

January 19, 2011

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Issue Details

Date	19 Jan — 21 Jan
Price Band (Rs)	594- 610
Offer size (Rs)	33.9- 34.8 bn
Offer size (shares)	57 mn
M.Cap (Rs)	570.2 bn

Share holding (mn shares)	Pre Issue	Post Issue
Promoters	293.0	293.0
Institutions	383.9	411.7
Non institutions	30.8	39.1
Public & others	194.5	215.4
Total shareholding	902.2	959.2

Share holding (%)	Pre Issue	Post Issue
Promoters	32.5	30.5
Institutions	42.6	42.9
Non institutions	3.4	4.1
Public & others	21.6	22.5
Total shareholding	100.0	100.0

Issue Composition (shares)	mn
Total No of shares on offer	57.0
QIB	27.8
NIB	8.3
Retail and Employee	20.9

* Post issue calculation is done assuming full subscription of the allocated quota

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- **Tata Steel announced to issue 57 million shares as follow on public offering including 1.5 million shares for the employees**
- **At the higher and lower ends of the price band, the company would mop up Rs 34.8 billion and Rs 33.9 billion respectively**
- **On fully subscription, there would be an equity dilution of 6.3% and at the extended equity base the promoters' stake would come down to 30.5% from 32.5%**
- **At our target price of Rs 712, on the upper end of the offer price band the stock has a potential upside of 17%. Recommend SUBSCRIBE**

Raised amount to be used in easing debt burden, domestic expansion

As per the RHP filed by the company, the funds would be used mainly to de-leverage the balance sheet (Rs 10.9 billion) as well as to fund its 2.9 million tonnes expansion project at Jamshedpur (Rs 18.75 billion). At the end of the Q2FY11, the company's gross debt had gone up to US\$12.5 bn (Rs 561.8 bn) and the net debt stood at US\$10.7 bn (Rs 480.96 bn). On the expansion front, till the end of the Q2FY11, Tata Steel has spent Rs 57.32 bn towards the 2.9 mtpa brownfield expansion out of a total capex of Rs 139 bn. For H2FY11 a sum of Rs 29.63 bn was earmarked. As per the management, the project is likely to be commissioned during December 2011.

Continuous focus on de-leveraging

Tata Steel has been on a continuous process of restructuring its balance sheet to be able to ease pressure of debt overhang including debt restructuring at Tata Steel Europe, issue of warrants and preferential shares to promoters, issue of GDRs etc. We feel the operational headwinds in the European operations in terms of higher raw material costs are not going to be over in the near term. The company has been thus carefully engaged into balance sheet restructuring and securing raw materials integration. In this context, we believe, this is very conscious approach on the part of the management to keep the company ready to grab the maximum benefits as and when the industry as a whole comes out of the near- term challenges.

Outlook and Valuations

We believe higher raw material costs especially for coking coal and iron ore would continue to have their negative impact on the industry as a whole. Though, the Indian operation is almost insulated to this due to better backward integration, however, the European operation would continue to feel the pain in the near- medium term. Despite this, the strategy by the company to strengthen its balance sheet and partially integrate its European operation from H2FY12, helps us to maintain a positive view on the stock. At the CMP of RS 632, the stock is trading at 6.2x its FY12E EPS and 4.1x FY12E EV/ EBITDA. We maintain our target price of Rs 712/ share on the stock and assign ACCUMULATE rating on the stock.

Exhibit 1: Financials

(Rs bn)

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	1,456.9	181.3	12.4	49.5	60.4	-63.0	17.4	9.3	5.2	3.7
FY10	1,017.6	80.4	7.9	-20.1	-22.6	PL	-8.5	-27.9	12.1	6.8
FY11E	1,116.5	172.5	15.5	76.4	79.7	LP	22.6	7.3	5.2	2.9
FY12E	1,230.2	199.7	16.2	90.0	92.7	16.3	21.5	6.2	4.2	1.9

LP- Loss to profit, PI- Profit to loss

Recent balance sheet restructuring methods used by the company

The company has already taken various measures to restructure its balance sheet in recent past. These are a) during September 2010 it signed Senior Facilities Agreement (SFA) with a syndicate of 13 banks to replace in full the £3.53 billion term loan and revolving credit facilities entered into during the Corus Group acquisition in 2007. The new financing structure was in two parts: a 5-year loan of €2.2 billion and a 7-year loan of €0.9 billion and US\$0.4 billion. The revolving credit facilities for working capital purposes were increased to £690 million and will have a tenor of 5 years, b) issue of up to 15 million ordinary Shares and up to 12 million warrants on preferential allotment basis to the promoters at a price of Rs 594 per share per warrant in July 2010, c) in November 2009 the company launched an exchange offer for its existing US\$875 million Convertible Alternative Reference Securities (CARS) due 2012 with the new FCCB with a purpose to defer the repayment liability and reduce the interest outgo, d) issuing of GDRs to raise a gross amount of US\$500 million in July 2010.

Deployment of the proceeds from the FPO

The company intends to deploy majority of the proceeds from the FPO to restructure its debt and also in its 2.9 mtpa brownfield expansion at Jamshedpur in a phased manner. Rest amount (~Rs 5120 million) would be used in general corporate purpose

Exhibit 2: Proposed deployment of funds from the FPO

Project/ Activity	Total	Time period		
		FY11	FY12	FY13
Part finance the capex for brownfield expansion at Jamshedpur	18750	1000	15000	2750
Payment of redemption amounts on maturity of certain NCDs issued on a private placement basis	10900	-	10900	-
General corporate purpose*	5120			
Total	34770			

* taking the final subscription price at Rs 610/ share

Source: Company RHP, Emkay Research

Financials (consolidated)

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	1,456,863	1,017,578	1,116,499	1,230,168
<i>Growth (%)</i>	10.8	-30.2	9.7	10.2
Expenditure	1,292,016	943,505	948,944	1,035,454
Raw Materials	415,317	310,045	323,607	360,049
Freight & handling	60,249	55,491	59,230	64,146
Employee Cost	179,751	164,630	153,044	167,253
Other Exp	105201.7	72338.34	73667.04	80405.48
EBITDA	181,277	80,427	172,546	199,715
<i>Growth (%)</i>	-2.4	-55.6	114.5	15.7
EBITDA margin (%)	12.4	7.9	15.5	16.2
Depreciation	42653.9	44917.3	44455.05	45805.05
EBIT	138,623	35,509	128,091	153,910
EBIT margin (%)	9.5	3.5	11.5	12.5
Other Income	2656.7	11858.5	11311	5000
Interest expenses	32901.8	30220.6	27793.76	27775.72
PBT	108,378	17,147	111,608	131,134
Tax	18940	21518.4	34724.18	42061.95
<i>Effective tax rate (%)</i>	17.5	125.5	31.1	32.1
Adjusted PAT	89,438	-4,371	76,884	89,072
(Profit)/loss from JV's/Ass/MI	1016.6	1116.2	456.5	900
Adjusted PAT after MI	90,454	-3,255	77,340	89,972
<i>Growth (%)</i>	-58.8	PL	LP	16.3
Net Margin (%)	6.2	14.1	14.3	15.1
E/O items	-49941.1	-16837.2	-914.6	0
Reported PAT	40,513	-20,092	76,426	89,972
<i>Growth (%)</i>	-59.9	PL	LP	17.7

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	64,776	-11,549	99,383	126,134
Depreciation	42,654	44,917	44,455	45,805
Interest Provided	32,902	30,221	27,794	27,776
Chg in working cap	69,403	103,746	-12,438	-15,895
Tax paid	-18,940	-21,518	-34,724	-42,062
Operating Cashflow	156,959	104,710	165,548	142,647
Capital expenditure	32,600	-17,803	-41,000	-65,000
Free Cash Flow	189,559	86,907	124,548	77,647
Other income	2,657	11,859	11,311	5,000
Investments	-143,476	-41,021	-30,000	0
Investing Cashflow	-140,819	-29,163	-18,689	5,000
Equity Capital Raised	1	-53,160	720	120
Loans Taken / (Repaid)	62,758	-68,001	-51,325	-33,500
Interest Paid	-32,902	-30,221	-27,794	-27,776
Dividend paid (incl tax)	-14,950	-8,300	-10,500	-10,500
Income from investments	0	0	0	0
Others	17,259	-194,433	0	0
Financing Cashflow	-27,548	-51,350	-88,898	-71,655
Net chg in cash	21,192	6,394	16,960	10,992
Opening cash position	40,291	61,484	67,878	84,838
Closing cash position	61,484	67,878	84,838	95,830

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	62027.8	8867.4	9587.4	9707.4
Reserves & surplus	223,241	228,387	328,943	408,415
Net worth	285,269	237,254	338,530	418,122
Minority Interest	8948.8	8840.7	8840.7	8840.7
Secured Loans	342,439	280,593	261,612	243,112
Unsecured Loans	256,566	250,410	218,067	203,067
Loan Funds	599,005	531,004	479,679	446,179
Net deferred tax liability	17094.3	16541	16541.1	16541.1
Total Liabilities	912,790	794,336	853,402	899,494
Gross Block	994,587	972,890	1,002,890	1,032,890
Less: Depreciation	630,832	608,126	652,581	698,386
Net block	363,755	364,764	350,309	334,504
CWIP	89300.7	93194	121944.3	141944.3
Investment	64,111	54,178	54,178	54,178
Current Assets	408,555	371,063	381,637	439,383
Inventories	216,687	186,866	177,794	197,640
Sundry debtors	130,316	116,240	106,676	118,584
Cash & bank balance	61,484	67,878	97,088	123,080
Loans & advances	130,157	67,615	78,155	86,112
Other current assets	0	0	0	0
Current lia & Prov	302,510	299,827	279,294	303,110
Current liabilities	230,933	233,886	213,353	237,168
Provisions	71,577	65,942	65,942	65,942
Net current assets	236,202	138,851	180,498	222,385
Total Assets	912,790	794,336	853,402	899,494

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	12.3	7.9	15.5	16.2
Net Margin	3.4	-2.0	6.8	7.3
ROCE	15.6	5.6	17.1	18.4
ROE	16.1	-8.0	27.0	23.8
RoIC	19.4	5.7	22.5	27.0
Per Share Data (Rs)				
EPS	67.8	-22.7	79.7	92.7
CEPS	126.2	28.0	136.3	168.4
BVPS	169.1	93.3	217.8	338.3
DPS	15.4	7.3	10.0	10.0
Valuations (x)				
PER	9.3	-27.9	7.3	6.2
P/CEPS	5.0	22.6	4.6	3.8
P/BV	3.7	6.8	2.9	1.9
EV / Sales	0.6	1.0	0.8	0.7
EV / EBITDA	5.2	12.1	5.0	4.1
Gearing Ratio (x)				
Net Debt/ Equity	1.9	2.0	1.2	0.8
Net Debt/EBITDA	3.0	5.8	2.3	1.8

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