

**BUY**
**TP: INR 440.00**
**▲ 12.4%**

# Tata Steel

**TATA IN**

## Weak performance all round

**TATA's Q2FY13 results were below estimates as Indian operations underperformed on lower realisations and higher RM costs while European operations once again descended into EBITDA losses. We cut FY13/FY14 EBITDA by 17%/13% on revised assumptions but maintain BUY with a revised TP of Rs 440 (6x FY14E EV/EBITDA) from Rs 500 earlier. Though near-term headwinds remain, we recommend buying into weakness as the share of the higher ROCE Indian business would continue to rise over FY12-FY15.**

- ➔ **Indian operations disappoint:** Standalone revenues came in at Rs 90.3bn (+2% QoQ, +11% YoY) with steel deliveries at 1.73mt (+9% QoQ, +5% YoY) and domestic realisations at Rs 48,459/t (-6% QoQ). EBITDA stood at Rs 25.1bn (-9% QoQ, -9% YoY) with EBITDA/t dropping drastically to Rs 13,872/t (-15% YoY, -18% QoQ) on higher raw material cost of Rs 13,753/t (+20% YoY, +9% QoQ) due to purchase of imported coke.
- ➔ **Corus reports EBITDA loss:** TSE revenues came in at US\$ 3.8bn (-6% YoY, -3% QoQ) with steel deliveries improving to 3.4mt (+7% QoQ) and steel realisations at US\$ 1,100/t (-2% YoY, -7% QoQ). The EBITDA loss was US\$ 8mn with EBITDA/t at -\$2/t (\$37/t in Q1FY13). Near-term headwinds continue for European operations and we expect EBITDA here to be near-zero in H2FY13.
- ➔ **Consol. entity reports net loss:** Consolidated EBITDA was at Rs 23.1bn (-16% YoY, -32% QoQ), far below estimates as SE Asian operations also under-performed. TATA reported an adj. net loss of Rs 4bn with net debt up to US\$ 1bn.
- ➔ **Maintain BUY:** We maintain BUY on the stock as the share of higher ROCE Indian operations continues to increase. We cut our FY13/FY14 EBITDA estimates by 17%/13% on new commodity price assumptions. Rolling over to FY14E valuations (6x EV/EBITDA), our revised September'13 TP stands at Rs 440.

### Financial Highlights

Y/E 31 Mar	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue (INR mln)	10,23,931	11,87,531	13,28,997	13,56,089	13,42,613
EBITDA (INR mln)	80,427	1,59,956	1,24,168	1,30,910	1,55,765
Adjusted net profit (INR mln)	(22,628)	89,827	53,898	7,989	44,559
Adjusted EPS (INR)	(3.7)	69.6	20.9	9.6	45.9
Adjusted EPS growth (%)	(103.0)	n.a.	(70.0)	(53.8)	375.4
ROIC (%)	(315.4)	10.6	4.9	1.3	6.2
Adjusted ROAE (%)	(9.0)	30.0	13.1	1.8	9.6
Adjusted P/E (x)	(172.1)	8.9	18.7	40.5	8.5
EV/EBITDA (x)	12.2	6.4	6.8	7.0	6.1
P/BV (x)	2.5	1.6	0.8	0.8	0.8

Source: Company, Bloomberg, RCML Research


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PRICE CLOSE (09 Nov 12)

**INR 390.55**

MARKET CAP

**INR 87,140 mln**
**USD 1,591 mln**

SHARES O/S

**223.1 mln**

FREE FLOAT

**52.0%**

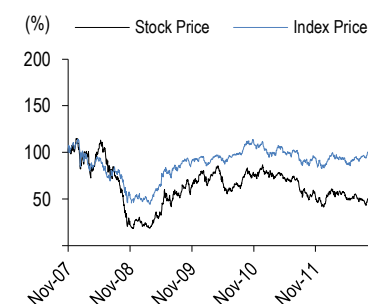
3M AVG DAILY VOLUME./VALUE

**5.0 mln/ USD 36.4 mln**

52 WK HIGH

**INR 495.15**

52 WK LOW

**INR 335.35**


**BUY**

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**Tata Steel**

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Results Review

INDIA  
MATERIALS**Earnings revision**

Post the fall in global commodity prices, we trim our FY13/FY14 estimates for TATA to account for our new commodity price assumptions.

**Fig 1 - Commodity price assumption**

(\$/t)	FY13			FY14		
	New	Old	% chg	New	Old	% chg
CIS HRC Steel Price	575	625	-7%	550	625	-12%
Iron ore price	120	140	-14%	100	140	-28%
Coking coal price	200	210	-5%	180	210	-14%

Source: RCML Research, Company

We cut our FY13/FY14 EBITDA estimates by 17%/13%. Post the earnings revision, we maintain BUY on TATA with a September'13 TP of Rs 440 at 6x FY14E EV/EBITDA.

**Fig 2 - Earnings revision**

(Rs mn)	FY13			FY14		
	New	Old	% chg	New	Old	% chg
Sales	13,56,089	13,42,481	1%	13,42,613	13,77,000	-2%
EBITDA	1,30,910	1,56,951	-17%	1,55,765	1,79,438	-13%
PAT	7,989	52,067	-85%	44,559	62,653	-29%

Source: RCML Research, Company

**Fig 3 - Actual vs Estimates**

(Rs mn)	Q2FY13A	Q2FY13E	% diff	Q2FY12	% chg YoY
Revenue	3,41,327	3,14,887	8%	3,27,979	4%
EBITDA	23,101	28,825	-20%	27,500	-16%
EBITDA margin (%)	6.8	9.2	(238.6)	8.4	(161.7)
Net income	(4,066)	4,450	-191%	2,124	-291%

Source: RCML Research, Company



Fig 4 - Quarterly highlights

(Rs mn)	Q2FY13	Q2FY12	% Chg YoY	Q1FY13	% Chg QoQ
Revenues	3,41,327	3,27,979	4	3,38,212	1
Expenditure	3,18,227	3,00,479	6	3,04,179	5
EBITDA	23,101	27,500	(16)	34,033	(32)
Other income	2,018	1,204	68	2,894	(30)
Depreciation	13,349	11,088	20	13,080	2
EBIT	11,769	17,617	(33)	23,847	(51)
Interest	9,721	7,161	36	9,690	0
Exceptional items	427	-	-	-	-
PBT	2,048	10,456	(80)	14,157	(86)
Taxes	6,608	9,065	(27)	8,986	(26)
Share of associates/minority interest	493	734	(33)	808	(39)
Reported PAT	(3,639)	2,124	(271)	5,979	(161)
Adjusted PAT	(4,066)	2,124	(291)	5,979	(168)
EBITDA margin (%)	6.8	8.4	(161.7)	10.1	(329.5)
<b>Key ratios</b>	<b>Q2FY13</b>	<b>Q2FY12</b>	<b>% Chg YoY</b>	<b>Q1FY13</b>	<b>% Chg QoQ</b>
EBITDA margin (%)	6.8	8.4	(161.7)	10.1	(329.5)
EBIT margin (%)	3.4	5.4	(192.3)	7.1	(360.3)
PAT margin (%)	(1)	0.6	(183.9)	1.8	(295.9)

Source: RCML Research, Company

## Management call highlights

- Global steel utilisation picked up slightly in September but remains below 80%. With PMI for India indicating steady expansion in the near future, Indian steel demand is expected to rise by 5.5% in 2012 and 5% in 2013.
- EU apparent steel consumption fell by 12% YoY with the overall outlook for future demand staying gloomy.
- Indian operations:** Steel deliveries for Tata Steel India in Q2FY13 were at 1.73mt (+9% QoQ, +5% YoY). 3mtpa of excess capacity has come onstream with current production of 70,000/t per month.
- Higher consumption of purchased coke (200kt) raised costs of raw material for Indian operations by Rs 1.5bn (up \$12/t).
- Staff cost for domestic operations decreased due to reduction in retirement benefits. Power cost increased by Rs 310mn and freight and handling cost rose Rs 300mn on account of higher volumes of steel dispatched.
- South East Asian operations:** The company continues to rationalise its portfolio in South East Asia and has taken a few write-downs here.
- European operations:** European operations were under pressure with an EBITDA loss of US\$ 8mn. Steel prices lost momentum in Q1FY13 and have continued to decline further.
- Tata Steel Europe saw employee cost benefits to the tune of US\$ 34mn on headcount reduction.

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**Results Review**

**INDIA**

**MATERIALS**

- The triangulation process for the European pension scheme had been completed and net deficit is ~US\$ 500mn with a 15-year recovery period. The current surplus for the pension fund is US\$ 34mn.
- Stage one potential for the Benga coal JV is in place which is 5.3mt of ROM (run of mine) capacity, 1.5mt of hard coking coal and 0.9mt of thermal coal.
- While gross debt for the company has remained the same, net debt has gone up to US\$ 10.2bn in Q2FY13.



## Per Share Data

Y/E 31 Mar (INR)	FY10A	FY11A	FY12E	FY13E	FY14E
Reported EPS	(3.7)	69.6	20.9	9.6	45.9
Adjusted EPS	(3.7)	69.6	20.9	9.6	45.9
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	257.3	386.7	466.7	463.9	495.8

## Valuation Ratios

Y/E 31 Mar (x)	FY10A	FY11A	FY12E	FY13E	FY14E
EV/Sales	1.0	0.9	0.6	0.7	0.7
EV/EBITDA	12.2	6.4	6.8	7.0	6.1
Adjusted P/E	(172.1)	8.9	18.7	40.5	8.5
P/BV	2.5	1.6	0.8	0.8	0.8

## Financial Ratios

Y/E 31 Mar	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	7.9	13.5	9.3	9.7	11.6
EBIT margin	3.5	9.8	5.9	5.6	7.0
Adjusted profit margin	(2.2)	7.6	4.1	0.6	3.3
Adjusted ROAE	(9.0)	30.0	13.1	1.8	9.6
ROCE	(294.9)	9.7	4.4	1.2	5.7
<b>YoY Growth (%)</b>					
Revenue	(30.5)	16.0	11.9	2.0	(1.0)
EBITDA	(55.6)	98.9	(22.4)	5.4	19.0
Adjusted EPS	(103.0)	n.a.	(70.0)	(53.8)	375.4
Invested capital	(14.1)	24.5	8.6	7.5	6.1
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	44	40	41	41	42
Inventory (days)	104	100	96	98	101
Payables (days)	87	89	84	87	91
Current ratio (x)	1.6	2.0	1.8	1.8	1.8
Quick ratio (x)	1.0	1.3	1.1	1.1	1.1
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	1.1	1.2	1.3	1.1	1.0
Total asset turnover	0.9	1.0	1.0	0.9	0.9
Net interest coverage ratio	1.2	4.2	1.9	1.8	2.2
Adjusted debt/equity	2.3	1.6	1.3	1.5	1.4

## DuPont Analysis

Y/E 31 Mar (%)	FY10A	FY11A	FY12E	FY13E	FY14E
Tax burden (Net income/PBT)	(7299.5)	74.2	62.8	18.1	70.4
Interest burden (PBT/EBIT)	0.9	104.5	108.7	58.5	67.5
EBIT margin (EBIT/Revenue)	3.5	9.8	5.9	5.6	7.0
Asset turnover (Revenue/Avg TA)	90.1	98.4	95.6	91.2	86.1
Leverage (Avg TA/Avg equities)	449.7	402.9	337.4	328.9	334.4
Adjusted ROAE	(9.0)	30.0	13.1	1.8	9.6



## Income Statement

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Total revenue</b>	<b>10,23,931</b>	<b>11,87,531</b>	<b>13,28,997</b>	<b>13,56,089</b>	<b>13,42,613</b>
EBITDA	80,427	1,59,956	1,24,168	1,30,910	1,55,765
EBIT	35,509	1,15,808	79,001	75,563	93,725
Net interest income/(expenses)	(30,221)	(27,700)	(42,501)	(41,000)	(42,000)
Other income/(expenses)	11,859	9,810	15,730	11,011	11,562
Exceptional items	(16,837)	23,102	33,619	(1,384)	0
EBT	310	1,21,020	85,850	44,190	63,286
Income taxes	(21,518)	(32,459)	(36,365)	(36,459)	(18,986)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(1,420)	1,266	4,413	259	259
<b>Reported net profit</b>	<b>(22,628)</b>	<b>89,827</b>	<b>53,898</b>	<b>7,989</b>	<b>44,559</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>(22,628)</b>	<b>89,827</b>	<b>53,898</b>	<b>7,989</b>	<b>44,559</b>

## Balance Sheet

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12E	FY13E	FY14E
Accounts payables	2,33,925	2,66,711	2,87,030	2,97,225	2,94,271
Other current liabilities	65,942	70,899	90,014	94,515	99,241
Provisions	0	0	0	0	0
Debt funds	5,31,003	6,06,844	5,97,969	6,63,272	6,95,437
Other liabilities	20,722	17,857	18,990	20,285	20,690
Equity capital	8,867	11,369	9,714	9,714	9,714
Reserves & surplus	2,19,272	3,59,270	4,43,646	4,40,920	4,71,866
Shareholders' fund	2,28,139	3,70,639	4,53,360	4,50,634	4,81,581
<b>Total liabilities and equities</b>	<b>10,79,730</b>	<b>13,32,950</b>	<b>14,47,363</b>	<b>15,25,931</b>	<b>15,91,220</b>
Cash and cash eq.	1,22,329	1,87,399	1,48,228	1,40,213	1,40,213
Accounts receivables	1,15,124	1,48,163	1,48,785	1,56,043	1,54,492
Inventories	1,86,866	2,40,552	2,55,980	2,60,072	2,57,487
Other current assets	68,575	1,00,045	1,23,848	1,30,004	1,36,468
Investments	0	0	0	0	0
Net fixed assets	3,64,764	3,65,092	3,90,809	5,66,053	6,29,013
CWIP	93,194	1,58,842	2,30,591	1,25,000	1,25,000
Intangible assets	1,45,418	1,52,982	1,73,546	1,73,546	1,73,546
Deferred tax assets, net	(16,541)	(20,126)	(24,424)	(25,000)	(25,000)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>10,79,730</b>	<b>13,32,950</b>	<b>14,47,363</b>	<b>15,25,931</b>	<b>15,91,220</b>

## Cash Flow Statement

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12E	FY13E	FY14E
Net income + Depreciation	22,289	1,33,975	99,064	63,336	1,06,599
Interest expenses	30,113	27,749	44,524	41,405	42,405
Non-cash adjustments	0	0	0	0	0
Changes in working capital	1,04,020	(80,452)	(418)	(2,810)	(557)
Other operating cash flows	1,197	672	3,409	1,465	0
<b>Cash flow from operations</b>	<b>1,57,618</b>	<b>81,945</b>	<b>1,46,579</b>	<b>1,03,396</b>	<b>1,48,447</b>
Capital expenditures	(49,819)	(1,10,124)	(1,42,633)	(1,25,000)	(1,25,000)
Change in investments	18,164	(31,859)	17,697	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(31,655)</b>	<b>(1,41,983)</b>	<b>(1,24,936)</b>	<b>(1,25,000)</b>	<b>(1,25,000)</b>
Equities issued	(20,276)	65,808	42,335	(8,149)	0
Debt raised/repaid	(62,699)	75,841	(8,875)	65,303	32,165
Interest expenses	(30,221)	(27,700)	(42,501)	(41,000)	(42,000)
Dividends paid	(8,636)	(13,135)	(13,512)	(2,566)	(13,612)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(1,21,832)</b>	<b>1,00,814</b>	<b>(22,553)</b>	<b>13,588</b>	<b>(23,447)</b>
<b>Changes in cash and cash eq</b>	<b>4,131</b>	<b>40,775</b>	<b>(910)</b>	<b>(8,016)</b>	<b>0</b>
<b>Closing cash and cash eq</b>	<b>65,615</b>	<b>1,08,926</b>	<b>1,08,016</b>	<b>1,00,000</b>	<b>1,00,000</b>

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