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BUY
TP: Rs 140 | ⮝ 26%

TATA STEEL | Metals & Mining | 08 February 2023

Weaker Q3 does not disrupt upcoming growth, maintain BUY

- **Q3 below consensus with softer recovery in India operations and acute losses in Europe**
- **Earnings expected to post 18% CAGR over FY24-FY25 buoyed by margin stabilisation and growth projects**
- **We raise our TP to Rs 140 (vs. Rs 125) on rollover to FY25 and a higher blended target EV/EBITDA of 5.75x (vs. 5.5x); maintain BUY**

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Weak Q3: TATA's consolidated Q3FY23 EBITDA at Rs 27bn fell 53% QoQ and was 54% below consensus. While standalone recovery was soft, Europe suffered an EBITDA loss of US$ 95/t. TATA saw a consolidated net loss with a one-off deferred tax charge on transfer out of the British Pension scheme. Net debt remained elevated at Rs 717bn, and TATA will not be able to deliver on deleveraging by US$ 1bn this year.

Expect gradual stabilisation of margins near-term: We expect industry-wide steel margins to stabilise to mid-cycle levels over FY24 aided by supportive government policies in China aimed at rebooting the economy. For TATA, margins in Indian operations are also likely to stabilise over FY24. European operations are likely to be under pressure at least until Q1FY24 with planned turnaround at Netherlands operations and the need for a demand-supply rebalancing in Europe. Accounting for the weaker Q3 and slower improvement over the next six months, we cut our FY23/FY24 EBITDA by 20%/10% but largely maintain our FY25 forecast.

Earnings growth kicking in from fructification of capex: Over a lower FY23 base, we now look for an 18% EBITDA CAGR over FY23-FY25. Besides margin stabilisation, key growth levers are ramp-up of the 6mtpa pellet plant, 2.2mtpa CRM complex and 1mtpa NINL plant over FY24, as well as ramp-up of the annealing & galvanising facilities and start-up of the 5mtpa Kalinganagar expansion over FY25.

Look beyond volatility to longer-term growth: TATA is well positioned to weather the ongoing downturn and is advancing its plan for 1.5x capacity growth to reach ~32mt by FY27 with implementation of Kalinganagar and NINL expansion. The company also has enough optionality within its three bases in India to deliver on its 40mtpa plan by FY30 via brownfield expansion. Moreover, it is aiming to improve the structural position of European operations under zero-carbon transition.

Maintain BUY: We increase our TP to Rs 140 from Rs 125 as we revise estimates, roll forward our valuation base and account for a blended FY25E EV/EBITDA multiple of 5.75x (vs. 5.5x earlier), valuing Indian operations at 6x and European operations at 4.5x. Given 26% upside potential, we maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TATA IN/Rs 111
Market cap	US$ 16.5bn
Free float	66%
3M ADV	US$ 65.0mn
52wk high/low	Rs 139/Rs 83
Promoter/FPI/DII	34%/23%/20%

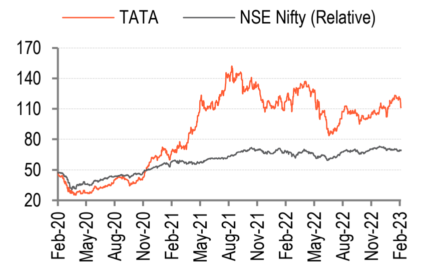
Source: NSE | Price as of 8 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	2,423	2,273	2,127
EBITDA (Rs mn)	635	287	339
Adj. net profit (Rs mn)	402	89	126
Adj. EPS (Rs)	33.2	7.4	10.5
Consensus EPS (Rs)	33.2	13.5	12.9
Adj. ROAE (%)	42.6	8.0	11.0
Adj. P/E (x)	3.4	15.1	10.7
EV/EBITDA (x)	3.5	7.0	5.8
Adj. EPS growth (%)	436.1	(77.7)	41.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Q3 weak but improvement ahead

TATA reported poor Q3FY23 results driven by a downturn in European operations due to inventory loss on slabs and a deferred tax charge on pension-related liabilities. However, we believe profits have bottomed out with margin recovery continuing in India during Q4FY23 thus far, likely margin revival in Europe in H2FY24, and fructification of earnings growth from the capex programme starting from FY24.

Weak Q3

TATA's adj. Q3FY23 EBITDA at Rs 27.3bn was well below Bloomberg consensus estimates of Rs 59.3bn and our forecast of Rs 37.6bn. Consolidated EBITDA plunged 53% QoQ as a 15% improvement in standalone operations was offset by a 187% slump in Europe.

- **Standalone recovery was soft** and aided by a modest Rs 1.3k/t QoQ uptick in EBITDA margin as a US$ 82/t reduction in coking coal consumption cost offset lower realisations (-Rs 1.3k/t) and a decline in deliveries (-3.6%). While recovery was slower relative to peers, it was more a function of stronger margins than peers (see Fig 4 and 5).
- **Europe suffered an EBITDA loss of US$ 95/t** with a reduction in realisation by ~GPB 150/t QoQ, NRV (net realizable value) loss of GBP 55mn on elevated slab inventories (built to offset the impact of the planned shutdown), and high energy inflation which nullified the benefit of a US$ 95/t reduction in coking coal cost and a 6% QoQ increase in deliveries.
- **Long products business excluding NINL returned into profit** with EBITDA of Rs 0.8bn (from a loss of Rs 0.5bn in Q2). However, loss including NINL (Neelachal Ispat Nigam) increased by Rs 1.2bn to Rs 3.5bn with high start-up costs and only limited volumes.
- **Consolidated net loss** stood at Rs 22.2bn owing to a high and non-recurring but non-cash deferred tax charge of Rs 21.5bn on 30% transfer out of in the British Steel Pension Scheme.
- **Net debt remained elevated** at Rs 711bn after a surge in Q2 on account of NINL payment, dividend outgo and insufficient operating cash flow to cover capex. TATA guided that it will not be able to deliver on its US$ 1bn deleveraging plan this year.

Near term: Modest recovery in India; slower pickup in Europe

Volume uptick in Q4

Management has guided for 0.5mt QoQ higher volumes in Q4FY23 combined across India and Europe. This should help partly unwind the inventory stockpiled in H1.

India: Modest recovery to continue into Q4

We believe EBITDA margin could improve by Rs 2k/t QoQ to Rs 12.5k/t in Q4FY23 based on management guidance of a Rs 1.3-1.5k/t increase in realisation and a US$ 10/t reduction in coking coal cost. Indian realisations should improve in line with regional prices given a visible pickup in domestic demand in Q3 (+8% QoQ, +7% YoY), backed by continuing recovery in offtake from the infrastructure, construction and capital goods sectors, compensating for a marginal drop in automotive demand.

Europe: Bottoming out but outlook dull at least till Q1FY24

- We expect **Europe to remain lossmaking in Q4** with elevated energy inflation and softer prices. However, we do pencil in a marginally lower EBITDA loss of US$ 60/t from US$ 95/t in Q3 primarily due to the absence of NRV loss and a US$ 10/t reduction in coking coal cost (offset by a US$10/t rise in iron ore cost). Management also aims to focus on sale of inventory for cash generation needed in Europe.
- **Weakness is likely to continue at least till Q1FY24.** With the BF#6 (2.5mtpa) relining plant in the Netherlands planned for Q1FY24 and guided to turn around in 120 days starting from Apr'23, European profit is likely to be weak at least until Q1FY24. To minimise the impact on deliveries, the Netherlands operations has been built slab inventory of more than 0.7mt in CY22.
- **European spreads need to improve for a return of profitability.** Spot spreads are still soft at US$ 200/t as apparent spreads of US$ 270/t are adjusted for cost of natural gas, electricity and carbon costs. Management had previously indicated that European operations could break even when spreads were in the range of US$ 225-250/t although this may have changed with the shift in external environment and commencement of internal efficiency projects.
- **Markets are already showing signs of improvement** with a rise in spot HRC prices by EUR 50/t driven by expectations of recovery in China – a major global steel consumer (~50% of global volumes). New annual contracts are also yielding EUR 850-1000/t which is above the current spot prices but EUR 100-250/t below last year's levels. Energy inflation has scaled back to the 10-20% range although it is still high in the historical context, and spreads need to move upward to reflect this elevated level. European supply cuts could improve the market balance and, in turn, spreads.

Capex in line with guidance

With a cumulative spend of Rs 36bn in Q3 and guidance of Rs 30bn in Q4, TATA is on track to close FY23 with capex of Rs 123bn as planned.

Capex to start translating into earnings growth

Looking beyond external market headwinds, we believe TATA will start to deliver earnings growth from FY24.

- **FY24 earnings levers:** TATA will benefit from ramp-up of 1mt of capacity at NINL (target to scale up monthly rate to 80ktpa from the current 50-60kt by end-Q4FY23), additional volumes from debottlecking at the Kalinganagar plant with the addition of a castor (volume guidance awaited), savings from the end of external pellet purchase from Q2FY24 with ramp-up of the 6mtpa pellet plant, and additional margins from operations at the 2.2mtpa cold rolled mill.

We currently assume US$ 100/t higher realisations from new cold rolled (CR) products over hot rolled coils (HRC), Rs 600/t of savings on pellets, and 0.8mt of additional volumes from the NINL plant.

- **FY25 earnings levers:** TATA should be able to improve realisations of flat steel products with phased start-up of the annealing and galvanising lines over FY24. Crude steel volumes will modestly increase with the 5mtpa Kalinganagar expansion scheduled for commissioning at end-FY24 and with management exploring options for acceleration of the project.

  We currently assume a US$ 150/t premium over HRC prices on the 2mtpa of CR and related flat products and a modest 0.8mt increase in crude steel production. At this stage, we do not factor in benefits of start-up of the 0.75mtpa electric arc furnace (EAF) in Ludhiana as it takes time to develop a scrap-based chain in the region as we have seen with the Rohtak EAF.

India: Doubling capacity to 40mtpa by 2030

TATA aims to double crude steel capacity in India from 21mt to 40mt by 2030 by increasing production of flat products from 16mtpa to 27mtpa and long products from 5mtpa to 13mtpa. The growth would be across the integrated chain, expanding upstream mines from ~30mtpa to 60-65mtpa and also expanding downstream capacities.

- **Crude steel:** TATA is set to expand capacity by 5mtpa at Kalinganagar by the end of FY24, add 0.75mtpa through the Ludhiana EAF and is planning a 5mtpa expansion at NINL likely by FY27, taking total crude steel capacity to ~32mt. The company may scale up regional EAFs to ~5mt and have enough optionality amongst its three sites for another 5mtpa of brownfield expansion to reach its target of 40mtpa capacity by FY30.
- **Flats:** The company aims to retain its high market share of 25% and grow along with the market.
- **Longs:** The goal is to raise market share as the segment consolidates and becomes more organised (currently secondary players have 60% market share). Industry is likely to move into mechanised, pre-cast and prefabricated steel structures and will look for a wide range of products and solutions. To capture higher market share, the company aims to double its retail presence and set up more than 45 services by FY27. Service centres will help drive pre-sale design and site management to enhance value addition.

Europe progressing on structural improvements

- **UK operations derisked from impact of British Steel Pension Scheme (BSPS).** TATA has successfully transferred 60% of BSPS to a third-party professional and aims to pass on the balance 40% over H1CY23. This would help avoid any further risk of shortfall in the defined benefit pension plan. There would be an additional one-off non-cash deferred tax impact at the time of transfer of the balance.

- **Netherlands finalising transition plan to phase out of BF by CY26.** This is to comply with regional environmental requirements. TATA is relining the smaller of two blast furnaces (2.5mt out of 6mt of production capacity) in Q1FY24 at a capex of US$ 250mn-275mn and plans to use the same until 2035 under transition. The company will have to finalise this plan ahead of the decision on relining of BF#7, which is due for upgrade by 2026.

  The current plan involves replacement of BF with DRI (Direct Reduced Iron), REF (Reducing Electric Furance) and IF(Induction Furnace) and will depend upon evolution of the energy situation and the outlook on competitiveness of natural gas and hydrogen. The Netherlands operations has largely been EBITDA and cash positive through the cycle and is building up necessary cash for the capex plan.

- **UK operations developing feasible solution for transition.** Media reports suggests that the UK government has proposed a GBP 300mn capex support, a policy package on energy prices and CBAM(Carbon Border Adjustment Mechanism) protection for transition to the zero-emission process. TATA has previously indicated that it needs at least a 50% capex grant and is reworking a feasible configuration for using local scrap. The revised proposal needs to be at least a third of the original proposal which included an EAF, hot strip mill and thin slab castor.

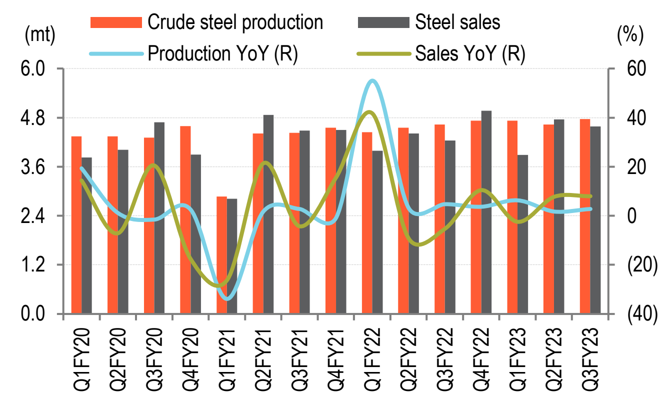
Fig 1 – Quarterly performance

(Rs bn)	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)	9MFY23	9MFY22	YoY (%)
Consolidated P&L								
Revenue from operations	571	599	(4.7)	608	(6.1)	1,804	1,745	3.4
Adj. EBITDA	**27**	**58**	**(53.1)**	**159**	**(82.8)**	**229**	**496**	**(53.8)**
EBIT	17	37	(54.8)	136	(87.7)	181	416	(56.4)
PBT before exceptionals	2	26	(90.7)	124	(98.0)	148	382	(61.2)
PAT	(25)	13	(292.9)	96	(126.1)	65	319	(79.6)
Net income to owners	**(22)**	**15**	**(246.8)**	**96**	**(123.2)**	**71**	**304**	**(76.8)**
EPS (Rs)	(1.8)	1.2	(246.8)	7.9	(123.0)	5.8	25.2	(77.1)
Effective tax rate (%)	NM	49.8	-	20.8	-	56.7	16.9	-
Adj. EBITDA break-up								
Standalone (incl BSL)	48	42	14.6	122	(60.9)	172	388	(55.6)
Europe	(16)	18	(186.7)	29	(152.7)	63	78	(19.7)
Long Products	(4)	(2)	(53.7)	3	(238.0)	(6)	11	(155.4)
SEA	0	0	(96.7)	2	(99.4)	2	6	(71.5)
Others	(1)	1	(291.4)	4	(138.1)	(2)	12	(114.0)
Consolidated	**27**	**58**	**(53.1)**	**159**	**(82.8)**	**229**	**496**	**(53.8)**

(Rs bn)	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)	9MFY23	9MFY22	YoY (%)
Standalone operational parameters								
Production (mt)	4.8	4.6	2.8	4.6	2.8	14.1	13.7	3.6
Sales (mt)	4.6	4.8	(3.6)	4.3	8.0	13.2	12.7	4.6
Apparent realisation (Rs'000/t)	66.4	67.7	(2.0)	75.2	(11.7)	71.5	72.9	(1.8)
Adj. EBITDA (Rs'000/t)	**10.4**	**8.7**	**18.8**	**28.7**	**(63.8)**	**13.0**	**30.6**	**(57.5)**
India business operational parameters								
Production (mt)	5.0	4.8	4.2	4.8	4.0	14.7	14.2	3.9
Sales (mt)	4.7	4.9	(3.5)	4.4	7.2	13.7	13.2	4.3
Apparent realisation (Rs'000/t)	68.2	69.5	(1.8)	76.1	(10.4)	73.2	74.0	(1.1)
Adj. EBITDA (Rs'000/t)	**9.3**	**8.0**	**16.3**	**28.1**	**(66.9)**	**12.1**	**30.3**	**(60.1)**
Europe operational parameters								
Production (mt)	2.2	2.4	(6.7)	2.6	(12.8)	7.1	7.8	(9.2)
Sales (mt)	2.0	1.9	6.4	2.2	(7.9)	6.0	6.6	(9.5)
Apparent realisation (Rs'000/t)	104.2	115.3	(9.6)	105.4	(1.1)	113.8	96.0	18.5
Adj. EBITDA (Rs'000/t)	(7.8)	9.6	(181.5)	13.6	(157.2)	10.5	11.8	(11.3)
Adj. EBITDA (US$/t)	**(95)**	**120**	**(179.1)**	**182**	**(152.2)**	**131**	**159**	**(17.4)**
Consolidated operational parameters								
Production (mt)	7.6	7.6	0.0	7.8	(2.6)	22.9	23.4	(2.3)
Sales (mt)	7.2	7.2	(1.1)	7.0	2.0	21.0	21.5	(2.4)
Apparent realisation (Rs'000/t)	79.8	82.8	(3.6)	86.7	(7.9)	85.9	81.1	5.9
Adj. EBITDA (Rs'000/t)	**3.8**	**8.0**	**(52.6)**	**22.7**	**(83.2)**	**10.9**	**23.1**	**(52.7)**

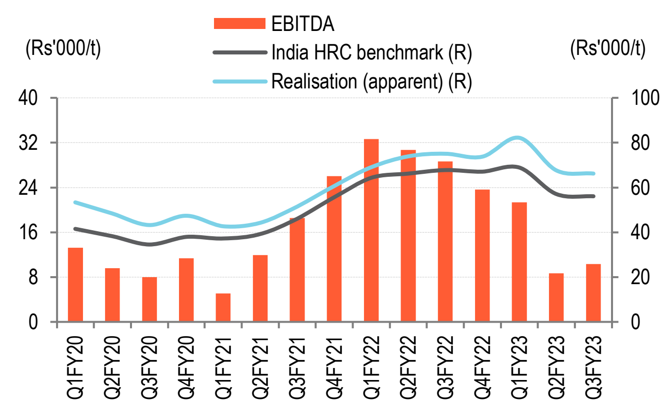
Source: Company, BOBCAPS Research, NM: Not meaningful

Fig 2 – Standalone sales muted in Q3



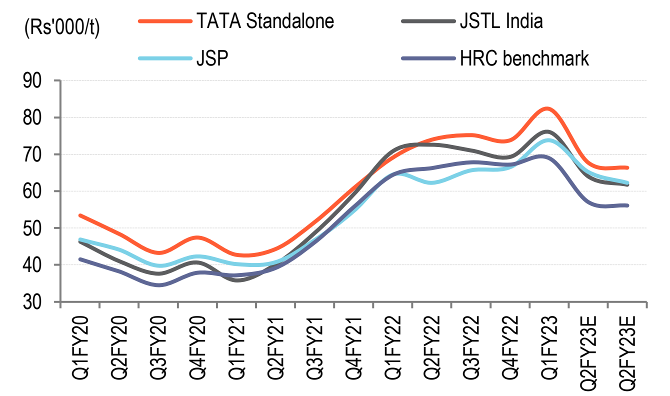
Source: Company, BOBCAPS Research

Fig 3 – EBITDA margin recovery softer



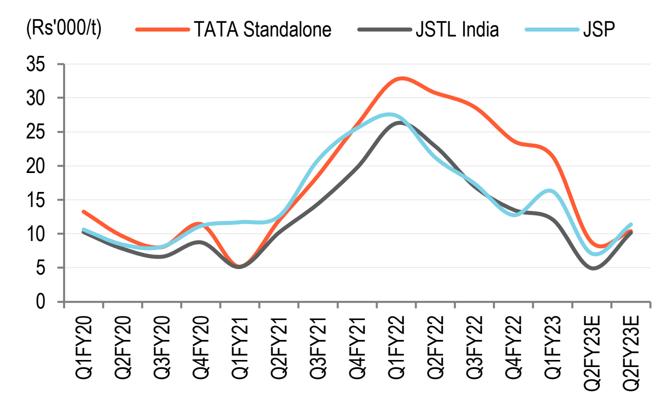
Source: Company, BOBCAPS Research

Fig 4 – Standalone realisation held up better than peers



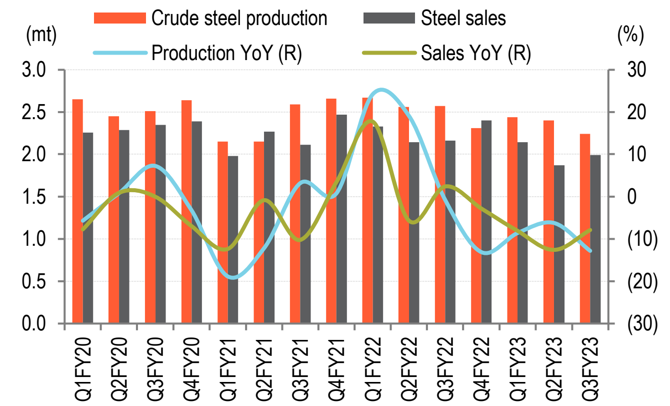
Source: Company, BOBCAPS Research

Fig 5 – Standalone recovery softer but from a higher base in Q2



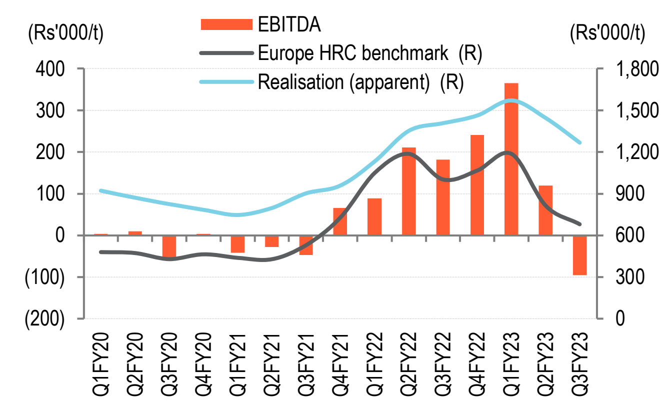
Source: Company, BOBCAPS Research

Fig 6 – Europe sales recovered from Q2 lows



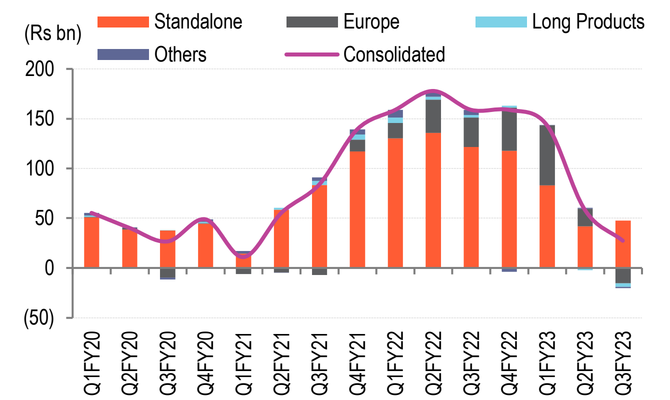
Source: Company, BOBCAPS Research

Fig 7 – European margin expected to bottom out in Q3



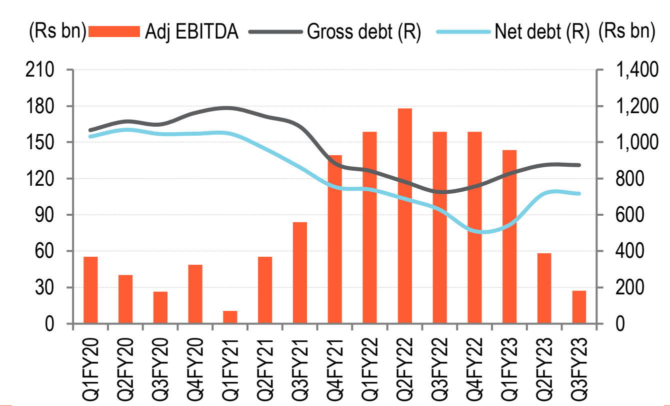
Source: Company, BOBCAPS Research

Fig 8 – Total EBITDA slumped on loss in Europe



Source: Company, BOBCAPS Research

Fig 9 – Net debt remained elevated



Source: Company, BOBCAPS Research

Valuation methodology

Forecast changes

Accounting for the below-expected Q3FY23 print and slower recovery in margin over the next six months, we cut our FY23/FY24 EBITDA estimates by 20%/10%, assuming 35% lower European margins in FY23 (but no change for FY24) and ~15% lower margins for standalone Indian operations in FY23 and FY24. This, together with increased finance charges from higher net debt and the non-recurring deferred tax charge from the move to the BSPS pension scheme, leads us to cut our FY23/FY24 net income forecast by 48%/24%.

As we expect steel markets to stabilise over FY24, we build in mid-cycle margins for FY25 and make only minor tweaks to our numbers for the year. On a lower base of FY23, we now expect TATA to deliver an 18% EBITDA CAGR over FY23-FY25. Besides stabilisation of margins, TATA is set to benefit from fructification of its capex plan over FY24-FY26:

- **FY24 levers:** We currently assume US$ 100/t of improvement over HRC realisation on new CR products, Rs 600/t of savings on pellets, and 0.8mt of additional volumes from the NINL plant.
- **FY25 levers:** We currently assume a US$ 150 premium over HRC prices on 2mtpa of CR and related flat products and a modest 0.8mt increase in crude steel production. At this stage, we do not factor in benefits of start-up of the 0.75mtpa EAF in Ludhiana as it takes time to develop a scrap-based chain in the region.

Fig 10 – Revised estimates

(Rs bn)	Actual	New			Old			Change (%)		
	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,423	2,273	2,127	2,219	2,160	1,997	2,008	5.2	6.5	10.5
EBITDA	**635**	**287**	**339**	**399**	**358**	**375**	**403**	**(19.8)**	**(9.8)**	**(1.2)**
EBITDA growth (%)	108	(55)	18	18	(44)	5	7	-	-	-
Net income	402	89	126	180	173	166	182	(48.3)	(24.0)	(1.0)

Source: Company, BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY22	FY23E	FY24E	FY25E
Sales India (mt)	18.9	19.0	20.0	20.8
Sales Europe (mt)	9.0	8.2	8.1	8.3
India HRC price (US$/t)	891	748	670	642
EBITDA/t Standalone (Rs'000/t)	28.0	13.0	14.9	16.2
EBITDA/t India (Rs'000/t)	27.6	12.0	14.4	15.7
EBITDA/t Europe (US$/t)	180	83	71	100

Source: Company, BOBCAPS Research

Target price raised to Rs 140; maintain BUY

Our target price increases to Rs 140 (from Rs 125 earlier) as we roll forward our valuation base to FY25 and raise our blended EV/EBITDA multiple to 5.75x (from 5.5x), which more than offsets the impact of increase in FY24 net debt from our FY23-FY24 earnings cuts. The increase in target multiple reflects our expectation that steel margins will stabilise in FY24 aided by supportive government policies in China aimed at rebooting the economy. We now separate our valuation of Indian and European businesses to account for their differing risk profiles in a downturn.

- With European operations under pressure from a weakened regional margin, we now value the business at a target EV/EBITDA multiple of 4.5x (5.5x earlier as a blended multiple), below our sector target multiple of 6x. While UK operations (~25% of European volumes) are structurally weak, Netherlands operations (~75% of volumes) are largely EBITDA and cash positive through the cycle.
- We now value Indian business at a target EV/EBITDA multiple of 6x (5.5x earlier as a blended multiple),, reflecting our positive outlook on steel margins.
- Our blended target multiple of 5.75x is in line with the stock's historical trading average of 5.7x over the past ten-year period but above the 5.2x over the past five-year period, reflecting the improving outlook on earnings growth from capex delivery.

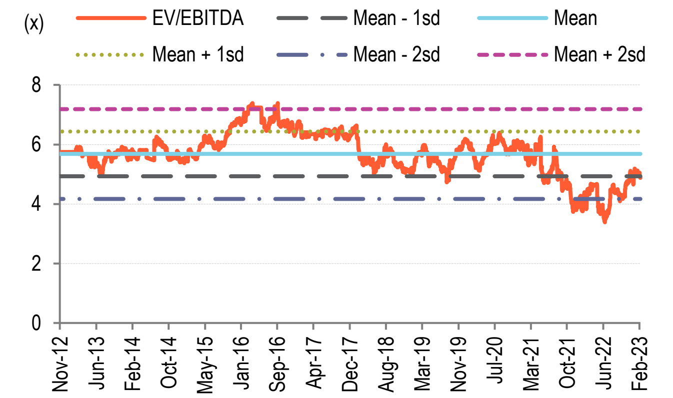
We maintain BUY as we remain confident of TATA's ability to weather the downturn and deliver on earnings-accretive growth.

Fig 12 – Valuation summary

(Rs bn)	Tata Steel India	Tata Steel Europe	Tata Steel
FY25E EBITDA	331	68	399
Target EV/EBITDA multiple (x)	6.0	4.5	5.7
EV	**1,985**	**305**	**2,290**
FY24E Net debt	-	-	596
Equity value	**-**	**-**	**1,694**
Fair value (Rs)	**-**	**-**	**140**
Target price Mar'24 (rounded to nearest Rs 5)	**-**	**-**	**140**

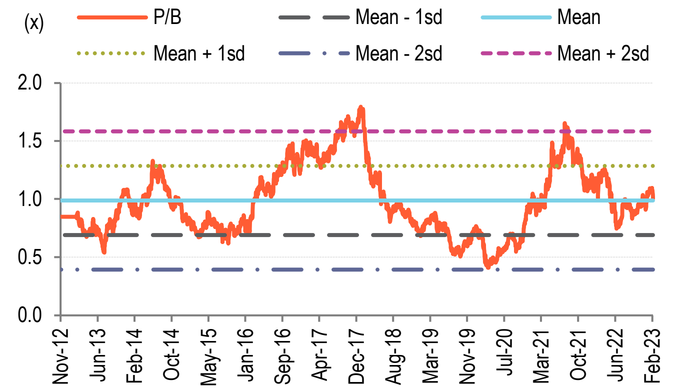
Source: BOBCAPS Research

Fig 13 – TATA EV/EBITDA 2Y forward



Source: Bloomberg, BOBCAPS Research

Fig 14 – TATA P/B 1Y forward



Source: Bloomberg, BOBCAPS Research

Fig 15 – 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)	
					FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
TATA IN	111	BUY	140	25.6	0.9	0.8	5.8	4.6	173	166	1.2	1.0	10.7	7.5
JSTL IN	732	HOLD	715	-2.3	1.5	1.4	7.4	6.0	39	135	2.5	1.8	13.1	9.5
JSP IN	593	BUY	670	12.9	1.3	1.2	5.8	4.4	38	56	1.5	1.2	10.7	7.8
SAIL IN	85	HOLD	90	6.4	0.5	0.5	3.5	3.0	49	67	0.6	0.5	5.2	4.7

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 pellet plant and cold rolled mill at Kalinganagar plant in FY23 and annealing and galvanising lines in FY24. It is also expanding Kalinganagar capacity by 5mtpa to raise total India capacity to 25mt by FY24.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Jindal Steel & Power	JSP IN	7.3	593	670	BUY
JSW Steel	JSTL IN	21.4	732	715	HOLD
SAIL	SAIL IN	4.2	85	90	HOLD
Tata Steel	TATA IN	16.5	111	140	BUY

Source: BOBCAPS Research, NSE | Price as of 8 Feb 2023

Financials

Income Statement

Y/E 31 Mar (Rs bn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	**1,547**	**2,423**	**2,273**	**2,127**	**2,219**
EBITDA	305	635	287	339	399
Depreciation	(92)	(91)	(92)	(97)	(101)
EBIT	213	544	195	241	298
Net interest inc./(exp.)	(76)	(55)	(63)	(60)	(54)
Other inc./(exp.)	9	8	15	8	8
Exceptional items	(10)	(1)	19	0	0
EBT	138	502	169	194	256
Income taxes	(57)	(85)	(87)	(69)	(77)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	3	6	4	4	4
Reported net profit	**75**	**402**	**89**	**126**	**180**
Adjustments	0	0	0	0	0
Adjusted net profit	**75**	**402**	**89**	**126**	**180**

Balance Sheet

Y/E 31 Mar (Rs bn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	260	368	316	294	299
Other current liabilities	241	260	273	255	266
Provisions	47	28	28	28	28
Debt funds	885	756	876	796	716
Other liabilities	247	273	257	244	252
Equity capital	12	12	12	12	12
Reserves & surplus	730	1,132	1,087	1,178	1,327
Shareholders' fund	775	1,171	1,118	1,207	1,356
Total liab. and equities	**2,455**	**2,854**	**2,867**	**2,824**	**2,917**
Cash and cash eq.	130	244	163	200	245
Accounts receivables	95	122	100	93	97
Inventories	333	488	566	465	449
Other current assets	44	71	54	43	44
Investments	35	58	46	46	46
Net fixed assets	1,190	1,162	1,164	1,133	1,150
CWIP	190	220	265	335	380
Intangible assets	168	171	267	266	264
Deferred tax assets, net	0	0	0	0	0
Other assets	305	376	289	289	289
Total assets	**2,455**	**2,854**	**2,867**	**2,824**	**2,917**

Cash Flows

Y/E 31 Mar (Rs bn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	**369**	**455**	**146**	**353**	**353**
Capital expenditures	(100)	(97)	(235)	(135)	(161)
Change in investments	(6)	(24)	12	0	0
Other investing cash flows	87	(39)	90	8	8
Cash flow from investing	**(19)**	**(159)**	**(133)**	**(127)**	**(152)**
Equities issued/Others	1	0	0	0	0
Debt raised/repaid	(248)	(129)	120	(80)	(80)
Interest expenses	(76)	(55)	(63)	(60)	(54)
Dividends paid	(30)	(62)	(34)	(30)	(34)
Other financing cash flows	19	64	(116)	(19)	13
Cash flow from financing	**(335)**	**(181)**	**(94)**	**(189)**	**(156)**
Chg in cash & cash eq.	**15**	**114**	**(81)**	**37**	**45**
Closing cash & cash eq.	**130**	**244**	**163**	**200**	**245**

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	6.2	33.2	7.4	10.5	14.9
Adjusted EPS	6.2	33.2	7.4	10.5	14.9
Dividend per share	2.5	5.1	2.8	2.5	2.8
Book value per share	61.4	94.7	91.0	98.5	110.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	1.5	0.9	0.9	0.9	0.9
EV/EBITDA	7.5	3.5	7.0	5.8	5.1
Adjusted P/E	18.0	3.4	15.1	10.7	7.5
P/BV	1.8	1.2	1.2	1.1	1.0

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	50.3	79.7	59.8	65.2	70.2
Interest burden (PBT/EBIT)	70.0	92.6	76.9	80.3	86.1
EBIT margin (EBIT/Revenue)	13.7	22.4	8.6	11.3	13.4
Asset turnover (Rev./Avg TA)	62.4	91.3	79.5	74.7	77.3
Leverage (Avg TA/Avg Equity)	3.4	2.8	2.6	2.5	2.3
Adjusted ROAE	10.1	42.6	8.0	11.0	14.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	5.9	56.6	(6.2)	(6.5)	4.3
EBITDA	71.1	108.1	(54.8)	18.1	17.7
Adjusted EPS	356.4	436.1	(77.7)	41.2	42.6
Profitability & Return ratios (%)					
EBITDA margin	19.7	26.2	12.6	15.9	18.0
EBIT margin	13.7	22.4	8.6	11.3	13.4
Adjusted profit margin	4.8	16.6	3.9	5.9	8.1
Adjusted ROAE	10.1	42.6	8.0	11.0	14.2
ROCE	11.1	26.9	9.4	11.1	13.4
Working capital days (days)					
Receivables	23	18	16	16	16
Inventory	79	74	91	80	74
Payables	75	74	58	60	60
Ratios (x)					
Gross asset turnover	0.6	0.9	0.8	0.7	0.8
Current ratio	0.8	1.0	0.9	0.8	0.9
Net interest coverage ratio	2.8	10.0	3.1	4.0	5.5
Adjusted debt/equity	1.0	0.4	0.6	0.5	0.3

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

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

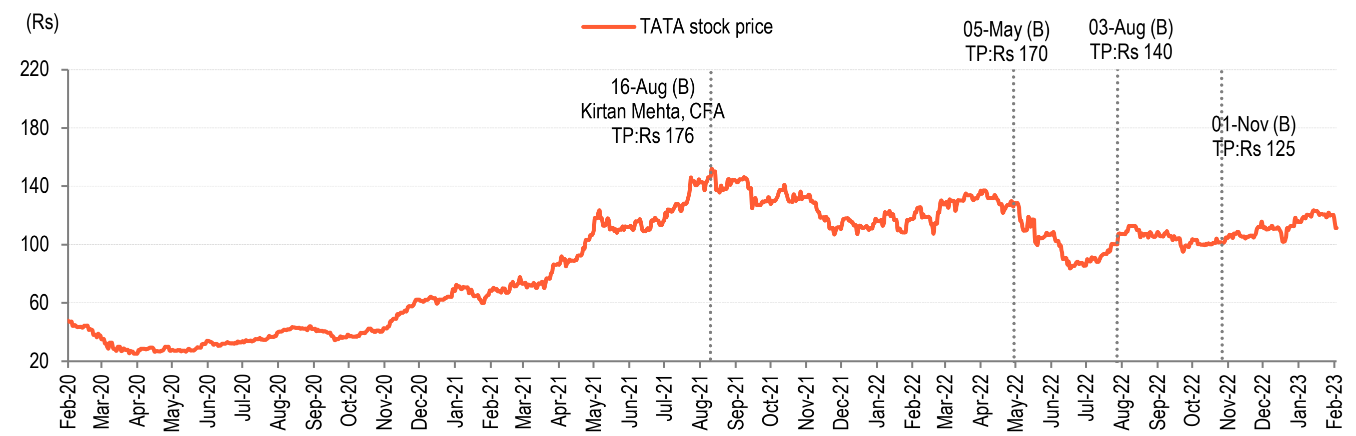
HOLD – Expected return from -6% to +15%

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

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