

BUY

TP: Rs 145 | ▲ 21%

TATA STEEL

| Metals & Mining

| 27 July 2023

Thrust on expansion capex, Europe breakeven key positives

- Q1 EBITDA broadly in line as standalone operations continued to clock a high EBITDA margin of Rs 14k/t
- Positive signals in the form of priority accorded to TSK expansion over deleveraging and guidance of FY24 breakeven in European operations
- Maintain BUY with an unchanged TP of Rs 145 based on 5.8x 1Y fwd EV/EBITDA

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

In-line Q1: TATA's recurring Q1FY24 EBITDA at Rs 53bn was 6% ahead of consensus but 1% below our forecast (excluded non-recurring gains of Rs 9bn). Standalone EBITDA margin moderated by Rs 2.6k/t QoQ but remained robust at Rs 14.1k/t.

TSK expansion prioritised over leverage targets: Despite a rise in leverage (net debt-to-TTM EBITDA) to 2.9x, above its long-term target range of 2.0-2.5x, TATA confirmed that it will put capex ahead of deleveraging. TATA is also likely to prioritise spends for TSUK resolution over leverage targets.

Q2 India margin likely to be flattish: TATA's guidance implies a flat operating margin for the India business as lower coking coal cost is likely offset by weaker steel prices. We see a possibility of modest upside from savings on in-house pellets.

Europe breakeven in FY24 also a positive signal: Despite likely high losses in H1 in European operations, TATA guides for breakeven in FY24 as TSN (Netherlands operations) likely turns positive. Historically, TSN has earned EBITDA/t of EUR 70-140/t and generated an average of EUR 200mn in annual free cash flow.

Earnings growth: We model for a 9% EBITDA CAGR over FY23-FY26 factoring in conservative ramp-up assumptions for upcoming projects (including 70% utilisation for the 5mtpa TSK expansion by FY26) and mid-cycle margins.

Key triggers: (a) Europe operations turning EBITDA-positive in H2, (b) potential resolution of UK operations' restructuring in H2, (c) start-up of the 5mtpa blast furnace at TSK (Kalinganagar) in Feb-Mar'24, (d) ramp-up of the 2.2mtpa CRM complex in FY25, and (e) finalisation of NINL expansion in FY25.

Maintain BUY: We maintain our SOTP-based TP of Rs 145, assigning the stock an unchanged blended FY26E EV/EBITDA multiple of 5.8x which values Indian operations at 6x and European operations at 4.5x, and discounting fair value back to Jul'24. We remain confident of TATA's ability to weather the downturn and deliver on earnings-accretive growth – BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TATA IN/Rs 120
Market cap	US\$ 17.8bn
Free float	66%
3M ADV	US\$ 45.4mn
52wk high/low	Rs 124/Rs 95
Promoter/FPI/DII	34%/21%/21%

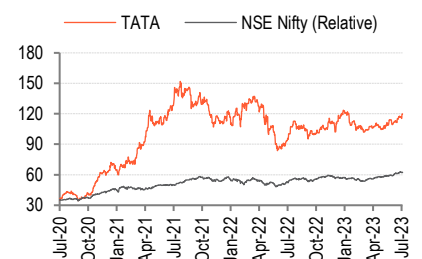
Source: NSE | Price as of 27 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,416	2,145	2,199
EBITDA (Rs mn)	323	307	375
Adj. net profit (Rs mn)	88	113	164
Adj. EPS (Rs)	7.2	9.3	13.4
Consensus EPS (Rs)	7.2	9.6	13.2
Adj. ROAE (%)	8.1	10.6	14.1
Adj. P/E (x)	16.7	12.9	8.9
EV/EBITDA (x)	6.5	6.7	5.7
Adj. EPS growth (%)	(78.4)	29.2	44.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Q1 broadly in line excluding one-off

- **EBITDA marginally ahead of consensus:** TATA's Q1FY24 recurring consolidated EBITDA stood at Rs 53.4bn after adjusting for a Rs 9bn gain on leasing of certain downstream assets to JV, Tata BlueScope. Recurring EBITDA was 6% ahead of consensus but 1% below our forecast.
- **Standalone results in line:** Recurring standalone EBITDA at Rs 65bn was 2% ahead of our forecast with EBITDA margin of Rs 14.1k/t (vs. Rs 13.8k/t est.). EBITDA margin declined 16% QoQ or by Rs 2.6k/t, impacted by higher coking coal costs.
- **European operations remained weak:** EBITDA loss was flat QoQ at Rs 15.7bn, marginally higher than our forecasted loss of Rs 15.1bn.
- **Long products continued to improve:** EBITDA in long product operations improved QoQ to Rs 1.7bn from Rs 20mn in Q4FY23. While legacy EBITDA at Rs 1.5bn was flat QoQ, NINL broke even at Rs 0.15bn (implied), sharply improving from losses of Rs 1.9bn in Q4FY23 and Rs 8.1bn in FY23.
- **Weak profitability in most other operations:** While Metaliks EBITDA declined 60% QoQ to Rs 0.39bn, Tinsplate EBITDA dropped 84% QoQ to Rs 0.14bn, and Thailand EBITDA fell 47% QoQ to Rs 0.3bn.
- **Reported net income had one-offs:** Reported net income of Rs 5.2bn included a non-recurring deferred tax charge of Rs 12bn and benefit of Rs 3.4bn on leasing out certain downstream assets to Tata BlueScope.
- **Additional deferred tax charge on BPS in FY24:** Even after the last transaction, residual surplus on the British Steel Pension Scheme (BPS) was at GBP 200mn on the books and will result in an additional non-cash deferred tax charge of GBP 50mn upon its transfer.

Prioritising capex over leverage

- **Positive to see TATA prioritising TSK expansion over leverage targets:** TATA confirmed that it would prioritise completion of the 5mtpa TSK expansion over deleveraging. This is a positive decision, in our view, as completion of ongoing capex will result in generation of cash flows and, in turn, help lower leverage over the medium term.
- **Aims to return to comfort leverage range with intermittent deviations:** Net debt-to-TTM EBITDA has increased to 2.9x in Q1, beyond the company's target range of 2.0-2.5x. TATA aims to adhere to its target on an annual basis but acknowledges the possibility of intermittent quarterly breaches. Management also acknowledged the possibility of deviations from its long-term leverage comfort zone to address specific (infrequent) situations. TATA also aims to pursue its previously set annual debt reduction target of US\$ 1bn.
- **Net debt has continued climb:** Net debt increased by Rs 36bn or 5% to Rs 714bn, driven by higher working capital buildup of Rs 25bn and an increased capex run-rate of Rs 40.9bn during the quarter. Working capital rose due to higher price levels (days were lower at 35 vs. 37 at year-end). Consolidated working

capital at Rs 240bn was equivalent to a third of net debt and comprised Rs 140bn for India operations and Rs 100bn outside India.

- **FY24 capex target reiterated:** TATA maintained its capex plan of Rs 160bn for FY24, of which Rs 110bn-120bn will be deployed in India and the balance in Europe.

Muted Q2 outlook, volume growth in FY24

- **Standalone – expect flattish margin QoQ in Q2:** Management has guided for a sequential Rs 3.1k/t dip in realisation and US\$ 50/t reduction in coking coal costs for standalone operations in Q2. There would be benefits from savings on pellets as the new plant substitutes purchases and from the additional margin on first hard cold rolled (FHCR) coil production that started in Q1. We believe this could translate into flat-to-low operating margin expansion QoQ.
- **Europe – Higher loss to continue in Q2...:** Management guidance suggests a decline in realisation by GBP 38/t and in coking coal cost by US\$ 46/t, a somewhat lower impact of hedges, and benefits from restart of the cold rolled mill (CRM) at Netherland operations (TSN). Outage of one blast furnace (BF6) in the Netherlands for relining has been extended for a total duration of six months from earlier guidance of 100 days. We believe European operations will continue to see a higher level of losses in Q2.
- **... but breakeven guided for FY24:** Despite guidance of high losses in H1, management expects Europe to turn EBITDA-positive on an annual basis in FY24, supported by positive contribution from TSN.
- **FY24 volume growth guidance at 1.5mt:** TATA aims for 1.5mt volume growth in FY24 split 50:50 between India and Europe. Within India, growth would be propelled by the addition of an SMS at the Kalinganagar plant in Oct'24 and full-year utilisation of the NINL plant.

Progressing on growth projects

- **Growth projects on track:** In line with its earlier guidance, TATA has stopped buying pellets externally after the startup of its inhouse 6mtpa pellet plant. The company is currently producing FHCR at the 2.2mtpa CRM complex and will gradually start production of cold rolled products in FY24 and galvanized and annealed products in FY25. It aims to start the blast furnace at TSK in Feb-Mar'24.
- **NINL expansion planning has started:** TATA has ramped up the NINL plant to its rated capacity of 1mtpa and is about to complete startup of all available facilities, with the last unit of the coke oven plant due to commence in Q2FY24. NINL has turned EBITDA-positive within nine months of startup. TATA has begun planning for the expansion and aims to secure final board approval within a year.
- **Inorganic growth not a priority:** The company has enough optionality at its existing production base to reach up to 50mt of production capacity and will focus only on brownfield expansion to reach its goal of 40mt in India by 2030.

European operations: TSN cash-positive, UK restructuring decision likely in FY24

- **TSN cash-positive:** While TSN has contributed to weakness in European operations in FY23, it has historically been positive on three key counts – EBITDA, free cash and net profit. While EBITDA has ranged from EUR 70/t to EUR 140/t, average annual free cash flow (FCF) has been ~EUR 200mn excluding peak year FY22 when FCF had increased to EUR 500mn. Under a range of stress case scenarios run by the company, mainland Europe or Netherlands operations have adequate liquidity. These stress tests assume a level of financial support from the Dutch government to execute a decarbonisation strategy.
- **UK hard decision could resolve an overhang:** TATA believes that the decision on restructuring UK operations to make a low-carbon transition viable is likely over H2FY24, though approvals and hence actual implementation may extend beyond Mar'24. A decision on restructuring could remove an overhang on the stock. Under the stress case scenarios run by the company, the UK business (TSUK) does not have adequate liquidity and faces material uncertainty as a going concern. For further details, refer to [our note](#) of 4 May 2023.

Iron ore security likely to be managed

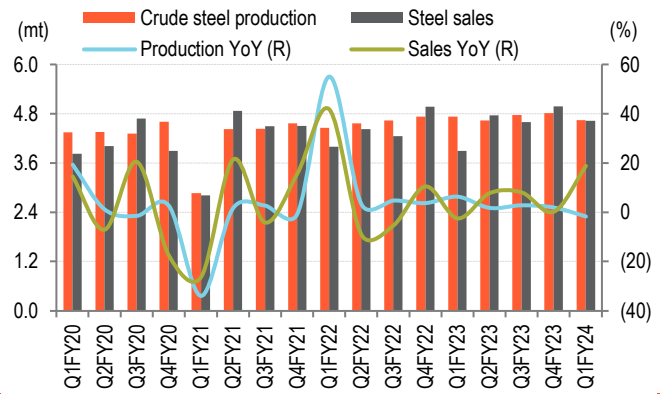
- **Mining rights expire in 2030:** TATA confirmed that its rights to existing iron ore mines are expiring in 2030 and these mines will be offered in auction, though it will have first right of refusal during the auction process. The company aims to maintain 100% iron ore security by acquiring the necessary mines for transition.
- **New mines already secured:** TATA already has access to 500-550mt of iron ore resources from new mines that it has secured beyond 2030. These include Gandhalpada (350mt), NINL (110mt), BPSL (100mt), and Usha Martin (25mt). The company will also add more mines before 2030 to meet its needs.

Fig 1 – Quarterly performance

(Rs bn)	Q1FY24	Q4FY23	QoQ (%)	Q1FY23	YoY (%)
Consolidated P&L					
Revenue from operations	595	630	(5.5)	634	(6.2)
Adj. EBITDA	53	72	(26.2)	143	(62.8)
EBIT	28	48	(42.9)	127	(78.3)
PBT before exceptionals	18	33	(44.3)	119	(84.6)
PAT	5	16	(66.5)	77	(93.2)
Net income to owners	6	17	(62.8)	78	(91.8)
EPS (Rs)	0.5	1.4	(62.9)	6.4	(91.8)
Effective tax rate (%)	72.2	53.0	-	35.1	-
Adj. EBITDA break-up					
Standalone (incl BSL)	65	83	(21.9)	83	(21.7)
Europe	(16)	(16)	4.4	60	(126.0)
Long Products	2	0	8,200.0	0	588.2
SEA	0	1	(47.4)	2	(80.0)
Others	2	5	(57.5)	(1)	290.8
Consolidated	53	72	(26.2)	143	(62.8)
Standalone operational parameters					
Production (mt)	4.7	4.8	(3.5)	4.7	(1.7)
Sales (mt)	4.6	5.0	(7.2)	3.9	18.8
Apparent realisation (Rs'000/t)	70.0	68.8	1.7	82.3	(15.0)
Adj. EBITDA (Rs'000/t)	14.1	16.7	(15.8)	21.3	(34.1)
India business operational parameters					
Production (mt)	5.0	5.2	(2.5)	4.9	2.0
Sales (mt)	4.8	5.2	(6.8)	4.1	17.9
Apparent realisation (Rs'000/t)	72.7	71.0	2.4	83.6	(13.0)
Adj. EBITDA (Rs'000/t)	13.9	16.2	(14.0)	20.3	(31.7)
Europe operational parameters					
Production (mt)	1.8	2.3	(21.1)	2.4	(26.6)
Sales (mt)	2.0	2.2	(7.9)	2.1	(7.0)
Apparent realisation (Rs'000/t)	107.2	102.0	5.1	121.3	(11.6)
Adj. EBITDA (Rs'000/t)	(7.9)	(7.6)	(3.8)	28.2	(127.9)
Adj. EBITDA (US\$/t)	(96)	(92)	(3.7)	375	(125.6)
Consolidated operational parameters					
Production (mt)	7.1	7.8	(8.6)	7.7	(7.9)
Sales (mt)	7.2	7.8	(7.5)	6.6	8.8
Apparent realisation (Rs'000/t)	82.6	80.9	2.1	95.8	(13.8)
Adj. EBITDA (Rs'000/t)	7.4	9.3	(20.2)	21.7	(65.8)

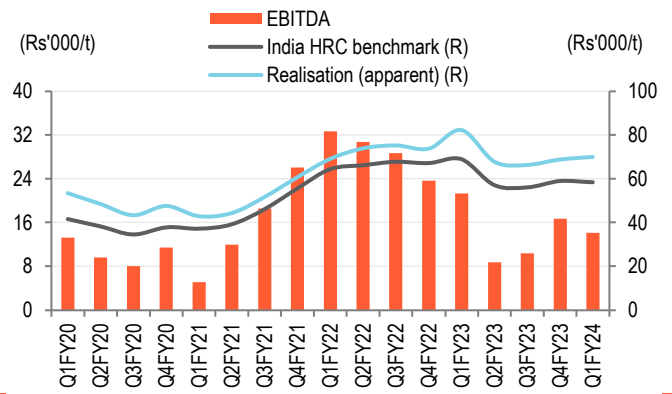
Source: Company, BOBCAPS Research | NM: Not meaningful

Fig 2 – Standalone sales have come off in Q1FY24 from a seasonal peak



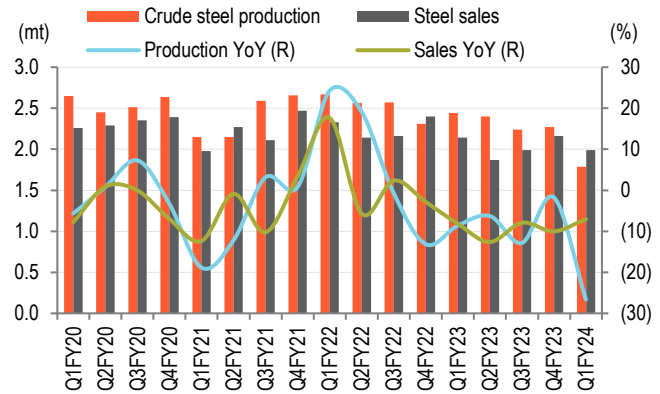
Source: Company, BOBCAPS Research

Fig 3 – EBITDA margin declined with increase in coking coal consumption costs



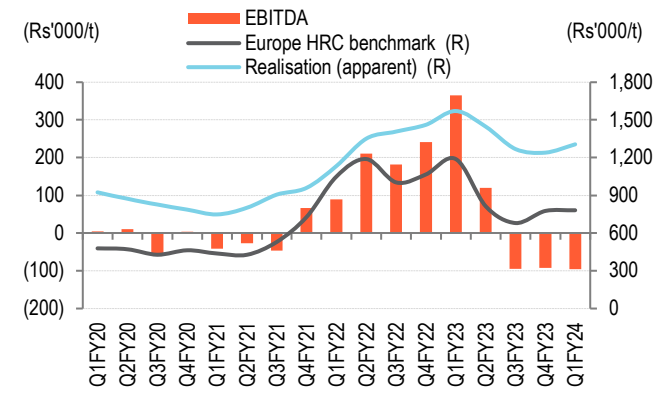
Source: Company, BOBCAPS Research

Fig 4 – European sales weakness reflects BF6 shutdown at Netherlands operations



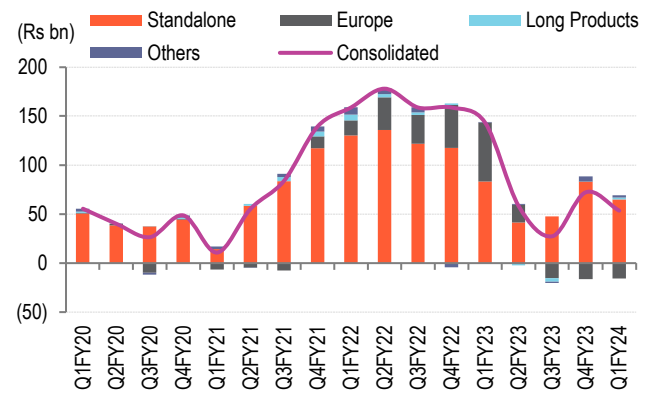
Source: Company, BOBCAPS Research

Fig 5 – Europe business continues to post high losses



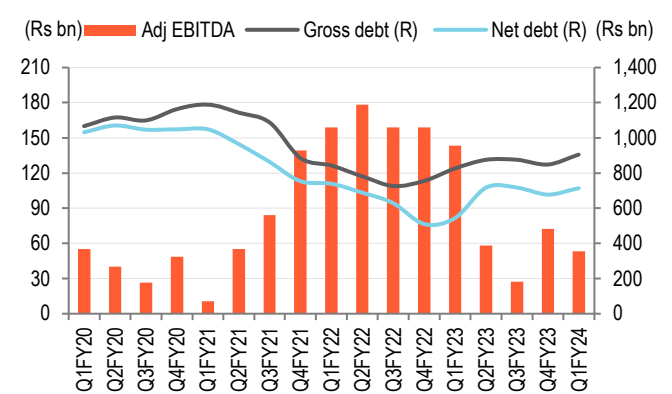
Source: Company, BOBCAPS Research

Fig 6 – Consolidated EBITDA softened in Q2 with pullback in standalone margins



Source: Company, BOBCAPS Research

Fig 7 – Net debt remains elevated



Source: Company, BOBCAPS Research

Valuation methodology

Forecast changes

Accounting for the Q1FY24 results and FY23 Annual Report disclosures, we lower our FY24/FY25/FY26 forecasts by 5%/ 4%/ 2%. We mainly lower our European earnings forecasts. On a lower base of FY23, we build in a conservative 9% EBITDA CAGR for TATA over FY23-FY26 assuming only partial operations at the TSK expansion by FY26 and mid-cycle margins of Rs14.7k-15.6k over FY24-FY26. We also model for the following conservative assumptions as the company's capex plan fructifies over the next three years:

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

Deleveraging likely to be limited in FY24

We estimate deleveraging of US\$ 0.5bn during FY24 based on our expectations of EBITDA of Rs 307bn, capex of Rs 170bn (higher than company guidance of Rs160bn), and working capital release of Rs 10bn.

Fig 8 – Revised estimates

(Rs bn)	Actual	New			Old			Change (%)		
	FY23P	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,416	2,145	2,199	2,372	2,137	2,190	2,369	0.4	0.4	0.1
EBITDA	323	307	375	419	321	390	428	(4.5)	(3.8)	(2.0)
EBITDA growth (%)	(49)	(5)	22	12	(1)	21	10	-	-	-
Net income	88	113	164	196	111	171	198	2.0	(4.2)	(1.0)

Source: Company, BOBCAPS Research

Fig 9 – Key assumptions

Parameter	FY23P	FY24E	FY25E	FY26E
Sales India (mt)	19.7	20.4	22.1	24.1
Sales Europe (mt)	8.2	8.7	8.5	8.5
India HRC price (US\$/t)	751	642	599	599
EBITDA/t Standalone (Rs'000/t)	14.7	14.7	15.5	15.6
EBITDA/t India (Rs'000/t)	13.7	14.2	15.2	15.4
EBITDA/t Europe (US\$/t)	70	7	38	50

Source: Company, BOBCAPS Research

Fig 10 – Comparison with consensus

(Rs bn)	Forecasts			Consensus			Delta to Consensus		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,145	2,199	2,372	2,248	2,297	2,548	(4.6)	(4.3)	(6.9)
EBITDA	307	375	419	318	381	391	(3.7)	(1.6)	7.3
Net income	113	164	196	116	160	182	(2.8)	2.6	7.7

Source: Bloomberg, BOBCAPS Research

Target price unchanged at Rs 145; maintain BUY

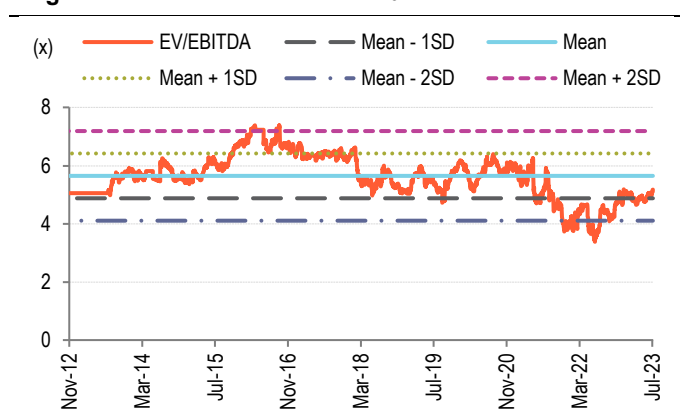
We maintain our SOTP-based TP of Rs 145 as the impact of downward revision in earnings forecast is offset by lower net debt forecast and change in mix of India and Europe profit. We continue to value the stock at an unchanged blended one-year forward EV/EBITDA multiple of 5.8x while moving our valuation base forward to FY26 to give TATA credit for the expansion drive underway, and then discounting our fair value back to Jul'24 to arrive at a one-year forward target price.

With a hard decision on UK operations due over the next 12-18 months, we believe this could dispel the overhang on the stock and result in a viable replacement option for the plant. Even in the worst case, restructuring would mean the continuation of only downstream operations, where management believes the impact is likely to be under GBP 1bn. We maintain BUY as we remain confident of TATA's ability to weather the downturn and deliver on earnings-accretive growth.

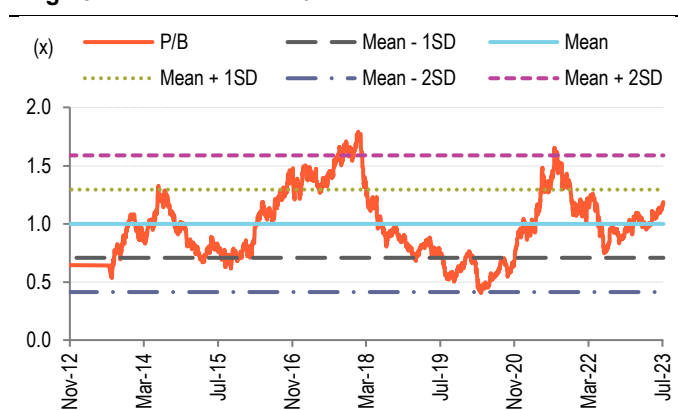
Fig 11 – TATA: Valuation summary

(Rs bn)	Tata Steel India	Tata Steel Europe	Tata Steel
FY26E EBITDA	384	36	419
Target EV/EBITDA multiple (x)	6.0	4.5	5.9
EV Mar'25E	2,302	160	2,463
FY25E Net debt	-	-	579
Equity value Mar'25E	-	-	1,883
Fair value Mar'25E (Rs)	-	-	154
Fair value Jul'24E (Rs)	-	-	145
Target price Jul'24E (Rs) (rounded to nearest Rs 5)	-	-	145

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)	
					FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
TATA IN	120	BUY	145	21.0	1.0	0.9	7.0	5.4	88	111	1.4	1.2	12.9	8.9
JSTL IN	794	HOLD	840	5.8	1.6	1.5	8.0	6.8	41	120	2.9	2.1	15.9	12.5
SAIL IN	93	HOLD	90	-2.7	0.6	0.6	5.3	4.9	22	44	0.7	0.6	8.6	8.1

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 cold rolled mill at Kalinganagar plant in FY24 and annealing and galvanising lines over FY24-FY25. It is also expanding Kalinganagar capacity by 5mtpa to raise total India capacity to 25mt by FY25.
- TATA is exposed to the risk of closure of its upstream operations in the UK in the absence of a viable replacement option. Restructuring to continue only with downstream operations could involve additional costs.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
JSW Steel	JSTL IN	23.4	794	840	HOLD
SAIL	SAIL IN	4.6	93	90	HOLD
Tata Steel	TATA IN	17.8	120	145	BUY

Source: BOBCAPS Research, NSE | Price as of 27 Jul 2023

Financials

Income Statement

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

Balance Sheet

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	368	378	353	350	375
Other current liabilities	260	279	246	252	272
Provisions	28	39	39	39	39
Debt funds	756	849	809	729	649
Other liabilities	273	283	278	268	285
Equity capital	12	12	12	12	12
Reserves & surplus	1,132	1,019	1,086	1,207	1,354
Shareholders' fund	1,171	1,052	1,118	1,239	1,386
Total liab. and equities	2,854	2,880	2,843	2,877	3,005
Cash and cash eq.	244	170	131	150	205
Accounts receivables	122	83	106	108	117
Inventories	488	544	479	450	482
Other current assets	71	70	44	45	45
Investments	58	48	48	48	48
Net fixed assets	1,162	1,187	1,199	1,251	1,331
CWIP	220	312	367	352	302
Intangible assets	171	279	283	286	289
Deferred tax assets, net	0	0	0	0	0
Other assets	376	235	235	235	235
Total assets	2,854	2,880	2,843	2,877	3,005

Cash Flows

Y/E 31 Mar (Rs bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	455	252	268	337	344
Capital expenditures	(97)	(318)	(170)	(146)	(146)
Change in investments	(24)	10	0	0	0
Other investing cash flows	(39)	140	18	19	22
Cash flow from investing	(159)	(168)	(152)	(127)	(124)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(129)	93	(40)	(80)	(80)
Interest expenses	(55)	(63)	(65)	(58)	(52)
Dividends paid	(62)	(44)	(43)	(50)	(63)
Other financing cash flows	64	(146)	(7)	(3)	30
Cash flow from financing	(181)	(159)	(155)	(192)	(164)
Chg in cash & cash eq.	114	(74)	(39)	19	55
Closing cash & cash eq.	244	170	131	150	205

Per Share

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

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.0	0.9	1.0	1.0	0.9
EV/EBITDA	3.7	6.5	6.7	5.7	5.0
Adjusted P/E	3.6	16.7	12.9	8.9	7.5
P/BV	1.3	1.4	1.3	1.2	1.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	79.7	48.3	68.8	69.9	69.8
Interest burden (PBT/EBIT)	92.6	78.9	79.5	86.9	91.5
EBIT margin (EBIT/Revenue)	22.4	9.5	9.6	12.3	12.9
Asset turnover (Rev./Avg TA)	91.3	84.3	75.0	76.9	80.7
Leverage (Avg TA/Avg Equity)	2.8	2.6	2.7	2.5	2.3
Adjusted ROAE	42.6	8.1	10.6	14.1	15.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	56.6	(0.3)	(11.2)	2.5	7.9
EBITDA	108.1	(49.1)	(5.1)	22.4	11.8
Adjusted EPS	408.5	(78.4)	29.2	44.8	19.6
Profitability & Return ratios (%)					
EBITDA margin	26.2	13.4	14.3	17.1	17.7
EBIT margin	22.4	9.5	9.6	12.3	12.9
Adjusted profit margin	16.6	3.6	5.3	7.5	8.3
Adjusted ROAE	42.6	8.1	10.6	14.1	15.2
ROCE	26.9	11.0	10.3	13.0	14.4
Working capital days (days)					
Receivables	18	12	18	18	18
Inventory	74	82	81	75	74
Payables	74	65	70	70	70
Ratios (x)					
Gross asset turnover	0.9	0.8	0.7	0.8	0.8
Current ratio	1.0	0.9	0.8	0.8	0.9
Net interest coverage ratio	10.0	3.6	3.2	4.6	5.9
Adjusted debt/equity	0.4	0.6	0.6	0.5	0.3

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

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

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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%

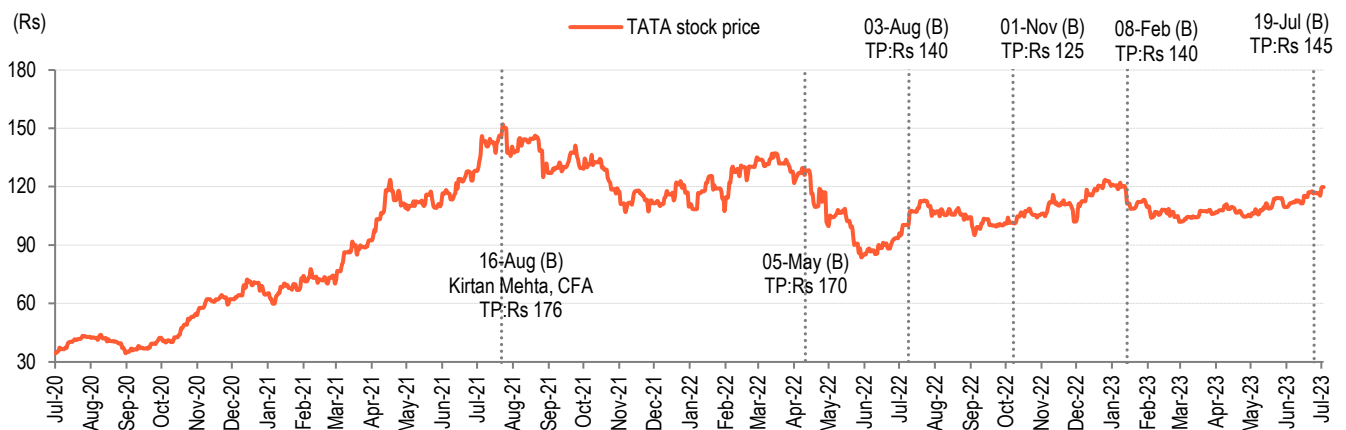
HOLD – Expected return from -6% to +15%

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.