



Tata Steel

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,356	TATA IN
S&P CNX: 4,333	REUTERS CODE
	TISC.BO

31 July 2008

Buy

Previous Recommendation: Buy

Rs655

Equity Shares (m)	822.4
52-Week Range	970/466
1,6,12 Rel. Perf. (%)	-17/12/23
M.Cap. (Rs b)	538.7
M.Cap. (US\$ b)	12.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	251,197	42,786	70.2	3.1	9.3	2.6	27.9	31.8	1.5	5.1
3/08A	1,315,359	70,335	85.5	21.8	7.7	1.6	20.5	18.7	0.7	4.9
3/09E	1,713,486	111,822	136.0	59.0	4.8	1.2	25.6	21.8	0.5	3.7
3/10E	1,751,186	133,061	161.8	19.0	4.0	1.0	24.3	22.0	0.5	3.1

*Consolidated

- Standalone 1QFY09 adjusted PAT increased 71.3% YoY to Rs17b v/s estimate of Rs14.8b. Reported PAT of Rs14.9b includes extra-ordinary losses of Rs3b on account of unrealized translation loss on CARS.
- Net sales increased 47% YoY to Rs61.7b, driven by sales volume growth of 11.4% YoY to 1.159m tons and blended realization growth of 25% YoY to Rs45,737/ton. Similar to JSW Steel and SAIL results, Tata Steel's blended realization too has increased by Rs6,580/ton QoQ despite the 3-month price freeze agreed to by steel producers.
- EBITDA increased 78% YoY to Rs30b (v/s est. Rs26b), while margins improved 860bp YoY and 720bp QoQ (better product realization). EBITDA per ton posted impressive growth of 34% YoY to Rs21,918/ton and by Rs5,595/ton QoQ led by higher realization, while costs did not increase as expected. Revenue from ferro alloys segment (FAMD) rose 2.6x YoY to Rs8.4b while EBIT increased ~4x YoY (and by Rs1.7b QoQ) to Rs4.8b driven by steep alloy prices.
- We are upgrading our earnings estimate for standalone operations by 16.7% to Rs73.5b. Therefore, we are upgrading our FY09 consolidated EPS by 7% to Rs136. We expect EPS to grow 59% YoY to Rs136 in FY09. Stock trades at P/E of 4.8 x FY09E and EV/EBITDA of 3.7x FY09E. This is an attractive mid-cycle valuation. We reiterate **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY08				FY09				FY08	FY09E
Standalone Financials	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales (000 tons)	1,041	1,218	1,244	1,279	1,159	1,468	1,594	1,679	4,782	5,782
Change (YoY %)	-6.6	2.9	0.7	1.5	11.4	20.5	28.1	31.3	-0.3	20.9
Realization (Rs per ton)	36,665	35,280	35,201	39,157	45,737	44,983	44,330	44,084	36,598	45,615
Change (YoY %)	17.8	11.4	9.2	11.4	24.7	27.5	25.9	12.6	12.3	24.6
Net Sales	41,976	47,851	49,739	57,367	61,650	72,163	76,752	81,932	196,933	292,497
Change (YoY %)	7.2	14.3	11.3	15.2	46.9	50.8	54.3	42.8	12.2	48.5
EBITDA	16,992	20,254	20,966	24,023	30,246	31,790	33,528	34,905	82,235	130,469
Change (YoY %)	7.5	18.8	17.5	26.2	78.0	57.0	59.9	45.3	17.9	58.7
(% of Net Sales)	40.5	42.3	42.2	41.9	49.1	44.1	43.7	42.6	41.8	44.6
EBITDA(Rs/tss)	15,110	15,138	14,941	16,323	21,918	19,508	19,066	18,915	15,481	21,146
Interest	800	2,022	3,627	2,339	2,417	2,538	2,665	2,798	8,787	10,419
Depreciation	2,112	2,050	2,092	2,092	2,168	2,249	2,882	2,882	8,346	10,180
Other Income	1,461	943	670	275	122	370	370	370	3,350	1,232
PBT (before EO Inc.)	15,541	17,126	15,918	19,868	25,783	27,373	28,352	29,595	68,452	111,103
EO Income(exp)	3,484	340	-171	-1,442	-3,034	-565	-565	-565	2,211	-4,731
PBT (after EO Inc.)	19,025	17,466	15,747	18,426	22,749	26,808	27,786	29,030	70,664	106,372
Total Tax	6,804	5,558	5,061	6,371	7,865	9,019	9,347	9,765	23,793	35,996
% Tax	35.8	31.8	32.1	34.6	34.6	33.6	33.6	33.6	33.7	33.8
Reported PAT	12,221	11,908	10,686	12,055	14,884	17,789	18,439	19,265	46,870	70,376
Adjusted PAT	9,983	11,676	10,802	12,999	17,101	18,156	18,805	19,630	45,404	73,506
Change (YoY %)	3.4	3.1	-1.5	15.0	71.3	55.5	74.1	51.0	5.0	61.9
Consolidated Financials	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	311,546	324,249	318,985	360,579	387,620	437,168	441,757	446,941	1,315,359	1,713,486
EBITDA	49,043	47,227	39,428	52,313	62,830	58,999	56,737	58,118	188,011	236,684
Adjusted PAT	20,227	15,220	13,112	21,776	28,411	26,012	24,605	25,395	70,335	111,653

E: M0St Estimates: tss=ton of steel sales; Exchange rate assumed GBP=1.98 USD, USD=40.4 INR;

Despite price freeze, realization up Rs6,580/ton

Net sales increased 47% YoY to Rs61.7b, driven by sales volume growth of 11.4% YoY to 1.159m tons and blended realization growth of 25% YoY to Rs45,737/ton. As with the JSW Steel and SAIL results, Tata Steel's blended realization too increased by Rs6,580/ton QoQ despite the 3-month price freeze agreed to by steel producers.

We understand from our channel check that steel prices have moved up in July and August 2008 on negotiated sales, which is 70% of total sales for Indian operations.

Entire QoQ price hike flows to EBITDA per ton

EBITDA increased 78% YoY to Rs30b v/s our estimate of Rs26b, while margins improved 860bp YoY and 720bp QoQ (better product realization) on account of higher steel and ferro alloy prices. EBITDA per ton posted impressive growth of 34% YoY to Rs21,918/ton and by Rs5,595/ton QoQ led by higher realization, while costs did not increase as expected. Revenue from the ferro alloys segment (FAMD) increased 2.6x YoY to Rs8.4b while EBIT increased ~4x YoY (and by Rs1.7b QoQ) to Rs4.8b driven by a steep increase in ferro alloy prices.

Raising EPS estimate 7%; results prove us conservative

We are upgrading our earnings estimate for standalone operations by 16.7% to Rs73.5b. Therefore, we are upgrading our FY09 consolidated EPS by 7% to Rs136. Nat Steel and Tata Steel, Thailand too have done well and PAT has increased to US\$30m (v/s US\$5m last year) and US\$50m (v/s US\$7m last year) respectively. Corus too is expected to report a good set of 1Q numbers, if we were to take a clue from the results of Arcelor-Mittal, US Steel and Nucor Steel. Consolidated results are expected within one month.

Stock de-rating unwarranted, trades at EV/EBITDA of 3.7x FY09, Re-iterate Buy

We expect Corus to deliver EBITDA of US\$2.5b in FY09 despite cost increase of Euro230/ton and underrecovery of costs on annual contracts due to strong prevailing prices of steel products and performance improvement of US\$600m. The strong set of numbers reported by the standalone operations re-affirms the buoyant outlook for the completely integrated Indian operations.

We expect EPS to grow 59% YoY to Rs136 in FY09. The stock trades at PE of 4.8x FY09 and EV/EBITDA of 3.7x FY09. This is an attractive mid-cycle valuation. We maintain our positive outlook on the stock and reiterate **Buy**.

While International companies trade at 5.3x EV/EBITDA CY08E

KEY FINANCIALS OF 8 COMPANIES (US\$ B)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	CAGR (00-08)
Sales	21	20	20	24	59	64	63	67	81	108	131	150	186	240	24.5
EBITDA	6	6	6	5	8	10	8	10	11	21	25	25	31	41	25.6
Margins (%)	30	28	31	22	14	16	12	14	14	19	19	17	17	17	0.9
PAT	2	2	2	2	2	4	2	2	3	10	11	12	15	20	31.6
Equity	18	17	14	17	27	28	28	28	31	43	51	60	69	88	21.3
Net Debt	7	8	7	8	15	18	17	14	14	8	6	4	15	24	5.1
Market Cap	16	15	13	15	34	29	28	28	44	60	65	116	206	186	36.4
EV	23	23	21	24	50	48	46	43	59	70	73	125	224	214	28.5
Production (m tons)	54	56	61	60	82	103	104	113	122	134	133	136	147	147	6.1
Valuations															
EV (USD/ton)	436	411	341	395	615	464	447	381	488	522	551	923	1,529	1,461	
EV/EBITDA(x)	3.7	4.1	3.3	4.5	6.1	4.6	6.1	4.5	5.2	3.4	2.9	4.9	7.3	5.3	
EBITDA (USD/ton)	119	101	102	88	101	101	74	85	94	155	191	187	210	278	
Debt to Equity (%)	38	45	49	45	57	65	61	51	45	19	12	7	21	27	

8 companies = Bao Steel, US Steel, Thyssen Krupp, Nucor, AK Steel, CSN, Gerdau, Posco

Source: Motilal Oswal Securities

Tata Steel: an investment profile

Company description

Tata Steel (TATA), lowest cost producer, after acquisition of Corus (which is several times its size) has become the sixth largest steel maker globally. The combined entity (Tata-Corus) currently has its business spread over Europe (37%), UK (22%), Asia (24%), North America 8%) and Rest of the World (9%). Tata-Corus (26mtpa) now has 17% raw material security and plans to increase it to 50-60%. The production will 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. The brownfield expansion at Jamshedpur to raise capacity to 10mtpa by 2010 and the greenfield project in Orissa will raise total capacity from 5mtpa currently to 13mtpa by 2010 in India.
- Tata Steel is focusing to expand the thin margins of Corus through reworking of product pricing, procurement policies, asset sweating and further improvement in operating efficiencies. Corus now has a focused promoter.

Key investment risks

- Earnings of Tata Steel now have high leverage to steel prices while Corus remains exposed to raw material price risk.

Recent developments

- Nil

Valuation and view

- The stock trades at P/E of 4.8 x FY09E and EV/EBITDA of 3.7x FY09E.

Sector view

- Strongly growing global demand for steel, rising industry consolidation (ex-China) leading to greater production discipline, declining exports of steel from China due to rising cost of metallics and trade friction with the Western world and shortage of metallics is keeping steel prices high. We prefer companies that will deliver stronger volume growth, reduce operating costs and have the security of raw material supply.

COMPARATIVE VALUATIONS

		TATA STEEL	SAIL	JSW STEEL
P/E (x)	FY09E	4.8	6.4	7.4
	FY10E	4.0	6.2	4.4
P/BV (x)	FY09E	1.2	1.9	1.4
	FY10E	1.0	1.5	1.0
EV/Sales (x)	FY09E	0.5	0.9	1.3
	FY10E	0.5	0.9	1.1
EV/EBITDA (x)	FY09E	3.7	3.4	5.4
	FY10E	3.1	3.6	4.1

SHAREHOLDING PATTERN (%)

	JUN-08	MAR-08	JUN-07
Promoter	34.0	34.0	33.8
Domestic Inst	22.1	21.8	17.8
Foreign	19.8	19.5	22.7
Others	24.2	24.8	25.8

EPS: MOST FORECAST VS CONSENSUS (RS)

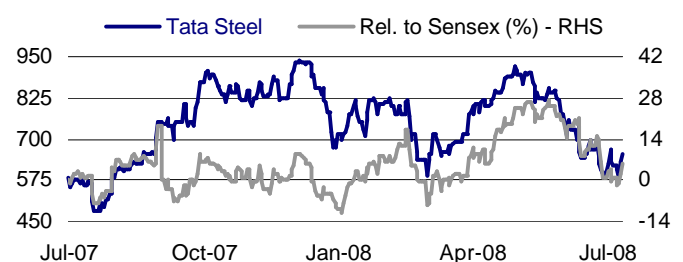
	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	136.0	110.4	23.2
FY10	161.8	118.2	36.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	*TARGET PRICE (RS)	UPSIDE (%)	RECO.
655	1,016	55.1	Buy

* Based on 5x FY09E EV/EBITDA

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (CONSOLIDATED)					
(RS MILLION)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Net Sales	202,444	251,197	1,315,359	1,713,486	1,751,186
Change (%)	26.5	24.1	423.6	30.3	2.2
Total Expenses	139,061	176,695	1,127,348	1,476,803	1,496,257
EBITDA	63,383	74,502	188,011	236,684	254,928
% of Net Sales	31.3	29.7	14.3	13.8	14.6
Depn. & Amortization	8,604	10,110	41,370	44,094	44,297
EBIT	54,780	64,392	146,642	192,590	210,631
Net Interest	1,555	4,112	41,838	33,590	23,956
Other income	2,466	4,381	5,742	3,080	4,050
PBT before EO	55,691	64,660	110,546	162,080	190,725
EO income	-541	-1,521	53,164	-4,731	-4,731
PBT after EO	55,150	63,139	163,711	157,350	185,994
Current tax	16,490	21,629	27,929	34,962	48,344
Deferred tax	1,450	-155	10,447	5,645	9,713
Tax	17,939	21,474	40,493	50,607	58,057
Rate (%)	32.5	34.0	36.6	32.2	31.2
Reported PAT	37,211	41,665	123,218	106,743	127,938
Minority interests	186	675	1,399	800	800
Share of asso. PAT	322	792	1,682	2,670	2,670
Attributable PAT	37,346	41,782	123,500	108,612	129,807
Adjusted PAT	37,711	42,786	70,335	111,822	133,061
Change (%)	2.8	13.5	64.4	59.0	19.0

BALANCE SHEET					
(RS MILLION)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Share Capital	5,537	5,807	8,224	8,224	8,224
Reserves	94,722	140,584	335,561	428,779	539,992
Net Worth	100,258	146,390	343,785	437,003	548,215
Minority Interest	1,236	1,911	3,560	4,360	5,160
Total Loans	33,774	30,899	410,422	394,424	346,428
Deferred Tax Liability	23,947	23,513	28,423	46,999	59,643
Capital Employed	159,216	202,714	786,190	882,785	959,447
Gross Block	167,447	172,447	706,970	780,968	854,966
Less: Accum. Deprn.	72,000	82,110	123,619	167,713	212,010
Net Fixed Assets	95,447	90,337	583,352	613,255	642,956
Capital WIP	13,574	28,574	13,574	13,574	13,574
Investments	34,789	40,160	52,239	52,239	52,239
Curr. Assets	59,081	93,959	464,037	602,933	656,069
Inventory	22,765	24,229	226,688	289,653	293,716
Account Receivables	12,198	13,768	180,869	225,965	227,183
Cash and Bank Balanc	7,768	33,391	26,929	46,699	91,304
Others	16,350	22,571	29,552	40,616	43,866
Curr. Liability & Pro	43,675	50,316	327,012	399,216	405,391
Account Payables	30,269	34,175	245,730	314,339	319,458
Provisions & Others	13,406	16,142	81,281	84,877	85,933
Net Current Assets	15,406	43,642	137,025	203,716	250,678
Appl. of Funds	159,216	202,714	786,190	882,785	959,447

E: MOST Estimates

RATIOS					
Y/E MARCH	2006	2007	2008	2009E	2010E
Basic (Rs)					
EPS	68.1	70.2	85.5	136.0	161.8
Cash EPS	82.7	89.2	200.1	183.4	209.4
BV/Share	181.1	252.1	418.0	531.4	666.6
DPS	13.0	16.3	16.0	16.0	16.0
Payout (%)	21.8	25.8	21.9	13.8	11.6
Valuation (x)					
P/E	9.6	9.3	7.7	4.8	4.0
Cash P/E	7.9	7.3	3.3	3.6	3.1
P/BV	3.6	2.6	1.6	1.2	1.0
EV/Sales	1.9	1.5	0.7	0.5	0.5
EV/EBITDA	6.1	5.1	4.9	3.7	3.1
Dividend Yield (%)	2.0	2.5	2.4	2.4	2.4
Return Ratios (%)					
EBITDA Margins (%)	31.3	29.7	14.3	13.8	14.6
Net Profit Margins (%)	18.6	17.0	5.3	6.5	7.6
RoE	37.6	27.9	20.5	25.6	24.3
RoCE	34.4	31.8	18.7	21.8	22.0
RoIC	35.9	42.2	13.4	17.0	18.1
Working Capital Ratios					
Fixed Asset Turnover (x)	1.2	1.5	1.9	2.2	2.0
Asset Turnover (x)	1.3	1.2	1.7	1.9	1.8
Debtor (Days)	22.0	20.0	50.2	48.1	47.4
Inventory (Days)	11.2	9.6	17.2	16.9	16.8
Working Capital Turnov	3.8	4.1	8.4	9.2	9.1
Growth (%)					
Sales	26.5	24.1	423.6	30.3	2.2
EBITDA	2.2	17.5	152.4	25.9	7.7
PAT	2.8	13.5	64.4	59.0	19.0
Leverage Ratio (x)					
Current Ratio	1.4	1.9	1.4	1.5	1.6
Interest Cover Ratio	35.2	15.7	3.5	5.7	8.8
Debt/Equity	0.3	0.0	1.1	0.8	0.5

CASHFLOW STATEMENT					
(RS MILLION)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Pre-tax Profit	55,150	63,139	163,711	157,350	185,994
Depreciation	8,604	10,110	41,370	44,094	44,297
(Inc)/Dec in Wkg. Cap.	-7,328	-2,613	-99,846	-46,921	-2,356
Tax Paid	-16,490	-21,629	-27,929	-34,962	-48,344
CF from Op. Activi	39,936	49,007	77,305	119,561	179,591
(Inc)/Dec in FA +CWIP	-19,793	-20,000	-519,524	-73,998	-73,998
(Pur)/Sale of Investme	-8,847	-5,371	-12,079		
CF from Inv. Activi	-28,640	-25,371	-531,602	-73,998	-73,998
Equity raised/(repaid)		270	104,611		
Chg in minorities	301	675	1,649	800	800
Debt raised/(repaid)	618	-2,875	379,523	-15,998	-47,995
Dividend (incl. tax)	-8,204	-11,043	-15,395	-15,424	-15,424
Other financing activitie	-900	14,961	-22,553	4,829	1,631
CF from Fin. Activ	-8,186	1,988	447,834	-25,793	-60,988
(Inc)/Dec in Cash	3,110	25,624	-6,463	19,770	44,605
Add: opening Balance	4,657	7,768	33,391	26,929	46,699
Closing Balance	7,768	33,391	26,929	46,699	91,304

N O T E S



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Tata Steel

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|---|-----|
| 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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