

Tough times continue, maintain sell

Tata Steel reported consolidated PAT loss of ~Rs3.6bn as performance across operations worsened on account of severe realisations drop amidst demand crunch. Consolidated EBITDA dropped ~32% QoQ and stood at Rs23bn (margin of 6.8%, down by 330 bps QoQ) as domestic operations witnessed sharp fall of 5.8% in sequential realisations and continued to see higher operational costs resulting in standalone EBITDA margin of 27.9%, the lowest in the past 14 qtrs. We expect the sequential fall in realizations to continue albeit at a lower clip and expect overall profitability to remain under pressure going forward. We revise our estimates lower further and remain well below consensus with our continued negative stance on the European operations, lower margin profile in domestic operations on reduced backward integration post expansion and high interest costs on account of the large debt pile. We maintain sell with a revised lower target price of Rs330.

- **Standalone results worsen due to sustained higher costs:** Domestic sales volume stood at ~1.7MT and realizations dropped by 5.8% QoQ on account of pressure on domestic demand, high imports and falling global steel prices. Costs remained high on power & fuel, freight and other expenses which led to lowest EBITDA/tonne of ~Rs14500 in standalone business since Q3FY10.
- **Margin pressure across operations:** Cons. EBITDA stood at ~Rs23bn (down by ~32% QoQ and 16% YoY) with a margin of 6.8% (well below our expectation of 9.1%). Margin pressure was witnessed across operations with domestic operations having a margin of 27.9% (EBITDA/tonne of ~US\$263), European operations reported negative EBITDA/tonne of ~US\$2 and South-East Asian operations had a margin of 0.6% (EBITDA/tonne of ~US\$5/tonne). This was mainly due to the sharp fall in realizations and we see realizations in Europe and domestic markets remaining under pressure in H2FY13 on account of slow industrial activity and lacklustre demand, lower raw material prices and import pressure from China & CIS markets.

Y/E Mar-Cons (Rsmn)	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)	Q2FY13E	Var (%)
Net sales	338,673	325,075	4.2	335,477	1.0	321,595	5.3
Raw materials	105,349	108,318	(2.7)	115,846	(9.1)	106,326	(0.9)
% of net sales	31.1	33.3		34.5		33.1	
Employee costs	45,393	39,811	14.0	47,825	(5.1)	45,525	(0.3)
% of net sales	13.4	12.2		14.3		14.2	
EBITDA	23,101	27,500	(16.0)	34,033	(32.1)	29,253	(21.0)
EBITDA margin (%)	6.8	8.5		10.1		9.1	
Depreciation	13,349	11,088	20.4	13,080	2.1	13,329	0.1
Interest	9,721	7,161	35.7	9,690	0.3	10,907	(10.9)
Other income	2,018	1,204	67.5	2,894	(30.3)	2,165	(6.8)
Exceptional items	427	0		0		0	
PBT	2475	10456	(76.3)	14157	(82.5)	7,182	(65.5)
Tax	6608	9065	(27.1)	8,986	(26.5)	6,867	(3.8)
PAT	(4,133)	1390	PL*	5170	PL*	315	PL*
Minority Interest	275	542	(49.2)	399	(31.0)	375	(26.6)
Profit/loss of asst.	218	192	13.6	410	(46.7)	625	(65.1)
PAT (rep.)	(3,639)	2124	PL*	5,979	PL*	1,315	PL*
PAT (adj.)	(3,639)	2124	PL*	5,979	PL*	1,315	PL*

*Profit to loss

Source: Company, Centrum Research

- **Conference call highlights and outlook:** Guidance of incremental volume of ~1MT in FY13E from 2.9mtpa expansion was maintained and the company targets to exit FY13E near full capacity of 9.7mtpa. Costs were higher in domestic operations due to outside coke purchase and high power costs but are expected to come down post new coke oven battery installations in Q4FY13E. Volumes in Europe will remain under pressure due to low demand and the holiday season ahead but management expects to maintain flat volumes for FY13E. Steel prices are under pressure in all markets and are expected to be lower sequentially going ahead but higher fall seen in Q2FY13 could lead to lower fall in Q3FY13E. Outstanding net debt increased to ~US\$10.4bn due to incremental debt funding for capex programs. European operations pension funds triennial revaluation has been completed and a deficit of GBP 500mn has been established which would be recovered over a 15 year period and involve minimum cash outflows in initial few years. We revise our volume estimates slightly higher for European operations to 13.5 MT of sales volume but lower EBITDA/tonne of US\$15 in FY13E. We maintain our standalone volume estimates but expect lower EBITDA margin of 29.6%/30.3% in FY13E/14E as integration on the coking coal front would drop post expansion and product mix will get skewed towards flats, keeping overall realizations lower than before. We revise our consolidated EBITDA estimates lower by 7.2%/4.9% for FY13E/14E.

- **Maintain Sell:** We value the company on SOTP basis with domestic operations at 5.5x FY14E EV/EBITDA and Corus & South-east Asian subsidiaries at 4.5x FY14E EV/EBITDA to arrive at a target price of Rs330. Maintain Sell.

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	RoE (%)	RoCE (%)	Adj. dil. EPS (Rs)	PE (x)	PB (x)	EV/EBITDA (x)
FY11	1,187,531	16.0	167,467	14.1	59,368	NA	16.1	11.9	57.1	6.3	1.1	5.0
FY12	1,328,997	11.9	124,168	9.3	53,898	(9.2)	13.0	7.3	51.8	7.0	1.0	7.4
FY13E	1,350,385	1.6	131,855	9.8	21,921	(59.3)	5.2	7.2	21.1	17.3	1.0	7.2
FY14E	1,412,313	4.6	167,208	11.8	47,060	114.7	10.2	9.7	45.3	8.1	0.9	5.9
FY15E	1,503,460	6.5	189,990	12.6	61,255	30.2	12.0	10.8	58.9	6.2	0.8	5.3

Source: Company, Centrum Research Estimates

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Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Key Data

Target Price	Rs330	Bloomberg Code	TATA IN
CMP	Rs391*	Reuters Code	TISC.BO
Downside	15.5%	Current Shares O/S (mn)	971.2
Stock to Sector	Underperform	Diluted Shares O/S(mn)	971.2
Sector to Market	Underperform	Mkt Cap (Rsbn/USDbn)	379.3/6.9
Price Performance (%)*		52 Wk H / L (Rs)	501/332
	1M	6M	1Yr
Tata Steel	(5.1)	(6.0)	(12.7)
NIFTY	0.2	15.4	10.0
		Daily Vol. (3M NSE Avg.)	4,149,157
		Face Value (Rs)	10
		1 USD = Rs54.8	

Source: Bloomberg, Centrum Research

*as on 09 November 2012

Operational Metrics

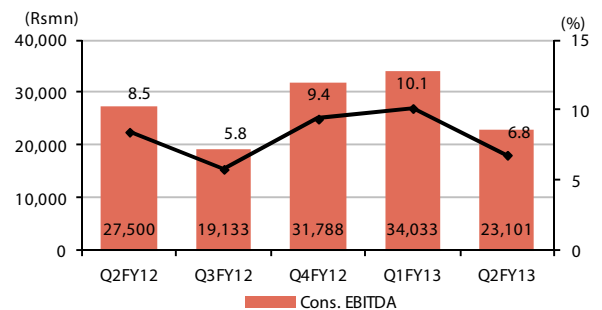
(Operations *,**)	Q2FY13	Q2FY12	Q1FY13	YoY (%)	QoQ (%)	FY13E
India						
Sales Volume	1.7	1.7	1.6	4.8	8.8	7.6
Blended realtzn/t	946	1,077	1,023	(12.2)	(7.6)	1,004
EBITDA/tonne	263	367	323	(28.1)	(18.3)	297
EBITDA Margin %	27.9	34.0	31.5			29.6
Europe (Corus)						
Sales Volume	3.4	3.6	3.2	(4.2)	6.5	13.5
Blended realtzn/t	1,076	1,294	1,173	(16.9)	(8.3)	1,125
EBITDA/tonne	(2)	31	36	(106.9)	(105.9)	15
EBITDA Margin %	(0.2)	2.4	3.0			1.3
South East Asia						
Sales Volume	0.8	0.8	0.7	(1.3)	6.9	3.0
Blended realtzn/t	824	873	864	(5.6)	(4.6)	850
EBITDA/tonne	5	7	24	(27.4)	(79.6)	15
EBITDA Margin %	0.6	0.8	2.8			1.8
USD/INR (Average)	55.2	45.8	54.2			53.0

* Sales volume in MT, realisation and EBITDA (excl exceptional items) in US\$/tonne

** Per tonne realisation and EBITDA calculated by taking average US\$/INR for the quarter

Source: Company, Centrum Research Estimates

EBITDA and EBITDA Margin (Cons)



Source: Company, Centrum Research

Earning Revision (Consolidated)

(Rsbn)	FY13E			FY14E		
	Rev.	Prev.	Chg (%)	Rev.	Prev.	Chg (%)
Net Sales	1350.4	1325.0	1.9	1412.3	1450.3	(2.6)
EBITDA	131.9	142.0	(7.2)	167.2	175.8	(4.9)
EBITDA %	9.8	10.7		11.8	12.1	
PAT-adj	21.9	30.3	(27.5)	47.1	54.1	(12.9)
India						
Steel volumes (mt)	7.6	7.6	0.0	8.7	8.7	0.0
EBITDA (Rs/tonne)	15727	16484	(4.6)	16063	16623	(3.4)
Europe						
Steel volumes (mt)	13.5	13.0	3.8	14.0	14.0	0.0
EBITDA (US\$/tonne)	15	25	(40.0)	30	35	(14.3)

Source: Company, Centrum Research Estimates

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Financials (Consolidated)

Exhibit 1: Income Statement

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Revenues	1,187,531	1,328,997	1,350,385	1,412,313	1,503,460
Growth in revenues (%)	16.0	11.9	1.6	4.6	6.5
Raw material consumed	387,486	454,575	445,371	468,347	494,578
% of net sales	32.6	34.2	33.0	33.2	32.9
Pur. of semi/finished goods	158,904	210,734	191,763	173,316	183,316
% of net sales	13.4	15.9	14.2	12.3	12.2
Employee expenses	158,402	172,286	171,533	176,173	188,788
% of net sales	13.3	13.0	12.7	12.5	12.6
Power & Fuel	40,148	49,155	49,867	54,301	57,467
% of net sales	3.4	3.7	3.7	3.8	3.8
Other expenses	224,789	259,342	288,108	297,225	309,680
% of net sales	18.9	19.5	21.3	21.0	20.6
Total expenses	1,020,065	1,204,829	1,218,530	1,245,105	1,313,470
% of net sales	85.9	90.7	90.2	88.2	87.4
EBITDA	167,467	124,168	131,855	167,208	189,990
YoY growth (%)	108.2	(25.9)	6.2	26.8	13.6
EBITDA Margin (%)	14.1	9.3	9.8	11.8	12.6
Depreciation & Amortisation	44,148	45,167	53,318	57,713	62,013
EBIT	123,319	79,001	78,538	109,494	127,977
Interest expenses	39,558	42,501	43,628	43,664	43,700
Other Income	6,800	15,730	11,575	12,154	12,762
EBT bef. Excep. Items	90,561	52,231	46,485	77,985	97,038
Excep. items	30,459	33,619	-	-	-
EBT	121,020	85,850	46,485	77,985	97,038
Provision for tax	32,459	36,365	28,564	34,925	39,783
Effective tax rate (%)	26.8	42.4	61.4	44.8	41.0
Profit after tax	88,561	49,485	17,921	43,060	57,255
Minority Interest	603	1,731	1,500	1,500	1,500
Share in profit/loss of associates	664	2,681	2,500	2,500	2,500
Net Profit reported	89,827	53,898	21,921	47,060	61,255
Net Profit adjusted	59,368	53,898	21,921	47,060	61,255
YoY growth (%)	NA	(9.2)	(59.3)	114.7	30.2
Adjusted Net Profit Margin (%)	5.0	4.1	1.6	3.3	4.1

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Equity Share Capital	9,587	9,714	9,714	9,714	9,714
Pref Shares	-	-	-	-	-
Reserves & surplus	356,674	403,942	414,500	450,196	500,089
Shareholders' fund	368,046	413,658	424,216	459,913	509,805
Total Debt	613,843	605,691	606,191	606,691	607,191
Deferred Tax Liability	20,126	24,424	24,424	24,424	24,424
Total Capital Employed	1,034,873	1,086,403	1,097,461	1,133,658	1,184,050
Gross Block	981,014	1,131,366	1,292,166	1,392,166	1,492,166
Less: Acc. Depreciation	654,980	700,146	753,464	811,177	873,190
Net Block	461,542	631,617	699,299	761,586	819,573
Capital WIP	135,508	200,397	160,597	180,597	200,597
Net Fixed Assets	597,051	832,014	859,896	942,183	1,020,170
Goodwill	152,982	173,546	173,546	173,546	173,546
Investments	78,473	40,213	40,213	40,213	40,213
Cash	190,724	90,334	68,442	31,128	9,818
Trade Receivables	148,163	148,784	147,143	153,845	163,741
Loans & Advances	99,947	119,077	120,841	126,345	134,472
Inventories	240,553	255,980	244,685	247,877	261,909
Total Current Asset	579,538	495,166	460,338	432,918	435,546
Current Liab. & Prov.	337,610	377,265	400,824	404,998	423,348
Net Current Asset	341,875	236,979	180,355	154,265	146,670
Total Assets	1,034,873	1,086,403	1,097,461	1,133,658	1,184,050

Source: Company, Centrum Research Estimates

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
PBT	121,020	85,850	46,485	77,985	97,038
Interest	39,558	42,501	43,628	43,664	43,700
Depreciation	46,854	45,166	53,318	57,713	62,013
Change in working capital	(80,181)	4,506	34,732	(11,224)	(13,715)
Tax	2,097	4,298	-	-	-
Cash flow from operations	95,242	150,369	153,599	137,213	153,253
Change in fixed assets	50,438	215,241	121,000	120,000	120,000
Change in investments	24,296	(38,261)	-	-	-
Cash flow from investments	(72,821)	(201,593)	(121,000)	(120,000)	(120,000)
Change in equity capital	45,512	7,376	-	-	-
Change in debt	82,840	(8,152)	500	500	500
Dividends paid	13,135	13,639	11,363	11,363	11,363
Interest paid	39,558	42,501	43,628	43,664	43,700
Cash flow from financing	90,614	(49,166)	(54,491)	(54,527)	(54,563)
Net cash flow	113,035	(100,390)	(21,892)	(37,314)	(21,310)
Opening cash balance	77,689	190,724	90,334	68,442	31,128
Closing cash balance	190,724	90,334	68,442	31,128	9,818
Free Cash Flow	44,804	(64,872)	32,599	17,213	33,253

Source: Company, Centrum Research Estimates

Exhibit 4: Key Ratios

Y/E March	FY11	FY12	FY13E	FY14E	FY15E
Margin Ratios (%)					
EBITDA Margin	14.1	9.3	9.8	11.8	12.6
PBIT Margin	10.4	5.9	5.8	7.8	8.5
PBT Margin	10.2	6.5	3.4	5.5	6.5
PAT Margin	5.0	4.1	1.6	3.3	4.1
Growth Ratio (%)					
Revenue	16.0	11.9	1.6	4.6	6.5
EBITDA	108.2	(25.9)	6.2	26.8	13.6
Net Profit	NA	(9.2)	(59.3)	114.7	30.2
Return Ratios (%)					
ROE	16.1	13.0	5.2	10.2	12.0
ROCE	11.9	7.3	7.2	9.7	10.8
ROIC	16.0	7.5	5.1	8.7	9.9
Turnover Ratios					
Asset turnover ratio (x)	1.1	1.2	1.2	1.2	1.3
Debtors (days)	46.2	41.1	40.0	40.0	40.0
Inventory (days)	153.2	132.2	130.0	130.0	130.0
Creditor (days)	169.9	153.1	170.0	170.0	170.0
Per share Ratios (Rs)					
Basic EPS	61.9	55.5	22.6	48.4	63.1
Fully diluted EPS	57.1	51.8	21.1	45.3	58.9
Book value	354.0	397.9	408.0	442.4	490.3
Cash earnings per share	99.6	95.3	72.4	100.8	118.6
Dividend per share	12.0	12.0	10.0	10.0	10.0
Gearing Ratio (x)					
Debt-equity	1.7	1.5	1.4	1.3	1.2
Interest coverage ratio	3.1	1.9	1.8	2.5	2.9
Valuation (x)					
P/E (Fully Diluted)	6.3	7.0	17.3	8.1	6.2
P/BV	1.1	1.0	1.0	0.9	0.8
EV/EBITDA	5.0	7.4	7.2	5.9	5.3
EV/Sales	0.7	0.7	0.7	0.7	0.7
M-cap/Sales	0.3	0.3	0.3	0.3	0.3

Source: Company, Centrum Research Estimates

Appendix A

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	Neutral	Buy
	Underperform	Accumulate
Neutral	Outperform	Neutral
	Neutral	Neutral
	Underperform	Neutral
Underperform	Outperform	Reduce
	Neutral	Sell
	Underperform	Sell

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