



Duration: 6-9 Months

CMP (Rs)	Target (Rs)	Potential Upside (%)
179	197	10%

MARKET DATA

No. of Shares	1,248 Cr
Market Cap	2,23,330 Cr
52-week High / Low	179/108
BSE Code	500470
NSE Code	TATASTEEL

Why Tata Steel Ltd

- ✓ **Costs to Ease up in Europe**
- ✓ **Enhancing Indian Capacity**
- ✓ **Lower Coking coal prices**
- ✓ **Robust Indian Operations**

About the Company

Tata Steel Group is one of the world's largest steel companies with a steel production capacity of ~35 mtpa. According to the World Steel Association (WSA), the group ranked 10th globally in terms of crude steel production (29.5 mtpa) in 2023. Established in India as Asia's first integrated private steel company in 1907, the group has a presence across the entire value chain of steel manufacturing, including producing and distributing finished products as well as mining & processing iron ore and coal for steel production.

Investment Rationale

- A. Costs to ease up in Europe in the next year:** The UK business will close down its BF4 and BF5 by Jun/Sep'24 respectively and it will use HR coils (mainly from India and Netherlands) to feed downstream assets until the 3.0 MT EAF commissions by FY27. The UK business will become cash neutral in H2FY25 and it will turn EBITDA positive from FY26. Netherlands is expected to deliver a positive EBITDA/t and turn net cash flow positive from Q1FY25 as BF6 relining is complete.
- B. Enhancing Indian footprint:** In FY25, 1.7 MT of production is expected from the 5mtpa KPO Phase II expansion project. Total incremental sales volume on a consolidated basis in FY25 will be at 1.4MT, as the company will take down BF-G at Jamshedpur for relining, which will lead to a loss of volume. KPO-II EBITDA/t will be better than other Indian assets. Hence India's blended EBITDA/t will only accrue as KPO-II ramps up to a rated capacity of 5mtpa (expected by FY26).
- C. Green Steel transition in Europe:** With the CBAM (Carbon Border Adjustment Mechanism), steel exports to the UK and EU will become expensive in future. Hence the green steel transition in the UK and EU will be strategically important for Tata Steel. The company expects an ROCE of 12-15% across cycles from the EAF/DRI transition investments in the UK/Europe.
- D. Tata Steel will fund the UK and Netherlands green steel transition through a combination of internal funding, project funding and government support.** It has £0.5 Bn grant (non-binding agreement) from the UK government for its 3 MTPA EAF transition replacing the 3.5 MTPA BF. For the Netherlands BF-6 & 7 transition to the DRI route, the Dutch Parliament has given a mandate to the government to negotiate the terms of potential support towards a proposal for decarbonization in Tata Steel Nederland.
- E. Recommendation:** We recommend a BUY rating on the stock with a TP of Rs 197/share, implying an upside of 10% from the CMP.

Financial Summary

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
FY23	2,43,353	32,300	8,760	7	14.6x	8%	12%	6.1x
FY24	2,29,171	22,306	-4,437	-4	-43.8x	3%	7%	13.1x
FY25E	2,31,352	34,677	12,451	10	17.6x	13%	13%	8.4x
FY26E	2,57,972	40,737	16,131	13	13.6x	15%	16%	7.0x

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