

Europe Continues to Drag; Caps Material Upside

Est. Vs. Actual for Q2FY25: Revenue – **BEAT**; EBITDA – **BEAT**; Adj PAT – **MISS**

Change in Estimates post Q2FY25:

FY25E/FY26E: Revenue -1%/-3%; EBITDA: -17%/-5%, PAT: -35%/-8%

Recommendation Rationale

- Indian operations strong while Europe drags:** In FY25, consolidated sales volume is expected to increase by 1-1.4MT, led by 1.1MT from KPO-II, 0.2MT from NINL, partially offset by the shutdown at one of the BF at Jamshedpur for relining in Q4. Indian profitability will improve as the KPO-II ramps up and will add 3.5-4MT/5MT in FY26/27. Cost at KPO-II will come down by ~Rs 3-4k/t as it ramps up fully by FY27 due to operating leverage with its expansion from 3 to 8 MTPA. However, the decarbonisation Capex requirement at European operations could drag faster capacity expansion in India beyond KPO-II.
- Target to attain EBITDA and cash flow neutral level in the UK by Jun'25:** In the UK, EBITDA/t loss widened by £100/t QoQ as Q2 was a transition quarter where it operated BF4 and also purchased slabs and coils, as a result, fixed costs were high. Post shutdown of BF5 in Jul'24, TSUK has also shut down BF4 paving the way for green steelmaking. Fixed cost reduction is the primary goal at TSUK now as it closed its heavy-end assets and is operating on a conversion basis. It will target to cut fixed costs by £100/t by Jun'25 by focusing on maintenance, lease, and employee cost reductions. The target is to get EBITDA and cash flow neutral in the UK business by Q1FY26 (from Q3FY25 earlier).
- Netherlands:** EBITDA/t de-grew by £14/t QoQ in the TSN business, led by higher other expenses on account of higher emission costs as well as consumables and bulk-gas-related costs. Spreads will be under pressure in Q3 and the next two quarters are expected to remain volatile. Management will target €60/t through-cycle margin at TSN with cost efficiency programs and higher liquid steel production from BF6 as it ramps up post-relining.

Sector Outlook: Cautious

Company Outlook & Guidance: FY26 is likely to be a Capex light for Tata Steel as KPO-II Capex will be near completion in FY25 and Capex for UK EAF transition for the next 18-24 months will not be significant and will pick up only towards the last 12-16 months. Capex at TSN for the DRI-EAF green steel transition will begin only in the next 12 months. WC management and De-leveraging (target of \$1 Bn/annum) will remain critical in FY26 as Capex intensity reduces before it picks up again in FY27. Net debt has already increased to Rs 88,817 Cr as of Q2FY25 with Net Debt to EBITDA jumping to 3.41x from 3.31x at the end of FY24.

Current Valuation: SoTP using 1Y Fwd EV/EBITDA for India, Europe and Others at 7.5x, 4.0x, 5.0x on Sep'26 EBITDA (From Mar'26)

Current TP: Rs 175/share (Unchanged)

Recommendation: We upgrade to **BUY** from **HOLD** as we roll forward our valuation to Sep'26.

Financial Performance: Tata Steel's consolidated Revenue declined 3%/2% YoY/QoQ, (2% ahead of consensus) on account of the lower realisations in India and Netherlands. Consolidated EBITDA stood at Rs 6,141 Cr, up 44% YoY but down 8% QoQ, a 21% beat against consensus due to higher-than-expected EBITDA/t in Indian operations. Indian Adjusted EBITDA/t stood at Rs 13,131/t, down 2%/4% YoY/QoQ, a 4% beat vs. our estimates on account of lower-than-expected coal consumption cost. Europe's EBITDA/t loss rose to \$75/t vs. \$28/t in Q1FY25, mainly due to lower sales volume in the UK lower deliveries and higher other expenses in the Netherlands. Underlying Net Profit stood at Rs 815 Cr, up 16% YoY but down 38% QoQ.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	53,905	-2%	-3%	52,999	2%
EBITDA	6,141	-8%	44%	5,563	10%
Adj EBITDA/t	7,345	-22%	25%	7,328	0%
Underlying Net Profit	815	-38%	16%	1,094	-25%
EPS (Rs)	0.7	-38%	14%	0.88	-25%

Source: Company, Axis Securities

(CMP as of 7th November 2024)

CMP (Rs)	151
Upside /Downside (%)	15%
High/Low (Rs)	184/118
Market cap (Cr)	1,88,375
Avg. daily vol. (6m) Shrs.	48,109,647
No. of shares (Cr)	1,248

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	33.19	33.19	33.19
FII	19.61	19.68	19.25
Mutual Funds / UTI	10.10	10.32	10.62
Financial Institutions	0.06	0.09	0.08
Others	37.04	36.72	36.86

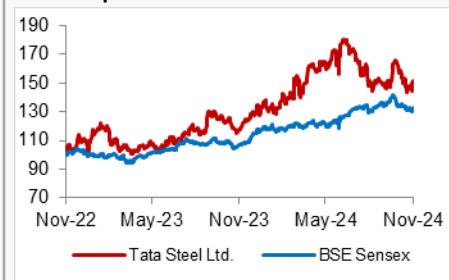
Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	2,22,124	2,48,160	2,61,916
EBITDA	24,790	35,297	40,642
Net Profit	6,025	12,608	15,850
EPS (Rs.)	4.8	10.1	12.7
PER (x)	31.3x	14.9x	11.9x
P/BV (x)	2.0x	1.9x	1.7x
EV/EBITDA (x)	10.7x	7.4x	6.3x
ROE (%)	6%	13%	15%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales	-1%	-3%	NA
EBITDA	-17%	-5%	NA
PAT (Attrib)	-35%	-8%	NA

Relative performance



Source: Ace Equity, Axis Securities

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Outlook

European business continues to remain a drag while Indian operations are strong catering to a strong domestic market. Progress on de-leveraging will be crucial in FY26 as it will be a Capex-light year. We roll forward our valuation from FY26 to Sep'26 and our TP indicates a 15% upside from the CMP. **Consequently, we upgrade our recommendation to BUY from HOLD.** We reduce our steel price assumptions for FY25/26 resulting in a downward revision to our EBITDA estimates.

Valuation & Recommendation

We use SoTP and ascribe a 1-year Fwd EV/EBITDA multiple of 7.5x, 5.0x, and 4.0x to India standalone, other operations, and Europe respectively on Sep'26 EBITDA (From Mar'26) to arrive at our Sep'25 forward TP of Rs 175/share (Unchanged). We revise our EBITDA for FY25-26E on lower steel prices. The TP implies a 15% upside from the CMP and as a result, **we upgrade our rating from HOLD to BUY on the stock.**

Key Concall Highlights

- **Spreads will be under pressure in Q3FY25: India** - NSR at India will be Rs 2,000/t lower QoQ in Q3FY25. Coking Coal consumption cost is expected to be ~\$20/t lower QoQ. **In the UK**, NSR in Q3FY25 is expected to fall by ~£55/t while it will no longer use iron ore and coal. **In the Netherlands**, NSR will be lower by ~£70 per ton, while coking coal and iron ore costs will be lower by ~\$10/t each QoQ.
- **UK asset restructuring:** The 3.0 MT EAF will be commissioned by 2027 at a total Capex of £1.25 Bn of which £500 Mn from the UK government support. The grant funding agreement is now signed under the new labour government. The company has signed a contract with Tenova to deliver the EAF and has completed the public consultation process on the planning application. It expects to commence the groundwork at the site by Jul'25.
- **Kalinganagar project:** The total Capex of KPO Phase II (including downstream and upstream capacity) is Rs 27,000 Cr. KPO-II will have the best EBITDA/t as compared to other legacy assets in India (Jamshedpur and Meramandali). The 5 MTPA BF of KPO-II has started from Sep'24 and will contribute 1.1 MT in FY25, 3.5-4MT in FY26 and full rated capacity of 5 MTPA in FY27. KPO already has the infrastructure to produce 8 MTPA steel, and as a result, the cost will be substantially reduced (Rs 3-4k/t benefit) as it ramps up to a rated capacity of 8 mtpa from 3 mtpa by FY27.
- **Netherlands Decarbonisation transition:** The company is in engagement with the Netherlands government for potential subsidy for accelerating the decarbonization and moving towards lower CO₂ to comply with the 2030 regulation as the free allowances of CO₂ will keep coming down as per the EU regulation. The cost of operating the BFs will become significantly higher with the CO₂ prices at the north of €80/t. The company will move in phases and will convert one BF into a DRI-EAF set-up. The first phase will help in covering for the compliance of 2030 and the second phase will follow thereafter. The CO₂ allowances will go down to zero post-2032.
- **Expansion Projects:** NINL will be the first on the priority list in the Indian expansion plan as it is more ready in terms of engineering work. Capacity at NINL will be increased from 1.1 to 5 mtpa. KPO will then move from 8 to 13 mtpa, six months after completing its 5 mtpa expansion from 3 to 8 mtpa. Bhushan will move from 5 to 6.5 mtpa. The existing 11 mtpa at Jamshedpur and 1.1 mtpa at Usha Martin, along with these expansion projects, will result in a total capacity of 37 mtpa. This, combined with the 0.85 mtpa EAF in Ludhiana (expected by Mar'26, with volume impact from FY27) and the potential addition of more EAFs in West and South India where scrap is available, will bring the total capacity to 40 mtpa by 2030.
- **Exports:** Tata Steel exports have typically been about 10% of its production. For the next couple of years, its exports will go mainly to the UK, as the UK will require slabs of at least 1MT from Tata Steel in India and another 0.6-0.7MT from the Netherlands.
- **Focus on Long Products:** The company will increase its share of long products in the mix as long products are less impacted by Chinese imports and its domestic demand is good in construction. Of the current Indian capacity of 26 MTPA (including 5 MTPA from KPO II), ~5 MTPA is long product capacity. This will increase to 8-9 MTPA as total capacity increases to 30-31 MTPA. The incremental 1.1 to 5 MTPA NINL and 0.85 MTPA, Ludhiana EAF facility will be of long products.
- **Capex:** The company spent Rs 4,806 Cr during the quarter and Rs 8,583 Cr for the half year.
- **Contingent liability:** The company has withheld its reporting of contingent liability of Rs 17,347 Cr which it recorded in Q1FY25 on the Supreme Court verdict - on states can tax mining assets. The company is in the process of filing a curative petition.

Key Risks to Our Estimates and TP

- The key risk to our BUY rating is the decrease in the HRC prices in China, which could lead to a decline in prices in the rest of the world.
- Higher coking coal costs than our assumptions.

Change in Estimates

	New			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	2,22,124	2,48,160	2,61,916	2,24,700	2,55,359	NA	-1%	-3%	NA
EBITDA	24,790	35,297	40,642	29,885	36,987	NA	-17%	-5%	NA
PAT reported (Attrib)	6,025	12,608	15,850	9,337	13,694	NA	-35%	-8%	NA

Source: Company, Axis Securities

Tata Steel Q2FY25 Results Review

Consolidated		Q2FY24	Q1FY25	Q2FY25	Q2FY25	Q2FY25	YoY (%)	QoQ (%)	Vs. Axis Est	Vs. Consensus
		Actual	Actual	Axis Est	Consensus	Actual	%	%	%	%
Total Revenue from Operations	Rs Cr	55,682	54,771	52,999	52,970	53,905	-3%	-2%	2%	2%
EBITDA	Rs Cr	4,268	6,694	5,563	5,064	6,141	44%	-8%	10%	21%
Adj EBITDA	Rs Cr	4,147	6,950	5,563	5,064	5,522	33%	-21%	-1%	9%
Adj EBITDA per tonne	Rs/tonne	5,869	9,407	7,328		7,345	25%	-22%	0%	NA
EBITDA margin (%)	%	7.7%	12.2%	10.5%	9.6%	11.4%				
Underlying Attrib PAT	Rs Cr	703	1,318	1,094		815	16%	-38%	-25%	NA
Reported PAT (Attrib)	Rs Cr	-6,196	960	1,094	502	833	NA	-13%	-24%	66%
Underlying Diluted EPS (Rs)	Rs/sh	0.58	1.06	0.88		0.65	14%	-38%	-25%	NA
Reported Diluted EPS (Rs)	Rs/sh	-5.07	0.77	0.88		0.67	NA	-13%	-24%	NA
Net Debt	Rs Cr	77,032	82,162			88,817	15%	8%	NA	NA

Source: Company, Axis Securities

Segmental EBITDA		Q2FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
		Actual	Actual	Actual	%	%
Tata Steel India	Rs Cr	6,917	6,750	6,734	-3%	0%
NINL	Rs Cr	(76)	279	178	NA	-36%
Other Indian operations	Rs Cr	330	104	120	-64%	15%
Tata Steel Europe	Rs Cr	(2,512)	(499)	-1,344	NA	NA
Other trade-related operations	Rs Cr	750	(33)	1,034	38%	NA
SE Asian operations	Rs Cr	11	43	-32	NA	NA
Rest of the world	Rs Cr	56	(94)	-128	NA	NA
Total	Rs Cr	5,475	6,550	6,563	20%	0%
Less: intersegment eliminations	Rs Cr	1,160	(272)	339	-71%	NA
Total segment EBITDA	Rs Cr	4,315	6,822	6,224	44%	-9%
Adjustment	Rs Cr	(47)	(128)	-83	NA	NA
Total calculated EBITDA	Rs Cr	4,268	6,694	6,141	44%	-8%

Source: Company, Axis Securities

		Q2FY24	Q1FY25	Q2FY25	Q2FY25	YoY (%)	QoQ (%)	vs Axis Est
		Actual	Actual	Axis Est	Actual	%	%	%
Consolidated Production	Mnt	7.31	8.00	7.69	7.69	5%	-4%	0%
Consolidated Delivery Volumes	Mnt	7.07	7.39	7.52	7.52	6%	2%	0%
Adj EBITDA per tonne Europe	\$/t	-155	-28	-44	-75	NA	NA	70%
Adj EBITDA per tonne India	Rs/t	13,401	13,667	12,657	13,131	-2%	-4%	4%
Adj EBITDA per tonne Consolidated	Rs/t	5,869	9,407	7,328	7,345	25%	-22%	0%

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Total Operating income	2,29,171	2,22,124	2,48,160	2,61,916
Total Expenditure	2,06,865	1,97,333	2,12,863	2,21,274
EBITDA	22,306	24,790	35,297	40,642
Depreciation and Amortization	9,882	10,548	11,148	11,747
EBIT	12,424	14,242	24,149	28,895
Other Income	1,809	1,990	2,189	2,408
Share Of P/L Of Associates (Net of Tax)	(58)	439	461	484
Less: Interest & Fin Chg.	7,508	7,402	7,402	7,402
Less: Exceptional Items	7,814	-	-	-
Profit before tax	(1,147)	9,269	19,397	24,384
Provision for Tax	3,763	3,244	6,789	8,535
Reported PAT	(4,910)	6,025	12,608	15,850
Minority Interest	(472)	-	-	-
Attributable PAT	(4,437)	6,025	12,608	15,850
EPS (Rs/sh) Basic	(3.6)	4.8	10.1	12.7
DPS (Rs/sh)	3.6	3.6	3.6	3.6

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Net Block	1,23,538	1,26,590	1,27,343	1,29,196
Other Tangible assets	7,586	7,586	7,586	7,586
CWIP + ITUD + Other Intangible Assets	46,301	48,701	50,801	53,201
Goodwill	5,745	5,745	5,745	5,745
Investments	6,258	6,423	6,597	6,779
Inventories	49,158	47,646	53,231	56,181
Trade Receivables	6,264	6,071	6,783	7,158
Cash / Bank balance	7,081	4,541	8,353	15,135
Retirement Benefit Assets	23	24	24	25
Misc. Assets	21,471	22,329	23,228	24,171
Total assets	2,73,424	2,75,655	2,89,689	3,05,177
Equity capital	1,247	1,247	1,247	1,247
Hybrid Perpetual Securities/ Share warrants	-	-	-	-
Reserves	90,788	92,323	1,00,440	1,11,799
Minority Interests	397	397	397	397
Total Borrowings	81,574	81,574	81,574	81,574
Def Tax Liabilities	12,992	12,992	12,992	12,992
Retirement Benefit Obligations	3,366	3,535	3,711	3,897
Provisions	9,203	9,663	10,146	10,654
Trade Payables	35,435	34,345	38,371	40,498
Other Liabilities and Provision	38,421	39,579	40,810	42,119
Capital employed	2,73,424	2,75,655	2,89,689	3,05,177

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Profit before tax	(1,147)	9,269	19,397	24,384
Depreciation	9,882	10,548	11,148	11,747
Interest Expenses	7,508	7,402	7,402	7,402
Non-operating / EO item	5,994	(242)	(254)	(267)
Change in W/C	3,384	1,617	(1,202)	(60)
Income Tax	(5,320)	(3,244)	(6,789)	(8,535)
Operating Cash Flow	20,301	25,350	29,701	34,672
Capital Expenditure	(18,207)	(16,000)	(14,000)	(16,000)
Free cash Flow	2,094	9,350	15,701	18,672
Other Investments	3,955	(166)	(174)	(182)
Investing Cash Flow	(14,251)	(16,166)	(14,174)	(16,182)
Proceeds from the issue of Equity shares	-	-	-	-
Proceeds / (Repayment) of Borrowings	1,230	-	-	-
Finance cost paid	(8,145)	(7,402)	(7,402)	(7,402)
Dividend paid	(4,429)	(4,491)	(4,491)	(4,491)
Other Financing activities	247	168	177	186
Financing Cash Flow	(11,097)	(11,724)	(11,716)	(11,707)
Change in Cash	(5,048)	(2,540)	3,812	6,782
Opening Cash	12,130	7,081	4,541	8,353
Closing Cash	7,081	4,541	8,353	15,135

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY24A	FY25E	FY26E	FY27E
Operational Ratios				
Sales growth (% YoY)	-6%	-3%	12%	6%
EBITDA growth (% YoY)	-31%	11%	42%	15%
Op. profit growth (% YoY)	-46%	15%	70%	20%
Net Profit growth (% YoY)	-151%	-236%	109%	26%
EBITDA Margin %	10%	11%	14%	16%
Net profit Margin %	-2%	3%	5%	6%
EBITDA/t (Rs/tonne)	0%	0%	0%	0%
Tax Rate %	-328%	35%	35%	35%
Efficiency Ratios				
Total Asset Turnover (x)	0.82	0.81	0.88	0.88
Sales/Gross block (x)	1.09	0.99	1.05	1.05
Sales/Net block(x)	1.89	1.78	1.95	2.04
Working capital/Sales (x)	0.09	0.09	0.09	0.09
Valuation Ratios				
PER (x)	-43.8x	31.3x	14.9x	11.9x
P/BV (x)	2.1x	2.0x	1.9x	1.7x
EV/Ebitda (x)	12.0x	10.7x	7.4x	6.3x
EV/Sales (x)	1.2x	1.2x	1.1x	1.0x
Dividend Yield (%)	2.4%	2.4%	2.4%	2.4%
Return Ratios				
ROE	0.03	0.06	0.13	0.15
ROCE	0.07	0.08	0.13	0.15
ROIC	0.31	0.05	0.09	0.10
Leverage Ratios				
Debt/equity (x)	0.95	0.93	0.86	0.77
Net debt/ Equity (x)	0.79	0.86	0.78	0.64
Net debt/Ebitda (x)	3.32	3.23	2.16	1.71
Interest Coverage ratio (x)	2.97	3.35	4.77	5.49

Source: Company, Axis Securities

Tata Steel Price Chart and Recommendation History



Source: Axis Securities Research

Date	Reco	TP	Research
08-Feb-23	HOLD	120	Result Update
04-May-23	HOLD	120	Result Update
26-Jul-23	HOLD	125	Result Update
18-Sep-23	BUY	145	Company Update
03-Nov-23	BUY	135	Result Update
29-Jan-24	BUY	150	Result Update
31-May-24	BUY	187	Result Update
02-Aug-24	HOLD	175	Result Update
08-Nov-24	BUY	175	Result Update

Source: Axis Securities

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