

STOCK DATA

Market Cap	Rs4.2bn.
Book Value per share	Rs76
Eq Shares O/S (F.V. Rs.10)	25.3 mn.
Median Vol (12 mths)	68,150 (BSE+NSE)
52 Week High/Low	Rs224/113
Bloomberg Code	TML@IN
Reuters Code	TMET.BO

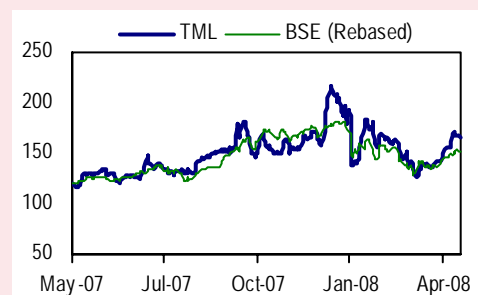
SHAREHOLDING PATTERN (%)

Qtr. Ended	Sep-07	Dec-07	Mar-08
Promoters	47.7	47.7	50.0
MFs/FIs	5.9	4.8	4.4
FIIIs	0.6	0.6	0.6
PCBs	8.1	10.8	6.9
Indian Public	37.7	36.1	38.1

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	20.3	(4.6)	37.2
Relative	9.1	(0.4)	9.6

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

Tata Metaliks Ltd. (TML) reported net sales of Rs3.1bn in Q4FY08, a YoY rise of 50%. This was on account of a ~12% growth in sales volume and a ~34% YoY surge in realisations. OPM remained flat as operating expenditure rose along with sales. Thus, operating profit registered a growth rate similar to sales and accelerated 52% to Rs392mn.

● **Buoyant realisations and healthy volumes**

Sales volume for the quarter, at ~135k mt rose 12% YoY. This, along with the sustained uptrend in realisations led to sales of Rs3.1bn for the quarter.

● **Cost pressure persists**

However, the hardening raw material prices took its toll and resulted in operating expenditure rising along with net sales and thus constrained OPM expansion (flat at 12.6%). As a result, operating profit witnessed a similar growth to net sales to Rs392mn (+52% YoY).

● **Forward integration into DI pipes**

TML's DI pipe facility (Phase-I of 110k mt) is on track and should be commissioned by the end of FY09. Being set up as a 51:49 JV with Kubota Corp and Metal One, the outlay for this expansion is ~Rs1.5bn and would be financed with a D:E of 1:1.

VALUATIONS AND RECOMMENDATION

TML should be able to capitalise on buoyant pig iron prices and thus improve its OPM if it alters its raw material sourcing towards getting coking coal converted to coke from local cokerries, instead of buying coke at spot prices. Post commissioning of the DI pipe facility, its value chain would be the largest amongst pig iron players, which would result in a stronger revenue mix and impart earnings visibility.

At the CMP of Rs166, it trades at a P/E of 2.7x and EV/EBDIT of 1.2x its FY10E earnings. Considering the buoyant pricing environment, stabilisation of both its plants, improving operational efficiency through reliance on coking coal and the upcoming DI facility, we maintain our BUY' recommendation with a 12 month revised price target of Rs220.

KEY FINANCIALS (STANDALONE)

Rs mn	Quarter Ended			Yr Ended (March)				
	Sep-07	Dec-07	Mar-08	2006	2007	2008	2009E	2010E
Net Sales	2,385	2,719	3,117	4,416	6,811	10,334	15,236	15,570
YoY Gr. (%)	43.9	83.7	49.6	56.1	54.3	51.7	47.4	2.2
Op Profits	250	253	392	760	541	1,161	1,860	2,303
OP. Marg (%)	10.5	9.3	12.6	17.2	7.9	11.2	12.2	14.8
Net Profits	129	159	256	459	295	696	1,277	1,545
Eq. Capital	253	253	253	253	253	253	253	253

KEY RATIOS

	Yr Ended (March)				
	2006	2007	2008E	2009E	2010E
Dil. EPS (Rs)	18.2	11.7	27.5	50.5	61.1
ROCE (%)	44.9	25.4	45.9	54.8	52.2
RONW (%)	39.4	21.6	41.6	52.7	43.5
P/E(x)	9.1	14.2	6.0	3.3	2.7
EV/Sales (x)	1.1	0.8	0.5	0.3	0.2
EV/EBDIT (x)	6.3	7.6	3.7	1.9	1.2

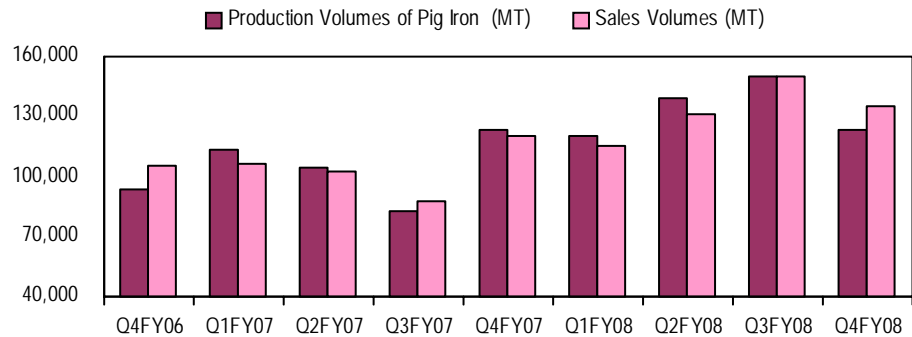
PERFORMANCE OVERVIEW

Net sales were driven by higher realisations and volumes...

TML's net sales were driven by improved sales volume and higher realisations for pig iron. The former was up by ~12% to 135.1k mt while the latter increased ~34% to Rs23.1k/mt. A sharp spike in both realisations and volumes led to ~50% YoY growth in net sales to Rs3.1bn.

Total production volume inched up 5.6% to ~123.7k mt, despite one of the furnace at Redi undergoing refurbishment resulting in a ~20% decline in volumes from Redi to ~31.6k mt. However, improved yield at the Kharagpur facility led to ~18.5% rise in production to ~92.1k mt.

Production and Sales Trend



Source: Company

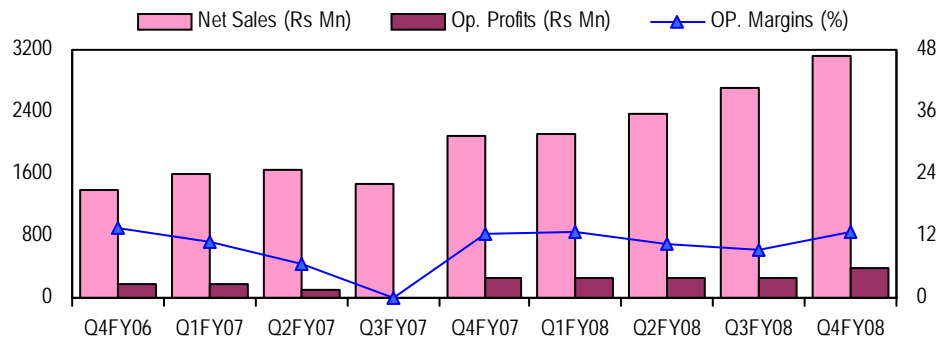
For full year-FY08, TML was able to record production of ~521k mt and sales of 516k mt. This was higher by 27.4% and 20.7% on a YoY basis respectively.

OPM shrinks as operating cost mirrored net sales...

Increased sales was followed by a corresponding spike in operating expenditure, resulting in a flat OPM of 12.6%. Operating profit for Q4FY08 displayed a ~52% growth to Rs392mn. Increased operating profit, coupled with doubling of other income led to net profit of Rs256mn in Q4FY08 (+66% YoY).

The furnaces at Kharagpur are working efficiently with high yield, while the furnace which undertook a shutdown at Redi, is ready for production post refurbishment. However, one more furnace will undergo a shutdown for relining during the current quarter.

TML's quarterly Sales, Op. Profits and Margins Trend



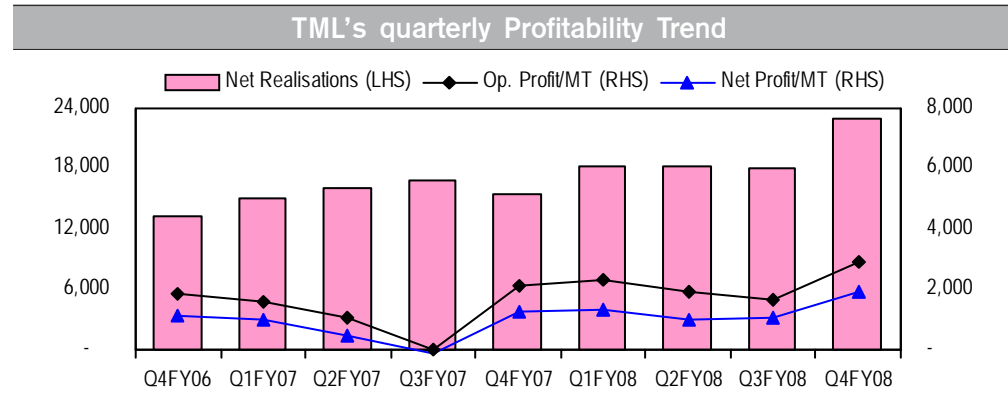
Source: Company

OUTLOOK

We expect TML to report production of ~610k mt in FY09 and ~620k mt in FY10, post completion of the refurbishment of its furnaces. This should translate into net sales of Rs15.2bn and Rs15.5bn for FY09 and FY10 respectively. Margins should improve by ~100-150bps due to a shift in raw material mix more towards coking coal (conversion to coke through local cokeries) from coke. We estimate net profits of Rs1.2bn and Rs1.5bn in FY09 and FY10 respectively (excluding the DI facility).

The ductile iron (DI) pipes of 110k tpa is on track and is expected to commence production from Q1FY10. However, we have not considered the same in our estimates as commercial production can be further 2-3 quarters away due to quality parameters. The first phase of 110k mt will be set up at an investment of ~Rs1.5bn, and is in a 51:49 JV with Metal One and Kubota Corporation.

Forward integration through foray in DI pipes...



Source: Company

VALUATIONS AND RECOMMENDATION

At the CMP of Rs166, the stock trades at a P/E of 2.7x its FY10E earnings, which we believe does not factor in the buoyant pricing environment for pig iron. Moreover, the upcoming DI facility will facilitate forward integration and enhance product mix along with profitability. Also, we are positive on the strong execution and implementation capabilities of the management, as a result of which we maintain our 'BUY' recommendation with a 12 month revised price target of Rs220.

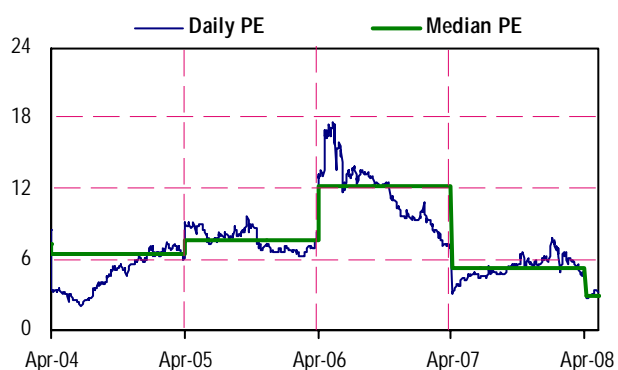
Company description

TML is a (50%) subsidiary of Tata Steel, and is engaged in the manufacturing of foundry grade pig iron. It is the largest foundry grade pig iron producer in India, with an installed capacity of 0.65 mn tpa. The manufacturing facilities are located in Kharagpur (2 MBFs) and Redi (3 MBFs).

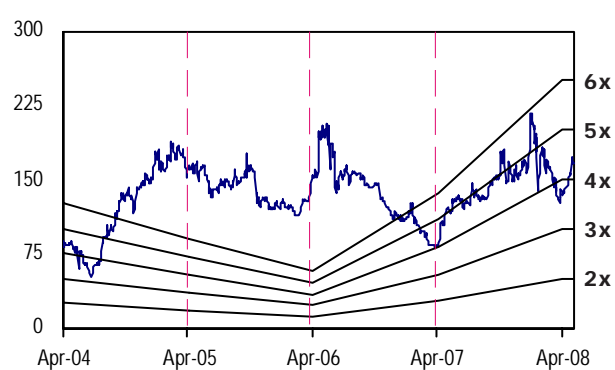
Financial Results for the quarter & year ended 31 March 2008 (Standalone)

Particulars (Rs Mn)	Quarter Ended			Year Ended		
	31/03/08	31/03/07	Gr %	31/03/08	31/03/07	Gr %
Net Sales	3,117	2,083	49.6	10,334	6,812	52
Total Expenditure	2,725	1,826	49.2	9,173	6,270	46
(Inc)/dec in stock in trade	250	69	-	(74)	(28)	-
Consumption of RM	2,108	1,504	40.2	7,843	5,387	46
Staff cost	75	50	49.0	236	172	37
Other Expenditure	292	202	44.3	1,169	739	58
Operating Profit	392	258	52.3	1,161	541	114
Other Income	93	44	110.5	250	152	65
PBDIT	485	302	60.8	1,411	693	104
Interest	56	41	35.4	193	142	36
Depreciation	39	37	7.4	156	130	20
PBT & extra-ordinary Items	390	224	74.2	1,063	422	152
Provision for tax	122	56	120.0	312	91	245
Provision for deferred tax	11	14	(18.2)	51	33	55
Fringe Benefit tax	1	1	50.0	4	3	19
Net Profits	256	154	66.0	696	295	136
Equity Capital (F.V Rs 10 per share)	253	253		253	253	
Reserves (excl. rev res)	-	-		1,671	1,172	
E.P.S for the period (Rs.)	10.1	6.1	66.0	27.5	11.7	135.9
Book Value(Rs.)	-	-		76.1	56.3	
OPM (%)	12.6	12.4		11.2	7.9	
NPM (%)	8.2	7.4		6.7	4.3	
Expenditure as % of Net Sales						
RM consumed (incl stock adj.)	75.7	75.5		75.2	78.7	
Staff cost	2.4	2.4		2.3	2.5	
Other Expenditure	9.4	9.7		11.3	10.8	
Production Volumes ('000 MT)	123.7	117.2	5.6	521.4	409.1	27.4
Sales Volumes ('000 MT)	135.1	121.0	11.7	516.0	427.6	20.7
Net Realisation (Rs/MT)	23,066	17,222	33.9	20,025	15,928	25.7
Op. Profit per ton (Rs/MT)	2,903	2,129	36.3	2,249	1,266	77.7

Median PE v/s Daily PE



PE Band



Income Statement	2005	2006	2007	2008	2009E	2010E
Revenues	2,829	4,416	6,811	10,334	15,236	15,570
<i>Growth (%)</i>	-	56.1	54.3	51.7	47.4	2.2
Total Expenditure	1,798	3,656	6,270	9,173	13,376	13,267
Operating Profit	1031	760	541	1,161	1,860	2,303
<i>Growth (%)</i>	-	(26.3)	(28.8)	114.4	60.2	23.8
Interest & dividend income	32	43	152	250	250	250
EBIDT	1063	803	693	1,411	2,110	2,553
(-) Interest	12	43	142	193	70	60
(-) Depreciation	35	72	130	156	175	185
PBT & extraordinary items	1017	688	422	1,063	1,865	2,309
(-) Tax provision	374	229	127	367	588	764
Net Profits	642	459	295	696	1,277	1,545
<i>Growth (%)</i>	-	(28.5)	(35.7)	135.9	83.4	21.0
Fully diluted Eq. sh. O/s (mn no)	25.3	25.3	25.3	25.3	25.3	25.3
Book Value (Rs)	40	51.7	56.3	76.1	115.5	165.5
Basic EPS (Rs)	25.3	18.2	11.7	27.5	50.5	61.1
Diluted EPS (Rs)	25.3	18.2	11.7	27.5	50.5	61.1

Balance Sheet	2005	2006	2007	2008E	2009E	2010E
<i>Equity Share Capital</i>	253	253	253	253	253	253
<i>Reserves & Surplus</i>	769	1,055	1,172	1,671	2,668	3,932
Net worth	1,022	1,308	1,425	1,924	2,921	4,185
Total Debt	200	950	1,150	1,100	1,000	850
Deferred Tax liability	123	154	186	237	262	262
Capital Employed	1,345	2,412	2,761	3,261	4,182	5,297
Fixed Assets	1,064	2,268	2,626	2,581	2,526	2,441
Net current assets	241	104	95	640	1,617	2,816
Investments	40	40	40	40	40	40
Total Assets	1,345	2,412	2,761	3,261	4,182	5,297

Cash Flow Statement	2005	2006	2007	2008E	2009E	2010E
PBT & extraordinary items	1014	688	422	1,063	1,865	2,309
Depreciation	35	72	130	156	175	185
Interest & dividend inc.	(23)	(15)	(7)	(250)	(250)	(250)
Interest paid	12	43	142	193	70	60
Misc Exp W/off	3	-	9	-	-	-
Tax paid	(312)	(156)	(88)	(316)	(563)	(764)
(Inc/Dec in working capital	(221)	59	(50)	(460)	5	(291)
Other items	20	(2)	-	-	-	-
Cash from operations	527	688	558	385	1,302	1,249
Net capital expenditure	(603)	(1,277)	(496)	(111)	(120)	(100)
Interest recd	23	18	7	250	250	250
Cash from investing activities	(580)	(1,259)	(490)	140	130	150
Change in debt	200	750	200	(50)	(100)	(150)
Dividend paid	(86)	(168)	(169)	(197)	(281)	(281)
Interest paid	(12)	(37)	(124)	(193)	(70)	(60)
Cash from financing activities	102	545	(94)	(439)	(451)	(490)
Inc/Dec. in cash	49	(25)	(25)	85	981	909

Key Ratios	2005	2006	2007	2008E	2009E	2010E
EBIDT (%)	36.5	17.2	7.9	11.2	12.2	14.8
ROACE (%)	113.9	44.9	25.4	45.9	54.8	52.2
ROANW (%)	81.1	39.4	21.6	41.6	52.7	43.5
Sales/Total Assets (x)	2.3	2.1	2.8	3.6	4.2	3.3
Debt:Equity (x)	0.2	0.7	0.8	0.6	0.3	0.2
Current Ratio (x)	1.3	1.1	1.1	1.2	1.4	1.8
Debtors (days)	4.7	13.1	18.9	19.4	19.1	22.6
Inventory (days)	71.2	95.8	67.7	68.2	72.2	79.9
Net working capital (days)	31.2	8.6	5.1	22.6	38.7	66.0
EV/Sales (x)	1.5	1.1	0.8	0.5	0.3	0.2
EV/EBIDT (x)	4.0	6.3	7.6	3.7	1.9	1.2
P/E (x)	6.6	9.1	14.2	6.0	3.3	2.7
P/BV (x)	4.1	3.2	2.9	2.2	1.4	1.0

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