

FY07 result update – in line with expectation

18th May 2007

Not Rated

Price Rs597	Target Price N.A.
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Sensex - 14,300

Price Performance

(%)	1M	3M	6M	12M
Absolute	13	36	24	(2)
Rel. to Sensex	8	33	17	(17)

Source: Bloomberg

Stock Details

Sector	Metals
Reuters	TISC.BO
Bloomberg	TATA@IN
Equity Capital (Rs mn)	5805
Face Value (Rs)	10
52 Week H/L (Rs)	618/377
Market Cap (Rs bn)	346.7
Daily Avg Vol (No of shares)	5849213
Daily Avg Turnover (US\$ mn)	70.9

Shareholding Pattern (%)
(31st Mar'07)

Promoters	30.5
FII/NRI	17.4
Institutions	21.8
Private Corp.	4.0
Public	26.3

Vishal Chandak

vishal.chandak@emkayshare.com

+91 22 6612 1212 Extn.251

Tata Steel reported their 4QFY07 and full year FY07 results yesterday. On a standalone basis, for the fourth quarter, the company reported PAT of Rs11.03bn (yoy up 40.9%, qoq up 3.7%) and net sales of Rs49.8bn (yoy up 21.5%, qoq up 11.4%). On a consolidated basis for 4QFY07, the company reported PAT of Rs9.6bn (yoy up 19.5%, qoq down 9%) and net sales of 74.7bn (yoy up 40.3%, qoq up 25.1%). For FY07 on standalone basis, Tata Steel reported PAT of Rs42.2bn (yoy up 20.4%) and net sales of 175.5bn (yoy up 15.4%). On a consolidated the company reported PAT of 41.7bn (yoy up 11.9%) and net sales of Rs252.1bn (yoy up 24.1%). The results are primarily in line with our expectations. The company reported eps of Rs19.01 for 4QFY07 on stand alone basis (yoy up 34.4%, qoq up 3.7%).for the full year, the company reported an eps of Rs73.76 (yoy up 16.4%) on standalone basis.

Consolidated PAT for 4QFY07 lower than standalone PAT

The consolidated profit for the fourth quarter was lower than the standalone profit by Rs1.44bn on account of higher interest outgo at Tata Steel Singapore level due to borrowings to fund Corus acquisition. Consolidated net interest expense for the fourth quarter was Rs1.87bn as compared to the standalone interest expense of Rs0.45bn in the same quarter.

Production Highlights of the year

During the year, the production of saleable steel was up by 8.3% to 4.9mt and total steel sold was also up by 8.8% at 4.8mt. However, during the quarter, the company recorded a 1.4% decline in saleable steel production on sequential basis to 1.27mt.

Product mix nearly unchanged - 80% of volume growth attributable to longs

The product mix during FY07 largely remained unchanged with flats contributing to 65% of the total tonnage as compared to 67% in FY06. The increase in the tonnage came primarily in the longs division indicating robust construction demand

Category	FY07	% to total	FY06	% to total	Absolute change	yoy change
HR	1361	28%	1260	29%	101	8%
CR	1246	26%	1198	27%	48	4%
Galvanized	487	10%	515	12%	-28	-5%
Longs	1668	35%	1356	31%	312	23%
Semis	32	1%	89	2%	-57	-64%
Total	4794		4418		376	9%

All fig in '000 t except percentage

Source: company data

Steel demand and price expected to remain firm in 2QFY08

The company has already announced a price hike in the month of May and expects further price hike to the tune of 5-7%in the next quarter in the European region. It expects the prices to hold on to the current level for the year. Tata Steel expects the global steel demand to grow by 8%, similar to the growth witnessed over last year.

Synergy estimates raised from USD300mn to USD450mn

Tata Steel expects increase in synergy as compared to their earlier projection. Earlier the company had targeted total synergies of USD300mn by the end of the third year. However, the company now expects to realize higher synergies to the tune of USD450mn over a period of next 3 years. The synergy is expected to come through better production, marketing, consolidated administrative, purchasing.

Integration committee to be set up to oversee seamless transition

Tata Steel will be setting up an integration committee which will have senior level management has members of the committee to ensure smooth transition of Corus in the Tata group.

South East Asian operations report mixed performance

Tata Steel Thailand reported 18% growth in finished steel to 1.14mt. The company reported a profit of USD167mn as compared to loss in FY06. The Nat Steel group also reported decline in EBITDA margin from 6% in FY06 to 4% in FY07.

Corus reports strong 1QCY07 numbers

Deliveries increased by 9.8% during 1QCY07 on yoy basis to 5,600kt . Corus reported EBITDA from continuing operations before restructuring changes at £254mn as compared to £144mn (yoy up 76.4%) due to strong pricing environment during the reported quarter. The EBITDA margins during the quarter increased to 9.4% from 6.2% during 1QCY06.

	1QCY2007 £mn	1QCY2006 £mn	yoy change
Turnover from Continuing operations	2,711	2,289	18%
EBITDA from continuing operations	254	144	76%
EBITDA margin (%)	9.4	6.2	52%
PBT	107	61	75%
PAT - continuing ops	88	33	167%
PAT - discontinued ops	-	12	
Combined PAT	88	45	96%

Source: Company

Combined EBITDA margin currently at 13%, target 25% by 2012

The combined EBITDA margin of the company is currently at 13%. Tata Steel plans to raise this to 25% over a period of 5years. Currently the combined capacity of the company is 25mt, which the company plans to take to 40mt during the same period.

Valuations

At CMP of Rs597, the stock currently trades at 6.4x its consensus FY09 EPS estimates of Rs93.07. Although we do not have a formal coverage on the stock, we believe Tata Steel combined is now more steel price sensitive as nearly 80% of its capacities are not supported by captive raw material. We believe the steel cycle will remain strong till CY07. We remain positive on the stock.

Financials

Standalone results

All fig in Rs mn except per share data and percentage

	4QFY07 31-Mar-07	4QFY06 31-Mar-06	yoy Variance	3Q 2007 31-Dec-06	qoq Variance	FY07 31-Mar-07	FY06 31-Mar-06	yoy Variance
Saleable Steel prodn - tonnes	1,272,390	1,233,786	3.1%	1,289,822	-1.4%	4,928,548	4,552,136	8.3%
Total Steel sold - tonnes	1,260,549	1,255,865	0.4%	1,234,404	2.1%	4,794,012	4,418,311	8.5%
Average Realization (Rs/ tonne)	44,501	36,648	21.4%	40,815	9.0%	41,223	38,803	6.2%
Net Sales	49,804	41,005	21.5%	44,700	11.4%	175,520	152,155	15.4%
Expenditure								
Purchase & R/M cons	8,607	7,543	14.1%	8,315	3.5%	31,215	23,683	31.8%
Purch of fin/semi fin goods	1,105	1,251	-11.7%	1,110	-0.5%	4,506	6,561	-31.3%
Change in stock	654	1,607	-59.3%	-790	-182.8%	-825	-1,049	-21.4%
Total cost of goods sold	10,366	10,401	-0.3%	8,635	20.0%	34,896	29,195	19.5%
Gross profit	39,439	30,605	28.9%	36,065	9.4%	140,624	122,960	14.4%
Gross margin	79.2%	74.6%	455 bps	80.7%	-150 bps	80.1%	80.8%	-69 bps
Personnel exp	4,297	3,710	15.8%	3,611	19.0%	14,568	13,515	7.8%
Purchase of power	2,415	2,290	5.5%	2,261	6.8%	9,217	8,192	12.5%
Freight & handling	2,987	2,811	6.3%	2,856	4.6%	11,175	10,043	11.3%
Other exp	10,705	8,763	22.2%	9,502	12.7%	35,932	31,835	12.9%
Total operating exp	20,403	17,573	16.1%	18,229	11.9%	70,892	63,585	11.5%
EBITDA	19,035	13,031	46.1%	17,836	6.7%	69,733	59,376	17.4%
Ebitda margin	38.2%	31.8%	644 bps	39.9%	-168 bps	39.7%	39.0%	71 bps
Depreciation & amortization	2,294	1,933	18.7%	1,991	15.2%	8,193	7,751	5.7%
EBIT	16,742	11,099	50.8%	15,846	5.7%	61,540	51,625	19.2%
EBIT margin	33.6%	27.1%	655 bps	35.4%	-183 bps	35.1%	33.9%	113 bps
Interest	448	195	130.0%	520	-13.9%	1,739	1,245	39.7%
Other income	798	644	23.9%	987	-19.2%	4,337	2,548	70.2%
Profit Before E/o items	17,091	11,547	48.0%	16,313	4.8%	64,138	52,927	21.2%
less: Extraordinary Items	-401	344	-216.7%	-493	-18.6%	-1,521	-528	188.2%
PBT after E/o items	16,690	11,891	40.4%	15,820	5.5%	62,617	52,400	19.5%
Provision for tax	5,655	4,060	39.3%	5,183	9.1%	20,395	17,336	17.6%
As a % to PBT	33.9%	34.1%	-0.8%	32.8%	139 bps	32.6%	33.1%	-1.5%
- Current tax	6,010	2,850	110.9%	4,970	20.9%	20,760	15,790	31.5%
- Deferred tax liability	-385	1,093	-135.2%	183	-311.0%	-525	1,276	-141.2%
- Fringe benefit tax	30	118	-74.5%	30	0.0%	160	270	-40.7%
PAT	11,035	7,831	40.9%	10,638	3.7%	42,222	35,064	20.4%
Net margin	22.2%	19.1%	306 bps	23.8%	-164 bps	24.1%	23.0%	101 bps
Adjusted PAT	11,035	7,831	40.9%	10,638	3.7%	42,222	35,064	20.4%
Adjusted PAT margin	22.2%	19.1%	306 bps	23.8%	-164 bps	24.1%	23.0%	101 bps
Equity capital	5,807	5,537		5,807		5,807	5,537	
Reported EPS	19.01	14.15	34.4%	18.33	3.7%	73.76	63.35	16.4%

Standalone Segment results

All fig in Rs mn except per share data and percentage

	4QFY07 31-Mar-07	4QFY06 31-Mar-06	yoy Variance	3Q 2007 31-Dec-06	qoq Variance	FY07 31-Mar-07	FY06 31-Mar-06	yoy Variance
Segment Revenue								
Steel business	44,290	36,073	22.8%	39,792	11.3%	156,279	135,426	15.4%
Ferro Alloys and Minerals	4,564	4,028	13.3%	4,161	9.7%	15,744	14,238	10.6%
Others	3,533	2,854	23.8%	3,241	9.0%	12,575	10,076	24.8%
Less: Inter segment revenue	-2,583	-1,950	32.5%	-2,495	3.5%	-9,077	-7,585	19.7%
Net sales/ income from operations	49,804	41,005	21.5%	44,700	11.4%	175,520	152,155	15.4%
Segment PBIT								
Steel business	15,689	9,972	57.3%	14,746	6.4%	56,438	46,247	22.0%
Ferro Alloys and Minerals	1,464	1,341	9.2%	1,344	8.9%	5,737	5,725	0.2%
Others	3	155	-97.8%	103	-96.7%	536	541	-0.9%
Total	17,157	11,468	49.6%	16,194	5.9%	62,711	52,514	19.4%
Segment Capital Employed								
Steel business	106,254	103,894	2.3%	106,308	-0.1%	106,254	103,894	2.3%
Ferro Alloys and Minerals	1,499	1,894	-20.8%	2,129	-29.6%	1,499	1,894	-20.8%
Others	2,762	2,035	35.7%	2,797	-1.2%	2,762	2,035	35.7%
Total	110,515	107,822	2.5%	111,234	-0.6%	110,515	107,822	2.5%

Consolidated results

All fig in Rs mn except per share data and percentage

	4QFY07 31-Mar-07	4QFY06 31-Mar-06	Yoy Variance	3Q 2007 31-Dec-06	qoq Variance	FY07 31-Mar-07	FY06 31-Mar-06	yoy Variance
Gross Sales	81,053	58,300	39.0%	65,431	23.9%	274,373	222,721	23.2%
Excise Duty	-6,356	-5,043	26.0%	-5,719	11.1%	-22,240	-19,500	14.1%
Net Sales	74,697	53,256	40.3%	59,712	25.1%	252,133	203,221	24.1%
Expenditure								
Purchase & R/M cons	6,876	7,787	-11.7%	9,720	-29.3%	32,175	24,954	28.9%
Purch of fin/semi fin goods	22,571	8,580	163.1%	9,466	138.5%	59,539	42,104	41.4%
Change in stock	-1,672	2,591	-164.5%	-1,411	18.4%	-5,402	-470	1049.4%
Total cost of goods sold	27,776	18,958	46.5%	17,774	56.3%	86,312	66,588	29.6%
Gross profit	46,921	34,298	36.8%	41,937	11.9%	165,821	136,634	21.4%
Gross margin	62.8%	64.4%	-159 bps	70.2%	-742 bps	65.8%	67.2%	-147 bps
Personnel exp	5,377	4,504	19.4%	4,784	12.4%	18,870	16,725	12.8%
Purchase of power	3,558	2,792	27.4%	3,197	11.3%	13,154	9,728	35.2%
Freight & handling	4,685	3,673	27.6%	3,714	26.1%	15,084	12,254	23.1%
Other exp	13,623	9,422	44.6%	11,338	20.2%	44,213	34,483	28.2%
Total operating exp	27,243	20,391	33.6%	23,033	18.3%	91,320	73,190	24.8%
EBITDA	19,679	13,907	41.5%	18,905	4.1%	74,502	63,444	17.4%
Ebitda margin	26.3%	26.1%	23 bps	31.7%	-532 bps	29.5%	31.2%	-167 bps
Depreciation & amortization	2,817	2,151	30.9%	2,451	14.9%	10,110	8,604	17.5%
EBIT	16,862	11,756	43.4%	16,453	2.5%	64,392	54,840	17.4%
EBIT margin	22.6%	22.1%	50 bps	27.6%	-498 bps	25.5%	27.0%	-145 bps
Interest	1,870	305	512.9%	962	94.3%	4,112	1,616	154.4%
Other income	897	493	81.8%	1,011	-11.3%	4,381	2,467	77.5%
Profit Before E/o items	15,889	11,944	33.0%	16,502	-3.7%	64,661	55,692	16.1%
less: Extraordinary Items	-404	339	-219.0%	-495	-18.4%	-1,530	-542	182.3%
PBT after E/o items	15,485	12,284	26.1%	16,007	-3.3%	63,130	55,150	14.5%
Provision for tax	5,890	4,256	38.4%	5,461	7.9%	21,474	17,939	19.7%
As a % to PBT	38.0%	34.6%	9.8%	34.1%	53 bps	34.0%	32.5%	4.6%
- Current tax	6,197	2,907	113.2%	5,140	20.6%	21,455	16,200	32.4%
- Deferred tax liability	-340	1,226	-127.8%	288	-218.4%	-155	1,450	-110.7%
- Fringe benefit tax	33	123	-72.9%	34	-1.8%	174	290	-39.9%
PAT	9,595	8,028	19.5%	10,547	-9.0%	41,656	37,211	11.9%
Net margin	12.8%	15.1%	-223 bps	17.7%	-482 bps	16.5%	18.3%	-179 bps
Share of Profits of Associates	256	106		211		792	322	
Minority Interest	-208	-1		-211		-675	-186	
Adjusted PAT	9,644	8,132	18.6%	10,546	-8.6%	41,773	37,346	11.9%
Adjusted PAT margin	12.9%	15.3%	-236 bps	17.7%	-475 bps	16.6%	18.4%	-181 bps
Equity capital	5,800	5,530		5,800		5,800	5,530	
Reported EPS	16.53	14.71	12.4%	18.19	-9.1%	73.06	67.62	8.0%

Consolidated Segment results

All fig in Rs mn except per share data and percentage

	4QFY07	4QFY06	yoy	3Q 2007	qoq	FY07	FY06	yoy
	31-Mar-07	31-Mar-06	Variance	31-Dec-06	Variance	31-Mar-07	31-Mar-06	Variance
Segment Revenues								
Steel business	69,377	44,936	54.4%	53,145	30.5%	226,382	177,574	27.5%
Ferro Alloys and Minerals	4,545	4,028	12.9%	4,161	9.2%	15,725	14,238	10.4%
Others	7,873	7,385	6.6%	8,176	-3.7%	30,554	22,950	33.1%
Less: Inter segment revenue	-7,097	-3,093	129.5%	5,771	-223.0%	-20,527	-11,540	77.9%
Net sales/ income from operations	74,697	53,256	40.3%	71,253	4.8%	252,133	203,221	24.1%
Segment PBIT								
Steel business	16,693	10,349	61.3%	15,676	6.5%	59,917	48,285	24.1%
Ferro Alloys and Minerals	1,500	1,341	11.9%	1,306	14.9%	5,712	5,725	-0.2%
Others	-746	450	-265.9%	335	-322.7%	764	1,936	-60.6%
Total	17,447	12,140	43.7%	17,317	0.8%	66,392	55,946	18.7%
Segment Capital Employed								
Steel business	145,059	120,620	20.3%	143,618	1.0%	145,059	120,620	20.3%
Ferro Alloys and Minerals	3,752	1,894	98.2%	3,055	22.8%	3,752	1,894	98.2%
Others	30,178	11,479	162.9%	98,983	-69.5%	30,178	11,479	162.9%
Total	178,989	133,993	33.6%	245,655	-27.1%	178,989	133,993	33.6%

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Emkay Share and Stock Brokers Ltd.,

Paragon Center, Ground Floor, C-6

Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299