TATA STEEL

" Short Term Pain, Long Term Gain"

VALUE PICK

CMP: Rs. 442	BUY	Upside: 20%	Target: Rs 531

24th July 2009

Key Share Data

BSE Code	500470
NSE Code	TATASTEEL
Bloomberg	TATA IN
Reuters	TISC.BO
Industry	Steel-Large
Sensex	15379.0
Nifty	4568.6
Equity (Rs.Cr)	730.11
F.V (Rs.)	10
M.Cap (Rs. Cr)	32270
52 Wk H/L	699/146
Avg Daily Volume	4,170,269

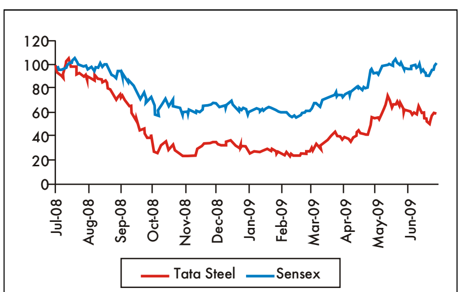
Absolute Returns (%)

	1m	3m	12m
Absolute	4	58	-38
Rel. to Sensex	-3	21	-40

Shareholding Pattern (%): (30th Jun 09)

Promoters	34.0
FII & Institutions	38.0
Public & Others	28.0

Relative Price Movement



Head of Research: Kartik Mehta
kartik.mehta@aaspl.in

Research Analyst: Ishpreet Batra
ishpreet.batra@aaspl.in

INVESTMENT SUMMARY:

Cost Cutting measures "to help accrue benefits in long term"

Tata Steel in order to stream-line its European operations has initiated a host of cost-cutting measures like "Weathering the storm" and "Fit for Future". These initiatives are likely to result in savings of $1.2bn in FY10, and long term fixed cost savings of $286mn. These cost saving measures are likely to accrue benefits to the company in long term, as the company's volume off take increases.

Domestic Sales Volume to grow at CAGR of 10%p.a

Tata Steel's domestic production is likely to grow at a CAGR of 10%p.a in the next 5 years, on the back of robust domestic demand and incremental infrastructure spending. For FY10 the company expects to deliver a growth of 25% YoY, taking its total sales volume to 6.5MT.

Huge expansion plans for domestic operations-"to help overcome the lower EBITDA/tonne of Corus"

Tata steel has taken a host of strategic measures to emerge as a leading player globally over the period of time. In FY09 the company's domestic operations reported an EBITDA/tonne of $355, while Corus reported an EBITDA/tonne of $89. Thus keeping in mind this huge difference in the EBITDA Margins, the company plans to capitalize further on its Indian Operations which have the lowest cost of production globally. It is therefore increasing its capacity in India from the current 6.8MTPA to 10.5MTPA by 2011, so as to further increase its contribution from the Indian Operations, thereby overcoming the "Chink in Armor" of Corus.

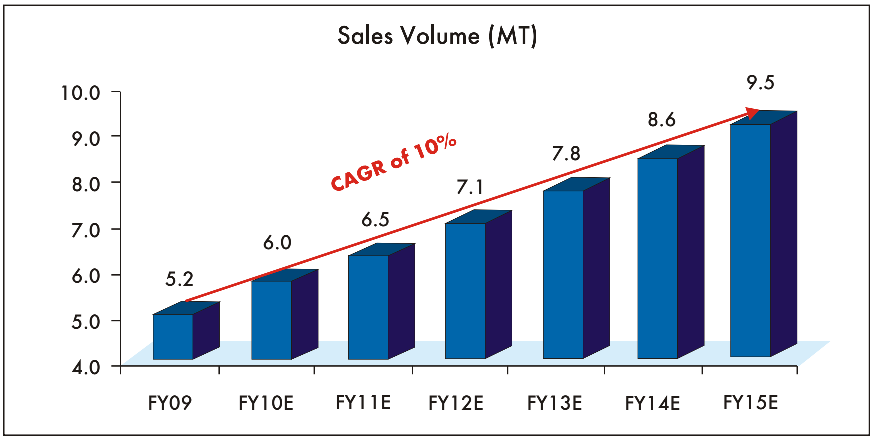
VALUATIONS-" Short Term Pain, Long Term Gain"

Tata Steel the lowest cost producer globally, had witnessed a sharp downfall in the stock price in the last one year majorly due to substantial margin erosion with Corus operations going unprofitable amidst downturn in the global steel cycle. However now, after observing a painful period of over 8 months, the company has adopted a host of cost cutting measures at Corus and has done backward integration to expand margins of its Domestic and European operations, which would accrue over a period of time. Further the company has made strategic plans to capitalize on its Indian Operations, which yield comparatively higher margins than its Corus operations. Keeping in mind the transformation of "Demand Destruction" into "Demand Revival" and consolidation of steel prices for the last 7-8months, we believe worst is behind for steel stocks. Though we do not expect the steel prices to rebound sharply from the current levels but, further downfall from this level is unlikely. At the Current Market price of Rs.442 the stock is trading at a EV/EBITDA of 9.9x its FY11E EBITDA of Rs.8254.6 Crs. However, after understanding above facts, we strongly believe that using this conventional measure of valuation will not make sense for Tata steel. We therefore have valued the company based on DCF which factors short term pain as well as long term potential fruits accruing out of the various strategic measures being adopted by the management. Hence, considering the company's inherent capabilities and aggressive plans and the likely turnaround in the steel cycle from the current level, we believe that stock has the potential to give multifold returns in the next 2-3years, a good bet for long only investors.

INVESTMENT ARGUMENTS:

Domestic Sales Volume to grow at CAGR of 10%p.a

Tata Steel's domestic production is likely to grow at a CAGR of 10%p.a in the next 5 years, on the back of robust domestic demand and incremental infrastructure spending. For FY10 the company expects to deliver a growth of 25%, taking its total sales volume to 6.5MT. However being on a conservative side, we have taken 15% YoY growth in sales volume for FY10 to 6MT in our financial model.



Source: AASPL Research

Steel dynamics are likely to change significantly in India, in favor of higher steel consumption. India being a developing economy the steel consumption in India is set to rise substantially. Though India is growing at a decent rate of 7.1% (Mar'09 GDP), but its per capita steel consumption is still very low compared to other emerging economies. In comparison to Brazil and China where the per capita steel consumption is 116kgs and 309kgs respectively, India's per capita steel consumption is only 47kgs. India thus has a very great potential in increasing its steel consumption.

Per Capital Steel Consumption					
(In kgs)	1980	1990	2000	2007	CAGR(%)
Emerging Economies					
China	32	47	98	309	8.8
India	13	20	25	47	4.9
Brazil	99	61	92	116	0.6
Developed Economies					
Germany	376	402	449	464	0.8
Japan	611	752	600	627	0.1
US	381	349	406	358	-0.2
World	**128**	**123**	**124**	**182**	**1.3**

Source: AASPL Research

Historical Demand-Supply Scenario							
	Pre-Reforms					Post-Reforms	
(In kgs)	1950	1960	1970	1980	1990	2000	2007
Per Capita Consumption (Kgs)	3	5	8	12	18	26	47
Consumption (MTPA)	1.1	2.2	4.5	8.2	15	26.5	51.5
Production (MTPA)	1	2.3	4.8	7.9	15.1	29.3	53.9

Prior to 1990, the per capita steel consumption grew at a CAGR of 4.5% p.a to 18kgs, however post the economic reforms introduced by the government after 1990, the per capita steel consumption grew at a CAGR of 6% to 47kgs in 2007. China has witnessed a significant jump in its per capita steel consumption from 98 kgs in 2000 to 309kgs in 2007, due to its rapid infrastructure development. Similarly India is also likely to witness a multifold growth in its per capita steel consumption, given the governments thrust on infrastructure development.

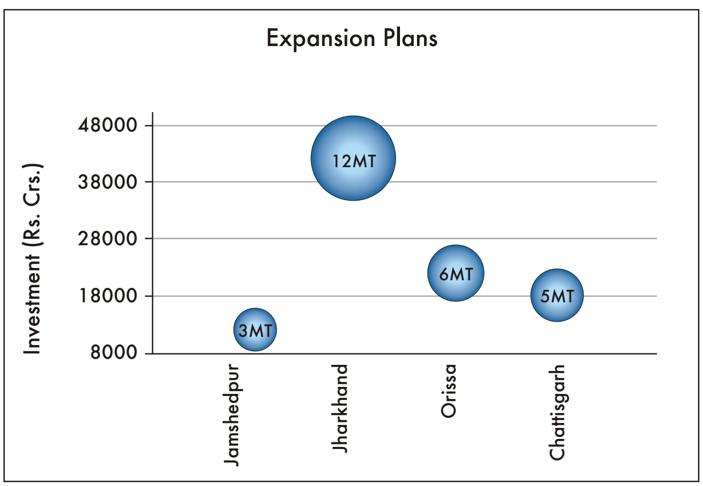
In the Union Budget 2008-2009 the government has put a lot of stress on infrastructure expenditure, which augurs well for the steel sector. The government has increased allocation in the flagship schemes- nearly Rs. 70,000 Crs has been earmarked on schemes such as Jawaharlal Nehru Urban Renewal Mission (JNURM), Pradhan Mantri Gram Sadak Yojana(PMGSY), Indira Awas Yojana, Bharat Nirman and National Highways and Railways. Such incremental spending by the government for infrastructure development is likely to boost the demand for steel further.

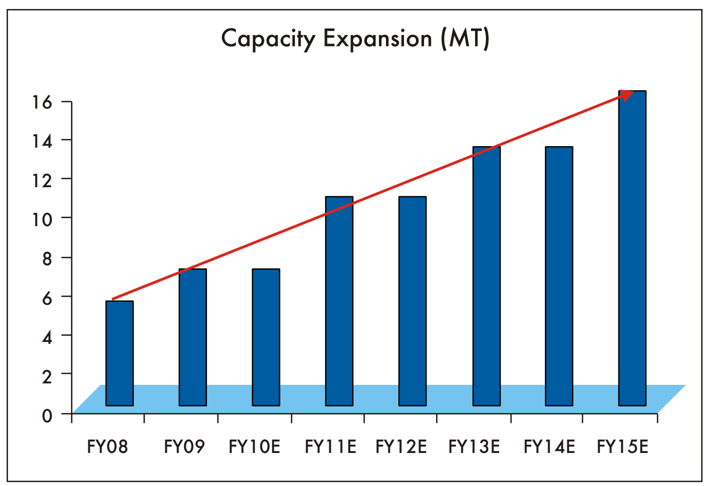
In spite of the global economic slowdown, India is expected to grow at a decent rate of 6.5%in FY10, driven by domestic demand. Steel demand which is pegged to the GDP growth rate is thus expected to grow at a rate of 7-7.5% during the year (steel demand grows at ~1.3x the GDP). Thus companies having greater exposure to domestic markets are likely deliver a healthy growth. We therefore expect Tata Steel to deliver healthy growth from its domestic operations in the next 5-6 years, on the back of incremental demand in the domestic front.

Huge expansion plans for domestic operations-"to help overcome the lower EBITDA/tonne of Corus"

Tata steel has taken a host of strategic measures to emerge as a leading player globally over a period of time. The company plans to spend a massive amount to increase its capacity from the current 6.8MTPA. As a long term vision the company plans to take its domestic steel producing capacity to 30MTPA by the next decade. Currently it is planning to ramp up its existing plant at Jamshedpur from 6.8MTPA to 10.5MTPA, entailing a capital expenditure of Rs.12,000Crs.

It also plans to go ahead with its expansion plans at Orissa, where it plans to set up a plant with a capacity of 6MTPA, provided it gets the requisite approvals/allotments from the government for the land and iron ore mines. Tata steel also plans to set up a 12MTPA steel plant in Jharkhand with an expenditure of Rs.42,000Crs, and a plant at Chhattisgarh with capacity of 5MTPA and investment of Rs. 18000Crs, as shown in the figure below:

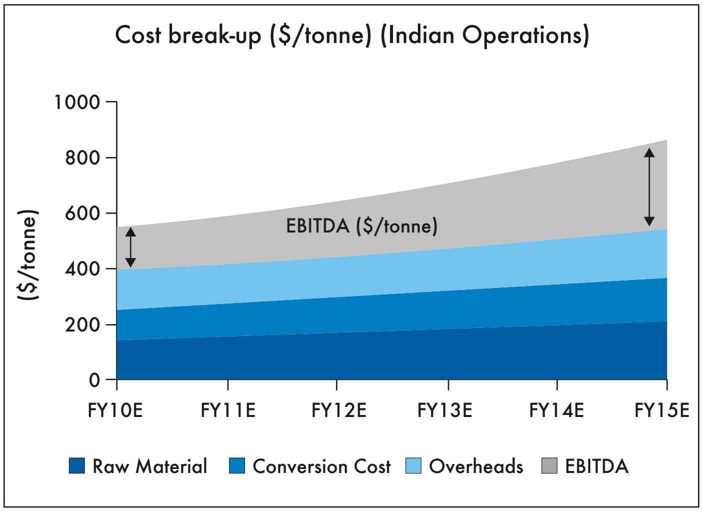


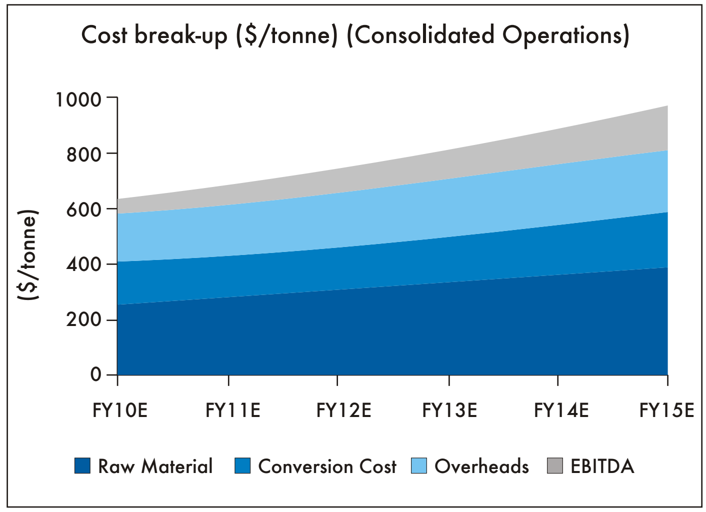


Source: Company, AASPL Research

For our financial model, we have taken into consideration only the expansion at Jamshedpur which will take its total capacity to 10.5MTPA by 2011, as others are still a far-fetched dream.

Tata Steel's Indian operations fetch in a higher amount of EBITDA/tonne as compared to the UK operations as shown in the diagram below. The major reason behind this being, that the company's Indian operations are integrated,(it has 100% backward integration for iron ore, 60% for coal) resulting into lower raw material cost, coupled with lower employee cost.



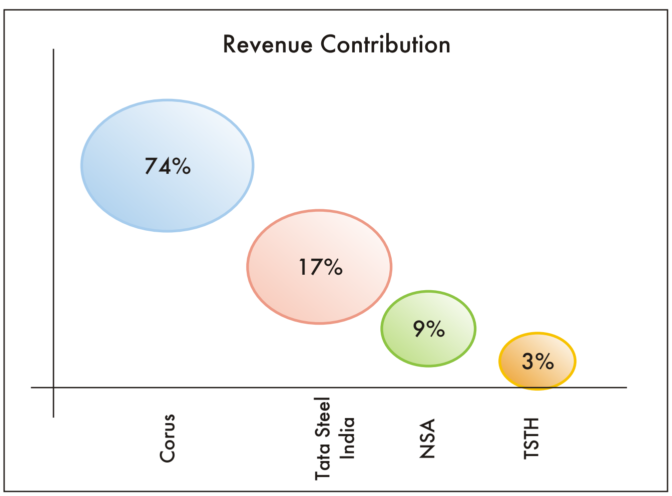


Source: AASPL Research

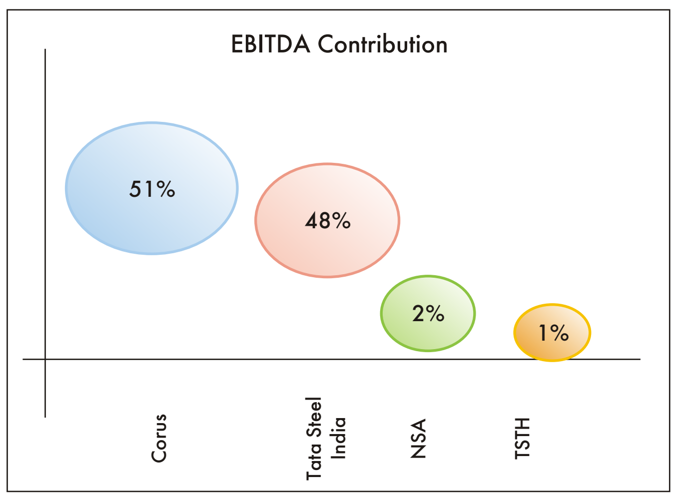
In the previous financial year i.e FY09 Tata Steel's Indian Operations reported an EBITDA/tonne of $355, while Corus reported an EBITDA/tonne of $89 dragging its consolidated EBITDA/tonne to $128.

FY09	Tata Steel India	Corus	NSA	TSTH	Consolidated
EBITDA (USD Mn)	1856	1751	55	25	3636
Volume (MT)	5.23	19.7	2.4	1.1	28.5
EBITDA ($)/tonne	355	89	23	26	128

Currently Corus contributes 74% to its revenue and just 48% to EBITDA, while the Indian Operations contribute just 17% to revenue but a whopping 51% at the EBITDA level.

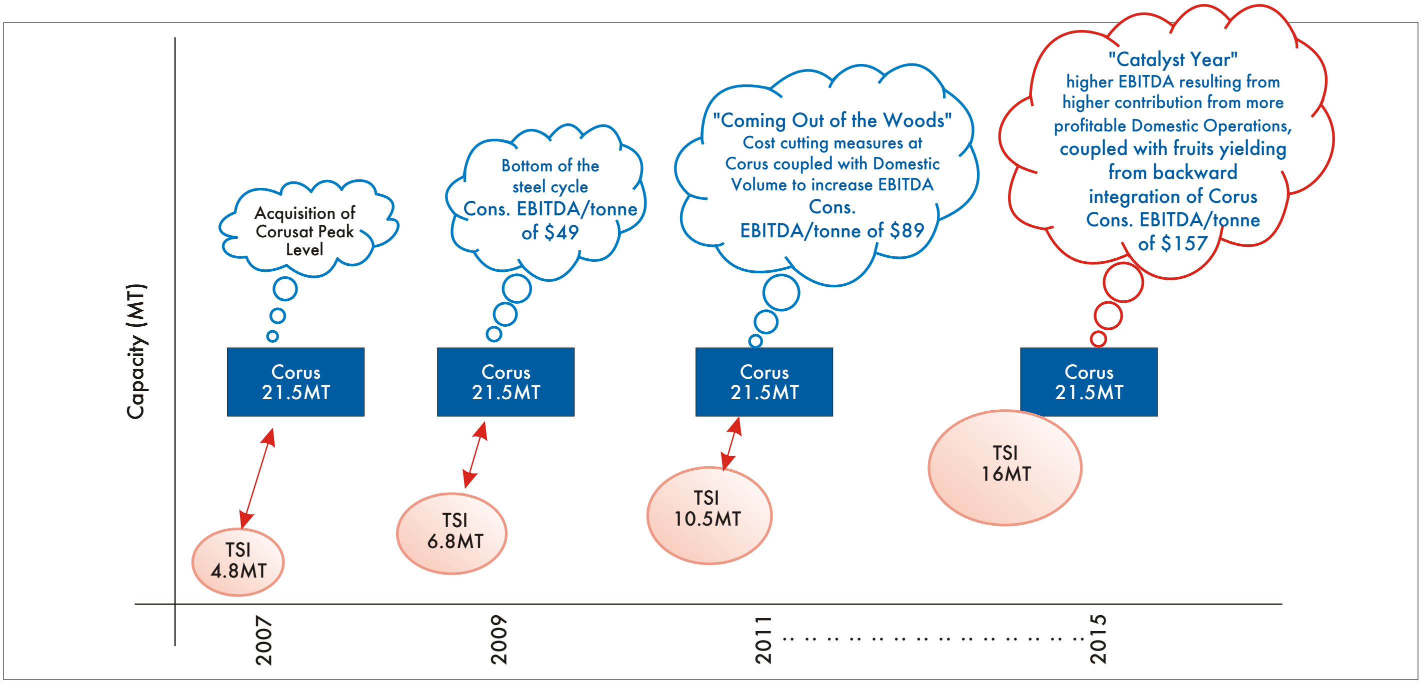


V/S



**FY09 Contribution*
***NSA- NAT Steel*
TSTH- Tata Steel Thailand
Source: AASPL Research

Thus keeping in mind this huge difference in the EBITDA/tonne the company plans to capitalize further on its Indian Operations, which has the lowest Cost of Production. It is therefore increasing its capacity in India so as to further increase its contribution at the EBITDA level, thereby overcoming the "Chink in Armor" of Corus.



**TSI-Tata Steel India*
Source: AASPL Research

We therefore believe that Tata Steel with its long term vision and huge expansion plans, is likely to emerge as a leading player globally in the steel space, as growth in its Topline would eventually be followed by growth at the EBITDA level too.

Cost Cutting measures "to help accrue benefits in long term"

Tata Steel in order to stream line its European operations has initiated a host of cost-cutting measures like "Weathering the storm" and "Fit for Future". These initiatives are likely to result in savings of $1.2bn in FY10, and long term fixed cost saving of $286mn.

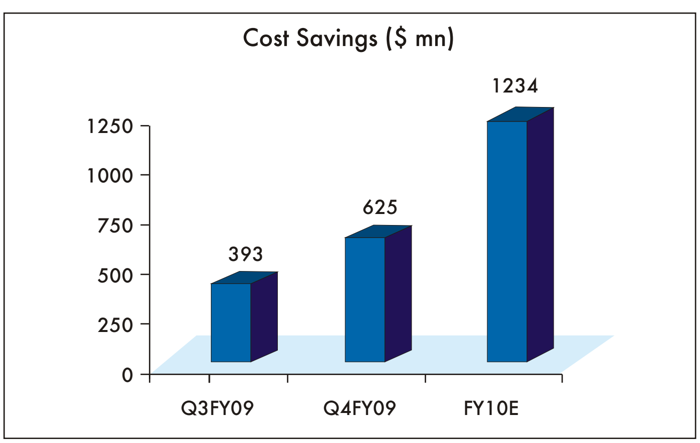
The company's "Weathering The Storm" will involve measures like-

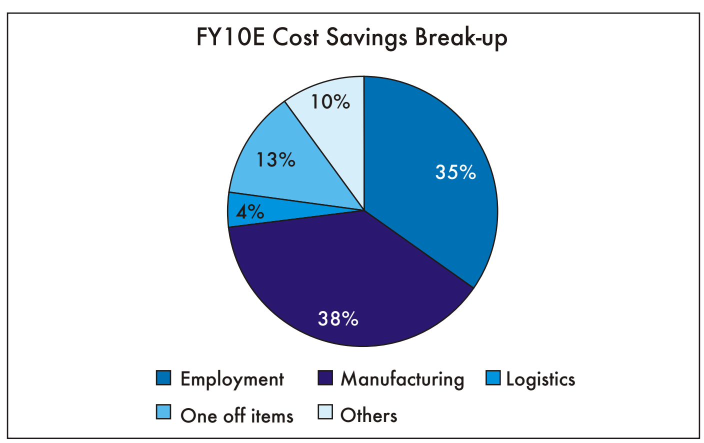
- Cash savings through cost avoidance
- Optimizing production capacity in a cost effective manner
- Unlocking values through favorable hedging contracts and surplus carbon credits

"Fit For Future" involves-

- Restructuring of facilities through consolidation
- Right sizing of manpower

Cost Savings





Source: Company, AASPL Research

Through these initiatives the company had managed to save $1018mn in H2FY09. And in FY10 it plans to have a cash saving of $1.2bn, on the back of 35% saving from the employment expenses and 38% from the manufacturing expenses.

These cost saving measures are likely to accrue benefits to the company in long term, when its capacity utilization rate increases. Currently the company's European Operations are running at a capacity utilization rate of 50-55%, thus as the company's volume off take increases over the period of time, it will result in efficient utilization and increased profitability margins on back of such lower cost base. Therefore these measures initiated by the company to help weather this recessionary period, would be even the more fruitful once the company's capacity utilization increases.

Backward Integration Mozambique project-"to help streamline Corus Operations"

Tata Steel had entered into a 65:35 JV with the Australian mining company Riversdale in late 2007 for a coal project in Mozambique. Apart from the JV, Tata Steel has also recently acquired additional stake in Riversdale, raising its total stake in the aforesaid company to 19.38%. This project has won the Mining Contract from the Mozambique Government in May, having Coal Resources to the tune of 4bn tonnes comprising of 1033MT of Measured and Indicated Resources . This mining block is not only blessed with such huge amount of reserves, but is also blessed with high quality grade coal. According to the company's management, coal quality progress results for Benga deposits near Tete in Mozambique indicates that both hard coking and thermal coal would be of a premium quality and would make the venture a "world class project".

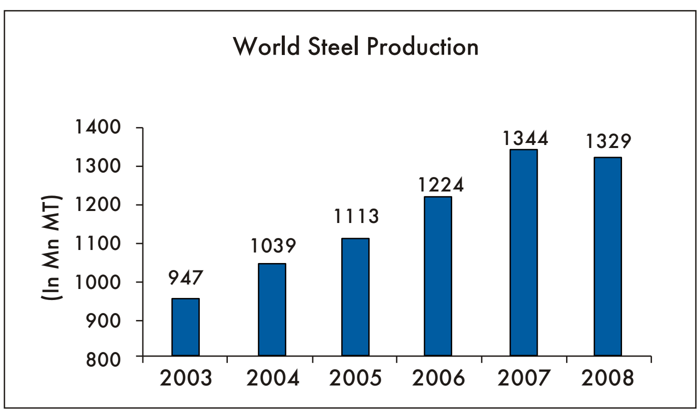
This project is to be developed in three stages, the first stage of production at the Benga coal project will begin in 2011, while Production in the second stage of development is expected to start in 2014. This project is likely to yield over 20MT of dry fuel every year, which will be used for steel production at its Corus plant.

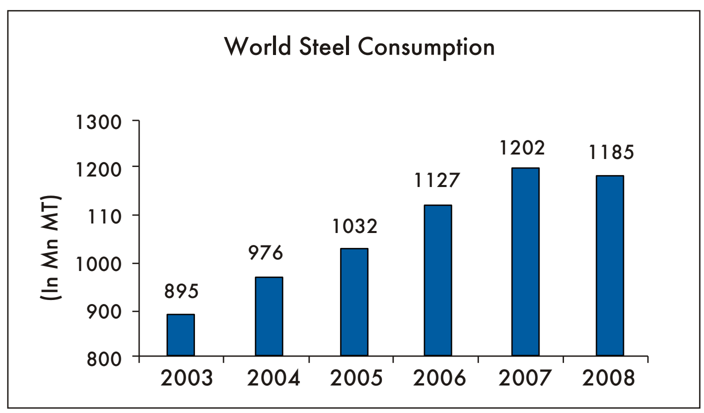
	FY12E			FY13E			FY14E		
Sensitivity Analysis	Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull
Coking Coal ($/tonne)	155	172	189	168	187	206	180	200	220
EBITDA Chg (%)	40%		-39%	30%		-28%	19%		-18%

Coking coal is one of the major input for steel production, EBITDA is therefore very sensitive to the coking coal prices as can be seen from the table above. Corus which now faces the volatility of coking coal prices, will thus have a secured supply of the raw material thereby stabilizing its raw material cost. This project will thus help Corus streamline its operations and improve its profitability margins going ahead.

Steel cycle- "Bottoming Out"

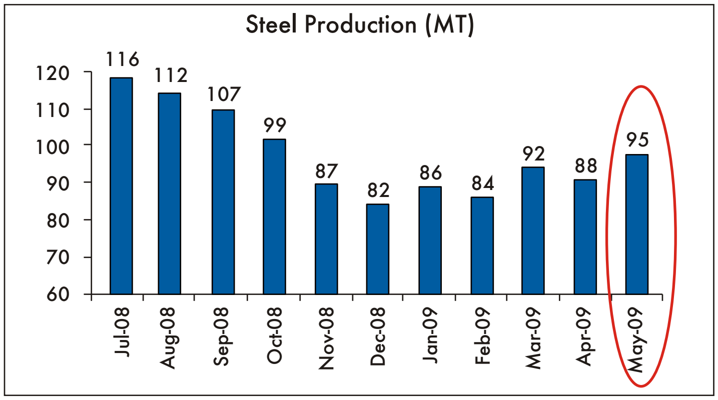
Steel which is majorly used in the construction sector had witnessed a severe slump in demand in the last one year, due to the global economic slowdown. World steel production for the year ended 2008 was expected to increase to 1880MT, however due to the global financial turmoil and economic downturn the global crude steel production plunged to 1329MT in the same year.





Source: AASPL Research, IISI

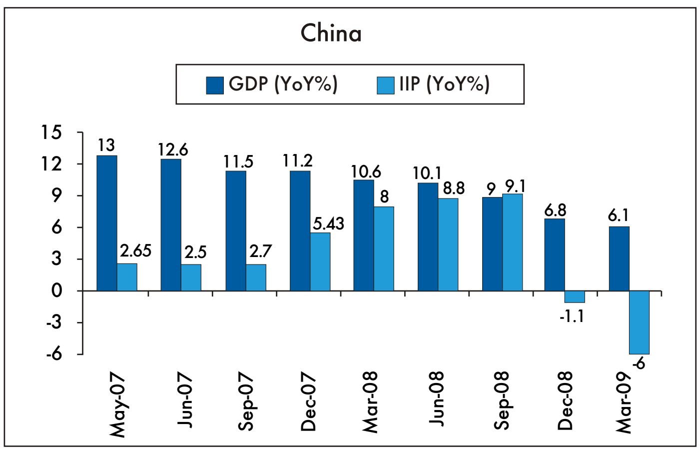
The global crude steel production dropped to 1329MT in CY08, as steel producers had cut down their production to be in line with the waning demand. Monthly steel production had made a high of 120MT in May'08, after which the production started its downfall. A lot of production cuts were announced in the last two quarters i.e Q4CY08 and Q1CY09, to match this severe slump in demand. Monthly steel production dropped from the peak of 120MT in August to a low of 83MT in Feb'09. **However now this scenario seems to have improved with crude steel production rising to 95.6MT in May'09, though down by 21% YoY, but on a MoM basis the growth is substantial, an increase of 8%.**

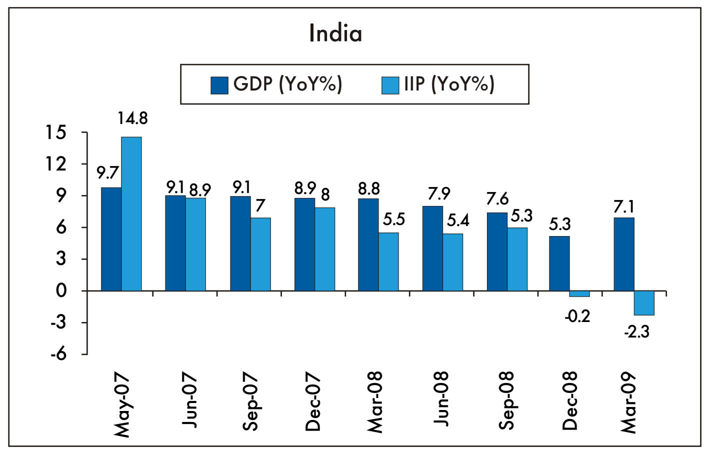


Source: WSA, AASPL Research

This increase in production is mainly contributed by the developing countries like India and China. Indian steel industry due to its inherent strength of lower cost of production and government support, in the form of stimulus packages, has emerged as the 3rd largest steel producing nation in the world after China and Japan in the first five months of CY09. This increase in production is mainly because of the strong demand in the domestic market.

GDP, that gauges the economic activities of the country, has seen a sharp correction world over in the last one year. However India is able to maintain a decent GDP growth rate of 7.1%, mainly because it is majorly depended on domestic demand rather than exports.



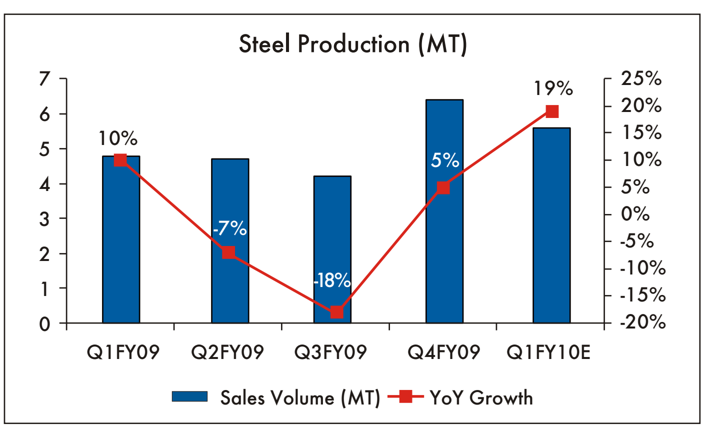


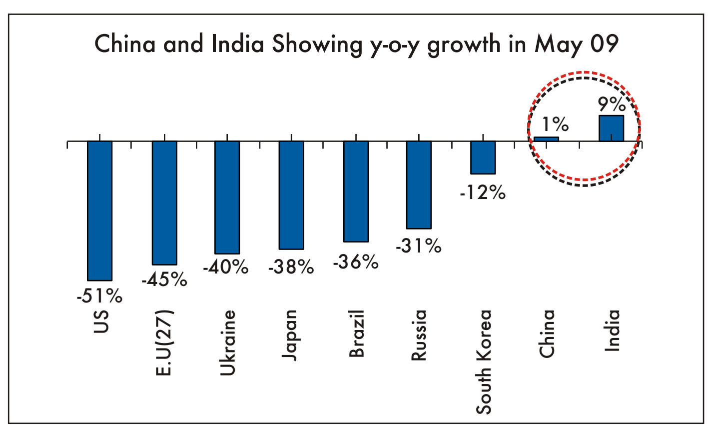
Source: Bloomberg, AASPL Research

The GDP and IIP numbers of most of the regions has turned to negative from the third quarter of CY08. However, though India and China have witnessed a slowdown in their economic activities, their GDP growth rate is still in the positive territory and above 5%. China and India would thus be the major demand drivers going ahead.

Indian steel sector on an uptrend

Domestically the steel demand seems to have revived on the back of good sales numbers reported by the major Indian steel producers like SAIL, Tata Steel and JSW Steel for the first two quarters of CY09 as shown in the figure below:





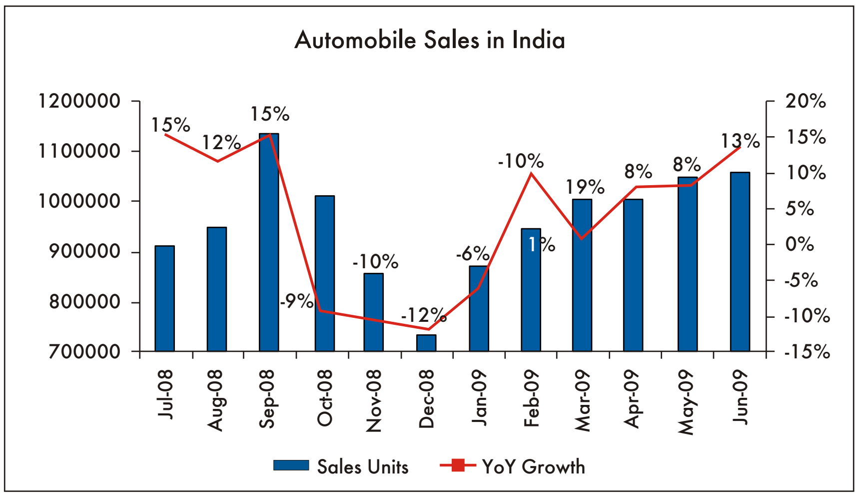
Source: AASPL Research

*Sales volume includes that of SAIL, Tata Steel(Standalone) and JSW

Steelmakers, especially private ones, have been posting impressive growth numbers since the first quarter of CY09. Tata Steel's crude steel production in April-June period went up by 20%YoY and JSW Steel's output increased by 45%YoY to 14.09 lakh tonnes. State-controlled steelmakers like Steel Authority of India (SAIL) posted a modest 3.73%YoY increase in saleable steel production and Rashtriya Ispat Nigam Ltd (RINL) a 2.09% YoY jump in its finished steel production. For the first Quarter ended June'09 the sales volume of the top three steel companies like SAIL, Tata Steel (Standalone) and JSW Steel is likely to rise by 19% YoY to 5.6MT.

According to the Indian steel ministry, production of finished steel in Q1FY10 went up by 3.4%YoY to 13.98MT from 13.53MT in the same quarter last fiscal. Steel Consumption moved up to 12.83 MT, up 5.2%YoY from 12.2MT in the corresponding quarter of FY09, indicating revival in demand.

Revival in demand can also be seen from the increase in demand in the automobile space as shown in the diagram below:



Source: Bloomberg, SIAM, AASPL Research

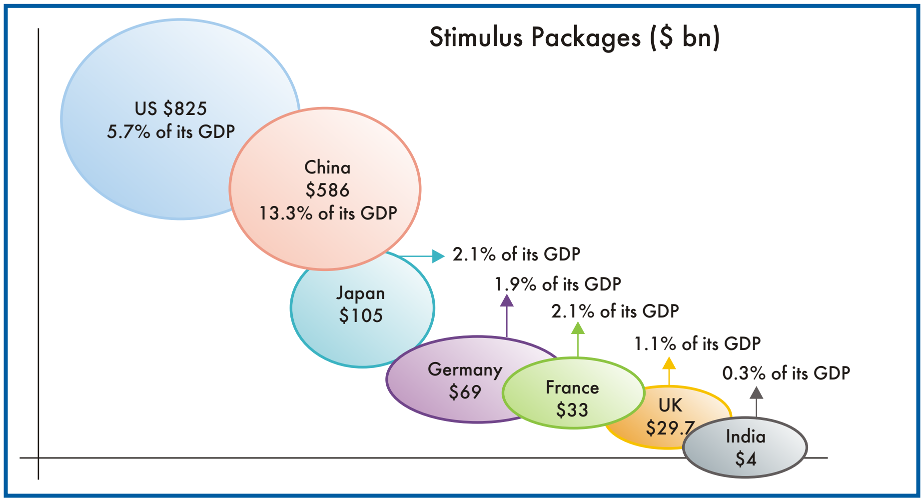
For June'09 the automobile sales have increased by 13% YoY. The automobile sales had witnessed a severe slump in demand in the last quarter of CY08, forming a trough in December'08. However from Jan'09 the sales numbers took a U-turn as a host of stimulus measures were announced by the government to boost domestic demand. As a part of its stimulus package the Indian government had reduced the lending rates, cut the excise duty on automobiles and steel etc. This had resulted into sharp pick up in automobile demand as shown in the figure above.

In the Union Budget 2009-10 also, in order to incentivise the industry players the government did not roll back the excise duty for the automobile and steel sector. This is likely to help the industry players to weather this recessionary trend and continue their journey on the recovery track.

We therefore believe that the "WORST IS BEHIND" for the Indian steel producers. Though we do not expect the steel prices to rebound sharply from the current levels but, further downfall is unlikely. We therefore maintain a POSITIVE stance on the Indian Steel Dynamics, and domestic players like Tata steel and JSW Steel.

Global Stimulus Packages-"to help sustain demand"

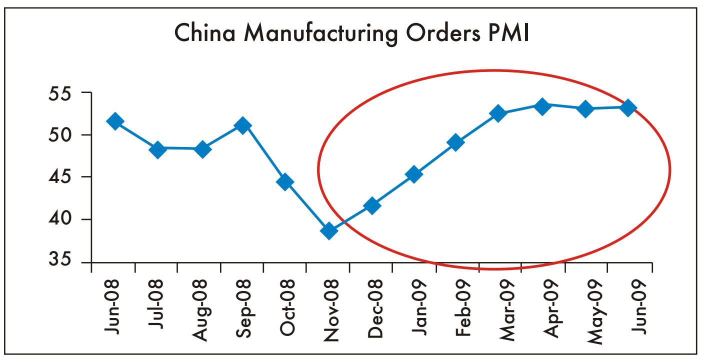
Apart from India, globally a lot of stimulus packages have been announced off lately to boost the deteriorating economic conditions. The stimulus packages announced so far amount to ~2.6% of the World GDP.

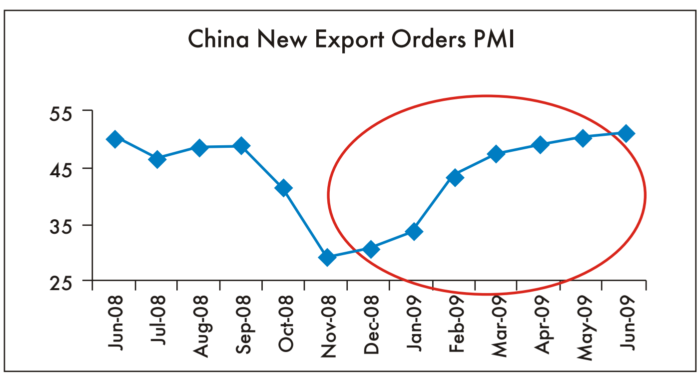


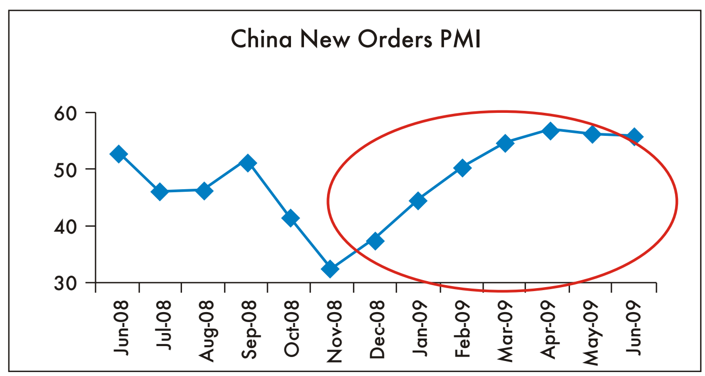
Source:AASPL Research

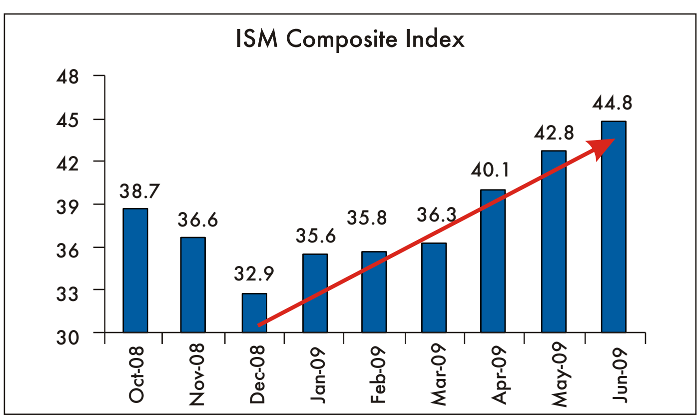
These packages announced cater to varied needs from tax cuts to auto bailout packages, to boost construction and infrastructure sector, and to meet the liquidity needs. We therefore believe that these packages if not able to generate incremental demand, will at least help sustain demand at current level thereby stabilizing the steel prices at the current level.

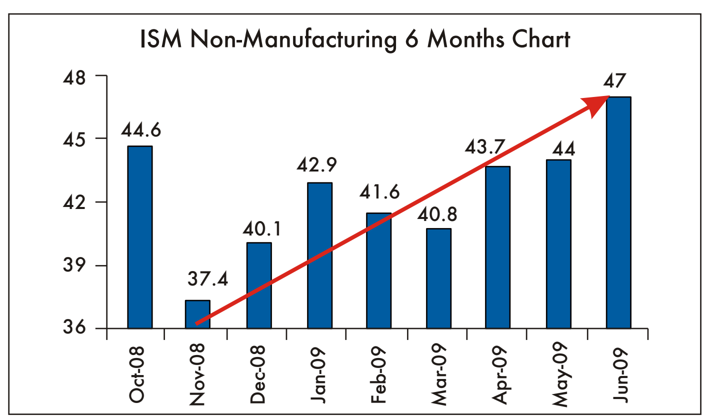
The impact of these stimulus packages can be seen in the various leading economic indicators as shown in the figure below:

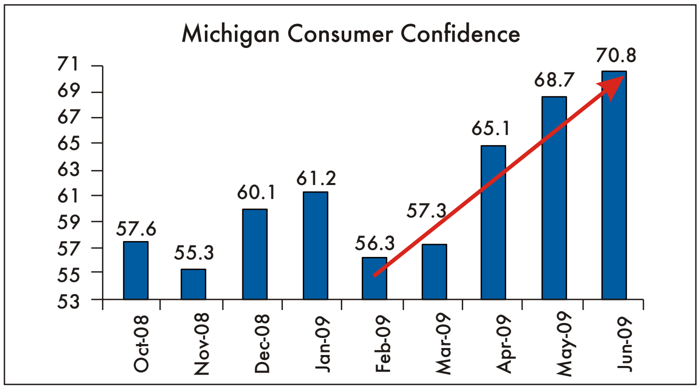


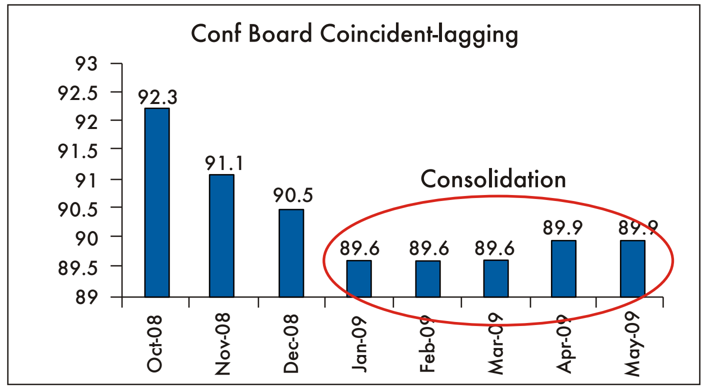






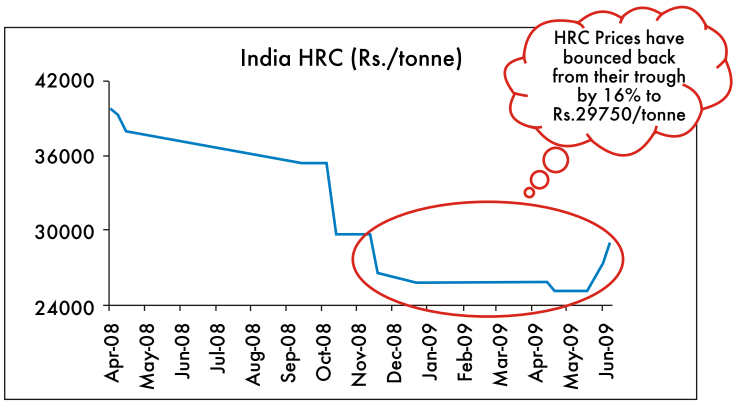






Source: Bloomberg, AASPL Research

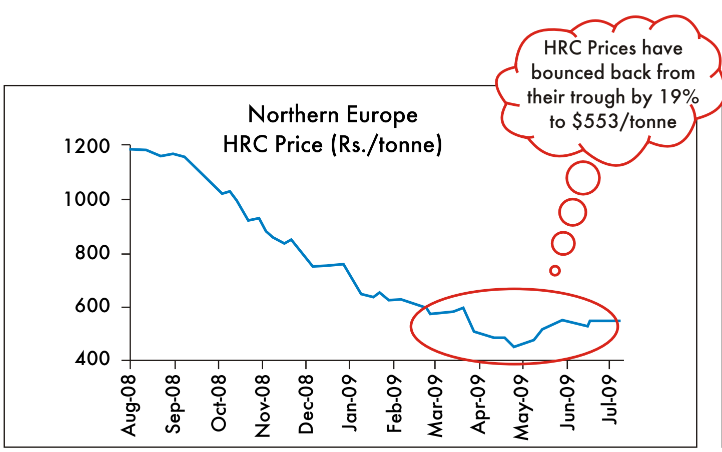
We therefore believe that the stimulus packages announced so far is likely to uplift the economic activities, thereby generating the demand for base metals, steel and iron ore. Steel Prices seem to have consolidated at the current levels in India as well as Euro-Zone as shown in the diagram below:

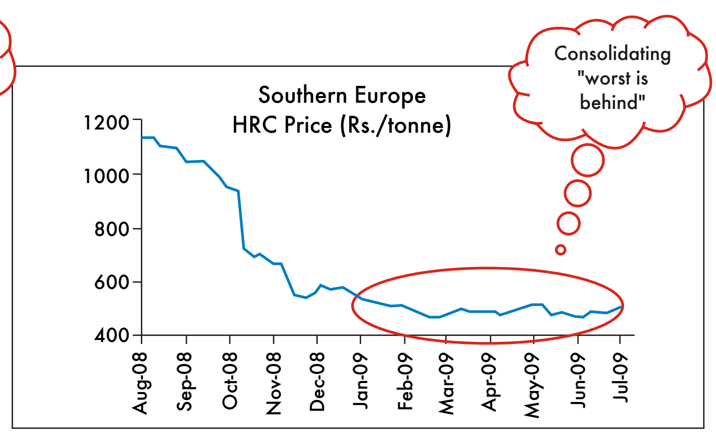


(Ex-mill price excluding VAT, Excise Duty)*
Source: Bloomberg, AASPL Research

The Indian HRC prices had seen a sharp correction, falling from a high of Rs.40000/tonne to a low of Rs.25000/tonne. However after consolidating at the lower levels the steel prices now seem to have taken a U-TURN. They have now increased by Rs.4000-5000/tonne to Rs.29750/tonne in the last few months. **We believe that the steel prices are likely to sustain at the current levels as it is backed by huge demand. Also as the demand will increase it will incentivise the small and marginal players who had shut down their opeartions to resume their production activities, thereby increasing the supply also. Further hike in the steel prices will therefore be capped at the current levels by increase in supply from the small players.**

In the Euro-zone also, as can be seen from the diagram below the steel prices seem to have consolidated. The Northern European HRC prices have bounced back from their lows of $463/tonne to $553/tonne, a jump of 19%, but **we believe that the steel prices are unlikely to reach higher levels in Euro-Zone as the economic scenario still looks frail. However the restocking activity to be adopted by the industry players as steel inventory clears, is likely to provide a support level to the steel prices at current levels. We thus believe that though European steel prices are yet to see a sharp breakout, but the worst seems to be over.**





(Ex-mill price)*
Source: Bloomberg, AASPL Research

Upside to our assumptions and valuations:

1) **Spurt in the steel prices**
The revenue and profitability of the company is directly related to the steel prices. Any increase in the steel prices over and above our assumption can provide upside potential to our estimates as shown in the table below:

	FY10E			FY11E			FY12E		
Sensitivity Analysis	**Bear**	**Base**	**Bull**	**Bear**	**Base**	**Bull**	**Bear**	**Base**	**Bull**
Avg. Steel Realization ($/tonne)	600	631.7	663	647	681.5	716	705	742	779
EBITDA Chg (%)	-39%		40%	-26%		26%	-21%		22%

Downside to our assumptions and valuations:

1) **No import duty**
The government has deferred the imposition of increasing the safeguard duty on the HRC imports which is currently at 5%. If this duty is not imposed then, the domestic steel prices which are currently at a higher premium to the global prices can witness a downfall.

Assumptions

We have been very conservative in our DCF valuation model. For the base case we have taken the sales volume at 21.8MT for FY10E. Thus anything delivered over and above our estimates by the company would boost our earnings estimates.

Bear Case	Base Case	Bull Case
Target Price		
Rs. 338	**Rs. 530**	**Rs. 662**
Assumptions		
➡ Average realization of $611/tonne in FY10E and gradual increase from there onwards.	➡ Average realization of $631/tonne in FY10E and gradual increase from there onwards.	➡ Average realization of $657/tonne in FY10E and gradual increase from there onwards.
➡ INR-USD exchange rate of Rs.47 in FY10E and Rs. 42 from FY13E onwards.	➡ INR-USD exchange rate of Rs.48 in FY10E and Rs.42 from FY14E onwards.	➡ INR-USD exchange rate of Rs.49 in FY10E and Rs. 42 from FY14E onwards.
➡ Sales Volume of 21.8 MT in FY10E FY10E and incremental sales volume from there onwards	➡ Sales Volume of 21.8MT in FY10E and incremental sales volume from there onwards	➡ Sales Volume of 21.8 MT in FY10E and incremental sales volume from there onwards

VALUATIONS-"ShortTermPain,LongTermGain"

Tata Steel the lowest cost producer globally, had witnessed a sharp downfall in the stock price in the last one year majorly due to substantial margin erosion with Corus operations going unprofitable amidst downturn in the global steel cycle. However now, after observing a painful period of over 8 months, the company has adopted a host of cost cutting measures at Corus and has done backward integration to expand margins of its Domestic and European operations, which would accrue over a period of time. Further the company has made strategic plans to capitalize on its Indian Operations, which yield comparatively higher margins than its Corus operations. Keeping in mind the transformation of "Demand Destruction" into "Demand Revival" and consolidation of steel prices for the last 7-8months, we believe worst is behind for steel stocks. Though we do not expect the steel prices to rebound sharply from the current levels but, further downfall from this level is unlikely. At the Current Market price of Rs.442 the stock is trading at a EV/EBITDA of 9.9x its FY11E EBITDA of Rs.8254.6 Crs. However, after understanding above facts, we strongly believe that using this conventional measure of valuation will not make sense for Tata steel. We therefore have valued the company based on DCF which factors short term pain as well as long term potential fruits accruing out of the various strategic measures being adopted by the management. Hence, considering the company's inherent capabilities and aggressive plans and the likely turnaround in the steel cycle from the current level, we believe that stock has the potential to give multifold returns in the next 2-3years, a good bet for long only investors.

INDIA	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Total Steel Volume (MT)	6.0	6.5	7.1	7.8	8.6	9.5
Avg Realization (Rs./tonne)	26400.0	26482.5	27836.1	30619.7	32898.3	36188.2
Avg Realization ($/tonne)	550.0	588.5	647.4	712.1	783.3	861.6
($/tonne)						
Cost Of Production	395.1	418.2	441.0	467.1	509.8	548.4
Raw Material	142.5	154.6	170.6	180.6	199.2	216.7
Conversion Cost	113.8	121.3	127.1	134.8	144.4	153.7
Overheads	138.9	142.3	143.3	151.7	166.3	178.0
EBITDA ($/tonne)	**154.9**	**170.3**	**206.3**	**245.0**	**273.5**	**313.2**

CORUS	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Total Steel Volume (MT)	13.0	14.0	16.0	18.0	20.0	22.0
Avg Realization ($/tonne)	700.0	758.5	817.4	882.1	963.3	1041.6
($/tonne)						
Cost Of Production	687.7	747.0	796.0	846.4	901.0	964.7
Raw Material	297.8	324.5	354.1	386.4	419.3	455.1
Conversion Cost	190.4	201.7	219.5	224.3	241.8	257.6
Overheads	199.5	220.8	222.4	235.6	239.8	252.0
EBITDA ($/tonne)	**12.3**	**11.5**	**21.3**	**35.7**	**62.3**	**76.9**

CONSOLIDATED BASIS	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Total Steel Volume (MT)	21.8	23.6	26.5	29.5	32.5	35.4
Avg Realization ($/tonne)	631.7	681.5	742.2	808.2	886.8	966.9
USD-INR	48	45	43	43	42	42
($/tonne)						
Cost Of Production	582.3	609.6	652.3	699.3	752.0	809.7
Raw Material	255.0	277.2	303.6	330.4	359.6	389.8
Conversion Cost	156.4	147.4	160.4	167.5	182.2	196.5
Overheads	171.0	185.0	188.3	201.3	210.2	223.3
EBITDA ($/tonne)	**49.4**	**72.0**	**89.9**	**108.9**	**134.8**	**157.2**

(Rs. Crs.)	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Revenue	**147329.2**	**70823.6**	**77379.2**	**90458.8**	**109571.1**	**129197.3**	**153223.4**
EBIT	13863.1	748.5	3766.6	7264.5	10649.4	14657.5	18918.5
Tax on EBIT	1894.0	149.7	753.3	1452.9	2129.9	2931.5	3783.7
NOPLAT	11969.1	598.8	3013.3	5811.6	8519.5	11726.0	15134.8
Depreciation and Amortization	4265.4	4107.8	4488.0	4703.9	5478.6	6459.9	7661.2
Operating cash flow	16234.5	4706.6	7501.3	10515.4	13998.1	18185.8	22796.0
Capex	6000.0	5087.0	7026.0	7125.0	7248.0	7600.0	6827.0
Change in WC	-6179.2	-6050.9	254.4	2002.5	1364.1	2704.0	3305.1
FCFF	**16413.7**	**5670.5**	**220.9**	**1387.9**	**5386.0**	**7881.9**	**12663.8**

Sum of PV of Free Cash Flow	36951.8
Present Value of Terminal Value	59027.7
Enterprise Value	95979.5
Less: Net Debt	48898.3
Equity Value	47081.2
Target Price	**531.0**

Risk free rate	7.0%
Market Risk Premium	8.0%
Adjusted Beta	1.0
Cost of equity	18.2%
Cost of Debt after tax	8.0%
WACC	**12.0%**

FINANCIALS

INCOME STATEMENT (Rs. Crs.)	FY08	FY09	FY10E	FY11E
Revenues	**131500.3**	**147329.2**	**70823.6**	**77379.2**
Net Raw Material	58703.8	74913.6	28881.0	31431.5
Employee Cost	16893.5	17975.1	13692.4	14785.9
Other Expenditure	16142.2	30354.7	13025.9	13731.7
Total Expenditure	113884.3	129200.7	65967.3	69124.6
Operating Profit	17616.0	18128.5	4856.3	8254.6
EBIDTA (%)	*13.4%*	*12.3%*	*6.9%*	*10.7%*
Dep. & Amortisations	4137.0	4265.4	4107.8	4488.0
EBIT	**13479.1**	**13863.1**	**748.5**	**3766.6**
EBIT(%)	*10.3%*	*9.4%*	*1.1%*	*4.9%*
Interest	4539.4	3290.2	3116.2	3095.2
EBT	**8939.7**	**10572.9**	**-2367.7**	**671.5**
Other Income	7431.4	265.7	495.8	541.7
Extraordinary Items	0.0	(4094.5)	0.0	0.0
PBT	**16371.1**	**6744.1**	**-1872.0**	**1213.1**
Tax	4028.3	1894.0	0.0	242.6
PAT	**12321.8**	**4850.1**	**-1872.0**	**970.5**
PAT(%)	*9.4%*	*3.3%*	*-2.6%*	*1.3%*
Minority Interest	139.94	40.94	21.25	23.21
APAT	**12350.0**	**4951.7**	**-1893.2**	**947.3**
APAT (%)	*9.4%*	*3.4%*	*-2.7%*	*1.2%*

BALANCE SHEET (Rs. Crs.)	FY08	FY09	FY10E	FY11E
SOURCES OF FUNDS				
Equity Share Capital	730.1	730.1	886.7	886.7
Reserves & Surplus	27971.4	25944.5	31738.3	32274.1
Networth	**34174.0**	**32147.1**	**32625.0**	**33160.8**
Total debt	**53592.8**	**59899.5**	**58454.7**	**52589.4**
Deferred tax liability	2454.4	1256.0	1658.0	2458.0
Minority Interest	832.7	873.6	894.9	918.1
CAPITAL EMPLOYED	**92151.4**	**94176.2**	**93632.6**	**89126.4**
APPLICATION OF FUNDS				
Gross Fixed Assets	105125.5	111125.5	116212.5	123238.5
Net Fixed Assets	**41963.1**	**46921.2**	**47900.5**	**48257.6**
Investments	**3367.4**	**4851.0**	**7509.0**	**6556.0**
Current Assets	**61457.8**	**54981.2**	**38066.6**	**32163.2**
Inventories	23064.3	21670.6	10213.1	10287.9
Sundry Debtors	18696.3	13032.9	8731.7	9539.9
Cash and Bank	4231.6	6150.2	11360.4	3855.5
Loans & Advances	15465.5	14127.5	7761.5	8479.9
Current Liabilities	**32851.5**	**31590.3**	**14552.8**	**15899.8**
Liabilities	26393.9	23095.0	10672.0	11659.9
Provisions	6457.6	8495.3	3880.7	4240.0
Net Current Assets	**28615.2**	**24354.6**	**23513.8**	**16263.4**
Total Assets	**92151.4**	**94176.2**	**93632.6**	**89126.4**

CASH FLOW (Rs. Crs.)	FY08	FY09	FY10E	FY11E
Net Income Before Tax	16371.1	6744.1	-1872.0	1213.1
Depreciation	4137.0	4265.4	4107.8	4488.0
Operating profit before w.cap changes	18084.6	5245.0	4856.3	8254.6
Change in WC	-18977.7	4260.6	840.7	7250.5
Cash Flow From Operating Activities (CFO)	**13420.2**	**7492.5**	**14558.1**	**7398.4**
CAPEX	49157.0	6000.0	5087.0	7026.0
Investment	-33377.9	-1483.6	-2658.0	953.0
Cash Flow from Investing (CFI)	**-46195.4**	**-7217.9**	**-7249.2**	**-5531.3**
Proceeds from borrowings	15377.3	6306.7	-1444.7	-5865.3
Payment of dividend	947.8	1372.6	63.5	411.4
Cash flow from Financing (CFF)	**20512.7**	**1643.9**	**-2098.6**	**-9371.9**
Cash & Cash Equivalent (Closing)	**4231.5**	**6150.2**	**11360.4**	**3855.5**

VALUATION RATIOS	FY08	FY09	FY10E	FY11E
EBITDA (%)	13.4%	12.3%	6.9%	10.7%
PBT (%)	12.4%	4.6%	-2.6%	1.6%
PAT (%)	9.4%	3.4%	-	1.2%
EPS (Rs.)	169.2	67.8	-	10.7
CEPS (Rs.)	225.8	126.2	25.0	61.3
P/E (x)	2.6	6.5	-	41.4
P/CEPS	2.0	3.5	17.7	7.2
ROE (%)	57.2%	17.9%	-	2.9%
ROCE (%)	23.8%	15.6%	0.9%	4.5%
M.cap/Sales	0.2	0.2	0.6	0.5
EV/EBITDA	4.4	4.5	16.2	9.9
BV (Rs.)	468.1	440.3	367.9	374.0
P/BV	0.9	1.0	1.2	1.2

Asset Alliance
Securities Pvt. Ltd.

Corporate Office :
3rd Floor Janmabhoomi Bhavan, Janmabhoomi Marg, Fort, Mumbai 400 001.
Tel.: (022) 66518020, Fax: (022) 22824242, Email: research@aaspl.in

AASPL Investment Ranking
BUY: Expected to outperform the local market by more than 10%
OUTPERFORM: Expected to outperform the local market by 0-10%
NEUTRAL: In-line with the local market
UNDERPERFORM: Expected to underperform the local market by 0-10%
SELL: Expected to underperform the local market by more than 10%

Disclosure of Interest Statement	TATA STEEL
1. Analyst ownership of the stock	Yes
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with Company covered	No