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PRESENTATION

Operator:

Ladies and gentlemen, good day, and welcome to the Tata Steel analyst call. Please note that this meeting is being recorded. The attendees' audio and video has been disabled from the back end 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 afternoon, everyone, joining us in India and from the Far East, and good morning to all of you who are joining us from the West. On behalf of Tata Steel, welcome to this call where we will discuss our results for the second quarter of FY2026. We published our results yesterday, and there is also a detailed presentation on our website, which you can refer to if you haven't done already. As always, the entire call will be governed by the Safe harbour clause, which is on page 2 of the presentation. To help you understand the results better, we have with us Mr. T V Narendran, CEO & MD Tata Steel and Mr. Koushik Chatterjee, ED & CFO Tata Steel. They will make some opening comments before we open the floor for questions. Thank you again, and I will request Naren to make his comments.

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

Hello everyone. As Samita mentioned, I'll make a few comments and then handover to Koushik and then we'll do the Q&A. Global dynamics continue to be shaped by tariffs, geopolitical tensions, and elevated steel exports. Chinese steel exports are expected to cross 100 million tons again this year, and this obviously has an impact on pricing across the world. Amidst this, Tata Steel has delivered strong improvement on QoQ and YoY basis.

I'd like to now make some comments on the performance in each geography. In India, our crude steel production was up 8% QoQ and 7% YoY to 5.65 million tons largely driven by ongoing ramp up at Kalinganagar and completion of the relining

of the G blast furnace, which was down for almost six months. We continue to stay focused on driving sales, even in a challenging environment and we were able to ramp up sales in line with our production ramp up without having to build inventory. In fact, we increased our domestic deliveries by 20% QoQ - a testimony to the strength of our customer relationships and our marketing and sales network.

While average HRC spot prices were down about Rs 2,300 per ton on QoQ, we were able to limit the drop in our net realisations to about Rs 1,700 per ton. We were also able to offset this impact through higher volumes and the ongoing cost transformation which has resulted in an improvement in EBITDA margin by 80 bps to 25%. Some segmental highlights: The seasonal rains in 2Q impacted construction activity across India but we successfully grew Tata Tiscon volumes by 27% QoQ as our expanding channel network and digital platforms enabled us to leverage insights into customer behaviour and cater to the evolving needs. Industrial Products & Projects deliveries grew by 22% QoQ aided by value accretive segments such as Engineering and Ready-to-use solutions.

In the UK, our deliveries stood at ~0.6 million tons, marginally lower on QoQ basis. We continue to work on transforming the business and building the 3 MTPA EAF project at Port Talbot. In Netherlands, Liquid steel production and deliveries were broadly stable QoQ at ~1.7 million tons and ~1.5 million tons, respectively. Our performance was aided by continued improvement in controllable costs. In September 2025, we signed the non-binding Joint Letter of Intent with the Dutch government on an integrated health measures & decarbonisation project. We are committed to working with all stakeholders on resolving the outstanding points before proceeding towards an investment decision. I will now hand over to Koushik for his comments. Over to you Koushik.

Koushik Chatterjee: ED & CFO – Tata Steel Limited

Thank you Naren. Good morning, good afternoon, or good evening to all who have joined in. Before I talk about the results for the company, I would like to stress on what Naren mentioned that we should consider the backdrop of continuing global macroeconomic uncertainty especially in the context of trade, tariffs, currency and heightened exports, which have crossed 100 million tons and are likely to move towards 120 million tons in the context of the financial results that has been delivered by the company in the first half of this financial year.

Let me now begin with some headline financial performance for the first half ended September 30, 2025, of the current financial year. Our consolidated revenues for the half year were Rs 1,11,867 crores and EBITDA was Rs 16,585 crores at a consolidated EBITDA of Rs. 11,037 per ton reflecting an EBITDA margin of about 15%. The EBITDA margin expanded by 280 bps in the first half of this financial year, reflecting our continued focus on the India growth volumes, cost competitiveness and cashflows. Our global cost transformation program continues to deliver tangible results, with around Rs 5,450 crores achieved in the first half and as highlighted on Slide 13 of the presentation, this translates to about 94% compliance to the 1H plan. I will explain a bit more on this later. Turning to the 2Q performance provided on Slide 23 of the presentation. Our consolidated revenues stood at Rs 58,689 crores, up 10% QoQ primarily driven by strong volume growth in India and continued improvement in cost transformation program led to improvement in total costs of ~Rs 1,300 per ton. As a result, EBITDA improved by Rs 1,000 per ton QoQ and this marks an improvement for the second quarter in a row in a very difficult market.

Expanding on the cost transformation program, as a company we have delivered an improvement in costs of more than Rs 2,561 crores during the quarter and are on track as planned across geographies. More specifically, in India the cost transformation program achieved full compliance to our 2Q plan with leaner coal mix, optimisation of stores, repairs and

maintenance expenses and operating KPIs which delivered cost transformation of Rs 1,036 crores for the quarter. In UK too, the cost transformation was focused on reducing fixed costs in hire & leasing, lower fuel and operating charges. In Netherlands, the program delivered ~Rs 1,059 crores for the quarter. We are on plan in all operating areas such as optimisation of supply chain, procurement and product mix along with other controllable costs. However, we are delayed on the people restructuring timeline and the consequential benefits of the same in this year, as the discussions with the Central Works Council are ongoing. Across geographies, we remain focused on execution of the cost transformation targets for the full year.

Let me now provide an understanding of India, Netherlands, and the UK quarterly performance individually. Tata Steel Standalone Revenues for the quarter stood at Rs 34,680 crores and EBITDA was Rs 8,394 crores, reflecting a QoQ improvement in EBITDA margin of ~80 bps to 24%. As Naren mentioned, our volumes were significantly higher in 2Q and this along with improvement in costs led to an uplift in EBITDA margin. Our wholly owned subsidiary, Neelachal Ispat Nigam Limited recorded ~Rs 260 crores of EBITDA for the quarter, up 17% QoQ and reflecting an EBITDA margin of 20%.

Let me now turn to the UK market and our performance. Amidst the growing trade protectionism across the world, UK remains very vulnerable market as the import quotas of steel across several product grades are higher than the total consumption of the country making it open to cheap imports. In addition, the market demand has shrunk due to a weak economy resulting in decline in domestic prices by more than £150/t since January 2024. UK demand for flat products has declined by 33% since 2018, but the quotas have increased by 20%. In 2025 YTD, UK imports are up 7% YoY, and this has continued to impact prices as well as spot spreads. As a result of severe market pressure and despite significant cost take out program, the TSUK EBITDA loss has widened from -ve £41 million in 1Q to -ve £66 million in 2Q. As an industry in the UK, we have brought the current policy disparity to the attention of the UK Government and are engaged on the subject. Given the current market condition, we are focusing on optimising fixed costs, and they are down £90 million compared with 2QFY25 but on sequential basis, are marginally higher by £7 million due to annual maintenance activity during the quarter.

Moving to Netherlands performance, revenues for the quarter were ~€1.5 billion, on improved volumes partly offset by lower realisations. On the costs side, Material costs increased by €75 million QoQ, largely due to inventory drawdown in contrast to a build-up in 1Q. This was largely offset by €72 million reduction in conversion costs, aided by lower employee benefit expenses and emission rights related costs. We are also watching the policy developments in the EU especially on the EU Steel Plan 2.0 announced by the EC as it will have long term ramification on the domestic steel industry in the EU.

During the half year, we generated ~Rs 10,000 crores of operating cashflows after interest, tax and working capital. Of this, we spent about Rs 7,000 crores on capital expenditure and paid dividend for FY2025 of ~Rs 4,490 crores. As a result, Gross debt was almost flat with a marginal increase of Rs 842 crores vs. end-March while Net debt stands at Rs 87,040 crores. The net debt has witnessed increase vs. last quarter as it also includes the cash utilised for the dividend paid of ~Rs 4,490 crores. Our Net debt to EBITDA stands at 3x on a consolidated basis.

As part of our strategic realignment following the planned surrender of the Sukinda mining lease, we are optimising our ferrochrome processing footprint. In line with this, we have announced the proposed divestment of our Ferro Alloy Plant located in Jajpur, Odisha. The transaction is signed and is expected to be completed within the next three months, subject to requisite regulatory and stakeholder approvals. We have often stressed about our focus on value added portfolio and

hence as part of growing the portfolio in India, we executed yesterday a share purchase agreement with BlueScope Steel Australia to acquire the balance 50% stake in Tata BlueScope Steel Private Limited. The sale is subject to regulatory approvals, and we believe that it will be value accretive as it leverages the synergies with Tata Steel in multiple areas.

As Naren mentioned we have recently signed a non-binding Joint Letter of Intent with the Government of the Netherlands and the Province of North-Holland, concerning Tata Steel Nederland's decarbonisation journey. This Joint Letter of Intent is an expression of mutual intent to explore a framework for transitioning to low CO₂ steel production. I want to emphasize that this project will be designed and phased in a manner that is financially prudent. Both the Government and Tata Steel have conditions to fulfil and we are working on each of them. There is no material spend in the immediate period and we will talk in more details on the project cost, financing structure and the project phasing closer to the binding agreement next year. We are also looking at prioritisation, optimisation and sequencing of the capex spend such that it is affordable for all stakeholders. The final investment decision on the project will be taken next year after engineering preparedness, completion of the conditions, assessment of the regulatory clearances and negotiations with the new Government in the Netherlands on the tailor-made binding agreement.

With this, I'll end my presentation 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 Vibhav Zutshi of JP Morgan.

Vibhav Zutshi, *JP Morgan*

Yes, thanks for the opportunity and congratulations on the strong results. The first question is basically on the European steel industry in the context of the October 7th protectionist measures and CBAM implementation. Some of the European steel players have talked about higher inquiries from EU customers and a bit of a restocking cycle happening next year. So, just wanted to get your thoughts on how you see utilisation and prices moving into the next year. And also, UK is probably not going to be directly benefited from the protectionist policy, right. So yeah, some thoughts on that. Thank you.

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

Sure, Thanks. Yes, the announcements in Europe have helped the sentiment as far as we are concerned because what Europe is doing is to make sure that the quotas for steel imports are brought down by 50% and have an import duty of 50% on any volumes exceeding the quotas. So, this is a positive move for the European steel industry and in a sense, Europe is actually working hard to have a stronger, resilient steel industry in Europe to take care of Europe's strategic needs, particularly defence and other areas. So, this is part of the plan. So, it's good from Tata Steel Netherlands point of view. We have already started seeing it having a positive impact on the price discussions with customers for the annual contracts for next year. And certainly, as you said, imports have stopped coming, in anticipation of this and the restocking etc., will lead to some positive impact for us in Netherlands, particularly from 4Q. Maybe 3Q is already a bit too late and we are still dealing with the hangover of the last two quarters. But 4Q onwards, we certainly see an improvement in Netherlands. And this also has a long-term impact because these actions are also going to come with melt and pour conditions. So, if you want to participate in the European market, you have to make in Europe rather than make somewhere else and ship slabs to Europe to participate in the potential CBAM-protected market in Europe. So, there are multiple

reasons why this is a positive move for Tata Steel Netherlands. As far as UK is concerned, like you said, UK is left out of this. In fact, our discussions with the UK Government is that the UK Government also needs to take some actions. Otherwise, UK will bear the brunt of material which can't find markets in the US and Europe. We've not made headway yet. The government is saying they are looking at it, but that's one of the reasons, as Koushik said, we've struggled with our performance in UK. I think all that we were supposed to do ourselves, we've done. And the cost takeout plan, the fixed cost takeout plan, everything is as per plan, but the market has not moved as per plan and we would need some support from the government to make that happen. So, UK is negatively impacted by these actions. But if the UK Government takes some action to not only help Tata Steel, but the UK Government is also invested in steel production in the UK just now, so they also have another reason to make sure that the UK steel industry is supported a bit.

Vibhav Zutshi, JP Morgan

Okay, got it. That's helpful. And just on UK, would you reiterate the 4QFY26 guidance of EBITDA breakeven?

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

If there are no actions from the government, it will be difficult to get EBITDA breakeven by 4QFY26. But if there is some action similar to what is being done in Europe, then of course we can move closer to that. Like I said, all the actions that we had planned we've taken. The cost takeout is as per plan. But the market needs to improve a bit for us to come to EBITDA breakeven. Koushik, you want to add to that?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

I think the spreads at this point of time make it very difficult for any amount of positive EBITDA, given the fact that the prices at which steel is currently trading in UK with the imports are very, very unsustainable [inaudible]. So, we certainly need policy intervention from a protection point of view.

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

I think just to supplement what both of us said. If you generally see, the US prices traditionally have been about \$100 higher than Europe and Europe has been about \$100 higher than India. So, that's been the ladder. Over the last year or so, US prices are almost \$200 higher than prices in Europe because of the actions taken in the US. We expect the European prices to start moving towards the US prices, they may not match the US prices but the gap could come down as it is today because of the actions being taken by EU. But in UK, the prices are moving the other way. It's coming closer and closer to prices in India, which is not sustainable for the steel industry in UK. So, that's why our appeal to the government and they are also evaluating it from that point of view.

Vibhav Zutshi, JP Morgan

Got it. Thank you so much. And just a second question on India. So, on the Neelachal capacity expansion, any timelines with respect to the Board approval, because earlier we were planning to get it by October 2025, so any reason for the delay and the updated timelines? Thank you.

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

The reason is largely related to environment clearances and all the clearances that we need to have, because as per our current way of work, we go to the Board after we've got all the approvals in place. But behind the scenes, the work is going on, engineering, planning and detailing, all that is going on. So, that happens. But the FID will be taken once we have the environment approvals, which we expect in the next few months. There are some forest clearance issues, environment clearance issues, which we are going through. Koushik, you want to add to that?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

Yeah, I just want to mention that we are pretty advanced in the environment clearance process. And as Naren mentioned, we are progressing on it and we will take it to the Board once we are in a position. The engineering work is also pretty advanced in many areas. And therefore, we are getting the investment case ready for the Board's review sometime soon.

Operator

The next question is from Sumangal Nevatia of Kotak Securities.

Sumangal Nevatia, Kotak Securities

Good afternoon, everyone, thanks for the chance. Sir, my first question is if you could share our guidance on the cost and the prices, both for India and the Netherlands & UK separately for the coming quarter. And then, generally, just want to understand what's happening with regard to the safeguard duty. The provisional duty has expired and we're yet to see the government notification. So, just want to understand what is the latest here and what is our expectation.

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

Yeah, so I'll give you some guidance on the cost [inaudible], and if Koushik wants to add on conversion etc., he can do that. So, if you really look at it from a realisation point of view, our 3Q guidance for India will be about Rs 1,500 per ton lower than 2Q. 2Q was about Rs 1,500 per ton lower than 1Q. So, we had guided Rs 2,000 per ton, but we ended up at around Rs 1,500 – Rs 1,600 per ton. In terms of coking coal prices, we are saying India consumption cost will be about \$6 per ton higher in 3Q than it was in 2Q, because it's starting to turn the other way. Coking coal has firmed up a little bit in the last few weeks. As far as the Netherlands is concerned, 3Q guidance just now is about €30 per ton lower in 3Q compared to 2Q but we expect 4Q to be much better because of what I said earlier. Coking coal consumption costs in Netherlands will be down about €5 – €10 per ton, largely because they have more stocks in the system and so, they will be consuming what they bought earlier. As far as UK is concerned, prices are generally seen as a bit flattish, no real drop. But our concerns are the levels at which prices are today rather than the trend of the prices. And that's what we are working with the government on. In terms of safeguard duty, yes, what you're saying is right. The notification I think has expired in November and we are waiting for advice from the government on safeguard. We are working with them and let's see where it takes us, because the larger point is that the steel industry in India is impacted by steel prices internationally and some of the imports which are coming in. I think if the industry has to continue to invest the way it is planning to, obviously, we need to see what is the support we can get from the government in India as is being done by other governments elsewhere.

Sumangal Nevatia, Kotak Securities

Understood. So, given the spot spreads in UK, we are expecting the losses to widen. Is that the right understanding? And also, Netherlands, given the pressure on prices at least for third quarter, we are looking at some softer margins?

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

In UK, maybe things shouldn't get worse, let me put it that way. We're trying to see how to improve - 2Q was worse than 1Q, but it's not necessary 3Q should be worse than 2Q. We're still working some of that and we're looking to see what help we can get in the Netherlands, maybe some margin compression, but we're again looking to see what we can do there to manage that because, like I said, the coking coal prices are lower. They are also getting some benefit on electricity and some of the other costs in 3Q compared to 2Q. So, they will get some benefit there. In India, well, there is some margin compression, but India will have half a million tons more volume in 3Q than in 2Q. So, we will have a volume upside in 3Q because of the Kalinganagar ramp up.

Sumangal Nevatia, Kotak Securities

Got it. Sir, my next question is on expansion. Now, in India, is it safe to assume 3 – 3.5 years once we take the Board approval, timeline in terms of Neelachal expansion? And what is the peak level of volumes we can achieve in the existing capacity? I mean the question is coming from the background that maybe from FY27 onwards, we will lack further room in terms of growth. So, if you can explain that. And also, with Netherlands, you said next year is the timeline where we are looking to freeze all the discussions with the government. So, FY28 is the year when Capex actually starts and any Capex intensity you can share there?

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

Yeah, so I'll start and then Koushik can kind of continue. As far as the volumes are concerned, yes, Kalinganagar is currently running - I mean if I look at it last month, it's running at 7 million tons per annum rate, and it can go up to 8 million tons. So, that's on Kalinganagar. Neelachal is pretty much; you can get another 200,000 - 300,000 tons more once you have all the environment clearances because the existing volumes can go up a bit more. Today, we are limited by the EC levels. We have the Ludhiana plant coming up next year, so that's another 0.8 million tons. We are looking at debottlenecking some volumes in the Gamharia plant, which is the Usha Martin plant, to support our combi mill. And we are also looking at some debottlenecking in Meramandali. So, we will get some additional volumes from all these places in addition to the 0.8 million, which we will get out of Ludhiana. The timeline that you said, yes, post-board approval, 3 to 4 years, certainly we want to complete the Neelachal project before that and try and see if we can do it faster.

What you also should keep in mind is that the product mix is also getting richer. The cold rolling mill has just started ramping up in Kalinganagar. The galvanising line, one of the two lines has come in, the other one will come by December. We have a combi mill, which is a state-of-the-art long products plant of half a million ton which has just got commissioned last quarter. So, you will see multiple initiatives. And then of course, this BlueScope acquisition that Koushik talked about. All this will lead to a much richer product mix. So, there will be a volume growth opportunity, as I mentioned. There is also an upside potential on getting a better, richer mix and better realisations. In Netherlands, even if we sign by next year, it's not as if immediately you'll have to spend capex because we will take a couple of years to get all the planning permissions that are required to start the project. So, it's a slightly more long drawn-out journey. But Koushik can add more colour to that and the other comments I made.

Koushik Chatterjee: ED & CFO – Tata Steel Limited

Yeah, so Sumangal, I think there are two points. One is that as far as Netherlands is concerned, we'll finalise the tailor-made agreement sometime next year and the FID will be next year. Then there is a permitting process and post the permitting process, the major spends will start on the site etc. So, I don't see major cash outflow in Netherlands in the next couple of years even after the FID. I think the focus is clearly on the NINL expansion. And once we get through, we should be site ready when we get into the FID or almost in that kind of a position. And therefore, from there about 3 - 3.5 years to get it done. Coming to your question on existing assets, we are also looking at Tata Steel Meramandali. When the blast furnace there goes for relining, it will expand capacity, which includes putting up a finishing facility that will take the Kalinganagar's 1.5 million-ton slabs i.e. build up a thin slab caster. So, there are at least – if I were to say 7.5 million tons of growth in consideration or in planning at different stages. When it is ready, we should be taking the Board approval to spend. And then, some of these brownfield sites, especially in Meramandali, should have a shorter execution time than a greenfield site. So, this is currently the pipeline, other than what Naren mentioned. Further, Ludhiana will get commissioned, and we will also look at another EAF, either in the West or in the South.

Operator

The next question is from Satyadeep Jain of Ambit Capital

Satyadeep Jain, Ambit Capital

I just wanted to start with UK. We understand that the CBAM in UK actually kicks in 2027, one year after the EU CBAM. Then in the context of current imports, what options, what is the process, because from my understanding based on Europe is that EU Parliament has to approve the report and findings of EU Commission, EU Council and EU Parliament and the current safeguards expire in June 2026 or so. When you look at UK, what exactly is the process timeline? Do they have to take the entire study and then the decision will be taken by Parliament? So, the entire process, are we looking at some kind of support in 2026 or not? And the cost savings that were there in the Rishi Sunak Government on network tariffs and power costs being declined, has it already kicked in? So, just wanted to understand Europe and UK in general first.

Koushik Chatterjee: ED & CFO – Tata Steel Limited

So Satyadeep, two things. One is when you talked about the European part, the European Steel Action Plan that Naren talked about in terms of reduction of quota, tariffs beyond quota etc., and melt and pour is going to kick in from June 2026 because they are currently in the consultation process. Once the consultation is done, various stakeholders give their point of view on if they have to change or modify etc., and then it starts from June. So, that will kick in from June. As far as UK is concerned, at this point of time, the consultation process on CBAM hasn't started. It is in a formulated position, but it has not yet started. They are scheduled to go live one year after the EU CBAM, which is 2027, as you mentioned, but we have not seen that happening. And that is one of the conversations that we are having with the UK Government. We are having conversation with the TRA, the Trade Regulatory Authority, on the quotas. The UK is behind the curve as far as EU is concerned [inaudible] as far as these initiatives are taken. So, if it is 2027, then when in 2027 is not yet determined. So, we are actually trying to get an understanding as to when the consultation process will start, how much time it takes. It normally takes six to eight months, maybe a year. So, we want to kick that off faster and to ensure that it is in time when our EAF comes. So, compared to the policy announcement that happened last year, they are behind is the short answer. We'll see as to where this will progress in terms of timeline. But to us, the more important priority here and now is actually the quotas and then the CBAM. The CBAM discussion can happen in parallel.

Satyadeep Jain, *Ambit Capital*

The quota also, given it needs to go through a formal study, the final decision will be taken by the UK Parliament or is it an executive decision? Is there a realistic chance of this quota reduction in UK if it goes through in 2026 or are we looking at maybe a quota reduction also in 2027 or 2028?

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

No, so 2027 – 2028 is simply very late, by which time the UK Government would have also lost a significant amount of money because of what they are managing in the steel industry in Scunthorpe. I think they are working on it and that is the assurance that we have got; the TRA has got all the data. That validation process is done. I think they will have to recommend it from the Cabinet and ratify it in the parliament. That process in the UK is pretty fast. But I think the more important point is to get to that process and that's what we are talking to the UK Government about.

Satyadeep Jain, *Ambit Capital*

Okay. Secondly on Netherlands, in the joint letter of intent that is mentioned - I'm just checking on the wording of the joint letter of intent. It is mentioned that there will be support of up to €2 billion for phase one. But explicitly, it is also mentioned that there will be no tailormade support for phase two as things stand. So, does it mean that government is making it very clear they will not support any expansion beyond phase one? And also, this import quota that we are looking at needs to be ratified by the parliament. There's a lot of opposition from downstream users in Europe. Hypothetically, if we see this go through and European steel prices converge with US. Do you see some challenges? I just want to understand because Europe historically has been a very different market versus US, but with the opposition. So two-part question, one on the joint letter of intent and overall, some of it potentially getting diluted or is that not a risk, this current import quota reduction that we're looking at?

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

So, I would first talk about the part on the Netherlands bit that you mentioned. The answer is yes. This tailor-made agreement is specifically towards phase one and our commitment is to do the phase one. The phase two is left to the Company to decide as to when and as far as timing, the technology to be used, the project cost to be done etc., is one reason why they also want Tata Steel Netherlands to be significantly profitable to ensure that they can afford to do the phase two whenever it is due. So, that is how the understanding is. There is no commitment on funding and neither a commitment on when we have to do the phase two. So, all the discussion is on phase one. The circumstances and the policies may change in phase two also. As far as the EU consultation is concerned, it is ongoing. From the sense that we get, there are people who have been quieter or neutral, there are people who are supportive and there are people who obviously have some views. So, that's for the EU to proceed and then get a sense. Maybe Naren, you can add.

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

I think what you're saying is right. There is a disadvantage if you are making stuff using steel and exporting out of Europe, then if you have a higher cost of steel you may have a disadvantage. The auto industry is one such sector. But I think everyone is also looking at building strategic autonomy in Europe and that's where there is a consensus that the steel industry is important for Europe. So, even in Netherlands we get a lot of support from that fact. They are not asking us why do you need a steel plant in Netherlands. It's more about what is it that can be done to have a strong steel company or a

steel business. So, I think the conversation has changed in the last two years, [inaudible] the Russia - Ukraine issue, the US trade issues etc. So, the second thing is, as the European governments are putting money in the industry, they also have in some sense a skin in the game. So, there is an interest from that point of view to not put money in the industry and then end up destroying the industry for whatever reasons, right. So, I think these are the things which we think are supportive for the steel industry. I also think the supply side in Europe will get restructured because as more and more blast furnaces come up for realigning, unless you have tied up with the government for a transition, it will be very difficult to justify blast furnace relining for most of the steel companies in Europe. So, there will be some supply chain side restructuring as well in the next 10 years.

Operator

The next question is from Vikash Singh of ICICI Securities

Vikash Singh, ICICI Securities

Thank you for the opportunity, sir. Just wanted to understand, if you look at the slide 10 of your presentation, though we have given a guidance to 40 million tons per annum, we have not given the timelines for the same. And also, the flat products are also increasing and longs is coming after that. I believe that the longs is Neelachal. So, which is the last portion of that flat product, which expansion we are expecting, and if you could give us the timelines for that?

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

Yeah, so let me put it this way. The sequence is not to do with the time. So, as Koushik said, what we are most ready for is the Neelachal expansion. And the Neelachal expansion is a long products expansion. So, [inaudible] in Neelachal from 1 million tons it will go to about 6 million tons. And from 6 million tons it can go to about 10 million tons. That's the second phase of the Neelachal expansion. Kalinganagar, as we complete 8, we can go to 13 million tons - that's the next phase. And from 13 million tons we can go to 16 million tons. In Meramandali, we are first looking at taking it from the current level of around 5 million tons to about 6.5 million tons and then after that we can go to about 10 million tons. So, in all these areas, the work is going on. In Meramandali, we need to acquire some land. In Neelachal, we are waiting for the ECs etc. and in Kalinganagar also a lot of work is going on in the background. So, all these are at different stages of readiness. And as we mentioned earlier, we will now go to the Board only after we've got all the requisite approvals. And that's why we've kept the timelines a bit open. The second thing I want to say is, we are also pacing our growth depending on the demand growth in India, the profitability and how to pace it, etc. And we are also looking at adding more and more downstream businesses. And that's why the BlueScope expansion and the combi mill expansion in Jamshedpur and there are a few other proposals that we are looking at. So, it's not just the volume growth, we are also looking at the value growth through investing more and more in downstream. So, it'll be a mix of both. The advantage we have is we can pace ourselves depending on the situation in India because between these three sites alone, as I gave you the numbers and with Jamshedpur, we can go to 45 million tons per annum, right. So, it's more a question of the appetite, the balance sheet, the demand requirements, the profitability of the industry and the priorities that we want to give.

Vikash Singh, ICICI Securities

Sir, my second question pertains to Netherlands. So, we remember that we had this free carbon credits, which are gradually going down. So, just wanted to understand, as we're starting to turn green at a later part and that obviously would take some time. How should we look at our cost structure in terms of the carbon credits reducing?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

So, I think the free allowances will come down; started to come down slowly, and we have mitigants. For example, we are using more scrap charge; currently, we are at about 18% - 19%. Our target is to max out on scrap to ensure that we get to it. I would also like to mention that in Netherlands, our CO₂ emission as of last quarter, which I just got the number of a couple of days back, is at around 1.6. So, that's kind of one of the lowest. We'd gone down to 1.59 this quarter and last quarter we were 1.6. And we're taking a lot of effort in reducing the CO₂ also including usage of scrap as a percentage. And last quarter, we were not able to max out more because of some volume issues. We will go beyond 20%. And once we get to more and more scrap, we will be able to reduce CO₂. So, as the natural reduction happens on free allowances, we want to also undertake internal decarbonisation efforts because there is a clear cost advantage to this. So along with our cost transformation program on other cost areas, I think we will continue to work towards reducing the conversion cost in Netherlands, including CO₂, energy, natural gas and other costs. So, that's the trend and that's the basis on which we think that the expansion on the margins will happen [inaudible]. It's not based on how the prices will come or when the prices come due to the steel plan or the CBAM etc., that will be on top of that.

Operator

The next question is from Ritesh Shah of Investec.

Ritesh Shah, Investec

Hi Sir, thanks for the opportunity. A couple of questions, first on Tata Steel UK. Sir, what is the exposure from a revenue mix that we have from UK to Europe? And how are we looking to de-risk hypothetically if there are delays on the UK Government taking a stance?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

So, that's about 25% volume on the current basis. I was waiting for who will ask that question, but that's the third lever of the negotiations with the government, because in 2021 the EU and the UK had signed an agreement of no quotas and no tariffs between most of the grades except for some galvanized grades where there are specific quotas. But this new regulation that comes in as a steel plan, will require the UK Government to revise that understanding with the EU. So, that's the third leg of the engagement that we have requested the government to do quickly, which they are cognizant of because that's important. And as politically UK talks about the coalition of the willing, I think this is also something that they will be looking to work towards. And that's what our request is.

Ritesh Shah, Investec

That helps. Sir, my second question is on Tata Steel Netherlands. I think we have laid out certain details with respect to EAF initially on natural gas, and subsequently on CCS, and finally with biomethane and/or hydrogen. So, there are multiple permutations over here. We also indicated support of up to €2 billion. Is it possible to give, say, some high level thoughts on what could be the Capex number because we know it is up to €2 billion, but we don't know what the capex number is. So, how are you looking at the cash flow math? You did indicate no major cash flows next two years. But from a ROCE standpoint, from a cash flow standpoint and from a capacity standpoint, how should we look at TSN? And if not for support in phase two, would we still continue with our stance that we will maintain our volumes for Tata Steel Europe? I think that's something that we had guided earlier. So, would we stand to it?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

So, Ritesh, if I may, since you wanted high level, I'll keep it high level. But I think the point when you talked about the different feeds of natural gas, hydrogen and biomethane, it is the switchability which will be built in from natural gas to hydrogen to biomethane depending on the economics and the availability at scale of each of these. Natural gas is not a problem because Netherlands is kind of the hub for natural gas. And that's why we're building on it. Earlier when the EC was looking at these decarbonisation projects, they were very insistent on hydrogen, and if you see, some of our peers had gone ahead of us. The agreements or the conditions that EC had given was purely on hydrogen, which is the reason why many of them have gone slow. So, we actually did not want to go that hydrogen route because it's very uncertain on the availability as well as on the economics. So, we were more focused on natural gas, and we have an optionality to auction for biomethane because after hydrogen that is the one, which is being proposed as the next best fuel. So, on biomethane, we have the optionality for auctioning of this or tendering, and if it comes in at the right economics and availability, then the switchability will be looked at. [inaudible] So, we have those optionalities to be tested out but that is to be tested much later. It's not immediately on commissioning - it will be post-2035, etc. So, I think that is the construct that we have as far as our understanding on the JLoI with the Dutch Government as well as blessed by the EC. So, what we are currently doing is [inaudible] the engineering process is currently on. We have allocated a little bit of money to complete that process. Engineering will be known on capex somewhere around, say, May or June. That's my best estimate at this point of time. Because it's a complex process, it has three elements. It has the element on the health issues, which is the coverages. Then, it has the EAF and then it has the DRP. So, there are three sub-parts to that process within the integrated process. So, I think it will be more fair to talk about this somewhere in six months time, by which case the investment case will also be very clear. And our understanding on the policy changes that we have asked for as a condition to the tailor-made agreement will also be clear, which is our network cost, electricity, the coal ban or usage, etc. So, those policies will also be, once the new government comes in, we will be able to engage more deeply because those are conditions for final FID. And there are some asks from them towards us, which we are working on with the local environmental agencies.

Operator

The next question is from Rajesh Majumdar of B&K Securities.

Rajesh Majumdar, B&K Securities

Thanks for the opportunity. So, I had a question on the cost takeout. You have already talked about Rs. 5,450 crores in the first half. How much of this has come from the Kalinganagar plant efficiencies and how much more can be expected as we ramp up gradually to the full capacities with the value-added segments?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

So actually, this is unrelated to capacity utilisation because this is on the baseline. There is some element at capacity utilisation, but largely, it is run in an integrated manner. For example, we run it as one program on, say, stores, spares and maintenance. So, it is not just one side, but it is across the combination. And this combination is actually the power of this program because when our colleagues run it on, say, stores management across four sites, it's much more efficient than managing it across four individual sites, right from procurement to usage, to usage pattern to storage and even inventory etc. So, it's very difficult to give it site-wise, but it is more specific by theme-wise. For example, stores using leaner coal mix

or energy efficiently. So, those are the kind of themes we run across sites and that's why organisationally we are consolidated to do that.

Rajesh Majumdar, B&K Securities

More specifically, sir, you earlier guided about I think Rs. 2,000 - 2,500 kind of lower costs in Kalinganagar. So, how much of that is achieved and how much of that is likely to be achieved over the next few quarters?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

So, I think we said Rs. 2,500. I don't think we said site-wise, but we said Kalinganagar...

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

I think we said at one time, as we fully ramp up Kalinganagar there will be a benefit because obviously it's a much more productive site.

Koushik Chatterjee: ED & CFO – Tata Steel Limited

It's a volume effect.

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

Correct, that's a volume effect.

Koushik Chatterjee: ED & CFO – Tata Steel Limited

So, that's a per-ton volume effect, which will happen by the end, by the time we exit this year, we should be able to get there and that's our target on the volumes anyways. We had some slowness in the first quarter, but second quarter onwards we have been able to increase our capacity utilisation, and we'll continue to do so in 3Q and 4Q.

Rajesh Majumdar, B&K Securities

Right, sir. And my second question is actually on your ferrochrome unit sell-off. I mean we bought this unit just three years ago and we earlier proposed a 50% expansion along with CPP and we also have the chrome ore mines. But suddenly, you decided to sell this business. So, what is the problem here? I mean if it is a small thing then, it was a small thing even three years ago when you acquired it.

Koushik Chatterjee: ED & CFO – Tata Steel Limited

It is linked to our Sukinda resources. And if you really look at it strategically, if we were to continue Sukinda, one was this whole confusion that happened on the MDPA etc., because Sukinda needed underground mining to sustain itself but the resources, the way we were doing it, was coming to an end. So, if you look at the investments required for underground mining, the ferrochrome market in general globally and the way in which the duty tariff structures etc. works, our call was to exit the mining lease of Sukinda because of the high underground capex. And once we took that decision, it was necessary to rebalance the sources of mining. We have two other mines, more specifically one more mine which is more

useful. We do not want to be just a converter without a mine and that is the basis on which we then took a decision to get out of it. And the buyer is consolidating in that space, so it helps him also.

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

Basically, we wanted to limit our production to what we largely need for in-house consumption rather than be in the market because we were surrendering the Sukinda mine and the changes in the MDPA etc. was not making this business as attractive as it was before. So, it was more a rethink on this portfolio given the current context.

Operator

The next question is from Prateek Singh of DAM Capital.

Prateek Singh, DAM Capital

Hi, thanks for the opportunity. The first question is on UK. So, given all the uncertainty and volatility that we are seeing in UK and Europe, how confident are we of the level of profitability once the EAF comes in? Or to put it differently, what kind of EBITDA do we see is doable, given the current environment, current pricing and current raw material costs? That's the first question.

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

So, if I were to start and then maybe Koushik can add, you know when we did the EAF, the larger point was, we said the cost position of UK will improve by about £150 per ton, okay, because we were taking out a lot of fixed costs, we were using locally available scrap instead of imported iron ore, coal etc. So, which meant that in longer term, with the steel pricing that we've seen in the past, the UK business should be EBITDA positive and should be able to stand on its own because an EAF run operation has much less requirement of support on maintenance and many other things because you don't have the sinter plant, the coke ovens and blast furnace and many other such facilities. So, that hypothesis stands. What we are seeing now is a very abnormal situation, which is coming out of what's happened in the US, what's happened in Europe now, what's happening in China. So, we don't expect these things to stay on forever. On internal cost side, we are on track to what we said we would achieve. But the external aspects, we expect actions to be taken like Europe has already taken to protect the European industry. And as Koushik mentioned, the UK Government is also bleeding because of their investments in the other steel plants in UK. So, we are expecting some resolution to this in the next few months. So, it's a hypothetical situation. If today's situation continues forever, of course, there's a challenge. But we don't expect today's situation in the market to continue forever.

Prateek Singh, DAM Capital

Sure, just as a follow-up to this, so what kind of capacity does UK in particular need? I mean was there ever a discussion that maybe not put as big a capacity as we are planning and maybe scale down a bit, given we don't need that much, given how the environment is right now or we are okay with the capacity that we've announced for UK?

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

Yeah, we are comfortable with the current capacity level. I think the issue which has happened in UK is the quotas have not been changed even though the demand has shrunk over the last few years, unlike EU where the quotas have been

changed and have been tightened further. So, our submission to the UK Government is, they need to keep realigning quotas, import quotas, to what is the domestic consumption. And I think that's what we expect them to be doing. But otherwise, 3 million tons with maybe 10-15% exports is fine. And optimally also, that was the right capacity for us, given the balance of plant and everything else. Yeah, Koushik?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

Yeah, no that's the same point. I think there's nothing wrong with the capacity in the context of the demand. It's the issue of the imports that has come in. Also, the UK Government [inaudible], they were all focusing on infrastructure and that infrastructure, when it actually starts rolling, will require a lot of steel [inaudible]. So, I think there is a policy issue that the government needs to address, which is what is being worked on in terms of growth for the economy itself. But as far as the steel capacity is concerned, I don't think we could have done it anything lower because we have a very tied-in downstream network of our own, which uses the base grade HRC or the quality of HRC for further value addition. So there is nothing wrong there, as Naren mentioned, we have taken out significant cost and we continue to do so. This year also there is continuing momentum on cost. But there has to be an uplift in the metal over margin, so to speak, which is, what is the price at which you are buying the metal and what is the price at which you are selling the metal. So, that metal over margin is an important thing, that has shrunk significantly and that's purely because of the fact that cheaper imports are flooding the market.

Operator

The next question is from Pallav Agarwal of Antique

Pallav Agarwal, Antique

Yeah, sir, firstly, congratulations on the good set of numbers and also on the cost transformation initiatives broadly on track. So, on the Ludhiana EAF, what kind of profitability can we look at compared to the standalone Indian operations? Obviously, it should be lower, but to what extent would it be lower?

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

Yeah, so there are a couple of things happening with Ludhiana. Of course, like you said, the profitability will be lower. Typically, an EAF kind of operation in the Indian context, I would say, is more of Rs 5,000 to 7,000 EBITDA per ton kind of thing. But you should look at it in this context also that you're getting almost a million ton for Rs 3,000 crores or less. So, when you look at it from a different angle, that's the equation that we look at. What we're doing in Ludhiana to supplement the margins that would normally be available, is to see how can we reduce costs because of the fact that you're getting scrap from a 200-300 kms radius and you're selling steel in a 200-300 kms radius, right. So, a lot of the logistics costs that we incur when we make steel in Eastern India and ship it to Ludhiana or elsewhere is what we're trying to save. So, there are a number of initiatives on the route to market, the logistics cost, the supply chain costs etc., so that we maximize the revenue potential in that geography. And of course, pretty much all that is produced there is going to the retail market where our realisations are higher than it is in the project market. So, there are a number of initiatives but what I've described is the starting point. And let's see how we can bridge the gap between a project like this versus the back end, which is more iron ore and coal based. But from a speed of execution, capital intensity etc., there are a lot of advantages in this model. And we do believe that while Tata Steel can continue to grow based on iron ore and coal in Eastern India, and like I described earlier, between the three sites we can go to, or four sites including Neelachal, go to 45

million tons per annum, in North, West and South, we have an opportunity to grow in a bit more capital-light way. You need just 100 acres of land to build a steel plant, you don't need 3,000 acres. You can do it much faster. So, we will refine this model. Ludhiana is the first step. And as Koushik mentioned earlier, we are looking at opportunities to set up similar facilities, maybe even for a richer mix. This is for retail, but tomorrow's plants could be for alloy steels for automotive etc., long products basically, in the West and South.

Pallav Agarwal, *Antique*

Sure, sir. You know, secondly, we used to highlight that probably on the pipe expansion part, I think we were looking to expand from 1 million ton to 4 million tons per annum, so, I've not come across that in the recent presentation. So, where are we on that initiative?

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

Sure. So basically, most of that growth would have come through assets that we would lease. Even today, whether it's in long products or in pipes etc., a lot of our capacity goes to assets that we lease, which means 100% of that capacity is committed to us. So today, I think the pipes business is heading towards 1.5 million tons, which includes the pipe business that we acquired through Bhushan plus all the leased-out capacities. I think I'm not remembering the exact numbers, but maybe 40% to 50% would be our own and the rest would be leased out. So, most of the growth will come through that. We recently invested in a precision tube mill, which has added 100,000 tons of high-quality pipes in Jamshedpur. So, wherever it's high quality, specialized like we have the large-diameter pipes, API pipes, are all available from the Khopoli plant. Wherever it's high end, we will make the investments. Wherever it's regular stuff, where the value is more in our branding and distribution, we will lease out capacity. So, that work is going on. And as our hot rolled coil capacity grows, we will continue to expand the pipe capacity and the ambition is to get to 4 million tons. Maybe you can share more details, Samita, in the next pack or something.

Samita Shah: VP CFTRM – Tata Steel Limited

Sure. And I just wanted to also add that for the EAF blast furnace sort of comparison. The other set of cost differential benefit will obviously be there when there are carbon taxes because EAFs emit significantly lower blast furnace. So, when India introduces carbon pricing and we've seen that over a period of time that will come through, then you will also have that benefit due to the EAF operation.

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

I think typically the difference is \$100 between an EAF route of production and a blast furnace route without factoring the capital cost. I'm just saying the opex kind of thing. And as Samita says, as and when, I mean already there's a carbon cost which is coming in. And as that increases, that's why in Europe etc., once the carbon prices go up, the economic case for EAF becomes stronger.

Operator

The next question is from Ashish Jain of Macquarie. Ashish, please go ahead. Ashish, we are unable to hear you. We request you to please send in your question via chat or rejoin the queue.

We will now move to our next question. The next question is from Amit Murarka of Axis Capital. Amit, please go ahead.

Amit Murarka, Axis Capital

Hi, thank you. On iron ore, I wanted to get some thoughts. How are you kind of thinking about securing iron ore for Indian assets? I think in the last call you did speak about it a bit, but could you also help us understand that, are you looking to get into some tie ups with OMC as well or it will be broadly merchant purchases? How are you thinking about it?

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

Yeah, so I think we, as we said last time, obviously we already have some iron ore. We have maybe about 500-600 million tons of iron ore with us today, which is available beyond 2030 based on our existing mines which we bought through our acquisitions or through auctions. Second point I want to make is, when we bid for the mines it needs to make sense. There is no point bidding a price at which the cost of iron ore is so high that you'd rather buy it from the market. Third is what you're saying is right. It can't be all spot purchases. So, we are already engaging with OMC, NMDC etc., to look at what could be the arrangements that we could have. OMC is of particular importance to us because a lot of our sites and production and growth is happening in Odisha. Fourthly, we are also looking at various other options depending on what is the cost of iron ore in India. We already have a mine in Canada, for instance, which is very high-quality iron ore, very low alumina iron ore. It's 63% plus Fe while alumina of less than 0.5. So today, we sell from there into Europe etc. And there are some challenges which we've dealt with over the years. We are getting a shipment into India to test out that material. Traditionally, India is not an attractive market. But if iron ore costs and prices continue to stay high, then all options are available. Imports is also an option that we look at. But it's not necessary that we need to have 100% captive. I think we will do that if it makes economic sense. Otherwise, we will look at buying in the market, even coking coal, at one time Tata Steel had 100% captive, today we're at 20% captive while 80% is what we buy from the market. So, we will exercise that option. The other part is, our ambition and our actions on going more and more downstream is to also help push us on the revenue side so that the revenue per ton keeps going up as we progress towards 2030, so that the cost per ton is less impacted by any increase in iron ore price, or rather the margin is less impacted. Let me not put it as cost per ton, yeah.

Amit Murarka, Axis Capital

Also, like is there any ballpark cost number that we can think of for your current captive iron ore mining, or if you have done any calculations around it, what will be your cost of captive iron ore mining?

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

I'm not sure we are sharing that. Are we doing that, Samita? No, yeah, because we have a full range from expensive to cheap ones. So, we also decide on what to produce where. I don't think we are sharing that publicly. Yeah, Samita?

Samita Shah: VP CFTRM – Tata Steel Limited

That's right. We don't actually comment on any specifics or any product or raw material details, but obviously it's significantly lower than market price.

Operator

The next question is from Ashish Kejriwal of Nuvama.

Ashish Kejriwal, Nuvama

My question is on domestic demand environment because, see, after so many months or years we are seeing that our prices are much cheaper than the landed cost of imports despite the fact that safeguard duty is implemented. So actually, and when we see overall demand environment or demand, you can say volumes from JPC, it seems to be on a higher side but actually price is not getting that reflection. So, my question is, are we seeing excess supply scenario or lower demand which is affecting our prices? And in light of that, when we have guided Rs 1,500 per ton price decline in 3Q, are we factoring in December no price increase? That's my first question.

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

Yeah, so see, it's not that demand is not there, demand is quite strong and India is the only major country which is showing double-digit growth in steel consumption. And I think, given the focus on infrastructure building in India, I do expect the demand growth to be more than the GDP growth rate, which is what happens in most developing countries including in China when they were growing. So, if the economy is going to grow at 6.5-7%, steel consumption growing at 10% is to me par for the course. So, demand is not the issue. Obviously, supply side, as you know, when we add capacity we add in big chunks, right. So, we've added 5 million tons, JSW has added something, JSPL has added something. So, you will go through years when a lot of new capacity is coming on stream at the same time. But I do believe in the medium to long-term, it is not going to be easy to build lots of capacity very quickly in India, given the regulatory environment, the approvals that we need to take, the time which takes in India to build a steel plant, etc. So, I expect there to be a better balance going forward and which should get reflected in the prices. The more specific question you had, yeah, this is factoring in November and December. We've not factored in major price increase in December. We are saying that we operate close to November levels. If there's an increase, there's a potential upside to what I just guided. So for now, we've been a bit conservative on this.

Ashish Kejriwal, Nuvama

Sure. So effectively, you are saying in October and November also we have not seen any price increase and in our assumption, we are not taking any price increase in December also?

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

As a seller of steel, we will always try to increase prices, but it's the market which decides whether they're willing to accept those prices. So, we will always try to push, and let's see where we end up.

Ashish Kejriwal, Nuvama

Okay. Understood. Secondly, see, we have acquired 50% stake in BlueScope and at Enterprise value of something like Rs 22 billion for the company, which is having net profit of Rs 62 crores and Rs 30 crores in last two years. So rationale-wise, I understand that we are going into downstream but the amount which we are paying is seems to be much higher if I look at on the profitability basis. So, how can we explain that?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

Yeah. So, first of all, I think this JV has been making about 19% ROE since inception. Second is, it is a combination of two parts. One part is that we have, this JV company had its own color coating, metal coating facilities. And then, post Bhushan, as per the JV agreement, we had to ensure that the same facilities that were there in Bhushan, in Khopoli etc., were also used by the JV, the substrate of which was passed on by Tata Steel. And that is the arrangement that we had with the JV and the JV partners, which is ourselves as well as BlueScope. And in some ways, there is a split in the profitability because of the transfer pricing etc. So, you do not see the system profitability of this business. You just see, for that part of the business, only the downstream profitability, excluding the transfer price and the markups and so on. So, I think it is important and we were hindered in this segment because we were the first to come in 2005, to grow this business significantly, which is I think in our domain and the leverages and the synergies and network of Tata Steel and enriching the product mix, also fungibility of the product mix between market segments and so on. And that is the basis on which we actually wanted to consolidate. And BlueScope also, in their strategic understanding wanted to therefore exit the business. So, if you look at it from an underlying EBITDA perspective, it is 7x, which from a value-added downstream perspective is what the numbers will effectively look at, excluding the Khopoli and the ones which are leased because that brings down the performance of the Company. So, that is the basis which when post the acquisition you will see it more on a system basis. And we will certainly explain the same to you. And you can see the numbers at that point of time.

Operator

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

Samita Shah: VP CFTRM – Tata Steel Limited

Thank you Kinshuk. So, we've answered I think a lot of the chat questions in the discussion so far, but I think there are a few which maybe we can touch upon. So, firstly, I think there is some question on Thailand, despite being an EAF operation, it is highly profitable. And can we expect that kind of profitability, either in India or UK? So, maybe you just want to give people a sense of Thailand duty structure etc.

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

Yeah. So, there are two or three things when you look at EAF profitability. About 70% of the cost is scrap, so the price at which scrap is available etc., has a big impact and about 15% of the cost is energy. So, these are the two factors which drive EAF profitability, apart from operating performance etc.

In Thailand, what you're seeing is an upsurge because, if you recall, there was an earthquake in Thailand, I think it was around April, there was this viral video which went around of a tall building which collapsed. And you know the conclusion at that time was that a lot of this is happening because of the poor quality of steel, which is used, and the quality standards need to be looked at once again. And because if you use poor quality construction steel, you run the risk of this kind of a thing happening, particularly if there's an earthquake. So, as a consequence, a lot of local production which seemingly were not meeting quality standards had to be closed. And Tata Steel Thailand is seen as one of the best quality producers of steel in Thailand, has a good name, we have the Tata Tiscon brand operating in Thailand as well and they got the benefit of that. That's why you see much better performance than we've seen in the last few years. But having said that, they are still settling. Traditionally, it's been a profitable business. It's never required any support from India. It's always been cash positive; EBITDA positive. So, it continues to be that way. And as quality considerations become more and more important, we think that's positive for Tata Steel Thailand.

Now, whether that kind of profitability, again, like I said, we are in a much better place on the cost curve in Europe post EAF than we were in the past because of the fact that you're not using imported ore and coal, you reduced your fixed cost by about £400 million and you're using locally available scrap, right. So, certainly, we'll be in a much better cost position than we were before in UK.

And similarly, in Ludhiana, compared to the iron ore-based production in Jamshedpur, you'll be at a higher cost position. But we look at how do we make this model work, taking out costs beyond the production costs, like logistics costs, route-to-market costs and so on and so forth. As Samita said, as and when carbon prices come up, because the CO₂ footprint of the Ludhiana plant is going to be 0.2 - 0.3 tons of CO₂ per ton of steel compared to Jamshedpur, which is the best in India at 2.1 - 2.2 tons of CO₂ per ton of steel and Netherlands which is one of the best in the world at 1.6 tons of CO₂ per ton of steel, as Koushik said earlier. So, Ludhiana is going to be at 0.2 tons of CO₂ per ton of steel, because it will use green energy. So, when you start looking at paying a premium for low carbon steels, that's when some of these businesses will make even more sense than it does today.

Samita Shah: VP CFTRM – Tata Steel Limited

Thank you. The next question, there are few questions on cost transformation, so I'll just combine them for you, Koushik. First, are we on track, and what is the kind of number we're expecting for 3QFY26? And then, there's a question, because of the delay in employee-related discussions in Netherlands, are you reducing your target for the year?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

So, that looks like an exam question, but I think it is important to mention that our target is the same. I mentioned when we started this that it is an 18-months program. Obviously, the work that can be done is being pursued across the geographies, across teams and across functions. I think we will continue to maintain the secular basis on which we are - we've gone through the first two quarters.

The compliance in Netherlands is lower, as I mentioned, because of the employee restructuring going slower than what we had planned. But that is a timing effect and I'm very hopeful and all of us are working with the CWC to ensure that we get to it. But the point is less about QoQ performance, it is more about getting structurally fit. It is about getting the competitiveness in place, so that we become all-weather. I also want to say that the target will also keep changing once we achieve it, there will be more where we want to build a pipeline of it, and we continue this as a journey.

Tata Steel India has always done that for about 20 - 25 years. But this time around, we have taken more structural view because we have become multi-site and our capacity has increased significantly. That's why this is an important journey in the competitiveness of Tata Steel. We have expanded to all our global sites also, most critically UK and Netherlands.

So, we are going to continue this journey. I think it is not to be just taken as a quarterly target. It is more about ensuring that structurally we are in a better place.

Samita Shah: VP CFTRM – Tata Steel Limited

Yeah, thank you. There are a few questions on TSN decarbonization, which again I'm just going to combine. Essentially, the question is that given the political changes in Netherlands, do we expect the government to follow through this commitment, which they've done, is 2030 a sacrosanct deadline? So, there are some questions around the timing and maybe the probability of the government actually going through their push for decarbonisation.

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

I think, if I look at the way we have built up our conversation with the government and across the political spectrum, it has been largely bipartisan in terms of, across parties because it was a parliament mandated process to get through to the JLoI. Subsequently, when we were signing the JLoI, it had to go back to the Parliament for placement and noting.

So, with the political parties being the same, it is certainly the assumption that we are working in, that the government will continue to work on it because it's of national importance and it is something of a commitment. We do have a journey in terms of final negotiations on the binding tailor-made agreement. But I don't think any of us have a doubt that the government will not stand behind what they have signed, the new government.

We have to give the time for the new government to form. The election got just over. Unlike in India, it takes a little bit of time, and we must give that and then we will sit down with them on the tailor-made agreement. In the meanwhile, both sides are anyway working at the background on the conditions that needs to be fulfilled. In terms of preparing for the new government when it comes that we will have a very clear understanding of what needs to be done before we sign the tailor-made agreement. That's where it stands.

This is also where the timing of the project and the feasibility and practicality of doing it within certain years will also be considered, and due action taken. Because we have to take the practicality of changes in policy, in the permitting process, the construction, the site work required and so on so forth. So, we will have a conversation around that subject also. And I think the political world in Netherlands is fully aware of that.

Samita Shah: VP CFTRM – Tata Steel Limited

Thank you. I think there are multiple questions on capacities of each of our downstream products or capacities. But I would just like to remind people that we don't really give guidance on individual product capacities. Naren mentioned a broad guidance and our overall growth path, so we will not take that up. Then, there is one broad question, Koushik, which you might like to address on our leverage targets and how we are sort of balancing that or what is our approach towards leverage.

Koushik Chatterjee: ED & CFO – Tata Steel Limited

I was wondering when that question will come up. I think we are managing our balance sheet pretty well under the circumstances in the context of our operating cash flows, with all geographies being focused on working capital and profitability. This quarter we had a significant amount of cash outflow on our dividend, which is an obligation that we are clearly focused to fulfil as part of servicing investors.

It is important to mention that our Net Debt to EBITDA is at about 3, even with the kind of spend that we have. As I've already said that in the past, that between 2.75 and 3 is where we would like to maintain ourselves on a more sustained basis. At times, when there are significant market challenges or volatility in prices, which impacts the working capital, because steel, coal and iron ore prices do change significantly, especially on the seaborne market, that's the time when we do get beyond that matrix. But largely, 2.75 to 3 is what we would like to maintain. In a mid-cycle period like this or a low mid-cycle period like this. In an up-cycle we are on a different platform. So, we would keep the matrix like that.

Any opportunity to deleverage, we'll continue to deleverage. But we also look at where best to apply that capital apart from leverage, in short-term payback period projects or acquisitions like the BlueScope that we've done because that actually effectively will help in consolidating the margin and the footprint and helping our product mix to grow. So, these are decisions that we do take, and then look at what the leverage allows us to do.

When we look at NINL we will certainly look at the phasing spend and how quickly we get the cash-to-cash cycle up and that's why Naren mentioned that we want to go at a time when we are ready, site ready to start work so that we can compress the period as much as we can. So, leverage is an important part in the entire not only of our financial strategy but also in the business strategy and how we run the business.

Samita Shah: *VP CFTRM – Tata Steel Limited*

Thank you. With that, I think we've answered all the questions. So, thank you to everyone who's dialled in. And look forward to connecting with you again next quarter.

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

Thank you.

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

Thank you.