INVasset Corporate Insights

TATA STEEL

29th February, 2024

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India's Best Performing and Most Customer Centric PMS

Tata Steel: Forging Ahead with Innovation and Expansion: Tata Steel Ltd, recognized as Asia's pioneering private steel entity since 1907, has sustained its presence through the entire steel production value chain. With a goal to escalate its domestic steel production capacity to 30 million tonnes per annum (MnTPA) by 2025, the company is well on its path to substantial growth.

Innovation in Product and Market Leadership: The company's diverse product portfolio spans flat products like hot and cold rolled coils, galvanized steel, and long products including wire rods and rebars. These cater to a wide range of industries from agriculture to automotive, and energy to engineering. Notably, the company has ramped up its market share in the Alloy Wire Rod business to 20% and holds a commendable 15% share in the domestic automotive market, evidencing its dominance in commercial vehicles with a 38% share.

Robust Production and Network Expansion: Tata Steel's production volumes reflect its robust operations, with significant outputs in Direct Reduced Iron (DRI), Crude Steel, and rolled products. The company's extensive network, with over 250 distributors and more than 20,400 dealers, showcases its market penetration, covering nearly all of India's districts.

Strategic Geographical Presence: Domestically, Tata Steel's focus remains strong with 92% of its business, while it maintains a strategic 8% international footprint.

Advanced Manufacturing and Vertical Integration: The company's manufacturing prowess is anchored in its Jamshedpur steel plant and a sponge iron plant in Odisha, with substantial crude steel and DRI capacities. It's vertically integrated operations with upstream and downstream facilities underscore its operational excellence.

New Ventures and Sustainable Commitments: The company has broadened its product mix with new facilities like the CRM complex and a Pellet plant, boasting the widest cold rolling mill in India. The joint venture with the UK government for Electric Arc Furnace steelmaking at Port Talbot demonstrates Tata Steel's commitment to sustainable practices and its initiative to stem financial losses in the UK.

Amalgamations and Investments: Recent legal approvals for the amalgamation of Tata Steel and Tata Steel Long Products, as well as S & T Mining Co. Ltd., align with the company's consolidation strategy. A substantial capital expenditure of Rs 8,650 crores for expansions and new projects indicates Tata Steel's commitment to growth and innovation.

Navigating Challenges: Despite facing operational challenges, the company has taken an impairment charge to its financial statements, reflecting its forward-looking approach to navigate through the decarbonisation project and restructuring plans.

Tata Steel continues to strengthen its industry footprint, innovate in product development, and invest in sustainable future, all while navigating the evolving economic landscape with strategic foresight and resilience.

Stock Data	
CMP (29-02-2024)	140.85
52 Week High/Low	101.55 / 147.40
Face Value	1.00
Market Cap (In Crs)	1,76,892
Enterprise Value (In Crs)	2,56,682
NSE	TATASTEEL
BSE	500470
Bloomberg	TATA:IN
Sector	STEEL

Shareholding Pattern (in %)		
	DEC 23	SEPT 23
Promoter	33.70%	33.90%
FII	20.01%	20.31%
DII	23.15%	22.20%
Public	22.99%	23.43%

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	3.19	14.13	27.34
TATASTEEL	5.31	19.77	35.50

Key Ratios	
P/E	91.4
P/S	0.76
P/B	1.94
Debt To Equity	1.01
ROE	7.28%
ROCE	12.6%
Dividend Yield	2.52%

Q3 FY 24 Result Update

Q3 FY24 Result Comparison (In Rs Cr)					
	Q3 FY24	Q2 FY24	Q3 FY23	QOQ	YOY
Sales	55,312	55,682	57,084	-0.66%	-3.10%
EBITDA	6,231	-2,300	4,539	-370.91%	37.28%
EBIT	3,809	-4,780	2,171	-179.69%	75.45%
Net Profit	522	-6,511	-2,502	-108.02%	-120.86%
EPS	0.42	-5.07	-1.82	-108.28%	-123.08%

Result Highlights

Turning Tides: Q3 FY24 Financial Reawakening

Sales Show Resilience Amidst Market Waves: The Slight Retract in Revenue Streams: Sales figures in Q3 FY24 have seen a gentle ebb, reaching Rs 55,312 Cr, which is a slight decline of 0.66% from Q2 FY24. When viewed through the lens of year-over-year performance, the company has navigated through a 3.10% reduction compared to Q3 FY23. This indicates a resilient performance in potentially challenging market conditions, highlighting the company's ability to maintain its revenue near prior levels.

EBITDA's Spectacular Reversal: From Negative to Positive: The Dramatic EBITDA Leap: The most striking turn of events is observed in the company's EBITDA, which has rocketed from a concerning negative Rs 2,300 Cr in Q2 to a commendable Rs 6,231 Cr in Q3 FY24. This represents a monumental QOQ upswing of 370.91%. Even more encouraging is the YOY growth of 37.28%, underscoring the company's successful strategy in enhancing operational profitability.

EBIT Out of the Red: A Story of Recovery: EBIT's Remarkable Recovery: Another tale of turnaround comes from the EBIT metrics. From a negative stance of Rs 4,780 Cr in Q2 FY24, EBIT has made a significant leap to Rs 3,809 Cr in Q3 FY24. The impressive 179.69% QOQ recovery is a testament to stringent cost controls and operational efficiency. The YOY growth of 75.45% further solidifies the company's upward trajectory in operational earnings.

Net Profit: The Phoenix Rises: Net Profit's Resurgence from the Ashes: In an astounding display of resilience, the company's net profit has ascended from a deep loss of Rs 6,511 Cr in Q2 to a positive Rs 522 Cr in Q3 FY24, marking a 108.02% QOQ turnaround. The YOY comparison still shows a notable decline of 120.86%, which suggests that the company is on the mend but still has ground to regain from the previous year's performance.

EPS: From Negative to Positive Sentiments: EPS: Echoing the Recovery Narrative: The earnings per share (EPS) have reflected the overall recovery story, improving from a negative Rs 5.07 to a positive Rs 0.42 QOQ, which translates to an increase of 108.28%. However, when the YOY lens is applied, EPS shows a decrease of 123.08%, indicating that while the profitability per share has improved remarkably from the last quarter, it still lags behind the same quarter in the previous fiscal year.

In Summary: The Q3 FY24 results depict a company that has notably bounced back from a challenging previous quarter. Each financial indicator from sales to EPS tells a story of resilience, effective strategy implementation, and operational efficiency. While the comparison with the previous year's same quarter numbers shows some areas of concern, the quarterly growth trajectory indicates a positive trend. The company's management can build on these gains moving forward, using the lessons learned from past performance to inform future strategies.

Concall Highlights

Financial Foresight: Steering Tata Steel to Fiscal Excellence: Tata Steel's strategic financial management is aimed at delivering consistent returns across economic cycles. Central to this approach are three value drivers. Focusing on optimizing the capital structure and cost, Tata Steel targets a Net Debt to EBITDA ratio of less than 2.5x throughout the cycle. The company employs proactive financing strategies to ensure assets and liabilities are well-matched. The company prioritizes value accretive investments, seeking a return on invested capital (ROIC) of at least 15%. Portfolio restructuring is also a part of this strategic capital deployment. By minimizing working capital and rolling out continuous improvement programs, Tata Steel enhances its operational efficiency. The outcomes of these disciplined financial practices are evident. Tata Steel's bond spreads have converged to investment-grade status, indicating market confidence in the company's fiscal health. Additionally, the company boasts impressive total shareholder returns over 5, 10, and 25 years, outperforming the Nifty 50 over the same periods. This showcases the company's commitment to creating long-term value for its shareholders and its success in navigating financial markets effectively.

Tata Steel's Strategic Expansion: Doubling Down on India's Market Potential: Tata Steel is ambitiously expanding its operations to double its capacity in India, aiming to establish a dominant manufacturing base. This strategic move is intended to harness the substantial growth opportunities within the Indian market, with the goal of generating industry-leading returns on investment. The company's current production capacity in India is approximately 21 million tons per annum (MTPA). With the planned expansion, Tata Steel is looking to increase its share in the Indian market from 62% to over 75%, effectively raising the capacity to 40 MTPA.

Forging Ahead: Tata Steel's Growth Fuels Market Leadership: Tata Steel is reinforcing its market dominance through strategic capacity growth, ensuring a robust presence across diverse segments. The company's expansion is not just about increasing volume; it's about cementing leadership in key areas. From construction beams to coated steel for consumer goods, Tata Steel's product range is diverse. The visual presentation in the image showcases a variety of steel products like rebars, wires, coils, sheets, and more, indicating the company's involvement in numerous industries, including automotive, construction, and consumer goods. Key strategies for maintaining and expanding their market presence include: Enhancing customer engagement and integrating advanced technology to stay ahead in the market, Offering multiple channels for customer interaction, transaction, and engagement, ensuring a smooth business process, Striving to provide a superior customer experience, particularly at points of customer "friction" to ensure seamless services.

Steel Innovation: Shaping the Future with Tata Steel: Tata Steel places a strong emphasis on innovation, striving to maintain its status as the preferred supplier within its market segments. The company's innovative drive is underpinned by a robust ecosystem that supports scaling of new ideas and technologies. The company's commitment to innovation is evident in several key areas:

1) A dedicated focus on product innovation and the development of servitization within various segments.
2) Collaborative efforts with startups, research institutions, and academia to foster innovation and practical applications.
3) A record of intellectual property development, with over 100 patents filed consistently for the last five years.
The implementation of remote operations and real-time data analysis for improved efficiency and responsiveness.
Establishment of specialized centers for innovation in key areas like mobility and mining, signaling a commitment to sector-specific advancement.

Retail Reinvention: Tata Steel's Strategic Surge in the Indian Market: Tata Steel is poised to redefine the retail steel sector with a strategic push to double its growth, particularly through the esteemed Tata Tiscon brand. Targeting an expansion in capacity via NINL and EAF technology, the company is well-positioned to enhance its robust Indian footprint. Its retail strategy, symbolized by a pyramid, caters to a wide customer spectrum, including home builders, homemakers, and rural communities, backed by a portfolio of trusted brands. Embracing a 'Phygital' approach, Tata Steel merges physical and digital realms, achieving over 11% year-over-year revenue growth and engaging over 10,000 dealers and 11,000 unique customers monthly.

The company's commitment to a strong, supportive ecosystem aims to elevate customer experience, with influencer partnerships fortifying its retail presence. This comprehensive approach not only ensures a solid cash flow but also cements Tata Steel's commitment to innovation, quality, and customer-centric solutions.

Expanding Horizons: Tata Steel's Diversified Growth in Downstream Products: Tata Steel is gearing up for a substantial expansion, aiming to multiply its downstream product offerings by two to four times. This growth is centered around enriching the product mix with value-added offerings across various segments. The downstream expansion includes, Tubes, Wires, Tinplate, Ductile Iron Pipes. Tata Steel's downstream ventures reflect its dedication to innovation and meeting the demands of a growing market, reinforcing its position as a versatile industry leader.

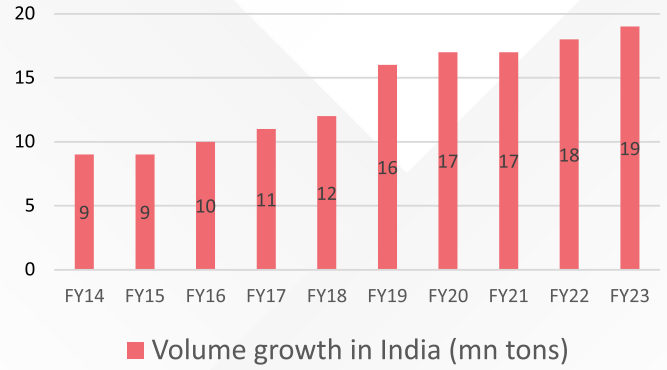
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Innovative Leap Towards Eco-Friendly Production: Tata Steel UK (TSUK) is on a mission to revolutionize its production process and significantly reduce its carbon footprint. The company is actively working to slash 50 million tons of CO蔆missions over the next decade. Their ambitious decarbonization plan involves a transition from the traditional blast furnace-basic oxygen furnace (BF-BOF) method to the more environmentally friendly electric arc furnace (EAF) based steelmaking. TSUK has kicked off statutory consultations with unions and is collaborating with prestigious institutions like the Henry Royce Institute at Manchester and Imperial College London, focusing on advanced materials research and sustainable design and manufacturing.

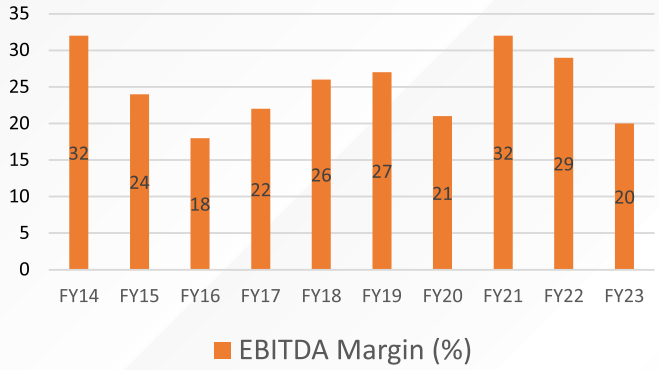
Sales Surge: Charting Growth in India's Market: Tata Steel has reported a consistent rise in its sales within India, targeting key market segments. Domestic deliveries have seen an increase of 3% QOQ and a substantial 10% YOY. This growth trajectory is reflected across various business verticals, with notable increments in the Automotive, Branded Products and Retail (BPR), Industrial Products and Projects (IPP). The auto and ancillaries, energy and engineering goods, consumer durables and packaging, and trade and commercial sectors remain steady. However, the retail sector (including individual housebuilders) and the construction and infrastructure sector have shown an uptick, suggesting a heightened demand.

Tata Steel's Q3FY24: A Resilient Performance Amid Market Fluctuations: In the Q3FY24, Tata Steel demonstrated a steady and resilient performance, showcasing slight improvements across key financial and operational metrics. The company reported a marginal increase in production volumes, reaching 7.58 million tons, and deliveries edged up to 7.15 million tons, maintaining stability in a challenging market environment. Revenue from operations slightly dipped to Rs. 55,312 crores, reflecting market pressures. A notable achievement was the reduction in raw material costs, leading to substantial savings and contributing to improved profitability. Adjustments in inventory management, particularly in the European sector, highlighted effective operational efficiency. Despite increases in employee benefits and other expenses due to higher royalty, freight, and power costs, EBITDA and adjusted EBITDA showed significant improvements, indicating strong unit profitability. Finance costs decreased slightly, while pre-exceptional profit before tax surged, marking a robust pre-exceptional performance. The period also saw a dramatic turnaround in PAT, recovering from a substantial loss in the previous quarter to Rs. 522 crores. Other comprehensive income also improved, mainly due to positive foreign currency translation differences. Tata Steel's Q3FY24 performance underlines its resilience and strategic cost management, positioning the company for a positive outlook in the upcoming quarters amidst ongoing market challenges.

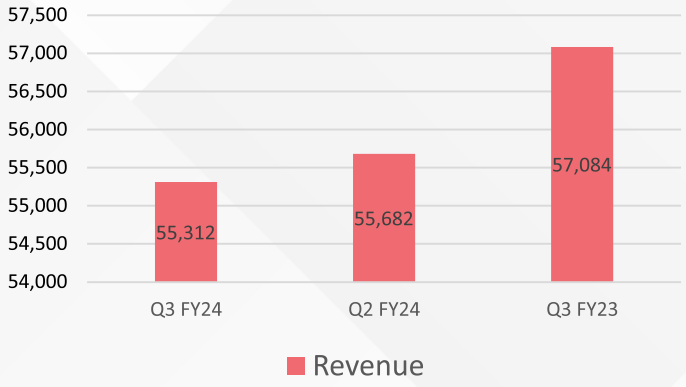
Growth at India Operations



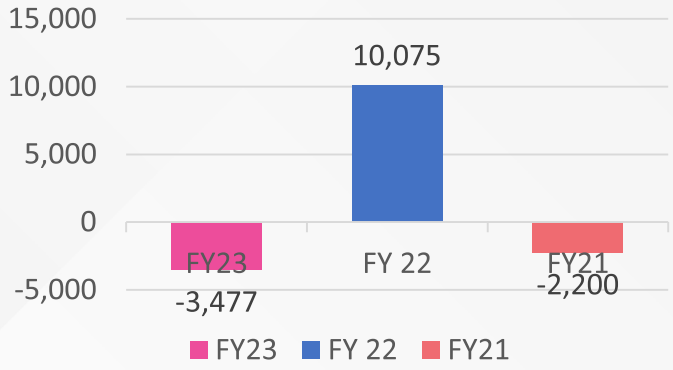
Average India EBITDA Margin 26%



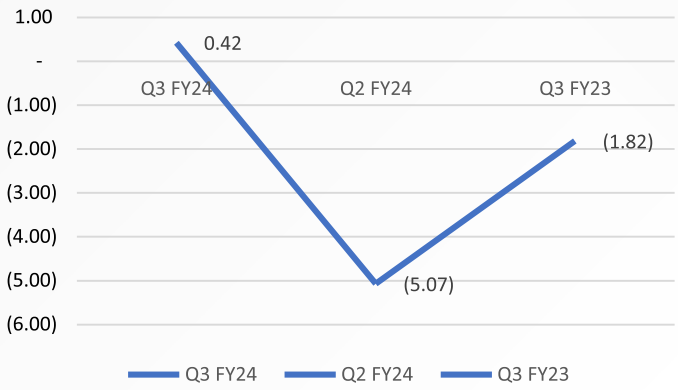
Revenue (In Cr)



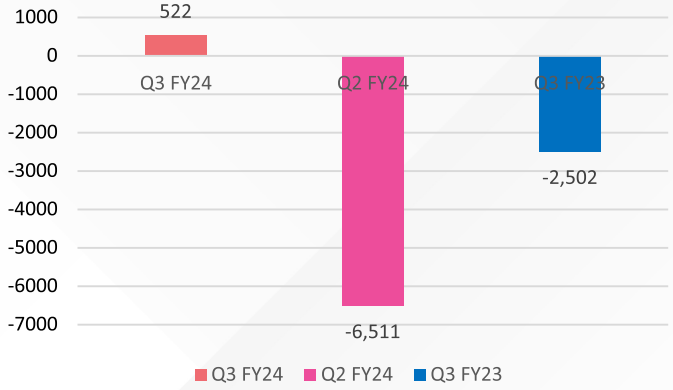
Cashflow (In Cr)



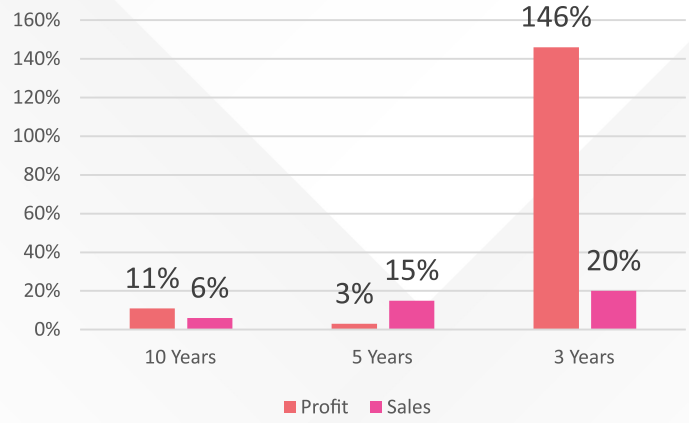
EPS



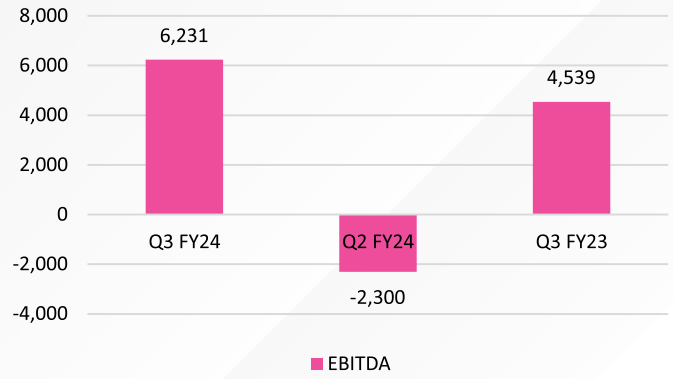
PAT (In Cr)



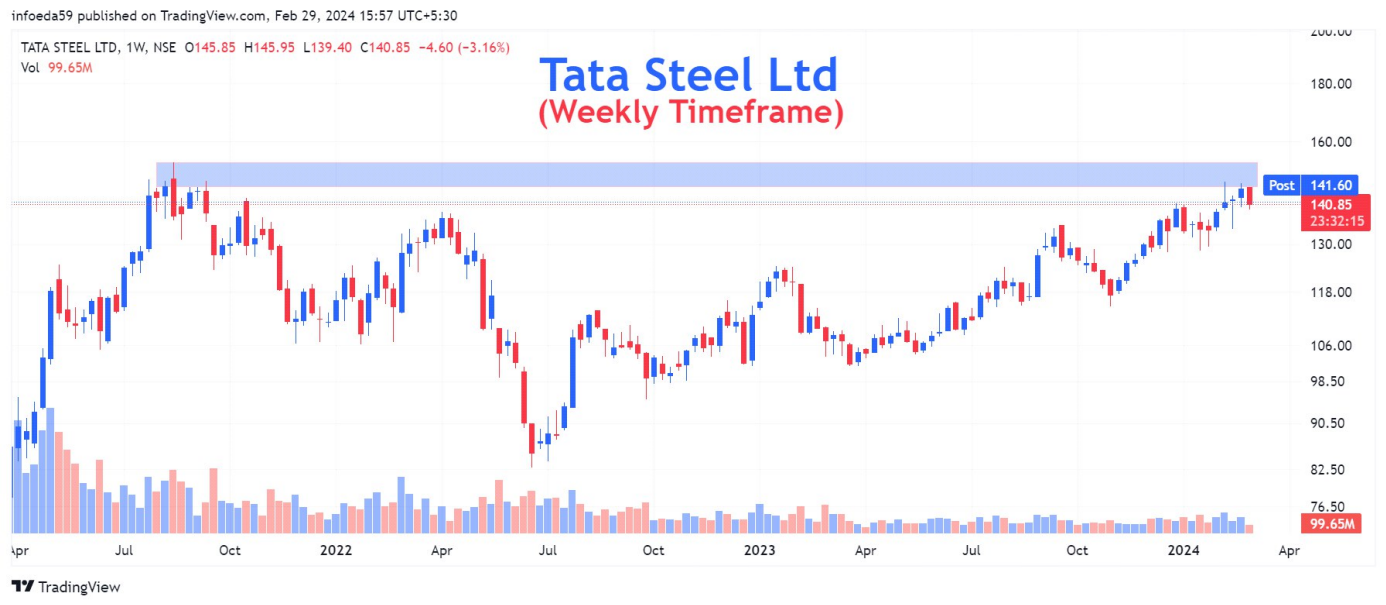
Compounded Growth (In %)



EBITDA (In Cr)



Technical Outlook



The weekly price chart for Tata Steel Ltd shows a volatile journey with notable peaks and troughs throughout the year. In early 2022, prices saw a steep decline, but the trend reversed sharply, leading to a gradual but steady recovery. The latest price marks a recent high, with the stock closing at 140.85, despite a dip on the last recorded day. Trading volume has been relatively stable, with a significant spike in activity observed at the lowest price point of the period.

The moving averages for Tata Steel Ltd indicate a positive trend, with both simple and exponential moving averages increasing as the timeframe extends from 5 to 200 days. The Exponential Moving Averages (EMA) are consistently slightly below the Simple Moving Averages (SMA), suggesting recent prices have a lower influence compared to past prices.

The Relative Strength Index (RSI) stands at 51.1 for daily and 61.63 for weekly, showing a stronger momentum in the longer term and a more neutral stance in the daily view.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	143.8	142.8
10	142.9	142.6
20	141.7	141.3
50	137.5	137.6
100	131.3	133.0
200	124.3	126.8

Pivot Levels : FIBONACCI		
R1 143.78	Pivot 141.92	S1 138.88
R2 146.82		S2 137.02
R3 148.68		S3 133.98

	Daily	Weekly
Relative Strength Index (RSI)	51.1	61.63

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