

### Result Update – Q3FY23

- ❑ Tata Steel's consolidated revenues for the quarter stood at ₹ 570.8 billion down 6% YoY and 5% QoQ, while Consolidated EBITDA stood at ₹ 41.5 billion, down by 75% and 33% QoQ which translates to a margin of about 7%. Overall the profitability was affected by a sharp drop in the realisations and spreads in Europe during the quarter.
- ❑ Tata Steel standalone India, the EBITDA stood at ₹ 53.3 billion, which translates to an EBITDA per tonne of about ₹ 11,623. Excluding the ForEx impact, the EBITDA stood at about ₹ 47.6 billion and was up by about 15% QoQ. India steel prices remained subdued for most part of the quarter and the fall in long prices, long products prices were higher than in the flat products due to extended monsoon and the stoppage of construction in Delhi, in the NCR region as per the ruling of the National Green Tribunal.
- ❑ For 3QFY23, Tata Steel India deliveries stood at 4.74 million tonnes and were up 7% YoY primarily driven by the 11% growth in domestic deliveries. The domestic deliveries grew at a faster pace than the Indian steel apparent consumption, which was about 8% YoY. And it reflects a strong market presence across segments and an agile business model.
- ❑ At Tata Steel Europe, the EBITDA loss stood at about GBP166 million. Deliveries were up 6% to 2 million tonnes QoQ, but there was a sharp drop in realisation within the quarter with revenue per tonne being down by about GBP159 per tonne. The sharp drop in realisations were partly due to the higher spot sales and subdued demand given the macro conditions in Europe and high stock of inventories with the customers.
- ❑ The costs were higher by about GBP31 per tonne, while the coking coal consumption costs were down by about \$95 per tonne, QoQ there was a NRV markdown loss of about 55 million on the slab stocks being carried due to the forthcoming relining in Tata Steel Netherlands.
- ❑ During the quarter, the raw material prices were also lower as coking coal prices declined by around \$82 per tonne on a consumption basis. The royalty has also declined by about 14% QoQ to ₹ 7.7 billion. Overall the drop in cost more than offset the greater than expected decline in net realisation and that led to the margin expansion. Energy costs remained broadly stable on a QoQ basis.
- ❑ The currency markets have also been very volatile and there has been sharp movement between the USD-INR, and the Euro-INR to name a few. This has led to an FX impact on the inter-company loans provided over time.

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- ❑ For 3QFY23, the cash flows, the operating cash flow for the quarter stood at about ₹ 50 billion versus ₹ 17 billion in the previous quarter and primarily was driven by favourable working capital movement. The working capital release was due to reduction in inventory at Tata Steel UK and Tata Steel India on account of low commodity prices or lower inventory levels, but this was partly offset by increase in the slab stocks in Tata Steel Netherlands.
- ❑ The management expects Indian steel prices to move higher based on improved expectations about the Chinese demand and the sustained government spending on infrastructure in India. The raw material costs are likely to remain range bound and the fourth quarter is also seasonally the stronger quarter in terms of deliveries and management are looking to leverage the momentum.
- ❑ Tata Steel has continued to progress on expanding their capacity across multiple sites in India as they look to grow to 40 million tonnes in India. And viewed in terms of deliveries FY '24 should fully reflect the 1 million tonne per annum Neelachal volumes, while subsequent years FY '25 and '26 will reflect the 5 million tonne expansion in Kalinganagar phase two and the 0.75 million tonne setting up of the electric arc furnace mill in Ludhiana.
- ❑ Tata Steel continue to invest in growth in Kalinganagar and in NINL taking their capital expenditure growth to about ₹ 36.3 billion for the quarter. The nine months Capex has been about ₹97.5 billion and management will be targeting to spend around ₹ 30 billion in quarter four to ensure that they accelerate the completion of the Tata Steel Kalinganagar expansion project.
- ❑ Tata Steel net debt has remained broadly stable at about ₹ 717.1 billion, and the liquidity remained strong at over ₹ 150 billion. The management focused on completing the Tata Steel Kalinganagar project, acquisition of Neelachal which was about ₹ 100 billion this year.
- ❑ Tata Steel is among the most geographically diversified steel producers in the world and is one of the top global steel companies with an annual crude steel capacity of 34 million tonnes per annum and has operations and commercial presence across the world. During the quarter, the company witnessed the full impact of correction in steel prices after the imposition of export duty in India. Tata Steel's overall consolidated sales volumes are expected to 0.5 MT, higher compared to Q3FY23. We remain positive on Tata Steel and maintain our **BUY** rating with revised target price of ₹ 133.

## Quarterly Results

### Financial Results

Consolidated						
(In ₹ mn)	Q3-FY23	Q3-FY22	Chg	9M-FY23	9M-FY22	Chg
Net Sales	570,836	607,831	-6.1%	1,803,912	1,746,357	3.3%
Operating Expense	530,357	448,894	18.1%	1,553,102	1,261,753	23.1%
<b>EBITDA</b>	<b>40,478</b>	<b>158,937</b>	<b>-74.5%</b>	<b>250,810</b>	<b>484,603</b>	<b>-48.2%</b>
Other Income	2,706	596	354.0%	8,679	4,927	76.2%
Depreciation	23,684	22,441	5.5%	69,530	68,575	1.4%
EBIT	19,501	137,092	-85.8%	189,959	420,956	-54.9%
Interest	17,679	15,325	15.4%	45,051	43,637	3.2%
PBT	<b>1,821</b>	<b>121,767</b>	<b>-98.5%</b>	<b>144,908</b>	<b>377,319</b>	<b>-61.6%</b>
Tax	29,049	25,674	13.1%	84,052	64,477	30.4%
Exceptional Items	1,603	(1,934)		1,017	1,402	
PAT	(25,624)	94,159	-127.2%	61,872	314,244	-80.3%
Minority /Other Adj.	3,386	1,568		8,683	(10,267)	
Consolidated PAT	<b>(22,238)</b>	<b>95,727</b>	<b>-123.2%</b>	<b>70,555</b>	<b>303,977</b>	<b>-76.8%</b>
Consolidated						
Margins	Q3-FY23	Q3-FY22	Chg	9M-FY23	9M-FY22	Chg
Operating Margin %	7.1%	26.1%	-1906	13.9%	27.7%	-1385
PAT Margin %	-3.9%	15.7%	-1964	3.9%	17.4%	-1350

Source: Company, Anand Rathi Research

## Consolidated Financials:

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	1,564,774	2,439,592	2,405,215	2,244,219
Operating Expense	1,259,731	1,804,692	2,009,034	1,829,173
EBITDA	305,043	634,900	396,181	415,046
Other Income	8,956	7,849	11,573	8,977
Depreciation	92,336	91,009	122,666	113,125
EBIT	221,662	551,740	285,087	310,898
Interest	76,067	54,622	54,624	53,903
Misc. items	(10,432)	(1,341)	-	-
PBT	135,164	495,777	230,463	256,994
Tax	56,539	84,776	69,139	77,098
Exceptional Items	(3,722)	(9,462)	-	-
PAT	74,902	401,539	161,324	179,896
<b>Margins</b>	<b>FY-21</b>	<b>FY-22</b>	<b>FY-23E</b>	<b>FY-24E</b>
Sales Growth %	5.0%	55.9%	-1.4%	-6.7%
Operating Margin %	19.5%	26.0%	16.5%	18.5%
Net Margin %	4.8%	16.5%	6.7%	8.0%

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
<b><u>Liabilities</u></b>				
Equity Share Capital	19,764	12,212	12,212	12,212
Reserves & Surplus	722,624	1,132,218	1,293,543	1,473,439
Total Shareholder's Funds	742,388	1,144,430	1,305,755	1,485,651
Minority Interest	32,697	26,554	26,554	26,554
Long-Term Liabilities	656,980	447,641	447,641	447,641
Other Long-term Liabilities	221,722	206,693	206,693	206,693
Deferred Tax Liability	76,634	93,019	93,019	93,019
Short-term Liabilities	708,671	905,880	1,002,173	935,091
<b>Total</b>	<b>2,439,092</b>	<b>2,824,217</b>	<b>3,081,834</b>	<b>3,194,648</b>
<b><u>Assets</u></b>				
Net Fixed Assets	1,547,826	1,553,334	2,160,946	1,827,713
Long-Term L&A	247,955	291,662	291,662	291,662
Non Current Investments	34,630	46,154	46,154	46,154
Other Non-Current Assets	6,562	7,501	7,501	7,501
Current Asset	602,119	925,566	575,571	1,021,619
<b>Total</b>	<b>2,439,092</b>	<b>2,824,217</b>	<b>3,081,834</b>	<b>3,194,648</b>
<b>(In ₹ mn)</b>	<b>FY-21</b>	<b>FY-22</b>	<b>FY-23E</b>	<b>FY-24E</b>
EPS (₹)	6.3	32.9	13.2	14.7
P/E (x)	17.4	3.3	8.3	7.4
P/B (x)	1.8	1.2	1.0	0.9
ROE	10.1%	35.1%	12.4%	12.1%

Source: Company, Anand Rathi Research

## Key Risks:

- ❑ Steel prices significantly influenced by international markets.
- ❑ Demand contraction in India/world
- ❑ Supply chain risks
- ❑ Supply cuts being undermined in China

## Rating and Target Price history:

TATASTEEL rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 10 February 2023 close.

TATASTEEL rating details

Date	Rating	Target Price (₹)	Share Price (₹)
04-Apr-2021	BUY	109	93
11-May-2021	BUY	144	123
18-Aug-2021	BUY	177	150
20-Nov-2021	BUY	177	119
12-Feb-2022	BUY	177	125
17-May-2022	BUY	177	119
03-Aug-2022	BUY	146	107
10-Feb-2023	BUY	133	109

Source: Bloomberg, Anand Rathi Research

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