

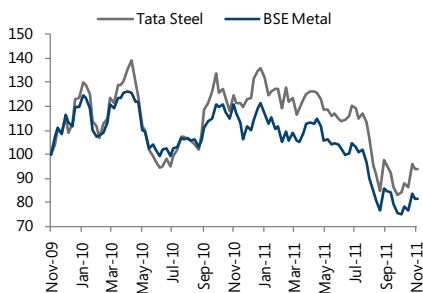
Result Update - Q2FY12

BUY

Reco	Maintained
CMP	₹ 448
Target Price	₹ 639
Upside Potential	42%

Price Performance

52 wk Hi/Lo	737/390
All time Hi/Lo	957/39
6 mnth Average Vol	3682379
Stock Beta	1.22



Valuation

	FY11	FY12P	FY13P
P/E (x)	4.6	6.2	5.9
P/BV (x)	1.2	1.0	0.9
RONW (%)	25.3	16.3	15.0
ROCE (%)	17.0	10.7	17.2

Peer Valuation (FY12)

	SAIL	JSW
PE	11.7	27.9
EV/EBITDA	8.8	7.7

Equity Data

Market Cap. (₹ bln)	431
Face value (₹)	10
No of shares o/s (mln)	959

	Sep'10	Sep'11	Δ%
Promoters	32.48	30.71	-5.45
DFI's	26.23	27.71	5.64
FII's	16.33	14.66	-10.23
Public	24.96	26.92	7.85

Tanuj Rastogi

tanuj.rastogi@msflibg.in
(+91 22 30947134)

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Tata Steel Ltd.

Things getting tough

Tata Steel reported decent set of numbers, with Indian operation numbers coming in line with expectation while European operations numbers came higher than our expectation due to relative stable cost.

Consol numbers remains subdued

Tata Steel's consolidated Net sales for Q2FY12 grew by 16% y-o-y to ₹ 325.07bln due to higher realization and volume (in Indian operations). However EBITDA for the quarter de-grew by 25% y-o-y to ₹ 27.5bln due to cost pressures in Europe and India and losses (\$ 77mln) in other subsidiaries. Absence of any other income and higher tax rate led to 89% y-o-y plunge in PAT to ₹ 2.124bln.

Indian operation performs decently

The performance of Indian operations came in line with our expectation. Net sales for the quarter grew by 15.7% y-o-y to ₹ 81.42bln, while EBITDA only grew by 5.35% y-o-y to ₹ 27.69bln due to multiple cost headwinds and forex loss of ₹ 15bln. EBITDA Margin for the quarter shrunk by 340 bps y-o-y to 34% due to higher material cost. PAT for the quarter de-grew by 26.7% y-o-y to ₹ 14.95bln due to high tax outgo and lower other income.

European performance remained stable; next two quarters will be challenging

European operations number came higher than our expectation. The company's volumes stood at 3.48mt as against our expectation of 3.3mt. EBITDA/ton came to \$30/ton vs \$20/ton estimated due to relative stable cost. Next two quarters are going to be very challenging for European operations as full impact of high coal cost will come and realization is expected to be subdued due to gradually deteriorating macro conditions. The management has indicated that volumes for Q3FY12 will be close to 3.1-3.2mt due to uncertain market conditions.

Valuation reflecting strains; look beyond next two quarters.

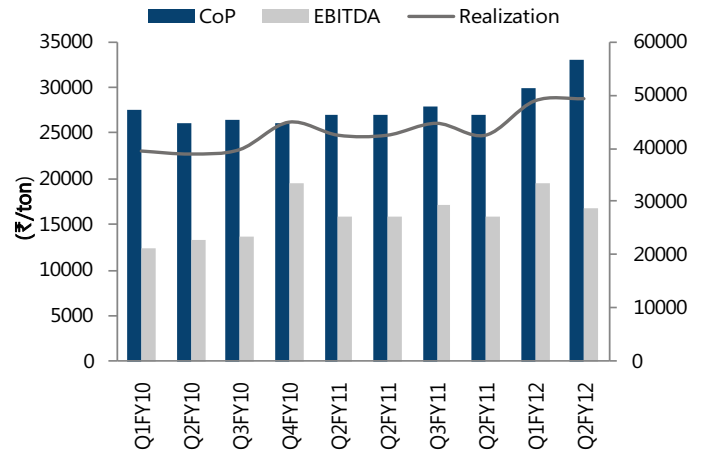
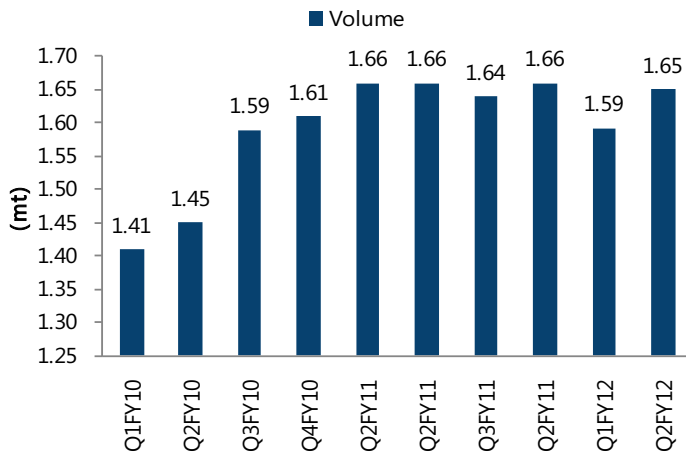
At ₹ 448, the company is trading at PE of 6.2x & 5.9x of its FY12E & FY13E earning and trading at 7.3x & 4.7x of its FY12E & FY13E EV/EBITDA. The valuations are looking stretched at this moment due to extremely grim outlook for the next two quarters. We remain cautious on the sector due to tapering demand growth, growing risk of recession in western world and cost headwinds. We have lowered down our EPS for FY12 & FY13 by 30% & 26% respectively as we have factored in lower realization and volume due to macro headwinds. However we continue to believe that this weakness should be used to add positions in Tata Steel as it is in the middle of structurally changing its business model which will substantially improve its profitability in coming years. Thus we continue to maintain our buy recommendation with revised TP of ₹ 639.

Summary Financials

₹ in Mln	2010	2011	2012P	2013P
Net Sales	1,017,578	1,171,498	1,252,767	1,311,683
OPBDIT	72,156	153,073	121,700	177,077
Net Profit	-20,091	89,827	67,468	72,771
EPS	-22.7	93.7	69.5	73.3
Net worth	228,139	355,639	413,701	486,621
Debt	531,004	606,843	636,843	626,843
Fixed Assets	457,958	523,934	577,915	591,360
Net Current Assets	138,851	260,076	290,823	338,683

Standalone Result Highlights

- ✓ In Q2FY12, 16.4% y-o-y improvement in realization and stable volumes has resulted in 15.7% y-o-y improvement in Net sales to ₹ 81.42bn. Sequentially the net sales grew by 4.5% due to marginally higher volumes (+3.4% q-o-q) and stable realization.
- ✓ In spite of better realization and stable volume, EBITDA for Q2FY12 just grew by 5.3% y-o-y to ₹ 27.6bn due to higher raw material and energy cost and ₹ 15bn forex loss. EBITDA de-grew by 10.7% sequentially due to higher coal cost.
- ✓ EBITDA Margin for Q2FY12 dipped by 340 bps y-o-y & 580 bps q-o-q to 34% due to higher costs.
- ✓ Absence of other income and higher tax rate has forced the company to report 27.6% y-o-y de-growth Net Profit to ₹ 14.95bn.
- ✓ Saleable steel production in Q2FY12 rose by 15.9% y-o-y to 1.75mt. Sales for the quarter grew by 18.7% y-o-y to 1.65mt.
- ✓ The Ferro Alloys and Minerals division recorded an operating profit of ₹ 989mln, a decrease of 52% y-o-y due to subdued stainless steel market.
- ✓ Realization for Q2FY12 improved by 16.4% y-o-y to ₹ 49346/ton. Realization for the next quarter is expected to remain more or less stable due to tight domestic iron ore market and 10% depreciation of rupee.
- ✓ Company's EBITDA/ton increased by 6% y-o-y to ₹ 16786/ton during the quarter, due to higher realization.
- ✓ Raw material cost has increased substantially on yearly as well as on sequential basis. We believe that raw material cost is set to increase from here on due to increase in coal prices.
- ✓ The overall CoP is expected to move up from here on due to increase in raw material cost.



Source - Company, MSFL Research

Tata Steel Standalone Result highlight

Description (INR Mln)	Q2FY12	Q2FY11	Y-o-Y	H1FY12	H1FY11	Y-o-Y
Net Sales	81422	70381	15.7%	159344	135094	18.0%
Other Operating Income	697	686	1.6%	1378	1488	-7.4%
Total Income	82119	71068	15.6%	160722	136582	17.7%
Expenditure						
Change in Stock	-403	444	-190.7%	-2950	-2957	-0.2%
Purchase of Goods	450	381	18.0%	823	745	10.5%
Raw Materials consumed	18890	14812	27.5%	36793	27497	33.8%
Staff Cost	6908	6837	1.0%	13778	12619	9.2%
Purchase of Power	4320	3615	19.5%	8914	7163	24.4%
Freight and handling	3900	3603	8.2%	7964	7125	11.8%
Other Expenditure	20356	15086	34.9%	36671	28935	26.7%
Total Expenditure	54422	44777	21.5%	101993	81128	25.7%
EBITDA	27698	26290	5.4%	58729	55455	5.9%
EBITDA Margin (%)	34.0%	37.4%	-340 bps	36.9%	41.0%	-410 bps
Depreciation	2871	2815	2.0%	5724	5617	1.9%
Other Income	236	7327	-96.8%	5762	7811	-26.2%
Interest (net)	2343	3425	-31.6%	4615	6702	-31.1%
PBT	22720	27378	-17.0%	54152	50948	6.3%
Total Tax	7767	6726	15.5%	17005	14502	17.3%
Net Profit (+) / Loss (-)	14952	20651	-27.6%	37147	36445	1.9%
EPS (INR)	15.6	22.9	-31.9%	38.7	40.4	-4.1%

Source - Company

Corus Result highlight

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Corus (\$ mln)					
Deliveries (mt)	3.56	3.47	4.13	3.50	3.48
Turnover	4,124	4,024	4,924	4,594	4,321
Realization (\$/ton)	1158	1160	1192	1313	1242
EBITDA	198	89	350	273	103
EBITDA Margin	4.8%	2.2%	7.1%	5.9%	2.4%
EBITDA/ton	56	26	85	78	30
Cost of production/ton	1103	1134	1108	1235	1212

Source - Company

- ✓ The company delivered lowest volume in past 8 quarters due to adverse macro conditions in Europe. We believe that next two quarters will be very tough for Tata Steel Europe due to sharply deteriorating macro conditions in Europe.
- ✓ Realization for Q2FY12 increased by \$ 84/ton y-o-y and decreased by \$ 71/ton q-o-q to US \$ 1242/ton. We believe that realization is expected to be subdued in coming quarters due to recent weakness in prices.
- ✓ EBITDA/ton for the quarter is \$ 30/ton due to decrease in realization and relative stable costing.
- ✓ The management has indicated that volumes for Q3FY12 would be in the range of 3.1-3.2mt due to subdued macro conditions.

Highlights of Asian Operations (Nat Steel Asia & Tata Steel Thailand)

Tata Steel Asian Subsidiaries	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Deliveries (mt)	0.78	0.78	2.31	0.79	0.78
Turnover	604	655	1845	746	637
Realization (\$/ton)	774	840	799	944	817
EBITDA	34	29	59	20	5
EBITDA Margin	5.6%	4.4%	3.2%	2.7%	0.8%
EBITDA/ton	43.6	37.2	25.5	25.3	6.4
Cost of production/ton	730.8	802.6	773.2	919.0	810.3

- ✓ Turnover of Asian subsidiaries in Q2FY12 decreased substantially due to lower realization. Going ahead the situation is expected to remain tepid due to deteriorating macro environment
- ✓ Total deliveries in the region continue to remain at the same level as conditions in the Asia region continue to remain tepid. Natsteel continue to remain stable while conditions in Thailand remain very tepid due to extreme conditions.
- ✓ Company has reported EBITDA & EBITDA/ton of \$5mln & \$6.4/ton during the quarter due to tepid realization and losses in Thailand subsidiary. We believe that EBITDA/ton will be under pressure in next quarter due to plunging prices and stable costs.

Tata Steel Consolidated Result highlight

Description (INR Mln)	Q2FY12	Q2FY11	Y-o-Y	H1FY12	H1FY11	Y-o-Y
Net Sales	325075	280909	15.7%	654331	551010	18.8%
Other Operating Income	2904	5553	-47.7%	3649	7389	-50.6%
Total Income	327979	286462	14.5%	657981	558399	17.8%
Expenditure						
Change in Stock	10666	-8086		-13248	-17187	-22.9%
Purchase of Goods	43217	38059	13.6%	103798	72698	42.8%
Raw Materials consumed	108318	94091	15.1%	220596	172145	28.1%
Staff Cost	39811	38275	4.0%	82127	76046	8.0%
Purchase of Power	11807	9967	18.5%	23900	19680	21.4%
Freight and handling	16850	14676	14.8%	32787	30536	7.4%
Other Expenditure	69809	62757	11.2%	136293	123431	10.4%
Total Expenditure	300479	249739	20.3%	586252	477350	22.8%
EBITDA	27500	36723	-25.1%	71729	81049	-11.5%
EBITDA Margin (%)	8.5%	13.1%	-460 bps	11.0%	14.7%	-370 bps
Depreciation	11088	10781	2.8%	22596	21220	6.5%
Other Income	1204	8143	-85.2%	40027	8737	358.1%
Interest (net)	7161	6637	7.9%	14538	12613	15.3%
Exceptional items	0	-316		0	-915	
Profit before tax	10456	27132	-61.5%	74622	55038	35.6%
Total Tax	9065	7450	21.7%	20295	17454	16.3%
Net Profit (+) / Loss (-)	1390	19682	-92.9%	54327	37584	44.5%
Share of Profit of Associates	542	3	16831.3%	823	419	96.4%
Minority Interest	192	103	87.3%	440	38	1067.9%
Profit after MI	2124	19788	-89.3%	55590	38041	46.1%
EPS (INR)	2	22	-90.1%	58	42	37.3%

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Net Sales	1,457,046	1,017,578	1,171,498	1,252,767	1,311,683
Total Expenditure	1,299,849	951,775	1,034,459	1,135,961	1,136,606
EBIDTA	173,443	72,156	153,073	121,700	177,077
EBIDTA Margin (%)	11.9%	7.1%	13.1%	9.7%	13.5%
Depreciation	42,654	44,917	44,148	45,435	46,555
EBIT	130,789	27,239	108,924	76,265	130,522
Interest cost	32,902	30,221	27,700	28,658	31,671
Operating Profit	97,888	-2,982	81,224	47,607	98,851
Other Income	2,656.7	11,858.5	9,809.8	41,027.0	2,800.0
Extraordinary Item	-40,945.3	-16,837.2	23,102.1	0.0	0.0
PBT	67,432	311	121,020	88,634	101,651
Tax	18,940	21,518	32,459	24,499	30,495
PAT (After MI)	49,509	-20,091	89,827	67,468	72,771
PAT Margin (%)	3.4%	-2.0%	7.7%	5.4%	5.5%
EPS	67.8	-22.7	93.7	69.5	73.3
Sales Growth (%)	11.1%	-30.2%	15.1%	6.9%	4.7%
EBITDA Growth (%)	0.6%	-58.4%	112.1%	-20.5%	45.5%
PAT Growth (%)	-60.6%		-	-24.9%	7.9%

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sources of Funds					
Share Capital	7,301	8,867	9,587	9,707	9,931
Reserves & Surplus	269,842	219,272	346,052	403,994	476,689
Networth	277,143	228,139	355,639	413,701	486,621
Secured Loans	342,439	280,593	286,044	336,044	366,044
Unsecured Loans	256,566	250,410	320,799	300,799	260,799
Total Loans	599,005	531,004	606,843	636,843	626,843
Deferred Tax Liability	28,454	29,911	30,850	30,850	30,850
Minority Interest	8,949	8,841	8,889	8,304	8,894
Hybrid Sec	0	0	15,000	15,000	15,000
TOTAL	913,551	797,894	1,017,222	1,104,698	1,168,208

Application of Funds

Net Fixed Assets	453,059	457,958	523,934	577,915	591,360
Investment	64,111	54,178	78,473	81,221	83,427
Goodwill	153,649	145,418	152,982	152,982	152,982
Current Assets	538,540	438,717	597,686	684,353	747,385
Current Liabilities	302,340	299,867	337,610	393,530	408,702
Net Current Assets	236,199	138,851	260,076	290,823	338,683
Misc Expense not w/o	6,533	1,488	1,756	1,757	1,757
TOTAL	913,551	797,893	1,017,221	1,104,698	1,168,208

Cash Flows

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Internal accruals	187,924	80,636	168,729	162,727	179,877
(Inc)/Dec in Net Current Assets	2,848	49,017	-71,749	25,583	7,610
Cash flow from Operations	156,959	105,022	64,629	163,811	156,992
Inc/(Dec) in Debt	20189	-29694	54762	30000	-10000
Inc/(Dec) in Equity	3	24,215	43,680	5,346	16,403
Cash flow from Financing	-27,548	-51,350	59,930	-8,065	-41,522
Fixed Asset formation	-83,611	-69,472	-101,636	-99,416	-60,000
Inc/(Dec) in Investment	-29,362	19,454	14,334	0	0
Cash flow from Investment	-108,219	-47,003	-83,785	-99,416	-60,000
Net Change in Cash	21,192	6,669	40,774	56,331	55,470

Ratios

Valuation Ratio	2009	2010	2011	2012P	2013P
P/E	6.3	-19.0	4.6	6.2	5.9
P/BV	1.1	1.7	1.2	1.0	0.9
EV/EBIDTA	4.9	11.7	5.9	7.3	4.7
EV/Sales	0.6	0.8	0.8	0.7	0.6
Dividend Yield (%)	3.72%	1.86%	2.79%	3.02%	3.26%
EPS	67.8	-22.7	93.7	69.5	73.3
DPS	16.0	8.0	12.0	13.0	14.0
Book Value	378	257	371	426	490
Adj. ROCE	22.7%	7.1%	17.0%	10.7%	17.2%
Adj. ROE	17.9%	-8.8%	25.3%	16.3%	15.0%

Solvency Ratio (x)

Debt/Equity	2.16	2.33	1.71	1.54	1.29
Debt/EBIDTA	3.45	7.36	3.96	5.23	3.54

Turnover Ratio (x)

Asset Turnover	1.49	1.03	1.20	1.25	1.21
Fixed Asset Turnover	3.34	2.23	2.39	2.27	2.24
Current Ratio	1.78	1.46	1.77	1.74	1.83
Inventory (days)	56	65	78	78	78
Debtors (days)	33	41	46	46	46
Creditors (days)	65	90	94	94	94

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

Marwadi Shares & Finance Limited

Institutional Business Group, MSFL

@p-sec, 306, Gresham Assurance House
132, Mint Road, Fort, Mumbai - 400 001
Tel : + 91 22 30947100 / 102 Fax : +91 22 2269 0478

Registered Office

Marwadi Financial Plaza, Nava Mava Main Road,
Off 150 FT. Ring Road, Rajkot - 360 005
Tel : + 91 281 2481313 / 3011000