

**November 12, 2012**

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Rating	<b>Accumulate</b>
Price	Rs391
Target Price	Rs417
Implied Upside	6.6%
Sensex	18,684
Nifty	5,686

*(Prices as on November 09, 2012)*
**Trading data**

Market Cap. (Rs bn)	374.4
Shares o/s (m)	958.5
3M Avg. Daily value (Rs m)	2269.2

**Major shareholders**

Promoters	31.35%
Foreign	14.71%
Domestic Inst.	27.35%
Public & Other	26.59%

**Stock Performance**

(%)	1M	6M	12M
Absolute	(5.2)	(6.4)	(12.7)
Relative	(4.6)	(19.8)	(20.4)

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	8.4	38.3	-78.1
2014	42.0	53.1	-20.9

**Price Performance (RIC: TISC.BO, BB: TATA IN)**


Source: Bloomberg

Tata Steel reported Q2FY13 earnings below our expectation on account of higher than expected costs in domestic operations and weakness in European operations. We believe that current earnings in domestic operations don't reflect the normalised earnings given the high cost in expanded capacity due to instabilisation of facilities, elevated forex losses and absence of scale benefits. We maintain our **'Accumulate'** rating, underpinned by strong domestic operations and comfort on valuations.

- High forex losses and lower by-product sales marred domestic earnings:** Earnings for the quarter were impacted by forex loss of Rs1.8bn (shown in other expenses) on MTM of forward covers on loans and absence of by-product sales (against Rs1.86bn QoQ). Hence, EBITDA fall short of our expectation at Rs24.0bn (PLe: Rs28.6bn), down 10% YoY (9% QoQ). Steel realisations dropped 3.7% QoQ/Rs1521 to Rs39121, marginally better than expectation of Rs39036. Thanks to higher than expected other income and lower tax rate, fall in PAT was restricted to 1% QoQ (10% YoY) at Rs13.4bn (PLe: Rs15bn).
- Tata Steel Europe (TSE) report loss on EBITDA:** TSE's sales volumes declined 2% YoY (+6.5% QoQ) to 3.42m (PLe: 3.15m) tonnes. Realisations declined US\$80/t QoQ to US\$1124, below our expectation of US\$1138. Higher-than-expected fall in realisations led TSE to post loss of US\$7.6m (-US\$2/t) against our expectation of positive US\$32m (US\$10/t). Company posted an EBITDA of US\$63m and US\$111m in Q2FY12 and Q1FY13.
- Key highlights of earnings con-call: 1)** Q3 earnings outlook muted for domestic operations due to softening in contract prices **2)** Maintained guidance of 1m tonne incremental volumes in domestic operations; majority to come in Q4 **3)** Triennial valuation in European pension schemes completed with net deficit of GBP500m to be recovered over 15 years **4)** Management expects minimal cash outflows in these schemes during initial years.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	1,187,531	1,328,997	1,380,523	1,520,642
Growth (%)	16.0	11.9	3.9	10.1
EBITDA (Rs m)	167,467	124,168	125,253	168,816
PAT (Rs m)	59,368	20,279	8,142	40,823
EPS (Rs)	61.9	20.9	8.4	42.0
Growth (%)	(503.3)	(66.3)	(59.9)	401.4
Net DPS (Rs)	12.0	12.0	12.0	15.0

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	14.1	9.3	9.1	11.1
RoE (%)	20.3	5.2	1.9	9.4
RoCE (%)	9.7	4.6	3.5	6.5
EV / sales (x)	0.7	0.7	0.7	0.6
EV / EBITDA (x)	5.1	7.1	7.5	5.8
PE (x)	6.3	18.7	46.6	9.3
P / BV (x)	1.1	0.9	0.9	0.9
Net dividend yield (%)	3.1	3.1	3.1	3.8

Source: Company Data; PL Research

**Exhibit 1: Q2FY13 Result Overview - Consolidated (Rs m)**

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	Q1FY13	H1FY13	H1FY12	YoY gr. (%)
<b>Net Sales</b>	<b>341,327</b>	<b>327,979</b>	<b>4.1</b>	<b>338,212</b>	<b>679,539</b>	<b>657,981</b>	<b>3.3</b>
Raw Material	164,972	164,821	0.1	150,498	315,469	316,690	(0.4)
<i>% of Net Sales</i>	<i>48.3</i>	<i>50.3</i>		<i>44.5</i>	<i>46.4</i>	<i>48.1</i>	
Staff Costs	45,393	39,811	14.0	47,825	93,218	82,127	13.5
<i>% of Net Sales</i>	<i>13.3</i>	<i>12.1</i>		<i>14.1</i>	<i>13.7</i>	<i>12.5</i>	
Power & Fuel	14,047	11,807	19.0	13,906	27,953	23,900	17.0
<i>% of Net Sales</i>	<i>4.1</i>	<i>3.6</i>		<i>4.1</i>	<i>4.1</i>	<i>3.6</i>	
Freight and handling	17,952	15,608	15.0	17,358	35,310	31,778	11.1
<i>% of Net Sales</i>	<i>5.3</i>	<i>4.8</i>		<i>5.1</i>	<i>5.2</i>	<i>4.8</i>	
Other Expenses	75,863	67,258	12.8	74,593	150,455	130,240	15.5
<i>% of Net Sales</i>	<i>22.2</i>	<i>20.5</i>		<i>22.1</i>	<i>22.1</i>	<i>19.8</i>	
Total Expenditure	318,227	299,305	6.3	304,179	622,406	584,734	6.4
<b>EBITDA</b>	<b>23,101</b>	<b>28,674</b>	<b>(19.4)</b>	<b>34,033</b>	<b>57,134</b>	<b>73,247</b>	<b>(22.0)</b>
<i>Margin (%)</i>	<i>6.8</i>	<i>8.7</i>		<i>10.1</i>	<i>8.4</i>	<i>11.1</i>	
Depreciation	13,349	11,088	20.4	13,080	26,429	22,596	17.0
Other income	2,018	3,361	(40.0)	2,894	4,912	10,973	(55.2)
<b>EBIT</b>	<b>11,769</b>	<b>20,948</b>	<b>(43.8)</b>	<b>23,847</b>	<b>35,616</b>	<b>61,624</b>	<b>(42.2)</b>
Interest	9,721	10,492	(7.3)	9,690	19,411	20,621	(5.9)
<b>PBT</b>	<b>2,048</b>	<b>10,456</b>	<b>(80.4)</b>	<b>14,157</b>	<b>16,205</b>	<b>41,003</b>	<b>(60.5)</b>
Extraordinary income/(expense)	427	-		-	427	33,619	
<b>PBT (After EO)</b>	<b>2,475</b>	<b>10,456</b>	<b>(76.3)</b>	<b>14,157</b>	<b>16,632</b>	<b>74,622</b>	<b>(77.7)</b>
Tax	6,608	9,065	(27.1)	8,986	15,594	20,295	(23.2)
<i>% PBT</i>	<i>267.0</i>	<i>86.7</i>		<i>63.5</i>	<i>93.8</i>	<i>27.2</i>	
<b>Reported PAT</b>	<b>(4,133)</b>	<b>1,390</b>	<b>NA</b>	<b>5,170</b>	<b>1,038</b>	<b>54,327</b>	<b>(98.1)</b>
Minority interest	(275)	(542)		(399)	(674)	(790)	(14.7)
Share of profit/(loss) of associates	218	192	13.6	410	628	473	32.8
<b>Net Profit attributable to shareholders</b>	<b>(3,639)</b>	<b>2,124</b>	<b>NA</b>	<b>5,979</b>	<b>2,340</b>	<b>55,590</b>	<b>(95.8)</b>
<b>Adjusted Net Profit attributable to shareholders</b>	<b>(3,928)</b>	<b>2,124</b>	<b>NA</b>	<b>5,979</b>	<b>1,913</b>	<b>21,971</b>	<b>(91.3)</b>

Source: Company Data, PL Research

**Exhibit 2: Subsidiary Performance**

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	Q1FY13	H1FY13	H1FY12	YoY gr. (%)
<b>Revenue</b>							
Indian Operations (m USD)	1,658	1,791	(7.4)	1,650	3,308	3,548	(6.8)
UK Operations (m USD)	3,843	4,320	(11.0)	3,669	7,512	8,920	(15.8)
South East Asian operations (m USD)	663	637	4.1	606	1,269	1,383	(8.2)
<b>Adjusted EBITDA</b>							
Indian Operations (m USD)	456	608	(25.0)	515	971	1,304	(25.6)
UK Operations (m USD)	(8)	63	(112.0)	111	103	336	(69.2)
South East Asian operations (m USD)	4	5	(20.0)	17	21	25	(16.0)
<b>Operating Metrics (Corus)</b>							
Sales Volume	3.4	3.5	(1.7)	3.2	6.6	7.0	(5.7)
Realisation per tonne	1,124	1,182	(4.9)	1,143	1,133	1,197	(5.4)
EBITDA per tonne	(2)	18	(112.2)	35	16	48	(67.4)
<b>Operating Metrics (South east operations)</b>							
Sales Volume	0.7	0.8	(11.4)	0.7	1.4	1.6	(10.1)
Realisation per tonne	947	765	23.8	842	894	769	16.2
EBITDA per tonne	6	6	(9.7)	24	15	16	(6.5)

Source: Company Data, PL Research

**Exhibit 3: Q2FY13 Result Overview - Standalone (Rs m)**

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	Q1FY13	H1FY13	H1FY12	YoY gr. (%)
<b>Net Sales</b>	<b>91,506</b>	<b>82,119</b>	<b>11.4</b>	<b>89,080</b>	<b>180,586</b>	<b>160,722</b>	<b>12.4</b>
Raw Material	23,794	18,938	25.6	20,031	43,825	34,666	26.4
<i>% of Net Sales</i>	<i>26.0</i>	<i>23.1</i>		<i>22.5</i>	<i>24.3</i>	<i>21.6</i>	
Staff Costs	8,300	6,908	20.2	8,591	16,891	13,778	22.6
<i>% of Net Sales</i>	<i>9.1</i>	<i>8.4</i>		<i>9.6</i>	<i>9.4</i>	<i>8.6</i>	
Power & Fuel	5,876	4,320	36.0	5,478	11,354	8,914	27.4
<i>% of Net Sales</i>	<i>6.4</i>	<i>5.3</i>		<i>6.1</i>	<i>6.3</i>	<i>5.5</i>	
Freight and handling	5,163	3,900	32.4	4,819	9,982	7,964	25.3
<i>% of Net Sales</i>	<i>5.6</i>	<i>4.7</i>		<i>5.4</i>	<i>5.5</i>	<i>5.0</i>	
Other Expenses	23,210	20,191	14.9	22,363	45,573	36,390	25.2
<i>% of Net Sales</i>	<i>25.4</i>	<i>24.6</i>		<i>25.1</i>	<i>25.2</i>	<i>22.6</i>	
Total Expenditure	66,343	54,257	22.3	61,282	127,626	101,712	25.5
<b>EBITDA</b>	<b>25,162</b>	<b>27,862</b>	<b>(9.7)</b>	<b>27,798</b>	<b>52,960</b>	<b>59,010</b>	<b>(10.3)</b>
<i>Margin (%)</i>	<i>27.5</i>	<i>33.9</i>		<i>31.2</i>	<i>29.3</i>	<i>36.7</i>	
Depreciation	3,913	2,871	36.3	3,544	7,457	5,724	30.3
Other income	2,397	2,495	(3.9)	1,519	3,916	5,059	(22.6)
<b>EBIT</b>	<b>23,646</b>	<b>27,486</b>	<b>(14.0)</b>	<b>25,773</b>	<b>49,420</b>	<b>58,345</b>	<b>(15.3)</b>
Interest	4,539	4,767	(4.8)	4,544	9,084	9,303	(2.4)
<b>PBT</b>	<b>19,107</b>	<b>22,720</b>	<b>(15.9)</b>	<b>21,229</b>	<b>40,336</b>	<b>49,042</b>	<b>(17.8)</b>
Extraordinary income/(expense)	96	-		-	96	5,110	
<b>PBT (After EO)</b>	<b>19,203</b>	<b>22,720</b>	<b>(15.5)</b>	<b>21,229</b>	<b>40,432</b>	<b>54,152</b>	<b>(25.3)</b>
Tax	5,695	7,767	(26.7)	7,663	13,358	17,005	(21.4)
<i>% PBT</i>	<i>29.7</i>	<i>34.2</i>		<i>36.1</i>	<i>33.0</i>	<i>31.4</i>	
<b>Reported PAT</b>	<b>13,508</b>	<b>14,952</b>	<b>(9.7)</b>	<b>13,566</b>	<b>27,074</b>	<b>37,147</b>	<b>(27.1)</b>
<b>Adjusted PAT</b>	<b>13,443</b>	<b>14,952</b>	<b>(10.1)</b>	<b>13,566</b>	<b>26,978</b>	<b>32,036</b>	<b>(15.8)</b>

Source: Company Data, PL Research

**Exhibit 4: Operating Metrics (m tonnes)**

Y/e March	Q1FY13	Q1FY12	YoY gr. (%)	Q4FY12	FY13E	FY12	YoY gr. (%)
Sales	1.73	1.65	5.0	1.59	3.32	3.24	2.4
Realisation per tonne	39,129	37,498	4.3	40,650	19,442	37,364	(48.0)
EBITDA per tonne	14,545	16,907	(14.0)	17,483	30,803	35,609	(13.5)

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012	2013E	2014E
<b>Net Revenue</b>	<b>1,187,531</b>	<b>1,328,997</b>	<b>1,380,523</b>	<b>1,520,642</b>
Raw Material Expenses	532,830	657,450	577,424	621,840
Gross Profit	654,701	671,547	803,099	898,802
Employee Cost	158,402	172,286	238,501	256,847
Other Expenses	328,833	375,092	439,344	473,139
<b>EBITDA</b>	<b>167,467</b>	<b>124,168</b>	<b>125,253</b>	<b>168,816</b>
Depr. & Amortization	44,148	45,167	53,489	59,273
Net Interest	39,558	42,501	45,110	44,505
Other Income	37,259	49,350	9,089	10,020
<b>Profit before Tax</b>	<b>121,020</b>	<b>85,850</b>	<b>35,744</b>	<b>75,058</b>
Total Tax	32,459	36,365	30,837	37,715
<b>Profit after Tax</b>	<b>88,561</b>	<b>49,485</b>	<b>4,906</b>	<b>37,343</b>
Ex-Od items / Min. Int.	30,520	34,569	(574)	508
<b>Adj. PAT</b>	<b>59,368</b>	<b>20,279</b>	<b>8,142</b>	<b>40,823</b>
<b>Avg. Shares O/S (m)</b>	<b>958.7</b>	<b>971.4</b>	<b>971.4</b>	<b>971.4</b>
<b>EPS (Rs.)</b>	<b>61.9</b>	<b>20.9</b>	<b>8.4</b>	<b>42.0</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
C/F from Operations	64,629	112,838	114,808	123,900
C/F from Investing	(83,785)	(36,663)	(113,461)	(97,282)
C/F from Financing	59,930	(83,188)	(66,243)	(65,711)
Inc. / Dec. in Cash	40,774	(7,013)	(64,896)	(39,093)
Opening Cash	68,151	108,926	108,410	43,513
Closing Cash	108,926	108,410	43,513	4,420
FCFF	36,312	(54,162)	(167,713)	59,691
FCFE	127,096	(54,232)	(172,223)	54,691

**Key Financial Metrics**

Y/e March	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	16.0	11.9	3.9	10.1
EBITDA (%)	108.2	(25.9)	0.9	34.8
PAT (%)	(536.0)	(65.8)	(59.9)	401.4
EPS (%)	(503.3)	(66.3)	(59.9)	401.4
<b>Profitability</b>				
EBITDA Margin (%)	14.1	9.3	9.1	11.1
PAT Margin (%)	5.0	1.5	0.6	2.7
RoCE (%)	9.7	4.6	3.5	6.5
RoE (%)	20.3	5.2	1.9	9.4
<b>Balance Sheet</b>				
Net Debt : Equity	1.4	1.2	1.3	1.3
Net Wrkng Cap. (days)	28	15	—	—
<b>Valuation</b>				
PER (x)	6.3	18.7	46.6	9.3
P / B (x)	1.1	0.9	0.9	0.9
EV / EBITDA (x)	5.1	7.1	7.5	5.8
EV / Sales (x)	0.7	0.7	0.7	0.6
<b>Earnings Quality</b>				
Eff. Tax Rate	26.8	42.4	86.3	50.2
Other Inc / PBT	7.5	30.1	25.4	13.3
Eff. Depr. Rate (%)	4.6	4.0	3.9	4.3
FCFE / PAT	214.1	(267.4)	(2,115.3)	134.0

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	355,639	430,211	422,667	444,760
Total Debt	621,788	621,718	617,208	612,208
Other Liabilities	30,945	36,349	41,545	45,274
<b>Total Liabilities</b>	<b>1,008,373</b>	<b>1,088,278</b>	<b>1,081,420</b>	<b>1,102,242</b>
Net Fixed Assets	523,933	646,756	711,821	757,338
Goodwill	152,982	173,546	173,546	173,546
Investments	46,881	26,229	29,045	31,038
Net Current Assets	282,821	237,083	162,345	135,657
<i>Cash &amp; Equivalents</i>	<i>140,519</i>	<i>122,393</i>	<i>57,497</i>	<i>18,403</i>
<i>Other Current Assets</i>	<i>488,812</i>	<i>498,814</i>	<i>496,491</i>	<i>535,043</i>
<i>Current Liabilities</i>	<i>346,510</i>	<i>384,124</i>	<i>391,643</i>	<i>417,790</i>
Other Assets	1,756	4,663	4,663	4,663
<b>Total Assets</b>	<b>1,008,373</b>	<b>1,088,278</b>	<b>1,081,420</b>	<b>1,102,242</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY12	Q4FY12	Q1FY13	Q2FY13
<b>Net Revenue</b>	<b>331,031</b>	<b>339,986</b>	<b>338,212</b>	<b>341,327</b>
<b>EBITDA</b>	<b>19,133</b>	<b>31,788</b>	<b>34,033</b>	<b>23,101</b>
<i>% of revenue</i>	<i>5.8</i>	<i>9.3</i>	<i>10.1</i>	<i>6.8</i>
Depr. & Amortization	11,640	10,931	13,080	13,349
Net Interest	10,600	11,280	9,690	9,721
Other Income	2,537	2,220	2,894	2,018
<b>Profit before Tax</b>	<b>(570)</b>	<b>11,798</b>	<b>14,157</b>	<b>2,475</b>
Total Tax	6,303	9,766	8,986	6,608
<b>Profit after Tax</b>	<b>(6,027)</b>	<b>4,335</b>	<b>5,979</b>	<b>(3,639)</b>
<b>Adj. PAT</b>	<b>(6,027)</b>	<b>4,335</b>	<b>5,979</b>	<b>(3,928)</b>

**Key Operating Metrics**

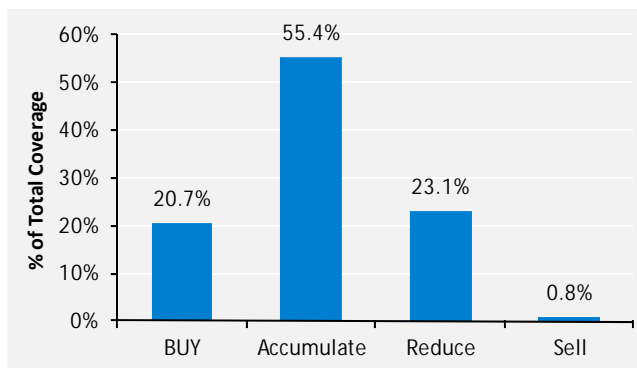
Y/e March	2011	2012	2013E	2014E
Rev. Indian Op. (US\$ m)	6,441	7,077	7,109	8,127
Rev. Corus (US\$ m)	16,841	16,710	14,430	15,820
Rev. South East (US\$ m)	2,510	2,589	2,400	2,805
EBITDA-India (US\$ m)	2,508	2,406	2,092	2,543
EBITDA-Corus (US\$ m)	780	311	195	420
EBITDA-South East (US\$ m)	79.0	44.0	60.0	66.0
Volume (mt)-India	6.4	6.6	7.4	8.8
Real./Tonne-India (Rs)	33,620	37,935	37,987	37,001
EBITDA/Tonne-India (Rs)	17,879	17,414	15,502	15,818
Sales Vol.-Corus (mt)	14.8	13.9	13.0	14.0
Real./Tonne-Corus (US\$)	1,134.8	1,199.6	1,110.0	1,130.0
EBITDA/Tonne-Corus (US\$)	52.6	22.3	15.0	30.0
Sales Vol.-South East (mt)	3.3	3.0	3.0	3.3
Real./Tonne-SEAN (US\$)	771.8	871.7	800.0	850.0
EBITDA/Tonne-SEAN (US\$)	24.3	14.8	20.0	20.0

Source: Company Data, PL Research.



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**Rating Distribution of Research Coverage**



**PL's Recommendation Nomenclature**

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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