



# Tata Steel

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 18,074 | TATA IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,416     | TISC.BO      |

12 August 2010

Neutral

Previous Recommendation: Neutral

Rs520

|                       |          |
|-----------------------|----------|
| Equity Shares (m)     | 887.4    |
| 52-Week Range (Rs)    | 737/409  |
| 1,6,12 Rel. Perf. (%) | 4/-15/-3 |
| M.Cap. (Rs b)         | 461.5    |
| M.Cap. (US\$b)        | 9.9      |

| YEAR  | NET SALES | PAT    | EPS   | EPS     | P/E   | P/BV | ROE  | ROCE | EV/   | EV/    |
|-------|-----------|--------|-------|---------|-------|------|------|------|-------|--------|
| END   | (RS M)    | (RS M) | (RS)  | GR. (%) | (X)   | (X)  | (%)  | (%)  | SALES | EBITDA |
| 3/09A | 1,473,293 | 90,454 | 101.9 | 16.9    | 5.1   | 3.9  | 76.7 | 15.3 | 0.7   | 5.3    |
| 3/10A | 1,023,931 | -8,255 | -9.3  | -n/a-   | -55.9 | 5.4  | -9.7 | 4.5  | 0.9   | 11.5   |
| 3/11E | 1,134,069 | 57,131 | 64.4  | -n/a-   | 8.1   | 2.8  | 34.2 | 10.4 | 0.8   | 6.9    |
| 3/12E | 1,139,472 | 57,067 | 64.3  | -0.1    | 8.1   | 2.2  | 26.7 | 9.3  | 0.8   | 6.8    |

Consolidated

- Tata Steel's adjusted consolidated PAT for 1QFY11 declined 18% QoQ to Rs18.8b (v/s our estimate of Rs27.5b) on lower than expected performance at European operation.
- Tata Steel India's adjusted PAT declined just 6% QoQ to Rs15.8b (v/s our estimate of Rs11.8b) despite 18% QoQ fall in steel volumes. Growth in realizations was much higher than our expectation. Realizations increased 12% QoQ to Rs31,161/ton for long products and 13% QoQ to Rs37,291/ton for flat products. Blended realization increased 8% QoQ to Rs42,871/ton. Indian operations did much better than we had expected.
- EBITDA declined 2% QoQ (increased 67% YoY) to Rs29.2b. EBITDA increased 17% QoQ to Rs19,537/ton (US\$425/ton). Margins expansion was much higher than we had estimated due to stronger realizations and slower increase in raw material and staff costs.
- Corus reported EBITDA of US\$293m for 1QFY11. EBITDA per ton declined 15% QoQ to US\$79. Realizations at Corus improved 5% QoQ to US\$1,028/ton but were much lower than we had expected.
- In our FY11 estimates, we have factored in EBITDA of US\$2.3b for Indian operations and US\$757m for subsidiaries (including Corus). We believe that Corus will face headwinds till the time significant raw material integration is not achieved. The stock is trading at an EV of 6.8x FY12E EBITDA. We maintain **Neutral**.

| Y/E MARCH                      | FY10           |                |                |                | FY11           |                |                |                | (RS MILLION)     |                  |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
|                                | 1Q             | 2Q             | 3Q             | 4Q             | 1Q             | 2QE            | 3QE            | 4QE            | FY10             | FY11E            |
| Sales ('000 tons)              | 1,418          | 1,457          | 1,596          | 1,698          | 1,399          | 1,530          | 1,676          | 1,782          | 6,169            | 6,387            |
| Change (YoY %)                 | 22.3           | 19.4           | 49.0           | -5.2           | -1.3           | 5.0            | 5.0            | 5.0            | 17.7             | 3.5              |
| Avg Realization (Rs/tss)       | 36,717         | 35,652         | 36,534         | 39,649         | 42,871         | 38,853         | 39,853         | 40,853         | 37,225           | 40,553           |
| <b>Net Sales</b>               | <b>56,156</b>  | <b>56,921</b>  | <b>63,749</b>  | <b>73,394</b>  | <b>65,515</b>  | <b>64,535</b>  | <b>72,295</b>  | <b>78,986</b>  | <b>250,220</b>   | <b>281,331</b>   |
| Change (YoY %)                 | -8.9           | -16.9          | 32.8           | 12.9           | 16.7           | 13.4           | 13.4           | 7.6            | 2.9              | 12.4             |
| <b>EBITDA</b>                  | <b>17,422</b>  | <b>19,222</b>  | <b>23,106</b>  | <b>29,770</b>  | <b>29,165</b>  | <b>21,478</b>  | <b>24,509</b>  | <b>29,536</b>  | <b>89,521</b>    | <b>104,688</b>   |
| Change (YoY %)                 | -42.4          | -39.6          | 56.3           | 105.3          | 67.4           | 11.7           | 6.1            | -0.8           | -2.0             | 16.9             |
| (% of Net Sales)               | 31.0           | 33.8           | 36.2           | 40.6           | 44.5           | 33.3           | 33.9           | 37.4           | 35.8             | 37.2             |
| <b>EBITDA(Rs/tss)</b>          | <b>12,135</b>  | <b>12,664</b>  | <b>13,725</b>  | <b>16,688</b>  | <b>19,537</b>  | <b>13,394</b>  | <b>13,922</b>  | <b>15,891</b>  | <b>13,993</b>    | <b>15,622</b>    |
| Interest                       | 3,422          | 3,920          | 4,157          | 3,585          | 3,277          | 3,443          | 3,374          | 3,307          | 15,084           | 13,401           |
| Depreciation                   | 2,532          | 2,564          | 2,622          | 3,115          | 2,802          | 3,304          | 3,403          | 3,506          | 10,832           | 13,015           |
| Other Income                   | 463            | 761            | 936            | 1,378          | 484            | 837            | 1,029          | 1,516          | 3,538            | 3,866            |
| <b>PBT (after EO Inc.)</b>     | <b>11,932</b>  | <b>13,499</b>  | <b>17,426</b>  | <b>29,286</b>  | <b>23,570</b>  | <b>15,567</b>  | <b>18,761</b>  | <b>24,240</b>  | <b>72,143</b>    | <b>82,137</b>    |
| Total Tax                      | 4,034          | 4,470          | 5,508          | 7,663          | 7,776          | 4,073          | 4,909          | 6,343          | 21,675           | 23,101           |
| <b>Reported PAT</b>            | <b>7,898</b>   | <b>9,029</b>   | <b>11,918</b>  | <b>21,623</b>  | <b>15,794</b>  | <b>11,494</b>  | <b>13,852</b>  | <b>17,897</b>  | <b>50,468</b>    | <b>59,036</b>    |
| <b>Adjusted PAT</b>            | <b>7,898</b>   | <b>9,029</b>   | <b>11,755</b>  | <b>16,786</b>  | <b>15,794</b>  | <b>11,494</b>  | <b>13,852</b>  | <b>17,897</b>  | <b>45,468</b>    | <b>59,036</b>    |
| Change (YoY %)                 | -55.9          | -57.7          | 98.2           | 145.5          | 100.0          | 27.3           | 17.8           | 6.6            | -12.6            | 29.8             |
| <b>Consolidated Financials</b> | <b>1Q</b>      | <b>2Q</b>      | <b>3Q</b>      | <b>4Q</b>      | <b>1Q</b>      | <b>2Q</b>      | <b>3Q</b>      | <b>4Q</b>      |                  |                  |
| <b>Net Sales</b>               | <b>232,923</b> | <b>253,950</b> | <b>262,020</b> | <b>275,038</b> | <b>271,948</b> | <b>273,033</b> | <b>283,292</b> | <b>305,795</b> | <b>1,023,931</b> | <b>1,134,069</b> |
| <b>EBITDA</b>                  | <b>-299</b>    | <b>3,718</b>   | <b>31,043</b>  | <b>45,964</b>  | <b>44,326</b>  | <b>25,712</b>  | <b>29,673</b>  | <b>39,807</b>  | <b>80,427</b>    | <b>139,518</b>   |
| <b>Reported PAT</b>            | <b>-22,385</b> | <b>-27,198</b> | <b>4,323</b>   | <b>24,052</b>  | <b>17,902</b>  | <b>6,573</b>   | <b>11,425</b>  | <b>19,232</b>  | <b>-21,208</b>   | <b>55,132</b>    |
| <b>Adjusted PAT</b>            | <b>-19,899</b> | <b>-17,959</b> | <b>6,521</b>   | <b>23,083</b>  | <b>18,851</b>  | <b>6,946</b>   | <b>11,778</b>  | <b>19,555</b>  | <b>-8,255</b>    | <b>57,131</b>    |

E: MOSL Estimates; tss=ton of steel sales

**Performance of Indian operations better than expected; Corus disappoints**

- Tata Steel's adjusted consolidated PAT for 1QFY11 declined 18% QoQ to Rs18.8b (v/s our estimate of Rs27.5b) on lower than expected performance of European operations, though Indian operations did much better than we had anticipated.
- Total group deliveries declined 7% QoQ to 6.05mt. Blended realization for the group, however, increased 6% QoQ to Rs44,950/ton.
- Consolidated EBITDA of Rs44.3b was below our expectation of Rs50b due to lower than expected performance of Tata Steel Europe. EBITDA improved 4% QoQ to Rs7,327/ton for the group.

**Tata Steel India: realizations higher than expected; increase in costs slower**

- Net sales declined 11% QoQ to Rs65.5b due to 18% lower volumes at 1.4m tons and 8% higher realization.
- Realizations increased 12% QoQ to Rs31,161/ton for long products and 13% QoQ to Rs37,291/ton for flat products. Revenues from other products declined 20% QoQ to Rs12b. Increase in blended realization was slower at 8% to Rs42,871/ton. Growth in realizations was much higher than our expectations; softening spot market prices in May and June appear to have had little effect on quarterly realizations.
- EBITDA grew 67% YoY (declined 2% QoQ) to Rs29.2b. EBITDA increased 17% QoQ to Rs19,537/ton (US\$425/ton). Margin expansion was much higher than we had expected due to stronger realizations and slower increase in raw material and staff costs.
- Adjusted PAT doubled YoY (declined 6% QoQ) to Rs15.8b, v/s our estimate of Rs11.8b.

**Tata Steel Europe: price increase lower than expected**

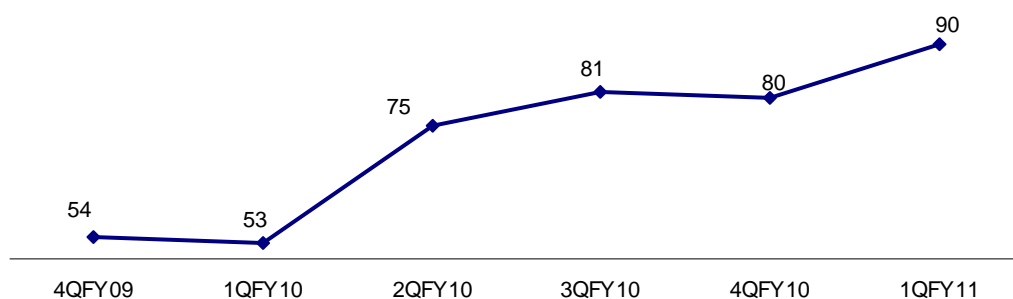
- Deliveries declined 5% QoQ to 3.71m tons due to the weakening demand triggered by the European financial crisis.
- Production remained flat QoQ (+32% YoY) at 3.74m tons. A fire at Imjudeen plant disrupted the production of strip products. Production of strip products declined 10% QoQ to 1.6m tons.
- Realization improved 5% QoQ to US\$1,028/ton, much lower than our expectation.
- Corus reported EBITDA of US\$293m for 1QFY11, down 18% QoQ. EBITDA per ton declined 15% QoQ to US\$79.

**Analyst Meet highlights: robust growth in domestic consumption, Europe recovery slower**

- Indian steel demand is likely to grow at 10-12% over the next two years, led by buoyancy in end-user segments such as automobiles, construction and infrastructure.
- European steel consumption growth has been robust in 1QFY11. However, since 2Q is a seasonally weak quarter, growth is likely to soften. Steel demand from the high-end automobiles segment is encouraging. Demand from construction segment remains subdued. 2HFY11 earnings outlook for Corus remains uncertain due to increasing raw material prices.
- Imports into the EU region remain relatively low and import share in total consumption has fallen because of currency depreciation.
- Post restructuring at Corus, staff strength has fallen to 35,000 from 42,000 in FY10; however, the benefits in terms of fixed cost reduction will be seen over 12-18 months.

- Gross debt has increased by US\$0.4b to US\$11.8b in 1QFY11. This is primarily on account of working capital financing. Net debt at group level also increased proportionately to US\$9.8b.
- Tata Steel has raised Rs10.7b (US\$230m) through a preferential allotment of shares and warrants to Tata Sons Ltd. in July 2010. Tata Steel had allotted 15m preference shares and 12m warrants to Tata Sons Ltd. at a price of Rs594 per share.
- Ongoing 2.9mtpa expansion at Jamshedpur is expected to get commissioned on schedule (December 2011).

## CORUS CAPACITY UTILIZATION IMPROVED OVER LAST FEW QUARTERS



Source: Company/MOSL

## Valuation and view

- Tata Steel India has performed better than we had expected in 1QFY11 due to higher steel prices. Growth in realizations was much higher than our expectations; softening spot market prices in May and June appear to have had little effect on quarterly realizations. 2QFY11 average realization is likely to fall by ~US\$100/ton. However, domestic steel prices have stabilized over the last few days and we do not expect them to fall further.
- The outlook for Corus' 2HFY11 earnings remains uncertain due to volatility in steel prices and rising raw material prices. We believe that Corus will face headwinds till the time significant raw material integration occurs.
- In our FY11 estimates, we have factored in EBITDA of US\$2.3b for Indian operations and US\$757m for subsidiaries (including Corus). The stock is trading at EV/EBITDA of 6.8x FY12E. Maintain **Neutral**.

## QUARTERLY PERFORMANCE (CORUS)

(RS MILLION)

| Y/E MARCH                | 1QFY10         | 2QFY10         | 3QFY10         | 4QFY10         | 1QFY11         | FY09             | FY10           | FY11E          |
|--------------------------|----------------|----------------|----------------|----------------|----------------|------------------|----------------|----------------|
| Production (m tons)      | 2.8            | 4.0            | 4.2            | 3.7            | 3.7            | 16.2             | 14.7           | 14.5           |
| Change (YoY %)           | -46.2          | -17.5          | 27.2           | 28.0           | 33.6           | -20.2            | -9.5           | -1.5           |
| Sales (m tons)           | 3.3            | 3.9            | 3.8            | 3.9            | 3.7            | 19.7             | 14.9           | 14.5           |
| Change (YoY %)           | -47.6          | -31.2          | -12.6          | 14.7           | 12.4           | -                | -24.5          | -2.9           |
| Realization (Rs per ton) | 46,145         | 42,776         | 44,573         | 43,992         | 47,739         | 55,619           | 44,296         | 46,271         |
| Change (QoQ %)           | -12.2          | -7.3           | 4.2            | -1.3           | 8.5            | -                | -20.4          | 4.5            |
| <b>Net Sales</b>         | <b>152,280</b> | <b>167,680</b> | <b>167,550</b> | <b>171,567</b> | <b>177,110</b> | <b>1,095,689</b> | <b>659,077</b> | <b>668,622</b> |
| Change (QoQ %)           | -14.7          | 10.1           | -0.1           | 2.4            | 3.2            | 9.3              | -39.8          | 1.4            |
| <b>EBITDA</b>            | <b>-18,530</b> | <b>-18,020</b> | <b>6,606</b>   | <b>16,503</b>  | <b>13,630</b>  | <b>89,073</b>    | <b>-13,441</b> | <b>34,602</b>  |
| As % of Net Sales        | -12.2          | -10.7          | 3.9            | 9.6            | 7.7            | 8.1              | -2.0           | 5.2            |
| EBITDA(Rs/tss)           | -5,615         | -4,597         | 1,757          | 4,232          | 3,674          | 4,521            | -903           | 2,395          |
| INR/USD                  | 48.8           | 48.4           | 46.7           | 45.1           | 46.4           | 46.0             | 47.4           | 46.0           |
| EBITDA (USD/ton)         | -115           | -95            | 38             | 94             | 79             | 98               | -19            | 52             |

E: MOSL Estimates

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                   | FY10           |                |                |                | FY11           |                |                |                | FY10             | FY11E            |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
|                             | 1Q             | 2Q             | 3Q             | 4Q             | 1Q             | 2QE            | 3QE            | 4QE            |                  |                  |
| Sales (m tons)              | 5.4            | 6.2            | 6.2            | 6.5            | 6.1            | 6.2            | 6.3            | 6.7            | 24.4             | 23.6             |
| Change (YoY %)              | -36.6          | -22.2          | 3.2            | 9.6            | 11.2           | -0.8           | 1.1            | 2.8            | -1.3             | -3.0             |
| Realization (Rs per ton)    | 42,793         | 40,815         | 42,180         | 42,313         | 44,950         | 44,217         | 45,090         | 45,744         | 42,004           | 47,978           |
| Change (YoY %)              | -15.5          | -26.1          | -23.5          | -5.0           | 5.0            | 8.3            | 6.9            | 8.1            | -29.6            | 14.2             |
| <b>Net Sales</b>            | <b>232,923</b> | <b>253,950</b> | <b>262,020</b> | <b>275,038</b> | <b>271,948</b> | <b>273,033</b> | <b>283,292</b> | <b>305,795</b> | <b>1,023,931</b> | <b>1,134,069</b> |
| Change (YoY %)              | -46.5          | -42.5          | -21.1          | 4.1            | 16.8           | 7.5            | 8.1            | 11.2           | -30.5            | 10.8             |
| <b>EBITDA</b>               | <b>-299</b>    | <b>3,718</b>   | <b>31,043</b>  | <b>45,964</b>  | <b>44,326</b>  | <b>25,712</b>  | <b>29,673</b>  | <b>39,807</b>  | <b>80,427</b>    | <b>139,518</b>   |
| Change (YoY %)              | -100.4         | -95.5          | 8.6            | 11,826         | -              | 591.6          | -4.4           | -13            | -2.0             | 16.9             |
| (% of Net Sales)            | -0.1           | 1.5            | 11.8           | 16.7           | 16.3           | 9.4            | 10.5           | 13.0           | 7.9              | 12.3             |
| EBITDA(Rs/tss)              | -55            | 598            | 4,997          | 7,071          | 7,327          | 4,164          | 4,723          | 5,955          | 3,299            | 5,902            |
| Interest                    | 8,819          | 7,172          | 7,630          | 6,600          | 5,976          | 5,962          | 5,777          | 5,594          | 30,221           | 23,308           |
| Depreciation                | 10,890         | 11,535         | 11,547         | 10,946         | 10,439         | 10,601         | 10,632         | 10,666         | 44,917           | 42,339           |
| Other Income                | 2,039          | 179            | 2,399          | 2,241          | 595            | 267            | 2,463          | 2,361          | 6,859            | 5,687            |
| <b>PBT (before EO Inc.)</b> | <b>-17,968</b> | <b>-14,810</b> | <b>14,265</b>  | <b>30,660</b>  | <b>28,505</b>  | <b>9,416</b>   | <b>15,727</b>  | <b>25,909</b>  | <b>12,147</b>    | <b>79,558</b>    |
| EO Income(exp)              | -2,188         | -9,113         | -1,794         | 1,258          | -599           | -              | -              | -              | -11,837          | -599             |
| <b>PBT (after EO Inc.)</b>  | <b>-20,156</b> | <b>-23,923</b> | <b>12,471</b>  | <b>31,918</b>  | <b>27,907</b>  | <b>9,416</b>   | <b>15,727</b>  | <b>25,909</b>  | <b>310</b>       | <b>78,959</b>    |
| Total Tax                   | 2,229          | 3,275          | 8,148          | 7,866          | 10,005         | 2,843          | 4,302          | 6,677          | 21,518           | 23,827           |
| % Tax                       | -12.4          | -22.1          | 57.1           | 25.7           | 35.1           | 30.2           | 27.4           | 25.8           | 177.1            | 29.9             |
| <b>Reported PAT</b>         | <b>-22,385</b> | <b>-27,198</b> | <b>4,323</b>   | <b>24,052</b>  | <b>17,902</b>  | <b>6,573</b>   | <b>11,425</b>  | <b>19,232</b>  | <b>-21,208</b>   | <b>55,132</b>    |
| Minority Interests          | -212           | 174            | 148            | 43             | 65             | -44            | -22            | 12             | 152              | 11               |
| Share of asso. PAT          | 86             | 300            | 551            | 331            | 416            | 328            | 332            | 335            | 1,269            | 1,410            |
| <b>Adjusted PAT</b>         | <b>-19,899</b> | <b>-17,959</b> | <b>6,521</b>   | <b>23,083</b>  | <b>18,851</b>  | <b>6,946</b>   | <b>11,778</b>  | <b>19,555</b>  | <b>-8,255</b>    | <b>57,131</b>    |
| Change (YoY %)              | -146.7         | -134.9         | -33.3          | -274.1         | -              | -138.7         | 80.6           | -15.3          | -109.1           | -792.1           |

tss=ton of steel sales

## QUARTERLY PERFORMANCE (SUBSIDIARIES)

(RS MILLION)

| Y/E MARCH                  | FY10           |                |                |                | FY11           |                |                |                | FY10           | FY11E          |
|----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                            | 1Q             | 2Q             | 3Q             | 4Q             | 1Q             | 2QE            | 3QE            | 4QE            |                |                |
| Sales (m tons)             | 4.0            | 4.8            | 4.6            | 4.8            | 4.7            | 4.6            | 4.6            | 4.9            | 18.2           | 18.8           |
| Change (YoY %)             | -45.8          | -29.7          | -6.7           | 16.0           | 15.5           | -2.5           | -0.2           | 2.1            | -21.8          | 3.3            |
| Realization (Rs per ton)   | 43,916         | 41,347         | 42,958         | 41,987         | 44,385         | 44,884         | 45,804         | 46,264         | 42,492         | 45,346         |
| Change (QoQ %)             | -8.7           | -5.8           | 3.9            | -2.3           | 5.7            | 1.1            | 2.0            | 1.0            | -19.5          | 6.7            |
| <b>Net Sales</b>           | <b>176,768</b> | <b>197,029</b> | <b>198,271</b> | <b>201,643</b> | <b>206,433</b> | <b>208,498</b> | <b>210,997</b> | <b>226,809</b> | <b>773,711</b> | <b>852,738</b> |
| Change YoY (%)             | -52.7          | -47.2          | -30.2          | 1.3            | 16.8           | 5.8            | 6.4            | 12.5           | -37.1          | 10.2           |
| <b>EBITDA</b>              | <b>-17,721</b> | <b>-15,504</b> | <b>7,937</b>   | <b>16,194</b>  | <b>15,161</b>  | <b>4,234</b>   | <b>5,164</b>   | <b>10,272</b>  | <b>-9,094</b>  | <b>34,831</b>  |
| Change (YoY %)             | -144.7         | -130.6         | -42.5          | -214.7         | -185.6         | -127.3         | -34.9          | -36.6          | -110.1         | -483.0         |
| As % of Net Sales          | -10.0          | -7.9           | 4.0            | 8.0            | 7.3            | 2.0            | 2.4            | 4.5            | -1.2           | 4.1            |
| EBITDA (USD/ton)           | -90            | -67            | 37             | 75             | 70             | 20             | 24             | 46             | -11            | 40             |
| Interest                   | 5,397          | 3,252          | 3,473          | 3,014          | 2,699          | 2,519          | 2,403          | 2,287          | 15,137         | 9,907          |
| Depreciation               | 8,358          | 8,972          | 8,925          | 7,831          | 7,637          | 7,297          | 7,229          | 7,161          | 34,086         | 29,324         |
| Other Income               | 1,576          | -581           | 1,464          | 863            | 110            | -569           | 1,434          | 845            | 3,321          | 1,821          |
| <b>PBT (after EO Inc.)</b> | <b>-32,088</b> | <b>-37,422</b> | <b>-4,955</b>  | <b>2,632</b>   | <b>4,337</b>   | <b>-6,151</b>  | <b>-3,033</b>  | <b>1,669</b>   | <b>-71,833</b> | <b>-3,178</b>  |
| Total Tax                  | -1,805         | -1,195         | 2,640          | 203            | 2,229          | -1,230         | -607           | 334            | -157           | 726            |
| % Tax                      | 5.6            | 3.2            | -53.3          | 7.7            | 51.4           | 20.0           | 20.0           | 20.0           | 0.2            | -22.8          |
| <b>Reported PAT</b>        | <b>-30,284</b> | <b>-36,227</b> | <b>-7,595</b>  | <b>2,429</b>   | <b>2,108</b>   | <b>-4,921</b>  | <b>-2,426</b>  | <b>1,336</b>   | <b>-71,848</b> | <b>-3,904</b>  |
| Share of asso. PAT         | 86             | 300            | 551            | 331            | 416            | 328            | 332            | 335            |                | 1,410          |
| Minority Interests         | -212           | 174            | 148            | 43             | 65             | -44            | -22            | 12             | 152            | 11             |
| <b>Adjusted PAT</b>        | <b>-28,096</b> | <b>-27,114</b> | <b>-5,638</b>  | <b>6,009</b>   | <b>2,707</b>   | <b>-4,921</b>  | <b>-2,426</b>  | <b>1,336</b>   | <b>-54,876</b> | <b>-3,305</b>  |
| Change (YoY %)             | -215.8         | -191.4         | -265.9         | -130.4         | -109.6         | -81.9          | -57.0          | -77.8          | -246.0         | 494.2          |

E: MOSL Estimates

## Tata Steel: an investment profile

### Company description

Tata Steel is the lowest cost steel producer in India. After the acquisition of Corus (which is several times its size), it has become the sixth largest steel maker globally. The combined entity (Tata- Corus) currently has its business spread over Europe, UK, Asia, North America and Rest of the World. Tata-Corus (27mtpa) now has ~22% raw material security and plans to increase it to 50-60%. Production is likely to increase to 34mtpa through brownfield expansions at Jamshedpur and greenfield projects in Orissa.

### Key investment arguments

- Tata Steel is leveraging the low cost advantage in India to feed the finishing mills of its global subsidiaries. Its brownfield expansion at Jamshedpur will raise capacity to 10mtpa by December 2011.
- The company is focusing on expanding the thin margins of Corus through reworking of product pricing, procurement policies, asset sweating and further improvement in operating efficiencies.

### Key investment risks

- Tata Steel's earnings are highly leveraged to steel prices and Corus' earnings, while there is sluggish recovery in developed markets.

### Recent developments

- The Committee of Directors of Tata Steel has approved the allotment of 15m preference shares and 12m warrants to Tata Sons at a price of Rs594/unit on 23 July 2010.

### Valuation and view

- The stock trades at an EV of 6.8x FY12E EBITDA. Maintain **Neutral**.

### Sector view

- Indian steel demand is expected to grow at 10-12% over the next two years, led by buoyancy in end-user segments such as automobiles, construction and infrastructure. Increasing construction activities led by the forthcoming Commonwealth Games, infrastructure investment and the rebound of capex will aid steel consumption. Large power capacity additions will drive industrial production. We remain positive on domestic steel companies.

#### COMPARATIVE VALUATIONS

|               |       | TATA STEEL | SAIL | JSW STEEL |
|---------------|-------|------------|------|-----------|
| P/E (x)       | FY11E | 8.1        | 13.9 | 18.4      |
|               | FY12E | 8.1        | 12.7 | 9.0       |
| P/BV (x)      | FY11E | 2.8        | 2.1  | 1.6       |
|               | FY12E | 2.2        | 1.8  | 1.3       |
| EV/Sales (x)  | FY11E | 0.8        | 1.8  | 1.8       |
|               | FY12E | 0.8        | 1.8  | 1.1       |
| EV/EBITDA (x) | FY11E | 6.9        | 9.0  | 9.2       |
|               | FY12E | 6.8        | 8.7  | 4.2       |

#### SHAREHOLDING PATTERN (%)

|               | JUN-10 | MAR-10 | JUN-09 |
|---------------|--------|--------|--------|
| Promoter      | 31.3   | 31.3   | 34.0   |
| Domestic Inst | 25.2   | 23.9   | 23.5   |
| Foreign       | 17.2   | 21.3   | 14.5   |
| Others        | 26.3   | 23.5   | 28.1   |

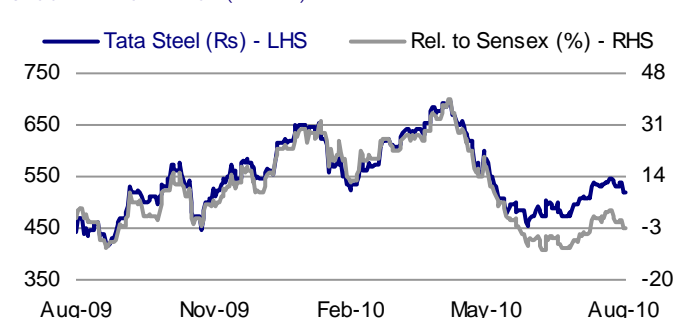
#### EPS: MOST FORECAST V/S CONSENSUS (RS)

|      | MOST FORECAST | CONSENSUS FORECAST | VARIATION (%) |
|------|---------------|--------------------|---------------|
| FY11 | 64.4          | 82.2               | -21.7         |
| FY12 | 64.3          | 85.6               | -24.9         |

#### TARGET PRICE AND RECOMMENDATION

| CURRENT PRICE (RS) | TARGET PRICE (RS) | UPSIDE (%) | RECO.   |
|--------------------|-------------------|------------|---------|
| 520                | 477               | -8.3       | Neutral |

#### STOCK PERFORMANCE (1 YEAR)



## Financials and Valuation

| INCOME STATEMENT (CONSOLIDATED) |                  | (RS MILLION)     |                  |                  |  |
|---------------------------------|------------------|------------------|------------------|------------------|--|
| Y/E MARCH                       | 2009             | 2010             | 2011E            | 2012E            |  |
| <b>Net Sales</b>                | <b>1,473,293</b> | <b>1,023,931</b> | <b>1,134,069</b> | <b>1,139,472</b> |  |
| Change (%)                      | 12.0             | -30.5            | 10.8             | 0.5              |  |
| <b>EBITDA</b>                   | <b>181,277</b>   | <b>80,427</b>    | <b>139,518</b>   | <b>133,958</b>   |  |
| % of Net Sales                  | 12.3             | 7.9              | 12.3             | 11.8             |  |
| Deprn. & Amortization           | 42,654           | 44,917           | 42,339           | 42,246           |  |
| <b>EBIT</b>                     | <b>138,623</b>   | <b>35,509</b>    | <b>97,180</b>    | <b>91,712</b>    |  |
| Net Interest                    | 32,902           | 30,221           | 23,308           | 21,823           |  |
| Other income                    | 2,657            | 6,859            | 5,687            | 6,037            |  |
| <b>PBT before EO</b>            | <b>108,378</b>   | <b>12,147</b>    | <b>79,558</b>    | <b>75,925</b>    |  |
| EO income                       | -40,945          | -11,837          | -599             |                  |  |
| <b>PBT after EO</b>             | <b>67,432</b>    | <b>310</b>       | <b>78,959</b>    | <b>75,925</b>    |  |
| Tax                             | 18,940           | 21,518           | 23,827           | 20,280           |  |
| Rate (%)                        | 28.1             | 6,941.4          | 30.2             | 26.7             |  |
| <b>Reported PAT</b>             | <b>48,492</b>    | <b>-21,208</b>   | <b>55,132</b>    | <b>55,645</b>    |  |
| Minority interests              | -409             | 152              | 11               | -48              |  |
| Share of asso. PAT              | 607              | 1,269            | 1,410            | 1,373            |  |
| <b>Attributable PAT</b>         | <b>49,509</b>    | <b>-20,092</b>   | <b>56,532</b>    | <b>57,067</b>    |  |
| <b>Adjusted PAT</b>             | <b>90,454</b>    | <b>-8,255</b>    | <b>57,131</b>    | <b>57,067</b>    |  |
| Change (%)                      | 16.9             | -109.1           | -n/a-            | -0.1             |  |

| BALANCE SHEET (CONSOLIDATED)       |                | (RS MILLION)   |                |                |  |
|------------------------------------|----------------|----------------|----------------|----------------|--|
| Y/E MARCH                          | 2009           | 2010           | 2011E          | 2012E          |  |
| Share Capital                      | 7,301          | 8,867          | 8,867          | 8,867          |  |
| Reserves                           | 264,245        | 221,516        | 311,597        | 358,281        |  |
| <b>Net Worth</b>                   | <b>271,546</b> | <b>230,383</b> | <b>320,465</b> | <b>367,149</b> |  |
| Minority Interest                  | 8,949          | 8,841          | 9,112          | 9,064          |  |
| Total Loans                        | 599,005        | 531,004        | 581,935        | 581,935        |  |
| Deferred Tax Liability             | 27,518         | 16,541         | 27,306         | 25,507         |  |
| <b>Capital Employed</b>            | <b>907,018</b> | <b>786,768</b> | <b>938,818</b> | <b>983,655</b> |  |
| Gross Block                        | 995,007        | 976,290        | 1,077,498      | 1,127,498      |  |
| Less: Accum. Deprn.                | 630,832        | 608,126        | 718,067        | 760,314        |  |
| <b>Net Fixed Assets</b>            | <b>364,175</b> | <b>368,164</b> | <b>359,430</b> | <b>367,184</b> |  |
| Capital WMP                        | 88,880         | 89,795         | 92,440         | 92,440         |  |
| Investments                        | 30,203         | 54,178         | 71,783         | 71,783         |  |
| Goodwill on consolidatio           | 153,649        | 145,418        | 153,649        | 153,649        |  |
| <b>Curr. Assets</b>                | <b>572,620</b> | <b>438,678</b> | <b>405,070</b> | <b>444,758</b> |  |
| Inventory                          | 216,687        | 186,866        | 78,085         | 78,687         |  |
| Account Receivables                | 130,316        | 116,240        | 124,134        | 114,951        |  |
| Cash and Bank Balance              | 95,391         | 67,878         | 87,575         | 134,155        |  |
| Others                             | 130,225        | 67,694         | 115,276        | 116,966        |  |
| <b>Curr. Liability &amp; Prov.</b> | <b>302,510</b> | <b>309,464</b> | <b>143,554</b> | <b>146,159</b> |  |
| Account Payables                   | 230,933        | 233,886        | 93,987         | 95,155         |  |
| Provisions & Others                | 71,577         | 75,578         | 49,567         | 51,004         |  |
| <b>Net Current Assets</b>          | <b>270,110</b> | <b>129,214</b> | <b>261,516</b> | <b>298,599</b> |  |
| <b>Appl. of Funds</b>              | <b>907,018</b> | <b>786,768</b> | <b>938,818</b> | <b>983,655</b> |  |

E: MOSL Estimates

| RATIOS (CONSOLIDATED)         |              |              |             |             |  |
|-------------------------------|--------------|--------------|-------------|-------------|--|
| Y/E MARCH                     | 2009         | 2010         | 2011E       | 2012E       |  |
| <b>Basic (Rs)</b>             |              |              |             |             |  |
| <b>EPS</b>                    | <b>101.9</b> | <b>(9.3)</b> | <b>64.4</b> | <b>64.3</b> |  |
| Cash EPS                      | 124.7        | 26.7         | 109.8       | 110.3       |  |
| BV/Share                      | 132.9        | 95.7         | 188.0       | 240.6       |  |
| DPS                           | 16.0         | 8.0          | 9.0         | 10.0        |  |
| Payout (%)                    | 16.5         | (106.4)      | 16.4        | 18.2        |  |
| <b>Valuation (x)</b>          |              |              |             |             |  |
| P/E                           | 5.1          | (55.9)       | 8.1         | 8.1         |  |
| Cash P/E                      | 4.2          | 19.5         | 4.7         | 4.7         |  |
| P/BV                          | 3.9          | 5.4          | 2.8         | 2.2         |  |
| EV/Sales                      | 0.7          | 0.9          | 0.8         | 0.8         |  |
| EV/EBITDA                     | 5.3          | 11.5         | 6.9         | 6.8         |  |
| Dividend Yield (%)            | 3.1          | 1.5          | 1.7         | 1.9         |  |
| <b>Return Ratios (%)</b>      |              |              |             |             |  |
| RoE                           | 76.7         | (9.7)        | 34.2        | 26.7        |  |
| RoCE                          | 15.3         | 4.5          | 10.4        | 9.3         |  |
| RoIC                          | 18.5         | (565.6)      | 12.7        | 12.6        |  |
| <b>Working Capital Ratios</b> |              |              |             |             |  |
| Fixed Asset Turnover (x)      | 1.5          | 1.0          | 1.1         | 1.0         |  |
| Asset Turnover (x)            | 1.6          | 1.3          | 1.2         | 1.2         |  |
| Debtor (Days)                 | 32.3         | 41.4         | 40.0        | 36.8        |  |
| Inventory (Days)              | 54           | 67           | 25          | 25          |  |
| A/c Payables (Days)           | 57.2         | 83.4         | 30.2        | 30.5        |  |
| Working Capital Turnove       | 43           | 22           | 56          | 53          |  |
| <b>Leverage Ratio (x)</b>     |              |              |             |             |  |
| Current Ratio                 | 1.9          | 1.4          | 2.8         | 3.0         |  |
| Interest Cover Ratio          | 4.2          | 1.2          | 4.2         | 4.2         |  |
| Debt/Equity                   | 4.3          | 5.5          | 3.0         | 2.1         |  |

| CASHFLOW STATEMENT (CONSOLIDATED) |                 | (RS MILLION)   |                 |                |  |
|-----------------------------------|-----------------|----------------|-----------------|----------------|--|
| Y/E MARCH                         | 2009            | 2010           | 2011E           | 2012E          |  |
| Pre-tax Profit                    | 67,432          | 310            | 78,959          | 75,925         |  |
| Depreciation                      | 42,654          | 44,917         | 42,339          | 42,246         |  |
| (Inc)/Dec in Wkg. Cap.            | 2,254           | 113,383        | -112,605        | 9,496          |  |
| Tax Paid                          | -33,879         | -18,249        | -23,827         | -20,280        |  |
| Other operating activities        | 98,603          | -112,129       | 100,193         | -14,616        |  |
| <b>CF from Op. Activity</b>       | <b>177,064</b>  | <b>28,231</b>  | <b>85,059</b>   | <b>92,772</b>  |  |
| (Inc)/Dec in FA + CWMP            | -84,335         | 17,803         | -103,853        | -50,000        |  |
| (Pur)/Sale of Investment          | -23,232         | -23,975        | -17,605         |                |  |
| <b>CF from Inv. Activity</b>      | <b>-107,567</b> | <b>-6,172</b>  | <b>-121,458</b> | <b>-50,000</b> |  |
| Equity raised/(repaid)            | 145             | 24,177         |                 |                |  |
| Chg in minorities                 |                 | -108           | 271             | -48            |  |
| Debt raised/(repaid)              | 20,521          | -68,002        | 50,932          |                |  |
| Dividend (incl. tax)              | -12,266         | -8,785         | -9,344          | -10,383        |  |
| Other financing activities        | -35,940         | 3,144          | 14,238          | 14,238         |  |
| <b>CF from Fin. Activity</b>      | <b>-27,540</b>  | <b>-49,573</b> | <b>56,097</b>   | <b>3,807</b>   |  |
| <b>(Inc)/Dec in Cash</b>          | <b>41,958</b>   | <b>-27,513</b> | <b>19,697</b>   | <b>46,579</b>  |  |
| Add: opening Balance              | 53,433          | 95,391         | 67,878          | 87,575         |  |
| <b>Closing Balance</b>            | <b>95,391</b>   | <b>67,878</b>  | <b>87,575</b>   | <b>134,155</b> |  |

**N O T E S**



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**Disclosure of Interest Statement**

**Tata Steel**

- |   |     |
|---|-----|
| 1. Analyst ownership of the stock                       | No  |
| 2. Group/Directors ownership of the stock               | Yes |
| 3. Broking relationship with company covered            | No  |
| 4. Investment Banking relationship with company covered | No  |

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