

Market Movement

	Close	Diff	% Chg
BSE 100	7,396.2	-68.4	-0.9
CNX Nifty Jr	7,996.3	-109.4	-1.4
Dow Jones	13,633.1	111.7	0.8
Nasdaq	2,592.6	20.5	0.8

Turnover

	Rs mn		% Chg
BSE	53,030	↑	15.2
NSE	111,230	↑	19.1

Advances/Declines (%)

	Advances	Declines
BSE	36.9	60.4
NSE	29.3	68.1

Nifty Delivered Statistics

	Delivered Quantity	% Daily Quantity*
Most Delivered		
BONGAIREFN	403,562	80.2
BPCL	346,817	79.6
Tata Motors	1,468,296	79.2
CESC	165,709	78.7
Least Delivered		
SBI	511,472	19.6
Tata Steel	838,492	17.4
Reliance Capital	462,971	16.2
Divis Lab	25,608	14.6

* to trade quantity.

Institutional Activity

29 May 2007	Cash (Rs mn)	F&O (Rs mn)
FII's		
Buy	22,820	132,575
Sell	14,446	9,616
Net	8,374	122,959
Mutual Funds		
Buy	6,360	-
Sell	6,402	-
Net	-42	-

Key Statistics

	Close	Change
Rs/US\$	40.76	-0.08
Rs/Euro	54.75	0.08
10 yr G-Sec (%)	8.14	0.00
Call rate (%)	7.50	-
Brent-spot (US\$/bbl)	68.02	-0.06
WTI-spot (US\$/bbl)	63.49	0.34
Aluminium (LME, US\$/t)	2,726	-13.00
Copper (LME, US\$/t)	7,250	-110.00
Zinc (LME, US\$/t)	3,619	39.00
Steel (US\$/t)	565	0.00

Inside

□ Tata Steel: Operating leverage to come through

Corus has raised steel prices by GBP20/tonne (3-4%) on few products in its long products' segment (mill plates and sections) for 2Q FY08 over the 5-7% QoQ rise announced for 1Q FY08. Demand outlook continues to be strong in Europe, given which the pricing trend does indicate a rise of 3-4% QoQ in 2Q FY08 across products. On account of this, we have raised our pricing assumptions by 2-3% in FY08E and FY09E for the consolidated entity of Tata Steel and Corus. Given the low EBITDA margin and high operating leverage, the rise in price assumptions has resulted in a rise in our profit estimates by 22% in FY08E and 24% in FY09E.

The improved realization enhances the financial profile of the consolidated entity, with net debt equity ratio improving to 1.7x in FY09E from over 2x. The management has suggested that there will be synergies and cost reduction benefits of US\$450 mn over the next three years from improving efficiencies and procurement strategies. This does not include any benefits from supplying semi-finished steel from India to Corus' plants. Our management interactions have suggested that the synergies and cost reduction benefits could be substantially higher. In this eventuality there will be a further upside to our estimates.

Though the CMP is Rs628, Tata Steel, on an ex-rights basis, is trading at Rs573/share. Given the rise in our profit estimates and the stronger cash flows, we are revising our target price on an ex-rights basis from Rs515 (PE of 7.0x and EV/EBITDA of 5.4x FY09E) to Rs732 (PE of 8.0x and EV/EBITDA of 5.5x FY09E). The stock currently offers an upside of 28% on an ex-rights basis and thus we are upgrading our recommendation to a Buy.

[\(Please click here for details on page 2\)](#)

Rating Upgrade

Sector: Metals

Target Price (Cum-rights)	Rs818
Target Price (Ex-rights)	Rs732
Market cap (bn)	Rs364.2/US\$8.2
52-week range	Rs679/377
Shares in issue (mn)	580.5
6-mon avg daily vol (no of shares)	5,379,651
6-mon avg daily vol (mn)	Rs3,375.5/US\$75.9
Bloomberg	TATA IN
Reuters	TISC.BO
BSE Sensex	14,454
Website	www.tatasteel.com

Shareholding Pattern (%)

Promoters	30.5
FII's	17.4
MFs/FIs/Banks	21.9
Others	30.2

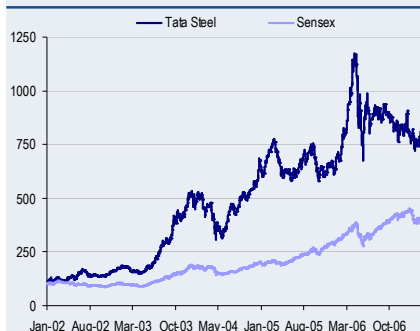
(As of 31 March 2007)

Price Performance (%)

	1M	3M	12M
Absolute	17.4	37.6	32.7
Relative*	13.4	34.5	(5.2)

* To the BSE Sensex

Relative Performance



(As of 30 May 2007)

Analysts:

Lavina Quadros

lquadros@asksecurities.com

Tel: (91 22) 6646 0015

Ravindra Kumar Goyal

rgoyal@asksecurities.com

Tel: (91 22) 6646 0145

Operating leverage to come through

Corus has raised steel prices by GBP20/tonne (3-4%) on few products in its long products' segment (mill plates and sections) for 2Q FY08 over the 5-7% QoQ rise announced for 1Q FY08. Demand outlook continues to be strong in Europe, given which the pricing trend does indicate a rise of 3-4% QoQ in 2Q FY08 across products. On account of this, we have raised our pricing assumptions by 2-3% in FY08E and FY09E for the consolidated entity of Tata Steel and Corus. Given the low EBITDA margin and high operating leverage, the rise in price assumptions has resulted in a rise in our profit estimates by 22% in FY08E and 24% in FY09E.

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Exhibit 1: Financial summary

(Rs mn)

Y/E March	FY05	FY06	FY07	FY08E	FY09E
Net Sales	144,990	151,394	175,520	1,164,287	1,188,186
EBITDA	60,454	59,315	69,733	188,870	163,617
EBITDA (%)	41.7	39.2	39.7	16.2	13.8
Adjusted net profit	35,336	35,417	43,248	82,433	62,032
EPS (Rs)	48.3	48.4	59.1	112.7	84.8
Consolidated EPS (Rs)	50.1	51.6	62.8	116.5	91.5
EPS growth (%)		2.8	17.9	46.1	-27.2
ROCE (%)	48.9	40.0	37.7	16.9	14.0
RONW (%)	61.1	42.1	35.5	36.7	25.2
Consolidated PE (x)	12.5	12.2	10.0	5.4	6.9
EV/EBITDA (x)	7.8	7.8	6.2	4.6	5.1

Source: Company data, ASK Securities. Note: Valuations as of 30 May 2007.

Contact details – Sales & Dealing Team
Sales Team
Tel: (91 22) 6646 0017

E-mail: asksales@bloomberg.net

Sales Trading & Dealing Team
Tel: (91 22) 2497 5601-05

E-mail: askdealing@bloomberg.net

Derivatives Team
Tel: (91 22) 2497 5601-05

E-mail: askdealing@bloomberg.net

ASK SECURITIES INDIA PRIVATE LIMITED

(Formerly known as ASK RAYMOND JAMES & ASSOCIATES PVT. LTD.)

MEMBER, BOMBAY AND NATIONAL STOCK EXCHANGES

Bandbox House (Rear), 1st Floor, 254-D, Dr Annie Besant Road, Worli, Mumbai-400 025. (India).

Tel: +91 22 6646 0000 • Dealers: +91 22 2497 5601-05 • Fax: +91 22 2498 5666 • E-mail: broking@asksecurities.com

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