FIRST LIGHT

03 June 2024

RESEARCH

TATA STEEL | TARGET: Rs 170 | +2% | HOLD

Stock price largely captures transition; downgrade to HOLD

BOB ECONOMICS RESEARCH | GDP

GDP growth soars in FY24

CONSUMER DURABLES

Channel checks: Searing heat sparks AC demand surge

Daily macro indicators

Indicator	29-May	30-May	Chg (%)
US 10Y yield (%)	4.61	4.55	(7bps)
India 10Y yield (%)	7.01	7.00	(2bps)
USD/INR	83.34	83.32	0.0
Brent Crude (US$/bbl)	83.6	81.9	(2.1)
Dow	38,442	38,111	(0.9)
Hang Seng	18,477	18,230	(1.3)
Sensex	74,503	73,886	(0.8)
India FII (US$ mn)	**28-May**	**29-May**	**Chg ($ mn)**
FII-D	33.6	172.4	138.9
FII-E	256.7	(517.4)	(774.1)

Source: Bank of Baroda Economics Research

SUMMARY

TATA STEEL

- Q4 results ahead of consensus on beat in India operations and lower losses in Europe partly due to carbon credits in the UK
- Positive to see ~70% utilisation guidance for TSK-2 in H2FY25, and return to breakeven in UK operations in H2FY25
- Raise TP to Rs 170 and India multiple above mid-cycle multiple; downgrade rating to HOLD given TATA's 42% price run-up since Nov'23

Click here **for the full report.**

INDIA ECONOMICS: GDP

Indian economy rose by 8.2% in FY24 after expanding by 7.2% FY23. Higher than anticipated GDP was on the back of strong growth led by industrial (9.5% from 2.1% in FY23). With gradual improvement in global economic outlook, exports are expected to register stronger growth. GVA growth is expected at 7% led by broad based improvement across sectors. Revival in agriculture sector on the back of normal monsoon, political stability and lowering of rates in H2 will provide impetus to growth story. Based on the above, we expect the Indian economy to clock a growth rate of 7.3-7.4% in FY25, with downside risk emanating from geopolitical uncertainties.

Click here **for the full report.**

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CONSUMER DURABLES

- Q1FY25 saw dealers experiencing a surge in AC and fan sales driven by the scorching heat and peak summer; premiumisation continues
- Demand for wires and cables stays strong, buoyed by government infrastructure initiatives and private sector investments
- Concerns over general elections as RBI tightens norms for unsecured loans, which may also impact consumer finance schemes

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HOLD
TP: Rs 170 | ▲ 2%

TATA STEEL | Metals & Mining | 01 June 2024

Stock price largely captures transition; downgrade to HOLD

- **Q4 results ahead of consensus on beat in India operations and lower losses in Europe partly due to carbon credits in the UK**
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Q4 beat: Q4 adj EBITDA of Rs 70bn was 15% ahead of consensus estimate and 11% ahead of ours with a beat in India operations and sharp reduction of losses in Europe. However, the latter benefitted from GBP 51bn of carbon credits in TSUK.

FY25 to be year of transition: While TATA's guidance of start-up of blast furnace by Sep'25 at TSK-2 (Kalinganagar) indicates a minor delay, guidance of 1.7mt production implies a faster ramp-up with near 70% utilisation in H2FY25. In the UK, closure is progressing well with the coke oven unit already shut down in Q4 and both blast furnaces targeted by Sep. TATA aims to return UK to breakeven levels in H2.

Equity funding for overseas entities is neutral on net debt: While the new approach shifts debt to the Indian entity from overseas entity, overall consolidated net debt and risk profile for the Indian entity stays unchanged. TATA maintains its contribution in the overseas entity for transition of UK operations at GBP 1bn-1.1bn.

Forecasts tweaked: We believe earnings bottomed out in FY24. On a weaker base of FY24, we build in a 38% EBITDA CAGR for TATA over FY24-FY26. We look for more than 50% recovery in FY25 as TATA arrests losses in Europe and another ~25% growth in FY24 on the back of the ramp-up of TSK-2.

Raise TP to Rs 170: Raising 1Y fwd EV/EBITDA target multiple of India operations to 6.5x, above the mid-cycle multiple of 6x, on the back of likely entry into global recovery phase in CY24, we raise our TP to Rs 170 (from Rs 155). We retain the multiple for Europe at 5.5x as we separately account for the benefit of the proposed UK restructuring at Rs6/sh. (Refer **UK transition to dispel overhang,** 25 Sep'24).

Downgrade to HOLD: The stock price has run up 42% from the lows in Nov'23 with progress on plan for the UK plant transition to more sustainable operations. The stock has been trading at more than 1 standard deviation above historical mean/median valuation over the past 10 years. While we remain confident of TATA's ability to deliver earnings-accretive growth, we consider risk-reward unfavourable at the current valuation. Downgrade our rating to HOLD from BUY.

Key changes

Target	Rating
▲	▼

Ticker/Price	TATA IN/Rs 167
Market cap	US$ 25.4bn
Free float	67%
3M ADV	US$ 112.7mn
52wk high/low	Rs 178/Rs 106
Promoter/FPI/DII	33%/20%/24%

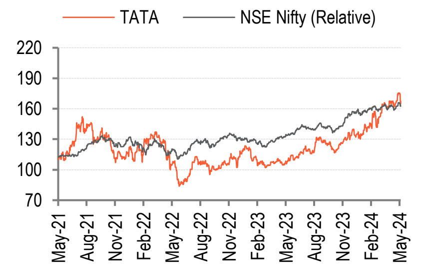
Source: NSE | Price as of 31 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs bn)	2,273	2,323	2,507
EBITDA (Rs bn)	223	341	422
Adj. net profit (Rs bn)	(44)	128	189
Adj. EPS (Rs)	(3.6)	10.2	15.1
Consensus EPS (Rs)	(3.6)	10.7	14.7
Adj. ROAE (%)	(4.5)	13.4	17.8
Adj. P/E (x)	(47.0)	16.4	11.1
EV/EBITDA (x)	12.0	8.3	6.7
Adj. EPS growth (%)	(149.5)	(387.7)	47.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

GDP

31 May 2024

GDP growth soars in FY24

Indian economy rose by 8.2% in FY24 after expanding by 7.2% FY23. Higher than anticipated GDP was on the back of strong growth led by industrial (9.5% from 2.1% in FY23). With gradual improvement in global economic outlook, exports are expected to register stronger growth. GVA growth is expected at 7% led by broad based improvement across sectors. Revival in agriculture sector on the back of normal monsoon, political stability and lowering of rates in H2 will provide impetus to growth story. Based on the above, we expect the Indian economy to clock a growth rate of 7.3-7.4% in FY25, with downside risk emanating from geopolitical uncertainties.

Jahnavi Prabhakar
Economist

India's growth registered some moderation but continues to rise at robust pace of 7.8% in Q4FY24 compared with an increase of 8.6% in Q3FY24. The marginal slowdown was led by moderation in mining and manufacturing sectors which registered a growth of 4.3% (7.5% in Q3) and 8.9% (11.5% in Q3) in Q4FY24 respectively. Margins of the industries were adversely impacted due to poor gains on account of commodity prices. Much slower growth was also registered for electricity and constructions sector at 7.7% (9% in Q3) and 8.7% (9.6% in Q3) in Q4FY24. Growth in trade, transport and hotels eased down to 5.1% in Q4 from 6.9% in Q3FY24. Despite these moderations, two sectors namely financial sector and public admin were the bright spots, as they registered much higher growth in Q4 at 7.6% and 7.8% in Q4FY24. Notably, even agriculture sector registered an improvement with a growth of 0.6% against 0.4% in Q3FY24.

On expenditure side, in nominal terms private consumption spending was down marginally by 9.3% from 9.7% in Q3. Government consumption spending on the other hand accelerated to 4.8% against a growth of 0.8% in Q3. Gross fixed capital formation slipped down to 7.3% in Q4 (11.4% in Q3). Notably in real terms, private consumption expenditure remained steady at 4% in Q4FY24 and government spending has expanded by 0.9% (-3.2% in Q3) in Q4FY24. However, Gross capital formation has registered some moderation with 6.5% growth compared with a growth of 9.7% in Q4FY23. Exports and registered a robust growth of 8.1% (3.4% in Q3), while imports registered some slowdown with growth of 8.3% in Q4FY24 (8.7% in Q3).

GVA climbs up in FY24: India's overall GVA growth edged up to 7.2% in FY24 from 6.7% in FY23. The improvement was led by acceleration in industrial sector with mining growth registering sharp increase of 7.1% growth in FY24, supported by base effect. Manufacturing sector too clocked an almost double digit growth of 9.9% in FY24 after contracting by -2.2% in FY23. Even construction sector rose at a similar pace (9.9% from 9.4% in FY23).

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CONSUMER DURABLES

31 May 2024

Channel checks: Searing heat sparks AC demand surge

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- **Demand for wires and cables stays strong, buoyed by government infrastructure initiatives and private sector investments**
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We interacted with ~15 consumer durables dealers across India to gauge the change-of-season demand. These are our key takeaways.

Cooling products are in hot demand: With summer arriving early in many parts of India and temperatures soaring, dealers have reported a surge in demand for cooling products, particularly ACs. Factors such as scorching heat, rising disposable income, rapid urbanisation, and technological advancements are driving this uptick in sales. Dealers in major cities note that energy-efficient five-star inverter-based AC models are outselling entry-level products, while more affordable three-star ACs are dominating semi-urban and rural markets.

New products and enticing finance offers are gaining momentum: As summer arrives, numerous brands are rolling out a new lineup of large appliances boasting smart features like IoT connectivity, energy efficiency for reduced operational costs, enhanced hygiene features, and sleek aesthetic designs. Accompanied by comprehensive 360-degree marketing campaigns, these offerings include attractive finance options, cashback incentives, and subsidised installations. According to dealers, this concerted effort is resonating well with customers, particularly driving sales of large appliances, notably air conditioners, to new heights.

Kitchen appliances are feeling the pinch amid subdued demand: Dealers are observing a sluggish start to the year for kitchen appliances, encountering challenges in selling their products through traditional offline stores. The primary hurdle stems from intense competition posed by online and e-commerce channels. As more consumers turn to the convenience and variety offered by online platforms, brick-and-mortar stores are finding it increasingly difficult to attract and retain customers for kitchen appliance purchases.

Continued traction in wires and cables: Dealers expect domestic wire and cable demand to stay strong, driven by improving capex and real estate trends. Dealers reported robust volume growth at the beginning of Q1FY25, especially for leading brands like Polycab, KEI, and Finolex, despite ~15-17% increase in copper price.

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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

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