

February 18, 2010

Rating	BUY
Price	Rs585
Target Price	Rs656
Implied Upside	12.1%
Sensex	16,429

(Prices as on February 17, 2010)

Trading Data

Market Cap. (Rs bn)	518.5
Shares o/s (m)	886.5
Free Float	68.8%
3M Avg. Daily Vol ('000)	13,147.3
3M Avg. Daily Value (Rs m)	7,634.0

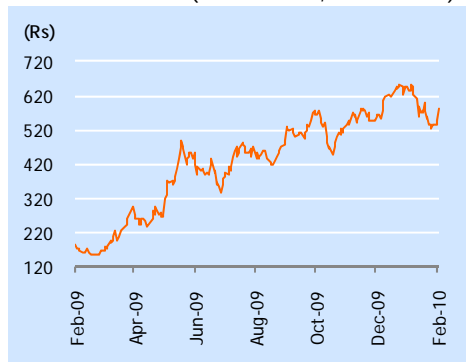
Major Shareholders

Promoters	31.2%
Foreign	16.9%
Domestic Inst.	27.1%
Public & Others	24.8%

Stock Performance

(%)	1M	6M	12M
Absolute	(9.9)	27.2	235.9
Relative	(2.6)	18.4	154.4

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



Source: Bloomberg

- **Earnings in line with expectations:** Tata Steel posted PAT of Rs4.32bn; this was in line with our expectation of Rs4.48bn. Earnings included a hit of Rs1.96bn (US\$42m) on account of undergoing restructuring at European operations.
- **Corus back in black:** Corus posted an EBITDA of US\$142m well above our expectation of US\$82m on the back of better-than-expected realisations and realisation of higher savings associated with various cost cutting initiatives. Corus operations reported EBITDA per tonne of US\$37 against loss per tonne of US\$52 in the previous quarter. South East Asian operations (Nat steel + Tata steel Thailand) reported EBITDA of US\$23m. This was well below our expectation of US\$44m on account of higher scrap cost and lower realisations.
- **Mothballing of TCP within few weeks:** As part of the restructuring activity, company would initiate the much awaited mothballing proceedings at Teesside operations. This would involve reduction of 1600 people in the employee head count. However, the downstream facilities will continue to operate which includes beam mill and tube mill. We expect higher restructuring cost associated with employee severance cost during next quarter.
- **Outlook and valuation:** Consistent improvement in the underlying demand (reflected in higher utilisation rates) in Europe along with improved realisations (fair enough to cover up the inflation in input prices and generate decent EBITDA margins) and significant savings in the cost associated with various initiatives undertaken by the company, motivated us to upgrade our rating on the stock from 'Reduce' to 'BUY'. At CMP, stock trades at P/E of 8.0x and 6.9x FY11E and FY12E, respectively, while on EV/EBITDA of 6.1x and 5.2x FY11E and FY12E, respectively.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	1,473,293	1,046,038	1,162,603	1,196,180
Growth (%)	12.0	(29.0)	11.1	2.9
EBITDA (Rs m)	181,277	71,284	165,675	190,523
PAT (Rs m)	90,454	(12,931)	64,570	75,407
EPS (Rs)	102.0	(15.2)	72.8	85.1
Growth (%)	50.4	-	-	16.8
Net DPS (Rs)	16.0	2.0	8.0	8.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	11.8	6.8	14.3	15.9
RoE (%)	18.9	(5.4)	21.4	20.7
RoCE (%)	11.1	8.9	9.4	10.1
EV / sales (x)	0.7	1.0	0.9	0.8
EV / EBITDA (x)	5.7	15.0	6.1	5.2
PE (x)	5.7	(38.5)	8.0	6.9
P / BV (x)	6.2	4.4	2.9	2.1
Net dividend yield (%)	2.7	0.3	1.4	1.4

Source: Company Data; PL Research

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Q2FY10 Result Overview

(Rs m)

Y/e March	Q3FY10	Q3FY09	YoY gr. (%)	Q2FY10	9MFY10	9MFY09	YoY gr. (%)
Net Sales	262,020	331,993	(21.1)	253,950	748,894	1,208,760	(38.0)
Raw Material	104,828	183,165	(42.8)	118,589	342,268	596,315	(42.6)
<i>% of Net Sales</i>	<i>40.0</i>	<i>55.2</i>		<i>46.7</i>	<i>45.0</i>	<i>46.0</i>	
Staff Costs	41,999	44,556	(5.7)	43,608	125,232	140,163	(10.7)
<i>% of Net Sales</i>	<i>16.0</i>	<i>13.4</i>		<i>17.2</i>	<i>16.7</i>	<i>11.6</i>	
Power & Fuel	10,845	14,460	(25.0)	10,128	30,636	48,306	(36.6)
<i>% of Net Sales</i>	<i>4.1</i>	<i>4.4</i>		<i>4.0</i>	<i>4.0</i>	<i>5.0</i>	
Freight and handling	14,451	13,992	3.3	14,580	40,594	47,376	(14.3)
<i>% of Net Sales</i>	<i>5.5</i>	<i>4.2</i>		<i>5.7</i>	<i>5.1</i>	<i>6.1</i>	
Other Expenses	60,393	47,034	28.4	63,328	177,238	192,191	(7.8)
<i>% of Net Sales</i>	<i>23.0</i>	<i>14.2</i>		<i>24.9</i>	<i>23.7</i>	<i>15.9</i>	
Write-down of inventory	-	17,440		-		17,440	
<i>% of Net Sales</i>	<i>-</i>	<i>5.3</i>		<i>-</i>		<i>5.3</i>	
Total Expenditure	232,514	320,646	(27.5)	250,232	715,969	1,041,791	(31.3)
EBITDA	29,506	11,346	160.0	3,718	32,925	166,969	(80.3)
<i>Margin (%)</i>	<i>11.3</i>	<i>3.4</i>		<i>1.5</i>	<i>4.4</i>	<i>13.8</i>	
Depreciation	11,547	10,852	6.4	11,535	33,972	33,371	1.8
Other income	4,099	352	1,066.2	179	6,318	1,623	289.3
EBIT	22,058	846	NA	(7,638)	5,271	135,221	(96.1)
Interest	7,630	9,114	(16.3)	7,172	23,621	25,566	(7.6)
PBT	14,428	(8,268)	LTP	(14,810)	(18,350)	109,654	-
Extraordinary income/(expense)	(1,957)	(2,255)		(9,113)	(13,258)	(12,402)	
PBT (After EO)	12,471	(10,523)	LTP	(23,923)	(31,608)	97,253	-
Tax	8,148	(405)	LTP	3,275	13,652	21,188	(35.6)
<i>% PBT</i>	<i>65.3</i>	<i>3.9</i>		<i>(13.7)</i>	<i>(43.2)</i>	<i>21.8</i>	
Reported PAT	4,323	(10,118)	LTP	(27,198)	(45,261)	76,065	-
Profit incl. Associates and MI	4,727	8,139	(41.9)	(27,073)	(44,433)	94,864	-
Adjusted PAT	6,280	(7,863)	LTP	(18,085)	(32,003)	88,466	-



Territory-Wise Performance

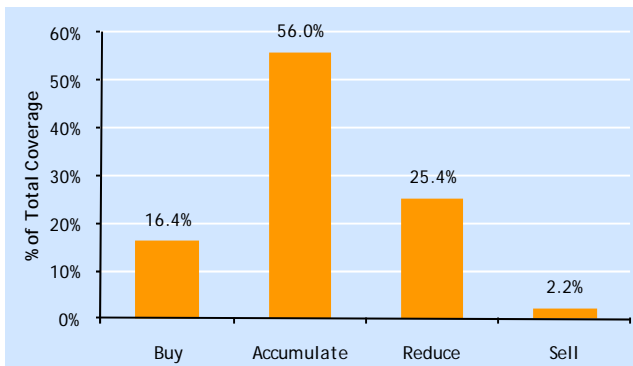
Y/e March	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Indian Operations						
Revenue (Rs m)	67,259	47,506	64,290	55,540	56,299	63,075
EBITDA (Rs m)	30,929	14,149	13,790	16,807	18,600	20,895
Sales volume (m tonnes)	1.2	1.1	1.8	1.4	1.5	1.6
EBITDA per tonne (Rs)	25,351	13,201	7,749	11,854	12,768	13,088
UK & European Operations						
Revenue (USD m)	6,737	5,381	3,700	3,179	3,486	3,602
EBITDA (USD m)	994	358	(378)	(387)	(375)	142
Sales volume (m tonnes)	5.6	4.3	3.5	3.3	3.9	3.8
EBITDA per tonne (USD)	178	83	(108)	(117)	(96)	38
South east Asian operations						
NATSTEEL						
Revenue (USD m)	586	348	993	507	378	351
EBITDA (USD m)	24	(16)	3	9	20	15
Sales volume tonne (m tonnes)	0.700	0.373	0.400	0.540	0.680	0.643
EBITDA per tonne (USD)	34	(43)	8	17	29	23
Tata Steel Thailand						
Revenue (USD m)	271	133	77	133	176	171
EBITDA (USD m)	18	(79)	8	1	18	8
Sales volume tonne (m tonnes)	0.278	0.253	0.230	0.265	0.298	0.294
EBITDA per tonne (USD)	65	(312)	27	4	60	27

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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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