.7	78.8	76.9
Leverage (Avg TA/Avg Equity)	2.4	2.3	2.4	2.4	2.2
Adjusted ROAE	24.6	4.0	5.5	7.6	8.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	49.7	0.9	0.9	4.4	(2.8)
EBITDA	67.5	(62.3)	38.7	10.7	7.9
Adjusted EPS	195.2	(82.2)	40.9	45.4	18.1
Profitability & Return ratios (%)					
EBITDA margin	20.6	7.7	10.6	11.2	12.5
EBIT margin	16.5	2.9	5.6	6.4	7.4
Adjusted profit margin	11.8	2.1	2.9	4.1	4.9
Adjusted ROAE	24.6	4.0	5.5	7.6	8.5
ROCE	20.3	4.3	6.6	7.4	8.2
Working capital days (days)					
Receivables	17	19	29	22	20
Inventory	69	97	113	93	88
Payables	74	54	59	53	52
Ratios (x)					
Gross asset turnover	0.9	0.8	0.8	0.8	0.8
Current ratio	0.7	0.8	0.9	0.9	0.9
Net interest coverage ratio	10.1	1.5	2.4	3.0	3.7
Adjusted debt/equity	0.3	0.6	0.6	0.5	0.4

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

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Financials – TATA

Income Statement

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	**2,423**	**2,416**	**2,273**	**2,323**	**2,507**
EBITDA	635	323	223	341	422
Depreciation	(91)	(93)	(99)	(105)	(112)
EBIT	544	230	124	236	311
Net interest inc./(exp.)	(55)	(63)	(75)	(74)	(67)
Other inc./(exp.)	8	10	18	18	21
Exceptional items	(1)	1	(78)	(17)	(8)
EBT	502	182	(11)	162	256
Income taxes	(85)	(102)	(38)	(49)	(77)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	6	4	(1)	(1)	(1)
Reported net profit	**402**	**88**	**(44)**	**116**	**183**
Adjustments	0	0	0	12	6
Adjusted net profit	**402**	**88**	**(44)**	**128**	**189**

Balance Sheet

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	368	378	354	353	371
Other current liabilities	260	279	282	286	309
Provisions	28	39	38	38	38
Debt funds	756	849	871	871	791
Other liabilities	273	283	265	287	305
Equity capital	12	12	12	12	12
Reserves & surplus	1,132	1,019	908	977	1,111
Shareholders' fund	1,171	1,052	924	991	1,122
Total liab. and equities	**2,854**	**2,880**	**2,734**	**2,825**	**2,935**
Cash and cash eq.	244	170	94	130	152
Accounts receivables	122	83	63	64	69
Inventories	488	544	492	489	514
Other current assets	71	70	57	59	59
Investments	58	48	55	55	55
Net fixed assets	1,162	1,187	1,235	1,287	1,367
CWIP	220	312	344	349	328
Intangible assets	171	279	253	251	250
Deferred tax assets, net	0	0	0	0	0
Other assets	376	235	197	197	197
Total assets	**2,854**	**2,880**	**2,734**	**2,825**	**2,935**

Cash Flows

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	**455**	**252**	**176**	**278**	**347**
Capital expenditures	(97)	(318)	(152)	(160)	(170)
Change in investments	(24)	10	(7)	0	0
Other investing cash flows	(39)	140	64	18	21
Cash flow from investing	**(159)**	**(168)**	**(96)**	**(142)**	**(149)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(129)	93	22	0	(80)
Interest expenses	(55)	(63)	(75)	(74)	(67)
Dividends paid	(62)	(44)	(45)	(45)	(56)
Other financing cash flows	64	(146)	(58)	19	26
Cash flow from financing	**(181)**	**(159)**	**(156)**	**(99)**	**(177)**
Chg in cash & cash eq.	**114**	**(74)**	**(76)**	**36**	**22**
Closing cash & cash eq.	**244**	**170**	**94**	**130**	**152**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	33.2	7.2	(3.6)	9.3	14.6
Adjusted EPS	33.2	7.2	(3.6)	10.2	15.1
Dividend per share	5.1	3.6	3.6	3.6	4.5
Book value per share	94.7	84.4	73.7	79.2	90.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	1.3	1.2	1.3	1.3	1.2
EV/EBITDA	4.9	8.9	12.7	8.7	7.1
Adjusted P/E	5.4	25.1	(50.6)	17.6	11.9
P/BV	1.9	2.1	2.4	2.3	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	79.7	48.3	(66.6)	71.3	71.4
Interest burden (PBT/EBIT)	92.6	78.9	53.7	75.9	85.0
EBIT margin (EBIT/Revenue)	22.4	9.5	5.5	10.2	12.4
Asset turnover (Rev./Avg TA)	91.3	84.3	81.0	83.6	87.1
Leverage (Avg TA/Avg Equity)	2.8	2.6	2.9	2.9	2.7
Adjusted ROAE	42.6	8.1	(4.5)	13.4	17.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	56.6	(0.3)	(5.9)	2.2	7.9
EBITDA	108.1	(49.1)	(30.9)	52.7	24.0
Adjusted EPS	408.5	(78.4)	(149.5)	(387.7)	47.7
Profitability & Return ratios (%)					
EBITDA margin	26.2	13.4	9.8	14.7	16.8
EBIT margin	22.4	9.5	5.5	10.2	12.4
Adjusted profit margin	16.6	3.6	(2.0)	5.5	7.5
Adjusted ROAE	42.6	8.1	(4.5)	13.4	17.8
ROCE	26.9	11.0	6.7	12.1	15.2
Working capital days (days)					
Receivables	18	12	10	10	10
Inventory	74	82	79	77	75
Payables	74	65	63	65	65
Ratios (x)					
Gross asset turnover	0.9	0.8	0.8	0.8	0.9
Current ratio	1.0	0.9	0.7	0.8	0.8
Net interest coverage ratio	10.0	3.6	1.7	3.2	4.6
Adjusted debt/equity	0.4	0.6	0.8	0.7	0.6

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

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
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