

August 13, 2010

Rating	BUY
Price	Rs528
Target Price	Rs630
Implied Upside	19.4%
Sensex	18,167

(Prices as on August 13, 2010)

Trading Data

Market Cap. (Rs bn)	476.0
Shares o/s (m)	902.2
Free Float	68.67%
3M Avg. Daily Vol ('000)	11,576.8
3M Avg. Daily Value (Rs m)	5,800.8

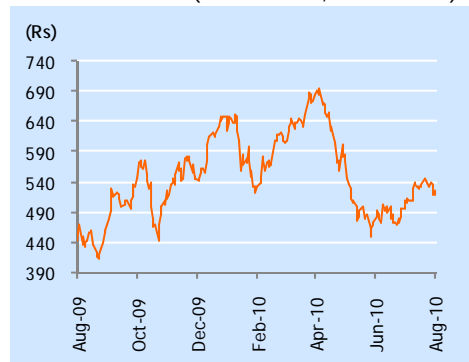
Major Shareholders

Promoters	31.33%
Foreign	15.50%
Domestic Inst.	26.53%
Public & Others	26.64%

Stock Performance

(%)	1M	6M	12M
Absolute	3.6	(1.3)	12.1
Relative	2.6	(13.7)	(5.0)

Price Performance (RIC: TISC.BO, BB: TATA IN)



Source: Bloomberg

■ **Results meet expectation on all fronts (based on earnings adjusted for forex translation loss at Corus):** Tata Steel (Tata) posted adjusted consolidated net profit (attributable to equity shareholders) of Rs18.7bn (PLE of Rs.24.7bn). The performance seems below expectation, but adjusting for translation loss of US\$42m, non-recurring maintenance cost to the tune of US\$15m associated with fire at *Ijmuiden* plant and foreign currency loss of US\$40 on translation of loans. Company reported consolidated EBITDA of Rs44.3bn (PLE: Rs48.6) and adjusting for translation loss and higher maintenance cost at Corus, EBITDA arrived at Rs48.8 at par with PLE.

■ **Shows its mettle at domestic operations:** Net revenue of steel business fell by 11% QoQ to Rs60bn due to 18% volume fall and 8% rise in realizations. EBITDA grew by 35% to Rs.28.4n, at par with our expectations of Rs.28.4bn. On tonnage basis, company's underlying EBITDA per tonne grew by 64% QoQ to Rs20, 273 (US\$453), in line with our expectation of Rs20,358. Higher realization supported by cost efficiency, led the reported PAT to grow by 27% QoQ to Rs15.8bn, in line with our expectations.

■ **Subsidiary operations on expected lines:** Corus reported an EBITDA of US\$293m, below PLE of US\$416m due to one-time incidence of maintenance cost and notional currency translation losses. Adjusting for the same, underlying operational EBITDA arrived at US\$390m with a growth of 12% QoQ. On tonnage basis, EBITDA per tonne grew by 12% QoQ to US\$105, largely in line with PLE of US\$113. South East Asian operations (Nat steel + Tata steel Thailand) reported EBITDA of US\$32m. This was well above our expectation of US\$24m on account of lower-than-expected scrap cost and better-than-expected realisations.

■ **Valuations:** On the back of strong domestic operations, improved earnings outlook at Corus, increased focus on raw material integration through investments in Mozambique coking coal and Canada iron ore projects and better shaped balance sheet, we remain positive on the stock. Valuations look attractive in the light of stock's historical forward EV/EBITDA of 6x and P/E of 10x 1-Year forward earnings. At CMP, stock trades at P/E of 7.5x and 6.1x FY11E and FY12E, respectively, while on EV/EBITDA of 5.5x and 4.4x FY11E and FY12E, respectively.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	1, 473,293	1, 023,931	1, 066,088	1, 262,952
Growth (%)	12.0	(30.5)	4.1	18.5
EBITDA (Rs m)	181,277	80,427	164,082	193,117
PAT (Rs m)	90,454	(3,255)	64,008	78,827
EPS (Rs)	100.5	(4.3)	70.0	86.2
Growth (%)	48.3	-	-	23.2
Net DPS (Rs)	16.0	8.0	8.0	8.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	11.8	7.0	15.4	15.3
RoE (%)	18.9	(1.7)	24.4	23.6
RoCE (%)	11.1	13.3	9.8	10.9
EV / sales (x)	0.7	0.9	0.8	0.7
EV / EBITDA (x)	5.5	11.5	5.5	4.4
PE (x)	5.2	(123.4)	7.5	6.1
P / BV (x)	5.6	5.7	3.1	2.1
Net dividend yield (%)	3.0	1.5	1.5	1.5

Source: Company Data; PL Research

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Q1FY11 Result Overview (Consolidated)

(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Net Sales	271,948	232,923	16.8	275,038	1,066,088	1,023,931	4.1
Raw Material	103,481	118,850	(12.9)	105,248	405,902	447,516	(9.3)
<i>% of Net Sales</i>	<i>38.1</i>	<i>51.0</i>		<i>38.3</i>	<i>38.1</i>	<i>43.7</i>	
Staff Costs	37,771	39,625	(4.7)	39,398	151,742	164,630	(7.8)
<i>% of Net Sales</i>	<i>13.9</i>	<i>17.0</i>		<i>14.3</i>	<i>14.2</i>	<i>16.1</i>	
Power & Fuel	9,713	9,664	0.5	9,881	40,590	48,851	(16.9)
<i>% of Net Sales</i>	<i>3.6</i>	<i>4.1</i>		<i>3.6</i>	<i>3.8</i>	<i>4.8</i>	
Freight and handling	15,861	11,564	37.2	14,897	62,851	55,491	13.3
<i>% of Net Sales</i>	<i>5.8</i>	<i>5.0</i>		<i>5.4</i>	<i>5.9</i>	<i>5.4</i>	
Other Expenses	60,796	53,518	13.6	58,112	240,920	227,017	6.1
<i>% of Net Sales</i>	<i>22.4</i>	<i>23.0</i>		<i>21.1</i>	<i>22.6</i>	<i>22.2</i>	
Total Expenditure	227,622	233,222	(2.4)	227,536	902,006	943,505	(4.4)
EBITDA	44,326	(299)	NA	47,502	164,082	80,427	104.0
<i>Margin (%)</i>	<i>16.3</i>	<i>(0.1)</i>		<i>17.3</i>	<i>15.4</i>	<i>7.9</i>	
Depreciation	10,439	10,890	(4.1)	10,946	47,163	44,917	5.0
Other income	409	1,853	(77.9)	(264)	2,772	11,859	(76.6)
EBIT	34,295	(9,335)	NA	36,292	119,691	47,368	152.7
Interest	5,976	8,819	(32.2)	6,600	25,990	30,221	(14.0)
PBT	28,320	(18,154)	NA	29,692	93,701	17,147	446.5
Extraordinary income/(expense)	(413)	(2,002)		2,226	-	(16,837)	
PBT (After EO)	27,907	(20,156)	NA	31,918	93,701	310	NA
Tax	10,005	2,229	348.8	7,866	30,921	21,518	43.7
<i>% PBT</i>	<i>35.9</i>	<i>(11.1)</i>		<i>24.6</i>	<i>33.0</i>	<i>6941.4</i>	
Reported PAT	17,902	(22,385)	NA	24,052	62,780	(21,208)	NA
Profit incl. Associates and MI	18,253	(22,087)	NA	24,341	64,008	(20,092)	NA
Adjusted PAT	18,666	(20,085)	NA	22,115	64,008	(3,255)	NA



Subsidiary Performance

(US\$ m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Revenue							
Indian Operations	1,411	1,115	26.5	1,634	6,007	5,208	15.3
UK Operations	3,814	3,179	20.0	3,680	16,830	14,072	19.6
South East Asian Operations	563	640	(12.0)	533	2,565	2,249	14.1
EBITDA							
Indian Operations	638	338	89.0	801	2,406	1,822	32.0
UK Operations	293	(387)	NA	354	1,071	(254)	NA
South East Asian Operations	32	10	220.0	14	205	85	141.2

Operating Metrics

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
UK Operations							
Sales Volume (m tonne)	3.7	3.1	19.7	3.8	14	15	(1.0)
Realisation per tonne	1,008	1,025	(1.7)	924	1,050	944	11.3
EBITDA per tonne	79	(125)	(163.3)	93	70	(18)	(484.2)
South East operations							
Sales Volume (m tonne)	0.9	0.8	12.5	0.9	3.5	3.6	(3.3)
Realisation per tonne	621	795	(21.8)	592	650	621	4.6
EBITDA per tonne	35	12	184.3	16	38	23	61.2



Q1FY11 Result Overview (Standalone)

(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Net Sales	64,713	55,540	16.5	63,075	270,296	247,168	9.4
Raw Material	9,649	16,056	(39.9)	12,474	59,339	57,988	2.3
<i>% of Net Sales</i>	<i>14.9</i>	<i>28.9</i>		<i>19.8</i>	<i>22.0</i>	<i>23.5</i>	
Staff Costs	5,781	5,062	14.2	6,809	24,231	23,615	2.6
<i>% of Net Sales</i>	<i>8.9</i>	<i>9.1</i>		<i>10.8</i>	<i>9.0</i>	<i>9.6</i>	
Power & Fuel	3,549	3,284	8.1	3,389	14,221	12,683	12.1
<i>% of Net Sales</i>	<i>5.5</i>	<i>5.9</i>		<i>5.4</i>	<i>5.3</i>	<i>5.1</i>	
Freight and handling	3,522	3,152	11.7	3,761	13,602	13,573	0.2
<i>% of Net Sales</i>	<i>5.4</i>	<i>5.7</i>		<i>6.0</i>	<i>5.0</i>	<i>5.5</i>	
Other Expenses	13,849	11,179	23.9	15,655	50,655	52,841	(4.1)
<i>% of Net Sales</i>	<i>21.4</i>	<i>20.1</i>		<i>24.8</i>	<i>18.7</i>	<i>21.4</i>	
Total Expenditure	36,350	38,733	(6.2)	42,087	162,048	160,699	0.8
EBITDA	28,362	16,807	68.8	20,988	108,248	86,469	25.2
<i>Margin (%)</i>	<i>43.8</i>	<i>30.3</i>		<i>33.3</i>	<i>40.0</i>	<i>35.0</i>	
Depreciation	2,802	2,532	10.7	3,115	11,445	10,832	5.7
Other income	1,101	893	23.3	570	6,190	5,320	16.4
EBIT	26,661	15,168	75.8	18,444	102,993	80,958	27.2
Interest	3,277	3,422	(4.2)	3,585	13,608	15,084	(9.8)
PBT	23,384	11,747	99.1	14,858	89,385	65,874	35.7
Extraordinary income/(expense)	186	186		5,248	-	6,269	
PBT (After EO)	23,570	11,932	97.5	20,106	89,385	72,143	23.9
Tax	7,776	4,034	92.8	7,663	29,497	21,675	36.1
<i>% PBT</i>	<i>33.0</i>	<i>33.8</i>		<i>38.1</i>	<i>33.0</i>	<i>30.0</i>	
Reported PAT	15,794	7,898	100.0	12,443	59,888	50,468	18.7
Adjusted PAT	15,670	7,775	101.5	9,195	59,888	46,082	30.0

Operating Metrics

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
M tonnes							
Production	1.59	1.54	3.1	1.69	6.50	6.44	0.9
Sales	1.40	1.42	(1.3)	1.70	6.15	6.17	(0.3)
Realisation per tonne	34,161	28,896	18.2	31,758	34,612	29,754	16.3
EBITDA per tonne	20,273	11,854	71.0	12,354	17,213	14,014	22.8

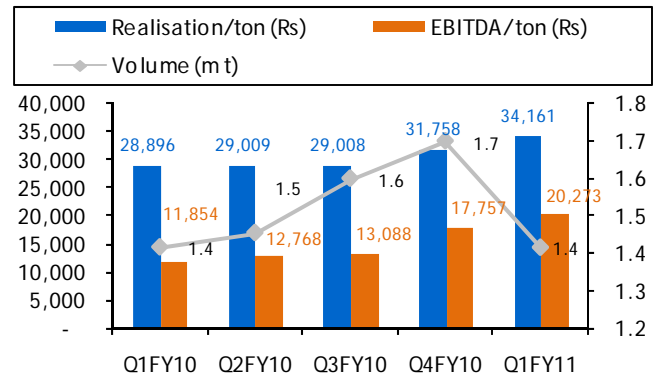
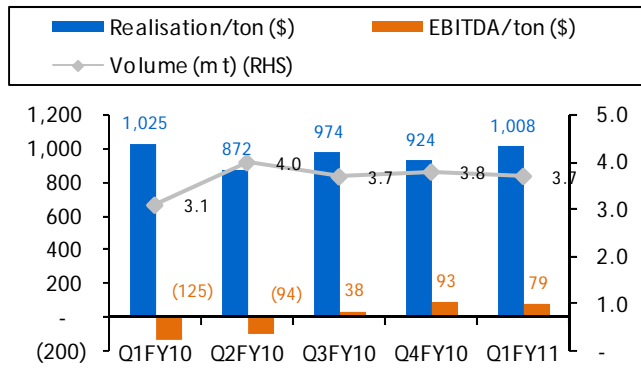
Computation of Underlying EBITDA at Corus operations

	Q4FY10	Q1FY11
Reported EBITDA	354.0	293.0
Add/(Loss):		
Translation impact Q-o-Q on account of depreciation of £/₹	-	42.0
Impact on account of fire at Ijmuiden during the quarter (Increased Maintenance)	-	15.0
Loss/(Gain) Foreign Exchange Revaluation Impact on Loans	(6.0)	40.0
Underlying Operational EBITDA	348.0	390.0
Deliveries (Mn T)	3.8	3.7
Underlying Operational EBITDA/T (\$)	92.0	105.0

Source: Company Data; PL Research

TATA Europe

TATA Steel (Indian Operations)



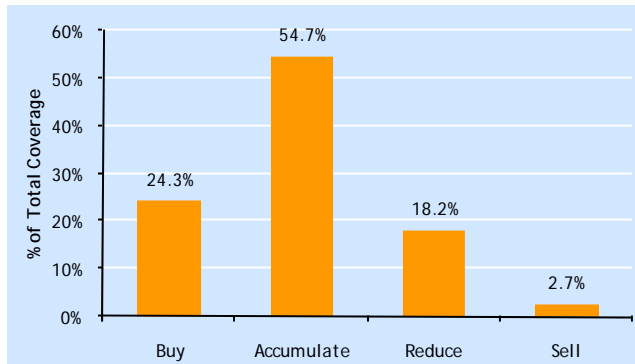
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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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