

Tata Steel

Volume Growth to Kick in From H2

Tata Steel's Q2FY13 consolidated EBITDA at Rs 23.1 bn (down 16% YoY) was in line with our estimate. The company, however, reported a net loss of Rs 4 bn vs. our estimate of a profit of Rs 1 bn, mainly due to higher than expected depreciation (on recent commissioning of 3 mnt expansion).

Key takeaways from conference call:

- **Domestic operations:** Volumes improved 5% YoY to 1.7 mnt. Avg. steel realization declined USD 30/ton QoQ to USD 740/t.
- **Domestic expansion update:** Recently commissioned 3 mnt blast furnace in Jamshedpur reached 90% of its capacity in Sep-12. The company sees volume benefits in H2 and maintains incremental production of 1 mnt in FY13.
- **Cost savings from coke oven commissioning:** The company expects to commission coke oven plant in Dec and fully ramp it up by Mar-13. This will eliminate the need to purchase coke from external sources (Rs 1.5 bn in Q2) and lead to cost savings from Q4FY13.
- **International operations:** Shipments were flat YoY at 4.3 mnt. Led by decline in steel realizations (down USD 60/t QoQ to USD 1,070/t), EBITDA/t loss was USD 10 (in line).
- **European pension update:** The company has finalized its triennial valuation with the trustees and the net deficit has been agreed at GBP 500 mn. This deficit will be recovered over 15 years and company doesn't expect any significant cash outflow in next few years.

Maintain BUY with revised target price of Rs 450

We maintain our EPS for FY13E and FY14E at Rs 46 and Rs 52 respectively. We, however, reduce our FY14E EV/EBITDA target multiple to 4.5x (5x earlier) due to global demand concerns and steel overcapacity situation in China. Maintain BUY with target price of Rs 450 vs. Rs 476 earlier.

Financial summary (Consolidated)

Y/E	Sales	Adj. PAT	Consensus	EPS	Change	P/E	EV/	P/BV	RoE	RoCE	DPS	D/E
Mar	(Rs bn)	(Rs bn)	EPS* (Rs)	(Rs)	YoY (%)	(x)	EBITDA (x)	(x)	(%)	(%)	(Rs)	(x)
2011	1,178	49	-	48.4	(423)	-	-	-	14	13	13	1.5
2012	1,329	22	-	21.5	(56)	-	-	-	5	9	13	1.3
2013E	1,341	47	38.3	46.1	115	8.2	5.0	0.8	10	11	15	1.2
2014E	1,366	53	53.1	51.7	12	7.3	4.2	0.7	10	11	15	1.3

Source: Company, Axis Capital; *Consensus broker estimates; Note: Axis Capital estimates are based on fully diluted equity

CMP (Rs)	376
Target price (Rs)	450
Potential upside	20%

Stock data

No. of shares (mn)	1,017
FV (Rs)	10/-
Market cap (Rs bn)	382
52 week high/low (Rs)	501/332
Avg. daily vol.* (shares)	4.7 mn
BSE Code	500470
NSE Code	TATASTL
Bloomberg code	TATA IB
Reuters Code	TISC.BO

* BSE & NSE 6 monthly

^ based on fully diluted equity

Shareholding (%)

	Sep -12	QoQ Chg
Promoter	31.4	0.0
FII's	14.7	0.7
MFs / UTI	3.4	(0.5)
Banks / FIs	23.9	(0.8)
Others	26.6	0.7

Price performance



Source: Cline, ENAM Research

Results update

(Rs mn)	Quarter ended					12 months ended		
	Sep-12	Sep-11	% Chg	Jun-12	% Chg	Mar-13E	Mar-12	% Chg
Net Sales	341,327	327,979	4	338,212	1	1,341,046	1,328,997	0.9
EBITDA	23,101	27,500	(16)	34,033	(32)	153,079	125,218	22.3
Other income	2,017	1,204	67	2,894	(30)	16,047	16,235	(1.2)
PBIDT	25,118	28,705	(12)	36,927	(32)	169,127	141,453	19.6
Depreciation	13,349	11,088	20	13,080	2	51,541	45,167	14.1
Interest	9,721	7,161	36	9,690	-	47,618	42,501	12.0
PBT	2,047	10,456	(80)	14,157	(86)	69,967	53,785	30.1
Tax	6,608	9,065	(27)	8,986	(26)	28,072	36,365	(22.8)
Minority Interest / Associates	(493)	(734)	(33)	(808)	(39)	(4,983)	(4,413)	-
Adjusted PAT after minority	(4,067)	2,124	(291)	5,979	(168)	46,879	21,833	114.7
Extra ordinary income/ (exp.)	427	-	-	-	-	-	32,065	-
Reported PAT after minority	(3,640)	2,124	(271)	5,979	(161)	46,879	53,898	(13.0)
No. of shares (mn)	962	962	-	962	-	1,017	1,005	1.2
EBITDA margin (%)	6.8	8.4	-	10.1	-	11.4	9.4	21.2
PBIDT margin (%)	7.4	8.8	-	10.9	-	12.6	10.6	18.5
EPS - annualized (Rs.)^	(16.9)	8.8	(291)	24.9	(168)	46.1	21.5	112.2

Source: Company, Axis Capital; Note: ^ Axis Capital estimates are based on fully diluted equity

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