



NEUTRAL

Price	Rs388
Target Price	-
Investment Period	-

Stock Info	
Sector	Steel
Market Cap (Rs cr)	28,398
Beta	1.2
52 WK High / Low	784/ 146
Avg Daily Volume	3343445
Face Value (Rs)	10
BSE Sensex	14,765
Nifty	4,376
BSE Code	500470
NSE Code	TATASTEEL
Reuters Code	TISC.BO
Bloomberg Code	TATA@IN

Shareholding Pattern (%)	
Promoters	34.0
MF/Banks/Indian FIs	28.1
FII/ NRIs/ OCBs	13.2
Indian Public/others	24.7

Abs.	3m	1yr	3yr
Sensex (%)	47.6	2.4	47
Tata Steel (%)	89.4	(48.8)	(11.5)

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Performance Highlights

- Production cuts, fall in prices drag down Revenues:** For 4QFY2009, Tata Steel posted yoy consolidated Top-line de-growth of 30% to Rs24,788cr (Rs35,588cr). Revenues de-grew mainly due to decline in sales volumes, led by production cuts by Corus and Asian subsidiaries and steep fall in steel prices. Notably, total sales volumes declined 27.5% yoy to 5.9mn tonnes (8.1mn tonnes). Volumes declined by 39%, 43% and 50% yoy at Corus, Natsteel Asia (NSA) and Tata Steel, Thailand (TSTH), respectively. However, strong volume growth of 36.7% in TS India due to strong domestic demand supported Top-line. In FY2009 however, total deliveries fell by just 9.7% to 28.4mn tonnes (31.5mn tonnes) due to strong volume registered during 1HFY2009. Blended realisations for FY2009 was higher by 23.1% despite steep fall in prices during 2HFY2009 due to strong prices in the first half. For FY2009, the company delivered almost 11% yoy growth in consolidated Top-line to Rs1.45lakh cr (Rs1.31lakh cr).
- EBIDTA turns negative on Inventory write downs:** On the Operating front, Tata Steel registered a Loss of Rs1,610cr due to lower steel prices, higher iron ore and coking coal costs and inventory write downs. Decline in the market value of raw material inventory and finished goods impacted inventory valuations and led to inventory write down of Rs2,928cr, which negatively impacted Margins. Excluding inventory write down, EBIDTA came in positive at Rs1,318cr. Tata Steel's India operations also posted a substantial decline in Margins by 2,550bp yoy to 19.5% (45%) due to higher coking coal costs and fall in steel and ferro alloy realisations.
- Net Losses higher than expected:** The company reported Losses of Rs4,536cr during the quarter, as against our estimate of Rs497cr. Losses were higher due to the extraordinary Losses of Rs 3,194cr. For FY2009, net extraordinary Losses stood at Rs4,095cr on account of asset impairment, restructuring charges, etc. However, for FY2009, the company reported Profit of Rs4,950cr due to strong prices during 1HFY2009. Nonetheless, Profit was however lower by 60% from FY2008 levels.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	131,091	145,686	97,004	114,001
% chg	646.9	11.1	(33.4)	17.5
Reported Net Profit	12,350	4,951	2,713	4,927
% chg	192.5	(59.9)	(45.2)	81.6
FDEPS (Rs)	162.6	59.0	31.4	57.1
OPM (%)	13.2	11.3	12.3	13.1
P/E (x)	2.4	6.6	12.3	6.8
P/BV (x)	0.9	1.0	1.0	0.9
RoE (%)	50.6	14.9	8.1	13.4
RoCE (%)	21.0	15.4	8.1	11.2
EV/Sales (x)	0.6	0.6	0.8	0.6
EV/EBITDA (x)	4.5	5.0	6.1	4.9

Source: Company, Angel Research

Strong Indian operations...

The company's Indian operations registered strong growth during the quarter, with sales volume registering a hefty 36.7% yoy growth to 1.8mn tonnes (1.3mn tonnes). Pertinently, steel demand in India has recovered, which helped the company's Indian operations. Management has also guided for 20-25% growth in volumes of TS India in FY2010 led by capacity expansions of 2mn tonnes and strong demand in India. Accordingly, we have factored in sales volume growth of 25% to 6.3mn tonnes in FY2010.

...Europe drags

Demand in Europe continued to be weak. Corus had announced production cuts during October owing to the significant fall in demand in its key market of Europe. As a result, deliveries fell by almost 39% yoy during the quarter. Operations of NSA and TSTH were also impacted by the slowdown and volumes fell by 43% and 50% yoy, respectively.

Exhibit 1: Deliveries (mn tonnes)

Subsidiary	4QFY2009	4QFY2008	yoy%	FY2009	FY2008	yoy%
Tata Steel India	1.8	1.3	37.6	5.2	4.8	9.4
Corus	3.5	5.7	(38.6)	19.7	22.8	(13.6)
Natsteel	0.4	0.7	(42.9)	2.4	2.5	(4.0)
Millennium Steel	0.2	0.4	(50.0)	1.1	1.4	(21.4)
Total	5.9	8.1	(27.5)	28.4	31.5	(9.7)

Source: Company, Angel Research

Downgrade volume estimates for Corus

Following production cuts of 40% announced by Corus during October 2008 continuing and management guiding for around 67% average utilisation in FY2010, we downgrade our sales volume estimates by 8% to 17.1mn tonnes in FY2010.

FY2009 was strong due to better first half

Despite the steep fall in steel prices globally post October 2008, Tata Steel managed to deliver 11% yoy growth in group revenues mainly due to the strong prices during 1HFY2009. Corus had hiked prices several times in the first half of FY2009 to pass on the increase in coking coal and iron ore costs. Consequently, blended realisation has been higher by 23.1% in FY2009 at Rs51,243 (Rs41,640)

Exhibit 2: Consolidated Volumes, Realisations

Particulars	FY2009	FY2008	yoy %
Total Shipment (mn tonnes)	28.4	31.5	(9.7)
Net Revenues (Rs cr)	1,45,686	1,31,091	11.1
Blended Realisations (Rs/tonne)	51,243	41,640	23.1

Source: Company, Angel Research

Tata Steel India – Near-term expansion plans on track

Tata Steel India enhanced capacity from 5mtpa to 7mtpa during 1HFY2009 with the setting up of the new H - Blast furnace. The company expects to further raise its steel capacity to 10mtpa by December 2010 at Jamshedpur.

Exhibit 3: Capacity Expansion plans (mtpa)

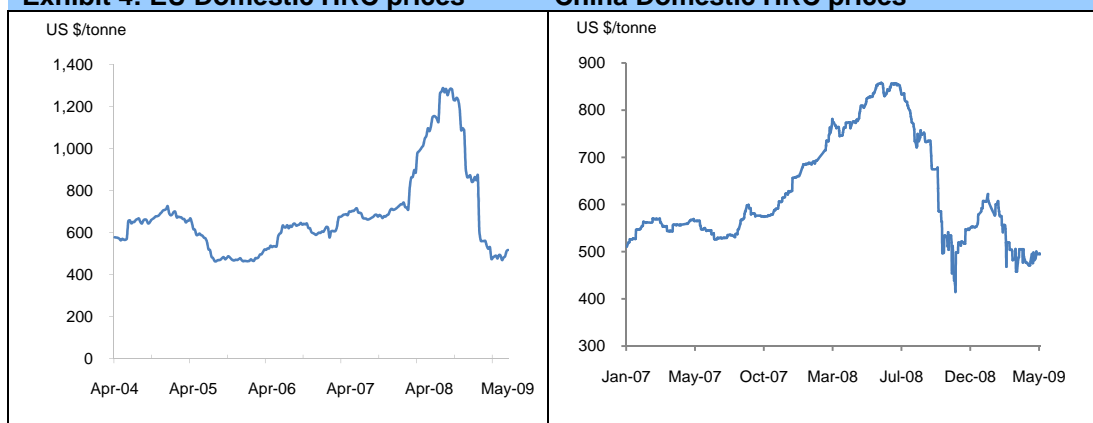
Location	Project Type	Capacity Expansion	Expanded Capacity	Timeline
Jamshedpur	Brownfield	1.8	6.8	Commissioned
Jamshedpur	Brownfield	3	10	Dec '10
Orissa I	Greenfield	3	13	2011
Orissa II	Greenfield	3	16	2014

Source: Company

However, its long-term green-field expansions plans at Jharkhand and Chattisgarh are on hold, except the Orissa Phase I, which is to be completed by 2011.

Steel prices on recovery path

Steel price in most of the regions have recovered off late as de-stocking has eased out considerably and re-stocking has gathered pace as global fundamentals seem to be improving. The weak US Dollar also has supported the up move in the prices as exporters have to adjust the prices to maintain Profitability at the local currency. Altogether, prices have increased by 5-10% across the major regions. CIS export prices have recovered by US \$50/tonne to US \$390/tonne since hitting a bottom of US \$340/tonne in March 2009, while prices in the European region have increased by US \$70-80 to US \$527/tonne now. Going ahead, although a sudden improvement in the demand-supply scenario is not envisaged, overall prospects of the Steel Sector has certainly changed for the better as the economic scenario the world-over is improving. Chinese domestic prices have strengthened since the last one month as steel demand seems to have picked up owing to the ongoing construction season and stable demand from Auto and Home Appliances Sectors. Prices have recovered 21% to US \$556/tonne in June since hitting the bottom of US \$458/tonne in March 2009. Prices in the Chinese market strengthen as domestic demand has increased considerably owing to Chinese stimulus package and restoration of inventory re-stocking by Chinese traders. We believe that with the expected recovery in global economy, steel prices are set to improve and unlikely to fall significantly hereon.

Exhibit 4: EU Domestic HRC prices
China Domestic HRC prices


Source: Bloomberg, Angel Research

Outlook and Valuation

We are pruning our FY2010 consolidated EPS estimates by 24.2% on account of the continued production cuts at the company's European operations and persistent weakness in prices. We also introduce our FY2011 estimates, with an EPS of Rs57.1.

However, we believe that the worst is over for Tata Steel and its Earnings have bottomed out. We expect an improvement in the global steel environment heron with a visible improvement in the steel prices globally and in the European markets. Moreover, Coking coal and Iron ore costs have also declined by a substantial 60% and 33% respectively, in the new contracts which have got negotiated globally, and which will help improve performance of Corus going ahead. Tata Steel has been successful in negotiating with its lenders on the debt covenants and the lenders have unanimously agreed on the freezing of covenants till March 2010 and would be relaxed thereafter. We believe this is a positive development for Tata Steel.

At the CMP of Rs388, Tata Steel is trading at a P/E of 6.8x, EV/EBIDTA of 4.9x and P/B of 0.9x on FY2011 estimates. We assign mid-cycle EV/EBIDTA of 5.5x to the company's Indian operations, due to the strong volume growth, robust demand in India and a better pricing environment. However, we assign EV/EBIDTA of 4x to Corus and other subsidiaries due to its non-integrated operations, comparatively lower visibility in demand and prices and high leverage. **We upgrade the stock from Reduce to Neutral and arrived at a Fair Value of Rs402, at which level the stock will trade at a P/E of 7x and P/B of 0.9x.**

Exhibit 5: Valuation Matrix

	FY 11 EBIDTA (Rs cr)	Target EV/EBIDTA (x)	EV (Rs cr)
Tata Steel	9,720	5.5	53,459
Corus	4,689	4.0	18,755
NSA + TTH	560	4.0	2,238
Total EV			74,451
Debt			50,000
Cash			10,211
Market Cap			34,662
No. of shares			86.3
Target Price			402

Exhibit 6: 4QFY2009 Performance (Consolidated)

Y/E March (Rs cr)	4QFY09	4QFY08	% chg	FY2009	FY2008	% chg
Net Sales	24,788	25,588	(30.3)	145,686	131,091	11.1
Consumption of Raw Material (% of Net Sales)	11,625 46.9	7,961 22.4	46.0	43,508 29.9	31,610 24.1	37.6
Purchase of Trading Goods (% of Net Sales)	3,554 14.3	7,887 22.2	(54.9)	31,406 21.6	26,969 20.6	16.0
Power & Fuel (% of Net Sales)	1,130 4.6	1,425 4.0	(20.7)	5,957 4.1	4,929 3.8	20.9
Staff Costs (% of Net Sales)	3,861 15.6	4,606 12.9	(16.2)	17,975 12.3	16,900 12.9	6.0
Freight & Handling (% of Net Sales)	1,304 5.3	1,479 4.2	(11.8)	6,025 4.1	6,039 4.6	(0.2)
Other expenses (% of Net Sales)	4,923 19.9	8,175 23.0	(39.8)	24,331 16.7	27,304 20.8	(10.9)
Total Expenditure	26,398	31,534	(16.3)	129,202	113,751	13.6
Operating Profit	(1,610)	4,055	-	16,485	17,340	(4.9)
OPM (%)	(6.5)	11.4		11.3	13.2	
Interest	733.7	804.1	(8.8)	3,290	4,085	(19.5)
Depreciation	928	1,099	(15.6)	4,265	4,137	3.1
Other Income	1,740	529.8	228.4	1,909	919	107.8
Exceptional Items	(3,194)	5,797		(4,095)	6,335	
Profit Before Tax	(4,726)	8,478	(155.7)	6,743	16,371	(58.8)
(% of Net Sales)	(19.1)	23.8		4.6	12.5	
Current Tax (% of PBT)	(224.8) 14.7	1,366 51.0	(116.5)	1,894 17.5	4,049 40.3	(53.2)
Profit After Tax	(4,501)	7,111	(163.3)	4,849	12,322	(60.6)
PAT after MI & Assc.	(4,536)	7,069	-	4,951	12,350	(59.9)
(% of Net Sales)	(18.3)	19.9		3.4	9.4	

Source: Company, Angel Research



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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)