

RESULTS REVIEW

Share Data

Market Cap	Rs. 566.4 bn
Price	Rs. 930.10
BSE Sensex	20,686.89
Reuters	TISC.BO
Bloomberg	TATA IN
Avg. Volume (52 Week)	1.3 mn
52-Week High/Low	Rs. 1,048.8/399
Shares Outstanding	609.0 mn

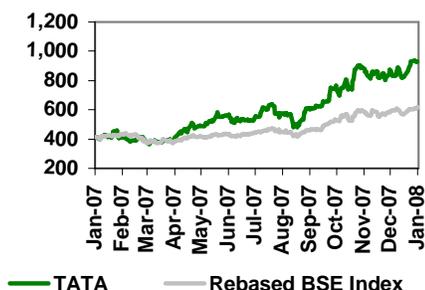
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	124.5	130.6
+/- (%)	66.3%	4.9%
PER (x)	7.5x	7.1x
EV/ Sales (x)	0.8x	0.7x
EV/ EBITDA (x)	4.9x	4.6x

Shareholding Pattern (%)

Promoters	34
FII's	21
Institutions	19
Public & Others	26

Relative Performance



Tata Steel Limited

Hold

Corus to hold the key

During the quarter ended Sep'07, Tata steel's standalone performance was ahead of our expectations with net sales increasing 13.9% yoy to Rs. 47.9 bn. The rise in net sales was led by higher sales volumes and better realizations. EBITDA increased 18.8% yoy to Rs. 20.3 bn and EBITDA margin improved 176 bps to 42.3% driven by enhanced operational efficiencies. However, adj. net profit grew by a mere 3.1% yoy primarily due to a substantial jump in the interest expense on account of the Corus acquisition. We still await the announcement of Tata Steel's consolidated results, but, with the slowdown in demand in the European markets, we believe Corus's sales could suffer a setback.

During the quarter, Tata concluded a rights issue of equity and preference shares raising around Rs. 100 bn to partly fund the Corus acquisition. Further, the Company also entered into many JVs to gain self sufficiency in iron ore and coal reserves.

We expect steel prices to remain firm led by strong demand from the developing economies. However, in the absence of capacity expansions in FY08E, we believe better realizations and higher capacity utilization to be the key revenue drivers for the fiscal year. Volumes are expected to pick up from FY09E with the completion of 1.8 mtpa capacity expansion at the Jamshedpur plant.

At the current market price, the stock is trading at a forward P/E multiple of 7.5x and 7.1x for FY08E and FY09E, respectively. Based on our valuation, we believe that the stock is fairly valued at the current levels. Hence, we maintain our Hold rating on the stock.

Result Highlights (Standalone)

During Q2'08, standalone net sales rose 13.9% yoy to Rs. 47.9 bn driven

Key Figures (Standalone)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	42,023	41,976	47,851	13.9%	14.0%	81,017	89,827	10.9%
EBITDA	17,048	16,820	20,254	18.8%	20.4%	32,861	37,074	12.8%
Adj. Net Profit	11,325	10,184	11,679	3.1%	14.7%	20,981	21,653	3.2%
Margins(%)								
EBITDA	40.6%	40.1%	42.3%			40.6%	41.3%	
NPM	26.9%	24.3%	24.4%			25.9%	24.1%	
Per Share Data (Rs.)								
Adjusted EPS	19.7	16.9	17.3	(12.2)%	2.5%	37.2	33.9	(8.7)%

Improvement in EBITDA margin on account of enhanced operational efficiencies

by higher realizations (up 11% yoy to Rs. 35,280 per tonne) and increase in sales volume. Volumes went up 2.9% yoy to 1.2 mt supported by an increase in production (up 1.7% yoy to 1.3 mt).

EBITDA jumped 18.8% yoy to Rs. 20.3 bn and EBITDA margin improved 176 bps yoy to 42.3%. The improvement in EBITDA margin was due to enhanced operational efficiencies and increased focus on branded products. During the quarter, cost of raw material as a percentage of net sales came down by 102 bps, while the manufacturing and employee expenses dipped by 108 bps and 75 bps, respectively.

In comparison to EBITDA, adj. net profit increased by a mere 3.1% yoy to Rs. 11.7 bn. The profits were under pressure due to a substantial rise in the interest expense (Rs. 2 bn as compared to Rs. 477 mn in Q2'07).

Key Events

Rights Issue

As a part of its funding activity for the Corus acquisition, Tata Steel concluded a rights issue of a 1.2 mn equity shares, having a face value of Rs. 10, at a price of Rs. 300 to raise Rs. 36.5 bn. In addition, it issued cumulative compulsorily convertible preference shares at the face value of Rs. 100 to raise Rs. 60 bn.

On the path to secure its future

With a view to secure raw materials for its expanding capacities, Tata Steel entered into a JV with Sodemi, for the development of Mount Nimba iron ore deposits in Ivory Coast. It has also formed a JV with SAIL to develop coal mines in India as well as made a bid for iron ore mines in Liberia.

JV with Riversdale Mining

The Company entered into a JV with Riversdale Mining to develop a hard coking and thermal coal project at coal exploration blocks held by Riversdale in Mozambique. Tata Steel would invest USD 88.2 mn and

hold a 35% stake in the JV. It will also get a 40% share of the off-take for coking coal. Riversdale estimates a total reserve of 1.2 bn tonnes coal at these blocks. Tata Steel's standalone annual coal requirement is around 4.3 mn tonnes out of which it imports around 1.3 mn tonnes. With this JV, the Company will move one step further towards gaining self sufficiency.

Prospects

Aiming to double its output

Tata Steel plans to more than double its production capacity, to 61.1 mt, by 2015. Thus, adding a total of 35 mt to the current capacity by way of Greenfield projects in India (28 mt) as well as another 7.5 mt from projects abroad. In turn, the Company has entered into a number of JVs to develop coal and iron ore mines to feed its expanding steel capacity and thus, increase its raw material self sufficiency.

Tata Steel to double its capacity by 2015

Key Risks

The key risks to our rating are:

- Greater than expected increase in the steel prices will be a risk on the upside
- Significant increase in the raw material prices
- Delay in the commissioning of new capacities can affect the profitability of the Company

Outlook

Steel consumption in India and China is growing at double-digit pace, however, the US and European markets are showing signs of weakness in the aftermath of the subprime crisis. Nonetheless, growth in the global steel demand is expected to be around 6%-7% annually. In addition, prices are expected to remain firm as exports from the Chinese markets have started to decline. Further, rise in the raw material prices will also give a push to steel prices.

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

As there are no capacity expansions planned for FY08E, we do not expect any significant change in volumes. Moreover, the demand in Europe is witnessing a slowdown, which could adversely affect Corus's sales. Thus, the revenue driver for FY08E would be better utilization of existing capacities and higher realizations. However, the capacity expansion at Jamshedpur plant (1.8 mtpa), expected to be commissioned in FY09E, will boost the Company's volumes in FY09E.

After the Corus acquisition, Tata Steel has become highly leveraged to the raw material price fluctuations, which are currently on an upswing. While Tata Steel was 100% self sufficient in terms of iron ore and 60% in terms of coal, after Corus the Company's iron ore and coal self sufficiency has dropped to only 20% and 17%, respectively. However, it plans to raise this figure to 50% and 25%, respectively in the next 3-5 years by undertaking Brownfield projects and entering into JVs for the mining of iron ore and coal, in India and abroad.

To factor in the better price realizations, we have calibrated our net sales FY08-09E to Rs. 1,239 bn in FY08E and Rs. 1,289.2 bn in FY09E. At the current market price, the stock is trading at a forward P/E multiple of 7.5x and 7.1x for FY08E and FY09E, respectively. Based on our valuation, we believe that the stock is fairly valued at the current levels. Hence, we maintain our Hold rating on the stock.

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	1,239,023	1,289,202	126.1%
EBITDA	66,727	65,912	78,882	189,457	202,050	60.0%
Adj. Net Profit	39,586	37,714	42,795	100,620	105,565	57.1%
Margins(%)						
EBITDA	41.2%	32.0%	30.8%	15.2%	15.6%	
NPM	24.5%	18.3%	16.7%	8.1%	8.2%	
Per Share Data (Rs.)						
Adj. EPS	71.7	68.3	74.9	124.5	130.6	32.1%
PER (x)	5.6x	7.9x	12.4x	7.5x	7.1x	

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