CORPORATE PARTICIPANTS

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Amit Murarka, Axis Capital
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Indrajit Agarwal, CLSA
Ritesh Shah, Investec
Satyadeep Jain, Ambit Capital
Sumangal Nevatia, Kotak Securities
Vikash Singh, Phillip Capital

PRESENTATION

Operator:

Ladies and gentlemen, good day, and welcome to the Tata Steel analyst call. Please note that this meeting is being recorded. All the attendees' audio and video has been disabled from the backend and will be enabled subsequently. I would now like to hand the conference over to Ms. Samita Shah. Thank you and over to you ma'am.

Samita Shah: *VP CFTRM – Tata Steel Limited*

Thank you, Kinshuk. Good morning, good afternoon, and good evening to all participants listening to the call. On behalf of Tata Steel, I'm delighted to welcome you to this call to discuss our results for 3QFY25. We have with us our CEO & MD, Mr. T.V. Narendran, and our ED & CFO, Mr. Koushik Chatterjee. We will walk you through our results and answer any questions you may have. I hope you've had a chance to go through our results, which were declared yesterday. There is a detailed presentation, which has been uploaded on our website. Page 2 of the presentation has a disclaimer clause, which will cover the entire proceedings today. I would request Naren to make a few opening comments. Thank you.

T. V. Narendran: *CEO & MD - Tata Steel Limited*

Thanks, Samita. Good morning, good afternoon, and good evening to everyone. During this quarter, global steel prices were subdued across key regions. In China, steel prices were close to around $480 per ton despite stimulus measures. The construction market in China continued to be soft, leading to exports of more than 100 million tons during the calendar year, 111 million tons, to be precise. That is amongst the highest that China has exported in the past. India steel demand continued to grow but momentum eased, and domestic prices remained under pressure due to cheap imports. The DGTR (Director General of Trade Remedies), has initiated investigation to consider safeguard duty. In 2024, several nations relied on trade measures such as antidumping duty to combat the impact of steel imports, particularly from China. This, along with the new US administration's inclination towards imposing tariffs, has potential to regionalise steel trade flows with implications for prices.

Moving to Tata Steel, our performance has been aided by progress on our strategic initiatives. In India, we commissioned the 5 MTPA blast furnace at Kalinganagar and this has aided volume growth. In UK, closure of the heavy end assets has begun to generate improvement in fixed costs and in emissions. India crude steel production rose 6% YoY to 5.69 million tons for Tata Steel, and the new blast furnace at Kalinganagar produced around 0.56 million tons during the quarter. Presently, the second blast furnace is operating at around 8,500 tons per day, and the ramp up to rated capacity is progressing well. India deliveries increased 8% YoY to 5.29 million tons. Amongst business verticals, Automotive and special products volumes were aided by the growth in high end products. Our retail brand, Tata Tiscon, achieved the best ever quarterly sales and grew over 20% YoY, while our cold - rolled brands for SMEs, Tata Steelium, was 10% higher on YoY basis. Customer centricity and value creation is paramount to us as we progress on achieving market leadership across chosen segments, and 75% of our steel sales to automotive is processed or ready - to - use. We have service centres and stockyards close to most of the major auto hubs, enabling close partnerships with key OEMs that drives technical support and product development. Our e-commerce platform, Aashiyana, is designed for individual homebuilders, and we have more than 30 construction service centres across India to offer customised reinforcement products and solutions to the construction industry. At Kalinganagar, we have also commissioned the continuous annealing line of the cold rolling mill complex. In Ludhiana, we have started receiving equipment delivery for the 0.85 MTPA electric arc furnace (EAF) and have also commenced civil works.

Moving to UK, we reconfigured the supply chain upon closure of the heavy end assets in September and are now servicing our customers by processing purchased substrate. This has led to significant reduction in our total Port Talbot emission footprint as well as the overall fixed cost base. Our fixed cost per ton of deliveries has decreased by >£80 per ton QoQ, which has helped in improving performance. In Netherlands, a drop in prices weighed on the performance despite decline in costs and as a result, overall profitability was affected. Koushik will elaborate on the same. At the same time, in Netherlands, we have produced about 1.75 million tonnes of hot metal, which means we're running at a 7 MTPA hot metal production rate. We are committed to responsible growth and multiple initiatives are underway across geographies to reduce emissions. Tata Steel became the first steelmaker to introduce biochar in blast furnace as partial replacement for carbon intensive fossil fuel like coal. Our ESG goals underpin broader focus areas, and we are committing to foster the equality, diversity, and an inclusive workplace. We recently operationalised an all women shift at one of our mines in India. I am happy to share that we've been recognised as a Gold Employer by the India Workplace Equality for the fourth consecutive year. With that, I hand over to Koushik for his comments. Thank you.

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

Thank you, Naren, and good afternoon or good evening to all who have joined. Let me begin with the consolidated performance provided in slide 24 of the presentation. Market conditions across geographies are similar to conditions that existed in 2015 - 16, when exports from China were at an elevated level ~110 million tons. These excessive exports obviously hurt the market structure in any countries, which import steel. For instance, in the last 12 months, US and EU steel prices have declined between 25 - 37%, and China steel prices have been hovering around $450 - 500 per ton. All of this meant that there was sustained pressure on spot spreads, which declined to multi-year lows. However, our progress on internally focused strategic initiatives has been evident in our performance.

Consolidated revenue stood at Rs. 53,648 crores, and EBITDA was at Rs. 5,994 crores. There was an FX revaluation impact due to sharp depreciation of the euro of around Rs. 1,100 crores on intercompany loans, which have been provided over time. Excluding the above, EBITDA stood at about Rs. 7,155 crores, which translates to an EBITDA per ton of Rs. 9,263 per ton and an increase of 30% QoQ. As the markets continue to be subdued, we have renewed our focus on cost reduction and efficiency measures across all geographies. Some benefits have started being visible, and we hope to continue to demonstrate more of it in the coming quarters.

Tata Steel Standalone revenues for the quarter stood at Rs. 32,760 crores, and EBITDA was Rs. 7,624 crores, which translates to an EBITDA margin of about 23% on reported basis. As provided on slide 30, EBITDA on absolute basis improved by 13% or Rs. 1,227 per ton on QoQ basis. Higher volumes and optimisation of costs more than offset the drop in realisations. I would like to elaborate a bit more about the costs. Material costs declined by about Rs. 1,300 per ton due to decline in coking coal consumption cost and inventory buildup of 156 kt during the quarter. Fourth quarter is typically a seasonally strong quarter, and hence, there is usually a slight uptick in inventory at the end of the third quarter. We also had higher production upon commissioning of the second blast furnace in Kalinganagar. Conversion costs, excluding royalty, declined by about Rs. 1,678 per ton, primarily on account of lower employee benefit expense, freight handling, and other costs. Overall, total costs have improved by about Rs. 2,700 per ton, helping to more than offset drop in realisation to the tune of about Rs. 1,500 per ton.

I would now like to mention a few comments about our subsidiary, Neelachal Ispat Nigam Limited. As you are aware, we had acquired NINL about two and half years ago in 2022. The plant was closed for two years at the time of acquisition with some imbalance in asset configuration. As part of our long product portfolio, NINL's operating performance has met all the operating targets in terms of cost and efficiencies and is operating at rated capacity. [inaudible] EBITDA margin improved from 13% in 2Q to 20% in 3Q on account of rise in volumes by about 17% QoQ and as an outcome of cost efficiency through reduction in conversion costs, which reduced by about Rs. 3,000 per ton QoQ. The process of seeking environment clearance for the expansion of NINL is currently underway.

Coming to the European operations. As you are aware, steel consuming sectors have been adversely impacted by subdued demand and high level of imports. In Netherlands, raw material to steel price spreads have dipped to multi-year lows with spreads, including energy and carbon cost currently in the region of about €170 per ton. These spreads were last witnessed in 2016. EBITDA for the quarter was neutral in 3Q compared to +ve £22 million in 2Q. EBITDA per ton declined by about £15 per ton on QoQ basis. EU steel demand has contracted in 2024, and this has led to a sharp drop in revenue per ton of around £30 per ton and NRV loss to the tune of about £13 per ton on QoQ basis. We also had higher emission rights costs of about £15 per ton on account of decline in yearly allowances due to lower production in the previous year. While this was partly offset by the decline in power and fuel expenses by around £43 per ton, the drop being less than the impact of realisations affected the margins.

As mentioned during 2Q earnings call, transformation of UK operations has begun. We have safely closed the heavy end assets, while maintaining our footprint in the domestic market. Sourcing network has been established to successfully support our customers. Our fixed cost takeout programs are yielding results with a large part of the stated £100 per ton improvement achieved in 3Q. On an absolute basis, there has been improvement in fixed cost by about £70 million in 3Q compared to 2Q and for the nine-month period, the same was about £140 million on YoY basis. The improvement was mainly in relation to maintenance costs, employment cost, and operating charges. TSUK EBITDA loss improved from -ve £147 million in 2Q to about -ve £67 million in 3Q. While the market dynamics meant revenue per ton declined by £31 per ton, this was more than offset by improvement in cost by about £146 per ton, especially on the fixed cost side. There was also a drop of about £63 per ton in emission rights cost and freight handling charges. We expect to continue the optimisation of fixed costs, not only in the next quarter, but in the year ahead, too. Total redundancies or people who have left the company since March 2024 was about 1,900 and expect more to leave in the upcoming quarters.

I would like to now spend some time on our working capital management that has led to cash flow generation. We have taken calibrated measures such as better inventory management, improved credit terms looking at the blends and so on.

In India and Netherlands, raw material inventory has been reduced by about three to five days. All of this has resulted in cashflow release across all geographies and net working capital of more than Rs. 4,000 crores in this quarter alone. Looking ahead, the ramp up of Kalinganagar, as Naren mentioned, will help improve India cost profile, driven by fixed cost absorption and efficiencies of a newer plant. In UK, we have placed equipment orders for ~3 MTPA EAF and are targeting to commence civil construction in July. In Netherlands, we are engaged with the government on potential support for the decarbonisation project. With this, I'll end my comments and open the floor for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

We will now begin the Q&A session, and the first question is from Satyadeep Jain of Ambit Capital.

Satyadeep Jain, *Ambit Capital*

My first question is on Europe. One of the largest players in the region has talked about delaying decarbonisation investments. There are a lot of reasons - onslaught of Chinese imports, CBAM not making sense in its current form, which is also what Mario Draghi had mentioned in his document. In this context, given where margins are, where imports are and current form of CBAM, and given the strategies adopted by some of the other players where they're waiting for allocation for decarbonation investments, how are you evaluating your allocation to capital in both UK and Netherlands? Are you going to go ahead with capex till you get more clarity or any support from the government?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

Satyadeep, on UK, as you are aware, the journey is already on. One of the reasons for this journey is that we believe that our cost position will improve once we switch from iron ore & coal to scrap. There are advantages of lower CO_2, CBAM, plus we are going to use local scrap available in UK. What we had said is that we are expecting our cost position to improve by about £100 - 150 per ton. A lot of it is to do with input cost, [inaudible] fixed cost takeout, which Koushik referred to, which is happening with restructuring. As far as UK is concerned, the business case is clear, and we are sticking to the plan. As far as Netherlands is concerned, conversation is currently going on with the government to see what kind of support we can get and what the costs are going forward? How is the policy going to evolve? I think what you referred to is basically our peers in Europe who have signed up with governments in the past and in some cases, committed to the use of hydrogen are also concerned about availability and cost of hydrogen, whereas our plan was more gas - based production in Netherlands. Conversations are going on with the government and we will wait for it to conclude and take it forward. Of course, we are also waiting to see the reaction of Europe and reactions that may be taken in the US.

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Just to reinforce the point that many reactions that have come are from companies who have got the grant or financial support from respective governments and are deeply interconnected to hydrogen, not as a choice but as a core part of the transition plan. Given availability, cost, and feasibility of hydrogen, they are obviously in a difficult position because hydrogen is not available at the assumptions that were made for granting funds. Whereas in our case, we were clear that hydrogen is an add - on at a much later point, and we are not working on that same premise. The very fact that we are putting up a DRP and EAF is because we have a pellet plant. Therefore, we said we will be focused on a gas - based solution at this point of time and any funding support will be based on that. Hydrogen can be an add - on at a later point in time. This is the premise, and we have some distance to go because we will have to go through the entire approval process. We are in deep discussion and we're getting to the stage where we will get more clarity over the next 4 - 5 months. At that point, final investment decision will be taken. I think it is some distance to get full clarity. I know what you are saying in terms of what our peers have indicated. There are multiple reasons for doing that.

Satyadeep Jain, *Ambit Capital*

I wanted to follow - up on that final investment decision. It's only 5 - 6 months from now. Would that decision be contingent on how the demand and pricing are around that time?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

Whenever we take that FID call, there must be a business case. Not only from our side, the government before they put in taxpayers' money will also want to make sure that there's a business case. Obviously, we will look at how things are going to be going forward. We should also keep in mind, that in Europe, there is likely to be some supply side changes as well. Everyone cannot transition and it depends on your ability to fund and the support that you get from the government. It's not necessary that all capacity in Europe will make it to the other side. We also need to look at what's going to happen on the supply side as much as what's going to happen on the demand side.

Satyadeep Jain, *Ambit Capital*

By when do you expect to reach breakeven in UK? Regarding the clean industry deal that is going to be announced sometime in February, what is your expectation? Is it in line with what you've seen in UK in terms of concessions?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

As far as breakeven is concerned, if you recall in the last quarter, we said we should be close to breakeven in the next few quarters. I still think that given the pace of our cost takeout. Our understanding of the market three months back was slightly different from where we stand today. Nonetheless, breakeven is the target for the next few quarters, and we should be in that zone in the first two quarters of FY2026. We’re certainly focusing on getting it by June 2025. There is a lot of market volatility at this point of time, but we are focusing on internal measures, which essentially include cost takeout. A significant part of the labour redundancies is on the way, and which have been approved in the past. We are also looking at consolidation of sites, product mix and sourcing strategies in a more efficient manner. A lot of activities are currently underway and significant cost takeout has already happened but will continue to happen over the next three quarters.

Operator

The next question is from Sumangal Nevatia of Kotak Securities.

Sumangal Nevatia, *Kotak Securities*

My first question is with respect to Notes to Accounts [inaudible]. There are a lot of details with respect to some environment related non - compliance notices received for Netherlands facility and some penalties. Is it possible to share the nature of penalties? When do we expect to get back on the right side?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Note no. 6 that you see elaborates on the ongoing situation as far as coke ovens in Netherlands is concerned. This primarily relates to Coke & Gas plant 2, but now also includes Coke & Gas plant 1. This is at the provincial level and relates to provincial authorities. It initially started as a green push from coke ovens beyond certain permitted numbers. Green push technically exists in all coke ovens across all geographies and facilities. We have taken very significant steps in mitigating those green pushes. In fact, the last push was somewhere in October 2023, but the provincial government has now come back and is basically talking about stack emission standards and levels and treatment of benzene. They have come and talked about some opinions on maintenance which has been significantly high in TSN for years together. We have some time to respond, which we are doing. We have also gone in to litigation on the green push and the court has given orders to the provincial authorities to rework the basis. [inaudible] Our basic point is that Coke & Gas plant 2 as part of the decarbonisation would voluntarily be closed sometime towards 2029. Anything which happens before that will have its impact on the decarbonisation project. As Naren mentioned, we are in deep conversations with the government at all levels, be it provincial or at the central level in Hague. We expect that we will resolve this in one way or other, either through dialogues and explaining the technical basis of performance of Coke & Gas plants 1 and 2 or based on the appeals and objections that we have already filed and will soon be filed at the appropriate legal recourse. It's a comprehensive approach because this is part of the solution for decarbonisation also. The standards that were expected are higher than the regulatory standards. Therefore, these are beyond the regulatory norms that exist but even then, in the interest of inclusive way of managing business along with the community, we have set standards to improve them, and these require investments that we are planning for in decarbonisation.

Sumangal Nevatia, *Kotak Securities*

In case we don't reach these levels, what sort of financial impact are we looking at in the next 3 - 4 years on an annual basis?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

I think it's still early days to talk about it. There are many recourses. It can't be switched off on the fly. There must be an appropriate notice period, and I think that notice period will stretch out over the period that we are talking about up to 2029. There are other recourses, including legal recourse that we will opt for in case we don't have a bilateral solution. We are improving our own standards. These are all beyond the minimum regulatory requirements. This is additional. Some of it is also technically increasable and for some of it we are exploring options and ways in which we can manage.

Sumangal Nevatia, *Kotak Securities*

My second question is on overall prices and cost movement guidance, which we usually give. If maybe Naren can help us with that, with India, Netherlands, UK, all three on realisations and cost.

T. V. Narendran: *CEO & MD - Tata Steel Limited*

On realisations, we are seeing India realisations QoQ being flat, unless there's something significant in the budget or safeguards which come, then there should be an upside. Otherwise, at minimum, we see it flat. In terms of costs, as far as India is concerned, coking coal costs are expected to be about $10 per ton lower in 4Q vs. 3Q. Realisations in UK & Netherlands will drop simply because there are annual contracts which come up for renewal at the end of the calendar year. We've got an increase in steel supplies to packaging and there's a reduction in steel supplies to automotive. Net impact in UK QoQ is expected to be about £60 per ton lower QoQ. In Netherlands, also a similar level, 4Q lower than 3Q. While at the same time, in terms of costs, we expect coking coal cost in Netherlands to be about $20 per ton lower in 4Q vs. 3Q. In UK, that's not relevant because we've stopped the coke ovens and blast furnaces. In Netherlands, iron ore consumption cost is expected to be about $3 – 4 per ton lower in 4Q vs. 3Q.

Sumangal Nevatia, ***Kotak Securities***

Following up on Netherlands, over the next one year or so, is there any specific cost reduction self - help measure that we should expect to reflect in results? Or from here on, the profitability margins will largely be a matter of market factors?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

No, here are huge cost takeout plans in Netherlands. There's a lot of restructuring with the plant along with teams [inaudible] because the spreads have been low. In fact, last quarter, it was around €160 - 170 per ton, which is lower than we've seen in a very long time. We are not relying on the market to demonstrate improvements. I think we're going to focus on cost takeouts, both in terms of people costs as well as maintenance costs. There are opportunities to improve. We've also done quite a bit of work on the blends that we use in terms of coke ovens. There are lots of opportunities, which we've been working on. There's a transformation team in place in Netherlands. You will start seeing the impact of that going forward. Some of it has already happened, but you will see impact of that going forward. Even if we assume fixed spreads, we are trying to see what it is that we can do to improve performance, and we're expecting next year to have a better performance.

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

The transformation program is focused on productivity, cost takeouts, both fixed and variable efficiency, including availability of the mills in terms of benchmarks and optimising the product mix. [inaudible] I think it is also not a one-year cost takeout program. It will be multiyear, but we will want to take as much advantage of that in the next year, and it will run into a couple of hundred million euros for sure.

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

I want to add here that our first focus this year was to get operations back on track. We had been around 6 MTPA for the last few years. Of course, last year was even lower because of the blast furnace shutdown, whereas 7 MTPA is what we think is the optimal level. Last quarter, we were at 1.75 million tons, which means we are at 7 MTPA rate. That's one lever which is in our control, which is the operating performance. Then as Koushik said, managing the availability of the mills, in addition to all the other things that we talked about. There's a lot of work going on there, and hopefully, you'll start seeing the impact of that from next year or rather from the next quarter.

Operator

The next question is from Amit Murarka of Axis Capital.

Amit Murarka, ***Axis Capital***

The first question I had was on India. On the last call, you had guided for a Rs. 2,000 per ton drop. After that, prices slid even further. In the reported numbers, at least the fall was looking much lower. Was the NR decline lower than what you thought? What was the reason for better realisations than guided?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

At the [inaudible] level, it dropped by about Rs. 2,400 per ton compared to the Rs. 2,000 per ton guidance. Based on various other pluses and minuses, we've ended up where we are.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Revenue is a combination of steel revenues, we have FAMD revenues, other revenues, etc. What we give as a guidance on is the steel NRs. We had said around Rs. 2,000 per ton and it's been a little steeper than that, around Rs. 2,400 per ton. The overall number changes based on other revenues as well.

Amit Murarka, ***Axis Capital***

On TSUK, you just mentioned a £60 per ton drop that you're expecting in NRs for 4Q. Are you guiding for breakeven in TSUK, including this decline?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

What Koushik said is we will start reaching breakeven in the next couple of quarters. We thought we will reach breakeven sooner, but steel prices moved much lower than we thought in 2HFY25. That's why we're taking longer to hit breakeven. If you see fixed cost takeout on QoQ basis, there's significant takeout. Hence EBITDA loss in 3Q was much less than EBITDA loss in 2Q, and we are expecting things to improve in 4Q. We will not go to breakeven levels yet unless steel prices improve but we're working on the assumption that steel prices stay where they are and looking at cost takeouts to come to breakeven. As Koushik guided, it will be closer to the July quarter than this quarter.

Amit Murarka, ***Axis Capital***

I had a longer - term question. Iron ore leases come up for expiry in 2030. When you evaluate growing India capacity to 35 - 40 MTPA, how are you looking at IRRs for these projects? Do you include iron ore cashflows in your assessment?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

There are a few things here. One is, we do have about 500 - 600 million tons of iron ore available to us beyond 2030 based on the leases that we've got from acquisitions of Neelachal, Bhushan, Usha Martin, plus the Gandhalpada lease that we bid for. The costs are different depending on the premiums that we paid for each of those. The value at which we've got it when we acquired those companies. The second part of it is how we can participate in more auctions and whether it's in Jharkhand or Odisha, which are going to be our two focus states. We also evaluate Chhattisgarh when it comes up because it is geographically close to our production sites. Third is to look at how much of iron ore do we want to have as captive and how much we can buy from the market because if the bid premiums are very high, then it really doesn't make sense to have 100% captive because you can get it cheaper from the market. You have OMC, NMDC, and others also producing iron ore for sales. It's going to be a multipronged approach. We have gone through it in coal similarly, 20 years back. 65 - 70% of Tata Steel's coal was captive. Today, only 15 - 16% is captive. We made the transition in coal, and we are planning the transition in iron ore, so that we mitigate the cost impact as much as possible. That is on the input cost of iron ore.

Other part is conversion cost. There's a lot of work going on across our sites in India to reduce conversion cost. Also, as we expand in Kalinganagar, which is going to be our lowest cost production site in India, it helps mitigate the cost because in Jamshedpur we have some legacy costs. In Kalinganagar, we don't have those legacy costs. When we look at Kalinganagar, Neelachal, and Meramandali sites being expanded, all of them may not have some of the costs that we have in Jamshedpur because of the way the plants are structured. Also, as we expand more capacities in Kalinganagar, Neelachal, etc. we are coming closer to the ports, so the cost of getting coal to our sites becomes less. There are a number of advantages also that we are working on. There is a structured program within Tata Steel to see how we can protect our margins in 2030 through the various initiatives that we take, not only in iron ore sourcing, but also managing our costs, the conversion costs, etc. That's our plan, and I think we will manage the transition well.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

On IRRs, we don't take the price of our captive iron ore post - 2030. We take it at market price and project IRR are higher than our cost of capital. That is what we're clear. We consider post 2030 that it will be market price.

Operator

Next question is from Vikash Singh of Phillip Capital.

Vikash Singh, ***Phillip Capital***

Sir, wanted to understand our capital allocation policy. We are already spending in UK, we have big plans in India and at some point, Netherlands would also come into play. Given our high debt levels, what would be our priorities? Can we delay Netherlands capex considering we have some carbon credit left? How does this affect Netherlands cost of production?

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

The capital allocation policy, Vikash, is primarily based on attractiveness of the project. So as far as UK is concerned, the level of bleed that we were having, plus support of the government made the case for [inaudible], the project has significantly high IRR. Therefore, we have gone ahead with that, and this will get completed in the next three years, well before 2030. As far as India capex is concerned, it is also very high IRR and attractive, not only on volume but also downstream. Apart from Kalinganagar, there are certain downstream projects, which are getting completed like in long products, there is combi mill project and so on. We will continue to focus on high IRR projects, both from a volume perspective, as well as product mix perspective. If we take all of that into account, both Naren and I have said that the decarbonisation project does not move forward without significant support from the government. That is the basic premise with which we have worked in UK, and we are working in Netherlands. There is also an issue in relation to permitting times that comes for any of these projects, which takes some time. As I said, FID is still some time away. Negotiations with the government are currently on multiple things. Exact time of actual cash outflow will depend based on the timing. It will be something we will take into account in our overall capital policy. Our debt levels, which is our net debt to EBITDA, if you see in this quarter is about 3.3. It did increase. With more and more volumes coming in from India and UK going towards breakeven, and as Naren mentioned, the huge structural program we've undertaken in Netherlands, our intent is certainly to bring this level below 3. The range at which we should be comfortable with is somewhere around 2.75 - 3, including the growth that we are talking about. However, we live in a very cyclical world. Therefore, in great times, it used to be under 2 but in stress times, when EBITDA gets affected because of the prices or spreads, it tips over 3. We are focused at around 2.75 level on a steady state basis. Our capital allocation is very clear that we will not want to have growth at the cost of debt. [inaudible] as well as deleveraging as soon as we can start doing that. Given the prices at this point of time and the cashflow that comes in, it becomes very difficult to do that, especially since we are finishing up Kalinganagar. We have another couple of thousand crores to be spent in completing it in the next year. By September of 2026, we would have completed Kalinganagar and then the full benefit will start coming in. These capital expenditures, whether it is UK or Netherlands, do have their own timeframe, especially Netherlands, I think it's clearly about 1.5 years behind because the permitting time will also be building before any capex is spent. I think we calibrate the movements of growth and capex between India, Netherlands, and UK in a manner where we can keep priority on the balance sheet appropriately. Of course, the internal measures on cost takeout or working capital efficiencies only supplement these limits.

Vikash Singh, *Phillip Capital*

Sir, our carbon credits [inaudible]. How should we look at cost of production post introduction of CBAM in Netherlands?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Free allowances will keep coming down over the years. We had an issue of BF6 delay in startup and therefore, loss of production in 2023 - 24, which is the reason there is a pickup, which will happen [inaudible] and then the allowances start coming back. There is also a cost implication that we have to factor in. I think it is balanced and we typically have to buy a certain amount of EU ETS credits. The cost of production once we get the allowances back, will come down, except for the net off effect on the free allowances. There's an arithmetic behind it. Happy to do that offline. There is arithmetic based on which the free allowances keep coming and the offsetting impact that is happening. CBAM is very simple. CBAM is the cost that the local players in Europe pay for the carbon [inaudible] levelised or actualised for any imports that come in. If, for example, the carbon cost is €70 per ton and taking an example of a company which produces 2 tons of carbon per ton of crude steel, the impact is about €140. Anybody who's coming in from outside, there is a differential to the 2 tons in Europe vs. whatever the importing carbon emission is. Somebody who comes in at 2.5 will have 0.5 into the carbon offset impact. That's the level at which the prices are expected to improve to be neutral to the higher carbon steel that is coming in. That's the mechanism that will happen from 2026 onwards. We've already started the reporting process of any imported steel, but the tax will come in from 2026. The general view is that to the extent people who pay the carbon tax, domestic prices will improve or increase. It's an arithmetic, but that arithmetic shows that there is an increase in steel prices in EU that will happen.

Vikash Singh, *Phillip Capital*

Has full benefit of pellet plant and CRM been realised in EBITDA in 3Q. Is some pending which would come in 4Q onwards?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

The pellet benefit should have come through. While the cold rolling mill itself was commissioned, the continuous annealing line has just got commissioned in December and product mix will improve going forward. In the next few months, a galvanising line will also get commissioned, which is auto galvanised, one of the very high-end lines in India, and that will all help the product mix. The CRM product mix will keep improving. It has improved from HR to CR. Now from CR, it'll go to annealed and galvanised. You'll see the product mix impact flowing in over the next few months and year.

Operator

Next question is from Ritesh Shah of Investec.

Ritesh Shah, *Investec*

Sir, the last DGTR application did not mention Tata Steel. Wanted your take on that because the application went from India Steel Association, and we are a part of it [inaudible]. Secondly, what are the expectations on tariff and non - tariff measures? We do hear about tweaks on import duty safeguards. How should we look at these events?

T. V. Narendran: *CEO & MD – Tata Steel Limited*

On DGTR, we've submitted the data that they required. Maybe we can address it offline, whether we're mentioned or not. We were one of the companies as part of ISA who had submitted the data for them to consider. What actions will they take? We don't know. Let's see what happens. The larger point we are making is that we, as a country, need to have a strategy to deal with products being sold in our country at prices at which the supplier is losing money. Today, it's for steel, tomorrow, it can be for anything else. In fact, it's already started happening in other goods. While other countries are dealing with it with safeguard duties, antidumping duties, we also need to move fast because otherwise, the damage is already done. I think we've had good patient listening from the government. They've initiated the process, and we are expecting anytime soon, it should come through. We were expecting it to happen in January. Let's see if maybe something happens in the budget. The larger point is if the private sector investment needs to be protected in India, particularly in manufacturing and steel, then it's not just demand growth, but it needs to be profitable demand growth for the steel industry to invest cash flows that are required. I think that's been our submission and I think in the next few weeks, we will get more guidance from the government.

Ritesh Shah, *Investec*

Sir, how much is the quantum of capitalised cost as a percentage of EBITDA for 3QFY25 and 9MFY25? If you look at our last year's balance sheet, capitalised cost was nearly 20% of EBITDA. It was quite a significant number.

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

I'll give it to you offline.

Ritesh Shah, *Investec*

How should we look at the debt and cash flow profile into 4Q and next fiscal, factoring working capital release? Are we still looking at one consolidated balance sheet? Could you please give debt numbers on books currently at UK and Netherlands, which I think the last time you had said was around £500 - 600 million in both the regions.

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

At the end of the day, it is one balance sheet effectively, and we are progressing more and more [inaudible], it will be more reflected on Tata Steel India, because that's the strongest end of the balance sheet for many reasons, including economic. Working capital debt will be more focused in future on UK and in the Netherlands. If there are any project related debts, for example, in future if the decarbonisation project has debt coming that will be reflected more on Netherlands balance sheet, which will be serviced by Netherlands cash flows. We have a method of looking at the allocation of debt. As you saw that this quarter because of the way in which we could tightly manage working capital, we have been able to release a significant part, and net debt has decreased by about Rs. 3,000 crores. Our intention is to ensure that we keep holding it and decrease it as and when we move forward. However, there are times, apart from market issues, for example, this quarter, we have a blast furnace relining starting in Jamshedpur, the G - blast furnace, which will run its campaign for about 160 days or so, and it will come back in July. During that time, the working capital does need to be adhered to the loss of production out of G - blast furnace. There is a lot more scrap and DRI being used to maintain production level on the other furnaces. As you heard from Naren, ramping up of Kalinganagar is happening. Some of these are competing pressures that happen on working capital. Whenever we get the opportunity, we push for taking out not only working capital, but also cost. We're also looking at a significant number of commercial levers in terms of contracts, etc. Our sense is that we'll be hovering around that region, and we'll continue to strive to move it down. At least in the next quarter, once the G - blast furnace comes up, Kalinganagar, by end of 1QFY26 would have been even more ramped up. Therefore, we would be able to drive cost and working capital down as far as India is concerned.

The situation in Netherlands is different. There, it is running at full capacity. We are looking at taking down working capital more. There has been a pricing impact of that in terms of NRs in this quarter, which if prices continue to improve, there will be a certain amount of reversal on that. Similarly, in UK, we are trying to drive working capital down. One step - up that has happened is once we closed the blast furnaces, we are now buying higher value of working capital, which is more slabs and coils than before when it was iron ore and coal. Now we are moving to drive supply chain effectiveness to ensure that our working capital is lower. Lot of efforts are going om around all sites and all businesses in all geographies. Our intention is to keep it tight and keep it going on this basis.

Ritesh Shah, *Investec*

Is it possible to quantify the net debt number for Netherlands and UK on December - end basis?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

In Netherlands, gross debt is around £500 million. UK gross debt will be slightly higher, around £700 - 800 million.

Ritesh Shah, *Investec*

Specifically for Netherlands, in the last call, you had indicated that we've already started preparatory capex. Over the last 4 - 5 quarters, we have been engaging with the government, but nothing firm yet. How are we looking at it? Hypothetically, there is a capex of $3 - 4 billion and we have to take potentially one furnace down, which will be 3.5 MTPA. How are we looking at managing the cashflows for Netherlands? Is there an assurance that you can give to investors that there won't be fungibility of cash from India to Singapore to Netherlands?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Let me articulate this a little bit differently. First is we won’t shut down the blast furnace like in UK. In UK, both the blast furnaces had come to end of life. It was bleeding and had increased our costs and therefore, we shut it down, and that's a clean slate project. In Netherlands, both the blast furnaces will run as we build the project. Cashflows are not going to be impacted from that point of view. Secondly, we've been talking to the government and government conversations do take a long period of time because it's a multi stakeholder conversation even within the government. In this case, there is a European Commission angle, which has to agree and approve on the mandate to the Dutch government before they approve. We are at a very high intensity conversation at this point of time. It’s not just a conversation and they also see our model and viability because no government will give money for a failing business. All governments, whenever they give money, want a successful business on the other side of the project. There's a huge amount of due diligence that goes on. As it happened in the UK, it is happening in Netherlands. That happens for any company which has got it. Therefore, as somebody questioned earlier that people are going slow. The people are going slow because some of the assumptions are not fructifying or in line of sight, like hydrogen which is why we said we are slightly different because we've not gone for the hydrogen route and are on the natural gas path. There's a lot of conversation, diligence, legality, vetting that goes on as part of this conversation before the government says that, yes, we can give you and what quantum we can give and what your project delivery timelines are. What it will mean, what will be the outcome, and how the company will perform post the project, all this is part of one. Therefore, it will not be that one sudden morning either Naren or I will stand up and say £1 billion will go from next month onwards. That's not how it works. When the project is done, there is a permitting process and certain approval processes on the ground and there is a preparatory time and then the spend starts. Typically, the spend starts in tandem. One gives Rs. 1, the other person will also give his share of spend. It is a calibrated spend that is happening even in the UK. It just started because our spend was not there till about the start of this month. This is the first quarter where the spend will be net of the grant. The grants will typically come in the UK at one quarter lag and as you build, you will get money. These are elements which will happen, and I can assure you that cashflow certainty comes up [inaudible], and we will have time, position, and decision - making to decide on when that capex will happen.

Operator

Next question is from Indrajit Agarwal of CLSA.

Indrajit Agarwal, *CLSA*

Can you quantify what would be the conversion cost differential between the Kalinganagar Phase 2 vs. what we have currently over there? What kind of cost savings can we look forward to when Phase 2 is fully ramped up?

T. V. Narendran: *CEO & MD – Tata Steel Limited*

When you look at 3 MTPA going to 8 MTPA, there is certainly cost takeout because you're not doubling the number of people. The number of people will be maybe 10 - 15% more in Phase 2 than it was in Phase I, and you're getting 5 MTPA of additional facilities. Secondly, we are making better use of assets, which are already built. Like you have one steel melt shop, which used to produce 4 MTPA and will now produce 8 MTPA. One hot strip mill which used to produce 3 MTPA and will produce 6 MTPA. You have that kind of scaling up.

Samita Shah: *VP CFTRM – Tata Steel Limited*

Indrajit, as you know, we're looking at it as a company, and wouldn't want to give site wise details. Broadly, you can see the benefits which are coming and factor or adjust that.

T. V. Narendran: *CEO & MD – Tata Steel Limited*

Even the coke rates will be better because you have two big blast furnaces as compared to Jamshedpur, which has some smaller and some bigger blast furnaces. There are lots of operating advantages and no legacy costs, which you carry in Jamshedpur. In terms of conversion rate, Kalinganagar will be the lowest amongst all our sites, for sure.

Operator

Next question is from Ashish Kejriwal of Nuvama.

Ashish Kejriwal, *Nuvama*

Just a bookkeeping question. It was mentioned around Rs. 1,410 crore of excess liability, which we have written back. What was that liability? I assume it is included in your adjusted EBITDA of Rs. 7,500 crores?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Ashish, that liability was related to past claims, which are no longer required. We continue to have a process whereby we assess based on independent judicial basis. Once we no longer require it, we do an accounting release or reversal, we top it up. That's part of the ongoing process given the size and complexity of a company like Tata Steel.

Samita Shah: *VP CFTRM – Tata Steel Limited*

If I can just clarify, adjusted EBITDA is adjusted for FX impact, not for any other items. It includes the impact of the reversal.

Ashish Kejriwal, *Nuvama*

That means this Rs. 1,400 crores are a net cash item, which reduced our other expenditure in this quarter?

T. V. Narendran: *CEO & MD – Tata Steel Limited*

Non - cash.

Samita Shah: *VP CFTRM – Tata Steel Limited*

It is a non - cash item, which reduced our other expenses.

Ashish Kejriwal, *Nuvama*

Looking at depreciation, we have commissioned or capitalised our 5 MTPA steel plant. Depreciation for last 4 - 5 quarters, remains almost same. How to look at it?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

You will see more capitalisation in March because in the initial period of ramp up till you reach a certain stage, you don't capitalise. Therefore, you don't see that increase in depreciation. From 1QFY26, you will see impact of that depreciation.

Ashish Kejriwal, *Nuvama*

Second question is on post completion of our KPO expansion. When can we go ahead with an NINL expansion? Will capex be much lower in FY2026 compared to FY2025?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

So Neelachal, as I mentioned in my commentary, we are going through a process on regulatory clearances. Once that is done, we normally do the FEL study, which is the front end loading study for determining capex. Once these two are done, we go towards an investment case or investment decision for this. That's something that we will bring to the Board for consideration in a few months from now. [inaudible]. As far as capex for next year is concerned, the elements that will be there is certainly some part of the Kalinganagar expansion, which will be about Rs. 3,000 crores along with ancillary spend on that expansion. There is the blast furnace reline that is currently going on. You will see that in both 4QFY25 and 1QFY26. There's another relining that will happen towards the end of 4Q and then there are more on improvement sustenance capex that will be there and the spend in UK, which will also start kicking in. Not in its peak form, but at least start kicking in because one has to start giving advances and start getting mobilisation on site. A nine month spend on UK will be there. On the other hand, there will be a lot more rationalised cost in Netherlands to the sustenance level that is currently there. Further, the Ludhiana project is picking up quite fast and bulk of the spend for it will be in FY2026. From today to December 2025, we will see a big part of the spend. It is something that we are optimising. Not Ludhiana, but rest of the profile on capex is optimising. We hope to ensure that whatever we do, we will be looking at putting towards the asset growth in the portfolio that we have.

Operator

Thank you, sir. I would now like to hand over the conference to Ms. Samita Shah for chat questions. Over to you ma'am.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

There is a broad question on how we see steel prices. While you've shared the items, I think just to get a flavour of what's happening in the steel markets.

T. V. Narendran: ***CEO & MD – Tata Steel Limited***

A couple of things here. One is if I look at domestic markets, long product prices have been kind of what we had forecasted because it's less dependent on what happens in international markets. In fact, if at all, impact on coking coal imports will add to the pressure on some long product prices because the secondary sector is getting impacted. Flat product prices in India will depend on safeguard duties or any other action taken by the government, which you'll know in the next few weeks. When I look at international prices, I'm not expecting too much of pickup because nothing is changing very significantly in China from an economic point of view. Though over the last two weeks, we've seen iron ore prices and steel futures go up about $10 - 20 per ton, I don't have a feeling that it's going to spike up. Let's see what happens. Unless China turns the tap off on exports, I don't see international prices improving very significantly at least in the next one or two quarters. If something happens in China, and they're able to reduce their exports to the 60 MTPA level, which they've been doing for most of the last few years, then you will see steel prices going to $550 - 600 per ton levels compared to $480 - 500 per ton levels now. I don't see that action just yet and that's why most of our actions are assuming that steel prices stay around the levels that they are. Hence, any improvements that we show will be more from additional volume or cost takeouts. If steel prices move up, that's an upside to whatever we say. So not broadly stable, maybe we've reached the bottom. That's what I would say.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

The second question comes from some of the comments we made earlier on the Kalinganagar ramp up. You had mentioned in the 2Q call that there were some issues to be resolved in oxygen supplies. There are many questions about whether that has got resolved and whether that constraint is still there or how is Kalinganagar ramping up post that?

T. V. Narendran: ***CEO & MD – Tata Steel Limited***

There were issues in the oxygen plant, which was to get commissioned in October - November, and it is now commissioned. In the first week of January, we pretty much came to the levels that we wanted. The oxygen issue is behind us. I think now we are waiting for the steel melt shop facilities to get commissioned. That will happen in March. One of it will happen in March and the other in September. Normally, when you do commissioning activities in a large steel plant, there's a moving bottleneck. We need to deal with bottlenecks because it could be logistics, it could be oxygen, it could be the downstream facilities. The blast furnace is doing fine and is producing very stable 8,500 tons a day, and we will ramp it up now to 10,000 - 11,000 tons per day, and then take it to 13,000 tons per day, which is the level at which we want to be. I think we are going okay there. The oxygen issue is behind us.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Thank you. The next question is on Sukinda, and this is saying that regarding surrender of the mines, what do we plan to do with the furnaces and what's our thinking about Sukinda and FAMD as a business?

T. V. Narendran: ***CEO & MD – Tata Steel Limited***

Work is going on in surrender of the mine. We have got some of the permissions that we needed from the state government, but we are still going through the procedures. Once we surrender the mines, we won't have the MDPA pressures, and there will be a better balance between our ability to produce, grow more, and ability to convert them. That brings business to a better level of stability than we've had, and we won't have the pressures of MDPA and [inaudible]. We will continue to revisit this business and further optimise it going forward. We are trying to make sure that we don't have the losses that we had because of high MDPA production.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Thank you. There are a few questions on our capex growth in India. I think we've talked about it earlier as well on the various projects, but just to have a sense of what our thinking is on that. Are we still on the same lines?

T. V. Narendran: ***CEO & MD – Tata Steel Limited***

As Koushik said, the focus in the next 12 months will be completing Kalinganagar. When I say Kalinganagar, it's not just Kalinganagar, there's money being spent on raw materials. We have increased iron ore production to 45 million tons. All that is there. In addition to that, we will complete the Ludhiana project. I mean at least a lot of the capex related to the Ludhiana project will go on. That will be the focus in India. We will, in the next few months go to the Board with a Neelachal proposal. We've just had the public hearing a couple of months back and are progressing on the EC. Similarly, we will do the Kalinganagar plant expansion also from 8 MTPA to 13 MTPA; and Meramandali plant expansion from 5 MTPA to 6.5 MTPA. These are the three things we're working on. In terms of adding capacity, Kalinganagar, which is getting completed now, Ludhiana, then Neelachal, then Kalinganagar, and then Meramandali. It will be in that order. Neelachal is what will be ahead of the others after Ludhiana.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

The next few questions are in Europe. We answered about outlook on steel prices. There is a question on cash burn currently going on at Netherlands and UK. When do we see breakeven? I think we've answered a bit of it, but maybe if you want to give some colour there.

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

This quarter, Netherlands generated positive cashflow. That is despite the neutral EBITDA that it had. The cashflows are positive on account of very stringent working capital management. Next quarter also, we want to continue to do the same. I think the impact of the transformation program will start flowing in from 1QFY26. For the full year next year, we will certainly be trying to ensure that we are cashflow positive. If the question is about 3Q, cash burn is not there.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Next question is on capex and debt reduction plans. What is our capex for FY2026 and FY2027? I think it's a bit early to give guidance on that. In light of all of this, what is our capex thinking and debt reduction plans?

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

The exact phasing in number we can do so in our May meeting. As far as debt is concerned, I think we've given the framework within which we are working.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

With that, we will end the Q & A. Thank you again for all your questions and hope the clarifications help you understand our numbers better. Thank you, and we will connect again next time.

T. V. Narendran: ***CEO & MD – Tata Steel Limited***

Thank you.

Koushik Chatterjee: ***ED & CFO - Tata Steel Limited***

Thank you.