

April 11, 2007

Stock Rating
Overweight

Industry View
Attractive

Tata Steel

Media Reports Imply Possibility of Zero to 15% Equity Dilution

Quick Comment: According to the *Business Standard* and *Economic Times* quoting unnamed sources, Tata Steel may be looking to raise US\$0.8 billion via equity issuance to fund the Corus acquisition. Tata Steel has not commented on these reports. We test our funding model along these lines to analyze the possible outcomes on the balance sheet and earnings of the combined company.

What's New: While *Business Standard* has stated that Tata Steel may be looking to raise about Rs35 billion via a rights issue at around Rs400 per share, the *Economic Times* has mentioned that the company may go with an issuance of preference shares. Both newspapers have also said that to ensure that the promoters' stake does not fall below current levels of about 30%, the company may not be very keen on GDR issuance.

Implications: Based on our calculations, a rights issue of Rs35 billion (US\$810 million) at an offer price of Rs400 would imply equity dilution of about 15% (pre warrants shares outstanding of 581 million), towards the middle of the 6-29% equity dilution scenarios that we mentioned in our earlier report on Tisco (see the Tisco section of "India Steel - On the Move" – dated February 26, 2007). Even with our current steel price assumptions for Corus, which we feel are too conservative, this would imply EPS accretion of 5.5% in F08 with the acquisition and combined P/E of 5.6x and EV/EBITDA of 5.7x based on our F08E estimates.

Funding does remain a question for Tisco but we believe that even with the recent share price increase, the stock is building in an extremely negative scenario. Armed with impressive cash flows if the company doesn't disappoint on funding structure, we think that the stock should gain meaningfully from here. Tata Steel has a board meeting scheduled for April 17 to discuss the funding plan.

Key Ratios and Statistics

Reuters: TISC.BO Bloomberg: TATA IN

India Steel

Price target	Rs578.00
Shr price, close (Apr 10, 2007)	Rs495.55
52-Week Range	Rs679.00-376.85
Mkt cap, curr (mn)	Rs274,371
Mkt cap, curr (mn)	US\$6,433

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Tata Steel

Exhibit 1

Tata Steel – Corus: Rights Issue at Rs400 with existing price assumptions

Rights Issue of Rs35 b at Rs400 per share (Dilution of 15% and existing assumptions on prices)

	F08E	F09E
Tisco Standalone EPS (Rs)	84.4	91.4
Consolidated EPS (Rs)	89.1	81.2
EPS Accretion (%)	5.5	(11.2)
Tisco Standalone PAT (Rs)	51,434	55,688
Consolidated PAT (Rs)	62,070	56,570
PAT Accretion (%)	20.7	1.6
Tisco Standalone EBITDA (Rs Mn)	81,903	91,882
Consolidated EBITDA (Rs Mn)	152,788	149,283
EBITDA Accretion (%)	86.5	62.5
Tisco Standalone Revenues (Rs Mn)	177,903	186,514
Consolidated Revenues (Rs Mn)	959,165	951,027
Consolidated Debt (Rs Mn)	525,008	565,665
Consolidated Equity (Rs Mn)	241,730	298,300
Standalone P/E	5.9	5.4
Standalone EV/EBITDA	3.7	3.7
Standalone Debt/Equity	0.6	0.8
Consolidated P/E	5.6	6.1
Consolidated EV/EBITDA	5.7	6.1
Consolidated Debt/Equity	2.2	1.9

Source: Morgan Stanley Research Estimates

Exhibit 2

Tata Steel – Corus: Rights Issue at Rs400 and price assumption in line with European Team forecasts

Rights Issue of Rs35 b at Rs400 per share (Dilution of 15% and price assumption in line with European team's forecast)

	F08E	F09E
Tisco Standalone EPS (Rs)	84.4	91.4
Consolidated EPS (Rs)	113.7	143.0
EPS Accretion (%)	34.6	56.4
Tisco Standalone PAT (Rs)	51,434	55,688
Consolidated PAT (Rs)	79,196	99,606
PAT Accretion (%)	54.0	78.9
Tisco Standalone EBITDA (Rs Mn)	81,903	91,882
Consolidated EBITDA (Rs Mn)	171,764	195,552
EBITDA Accretion (%)	109.7	112.8
Tisco Standalone Revenues (Rs Mn)	177,903	186,514
Consolidated Revenues (Rs Mn)	985,996	1,005,150
Consolidated Debt (Rs Mn)	507,292	503,429
Consolidated Equity (Rs Mn)	258,855	358,461
Standalone P/E	5.9	5.4
Standalone EV/EBITDA	3.7	3.7
Standalone Debt/Equity	0.6	0.8
Consolidated P/E	4.4	3.5
Consolidated EV/EBITDA	5.0	4.3
Consolidated Debt/Equity	2.0	1.4

Source: Morgan Stanley Research Estimates

Exhibit 3

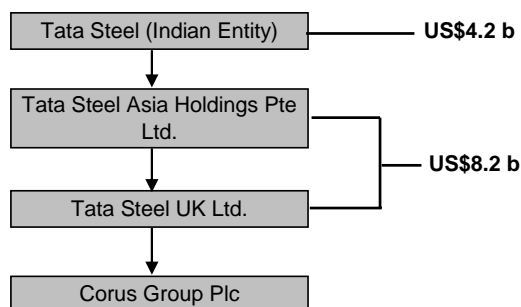
Realization, Cost and Price Assumptions for Corus

Our Existing Assumptions (Getting reflected in Exhibit 1)				
	CY06 / F07	CY07 / F08	CY08 / F09	CY09 / F10
Realization (US\$/ton)	838	832	815	791
YoY Change (%)	0.2	(0.8)	(2.0)	(3.0)
Cost per ton (US\$/ton)	748	748	748	748
YoY Change (%)	0.1	-	-	-
EBITDA per ton (US\$/ton)	90	84	67	43
YoY Change (%)	1.3	(7.3)	(19.9)	(36.4)
Assumptions more in line with our European team's price assumption (Getting reflected in Exhibit 2)				
	CY06 / F07	CY07 / F08	CY08 / F09	CY09 / F10
Realization (US\$/ton)	850	865	883	785
YoY Change (%)	1.6	1.8	2.0	(11.0)
Cost per ton (US\$/ton)	753	758	758	758
YoY Change (%)	0.7	0.7	-	-
EBITDA per ton (US\$/ton)	97	107	125	28
YoY Change (%)	8.9	10.5	16.1	(77.9)
US\$/ton	CY06	CY07	CY08	CY09
Europe Team's HR price assumption	625	632	645	577
YoY Change (%)	3.8	1.1	2.1	(10.6)
Our existing realization assumption for Corus	838	832	815	791
YoY Change (%)	0.2	(0.8)	(2.0)	(3.0)
Realization assumption for Corus more in line with our European team's price assumption	850	865	883	785
YoY Change (%)	1.6	1.8	2.0	(11.0)

Source: Morgan Stanley Research Estimates

Exhibit 4

Tara Steel: Corus Acquisition Funding Plan



Source: Company data, Morgan Stanley Research Estimates



Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of March 31, 2007)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	843	38%	292	44%	35%
Equal-weight/Hold	991	45%	284	42%	28%
Underweight/Sell	364	17%	95	14%	26%
Total	2,198		671		

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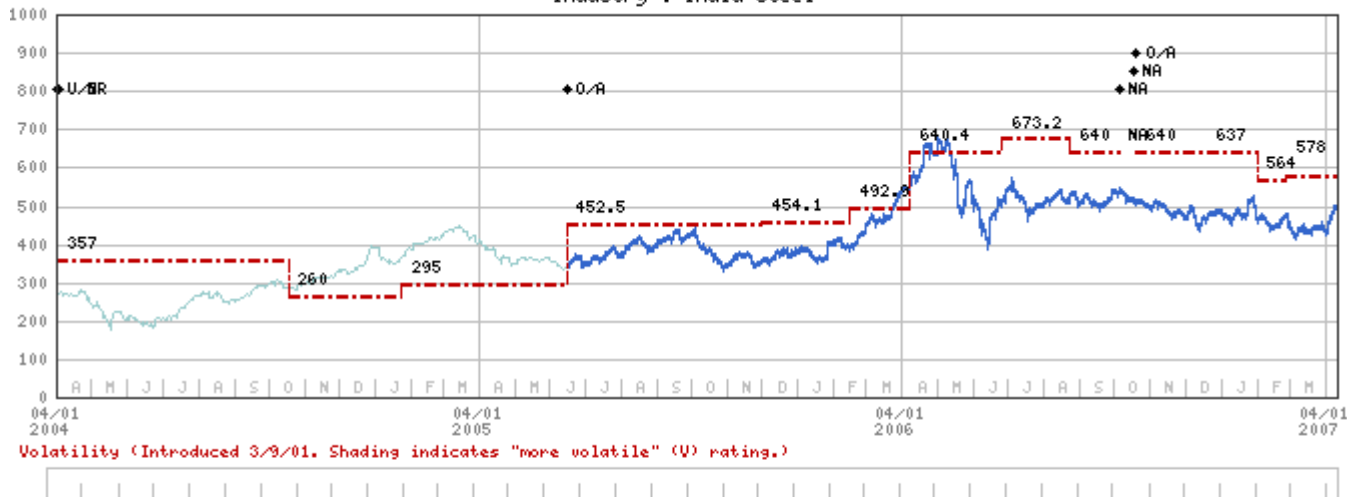
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Stock Price, Price Target and Rating History (See Rating Definitions)

Tata Steel (TISC.BO) - As of 4/10/07 in INR
Industry : India Steel



Volatility (Introduced 3/9/01. Shading indicates "more volatile" (V) rating.)

Stock Rating History: 1/24/03 : U/NR; 4/2/04 : U/C; 6/15/05 : O/A; 10/5/06 : NA; 10/17/06 : NA; 10/20/06 : O/A
 Price Target History: 1/27/04 : 357; 10/18/04 : 260; 1/24/05 : 295; 6/15/05 : 452.5; 12/1/05 : 454.1; 2/14/06 : 492.9; 4/7/06 : 640.4; 6/26/06 : 673.2; 8/23/06 : 640; 10/5/06 : NA; 10/20/06 : 640; 12/20/06 : 637; 2/1/07 : 564; 2/26/07 : 578

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦
 Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAU)
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 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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April 11, 2007

Tata Steel

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Industry Coverage:India Steel

Company (Ticker)	Rating (as of)	Price (04/10/2007)
Vipul Prasad		
Jindal Steel & Power (JNSP.BO)	O (09/30/2005)	Rs2,483.5
Steel Authority Of India (SAIL.BO)	O (06/15/2005)	Rs117.7
Tata Steel (TISC.BO)	O (10/20/2006)	Rs495.55

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