

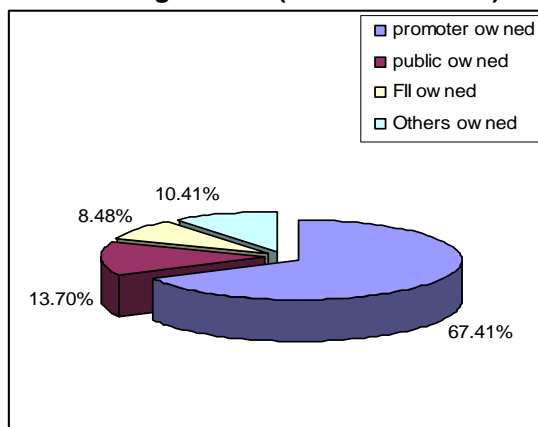
**Tata Sponge Iron Ltd.**

12<sup>th</sup> June 2008

**Stock statistics as on 12 June 2008**

Market Cap (Rs Mn) :	3773.00
52-Week high/low (Rs) :	331/105
Face value :	Rs 10
BSE Code :	513010
NSE Code :	Tatasponge
Industry :	Sponge Iron
Shares outstanding :	15,400,000
Avg vol (30 days) :	2.30

**Shareholding Pattern (as on 31 Mar.'08)**



**Key Statistics (as on 12 June 2008)**

CMP :	242.00
BV :	164.87
PE :	3.95
PB :	1.49
Beta :	1.31
Turnover (Rs Mn) :	1.03
Net worth :	2434.60

Tata Sponge Iron Limited was incorporated in 1982 as a joint venture of Tata Steel and the Industrial Promotion & Investment Corporation of Orissa Limited for the production of sponge iron based on the TISCO Direct Reduction (TDR) technology, which was developed in-house at Tata Steel. Later during 1991, Tata Steel acquired IPI-COL's entire stake and presently, TSIL is an associate company of Tata Steel. The company is located at Bhilaipada near Joda, in the Keonjhar district of Orissa producing Sponge iron which is used along with steel scrap by the secondary steel producers employing induction furnaces or electric arc furnaces for producing steel.

**Industry outlook**

The sponge iron industry in India has been growing sharply with India being the largest producer of sponge iron in the world; especially the last quarter has been quite fruitful for the companies as the sponge iron prices have increased sharply by over 40% in the last quarter. Higher realizations are expected to more than offset the rise in Iron ore and coal prices enabling the industry to report robust growth. Non availability of steel scrap used as a raw material for manufacturing steel has propelled the usage of sponge iron in place of steel scrap, creating enough opportunities for the companies. The total outstanding investments in the industry stood at Rs 77.97 billion as on 31<sup>st</sup> March 2008. The production growth is mainly driven by the completion of outstanding projects. The sponge iron production is expected to register a healthy 18% rise to 19.2 lakh tonnes in 2007-08 and 22.8 lakh tonnes in 2008-09, translating into an 18.7% increase.

**Investment Rationale**

- In the wake of increased thrust by the government to the infrastructural facilities, and the strengthening steel sector, the sponge iron demand seems to remain robust leading to higher realizations per tonnes in the coming quarters. The company is planning to double its direct reduction iron (DRI) facility to 840000 TPA and build a 3 million TPA plant in Orissa, with this the company will also have enough waste heat and solid waste to set up additional power plants of over 60MW, which will further strengthen the top line as well as the bottom line of the company.
- The company intends to commission the Rs 1000 crores project for converting sponge iron into mild steel billets for the manufacturing long products by the current year 2008, thereby creating huge future earnings visibility. This plant will be implemented along with the company's plan to set up a 1million tonne steel plant by adding capacity to its existing facility in Joda.
- Higher capacity utilization has been endeavored by the company by the usage of imported coal whose quality is much better than indigenous ones. The company rides on the benefit of getting continuous supply of high quality iron ore from Tata Steel, thereby keeping the sponge iron standards on high levels.

**FINANCIAL STATEMENT ANALYSIS**

Rs Mn.

Particulars	FY05	FY06	FY07	FY08
Revenues	2405.00	1930.00	2775.10	4332.90
Growth (%)	--	-19.75	43.79	56.13
Total Expenditure	1475.80	1624.60	2450.40	3074.10
EBITDA	929.20	305.40	324.70	1258.80
Growth (%)	--	-67.13	6.32	287.68
EBITDA margin	38.64	15.82	11.70	29.05
Other Income	94.60	113.40	193.20	422.40
Depreciation	71.70	75.70	134.90	196.50
EBIT	952.10	343.10	383.00	1484.70
Interest	1.20	0.90	53.60	120.30
PBT	950.90	342.20	329.40	1364.40
Tax	342.00	121.20	117.10	409.10
Adjusted PAT	608.90	221.00	212.30	955.30
Growth (%)	--	-63.71	-3.94	349.98
Adjusted NPM	25.32	11.45	7.65	22.05
Reported PAT	608.90	221.00	212.30	955.30
EPS*	39.54	14.35	13.79	62.03
CEPS	44.19	19.27	22.55	74.79
Equity capital	154.00	154.00	154.00	154.00
Reserves	1165.70	1316.90	1429.70	2280.60

The company has posted excellent results for the year ended March 2008. The net sales posted a YoY growth of 56.13% at Rs 4332.90 million for FY08 against Rs 2775.10 million posted last year, driven by higher realizations as well as higher sales. Incomes from carbon credits as well as selling power have also added to the total income of the company. EBITDA stood at Rs 1258.80 million versus Rs 324.70 million clocked last year, posting a phenomenal growth of 287% mainly due to use of imported coal and thereby facilitating better capacity utilization and driving the costs down. The EBITDA margins have also marched ahead to 29.05% from 11.70% in FY07 clearly depicting the strength of the company. Although the interest and depreciation expenses have increased over the last year still profit before tax stood at Rs 1364.40 million against Rs 329.40 million posted in the last year. The bottom-line of the company has grown by over 3.5 times to Rs 955.30 million in FY08 against Rs 212.30 in FY07. Margins of the company have also posted a sharp expansion from 7.65% in FY07 to 22.05% in FY08. EPS and Cash EPS for the year ended March 2008 stood at Rs 62.03 and Rs 74.79 respectively, substantially higher than previous year's figures.

**Valuation**

Tata sponge iron has been one of the leading sponge iron producers of the country. The sponge iron scenario looks quite lucrative relying on the ever increasing demand for steel and higher impetus to the infrastructural development by the government. The company has been working on its expansion plans and is well placed in Orissa with access to all the raw materials required. With an expectation of continuance of the price robustness witnessed in sponge iron in the last 12 months, the company shall be able to couple higher realizations along with higher sales. The stock at the current market price of Rs 245 will trade 3.95 times to its earning per share of Rs 62.03 and will trade 1.49 times to its book – value of Rs 164.87. The stock looks attractive at the current valuation with the strong upside potential in the medium term investment horizon.

Therefore, we are initiating 'BUY' signal on the stock with the target price of Rs 294 which is approximately 20% up from the current market price of Rs 245.

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