BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 155 | ⮝ 15%

TATA STEEL | Metals & Mining | 29 January 2024

UK transition and TSK2 to bolster growth; maintain BUY

- **Q4 results broadly in line; India beat our estimates with higher margins on leaner coking coal blend and benefit of inventory swing**
- **While we lower FY24/FY25 EBITDA by 7%/6% on slower UK transition, we still look for ~50% recovery in FY25 and ~25% growth in FY26**
- **We slightly raise TP to Rs 155 rolling forward to Jan'25; maintain BUY as UK transition dispels overhang and TSK-2 restarts growth journey**

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

Q3 EBITDA in line with consensus: Consolidated revenue/adj. EBITDA at Rs 553.1bn/Rs 57.4bn for Q3FY24 was broadly in line with consensus (-4%/+4%). However, EBITDA was Rs 12bn ahead of our forecasts with a beat in India operations, driven by a higher unit EBITDA margin of Rs 17k/t (vs. Rs 14.5k/t expected) from a leaner coking blend and an inventory swing. TATA has performed better than peers, clocking a modest US$ 4/t rise in Q3 coking coal consumption costs and guiding for US$ 10/t in Q4, against a US$ 50-60/t increase in benchmark prices. The inventory swing benefit of Rs 3k/t seen in Q3 may partly reverse in Q4 with likely inventory liquidation.

FY25 – a year of transition: We expect the company to transition to sustainable growth in FY25 in both India and European markets and model for ~50% YoY recovery in EBITDA from a weak base in FY24, retracing to FY23 levels. India will benefit from commissioning of the 5mtpa TSK-2 (Kalinganagar) plant, although TATA guides for a conservative throughput of 0.7mtpa in FY25 at this stage. We believe UK operations will slowly transition to a sustainable breakeven with a halving of losses in FY25 and the Netherlands will benefit from ramp-up of production to 6.5-7mt (from a 6.1mt average over the past three years).

FY26 – a year of growth: We currently model for ~25% YoY EBITDA growth in FY26, after ~50% recovery in FY25, with progress in both markets. We build in ~70% utilisation at TSK-2 and ramp-up of margin to Rs 15.8k/t backed by integrated operations and improved downstream utilisation. Europe operations are also projected to return to a modest profit of Rs 31bn in FY26, accompanied by an EBITDA margin of US$ 45/t as UK operations progress towards breakeven.

Reiterate BUY: Factoring in guidance for slower transition in the UK, we lower our FY24/FY25 EBITDA estimates by 7.5%/6% but raise our FY26 forecast by 2.9%. We slightly increase our SOTP-based TP for TATA to Rs 155 from Rs 150 rolling forward to Jan'25 (from Nov'24), while maintaining our target FY26E EV/EBITDA multiple for India operations at 6x and European business at 5.5x and continuing to bake in an incremental fair value of Rs 6.1/sh for the proposed UK restructuring.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TATA IN/Rs 135
Market cap	US$ 20.1bn
Free float	66%
3M ADV	US$ 53.7mn
52wk high/low	Rs 141/Rs 102
Promoter/FPI/DII	34%/21%/23%

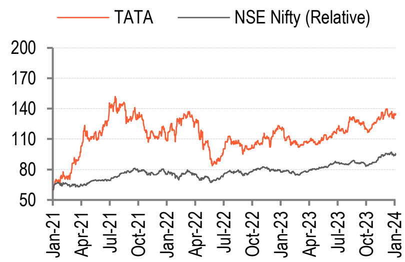
Source: NSE | Price as of 29 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs bn)	2,416	2,170	2,243
EBITDA (Rs bn)	323	224	337
Adj. net profit (Rs bn)	88	44	135
Adj. EPS (Rs)	7.2	3.6	11.0
Consensus EPS (Rs)	7.2	4.4	11.4
Adj. ROAE (%)	8.1	4.3	12.5
Adj. P/E (x)	18.8	37.5	12.3
EV/EBITDA (x)	7.1	10.0	7.0
Adj. EPS growth (%)	(78.4)	(49.8)	205.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Q3 results broadly in line

- **Q3 in line with consensus:** Consolidated Q3FY24 revenue/adj. EBITDA at Rs 553.1bn/Rs 57.4bn was broadly in line with Bloomberg consensus (-4%/+4%). However, EBITDA was Rs 12bn ahead of our forecasts primarily driven by higher profit in India operations.

- **India operations ahead of our estimates**: EBITDA for Indian operations at Rs 82.9bn was 16% ahead of our estimates driven by a higher unit EBITDA margin of Rs 17.0k/t (vs. our estimate of Rs 14.5k/t). On a sequential basis, Q3 EBITDA recovered 28% QoQ primarily on the back of a sharp Rs 3.3k/t QoQ improvement in EBITDA margin and a modest 1.2% uptick in volume.

- **India margin uptick driven by better coking coal blend and inventory swing:** One of the key differences vis-à-vis our forecasts was consumption cost, which increased just US$ 4/t QoQ against a US$ 50-60/t increase in prime coking coal benchmark price and prior guidance of US$ 10-15/t higher costs. TATA attributed this to the use of a leaner coking coal blend.

  The other key difference was an apparent Rs 3k/t QoQ change in EBITDA margin due to a Rs 15bn swing in inventory position (while there was an inventory release of Rs 5.7bn in Q2, Q3 saw an inventory buildup of Rs 9.2bn). This makes it difficult to decipher actual underlying improvement and we await better clarity in Q3. The sequential margin improvement was also supported by a Rs 1.1k/t rise in underlying realisation and Rs 0.8k/t reduction in coking coal consumption cost due to lower purchase of scrap and pellets, as indicated by company.

- **India sales growth ahead of peers:** TATA benefitted from a sequential 1.2% increase in sale volume against the sequential decline likely to be reported by most of its peers. This quarter, domestic steel majors faced steep competition from cheaper imports in October and November and from secondary market players in long products. TATA clocked sequential growth of 8% in sales to the automotive sector and 10% in retail sales. Sales to these sectors increased YoY as well at 22% and 18% respectively.

- **Europe losses widened in Q3:** Europe losses increased 14% QoQ to Rs 28.7bn due to higher losses in both operations – UK (TSUK: 21% higher) and Netherlands (TSN: 6% higher). Operations were impacted by weak steel spreads in the market and plant-specific challenges. In European markets, steel spreads during the quarter were at significantly lower levels of EUR 100-130/t vs. the historical long-term average of EUR 225/t.

- **TSN impacted by delay in BF-6 relining:** TSN operations did not recover from losses due to delays in relining of BF-6. Management now guides for its restart by early Feb'24. Per unit EBITDA loss stayed high at US$ 112/t. Gross margin was largely flat QoQ as a drop in realisation (GBP 57/t) was offset by lower cost of coking coal and slab purchases (GBP 59/t). Similarly, conversion cost also stayed flat QoQ as higher spend on natural gas (GBP 17/t) was set off by a similar reduction in employee benefit expenses.

- **TSUK impacted by end-of-life operational issues:** TSUK's apparent loss widened to Rs 16.6bn with a sharp increase in apparent per unit loss to US$ 311/t and lower steel deliveries at 0.64mt. Underlying loss increased by GBP 69/t QoQ owing to lower realisations (GBP 15/t) and higher conversion cost (GBP 100/t) partly due to lower deliveries, which were partially mitigated by lower material cost (GBP 48/t). Lower steel deliveries were the result of operational challenges as the plant is close to its end of life.

- **Net debt stable:** Net debt was stable QoQ at Rs 774bn as the benefit of release in working capital was offset by higher cash utilisation in the Netherlands due to continuing losses.

- **Capex running in line with annual guidance:** Against the FY24 guidance of Rs 160bn, 9MFY24 capex was Rs 133.6bn.

Guidance for Q4FY24

India: Unit margin to decline, volumes to rise seasonally

- **Unit EBITDA margin is likely to decline sequentially** in Q4FY24 with guidance of Rs 1k/t lower realisations, US$ 10/t higher coking coal costs and the possibility of a negative impact from inventory liquidation during the quarter.

- **Sale volume is guided to be higher** at 0.4mt (+8% QoQ) during a seasonally strong domestic quarter.

- **TATA expects lower sequential realisation**, in contrast to peer JSTL which expects a sequential increase in realisation on the back of higher exports and lower competition from imports. TATA does have a lower focus on exports than JSTL and will see less benefits on this front.

- **Guidance suggests an advantage on coking coal** as TATA is able to use a leaner blend than peers and expects to contain the increase in consumption cost to US$ 10/t QoQ in Q4 after a modest rise of US$ 4/t in Q3. JSTL faced an increase of US$ 21/t in Q3 and is guiding for a steep US$ 20-25/t rise in Q4.

Europe: Losses to reduce only modestly

- **TSN: EBITDA loss may not materially reduce in Q4** as restart of the blast furnace will add sale volumes of just 0.1mt for the quarter. Further, management guidance suggests only a modest decrease of GBP 14/t QoQ in Q4 owing to a higher share of long-term contracts that have recently undergone downward revision in pricing and coking coal cost increase of US$ 18/t.

- **TSUK: Losses may reduce moderately in Q4** with management guiding for a GBP 40/t improvement in realisation (TSUK has higher linkage to spot volumes than TSN), only partly cut into by a US$ 11/t increase in coking coal costs.

Guidance for FY25

India: TSK-2 to add 0.7mtpa in FY25

TATA has started progressive commissioning of the 5mtpa Kalinaganagar Phase 2 (TSK-2) this quarter, aiming to mechanically complete the new blast furnace in Q4FY24 and start operations in Q1FY25. At this stage, management conservatively guides for volumes of 0.7mtpa from TSK-2 in FY25 and will refine this guidance after the Q4 results. Both pellet plants at the site are operational and have helped TATA fully halt external purchase of pellets. A 2.2mtpa CRM (Cold Rolled Mill) plant has reached a monthly run-rate of 50-55kt.

TSUK: Slower transition through FY25

- **Losses to only halve over FY25:** Following informal discussions with the labour union over the last quarter, management is now guiding for a slower pace of transition over FY25 and expects losses to only halve from FY24 levels. TATA is now looking at close one blast furnace by mid-CY24 and a second by the end of the year along with coke ovens. The company expects redundancy of ~2,800 employees across UK operations spread over 18 months.

- **Still targeting Q4FY25 to finalise transition:** Management initiated formal consultation with the union on 19 January, which involves a minimum period of 45 days. The union is not fully on board with TSUK's proposal and is looking for operations of at least one blast furnace through the transition period to lower redundancies. TATA considers the union's proposal economically unfeasible after evaluation and aims to close both blast furnaces, stating that the proposal could also result in a sub-optimal layout for the EAF and other operational delays.

- **Employee redundancy packages are within transition cost guidance:** TSUK has offered a comprehensive support package of GBP 130mn for the affected employees and contributed GBP 20mn to the GBP 100mn Transition Board set up by the Welsh government. This is within the guidance of ~GBP 225mn for cash restructuring charges indicated by management during the last earnings call.

- **Earning volatility on steel slab usage unlikely to recur during transition period:** While we have seen significant earnings volatility in the Netherlands during FY24 related to the usage of slabs, management confirms that the same will not be the case with the UK during transition phase. TSUK plans to purchase slabs from sister companies (like TUSK, India) and any inventory gains/losses will get offset in the consolidated results.

- **Reiterates EAF target for CY27:** TSUK has commenced basic engineering for the EAF plant and is liaising with the National Grid to have an electricity line to the furnace operational by CY27.

TSN: Volume ramp-up over FY25

- **Volume ramp-up:** TSN plans to ramp up volumes to 6.5-6.9mt in FY25 from an average of 6.1mt over the past three years.

- **TSN restructuring progress to be back-ended in FY25:** With the Netherlands just emerging from elections, the formation of a coalition government will take time.

TSN is liaising with bureaucrats on their plan for transition of the 3mt BAF in phase 1 and will take it up with the new government once it is in place.

India – Growth beyond TSK-2

The company plans to finalise the following expansion plans over the next six months:

- **NINL expansion:** As guided earlier, TATA is working on FEL 3 FEED stage (Front End Engineering and Design) and detailed cost estimates for expansion of NINL from 1mt to 5mt to present to the board for approval.
- **KPO3 expansion:** The company is also working on starting phase 3 expansion at the Kalinganagar plant to raise capacity from 8mtpa to 13mtpa, immediately upon completion of phase 2 without dismantling the project team.
- **TSM expansion:** Capacity at Meeramandali (Odisha) is being raised from 5mt to 6.5mt.
- **Other near-term expansion projects:** Besides these larger expansion plans, TATA is working on the addition of a rolling mill in Jamshedpur and a 0.5mt capacity expansion at its Gamharia long products plant (former Usha Martin plant).

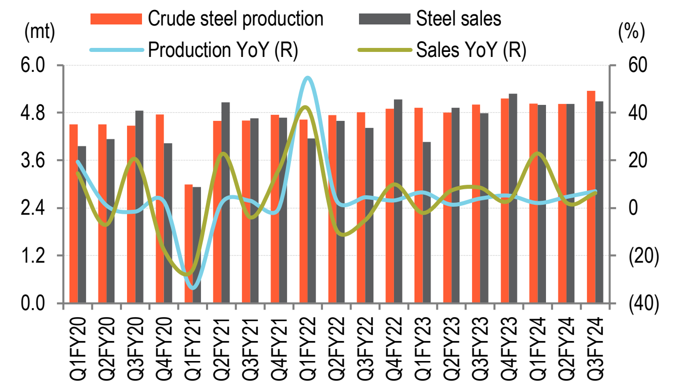
Fig 1 – Quarterly performance

(Rs bn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)	9MFY24	9MFY23	YoY (%)
Consolidated P&L								
Revenue from operations	553	557	(0.7)	571	(3.1)	1,705	1,804	(5.5)
Adj. EBITDA	**57**	**41**	**38.5**	**27**	**110.6**	**152**	**229**	**(33.5)**
EBIT	38	18	114.9	17	128.7	84	181	(53.7)
PBT before exceptionals	23	2	1,313.8	2	830.9	43	148	(71.2)
PAT	5	(65)	108.0	(25)	120.9	(55)	65	(183.9)
Net income to owners	**5**	**(62)**	**108.3**	**(22)**	**123.1**	**(50)**	**71**	**(171.6)**
EPS (Rs)	0.4	(5.1)	108.3	(1.8)	123.1	(4.1)	5.8	(171.5)
Effective tax rate (%)	62.1	(142.8)	-	1,197.3	-	58.8	56.7	-
Adj. EBITDA break-up								
Standalone	82	65	26.3	48	73.1	214	-	NA
India	83	65	28.4	43	91.9	214	-	NA
Europe	(29)	(25)	(14.3)	(16)	(85.1)	(70)	63	(210.8)
Others	3	2	58.1	0	848.0	8	-	NA
Consolidated	**57**	**41**	**38.5**	**27**	**110.6**	**152**	**229**	**(33.5)**
India business operational parameters								
Production (mt)	5.4	5.0	6.6	5.0	7.0	15.4	-	-
Sales (mt)	4.9	4.8	1.2	4.7	3.0	14.5	-	-
Apparent realisation (Rs'000/t)	71.7	72.4	(0.9)	71.9	(0.2)	72.6	NA	NA
Adj. EBITDA (Rs'000/t)	17.0	13.4	26.9	9.1	86.4	14.8	NA	NA
TSN business operational parameters								
Production (mt)	1.2	1.2	0.0	1.5	(21.7)	2.4	NA	NA
Sales (mt)	1.3	1.2	5.7	1.4	(7.1)	2.5	NA	NA
Apparent realisation (Rs'000/t)	99.4	105.4	(5.7)	102.5	(3.0)	161.7	NA	NA
Adj. EBITDA (Rs'000/t)	(9.3)	(9.3)	(0.4)	(0.6)	(1,577.5)	(14.0)	NA	NA
Adj. EBITDA (US$/t)	(112)	(113)	0.3	(7)	(1556.4)	(169)	NA	NA

(Rs bn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)	9MFY24	9MFY23	YoY (%)
TSUK business operational parameters								
Production (mt)	0.7	0.8	(5.3)	0.7	0.0	1.5	NA	NA
Sales (mt)	0.6	0.7	(12.3)	0.7	(3.0)	1.4	NA	NA
Apparent realisation (Rs'000/t)	98.3	99.8	(1.5)	108.0	(9.0)	120.0	NA	NA
Adj. EBITDA (Rs'000/t)	(25.9)	(18.7)	(38.3)	(22.3)	(15.8)	(25.0)	NA	NA
Adj. EBITDA (US$/t)	(311)	(227)	(37.2)	(272)	(14.4)	(302)	NA	NA
Consolidated operational parameters								
Production (mt)	7.6	7.3	3.7	7.6	0.3	22.0	22.9	(3.7)
Sales (mt)	7.2	7.1	1.1	7.2	0.0	21.4	21.0	2.0
Apparent realisation (Rs'000/t)	77.4	78.8	(1.8)	79.8	(3.1)	79.6	85.9	(7.3)
Adj. EBITDA (Rs'000/t)	8.0	5.9	36.9	3.8	110.6	7.1	10.9	(34.8)

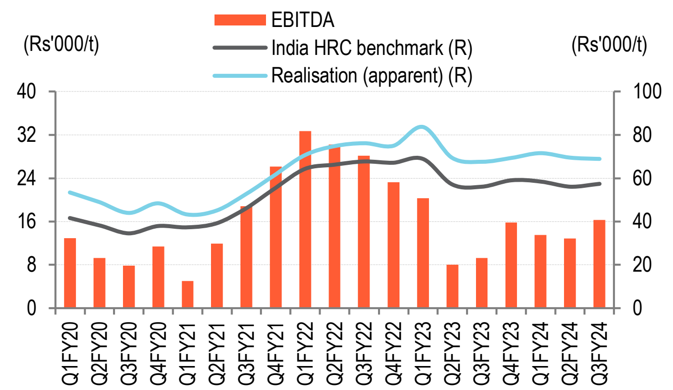
Source: Company, BOBCAPS Research | NM: Not meaningful

Fig 2 – India production and sales stable despite industry decline



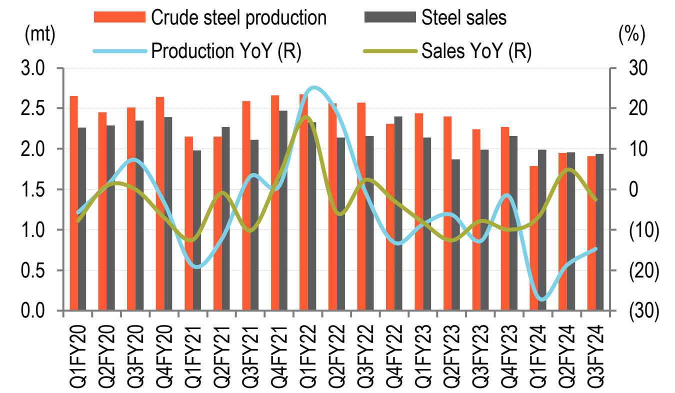
Source: Company, BOBCAPS Research

Fig 3 – India operations' EBITDA higher due to inventory swing



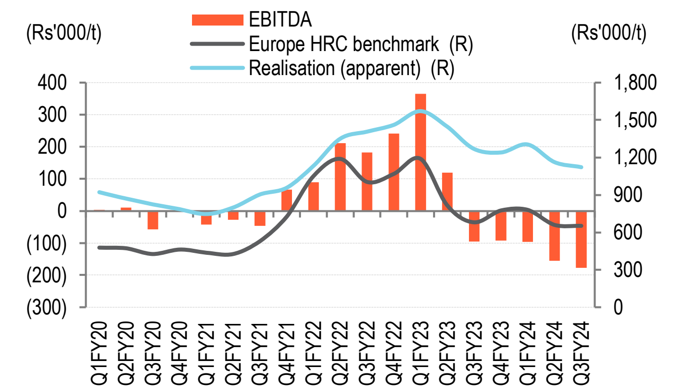
Source: Company, BOBCAPS Research

Fig 4 – European sales decline due to production challenges



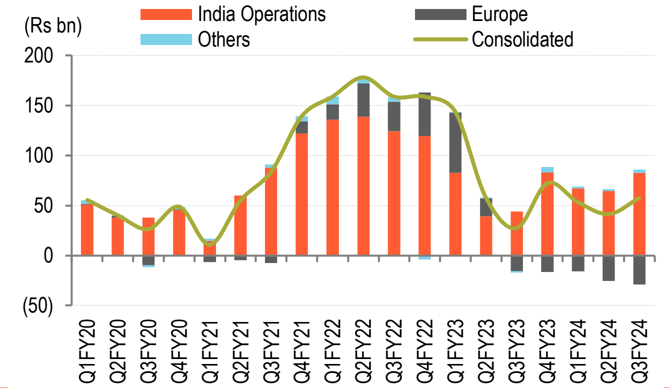
Source: Company, BOBCAPS Research

Fig 5 – Europe business continues to post high losses



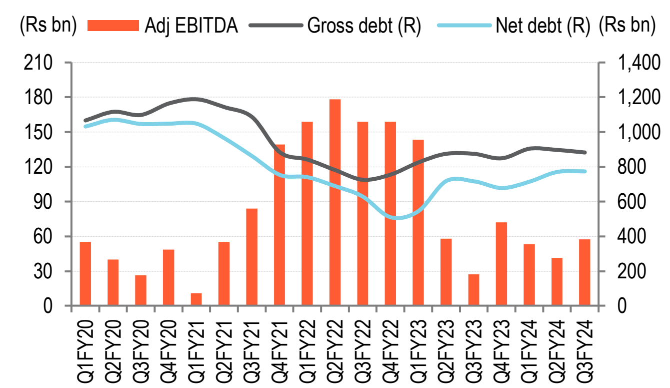
Source: Company, BOBCAPS Research

Fig 6 – Consolidated EBITDA declined on weaker European operations



Source: Company, BOBCAPS Research

Fig 7 – Net debt likely to be rangebound near term



Source: Company, BOBCAPS Research

Valuation methodology

Forecasts changes

Accounting for the Q3FY24 results, higher losses in Europe in H2 and slower transition to breakeven in the UK over FY25, we lower our FY24 and FY25 EBITDA estimates by 7.5% and 6% respectively. We marginally raise our FY26 EBITDA forecast by 2.9% factoring in ramp-up of TSK-2 and stability of European operations. On a lower base of FY23, we build in a conservative 9.6% EBITDA CAGR for TATA over FY23-FY26 assuming only partial operations at the TSK expansion by FY26 and an EBITDA margin of Rs 15.8k/t in FY26. We also model for the following conservative assumptions as the company's capex plan fructifies over the next three years:

- **Europe operations:** We now assume Europe losses at Rs 20bn in FY25 (vs. Rs 93bn in FY24E), factoring in a halving of losses in TSUK and positive EBITDA in TSN. We further expect Europe to transition to a modest profit of Rs 31bn (US$ 45/t) in FY26, with UK operations approaching break-even.
- **6mtpa pellet plant:** TATA has stopped buying pellets from Q2FY24. We model for Rs 400-500/t annualised improvement in steel margin through to FY26 as the pellet plant ramps up in tandem with TSK-2's incremental requirements.
- **2.2mtpa CRM complex:** With the CRM complex scaling up to a monthly production run-rate of 50-55kt by Dec'23, we continue with our assumption of a US$ 100-150/t improvement over HRC realisation on 1-2mt of cold rolled and related flat products gradually over FY25-FY26 as the entire CRM complex is commissioned.
- **1mt NINL plant:** EBITDA margins for the plant are projected to improve to Rs 5k-10k/t gradually through to FY26 as TATA fully integrates the NINL plant with its long operations.
- **5mtpa TSK-2 expansion:** We lower utilisation assumptions for TSK-2 to 20% (from 30%) in FY25 and 70% (from 80%) in FY26 based on company guidance of startup of the blast furnace over Q1FY25.
- **0.75mtpa EAF in Ludhiana:** No benefits from the EAF are factored in at this stage as it will take time to develop a scrap-based chain in the region.

Fig 8 – Revised estimates

(Rs bn)	Actual	New			Old			Change (%)		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,416	2,170	2,243	2,411	2,153	2,253	2,411	0.8	(0.4)	0.0
EBITDA	**323**	**224**	**337**	**425**	**243**	**358**	**413**	**(7.5)**	**(6.0)**	**2.9**
EBITDA growth (%)	(49)	(30)	50	26	(25)	48	15	-	-	-
Net income	88	44	135	198	58	150	190	(23.9)	(10.2)	4.4

Source: Company, BOBCAPS Research

Fig 9 – Estimates vs. consensus

(Rs bn)	Actual	Forecasts			Consensus			Delta to Consensus (%)		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,416	2,170	2,243	2,411	2,294	2,414	2,591	(5.4)	(7.1)	(6.9)
EBITDA	323	224	337	425	244	349	395	(7.9)	(3.5)	7.6
Net income	88	44	135	198	56	134	173	(20.7)	0.8	14.5

Source: Bloomberg, BOBCAPS Research

Fig 10 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Sales India business (mt)	19.7	20.4	21.6	24.1
Sales Europe (mt)	8.2	7.8	8.3	8.3
India HRC benchmark price (US$/t)	751	696	614	595
EBITDA/t India business (Rs '000/t)	13.7	14.4	15.0	15.8
EBITDA/t Europe (US$/t)	70	(143)	(30)	45

Source: Company, BOBCAPS Research

Target price raised to Rs 155; maintain BUY

We raise our SOTP-based TP for TATA slightly to Rs 155 from Rs 150 factoring in the changes to our estimates. We value India operations at an unchanged target FY26E EV/EBITDA multiple of 6x and the European business at 5.5x, while continuing to 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. Upon discounting our fair value back to Jan'25 (from Nov'24 earlier), we arrive at our one-year forward target price.

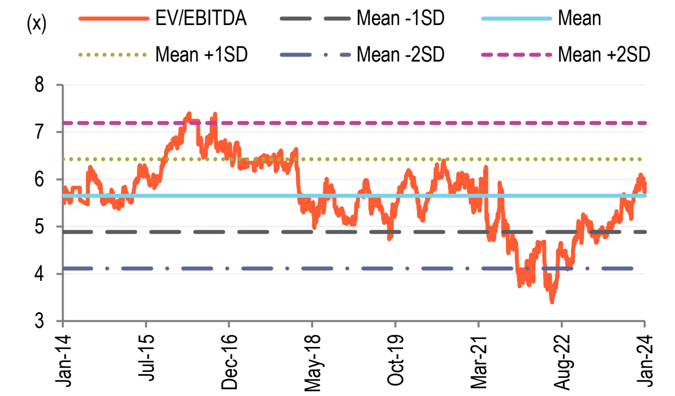
With a blueprint in place for moving the UK plant to more sustainable operations, we believe the overhang on the stock will be dispelled. We remain confident of TATA's ability to deliver earnings-accretive growth and hence maintain our BUY rating.

Fig 11 – TATA: Valuation summary

(Rs bn)	Tata Steel India	Tata Steel Europe	Tata Steel
FY26E EBITDA	394	31	425
Target EV/EBITDA multiple (x)	6.0	5.5	6.1
EV Mar'25E	**2,363**	**171**	**2,534**
Incremental EV from UK transition	0	72	72
EV Mar'25E	**2,363**	**243**	**2,606**
FY25E Net debt	-	-	681
Equity value Mar'25E	**-**	**-**	**1,925**
Fair value Mar'25E (Rs)	-	-	158
Fair value Jan'25E (Rs)	-	-	155
Target price Jan'25E (Rs) (rounded to nearest Rs 5)	**-**	**-**	**155**

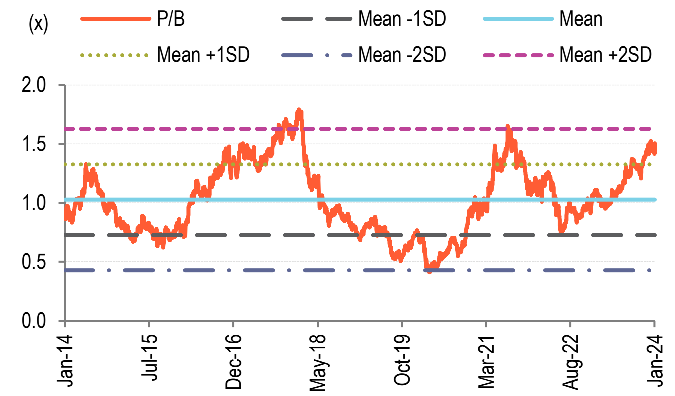
Source: Company, BOBCAPS Research

Fig 12 – TATA EV/EBITDA 2Y fwd



Source: Bloomberg, Company

Fig 13 – TATA P/B 1Y fwd



Source: Bloomberg, Company

Fig 14 – 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	135	BUY	155	14.8	1.1	1.0	10.7	6.9	88	58	1.6	1.5	37.5	12.3
JSTL IN	812	HOLD	840	3.5	1.5	1.4	8.2	7.0	41	119	3.0	2.2	16.6	12.2

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 the 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 delays in the 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 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 also exposed to the risk of delays in finalisation of the UK decarbonisation plan, higher restructuring costs for transition and higher operational costs during the transition period.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
JSW Steel	JSTL IN	24.2	812	840	HOLD
Tata Steel	TATA IN	20.1	135	155	BUY

Source: BOBCAPS Research, NSE | Price as of 29 Jan 2024

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

Financials

Income Statement

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**2,423**	**2,416**	**2,170**	**2,243**	**2,411**
EBITDA	635	323	224	337	425
Depreciation	(91)	(93)	(100)	(105)	(113)
EBIT	544	230	125	231	312
Net interest inc./(exp.)	(55)	(63)	(69)	(62)	(55)
Other inc./(exp.)	8	10	20	19	22
Exceptional items	(1)	1	0	(21)	0
EBT	502	182	80	171	283
Income taxes	(85)	(102)	(36)	(51)	(85)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	6	4	4	4	4
Reported net profit	**402**	**88**	**44**	**120**	**198**
Adjustments	0	0	0	14	0
Adjusted net profit	**402**	**88**	**44**	**135**	**198**

Balance Sheet

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	368	378	373	366	381
Other current liabilities	260	279	249	258	277
Provisions	28	39	39	39	39
Debt funds	756	849	809	729	649
Other liabilities	273	283	281	272	289
Equity capital	12	12	12	12	12
Reserves & surplus	1,132	1,019	1,019	1,103	1,257
Shareholders' fund	1,171	1,052	1,052	1,136	1,290
Total liab. and equities	**2,854**	**2,880**	**2,803**	**2,799**	**2,925**
Cash and cash eq.	244	170	61	48	113
Accounts receivables	122	83	107	111	119
Inventories	488	544	506	470	490
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**	**2,803**	**2,799**	**2,925**

Cash Flows

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**455**	**252**	**197**	**301**	**351**
Capital expenditures	(97)	(318)	(170)	(146)	(146)
Change in investments	(24)	10	0	0	0
Other investing cash flows	(39)	140	20	19	22
Cash flow from investing	**(159)**	**(168)**	**(150)**	**(127)**	**(124)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(129)	93	(40)	(80)	(80)
Interest expenses	(55)	(63)	(69)	(62)	(55)
Dividends paid	(62)	(44)	(36)	(44)	(55)
Other financing cash flows	64	(146)	(10)	(1)	28
Cash flow from financing	**(181)**	**(159)**	**(155)**	**(187)**	**(162)**
Chg in cash & cash eq.	**114**	**(74)**	**(108)**	**(13)**	**65**
Closing cash & cash eq.	**244**	**170**	**61**	**48**	**113**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	33.2	7.2	3.6	9.8	16.2
Adjusted EPS	33.2	7.2	3.6	11.0	16.2
Dividend per share	5.1	3.6	2.9	3.6	4.5
Book value per share	94.7	84.4	84.4	91.3	104.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.0	0.9	1.0	1.1	1.0
EV/EBITDA	4.0	7.1	10.0	7.0	5.6
Adjusted P/E	4.1	18.8	37.5	12.3	8.3
P/BV	1.4	1.6	1.6	1.5	1.3

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	79.7	48.3	55.0	70.0	70.0
Interest burden (PBT/EBIT)	92.6	78.9	64.1	83.1	90.6
EBIT margin (EBIT/Revenue)	22.4	9.5	5.7	10.3	13.0
Asset turnover (Rev./Avg TA)	91.3	84.3	76.4	80.1	84.3
Leverage (Avg TA/Avg Equity)	2.8	2.6	2.8	2.6	2.4
Adjusted ROAE	42.6	8.1	4.3	12.5	16.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	56.6	(0.3)	(10.2)	3.3	7.5
EBITDA	108.1	(49.1)	(30.5)	49.9	26.2
Adjusted EPS	408.5	(78.4)	(49.8)	205.7	47.2
Profitability & Return ratios (%)					
EBITDA margin	26.2	13.4	10.3	15.0	17.6
EBIT margin	22.4	9.5	5.7	10.3	13.0
Adjusted profit margin	16.6	3.6	2.0	6.0	8.2
Adjusted ROAE	42.6	8.1	4.3	12.5	16.6
ROCE	26.9	11.0	6.7	11.7	15.3
Working capital days (days)					
Receivables	18	12	18	18	18
Inventory	74	82	85	76	74
Payables	74	65	70	70	70
Ratios (x)					
Gross asset turnover	0.9	0.8	0.8	0.8	0.8
Current ratio	1.0	0.9	0.8	0.7	0.8
Net interest coverage ratio	10.0	3.6	1.8	3.7	5.7
Adjusted debt/equity	0.4	0.6	0.7	0.6	0.4

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**

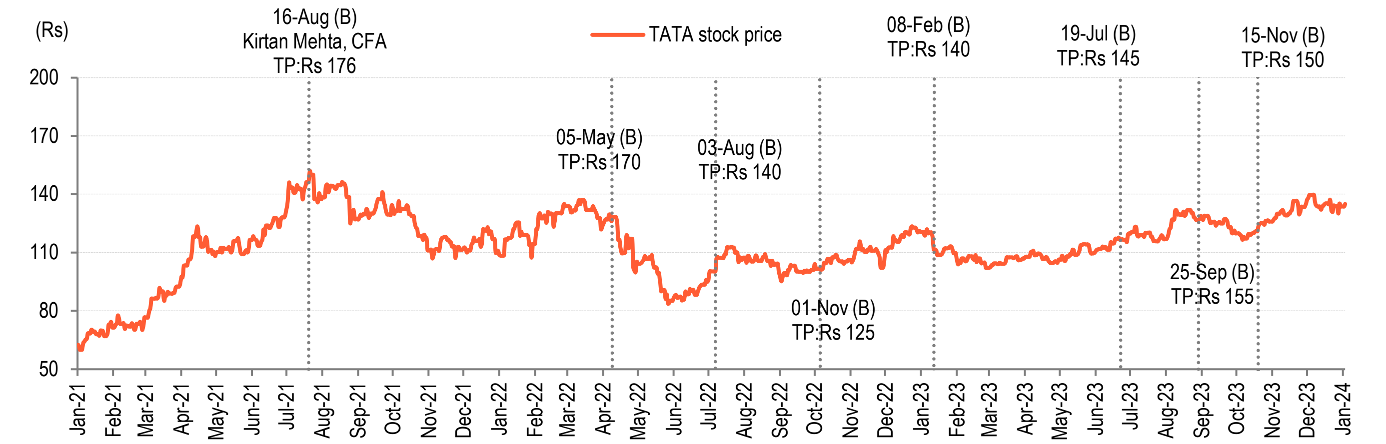
Logo:

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.