

RESULTS REVIEW
Tata Steel Limited
Hold
Share Data

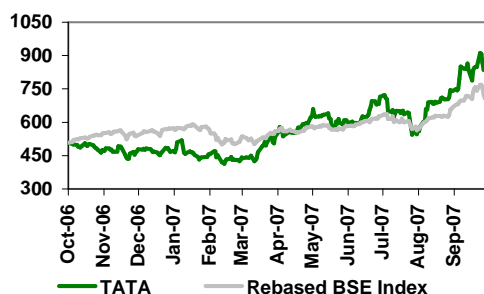
Market Cap	Rs. 509.9 bn
Price	672.25
BSE Sensex	17,613.99
Reuters	TISC.BO
Bloomberg	TATA IN
Avg. Volume (52 Week)	1.2 mn
52-Week High/Low	Rs. 923.5 / 399
Shares Outstanding	609 mn

Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	113.3	125.8
+/- (%)	51.3%	11.1%
PER (x)	7.4x	6.7x
EV/ Sales (x)	0.8x	0.8x
EV/ EBITDA (x)	5.4x	4.9x

Shareholding Pattern (%)

Promoters	34
FII's	21
Institutions	19
Public & Others	26

Relative Performance

Tata taps on 'Corus' tune

Tata steel 1Q'08 numbers were above our estimates. Consolidated net sales increased 22.4% yoy from Rs 254.5 bn (proforma for Corus acquisition) to Rs. 311.5 bn driven by recent price increase from Corus while normalised net profit increased 15.2% (proforma) to Rs. 19.3 bn. On a standalone basis, Tata Steel's net sales increased 7.6% yoy to Rs. 42 bn, primarily on account of an increase in the realisation rate. However, this was offset by decrease in the sales volumes. EBITDA increased 6.4% yoy to Rs. 16.8 bn; however, margins compressed 48bps to 40.1% mainly due to increase in staff and other operating expenses. The adjusted net profit (adjusted for sports contribution and forex gain) increased 5.4% yoy to Rs. 10.2 bn. The profit was under pressure due to rise in the interest expense on account of increase in debt for Corus acquisition and higher provision for tax. Recently, the Company has filed a draft prospectus with SEBI to issue rights share and 2% Convertible Preference Share aggregating Rs. 36.5 bn and Rs. 60 bn (increased from Rs. 43.5 bn announced earlier) respectively to fund the Corus acquisition.

Post Corus acquisition, Tata steel has achieved a global scale with the synergies of USD 450 mn coming over the next three years. The Company has become highly leveraged to European steel prices and as steel prices have increased in Europe, we expect Tata Steel to report good numbers in FY08E. However, at the current price the stock seems to be fairly valued. Hence, we reiterate our Hold rating on the stock.

Result Highlights (Standalone)

Standalone net sales increased 7.6% yoy to Rs. 42 bn primarily on

Key Figures (Standalone)

Quarterly Data	1Q'07	4Q'07	1Q'08	QoQ%	YoY%
(Figures in Rs. mn, except per share data)					
Net Sales	38,995	49,804	41,976	(15.7)%	7.6%
EBITDA	15,813	19,036	16,820	(11.6)%	6.4%
Adjusted Net Profit	9,659	11,304	10,184	(9.9)%	5.4%
Margins(%)					
EBITDA	40.6%	38.22%	40.07%		
NPM	24.8%	22.7%	24.3%		
Per Share Data (Rs.)					
Adjusted EPS	17.5	19.5	16.9	(13.4)%	(3.4)%

Margins increased sequentially but declined yoy

account of increase in the realisation rate by 15.3% to Rs. 40k per tonne. This decrease was arrested by 6.6% decline in sales volume to 1.04 mn tonnes.

EBITDA went up 6.4% yoy to Rs. 17 bn; however, margins reduced 48bps to 40.1%. Despite lower cost of goods sold, EBITDA fell due to higher employee and other operating expenses by 29.8% and 16.6% respectively. However, sequentially EBITDA margins improved 1.9pts primarily due to better realisation in the first quarter and hence we expect margins to improve for FY08E.

Adjusted net profit increased 5.4% yoy to Rs. 10.2 bn. The profits were under pressure primarily due to higher interest expense by 173.1% yoy on account of increase in debt for Corus acquisition and rise in tax provision 47%. However, including the effect of foreign currency gain (due to rupee appreciation) of Rs. 5.5 bn and contribution of Rs. 1.5 bn to sports infrastructure, net profit increased by a robust 28.2%.

Key Events

Increase in the amount of right issue for Corus acquisition

For part funding the Corus acquisition, the Company has filed a draft prospectus with SEBI for rights issue to the existing shareholders through two simultaneous but unlinked issues of Equity Shares and 2% Cumulative Convertible Preference Shares (CCP). The right issue will be in the ratio of 1:5 at a price of Rs. 300 per share aggregating to Rs. 36.5 bn. The Company has increased the size of 2% CCP from Rs. 43.5 bn to Rs. 60 bn but pricing has not been decided till date.

Sale of Cold Rolling Mill at Sisodra

During the quarter, Tata Steel sold its Cold Rolling Mill at Sisodra, to Theis Precision Steel, at a consideration of Rs. 670 mn.

Increased the size of 2% CCP from Rs. 43.5 bn to Rs. 60 bn

1.8 mtpa additional capacity plants will begin operations by June 2008

Trading at the forward PE of 7.4x for FY08E and 6.7x for FY09E

Prospects

Organic capacity expansion as per schedule

The Company's expansion plan is as per schedule. Its 1.8 mtpa additional capacity plant at Jamshedpur will begin functioning by June 08 and will provide a boost to FY09 production and sales. This will increase the crude steel capacity from 5 mtpa to 6.8 mtpa. A further expansion of 2.8 mtpa at the same works is expected to be completed by 2010. This will increase the Company's crude steel capacity from its Indian operations to 9.7 mtpa. Due to this expansion, the increased demand for coke will be sourced through the 1.6 mtpa coke plant at Haldia, which will begin its operation by March 2008.

Outlook

Driven by a continued growth in developing and emerging economies, global steel demand is likely to remain robust. The International Iron and Steel Institute (IISI) forecasts global steel consumption to grow by 5.9% in 2007 and 6.1% in 2008, driven by strong demand from Asia, Africa and South America. Though we do not foresee any significant change in volumes in the absence of capacity expansion in FY08E, the revenue growth for FY08E will be driven by recent price increase from Corus and higher realisations.

Going forward, the Company's 1.8 mtpa capacity expansion plant is likely to commence operations in FY09E, which will boost the domestic volumes. The expected increase in volumes, coupled with firm steel prices, will contribute to the revenue growth in FY09E. Therefore, we have calibrated our FY08E-09E revenues to Rs. 1,218 bn in FY08E and Rs. 1,280 bn in FY09E. At the current price, the stock seems to be fairly valued. We, therefore, reiterate our Hold rating on the stock.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
<small>(Figures in Rs. mn, except per share data)</small>						
Net Sales	159,986	203,221	251,917	1,217,965	1,280,490	125.5%
EBITDA	66,727	65,912	78,666	186,887	207,391	62.4%
Adjusted Net Profit	39,586	37,714	42,795	95,128	111,182	61.2%
Margins(%)						
EBITDA	41.2%	32.0%	30.7%	15.3%	16.1%	
NPM	24.5%	18.3%	16.7%	7.8%	8.7%	
Per Share Data (Rs.)						
Adjusted EPS	71.7	68.3	74.9	113.3	125.8	29.7%
PER (x)	5.6x	7.9x	11.2x	7.4x	6.7x	

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