COMPANY UPDATE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 155 | ⮝ 22%

TATA STEEL | Metals & Mining | 25 September 2023

UK transition to dispel overhang, reiterate BUY

- **Decarbonisation of UK operation can sharpen competitiveness and add potential value of Rs 6-7/sh for TATA**
- **Benefits can be validated if management discloses revised fair value of TSUK cash generating unit**
- **We raise our TP to Rs 155 (from Rs 145) factoring in potential benefits from the UK transition**

Kirtan Mehta, CFA | Yash Thakur
research@bobcaps.in

Transition of UK operations…: TATA has secured a 40% capex grant from the UK government to decarbonise operations by transitioning from a 3.5mt BF to a 3mt EAF, in line with the regional emission mandate. The company aims to secure buy-in from the workers' unions over the next three months by convincing them of its intent to retain 5,000 of ~8,000 jobs. TATA plans to share estimates of restructuring costs during its Q2FY24 earnings call in October.

…likely to catalyse a turnaround: Management estimates cost savings of GBP 150-170/t from the restructured UK operations that can turn the unit around from the losses of GBP 50-60/t incurred in FY23 and Q1FY24. Competitiveness will also sharpen, likely shifting the UK business to the left half of the EAF cost curve from the fourth quartile of the BF cost curve in Europe.

Potential rise in European profitability…: Per our estimate, TSE EBITDA can jump to Rs 88bn-93bn in steady-state from Rs 46bn in FY23 and our projection of Rs 36bn in FY24 (assuming steady-state profitability of US$125/t for Netherlands operations).

…could add Rs 6-7/sh for TATA: Valuations could rise assuming (a) incremental EBITDA of ~GBP 0.4bn post transition, (b) an exit EBITDA multiple of 5.5x, (c) capex of GBP 0.75bn net of grant, (d) restructuring cost of GBP 0.25bn, and (e) discounting of the fair value by 4.5 years to allow for approvals, implementation and stabilisation. This valuation is sensitive to delivery of cost savings of GBP 150-170/t; at GBP 100/t, the potential benefit would slip from Rs 6-7/sh to Rs 2/sh.

Clarity awaited: Disclosures from TATA on the value-in-use for TSUK post transition capex and reduced carbon cost would help clarify the benefits. Current data implies fair value of ~GBP 0.65bn for continuation of the existing plant at higher carbon costs.

Reiterate BUY: We raise our SOTP-based TP to Rs 155 (from Rs 145) as we hike our FY26E EV/EBITDA multiple for European operations to 5.5x (from 4.5x), keep Indian operations at 6x and add in Rs 6/sh for the TSUK transition. We remain confident of TATA's ability to deliver earnings-accretive growth and maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TATA IN/Rs 127
Market cap	US$ 18.9bn
Free float	66%
3M ADV	US$ 53.6mn
52wk high/low	Rs 135/Rs 95
Promoter/FPI/DII	34%/21%/21%

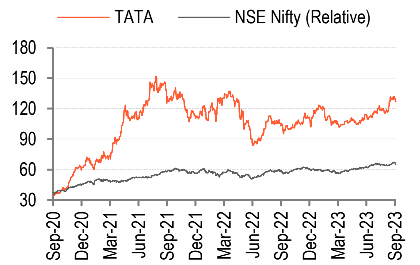
Source: NSE | Price as of 22 Sep 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs bn)	2,416	2,145	2,199
EBITDA (Rs bn)	323	307	375
Adj. net profit (Rs bn)	88	113	164
Adj. EPS (Rs)	7.2	9.3	13.4
Consensus EPS (Rs)	7.2	9.1	13.3
Adj. ROAE (%)	8.1	10.6	14.1
Adj. P/E (x)	17.7	13.7	9.4
EV/EBITDA (x)	6.8	7.0	5.9
Adj. EPS growth (%)	(78.4)	29.2	44.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

TSUK transition with government support

TATA has secured the UK government's commitment for a GBP 0.5bn capex grant to move its Port Talbot plant to the decarbonised route of production using a 3mt electric arc furnace (EAF) in place of the existing 3.5mt blast furnace (BF). Including this grant, the company will incur total capex of GBP 1.25bn on the green shift over 3-3.5 years. Funding will be through an infusion of equity in the UK with internal cash from India operations. We estimate incremental fair value from this transition at Rs 6-7/sh.

Salient features of UK restructuring

- **Government to fund 40% of transition capex:** TATA has announced that it will receive a direct capex grant of GBP 0.5bn (40% of transition capex; to be paid within a quarter of being incurred) for its Port Talbot plant. While opex support is not on offer, energy cost has already been reduced close to the wholesale price under the recent British Super Charger scheme that aims to bring energy costs of the UK's industries in line with those charged across the world's major economies. The UK government will also implement a Carbon Border Adjustment Mechanism (CBAM) on the lines of the EU to protect steel manufacturers against imports.
- **One of the largest EAFs in the world:** A 3mt EAF will replace TSUK's existing 3.5mt blast furnace-basic oxygen furnace (BF-BOF) plant and will be one of the largest in the world. This apart, existing castors will be upgraded and a new hot strip mill (HSM) will be added at Port Talbot along with a new consolidated cold rolled mill (CRM) at another location.
- **Restores viability:** Emissions are guided to reduce to $0.4tCO^2$ from $2.2tCO^2$ based on assumed carbon emissions of purchased power. As per the company, the shift to green operations would enable the Tata Steel UK (TSUK) plant to achieve steady-state savings of GBP 150-170/t from current levels, comprising carbon cost savings of GBP 60/t and GBP 90-110/t from other operational costs.
- **Improves competitive position:** With these savings, the new UK plant will shift to the left half of the EAF cost curve in Europe, thereby significantly improving its competitive position from the fourth quartile of the BF curve in Europe.
- **Positive economics:** TATA expects capex to earn more than the cost of capital. Its UK operations have the advantage of GBP 2bn in tax losses. Economics can further improve as grid cost reduces with the country's adoption of offshore wind power on a large scale. This is currently not factored into the company's cost saving guidance.
- **Eliminates cash losses:** Restructuring should stanch cash losses at the Port Talbot plant that stood at GBP 127mn in FY23 and GBP 39mn in Q1FY24.
- **Restructuring costs front-loaded:** The cost for 3,000 job redundancies and impairment of assets will be front-ended, which the company is likely to disclose in October.
- **Imports of HRC planned:** To minimise losses, TSUK aims to switch to imports of hot rolled coils (HRC) to continue with the downstream supply chain during the transition phase.

- **Benefit of domestic scrap availability:** Per the company, the EAF will benefit from domestic availability of 10mt of scrap and also high-grade auto scrap. It will have the flexibility to use DRI along with scrap to improve product quality, where required.
- **Strong downstream position:** TSUK will benefit from a dominant market share for its main segments – 50% in automotive, 43% in construction and 62% in packaging (as of FY23).
- **Three-year timeline:** The company is guiding for a consultation period of 45-60 days with workers' unions and looks to arrive at a final solution for restructuring within a quarter. It also estimates a timeframe of 36 months for implementation after all approvals come through.

UK decarbonisation can add Rs 6-7 per share value…

We estimate incremental fair value from the UK transition at Rs 6-7/sh as follows:

- Based on the company's guidance of GBP 150-170/t in cost savings, the TSUK business can generate additional EBITDA of GBP 0.36bn-0.41bn annually post transition.
- Assuming an EV/EBITDA exit multiple of 5.5x (still below our target multiple of 6x for India business given the absence of volume growth), this could mean incremental enterprise value of GBP 2bn-2.3bn.
- After accounting for capex of GBP 0.75bn net of the UK government's grant and assuming restructuring cost of GBP 0.25bn, incremental fair value will be of the order of GBP 1bn-1.3bn.
- Allowing for 4.5 years for approvals, implementation and stabilisation, we arrive at a fair value of Rs 0.6bn-0.8bn or Rs 6-7 per share for TATA.
- We highlight that this fair value is sensitive to delivery of cost savings by the UK business. For instance, if actual savings amount to GBP 100 instead of GBP 150-170/t as guided, the incremental fair value per share reduces to Rs 2.

Fig 1 – TSUK transition: Valuation assumptions

Parameters		Below lower end of guidance	Lower end of guidance	Upper end of guidance
Incremental EBITDA for UK business	GBP	100	150	170
New Production @ 90% utilisation	mt	2.7	2.7	2.7
New deliveries	mt	2.4	2.4	2.4
Incremental EBITDA	**GBP mn**	**247**	**365**	**412**
EV/EBITDA multiple	x	5.5	5.5	5.5
Incremental EV	**GBP mn**	**1,358**	**2,008**	**2,268**
Incremental capex	GBP mn	750	750	750
Incremental restructuring costs	GBP mn	250	250	250
Fair value for UK transition capex	**GBP mn**	**358**	**1,008**	**1,268**
Incremental fair value	Rs/share	3	9	11
FV discounting for 4.5 years	**GBP mn**	**233**	**656**	**826**
FV after discounting	Rs/sh of TATA	2	6	7

Source: Company, BOBCAPS Research

…and boost TSE profitability

We estimate that TSUK business transition could double Tata Steel Europe (TSE) EBITDA to Rs 88bn-93bn from Rs 46bn earned in FY23 and our estimate of Rs 36bn for FY26. This could be delivered once TSUK operation stabilises using new EAF, which could take three years for implementation after all approvals. We currently believe that TATA could reach this run-rate in FY27-FY28.

- **TSUK:** We account for EBITDA improvement of GBP 0.36bn assuming incremental savings of GBP 150/t at the lower end of company guidance. This leads to ~GBP 110/t of steady-state EBITDA for the UK business as against our forecast of ~GBP 40/t for FY26 and the reported loss of GBP 50-60/t during FY23 and Q1FY24.
- **Mainland Europe (MLE) business:** We assume steady-state EBITDA of US$ 125/t on 6.5mt of production at MLE operations versus our estimate of US$ 100/t in FY24 and US$ 132/t reported in FY23 (loss of US$ 106/t in Q1FY24). We do not factor in any transition plan for the MLE business.

Fig 2 – TSE profitability: Scenario analysis

Parameter	Unit	FY23	Q1FY24	FY26E	Scenario post transition					
Assumption of UK profitability for scenarios	**GBP/t**	**(48)**	**(60)**	**(40)**	**0**	**30**	**60**	**100**	**110**	**130**
EBITDA Tata Steel Europe (TSE)	**INR bn**	**46**	**(16)**	**36**	**60**	**67**	**75**	**85**	**88**	**93**
EBITDA Tata Steel Europe	GBP mn	478	(152)	332	546	617	688	783	806	854
- UK	GBP mn	(127)	(39)	(105)	0	71	142	236	260	307
- MLE (Implied)	GBP mn	605	(113)	437	546	546	546	546	546	546
EBITDA/t TSE	**US$/t**	**71**	**(96)**	**52**	**88**	**100**	**111**	**127**	**130**	**138**
- UK	GBP/t	(48)	(60)	(40)	0	30	60	100	110	130
- UK	US$/t	(58)	(76)	(52)	0	39	78	130	143	169
- MLE	US$/t	132	(106)	100	125	125	125	125	125	125
Production TSE	**mt**	**9.3**	**1.8**	**9.5**	**9.2**	**9.2**	**9.2**	**9.2**	**9.2**	**9.2**
- UK	mt	3.0		3.0	2.7	2.7	2.7	2.7	2.7	2.7
- MLE	mt	6.3		6.5	6.5	6.5	6.5	6.5	6.5	6.5
Deliveries TSE	**mt**	**8.2**	**2.0**	**8.3**	**8.1**	**8.1**	**8.1**	**8.1**	**8.1**	**8.1**
- UK (pro-rata)	mt	2.6	0.6	2.6	2.4	2.4	2.4	2.4	2.4	2.4
- MLE (pro-rata)	mt	5.5	1.3	5.7	5.7	5.7	5.7	5.7	5.7	5.7

Source: Company, BOBCAPS Research

Further clarity awaited

We can better assess improvement in fair value of the UK business if TATA shares the revised value-in-use for the TSUK cash generating unit (CGU) after incorporating transition capex and its benefit in the form of reduced carbon cost. At present, TSE's annual report carries an implied fair value of ~GBP 0.65bn for TSUK without factoring in the shift to decarbonised production.

At the same time, the fair value of TSE business implied from subsidiary-related disclosures is above GBP 4bn, which is double our current valuation of GBP 1.8bn. We note this value is sensitive to underlying margin assumptions as a decline of just 9%/11% in gross spread assumptions for MLE/UK would lower fair value by more than half. We await detailed disclosures on fair value and related assumptions from the company to validate our assessment.

Current disclosures

TATA formally separated TSE into a UK and MLE value chain on 1 Oct 2021 and has accordingly been disclosing value-in-use for related CGUs to determine impairments of these assets. While book value of PPE and intangibles for TSE is indicated at ~GBP 3.4bn on Mar'23, the carrying value of TSUK CGU was indicated at GBP 598mn in TSE's FY23 Annual Report.

- **TSUK business:** The UK value chain of assets includes manufacturing assets in the UK, Sweden and Norway as well as certain international sales offices.
- **MLE business:** This includes manufacturing assets in mainland Europe (MLE) centred in the Netherlands and the US, and other international sales offices.

Fig 3 – Carrying value of Europe business

(GBP mn)	TSUK	TSE
Carrying value of CGU (FY23)	598	NA
Book value of PPE and Intangibles	547 (FY22)	3,379 (FY23)

Source: Company, BOBCAPS Research

For impairment testing, TSE is using different approaches for the two businesses:

- **UK business:** TSE is deriving value-in-use assuming continuity of the current plant without moving to the decarbonised route of production and is providing for consequent carbon costs on higher emissions.
- **MLE business:** Fair value is being derived after allowing for cost of disposal of the existing plant, assuming capex for transition to the decarbonised route of production and consequent benefits of lower carbon cost on reduced emissions.

Fig 4 – Determining fair value of business for impairment test: TSE Annual Report

Parameters	TSUK	MLE
Discount rate	11.7% pre-tax	10.6% pre-tax, 7.9% post-tax
Methodology	Value-in-use: Assuming the current plant operates in future without any transition to new technology and pays carbon emission costs as per the UK Emissions Trading Scheme (ETS) regime	Fair value less cost of disposal (referred to as FV): Accounts for transition to decarbonised production through the Direct Reduced Iron (DRI) route using hydrogen
Cash flow forecast years	Explicit forecasts for 3 years; terminal growth rate of 2%	Explicit forecasts for 3 years followed by cash flow during and after transition; terminal growth rate of 2%
Key assumptions for carrying value	Selling prices, raw material costs, EU demand all based upon expectation of future changes in steel market and exchange rate	Additional assumptions include capex to pursue decarbonisation as well as future benefits of capex
Government grant	None	Capex grant of 45% for decarbonisation transition

Source: Company, BOBCAPS Research

Based on the sensitivity analysis shared in TSE's FY23 Annual Report, while fair value of TSUK business appears to be ~GBP 0.65bn for the existing plant pre-greening, fair value of TSE appears to be more than GBP 4bn considering the fair-value of assets of its wholly-owned subsidiary Tulip UK Holdings (No. 2).

Fig 5 – Sensitivity analysis for impairment test used by TSE

(GBP mn)	TSUK	TSUK	Tulip UK Holding (No. 2)
Sensitivity of fair value to →	Increase in discount rate for impairment test	Decrease in HRC gross spread assumption	Decrease in HRC gross spread assumption
Change in discount rate	1%	NA	NA
Change in HRC gross spread assumption	NA	11% in 3rd year of Group's value-in-use (VIU) forecast	11% in 3rd year of Group's VIU for UK, 9% in 4th year of Group's VIU for MLE
Decrease in headroom of value-in-use above the carrying value of PPE and goodwill	(125)	662	2,528
Impairment charge to PPE and goodwill	(78)	598	1,802
Implied headroom available in value-in-use (calculated)	47	64	726
Implied Fair Value of business (calculated)	**645**	**662**	**4,105**

Source: Company, BOBCAPS Research

Valuation methodology

Forecasts maintained

At this stage, we maintain our forecasts. On a lower base of FY23, we build in a conservative 9% EBITDA CAGR for TATA over FY23-FY26 assuming only partial operations at the Tata Steel Kalinganagar (TSK) expansion by FY26 and mid-cycle EBITDA margins of Rs 14.7k-15.6k/t over FY24-FY26. We also model for the following conservative assumptions as the company's capex plan fructifies over the next three years:

- **6mtpa pellet plant:** Rs 500/t annualised improvement in steel margin through to FY26 upon full ramp-up of the pellet plant (TATA has stopped buying pellets from Q2)
- **2.2mtpa CRM complex:** US$ 100-150/t improvement over HRC realisation on 1-2mt of cold rolled and related flat products gradually over FY24-FY26 as the entire CRM complex is commissioned
- **1mt NINL plant:** EBITDA margins to improve to Rs 5k-10k/t gradually through to FY26 as TATA fully integrates the Neelachal Ispat Nigam (NINL) plant with its long operations
- **5mtpa TSK expansion:** Utilisation of 30% in FY25 and 70% in FY26 based on company guidance of startup of the BF by Apr'24
- **0.75mtpa EAF in Ludhiana:** No benefits from the EAF factored in at this stage as it will take time to develop a scrap-based chain in the region

Fig 6 – Maintain forecasts

(Rs bn)	Provisional	Forecasts			Consensus			Delta to Consensus (%)		
	FY23A	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,416	2,145	2,199	2,372	2,280	2,341	2,627	(5.9)	(6.1)	(9.7)
EBITDA	323	307	375	419	310	380	390	(1.1)	(1.3)	7.5
Net income	88	113	164	196	109	158	173	3.4	3.8	13.1

Source: Bloomberg, BOBCAPS Research

Fig 7 – Key assumptions

Parameter	FY23A	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$/t)	751	642	599	599
EBITDA/t Standalone (Rs '000/t)	14.7	14.7	15.5	15.6
EBITDA/t India business (Rs '000/t)	13.7	14.2	15.2	15.4
EBITDA/t Europe (US$/t)	70	7	38	50

Source: Company, BOBCAPS Research

Target price raised to Rs 155; maintain BUY

Given the receding overhang on TSUK, we raise our SOTP-based TP for TATA to Rs 155 from Rs 145. We have increased our target FY26E EV/EBITDA multiple for the UK business to 5.5x (from 4.5x) and now bake in an incremental fair value of Rs 6/sh for the proposed restructuring. We continue to rate India operations at an unchanged target multiple of 6x. Upon discounting our fair value back to Sep'24 (from Jul'24 earlier), we arrive at our one-year forward target price.

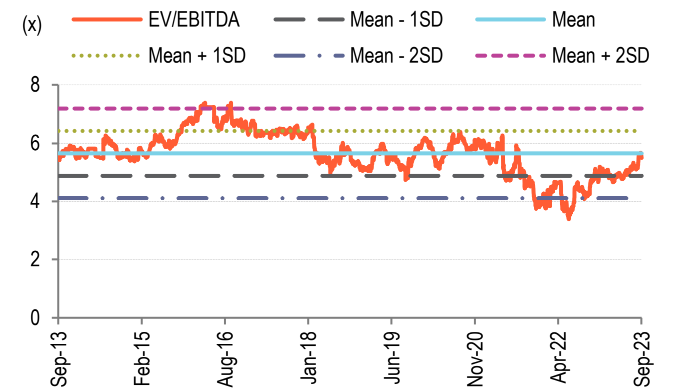
With a blueprint in place for moving the UK plant to more sustainable operations, we believe the overhang on the stock will be dispelled. We maintain BUY as we remain confident of TATA's ability to deliver earnings-accretive growth.

Fig 8 – TATA: Valuation summary

(Rs bn)	Tata Steel India	Tata Steel Europe	Tata Steel
FY26E EBITDA	384	36	419
Target EV/EBITDA multiple (x)	6.0	5.5	6.1
EV Mar'25E	**2,302**	**160**	**2,496**
Incremental EV from UK transition	-	71	71
EV Mar'25E	**2,302**	**267**	**2,569**
FY25E Net debt	-	-	579
Equity value Mar'25E	**-**	**-**	**1,990**
Fair value Mar'25E (Rs)	-	-	163
Fair value Sep'24E (Rs)	-	-	155
Target price Sep'24E (Rs) (rounded to nearest Rs 5)	**-**	**-**	**155**

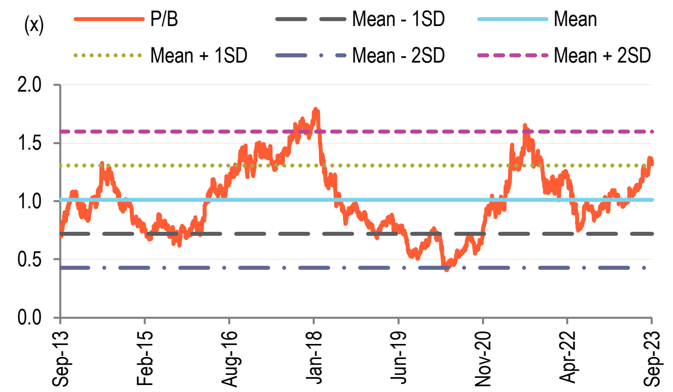
Source: Company, BOBCAPS Research

Fig 9 – TATA EV/EBITDA 2Y fwd



Source: Bloomberg, Company

Fig 10 – TATA P/B 1Y fwd



Source: Bloomberg, Company

Fig 11 – 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	127	BUY	155	22.3	1.0	1.0	7.3	5.7	88	113	1.5	1.3	13.7	9.4
JSTL IN	774	HOLD	840	8.5	1.6	1.5	7.9	6.7	41	120	2.8	2.1	15.5	12.2
SAIL IN	93	HOLD	90	(3.4)	0.6	0.6	5.3	5.0	22	44	0.7	0.6	8.7	8.2

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates 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 our assumptions.
- TATA is exposed to the risk of delay in implementation of its capital investment plan, including expansion, which could impact earnings growth. The company is targeting completion of margin enhancement projects such as the cold rolled mill at Kalinganagar plant in FY24 and annealing and galvanising lines over FY24-FY25. It is also expanding Kalinganagar capacity by 5mtpa to raise total India capacity to 25mt by FY25.
- TATA is now exposed to the risk of delays in finalisation or non-progress of the UK transition plan. Restructuring to continue only with downstream operations could involve additional costs.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
JSW Steel	JSTL IN	22.8	774	840	HOLD
SAIL	SAIL IN	4.7	93	90	HOLD
Tata Steel	TATA IN	18.9	127	155	BUY

Source: BOBCAPS Research, NSE | Price as of 22 Sep 2023

Financials

Income Statement

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**2,423**	**2,416**	**2,145**	**2,199**	**2,372**
EBITDA	635	323	307	375	419
Depreciation	(91)	(93)	(100)	(105)	(113)
EBIT	544	230	207	270	307
Net interest inc./(exp.)	(55)	(63)	(65)	(58)	(52)
Other inc./(exp.)	8	10	18	19	22
Exceptional items	(1)	1	0	0	0
EBT	502	182	164	234	281
Income taxes	(85)	(102)	(53)	(70)	(84)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	6	4	4	4	4
Reported net profit	**402**	**88**	**113**	**164**	**196**
Adjustments	0	0	0	0	0
Adjusted net profit	**402**	**88**	**113**	**164**	**196**

Balance Sheet

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	368	378	353	350	375
Other current liabilities	260	279	246	252	272
Provisions	28	39	39	39	39
Debt funds	756	849	809	729	649
Other liabilities	273	283	278	268	285
Equity capital	12	12	12	12	12
Reserves & surplus	1,132	1,019	1,086	1,207	1,354
Shareholders' fund	1,171	1,052	1,118	1,239	1,386
Total liab. and equities	**2,854**	**2,880**	**2,843**	**2,877**	**3,005**
Cash and cash eq.	244	170	131	150	205
Accounts receivables	122	83	106	108	117
Inventories	488	544	479	450	482
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**	**2,843**	**2,877**	**3,005**

Cash Flows

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**455**	**252**	**268**	**337**	**344**
Capital expenditures	(97)	(318)	(170)	(146)	(146)
Change in investments	(24)	10	0	0	0
Other investing cash flows	(39)	140	18	19	22
Cash flow from investing	**(159)**	**(168)**	**(152)**	**(127)**	**(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)	(43)	(50)	(63)
Other financing cash flows	64	(146)	(7)	(3)	30
Cash flow from financing	**(181)**	**(159)**	**(155)**	**(192)**	**(164)**
Chg in cash & cash eq.	**114**	**(74)**	**(39)**	**19**	**55**
Closing cash & cash eq.	**244**	**170**	**131**	**150**	**205**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	33.2	7.2	9.3	13.4	16.0
Adjusted EPS	33.2	7.2	9.3	13.4	16.0
Dividend per share	5.1	3.6	3.5	4.1	5.1
Book value per share	94.7	84.4	90.0	99.9	111.9

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	6.8	7.0	5.9	5.2
Adjusted P/E	3.8	17.7	13.7	9.4	7.9
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	68.8	69.9	69.8
Interest burden (PBT/EBIT)	92.6	78.9	79.5	86.9	91.5
EBIT margin (EBIT/Revenue)	22.4	9.5	9.6	12.3	12.9
Asset turnover (Rev./Avg TA)	91.3	84.3	75.0	76.9	80.7
Leverage (Avg TA/Avg Equity)	2.8	2.6	2.7	2.5	2.3
Adjusted ROAE	42.6	8.1	10.6	14.1	15.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	56.6	(0.3)	(11.2)	2.5	7.9
EBITDA	108.1	(49.1)	(5.1)	22.4	11.8
Adjusted EPS	408.5	(78.4)	29.2	44.8	19.6
Profitability & Return ratios (%)					
EBITDA margin	26.2	13.4	14.3	17.1	17.7
EBIT margin	22.4	9.5	9.6	12.3	12.9
Adjusted profit margin	16.6	3.6	5.3	7.5	8.3
Adjusted ROAE	42.6	8.1	10.6	14.1	15.2
ROCE	26.9	11.0	10.3	13.0	14.4
Working capital days (days)					
Receivables	18	12	18	18	18
Inventory	74	82	81	75	74
Payables	74	65	70	70	70
Ratios (x)					
Gross asset turnover	0.9	0.8	0.7	0.8	0.8
Current ratio	1.0	0.9	0.8	0.8	0.9
Net interest coverage ratio	10.0	3.6	3.2	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

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

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**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

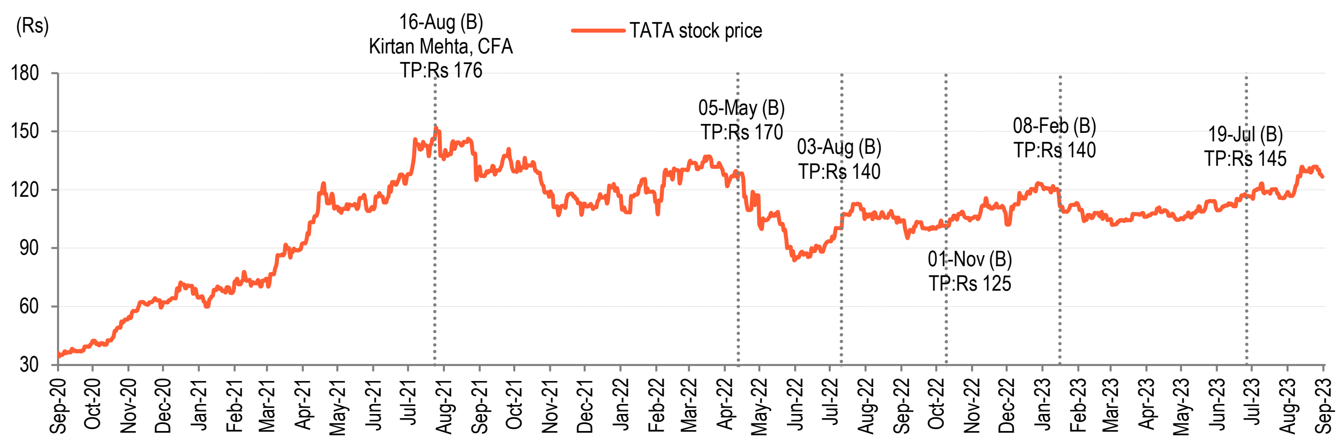
Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months
BUY – Expected return >+15%
HOLD – Expected return from -6% to +15%
SELL – Expected return <-6%
Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): TATA STEEL (TATA IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Analyst certification
The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers
BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd) ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as **"MAYBANK"**). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.