

RESULTS REVIEW

Share Data

Market Cap	Rs. 402.4 bn
Price	Rs. 660.70
BSE Sensex	15,343.12
Reuters	TISC.BO
Bloomberg	TATA IN
Avg. Volume (52 Week)	1.1 mn
52-Week High/Low	Rs.1,048.8/468.50
Shares Outstanding	609.0 mn

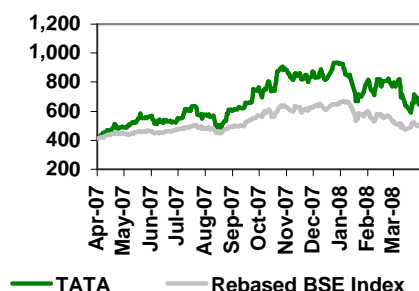
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	124.0	105.0
+/- (%)	65.6%	(15.3)%
PER (x)	5.3x	6.3x
EV/ Sales (x)	0.6x	0.6x
EV/ EBITDA (x)	4.4x	4.5x

Shareholding Pattern (%)

Promoters	34
FII's	21
Institutions	20
Public & Others	26

Relative Performance



Tata Steel Limited

Buy

Attractive valuation suggests a steal

The Tata Steel stock has taken a beating since our last report. We believe the current market price of Rs. 660.70 does not incorporate all the positives. The stock is currently trading at a P/E of 5.3x for FY08E and 6.3x for FY09E, respectively. Based on our valuation, we expect a stock price of Rs. 840 with a 12-month perspective, which is 27.1% more than the current price. Therefore, we upgrade our rating to Buy.

Given the scenario of rising steel demand, Tata Steel is rapidly expanding its production capacities. With the capacity expansion at the Jamshedpur plant (1.8 mtpa) expected to be commissioned in Q1'09E, we expect sales to get a significant boost in FY09E. Moreover, in line with the Company's guidance, we expect the synergy benefits of USD 450 mn, arising from the Corus acquisition, to flow in over the next couple of years (30% of this has been already achieved). In addition, Corus is focusing on improving its operational efficiency and is targeting a performance improvement of around GBP 300 mn in CY08. Despite all these efforts, margins in FY09E are estimated to be under pressure, given the surge in raw material prices as Corus is yet to gain raw material self-sufficiency. Recently, it signed iron ore purchase contracts with Companhia Vale do Rio Doce (CVRD) at a 65% higher price than the last year. Further, prices of coking coal are also increasing which will pressurise margins. Though the Company's management is confident of passing most of the cost increase to the consumers in the rising steel price scenario, overall margins are expected to remain under pressure.

Key Figures (Consolidated)

Quarterly Data	Q3'07	Q2'08*	Q3'08*	YoY%	QoQ%	9M'07	9M'08*	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	59,706	324,249	318,985	434.3%	(1.6)%	177,432	954,857	438.2%
EBITDA	18,905	47,227	39,428	108.6%	(16.5)%	54,823	135,496	147.2%
Adj. Net Profit	10,877	22,027	13,377	23.0%	(39.3)%	32,896	71,878	118.5%
Margins(%)								
EBITDA	31.7%	14.6%	12.4%			30.9%	14.2%	
NPM	18.2%	6.8%	4.2%			18.5%	7.5%	
Per Share Data (Rs.)								
Adj. EPS	18.8	34.2	19.3	2.8%	(43.7)%	57.8	111.7	93.2%

*Includes Corus results

Tata Steel's Indian operation's sales volume improved marginally by 0.7% yoy to 1,244 kt

Interest expense is expected to be lower from Q4'08 onwards as the Company repaid its bridge loan during the quarter

Result Highlights

For Q3'08, consolidated net sales increased substantially to Rs. 319 bn, primarily due to the acquisition of Corus by Tata Steel through its wholly-owned subsidiary Tata Steel UK (TSU). TSU's turnover stood at Rs. 238.7 bn for Q3'08, excluding which net sales surged Rs. 21.6 bn led by healthy growth in Natsteel, Tata Steel Thailand and Tata Steel's Indian operations. Net sales for Natsteel and Tata Steel Thailand increased by Rs. 11.4 bn and Rs. 5.5 bn, respectively, on account of higher steel prices and increased sales volumes. Whereas, the Company's Indian operations grew by Rs. 4.7 bn due to the steep rise in steel prices.

Consolidated EBITDA stood at Rs. 39.4 bn as against Rs. 18.9 bn in Q3'07. However, EBITDA margin went down 19.3 pts to 12.4%. The decline in margin was due to Corus, which had much lower operating margins than Tata Steel India, as it is exposed to fluctuations in raw material prices. TSU's material cost stood at Rs. 112.5 bn, while the rest of Tata Steel's material cost was Rs. 30 bn, up by a substantial 56.5% yoy, mainly due to higher production volumes and higher raw material prices. Other expenditures also increased by a considerable 23.1% yoy for the Company, excluding TSU, to Rs. 14 bn. The increase in other expenditures was due to increased production volumes and higher conversion charges for Indian operations.

Consolidated adj. net profit rose 23% yoy to Rs. 13.4 bn but adj. net profit margin fell 14 pts yoy to 4.2%. The decline in margin was due to a substantial rise in interest expenses (up 178 bps yoy to 3.4% as a percentage of net sales) on account of the Corus acquisition and a higher effective tax rate.

Key Events

JV with Al Bahja group

Tata Steel has entered into a 70:30 JV with the Al Bahja group to mine Uyun limestone deposits in Oman. Production is expected to commence by 2010.

Tata Steel unveils 'Vision 2012'

The Company has unveiled a business plan called "Vision 2012", under which it plans to double its return on investment by 2012. Tata Steel intends to achieve this target by undertaking a mix of greenfield and brownfield projects, improving the product mix, and increasing overall cost efficiency. It also aims to enhance its self-sufficiency from the current 20% to 50% by 2012.

Moody's raises rating outlook for Tata Steel

Moody's has raised the outlook on the speculative grade rating of Tata Steel from 'negative' to 'stable', after the Company repaid the USD 3.1 bn bridge loan.

Key Risks

The key risks to our rating are:

- An unanticipated change in the government's steel price policy
- A slowdown in the global economy
- A significant increase in raw material prices
- A delay in the commissioning of new capacities

Outlook

We hold a positive outlook for the Company after considering the following factors:

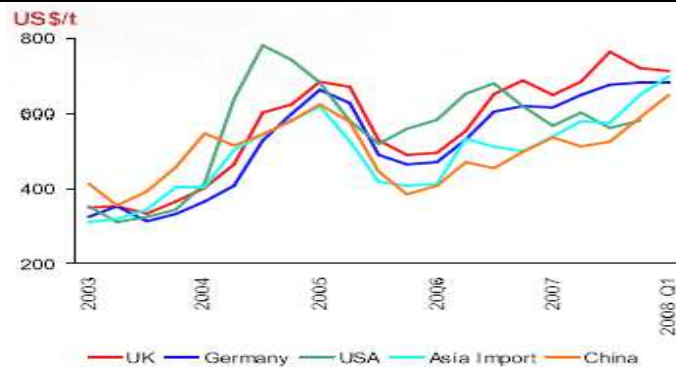
Strong demand: to keep steel prices firm

Global steel consumption grew 7.5% in CY07, led by rapid growth in the emerging economies. Though the slowdown in the US economy is likely to affect the growth rate, consumption in the emerging economies is expected to continue its growth momentum on the back of an infrastructure development boom. As a result, we expect global steel consumption to grow at a healthy rate of 6-7% in CY08.

Steel exports from China (the largest producer of steel in the world) are slowing down as the Chinese government has placed curbs on exports in order to improve its domestic supply. As a result, steel exports from

China are expected to decrease by 27% in CY08. In addition, China has eliminated 15.2 mt of uneconomic steel smelting capacity in order to address environmental concerns and achieve its energy-saving goals. Thus, a strong demand and limited exports from China are expected to keep steel prices firm in CY08.

Global Steel Prices



Sources: Tata Steel investor presentation, Dated Feb 08, 2008

Capacity expansions: on track

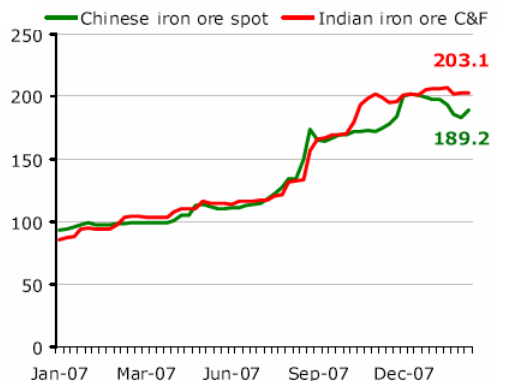
Tata Steel has charted out aggressive expansion plans to exploit the strong demand and high steel price environment. The Company's new 1.8 mtpa capacity at Jamshedpur is expected to be commissioned by June'08, and an additional 2.4 mtpa of capacity is expected to be operational by December 2010. Tata Steel's 6 mtpa greenfield project in Orissa is also running on schedule, with the first phase (3 mtpa) expected to be completed by 2010. In addition, Corus is investing significantly in expanding its capacity. It is investing GBP 130 mn for adding capacity at its Scunthorpe plant, which manufactures long products. Further, with a capex of GBP 153 mn, the Company is adding a new galvanising line and a cold rolling mill at its IJuiden plant. Both these projects are expected to be completed in 2008. Moreover, Tata Steel Thailand is in the process of increasing its capacity by 0.5 mtpa. Therefore, going forward, we expect a significant increase in volumes.

Volumes to pick up from FY09E, on the back of capacity expansion at the Jamshedpur plant

Raw materials: gaining self-sufficiency

Tata Steel was earlier insulated from raw material price volatility due to its captive reserves. However, after acquiring Corus, the Company has become prone to raw material price fluctuations. After the acquisition,

Spot Iron ore prices (USD/Ton)



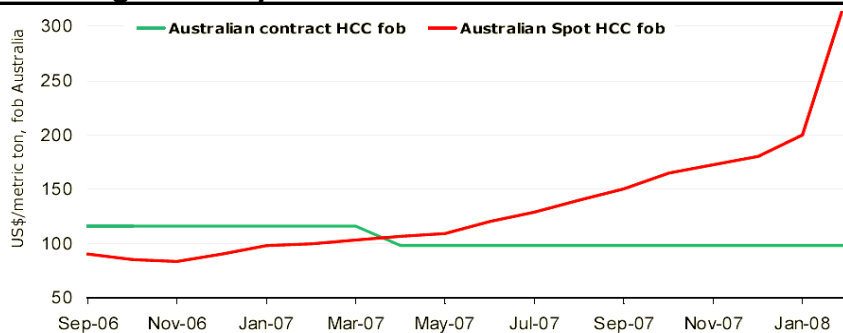
Sources: Vale's Annual Results 2007, Dated Feb 29, 2008

Tata Steel's self-sufficiency has plummeted from 100% to 20% for iron ore and from 60% to 17% for coal. The Company has planned several initiatives to increase its captive raw material availability to 50% of its total requirements. Tata Steel has acquired 35% equity in a JV with Riversdale Mining to mine coal at the Benga & Tete coal tenements, which have estimated reserves of 1.2 bn tons. The Company has also purchased a 75% stake in a JV to mine iron ore at the Mt. Nimba mines (estimated reserves 500mn) in Ivory Coast. Further, it has entered into a JV to mine metallurgical grade limestone from the Uyun mine in Oman.

Recently, prices of raw materials, such as iron ore and coal, have increased considerably, leading to a cost-push increase in global steel prices and reducing margins for steel companies. Corus has recently renewed its long-term iron ore contract with Companhia Vale do Rio Doce (CVRD) at a whopping 65% higher prices. Thus, we expect the Company's raw material costs to rise significantly in FY09, resulting in lower margins. Though Corus is confident of passing most of the cost increase to the consumers, overall margins are expected to remain under pressure.

The graph below shows the sharp increase in the price of metallurgical coal prices in Australia, which is a benchmark for Asian coal prices.

Metallurgical coal prices



Sources: Vale's Annual Results 2007, Dated Feb 29, 2008

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Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E*	FY09E*	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	159,986	203,221	252,133	1,273,843	1,337,535	130.3%
EBITDA	66,727	65,912	78,882	176,808	172,542	47.9%
Adj. Net Profit	39,586	37,714	42,795	85,421	84,868	40.8%
Margins(%)						
EBITDA	41.2%	32.0%	30.8%	13.9%	12.9%	
NPM	24.5%	18.3%	16.7%	6.7%	6.3%	
Per Share Data (Rs.)						
Adj. EPS	71.7	68.3	74.9	124.0	105.0	18.4%
PER (x)	5.6x	7.9x	6.0x	5.3x	6.3x	

*Includes Corus results

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