MOTILAL OSWAL

Detailed Report
SECTOR: METALS

Tata Steel

Unique Leverage

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Contents

Tata Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,431	TATA IN
S&P CNX: 4,264	REUTERS CODE TISC.BO

27 June 2007

Buy

Previous Recommendation: Buy

Rs596

Y/E MARCH	2006	2007	2008E	2009E
Net Sales (Rs b)	202.4	252.1	1,206.1	1,263.8
EBITDA (Rs b)	63.4	74.5	168.9	190.0
NP (Rs b)	37.7	42.8	78.3	94.5
EPS (Rs)	68.1	70.2	91.9	110.9
EPS Growth (%)	2.8	3.1	30.8	20.7
BV/Share (Rs)	181.1	254.0	389.7	481.6
P/E (x)	8.0	7.8	6.0	4.9
P/BV (x)	3.0	2.2	1.4	1.1
EV/Sales (x)	1.6	1.3	0.7	0.6
EV/EBITDA (x)	5.2	4.2	5.0	4.1
RoE (%)	37.6	27.6	23.6	23.0
RoCE (%)	34.4	31.6	15.6	16.3
RoIC (%)	35.9	41.9	15.1	16.8

Note: Valuations at effective csot of ownership of Rs547/ share

KEY FINANCIALS	
Shares Outstanding (m) *	852.2
Market Cap (Rs b) *	466.0
Market Cap (US$ b) *	11.4
Past 3 yrs. Sales Growth (%)	31.3
Past 3 yrs. NP Growth (%)	22.1
Dividend Payout (%)	21.8
Dividend Yield (%)	2.4

** Fully diluted (See page 41)*

STOCK DATA	
52-Week Range (H/L Rs)	662/399
Major Shareholders (as of March 2007)	(%)
Promoters	30.5
Domestic Institutions	21.8
FII/FDIs	17.4
Public	30.2
Average Daily Turnover	
Volume ('000 shares)	5,033.8
Value (Rs million)	2,544.0
1/6/12 Month Rel. Performance (%)	-5/20/-27
1/6/12 Month Abs. Performance (%)	-5/24/15

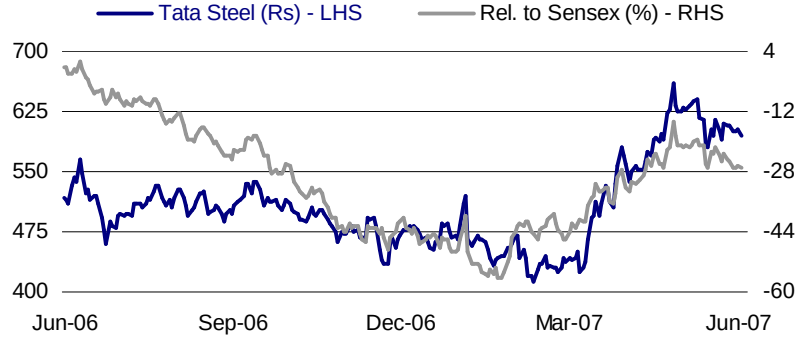
Tata Steel has become the sixth largest steel producer in the world post its acquisition of Corus, with local production in as many as 14 countries. We believe that the combined entity is rightly positioned to leverage Tata Steel's low cost advantage in primary steel making and Corus' high-end product portfolio.

Leveraging low cost India advantage: Tata Steel has a cost advantage of ~US$208 per ton of crude steel produced over Chinese steel producers. To leverage its low cost advantage, the company is increasing crude steel production from 5mtpa currently to 13mtpa by FY13. Its recently acquired finishing mills in metallic-deficit ASEAN countries are a ready market for semis to be produced in India.

Corus – key beneficiary of strong demand in North Europe: Corus has successfully hiked prices of its products by 5-7% in April 2007 and has announced further hikes effective July 2007. Given the strong demand in North Europe and fewer export offers from Russia, Ukraine and China, prices are likely to remain firm. Further, synergies resulting from the integration with Tata Steel would drive up margins.

Valuations attractive; Buy: We expect consolidated earnings to grow at a CAGR of 26% during FY07-09, driven by overall volume growth and margin expansion in Corus. Adjusting for the forthcoming 1:5 rights issue at Rs300/share, the effective cost of stock ownership works out to be Rs547/share. Thus, the stock trades at 4.9x FY09E EPS and at 1.1x FY09E BV (RoE of 23%). We reiterate **Buy.** Our one-year target price of Rs820 (cum rights) and Rs739 (ex-rights) is based on EV/ EBITDA of 5x FY09E.

STOCK PERFORMANCE (1 YEAR)



Corus acquisition timely; helps achieve global scale

Tata Steel has become the sixth largest steel producer in the world post acquisition of Corus. The acquisition has not only helped it to achieve global scale, but has also been timely in our opinion. Through Corus, the company has been able to gain access to a large market that was otherwise difficult and the multiplication in size would help it to capitalize its low cost India advantage better. Given the rising momentum of consolidation in the industry, we believe that the acquisition of Corus was timely.

Not just global scale…

From a rank of 47, Tata Steel has leapfrogged to the sixth largest steel producer in the world post acquisition of Corus. The combined entity produced 24.7m ton of crude steel during 2006 and is next only to Arcelor-Mittal, Nippon, JFE, Posco and BaoSteel.

Post the acquisition of Corus, Tata Steel has leapfrogged from the 47th position to the world's 6th largest steel producer

WORLD RANKING OF STEEL PRODUCERS

RANK	COMPANY	CRUDE STEEL PRODUCTION IN 2006 (M TON)	LOCATIONS
1	Arcelor Mittal	117.2	Americas, EU, CIS, Africa
2	Nippon Steel	32.7	Japan
3	JFE	32	Japan
4	Posco	30.1	Korea
5	BaoSteel+Bayi Group	25.6	China
6	**Tata Steel+Corus**	24.7	UK, EU, and Asia
7	US Steel	21.2	US
8	Nucor	20.3	US
9	Tangshan	19.1	China
10	Riva Group	18.2	EU
11	ThyssenKrupp	16.8	EU
12	EvrazHolding	16.1	Russia, South Africa
13	Gerdau	15.6	South America
14	Anshan	15.3	China
15	Jiangsu Shagang Group	14.6	China
16	Wuhan	13.8	China
17	Sumitomo	13.6	Japan
18	SAIL	13.5	India
19	Techint	12.8	Italy
20	Magnitogorsk	12.5	Russia
…	…	…	….
45	Voestalpine	6.5	Austria
46	Handan	6.4	China
47	Tata Steel	6.4	Asia
48	Metalloinvest	6.3	Russia
49	Taiyuan	6.3	China
50	Jianlong	6	China
	Total	**419.5**	

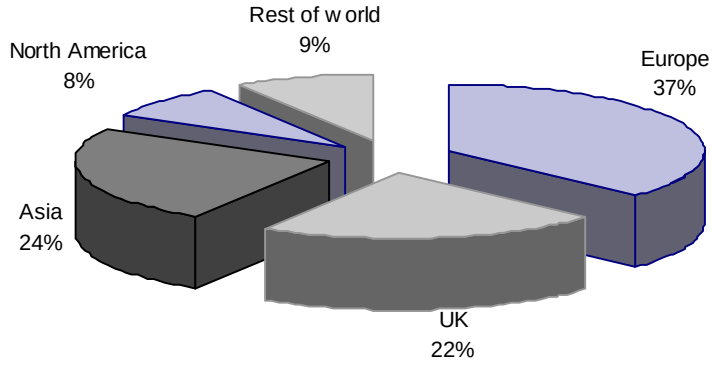
Source: IISI (2006 crude steel production)

…but a multinational presence, as well

Tata-Corus not only has global scale but also local presence in 14 countries…

Except Arcelor-Mittal, the other top-ranking steel producers are essentially regional companies. Tata-Corus has its production facilities spread over UK, US, EU and Asia, and its revenues are well spread. Thus, Tata-Corus not only has global scale but also local presence in 14 countries.

TATA-CORUS: GLOBAL DISTRIBUTION OF REVENUES



Source: Company

…which gives it significant advantage in view of the trade barriers across countries

Countries across the world have introduced tariff and non-tariff trade barriers to protect local steel producers, as cost structure varies across regions due to difference in wages, expenses on account of environmental protection and cost of sourcing services and consumables. As a local producer in three regions and 14 countries, Tata-Corus has an advantage over most other top-ranking global steel producers.

Best of both worlds…

The combined entity is rightly positioned to combine its advantage of low cost primary steel production in India with Corus' high-end product portfolio

Post the Corus acquisition, Tata Steel has global presence in both developed and fast growing markets, and is rightly positioned to combine its advantage of low cost primary steel production in India with Corus' high-end product portfolio.

PRODUCTION CAPACITIES OF COMBINED ENTITY

CRUDE STEEL		FINISHING MILLS	
COUNTRIES	(MTPA)	COUNTRIES	(MTPA)
United Kingdom	14.4	United Kingdom	10.0
Netherlands	6.8	EU & US (six countries)	7.0
India	5.0	India	5.0
South East Asia (six countries)	2.9	South East Asia (six countries)	5.1
Total capacity	**29.1**		**27.1**

Source: Company

Corus' finishing mills in Europe produce high-end products catering to the requirements of the automobile, railway, shipbuilding, piping and construction industries. These products

command a premium in the markets. Also, its building and distribution division has a 7mtpa service center. Tata Steel's Indian finishing mills cater to demand from the automobile and construction industries. The finishing mills in South East Asia mainly produce construction materials.

Tata Steel is expanding its crude steel production capacity in India to effectively leverage its low cost advantage

India has large high quality iron ore reserves and low cost skilled manpower. Iron ore mining too is given to steel producers for captive use in steel production and state royalties are low. Therefore, there is a cost advantage of producing steel in India, which has been widening due to rising iron ore prices globally and increasing transportation costs. Tata Steel is expanding its crude steel production capacity in India to effectively leverage its low cost advantage.

Corus has been raising product prices, backed by strong demand in North Europe

Corus, which had thin margins at the time of acquisition, has since been able to raise its product prices following strong demand in Europe. Also, Tata Steel's management has emphasized upon reducing Corus' operating costs, benchmarking against Posco. We believe Tata Steel would follow the twin strategy of reducing operating costs and eventually supplying slabs from India when its greenfield projects in India come on stream.

…post the timely acquisition

We believe that the acquisition of Corus has been timely. Given the rising momentum of consolidation in the industry and rising valuations of steel companies, had Tata Steel not acted when it did, the opportunity could have been lost forever.

TOP STEEL PRODUCERS (EX-CHINA)

		2000 M TON		2006 M TON
1	Nippon	28.4	Arcelor-Mittal	118.0
2	Posco	27.7	Nippon	33.7
3	Mittal	22.4	JFE	32.0
4	Usinor	21.0	Posco	31.2
5	Corus	20.0	Tata-Corus	26.8
6	Thyssen Krupp	17.7	US Steel	21.3
7	NKK	16.0	Nucor	20.3
8	Riva	15.6	Riva	18.2
9	Kawasaki	13.0	Severstal	17.6
10	Sumintomo	11.6	ThyssenKrupp	16.8
11	SAIL	10.9	Evraz	16.1
12	USX	10.7	Gerdau	15.6
13	MMK	10.0	Sumitomo	13.6
14	Nucor	10.0	SAIL	13.5
15	Severstal	9.6	Techint	12.8
16	Others	457.4	Others	387.6
	World (ex china)	**702.0**		**795.0**
	Top 15 Players (%)	**35**		**51**

Source: IISI and Metal Bulletin

Globally, consolidation in the steel industry has been gaining momentum…

We present a summary of our study of eight steel companies selected across the globe that have survived the cyclical downturn in the last 12 years. We have used historical market capitalization to analyze the historical valuations. The eight companies are Posco (Korea), Baoshan Steel (China), US Steel (USA), AK Steel (USA), Nucor (USA), Thyssen-Krupp (Germany), Gerdau (Brazil) and CSN (Brazil).

KEY FINANCIALS OF EIGHT COMPANIES UNDER STUDY (US$ B)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*	CAGR (00-06)
Sales	21.1	20.2	20.0	23.6	59.4	64.5	63.5	66.7	80.8	107.6	131.1	149.8	155.1	15.1
EBITDA	6.4	5.6	6.2	5.3	8.2	10.4	7.6	9.6	11.5	20.8	25.4	25.4	26.5	16.1
PAT	2.2	1.7	2.2	2.2	2.3	3.9	1.7	1.5	2.9	9.7	11.0	12.0	12.3	20.5
Equity	17.9	17.0	14.2	17.4	26.6	27.7	28.0	28.3	31.3	43.2	51.4	59.7	66.8	13.6
Net Debt	6.8	7.7	7.0	7.9	15.2	17.9	17.0	14.3	14.1	8.3	6.2	4.5	3.3	-20.6
Market Cap	16.3	14.7	13.3	15.3	34.3	28.9	27.9	27.6	44.1	59.8	64.6	116.0	127.9	26.1
EV	23.5	22.9	20.6	23.7	50.3	47.7	46.2	42.9	59.3	69.7	73.3	125.3	135.8	17.5
Capacity (mt)	54	56	61	60	82	103	104	113	122	134	133	136	136	4.7
Valuations														
EV (US$/ton)	436	411	341	395	615	464	447	381	488	522	551	924	1,002	
EV/EBITDA (x)	3.7	4.1	3.3	4.5	6.1	4.6	6.1	4.5	5.2	3.4	2.9	4.9	5.1	
EBITDA (US$/ton)	119	101	102	88	101	101	74	85	94	155	191	187	196	
Debt/Equity (%)	38.3	45.2	49.2	45.4	57.3	64.5	60.8	50.6	45.2	19.3	12	7.5	5	

** As on 2 February 2007* *Source: Bloomberg, IISI and Motilal Oswal Securities*

…and valuations of steel companies are running up

The combined net sales, EBITDA and PAT of the stated eight companies have grown at a CAGR of 15.1%, 16.1% and 20.5%, respectively during 2000-2006, whereas volumes have grown at a CAGR of just 4.7% from 103m ton in 2000 to 136m ton in 2006. The combined shareholders' equity, market capitalization and enterprise value of the eight companies have grown at CAGR of 13.6%, 26.1% and 17.5% over the same period.

Had Tata Steel waited too long, it could have lost the opportunity of acquiring Corus forever

However, their combined net debt has declined at a compounded rate of 20.6% and debt-equity ratio is down from its peak of 65% in 2000 to 8% in 2006. Valuations too have run up beyond the historical range. The companies traded at an average EV/ton of US$400-600 in the past decade. However, they are now trading at an average, which is above replacement cost.

Leveraging low cost India advantage

Tata Steel has a cost advantage of ~US$208/ton over Chinese steel producers in crude steel production. Another increase in iron ore prices in 2008 would further widen the cost advantage. The company is leveraging this advantage to increase primary steel making capacity in India. The increased capacity would help feed its finishing mills in fast growing ASEAN markets and eventually also help to bring down raw material cost for Corus.

Increasing capacity in India…

Tata Steel is expanding crude steel production in India from 5mtpa to 13mtpa by FY13

Tata Steel has planned a slew of projects to increase crude steel production from 5mtpa currently to 13mtpa by FY13 – a CAGR of 18.2%. Brownfield expansion at its existing plant in Jamshedpur would also improve manpower productivity.

PLAN TO INCREASE CRUDE STEEL PRODUCTION IN INDIA (M TON)

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	REMARKS
Indian Production	4.8	5.1	6.5	7.0	7.1	11.1	13.0	CAGR of 18.2% during FY07-13
Change YoY (%)	*8.5*	*5.4*	*28.6*	*7.7*	*1.4*	*56.3*	*17.1*	
Jamshedpur								
Existing Facilities	4.8	5.1	5.3	5.3	5.3	5.3	5.3	
Brownfield Projects								
1.8mtpa Billets			1.2	1.7	1.8	1.8	1.8	To start by June 2008
Expansion to 10mtpa						2.0	2.9	Equipment ordering in progress
Greenfield Projects								
Orissa						2.0	3.0	Statutory clearances obtained, Equipment ordered
Chhattisgarh	5mtpa in two phases, paper work on but no significant progress reported so far							
Jharkhand	12mtpa in phases, no progress so far. Chiria mine is bone of contention.							

Source: Company/Motilal Oswal Securities

Tata Steel has also signed Memoranda of Understanding (MoU) with the state governments of Jharkhand and Chhattisgarh for setting up greenfield projects of 12mtpa and 5mtpa, respectively. The MoU have assured allocation of captive iron ore mines, land and requisite statutory clearances. However, the progress on these two projects is far from significant due to absence of clarity on iron ore policy and hurdles in acquiring land.

…to leverage low cost advantage…

Located in a mineral rich state with captive iron-ore and coal mines, it enjoys a cost advantage

Tata Steel's Indian steel production facilities are located at Jamshedpur in the mineral rich state of Jharkhand. The company has captive mines of both iron ore and coking coal. While its iron ore mines meet its entire raw material requirement, the company imports some coking coal for blending with captive high ash coking coal to make it suitable for hot metal production. Its blast furnaces have high productivity ranging from 2-2.5 ton/m3 of

hot metal per day and low coke consumption of 584kg/thm. Tata Steel's cost of production is, therefore, one of the lowest in the world.

Steel producers globally source iron ore from miners in Brazil, Australia, India and smaller quantities from South Africa, Canada and Sweden. Nearly 75% of the 750m ton ocean trade is controlled by just three big miners – CVRD, BHP-Billiton and Rio Tinto. The prices of iron ore are negotiated annually between regular customers and the three miners, and have moved up sharply by 9% in 2003, 18.6% in 2004, 71.5% in 2005, 19% in 2006 and 9.5% in 2007. Iron ore prices are likely to increase further in 2008 due to tight supply, bottlenecks in transportation, depreciation of the US dollar, increased dependence of China on imported iron ore and consolidation among miners.

While its advantage of iron-ore cost has been widening…

IRON ORE COSTS (US$/TON)

Y/E MARCH	2004	2005	2006	2007E	2008E
Tata Steel	5.8	6.9	7.1	8.1	8.9
SAIL	9.6	11.4	12.3	13.2	15.9
JSW Steel	8.4	13.4	19.6	22.8	28.2
China Spot (C&F)	89.2	80.9	73.1	85.0	103.0

Source: Annual reports of respective companies/Motilal Oswal Securities

Tata Steel, on the other hand, is self-sufficient in iron ore. Its captive iron ore mines are located at Noamundi, Joda and Katamandi in the states of Jharkhand and Orissa. It also has manganese mines and dolomite quarries in Orissa. These are all located within 150km from Jamshedpur, home to the company's manufacturing facilities. The cost of iron ore from captive mines is low due to efficient mining process, proximity to its steel plant and low duties.

Also, Tata Steel blends imported low ash (less than 10%) coking coal with high ash (13-15% after washing) domestic coal to convert into coke for production of crude steel through the blast furnace route. Domestic coal is sourced from captive mines, which have total reserves of ~250m ton. Its West Bokaro open cast mines (spread over a lease area of 4,299.84 acres in Jharkhand) produce 4mtpa while its Dhanbad underground mines (180km from Jamshedpur and spread over a lease area of 5,508 acres in Jharia Region) produce 1.5mtpa of prime coking coal.

…its advantage of low cost coal is sustainable…

COKING COAL COSTS (US$/TON)

Y/E MARCH	2004	2005	2006	2007E	2008E
Tata Steel	46	48	67	75	72
SAIL	89	125	163	154	154
World fob Prices*	40	57	125	110	98

** fob prices for annual contracts. The landed costs to steel producers will be much higher depending upon location*

Source: Annual reports of companies /Motilal Oswal Securities

Steel producers in Europe, Japan and America have to source coal from Australia, Canada and China. There is high level of consolidation among miners who supply coal on long-term contracts and prices are negotiated annually. The landed cost of coal has shot up due to sharp rise in coal prices and ocean freights. Therefore, the cost advantage due to captive mines in proximity has been widening for Indian operations.

…giving Tata Steel an overall raw material cost advantage of ~US$200/ton of crude steel

RAW MATERIAL COST COMPARISON

	BASIS	TATA STEEL	CHINA	DIFFERENCE
Iron ore	(US$/ton)	8.9	103.0	
Consumption Ratio	(ton/tcs)	1.7	1.7	
(a) Ore Costs	(US$/tcs)	15.1	175.1	160
Coke	(US$/ton)	102.4	190.0	
Consumption Ratio	(ton/tcs)	0.55	0.55	
(b) Coal Costs	(US$/tcs)	56.3	104.5	48
(c) Other Raw Materials	(US$/tcs)	20.0	20.0	
Total Costs (a+b+c)	**(US$/tcs)**	**91.4**	**299.6**	**208**

Source: Motilal Oswal Securities

…and feed finishing mills in fast-growing ASEAN economies...

The company has acquired finishing mills with a combined capacity of 5mtpa in the fast growing Asia-Pacific region

Tata Steel has taken a number of initiatives to increase its presence in fast growing economies and has acquired Singapore-based Natsteel and Thailand-based Millennium Steel in the last two years. These companies have finishing mills in 6-7 countries in South East Asia. These mills produce crude steel through the electric arc furnace (EAF) route, which uses steel scrap as input and expensive electricity. The consumption of steel scrap in the ASEAN countries has grown at CAGR of 11% since 2000, which is being met from internal generation and imports.

FINISHING MILLS IN ASEAN REGION

STEEL PLANTS	STEEL (KTPA)	ROLLING (KTPA)	VAP (KTPA)	REMARKS
Natsteel	**1,900**	**3,350**	**1,842**	
Jurong, Singapore	600	1,000	452	CAB, Mesh & Cold rolled wire
Jinyang, China			120	P C wire
Siam, Thailand			150	P C wire
Southern steel, Malaysia	1,300	1,300	1,000	Construction products
Steel Asia, Phillipine		500		Merchant Products
Natsteel Vina, Vietnam		120	120	
SSE, Vietnam		250		Bar & wire rod Mill, Acquired in 2007
Venusteel, Vietnam		180		Rebar, Acquired in 2007
Tata Steel, Thailand	**1,200**	**1,700**	**800**	**Long products**
Total	**3,100**	**5,050**	**2,642**	

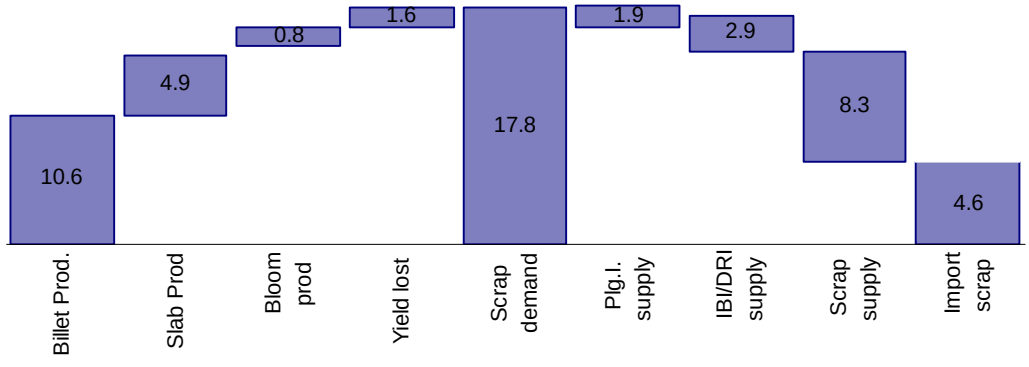
Ktpa=000 tons per annum, VAP= Value added products *Source: Company*

...which are deficient in metallics and dependent on imports

Most ASEAN economies are heavily dependent upon imports for semi-finished and finished steel products. Thailand's share of 28% in imports is the largest, followed by Malaysia

(18%), Indonesia (15%), Singapore (12%) and Vietnam (5%). Tata Steel has acquired local manufacturing facilities in all theses countries to capture market share. It will feed these mills with low cost billets produced in India and provide financial support to invest in capacity enhancements on a regular basis to capture the fast growth in these countries.

ASEAN REGION: SOURCE OF METALLICS (M TON)



GLOBAL TRADE OF ASEAN COUNTRIES (M TON)

Source: OECD

The large steel imports in this region present a big opportunity for Tata Steel…

…which would also get a ready market for its 1.8mtpa billet caster in India, scheduled for commissioning by June 2008

Tata Steel is also setting up a small blast furnace in Thailand to increase production of crude steel there. On the commissioning of its 1.8mtpa billet caster by June 2008, Tata Steel would be able to leverage its cost advantage to increase its market share in these countries.

Corus – key beneficiary of strong demand in North Europe

Demand for steel in North Europe remains firm, driven by the industrial, construction and engineering sectors. Corus tends to gain more than other players in EU and UK under strong market conditions. It procures iron ore and coking coal used in blast furnace from miners across the globe that follow annual pricing for long-term contracts. Therefore, Corus' raw material costs are fixed for the year and it is able to gain from high steel prices. Most other competitors use the electric arc furnace (EAF) route for steel production and have to purchase steel scrap on spot basis. Strong steel prices do not add to their margins, as scrap prices too move in line.

Steel demand remains strong in North Europe…

European steel consumption is likely to rise by 3.4% in 2007…

Demand for steel in North Europe remains firm, driven by the industrial, construction and engineering sectors. European steel consumption would rise by 3.4% in 2007, though this represents a slowdown from last year's "extraordinarily high growth" of 6.2%, according to the latest forecast by steel producers' federation, Eurofer. In 2006, EU steel consumption was 169.2m ton.

EUROPEAN SECTION AND MERCHANT BAR PRICES (EUR/TON)

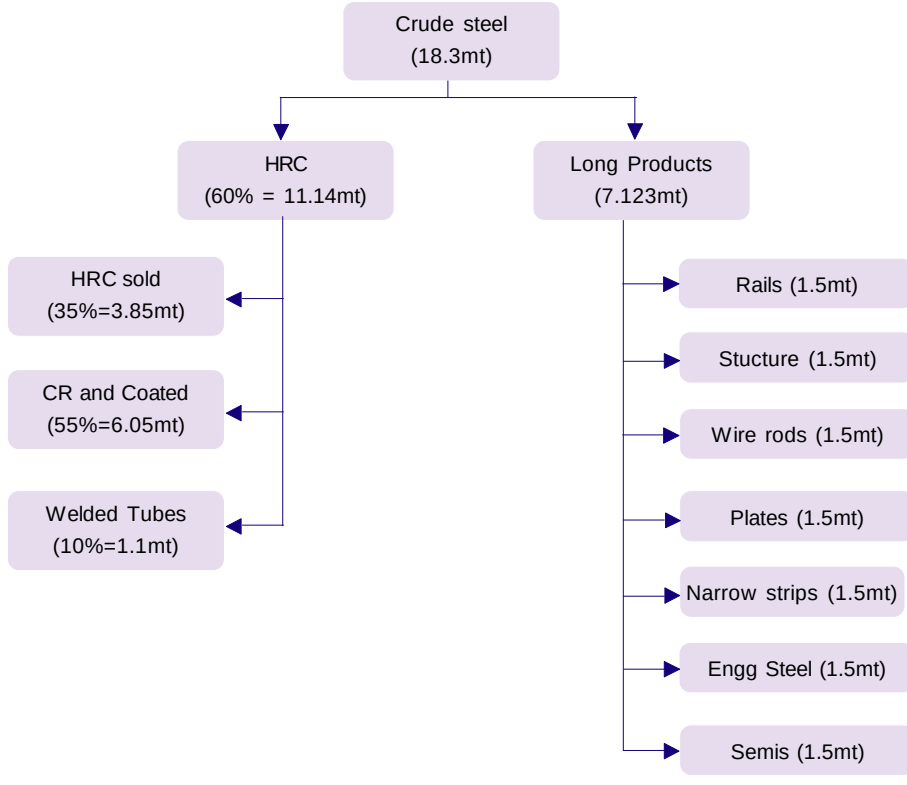
	FEB-07	MAR-07	APR-07	MAY-07	JUN-07
Medium Sections	590-670	600-685	610-685	630-720	630-720
Merchant Bar	510-590	510-590	520-600	550-630	550-630

Source: Steel Business Briefings

…aided by 9% growth in Germany's mechanical engineering industry

Germany's mechanical engineering industry is likely to see a much larger growth in 2007 than was previously expected. Following large increases in incoming orders in the first three months, industry federation VDMA lifted its growth forecast from 4% to 9% in May. In the first quarter of the year, order intake in comparison with the corresponding 2006 period went up by 29%, with the increase spread equally between domestic and international business. International business has grown more strongly than expected at the turn of the year and order backlogs now stretch for nearly half a year.

CORUS' PRODUCT MIX



mt= million ton *Source: Annual report of Corus for 2006*

Corus, the key player in the UK…

In the UK, Corus is the only meaningful steel producer. Of the 13m ton of crude steel produced in the UK in 2006, Corus produced 11.4m ton, representing 88% share. UK exported 7.8m ton and imported 8.7m ton of steel products. Corus' deliveries to the UK market were 5.7m ton in 2006, a market share of 51%.

CARBON STEEL MARKET IN UK (M TONS)

	PRODUCTION	DELIVERIES
Corus	11.4	5.7
Others	1.6	5.5
Total	**13.0**	**11.2**

Source: Annual report of Corus for 2006

…and Corus has been successfully hiking prices

…has secured price hikes of 5-7% in 1QFY08 and has announced another 5-12% price rise for 2QFY08

Corus has already secured price hikes of 5-7% for deliveries in the April-June 2007 quarter and revised the list of price extras for the first time in two years to cover cost escalations, new products and change in European specifications. Strong market conditions have driven Corus to seek further price hikes in the quarter starting July 2007. On 4 June 2007, Corus announced a 5-12% rise its flat rolled steel prices in UK, with typical increases being £20/

ton for hot-dipped galvanized, £35/ton for cold-rolled and £45/ton for hot-rolled steel products for deliveries starting July 2007.

This is on top of its recent announcement (on 30 May 2007) of a price hike of £20/ton on advance sections and plates for sales globally starting July 2007. There appears to be confidence in the market that the July-September 2007 quarter increases would be pushed through, thanks primarily to the buoyant construction and engineering sectors both in mainland Europe and in the UK.

Long products have been a drag on Corus' margins

CORUS: SEGMENTAL DISTRIBUTION OF REVENUES AND EARNINGS

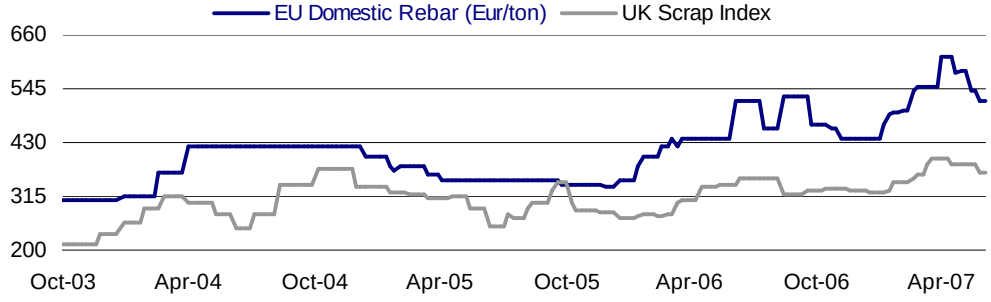
Y/E MARCH	2004	2005	2006
Segmental Revenue (£ m)			
Strips	3,883	4,127	4,322
Long	1,855	1,965	2,129
Others	2,635	3,063	3,282
Total	**8,373**	**9,155**	**9,733**
Segmental Operating Profit (£ m)			
Strips	417	598	353
Long	248	106	35
Others	-48	-31	61
Total	**617**	**673**	**449**
Segmental Operating Margins (%)			
Strips	10.7	14.5	8.2
Long	13.4	5.4	1.6
Others	-1.8	-1.0	1.9
Total	**7.4**	**7.4**	**4.6**

Source: Company/Motilal Oswal Securities

Corus tends to gain more than other players in EU and UK under strong market conditions. It procures iron ore and coking coal used in blast furnace from miners across the globe that follow annual pricing for long-term contracts. Therefore, Corus' raw material costs are fixed for the year and it is able to gain from high steel prices. Most other competitors use the electric arc furnace (EAF) route for steel production and have to purchase steel scrap on spot basis. Strong steel prices do not add to their margins, as scrap prices too move in line.

However, the wider gap between rebar and scrap prices and stronger prices of sections and plates augurs well

PRICES OF REBAR AND UK SCRAP INDEX



Source: Metal Bulletin

External pressures off EU and UK steel prices

Also, external pressures would be off EU and UK steel prices…

Among the world's top-5 steel exporters, China, Russia and Ukraine are low cost producers. Japan and EU are high cost producers and their exports largely comprise of value-added products. Therefore, the prices of internationally traded steel products depend largely on supplies from China, Russia and Ukraine.

MAIN STEEL EXPORTING COUNTRIES

SR. NO.	COUNTRY	2005 (M TON)	2006 (M TON)	YOY (%)	MARKET SHARE (%)
1	China	25.7	49.2	91.4	17.3
2	Japan	31.7	34.2	7.9	12.1
3	Russia	30.4	31.0	2.0	10.9
4	EU25	30.9	30.3	-1.9	10.7
5	Ukraine	27.1	30.3	11.8	10.7
6	S Korea	15.5	17.3	11.6	6.1
7	Turkey	12.2	12.8	4.9	4.5
8	Brazil	12.4	12.5	0.8	4.4
9	Taiwan	9.0	10.4	15.6	3.7
10	USA	8.9	9.0	1.1	3.2
11	India	5.5	6.5	18.2	2.3
12	Canada	5.7	5.9	3.5	2.1
13	Other	34.9	34.2	-2.0	12.1
	Total	**249.9**	**283.6**	**13.5**	**100.0**

Source: ISSB

In Russia and Ukraine, steel producers are busy catering to the strong growth in domestic demand. Flat product shipments to domestic markets are growing and exports declining due to strong domestic demand. In the first four months of 2007, Russia has utilized only 54% of the export quota to Western Europe.

FLAT PRODUCT CONSUMPTION IN RUSSIA

MONTH	2005 ('000 TON)	2006 ('000 TON)	YOY (%)	2007 ('000 TON)	YOY (%)
January	919	1,090	18.6	1,334	22.4
February	976	1,158	18.6	1,360	17.4
March	1,110	1,352	21.8	1,690	25.0
April	1,092	1,296	18.8	1,746	34.7
May	1,200	1,354	12.8		
June	1,222	1,475	20.8		
July	1,182	1,611	36.3		
August	1,246	1,687	35.4		
September	1,323	1,515	14.5		
October	1,414	1,643	16.2		
November	1,361	1,543	13.4		
December	1,269	1,496	17.8		
Total	**14,314**	**17,221**	**20.3**		

Source: Industry

…given very strong local consumption in Russia and Ukraine

Ukraine also continues to post strong demand. Its own specific consumption of flat steel is very low but growth has picked up and there is less pressure to export.

FLAT PRODUCT CONSUMPTION IN UKRAINE

MONTH	2005 ('000 TON)	2006 ('000 TON)	YOY (%)	2007 ('000 TON)	YOY (%)
January	218	269	23.0	342	27.3
February	265	291	10.1	337	15.6
March	289	280	-3.3	405	44.9
April	284	309	8.6	398	28.8
May	315	314	-0.3		
June	297	356	19.9		
July	296	373	26.1		
August	292	366	25.7		
September	286	355	24.0		
October	318	366	14.8		
November	326	355	8.9		
December	283	330	16.7		
Total	**3,469**	**3,963**	**14.2**		

Source: Industry

Though imports from China have been rising considerably…

Chinese exports have skyrocketed in the first four months of 2007, driven by strong prices in the world market. However, pressure has been mounting on China to contain exports of steel due to trade action by partner countries and domestic environmental issues. This has prompted the local authorities to a take number of steps in this direction.

STEPS TAKEN BY CHINA TO DISCOURAGE EXPORTS IN LAST SIX MONTHS

DATE	CHINESE ACTION
Nov 15, 2006	Slab and billet tax of 10% on exports
Dec 15, 2006	Export tax rebate lowered from 11% to 5-8%
April 15, 2006	Export tax rebate lowered from 5-8% mostly to 0-5%
May 20, 2006	Compulsory Licensing introduced
June 1, 2006	Export tax imposed of 5-10% on 83 products
June 1, 2006	Slab and billet export tax raised from 10% to 15%
July 1, 2006	Export tax rebate of 13% on welded pipes cancelled and lowered from 13% to 5% on other processed steel products

Source: Industry

…the Chinese government has taken steps to curb steel exports

China has taken steps like completely eliminating rebate on VAT from November 2006 to April 2007, introducing export licensing from 20 May 2007 and has further imposed export duty of 5-10% on low-end steel products including HRC. Chinese offers of HRC in the world market have now become expensive resulting in a 13.9% decline in exports to 6.2m ton in May 2007. Exports are likely to further reduce from June 2007.

CHINESE TRADE AND PRODUCTION OF FINISHED STEEL

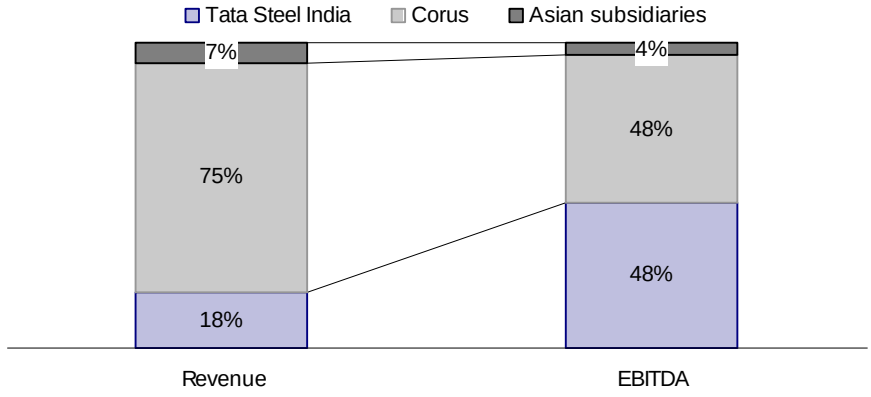
MONTH	PRODUCTION (M TON)	IMPORT (M TON)	EXPORTS (M TON)	EXPORTS MOM (%)	EXPORTS YOY (%)
Jan-07	40.4	1.5	4.4	-21.4	144
Feb-07	38.6	1.2	4.4	0.0	132
Mar-07	47.0	1.6	5.4	22.7	93
Apr-07	46.3	1.6	7.2	33.3	167
May-07	47.5	1.4	6.2	-13.9	77

Source: Industry

Volume growth, Corus' margin expansion to drive earnings

Tata Steel's financial performance is the sum of three parts – its standalone domestic operations, Corus and its Asian subsidiaries. Underlying demand remains robust and would continue to drive volume growth and realizations. Capacity expansion, measures aimed at improving efficiency further and buoyant prices would enable the standalone Indian operations to post strong topline and bottomline growth. Corus would witness margin expansion driven by high prices and synergies emerging from the integration of operations with Tata Steel. The Asian subsidiaries would be growth facilitators.

SEGMENTAL REVENUE AND EBITDA DISTRIBUTION FOR FY09E



Source: Company/Motilal Oswal Securities

1. Standalone domestic operations

Strong volume growth…

Tata Steel's crude steel production in India is likely to rise from 5mtpa to 13mtpa by FY13

Tata Steel India (standalone operations) expanded its capacity from 4mtpa to 5mtpa at its existing plant at Jamshedpur (Jharkhand) in 2005. This enabled 8.5% growth in the volume of saleable steel in FY07 and we believe that full ramp-up of this expansion would enable a further 5.4% growth in FY08. Currently, the company is undertaking brownfield expansion at Jamshedpur to increase capacity to 7mtpa. Its new 2.4mtpa blast furnace and a 1.8mtpa billet caster along with associated equipment is likely to be commissioned by June 2008. We expect the volume of saleable steel to increase 29% to 6.5m ton in FY09 and a further 8% to 7m ton in FY10.

On commissioning of the 2.4mtpa blast furnace in June 2008, Tata Steel's total hot metal capacity would rise to ~8mtpa and would be in surplus. This would enable the company to idle smaller inefficient furnaces to free up space for further brownfield expansion to 10mtpa capacity by 2010, which would produce flat products. Further, we expect the first phase

of the Kalinganagar project in Orissa (3mtpa of slab capacity) to be commissioned towards the end of FY11. This facility would partly replace Corus' high cost slab capacities.

Its rich product mix would be augmented by semis for its finishing mills in ASEAN countries

PRODUCT MIX (M TON)

	FY06	FY07	FY08E	FY09E
HR	1.26	1.361	1.41	1.46
CR	1.20	1.246	1.29	1.33
Galv	0.52	0.487	0.50	0.52
Longs	1.36	1.668	1.83	1.93
Semis	0.09	0.032	0.02	1.26
Total	**4.42**	**4.79**	**5.05**	**6.50**

Source: Company/MotilalOswal Securities

Currently, Tata Steel's standalone product mix comprises 65% flat products, 34% long products and 1% semi-finished products. The company has taken number of initiatives to brand its steel products. While its branded products witnessed 13% volume growth to 1m ton, sales of branded products increased 19% to Rs46b in FY07. Sales to the auto sector increased 30% to 0.86m ton. After expansion in June 2008, the product mix would be 51% flat-rolled products, 27% long-rolled products and 22% semis i.e. billets.

…and decline in operating costs…

We expect strong growth of 27% in standalone EBITDA…

Tata Steel India enjoys low cost of raw materials due to its captive iron ore and coal mines. However, employee costs are high due to large size of manpower. The company had 38,182 employees as on 31 March 2006 and employee costs constituted 9.2% of the sales. The employee cost has come down to 8.5% of net sales in FY07 and is likely to decline further to 7.3% in FY09 due to increase in volumes and natural separation. Fixed costs too are likely to decline due to leveraging on account of increase in volumes and closure of inefficient furnace. We expect strong EBITDA growth of 27% in FY09.

…to drive strong bottomline growth

…and 32% growth in standalone PAT for FY09

Tata Steel has liquidated its surplus cash invested in marketable securities to fund the acquisition of Corus and its capex. This would substantially reduce other income and increase interest costs. Therefore, we expect adjusted PAT to decline by 9.6% in FY08. However, we expect strong growth of 32% in FY09, driven by higher volumes.

FINANCIALS OF INDIAN OPERATIONS (STANDALONE)					(RS MILLION)
Y/E MARCH	FY05	FY06	FY07	FY08E	FY09E
Production	4,087,890	4,579,865	4,928,548	5,239,366	6,500,000
Change (%)		*12.0*	*7.6*	*6.3*	*24.1*
Sales (000 tons)	3,914	4,418	4,794	5,055	6,500
Change (YoY %)		*12.9*	*8.5*	*5.4*	*28.6*
Realization (Rs per ton)	33,199	30,481	32,599	32,600	31,948
Change (YoY %)		*-8.2*	*6.9*	*0*	*-2*
Net Sales	**144,989**	**151,394**	**175,520**	**182,778**	**227,212**
Change YoY (%)		*4.4*	*15.9*	*4.1*	*24.3*
EBITDA	**60,454**	**59,315**	**69,733**	**71,073**	**90,387**
Change (YoY %)		*-1.9*	*17.6*	*1.9*	*27.2*
As % of Net Sales	*41.7*	*39.2*	*39.7*	*38.9*	*39.8*
EBITDA(Rs/tss)	**13,683**	**12,161**	**13,387**	**12,968**	**13,056**
Change (YoY %)		*-11.1*	*10.1*	*-3.1*	*0.7*
Interest	1,868	1,184	1,739	5,040	5,040
Depreciation	6,188	7,751	8,193	9,000	10,000
Other Income	1,480	2,548	4,337	1,000	1,000
PBT (before EO Inc.)	**53,878**	**52,927**	**64,138**	**58,033**	**76,347**
EO Income(exp)	-905	-528	-1,521	-1,620	-1,620
PBT (after EO Inc.)	**52,973**	**52,399**	**62,617**	**56,413**	**74,727**
Total Tax	18,231	17,336	20,395	18,390	24,309
% Tax	*34.4*	*33.1*	*32.6*	*32.6*	*32.5*
Reported PAT	**34,742**	**35,063**	**42,222**	**38,022**	**50,418**
Adjusted PAT	**35,335**	**35,417**	**43,247**	**39,114**	**51,511**
Change (YoY %)		*0.2*	*22.1*	*-9.6*	*31.7*

Note: tss = metric tonnes of saleable steel *Source: MotilalOswal Securities*

2. Corus

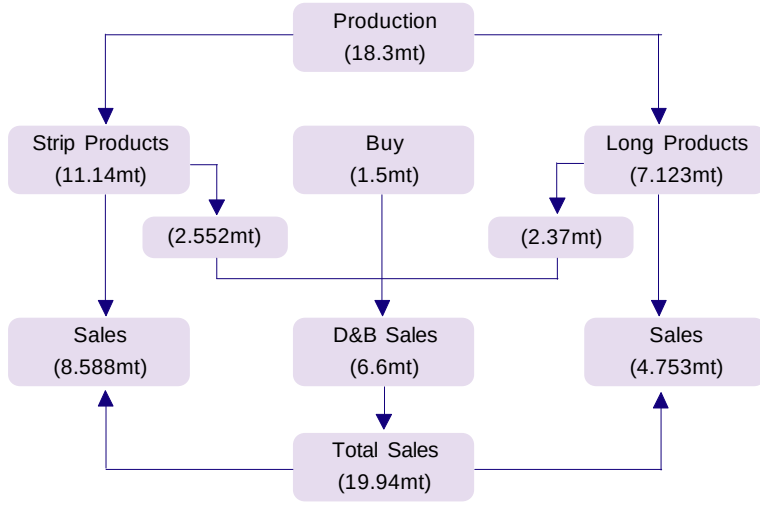
Successful price hikes…

We expect volume growth and higher prices to drive 14.4% growth in Corus' topline for FY08

Corus sells 30% of its products on long-term contracts, largely to the auto industry and pricing is done annually. It secured a price hike of £30/ton in 2007 on long-term contracts. The remaining 70% products are sold on spot; pricing happens monthly, quarterly and half-yearly. Corus has secured a price rise of 5-7% for deliveries in 2QCY07. It has further announced a price rise of 5-12% for deliveries starting July 2007 to align with market prices, indicating strong underlying demand.

Corus has relined two of its blast furnaces in 2006 and this would increase the production of crude steel from 18.2m ton in 2005 and 18.7m ton in 2006 to 20m ton in FY08. Strong demand scenario in Europe would aid an increase of 6.6% in Corus' average realization in FY08. Volume growth and higher prices would drive 14.4% topline growth in FY08.

MATERIAL FLOW DIAGRAM OF FINISHED PRODUCTS



D&B=Distribution and building System; mt=m ton *Source: Annual report of Corus for 2005*

Corus also has a distribution and building division, which provides customized products to its customers. This division sources 75% of its steel requirement internally and buys around 1.5m ton externally, selling about 6.6m ton in all.

INTEGRATED STEEL PLANTS OF CORUS

PLANT	LOCATION	COUNTRY	CAPACITY (MTPA)	PRODUCTION 2005 (M TON)	PRODUCTS	REMARKS
Port Talbot	West Glamorgan	UK	4.7	3.6	Strip products	Vertical slab caster installed in 2005
Scunthorpe	South Humberside	UK	4.5	3.8	Structural Rail & wire rod	Queen Victoria BF rellined in2Q2006, Reline of Queen Bess1Q07
Teesside	Cleveland	UK	3.9	3.2	Slab exporter	
Ijmuiden		Netherlands	6.8	6.8	Strip products	Expansion to 7.5mtpa by 2010
Rotherham	South Yorkshire	UK	1.5	0.8	Engg. steel	Only plant to use electric route for steel making
Stocksbridge	South Yorkshire	UK			Engg. steel	Steel making ceased in 2005
Tuscaloosa	Alabama	USA				Disposed in Jul 2004
Total			**21.4**	**18.2**		

Source: Annual report of Corus for 2006

…though there have been some cost escalations, too

The principal raw materials for carbon and engineering steel are iron ore and metallurgical coal, purchased in international markets, and steel scrap. In 2006, around 25m ton of iron ore and 11m ton of coal were imported at or near Corus' integrated steelworks. Iron ore is imported principally from Australia, Canada, South Africa and South America. Corus imports coal for conversion into coke and direct injection into blast furnaces predominantly from Australia, Canada and the USA. Corus UK's external scrap requirement of about 1.3m ton in 2006 was purchased in the UK, and about 0.8m ton for its Dutch integrated plant was purchased predominantly in mainland Europe.

Corus enters into supply contracts that typically last between three and ten years for certain raw materials for steel production, although prices within these contracts are often agreed on an annual basis. Corus' policy for these raw materials is to ensure that at least two-thirds of its requirement is accounted for by long-term contracts. The remaining raw materials are purchased through one-year contracts and options, based on market rates, which provides flexibility and commercial leverage.

Corus entered into its first annual contract for 2007 with Swedish iron ore miner, LKAB for its blast furnace-based products. The state-owned miner has increased its KPBO blast furnace pellets price by 7.2% to 131 US cents fob per dmtu (dry metric ton unit) for 2007, compared to 122.2 cents in 2006. Its prices for Kiruna B Fines (KBF) increased 11.1% to 96 cents fob per dmtu, up from 86.40 cents in 2006.

LKAB prices for Malmberget A Fines (MAF) went up 11% to 96.50 cents fob per dmtu, compared to 86.90 cents a year earlier. The LKAB prices are in line with European 2007 prices first agreed with Brazilian miner CVRD in January. The price changes take into account freight differential to reflect the much closer proximity of the Swedish miner for its ore to arrive at the same delivered Rotterdam price as CVRD.

While its raw material and energy costs would also be higher…

Corus has struck another deal with Severstal on similar conditions. This will increase the cost of iron ore in 2007 by ~ 10%. Corus also sources coking coal on similar annual contracts where the prices have come down from US$110/ton to US$96/ton, thereby resulting in savings. Corus has guided for £500m higher costs in 2007 on account of raw materials and energy. Other operating and manpower costs would rise by normal inflation of 2-3% in FY08.

Synergies of US$450m over the next three years

…the management has guided US$450m synergy benefits over three years

The management has often guided synergy benefits of US$350m. Recently this guidance has been increased to US$450m over the next three years. We understand that the benefits relate to synergies in procurement, manufacturing and corporate overheads.

COMPARISON OF COST STRUCTURE

	CORUS		POSCO	
	FY06 (£ M)	AS % OF REVENUE	CY04 (WON B)	AS % OF REVENUE
Revenues	9,099		19,792	
Operating Costs	8,361		13,293	
Raw Materials	4,085	45	9,550	48
Employment Costs	1,540	17	737	4
Other Operating Costs	2,736	30	3,006	15
EBITDA & Margins (%)	871	9.6	6,499	32.8

Source: Company/Motilal Oswal Securities

QUARTERLY PERFORMANCE (CORUS) (£ MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07	FY08E	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Production (000 tons)	4,819	4,513	4,435	4,821	4,860	4,513	4,473	4,769	18,588	18,615	20,000	20,000
Change (YoY %)					*0.9*		*0.9*	*-1.1*		*0.1*	*7.4*	
Sales (000 tons)	5,121	4,822	5,031	5,157	5,472	5,222	5,300	5,430	20,131	21,424	22,996	22,996
Change (YoY %)					*6.9*	*8.3*	*5.3*	*5.3*		*6.4*	*7.3*	
Realization (£/ton)	486	441	437	444	440	477	481	499	452	474	505	510
Change (YoY %)					*-9.5*	*8.1*	*10.2*	*12.5*		*4.9*	*6.6*	*1.0*
Net Sales	**2,487**	**2,126**	**2,197**	**2,289**	**2,405**	**2,489**	**2,550**	**2,711**	**9,099**	**10,155**	**11,615**	**11,729**
Change YoY (%)				*-2.4*	*-3.3*	*17.1*	*16.1*	*18.4*	*6.3*	*11.6*	*14.4*	*1.0*
EBITDA	**335**	**138**	**164**	**138**	**192**	**225**	**124**	**254**	**775**	**795**	**1,126**	**1,130**
As % of Net Sales	*13.5*	*6.5*	*7.5*	*6.0*	*8.0*	*9.0*	*4.9*	*9.4*	*8.5*	*7.8*	*9.7*	*9.6*
EBITDA per ton (£)	70	31	37	29	40	50	28	51	42	32	56	56
Interest	24	21	28	116	28	17	7	33	189	85	337	307
Depreciation	72	72	93	69	67	70	80	70	306	287	280	280
Other Income								11		11		
PBT (before EO Inc.)	**239**	**45**	**43**	**-47**	**97**	**138**	**37**	**162**	**280**	**434**	**509**	**543**
EO Income(exp)	4	9	12	11	4	16	12	-59	36	-27		
PBT (after EO Inc.)	**243**	**54**	**55**	**-36**	**101**	**154**	**49**	**103**	**316**	**407**	**509**	**543**
Total Tax	61	21	-4	28	33	46	12	19	106	110	71	76
% Tax	*25.1*	*38.9*	*-7.3*	*-77.8*	*32.7*	*29.9*	*24.5*	*18.4*	*33.5*	*27.0*	*14.0*	*14.0*
Reported PAT	**182**	**33**	**59**	**-64**	**68**	**108**	**37**	**84**	**210**	**297**	**438**	**467**
Adjusted PAT	**179**	**28**	**46**	**-84**	**65**	**97**	**28**	**132**	**186**	**317**	**438**	**467**
Change (YoY %)				*-154.6*	*-63.5*	*251.9*	*-39.4*	*-258.1*	*2.7*	*70.2*	*38.2*	*6.7*

E: MOSt Estimates; Exchange rate assumed GBP=1.98 USD, USD=41.0 INR

Procurement: Apart from coal and iron ore, Corus procures a number of other consumables such as ferro-alloys, limestone, etc from India and South East Asia.

Corporate overheads: We see potential for cost savings in a number of administrative areas. These include back office activities not directly related to manufacturing of steel.

Margins to expand

Corus has already reported significantly improved EBITDA margins of 9.4% in 1QCY07. The price hikes of 5-7% in April and 5-12% in July are likely to result in significant margin improvements in subsequent quarters.

Consolidated earnings highly leveraged to Corus' margins

Tata Steel's consolidated earnings are highly leveraged to Corus' margins, as Corus' volumes are several times its standalone volumes.

SENSITIVITY OF FY09E CONSOLIDATED EARNINGS TO THE CORUS' MARGINS

S.NO.	CORUS EBITDA MARGINS (%)	CORUS CHANGE (BP)	TATA STEEL PAT (RS M)	TATA STEEL EPS (RS)	TATA STEEL CHANGE (%)
1	7.6	-200	78,035	90.6	-17.4
2	8.6	-100	86,271	100.1	-8.7
3	9.6	base case	94,505	109.7	0.0
4	10.6	100	102,736	119.2	8.7
5	11.6	200	110,965	128.8	17.4

Source: Company/Motilal Oswal Securities

We expect Corus to report significant margin expansion over the next few quarters

We believe strong demand in Europe augurs well for the Corus' margins in the next few years, which will provide enough time to the new owner to attack key areas to improve operating efficiencies and its margins. We also believe that in the next five years, Tata Steel would be in a position to supply low cost slabs from India to Corus.

3. ASEAN subsidiaries - growth facilitators

Tata Steel has number of subsidiaries in India and other Asian countries.

Its ASEAN subsidiaries contribute significantly to Tata Steel's topline…

TATA STEEL'S MAJOR SUBSIDIARIES, ASSOCIATE AND JOINT VENTURE COMPANIES

	EXTEND OF HOLDINGS	FY06 (RS M) TURNOVER	FY06 (RS M) PAT	FY07E (RS M) TURNOVER	FY07E (RS M) PAT
Tata Metaliks Ltd *	48.0	4,416	444	6,812	295
Tata Sponge Iron Ltd	41.5	1,930	221	2,775	212
Tata Refractories Ltd	61.5	4,571	354	5,485	425
Tata Ryerson Ltd	50.0	7,044	254	8,453	305
Tinplate Company of India Ltd	32.2	4,311	490	4,552	188
T M International Logistics Ltd	51.0	2,611	206	3,133	247
TAYO Rolls Ltd	38.7	1,794	37	1,863	78
TRF Ltd *	42.9	2,168	73	2,469	119
NatSteel Asia Pte Ltd	100.0	40,521	1,285	43,762	-2,255
Millenium Steel	67.1	20,312	-346	23,463	1,435
Others & Consolidation Adj.			-332	76,372	-184
Tata Steel's Share		**67,749**	**1,679**	**76,613**	**-566**

Source: Company/Motilal Oswal Securities

- Tata Metaliks is a pig iron producer in India, catering to the requirement of foundries in India. It has doubled its capacity to 640,000tpa by acquiring three mini blast furnaces from Usha Ispat and is currently revamping and stabilizing them.
- Tata Sponge has three sponge-iron kilns in Orissa and sources iron ore from Tata Steel's mines on long-term contracts. It has been jointly allotted coalmines, in which its share of coal reserves is ~50m ton. Coal blocks are likely to be operational by 2009 and its earnings would substantially improve thereafter.
- Tata Refractory sells most of its finished products to Tata Steel and would be a key beneficiary of large-scale steel capacity expansion in the region. Acquisition of Corus has thrown open another challenge to supply refractories to its UK and Dutch plants at competitive rates.

- Tata Ryerson is a service center and has opened a number of units in India. This helps in canalizing Tata Steel's products to the user auto industry. A number of greenfield auto plants are being set up in India and Tata Ryerson would be a beneficiary. The company is planning its investments alongside new auto units. Tata Ryerson will invest Rs2.2b to make steel parts for the Singur small car project of Tata Motors. The company will set up its unit at the vendor park in Singur. Tata Ryerson is expected to meet 40% of the steel requirement of each small car at Singur and will be ready in March 2008 in line with the rollout of the small car by Tata Motors. The company is also setting up two greenfield units at Pantnagar in Uttarakhand and at Chennai in Tamil Nadu to cater to Tata Motors' Ace and Caterpillar vehicles.
- Tinplate is an associate of Tata Steel and would be capitalizing on the expertise of Corus to grow its business in India.
- TM International is Tata Steel's logistics arm and takes care of its material movement requirements.

…but are yet to become significant contributors to its bottomline

FINANCIALS OF ASEAN SUBSIDIARIES (RS MILLION)

Y/E MARCH	FY05	FY06	FY07	FY08E	FY09E
Net Sales	**14,997**	**52,310**	**76,613**	**80,444**	**84,466**
Change YoY (%)		*248.8*	*46.5*	*5.0*	*5.0*
EBITDA	**1,559**	**3,991**	**4,769**	**6,444**	**7,876**
Change (YoY %)		*156.0*	*19.5*	*35.1*	*22.2*
As % of Net Sales	*10.4*	*7.6*	*6.2*	*8.0*	*9.3*
Interest	113	375	2,373	2,373	2,373
Depreciation	267	862	1,917	1,917	1,917
Other Income	344	-82	44	-	-
PBT (after EO Inc.)	**1,451**	**2,660**	**514**	**2,154**	**3,586**
Total Tax	481	610	1,079	539	539
% Tax	*33.2*	*22.9*	*210.1*	*25.0*	*15.0*
Reported PAT	**970**	**2,050**	**-565**	**1,616**	**3,048**
Adjusted PAT	**1,018**	**2,060**	**-576**	**1,616**	**3,048**
Change (YoY %)		*102.3*	*-128.0*	*-380.6*	*88.6*

Source: Company/Motilal Oswal Securities

Industry outlook positive

- Positive outlook on demand growth in 2007 and 2008
- Shift in cost structure of industry due to
  - Limited availability of steel scrap for recycling
  - Shortage of iron ore and intense consolidation among miners
  - Rising freights due to bottlenecks in port infrastructure and supply of new ships
- Price discovery takes place in Europe due to high level of cross-border trade, where low cost countries like Russia and Ukraine are among the largest exporters. Strong demand in low cost countries like Russia and Ukraine has reduced exports.
- Chinese exports are no longer a threat to steel prices.

Global demand for finished steel witnessing robust growth

Demand for steel products grew 11.5% in 2006 to 1,147m ton, led by strong demand growth in most regions. However, production in most regions except China could not keep pace with demand growth. United States of America (USA) was the largest importer in 2006. Total import of steel products by the US grew 42% to 40.4m ton in 2006.

Chinese demand for steel is expected to grow 5.9% in 2007 and 6.1% in 2008 on a larger base. This would mean additional steel consumption of 40-60m ton in absolute terms. The former USSR and the Middle East countries are also expected to post demand growth of 7-8%. Apparent demand for steel in China, Europe and CIS region has so far been stronger than the projections of IISI. Except North America, all other economies of the world have been reporting strong growth in demand for steel, driven by construction activity and consumption of capital goods, automobiles and consumer durables.

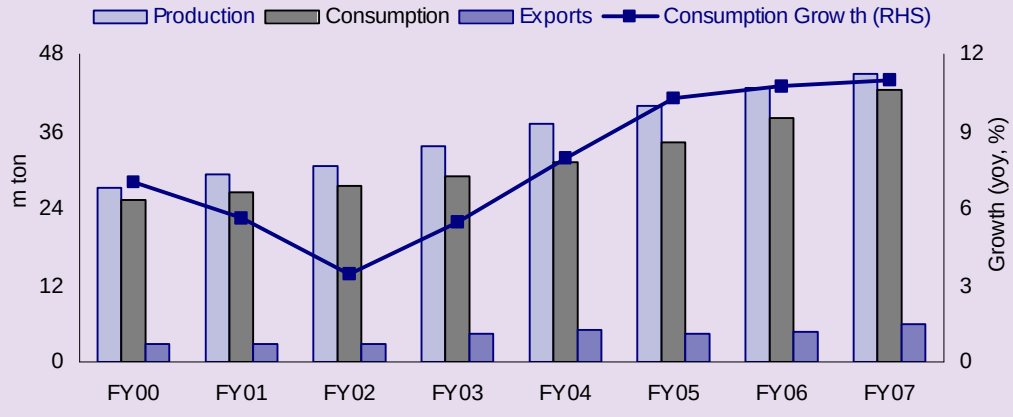
DEMAND AND SUPPLY OF STEEL

	DEMAND FOR FINISH STEEL						PRODUCTION OF CRUDE STEEL					
	2006	YOY(%)	2007	YOY(%)	2008	YOY(%)	2005	YOY(%)	2006	YOY(%)	2007E	YOY(%)
Regions (m ton)												
EU (27)	185	11.2	187	1.5	191	1.9	163	-3.2	175	7.5	191	9
Other Europe	28	14.9	30	6.4	32	6.4	29	1.5	33	13.5	36	10.3
CIS	48	12.9	51	6	54	6	112	0	119	6.8	130	9
NAFTA	155	11.1	150	-3.1	157	4.3	126	-4.8	132	4	125	-5
Central and South America	36	11.7	38	6.1	41	6	45	-1.2	45	0	49	8.1
Africa	22	9.7	23	6.9	25	7.8	18	6.2	17	-2.4	18	5.3
Middle East	37	10.3	40	9.2	44	8.5	15	7.2	15	0.6	16	5
Asia	603	6.1	659	9.2	708	7.5	575	15.1	658	14.4	718	9.2
World	**1,113**	**8.5**	**1,179**	**5.9**	**1,251**	**6.1**	**1,105**	**6.3**	**1,216**	**10.1**	**1,283**	**5.5**
China	356	9	403	13	443	10	348	24.7	421	21	464	10.2
World (ex. China)	**757**	**8.3**	**776**	**2.5**	**808**	**4.1**	**757**	**8.3**	**795**	**5.1**	**819**	**3**

Source: IISI Outlook March 2007/Motilal Oswal Securities

In India, we expect demand for steel to accelerate further: The annual rate of growth in finished steel consumption has accelerated from 3.4% in FY02 to 10.8% in FY06. However, India continues to have a low per capita consumption of 40kg, far below the global average of 185kg (China: 240kg; EU: 400kg; Japan: 600kg; and Korea: 1,000kg). We believe that consumption in India would accelerate further to support the envisaged strong GDP growth, on the back of ongoing US$320b infrastructure investment planned for XIth Plan (2007-2012).

INDIA: DEMAND-SUPPLY OF FINISHED STEEL (M TON)



Source: Industry

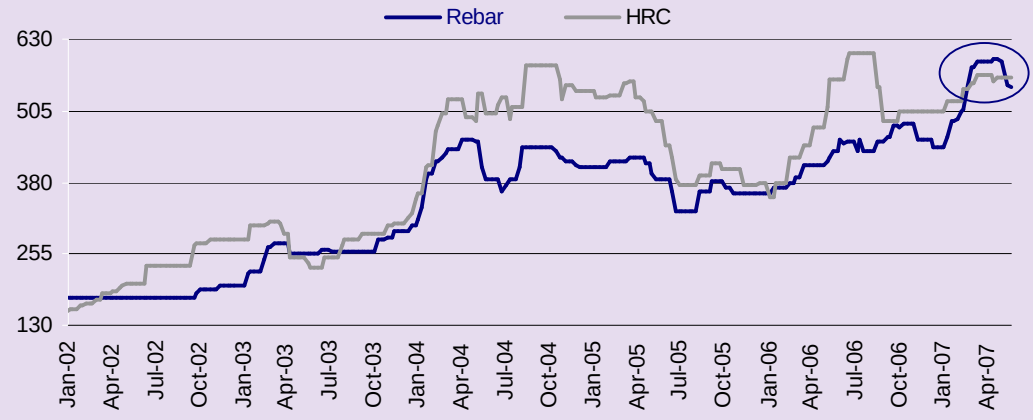
Uptrend in global steel prices to resume in August-September 2007

Strong demand has been driving up steel prices since the beginning of 2007. Rising international prices drove exports from China, which topped 7.2m ton in April 2007 despite a number of steps taken by the Chinese authorities to curb exports to avoid trade friction with partner countries. Along with strong prices in the world market, Chinese exporters rushed to ship as much material as they could before the deadlines of export disincentives were announced.

However, Chinese exports have already started showing signs of weakening. Export volumes declined 14% MoM in May 2007 and are expected to decline further in coming months. Steel prices in China have started weakening due to declining exports – landed cost of Chinese material in Europe and Middle East is higher than the prices offered by Russia and Ukraine. Also, industrial and construction activities in Europe and Middle East are now moving into seasonal weak months.

We believe that steel prices would settle a little under current levels before picking up once again towards the end of August or beginning of September.

CIS EXPORT PRICES FOR STEEL (US$/TON FOB BLACK SEA/BALTIC SEA)



Source: Metal Bulletin

Rising costs to set higher floor to steel prices

Prices of all raw materials and logistics costs have moved up over the last five years due to strong growth in steel production and a decade of under-investment. Prices of iron ore have risen ~3x in the last five years and there is no stopping yet. Coking coal prices too have moved up manifold and have eased in the last two years. If the current up-tick in spot prices of coking coal is a trend, we are unlikely to see any reduction next year. Scrap prices are volatile due to limited recycling.

Rising costs and high level of consolidation among miners will continue to keep the prices of raw materials high. Therefore, there is a structural shift in the cost curve of the industry, which will support steel prices at higher levels.

Structural change in iron ore costs

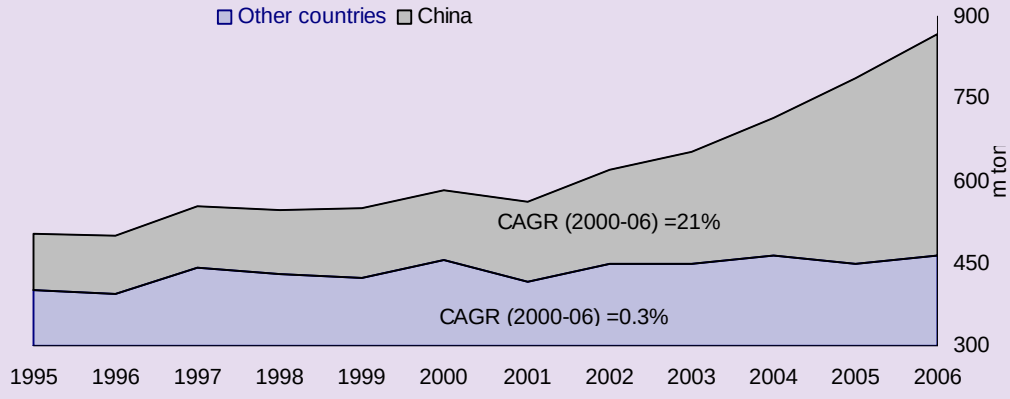
China produces more than 85% of its crude steel through the blast furnace route, which requires iron ore as input. The electric route is not suitable due to poor availability of steel scrap. Therefore, Chinese imports of iron ore have grown rapidly at CAGR of 29% during 2001-06 to feed its blast furnaces. Pig iron production in the rest of world grew at just 0.3% during this period.

GLOBAL TRADE OF IRON ORE (M TON)

	2001	2002	2003	2004	2005	2006	2007	2010	CAGR % (01-06)	CAGR % (06-10)
RoW	360	372	389	395	400	405	410	440	2	2
China	92	112	148	208	270	326	375	450	29	8
Total	**452**	**484**	**537**	**603**	**670**	**731**	**785**	**890**	**10**	**5**
Change (%)		*32*	*53*	*66*	*67*	*61*	*54*	*105*		

Source: CVRD presentation/Motilal Oswal Securities

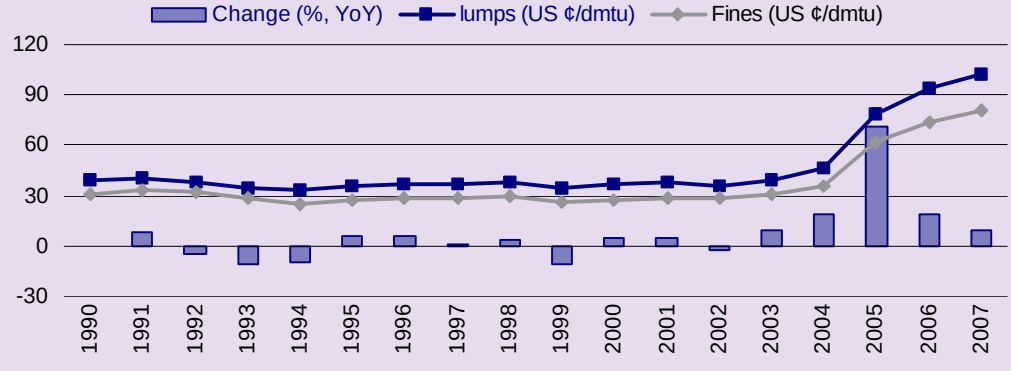
GROWTH IN PIG IRON PRODUCTION LED BY CHINA



Source: IISI

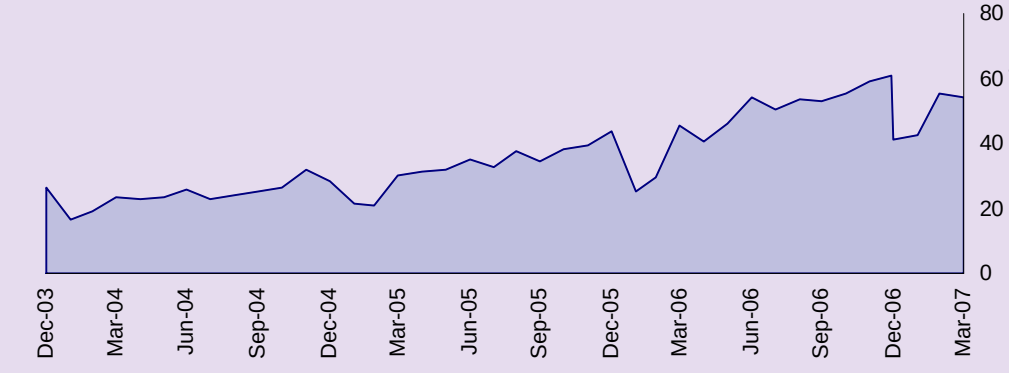
Sharply rising imports of iron ore has driven the prices of iron ore annual contacts. Iron ore prices rose by 71.5% in 2005, 19% in 2006 and 9.5% in 2007.

IRON ORE PRICES



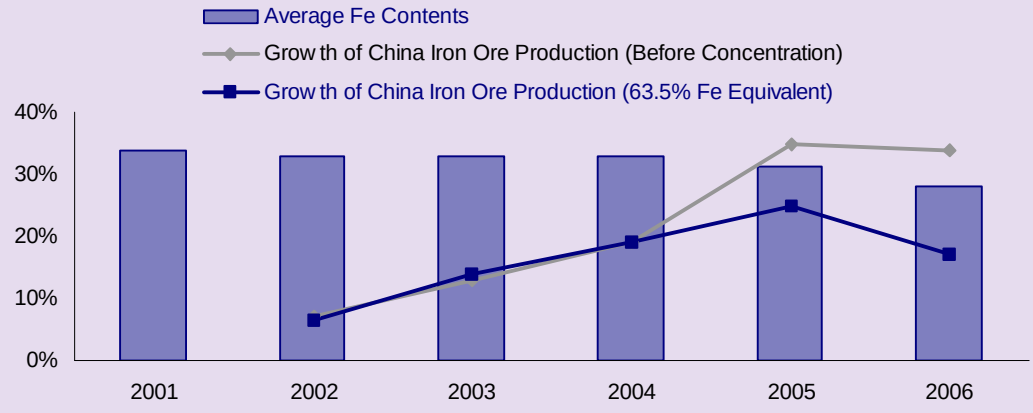
Source: Industry

CHINA HAS BEEN MINING IRON ORE DESPERATELY...



Source: Bloomberg

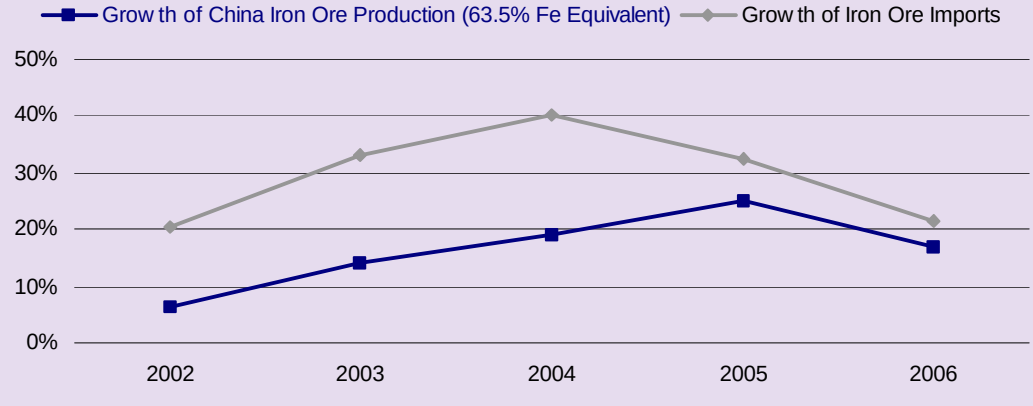
… BUT THE FERROUS CONTENT IN CHINESE IRON ORE IS LOW



Source: Industry

China has been mining iron ore desperately to meet its rising appetite. Though Chinese ore is of low grade and ferrous content is less than 33%, strong iron ore prices have turned many of its unviable mines profitable. Some of its mines have ferrous content of as low as 10%. With aggressive mining, the average ferrous content in Chinese mines has been falling in the last two years. Chinese dependence on imported iron ore is rising – if the supply situation improves, China would replace locally mined iron ore with high quality imported ore.

CHINA'S DEPENDENCE ON IMPORTED IRON ORE IS RISING



Source: Industry

There is high level of consolidation among miners. Three big global miners – CVRD, BHP-Billiton and Rio-Tinto controlled 75% market share in 2006 versus 48% market share in 1998. There are a number of expansion projects announced by these miners and new miners like FMG. However, there are bottlenecks in setting up projects due to poor availability of skilled manpower and rolling stock, under-investment in transportation and shipping infrastructure. There is high level of skepticism about projects coming up on time;

delays are expected. Rising dependence of China on imported iron ore to fuel growth in its steel production is likely to keep pushing up prices of annual contracts for a couple of years at least.

✍ Steel scrap supply is not growing

China has largely depended upon iron ore as source of metallic in steel production while the rest of the world has used steel scrap to fuel growth in steel production. It is possible to improve the production of crude steel even in BOF process by increasing the share of steel scrap without adding fresh capacities.

Developed regions like US, Europe and Japan generate large quantities of scrap to the tune of 50-70% of their consumption because the consumption pattern is skewed in favor of shorter lifecycle products like automobiles and consumer durables. Emerging economies, on the other hand, are using steel to build infrastructure. Therefore, scrap accounts for just 15-20% of their consumption.

Russian exports have declined significantly due to increasing domestic production though EAF and BOF route driven by strong domestic demand. Russian EAF production increased by 1.5m ton in 2006. Severstal, the leading steel producer in Russia, has recently acquired 1.1mtpa scrap merchant Vtorchermet to meet its rising consumption.

SEABORNE TRADE OF STEEL SCRAP

SR. NO.	COUNTRY	2005 M TON	2006 M TON	YOY (%)	SHARE (%)
1	USA	13.0	14.0	8	16
2	Russia	12.3	9.6	-22	11
3	Japan	7.6	7.7	1	9
4	Germany	7.8	7.6	-2	8
5	UK	6.1	7.4	21	8
6	France	5.0	5.8	16	6
7	Others	42.0	37.9	-10	42
	Total	**93.8**	**90.0**	**-4**	**100**

Source: ISSB

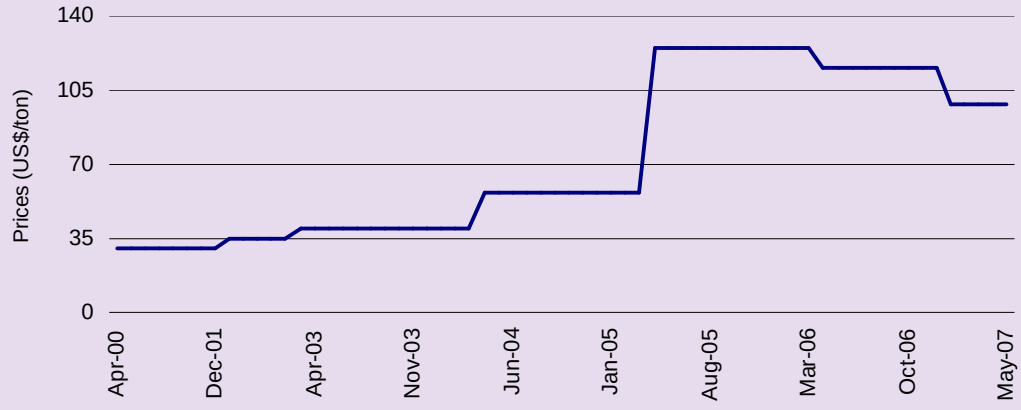
Scrap supply would remain constrained till emerging economies begin to generate significant scrap of their own.

✍ World increasingly becoming dependent upon Australia for coking coal

Australia, USA, Canada and China are the major sources of coking coal used in crude steel production through blast furnaces. Chinese exports of coking coal have declined over the years to meet rapidly rising local demand despite strong growth (30% CAGR) in production over the last few years. Coking coal production in developed countries like US and Europe too has been facing strict environmental issues and prices of coking coal skyrocketed in 2005, increasing more than 100% to US$125/ton. Thereafter, the prices of

annual contracts have declined due to rising supply from Australia. Share of Australia in global trade has risen from 35% in 1995 to 69% in 2005.

COKING COAL PRICES – ANNUAL CONTRACTS



Source: Industry

Chinese authorities have realized the environmental and human loss due to mindless mining of coal in China and have recently suspended issue of fresh mining leases till the end of 2008. Recently, China has turned a net importer of coal. Coal prices have started moving up in the spot market due to shortage on account of port and shipping bottlenecks. Under the current circumstances, it is unlikely that prices would ease further.

✍ Volatile ocean freights too are adding to cost

The world today is facing infrastructure bottlenecks due to strong economic growth in the last 4-5 years and under-investment. China has driven the demand for moving dry bulk material at a pace never witnessed before. This has driven ocean freights to all-time high levels and has been pushing up the cost curve of the industry.

BALTIC DRY BULK INDEX

Source: Bloomberg

A study presented by TM International during a Steel Conference in Delhi in 2007 points out the following:

- 38% of the handy size vessels used for shipping of finished steel are more than 25 years old
- 20% of cape size vessels used for dry bulk material are more than 25 years old
- Average pre-berthing time at Australian port has gone up from 3days to 7-10days
- Average freights on total raw material cost for one ton of steel produced has gone up by US$93.1 since 2001
- Scrapping of old ships has been low to meet high demand
- Overdue scrapping of old ships will continue to balance new ships and keep the supply tight

Global trade dynamics are favorable

China, Russia and Ukraine are there major exporting countries for commodity grade steel. Japan, EU-25 and South Korea largely export high-grade products and play little role in price discovery globally.

MAJOR STEEL EXPORTERS AND IMPORTERS

	MAJOR STEEL EXPORTERS					MAJOR STEEL IMPORTERS				
SN	COUNTRY	2005	2006	YOY(%)	SHARE (%)	COUNTRY	2005	2006	YOY(%)	SHARE (%)
1	China	25.7	49.2	91.4	17.3	USA	28.5	40.4	41.8	14.2
2	Japan	31.7	34.2	7.9	12.1	EU25	26.8	39	45.5	13.8
3	Russia	30.4	31	2	10.9	S Korea	18.4	21.9	19	7.7
4	EU25	30.9	30.3	-1.9	10.7	China	26.8	18.6	-30.6	6.6
5	Ukraine	27.1	30.3	11.8	10.7	Turkey	9.8	11.7	19.4	4.1
6	S Korea	15.5	17.3	11.6	6.1	Canada	9.5	10.7	12.6	3.8
7	Turkey	12.2	12.8	4.9	4.5	Thailand	12.4	10.6	-14.5	3.7
8	Brazil	12.4	12.5	0.8	4.4	Taiwan	10.9	10.4	-4.6	3.7
9	Taiwan	9	10.4	15.6	3.7	Mexico	6	7.9	31.7	2.8
10	USA	8.9	9	1.1	3.2	Iran	8.3	7.5	-9.6	2.6
11	India	5.5	6.5	18.2	2.3	UAE	5.3	6.5	22.6	2.3
12	Canada	5.7	5.9	3.5	2.1	Vietnam	5.3	5.9	11.3	2.1
13	Other	34.9	34.2	-2	12.1	Other	86.2	95.9	11.3	33.8
	Total	**249.9**	**283.6**	**13.5**	**100**	**Total**	**254.2**	**287**	**12.9**	**101.2**

Source: ISSB

We believe that favorable local demand and structural change of ownership from state owned to privately owned mills in low cost countries like Russia and Ukraine would continue to maintain discipline in world market.

We believe strong demand in Europe, Middle East and Asian countries will continue to drive growth in imports.

Cost of production of steel in China is high due to a fragmented industry and dependence on imported raw material. Exports from China are attractive only when realizations are above US$500 per ton

China has to depend upon imported iron ore

- China has the fifth largest iron ore reserves in the world (46b ton)
- 97% of deposits are low grade, with average ferrous content of 33%
- Large mines contribute only 5% of total production
- Iron ore industry is largely fragmented, quality is poor and cost of production is high at US$31-65 per ton
- Cost of iron ore to steel producer ranges from US$35-65 per ton
- Blending with imported iron ore is essential to raise the quality to suitable for steel production
- Imported iron ore costs even more (US$70-100 per ton)

Despite large domestic coal production, Chinese steel producers are exposed to volatile coke prices

- Captive coke production by steel producers increased just 11.3% to 91.1m ton i.e. 30.6% of total production of 297.7m ton (up 17.14%) in 2006
- Therefore, Chinese steel producers are exposed to volatility in coke prices
- Coke prices have bottomed out in 2005 and have been gradually inching up due to cost-push factors and imposition of export tax in November 2006
- China has suspended issue of new coal exploration licenses till the end of 2008 due to rising indiscipline and accidents

Marginal cost of production has moved up for Chinese steel producers

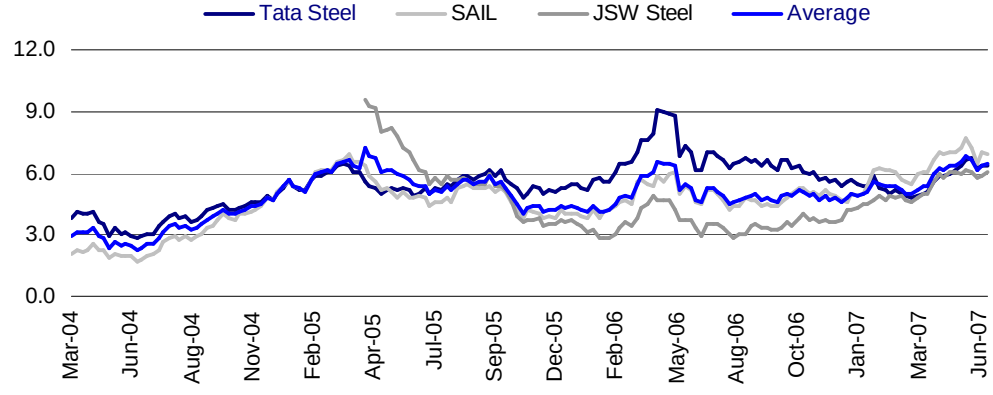
- Each ton of steel production requires 2ton of iron ore, 550-800kg of coke and 400kg of fluxes
- Cost of raw material basket has moved from US$256 per ton in January 2006 to US$316 per ton
- Marginal cost of production for HRC is about US$416 per ton
- Chinese producers have to pay 17% VAT and export duty of 5%. Exports are attractive only above US$500 per ton

Valuations attractive; Buy

Tata Steel has achieved global scale following the acquisition of Corus. The resultant access to fast growing, remunerative markets would enable it to leverage its advantage of low cost primary steel production in India to deliver growth and value. For the first time, Corus has a focused promoter, committed to delivering synergies of US$450m over the next three years. Corus is a key beneficiary of strong demand in Europe. Also, the consolidated earnings are highly leveraged to the margins of Corus. Valuations of the combined entity have been under pressure, following the perception that the acquisition price was too high. We believe that teh negatives are fully factored.

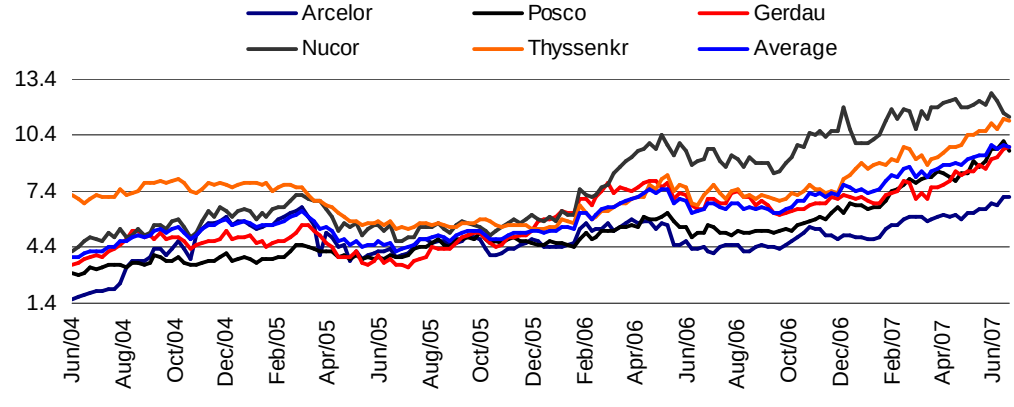
1-YEAR FORWARD P/E RATIOS OF INDIAN COMPANIES

Tata Steel lost its P/E premium over India peers on acquisition of Corus



1-YEAR FORWARD PE RATIOS OF INTERNATIONAL COMPANIES

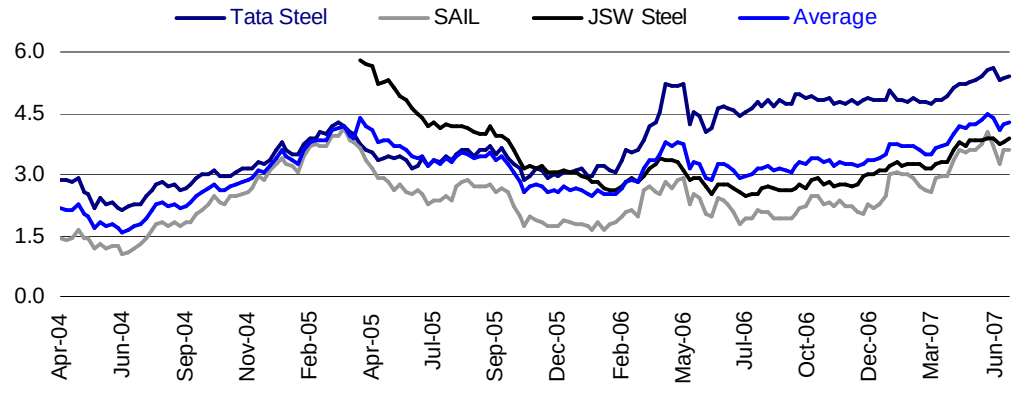
International companies are trading at much higher multiple despite having raw material disadvantage



Source: Bloomberg

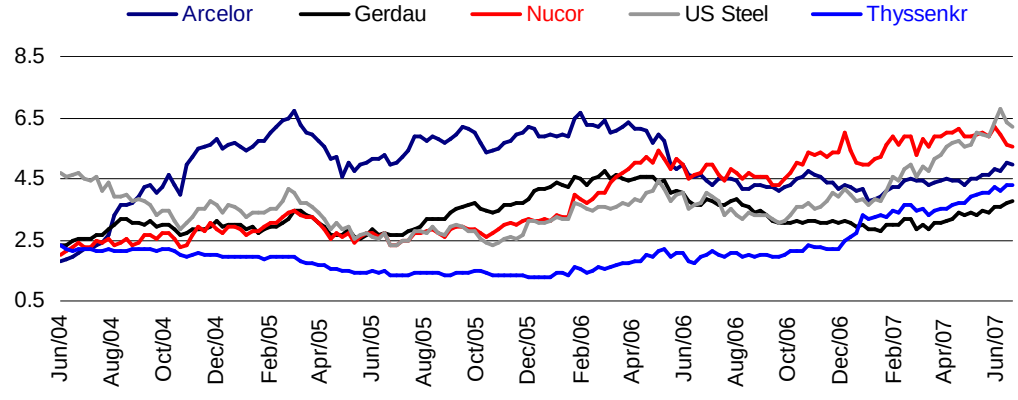
We believe that as Corus reports strong numbers in the coming quarters due to remunerative steel prices and operating efficiencies, the stock would be re-rated in line with international steel companies.

1-YEAR FORWARD EV/EBITDA RATIOS OF INDIAN COMPANIES



On EV/EBITDA, Tata Steel too has started trading above 5x 1-year forward multiple

1-YEAR FORWARD EV/EBITDA RATIOS OF INTERNATIONAL COMPANIES



There is increased consensus to value steel companies above 5xEV/EBITDA 1-year forward ratio

Source: Bloomberg

Average cost of owning Tata Steel is lower due to embedded benefit of 1:5 rights at discounted price of Rs300 per share; Buy

Tata Steel has announced a 1:5 rights issue at a discounted stock price of Rs300 to the existing shareholders. Therefore, the average cost of owning the stock is lower at Rs547 per share.

Average cost of ownership = (5 x CMP + 300) / 6 = (5 x 596 + 300) / 6 = Rs547

The rights issue will take couple of months after getting procedural clearances from the regulator and is expected by September 2007.

TARGET PRICE CALCULATION

RS M	FY09E
EBITDA	189,996
Target Multiple (x)	5
Target Enter. Value	949,979
Net Debt	320,005
Target Market Cap.	629,974
Fully Diluted Shares (m)	852.2
Target Share Price (Rs)	739

Source: Motilal Oswal Securities

We value Tata-Corus at an EV of 5x FY09E EBITDA

We expect consolidated earnings to grow at a CAGR of 26% during FY07-09, driven by overall volume growth and margin expansion in Corus. Adjusting for the forthcoming 1:5 rights issue at Rs300/share, the effective cost of stock ownership works out to be Rs547/share. Thus, the stock trades at 4.9x FY09E EPS and at 1.1x FY09E BV (RoE of 23%). We reiterate **Buy.** Our one-year target price of Rs820 (cum rights) and Rs739 (ex-rights) is based on EV/EBITDA of 5x FY09E.

COMPARATIVE VALUATIONS

		TATA STEEL	ARCELOR-MITTAL	POSCO	CSN
CMP (US$)		13.3	61.5	468.0	50.8
P/E (x)	FY08E	6.0	9.9	10.0	12.9
	FY09E	4.9	8.8	9.3	10.5
P/BV (x)	FY08E	1.4	1.6	1.5	3.9
	FY09E	1.1	1.4	1.3	3.2
EV/Sales (x)	FY08E	0.7	0.9	1.7	2.6
	FY09E	0.6	0.9	1.7	2.3
EV/EBITDA (x)	FY08E	5.0	6.6	5.9	7.0
	FY09E	4.1	5.9	5.6	6.3
RoE (%)	FY08E	23.6	19.6	16.0	28.6
	FY09E	23.0	19.2	15.0	27.9
Debt/Equity	FY08E	1.2	0.3	0.0	0.8
	FY09E	0.8	0.3	0.0	0.5

Source: Company/Motilal Oswal Securities

Appendix I

Indian service centers and ferro alloys

JV with Bluescope in India

Tata BlueScope Steel is a 50:50 joint venture with Australia's BlueScope Steel to manufacture zinc/aluminum metallic coated steel, painted steel and roll-formed steel products, and deliver pre-engineered buildings (PEBs) and other building solutions. The company was formed in November 2005.

Initiative to reach end users in construction

- The PEB division's first unit at Pune has already become operational. This is the first manufacturing facility of Tata BlueScope Steel and would produce beams, columns, purlins, and other roofing and wall cladding components for pre-engineered metal buildings and other building solutions. The facility would house a design center, with a fully staffed engineering team that would create new concepts, products and applications of steel in buildings. This facility is capable of product testing to assure quality and demonstrate features to customers. Tata BlueScope Steel Ltd would offer a comprehensive range of branded steel products for building and construction applications, including the premium ZINCALUME® metallic coated and COLORBOND® painted steels, LYSAGHT™ range of steel building solutions and BUTLER™ pre-engineered metal building systems.
- The company is constructing a metallic coating and painting facility at Jamshedpur, in the state of Jharkand, East India. The new facility would have an annual metallic coating capacity of 250,000 ton and paint line capacity of 150,000 ton.

Tata BlueScope Steel would focus on developing new markets and applications for coated steels in the fast-growing construction markets of India and other South Asian countries. It would operate in SAARC countries, which encompass India, Sri Lanka, Pakistan, Bangladesh, Nepal, Bhutan and the Maldives.

Ferroalloy and Mineral Division (FAMD)

Plans to stop export of chrome ore after imposition of export duty...

FAMD produces two types of chrome ore, namely lumpy ore and friable ore, from its mines located in the Sukinda Valley of Orissa. Chrome concentrate, a beneficiated product is produced in the chrome ore beneficiation plant at Sukinda. Chrome ore is used in the ferroalloys plant at Bamnipal and other conversion plants to produce high carbon ferrochrome. The division also produces manganese ore from the manganese mines in Joda, which is sold in the domestic and international markets and also used in making ferro-manganese at the ferroalloys plant at Joda and silico-manganese at other conversion agents.

The Indian government has imposed export tax of Rs2,000 per ton on export of chrome ore and concentrate to increase domestic availability and discourage exports. The company has stated its intention to stop exports and increase capacity of chrome furnaces to add value. It has recently taken over Rawmet and is pursuing a project in South Africa.

... and grow into value added ferrochrome business

GROWTH PLAN OF FAMD (000 TONS)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13
Chrome Ore Production	2,430	2,430	1,870	1,960	2,010	2,010	2,010	2,010
Exports (of which)	620	620						
Ferro Chrome								
Bamnipal	50	50	80	100	100	100	100	100
Conversion	126	126	126	126	126	126	126	126
Rawmet				25	50	50	50	50
Sub Total	**176**	**176**	**206**	**251**	**276**	**276**	**276**	**276**
Exports (of which)	93							
South Africa					120	250	250	250
Total	**176**	**176**	**206**	**251**	**396**	**526**	**526**	**526**
Mn Mines Joda								
Ore Sales	310	310	310	310	310	310	310	310
Mn-alloy	46	46	46	46	46	46	46	46

Source: Company/Motilal Oswla Securioties

Bamnipal: Tata Steel took over the ferroalloys plant at Bamnipal from the erstwhile OMC Alloys in September 1991. It had paid Rs1.6b for the "sick unit". The plant has now surpassed its installed capacity of 50,000tpa of charge chrome / ferrochrome.

Rawmet: Tata Steel acquired Rawmet Industries Private Limited (Rawmet) in January 2007 at an enterprise value of Rs1b. The company, which has its registered office at Kolkata, owns a ferroalloy plant near Cuttack, consisting of two 16.5MVA semi-closed electric arc furnaces. It has a capacity to produce 50,000tpa of high carbon ferrochrome.

South Africa Smelter: The company is setting up a ferro chrome project at Richards Bay, South Africa to produce 120,000tpa of high carbon ferrochrome. The company has obtained environment clearance for the said project and has also acquired land at Richards Bay. A subsidiary company in the name of 'Tata Steel KZN Pty. Ltd.' has been incorporated in South Africa.

Appendix II

Taking steps to secure raw material requirements

Agreement with AMCI to secure 20% of its coal production

To secure its requirements of raw materials – especially coal – Tata Steel has been evaluating options to acquire strategic stake in coal companies. It has entered into an agreement with AMCI (CQ) Pty Ltd, Australia to secure up to 20% of the coal produced by the latter.

Taken 5% stake in 158m ton Australian coal project

The company has also taken 5% equity stake in the Carborough Downs Coal Project, which is majority owned and operated by a subsidiary of AMCI Holdings Australia Pty Ltd. AMCI International AG, the apex holding company of AMCI Holdings Australia Pty Ltd, is a large global producer, shipper and trader of high-grade metallurgical coal.

Carborough Downs is an undeveloped underground coking coal project. It is located in Bowen Basin in central Queensland. The project life is currently estimated at 14 years and approximately 158m ton of raw coal is likely to be mined during this period. There is a further potential resource of 100m ton of raw coal in the unexplored areas and deeper seams. The project would produce low-ash coking coal and PCI coal, highly suitable for steel making.

Appendix III

Logistics joint ventures

Dhamra Port Project – 83mtpa cargo capacity

Dhamra Port Company Ltd (DPCL), a 50:50 JV between Larsen and Toubro (L&T) and Tata Steel, has achieved financial closure. It intends to develop an all-weather deep port at a location north of the mouth of river Dhamra in Orissa at project cost of Rs24.6b.

L&T's Engineering Construction & Contracts Division would be constructing the modern port with all facilities while International Dredging Seaport Company Ltd, a JV of L&T and Dredging International of Belgium, would carry out the dredging work.

Sheltered between the mainland and the Kanika Sands Island, Dhamra Port would be the deepest all-weather port of its kind in India. It would have a draught of 18.5 meters, which can accommodate super cape size vessels up to 180,000 DWT. The port project includes a 62km rail connection to the main Howrah-Chennai line at Bhadrak.

The port will eventually have 13 berths to handle over 83m ton of cargo per annum. Of these, the first two berths (with a handling capacity of up to 25m ton of bulk cargo per annum) will come up in the first phase. When fully developed, the port will handle all types of cargo such as dry bulk, break bulk, liquid and container cargo.

Apart from Tata Steel, a number of other steel plants, mines and industries in the region will use the port, which is likely to become Eastern India's major gateway to the world.

Shipping JV with NYK Line

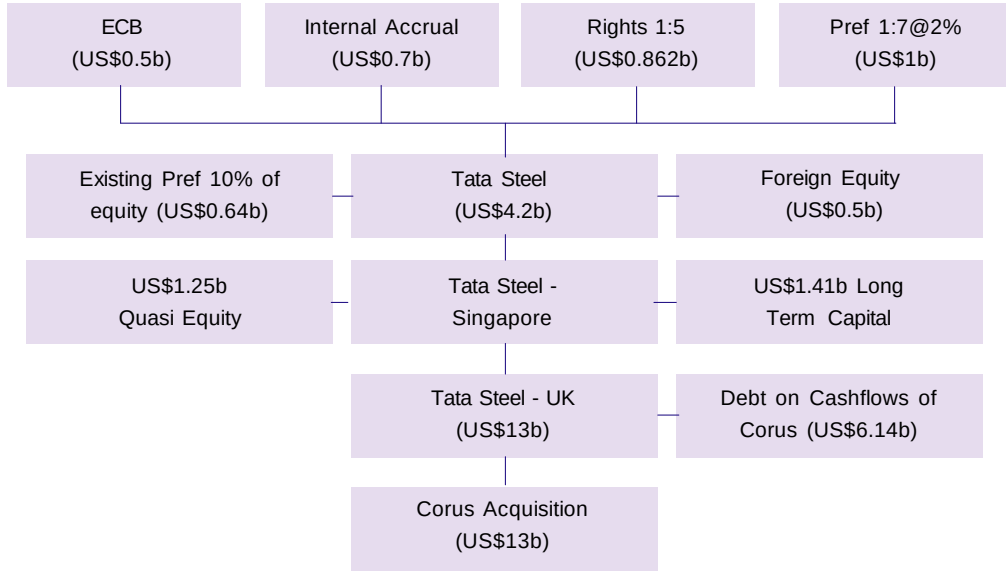
In December 2006, Tata Steel and Nippon Yusen Kabushiki Kaisha (NYK Line) entered into a JV for setting up a shipping company to cater to dry bulk and break bulk cargo. Each company would hold 50% stake in the JV.

Nippon Yusen Kabushiki Kaisha is one of the world's leading transportation companies. The NYK Group operates 700 major ocean vessels, as well as fleets of planes, trains and trucks.

Appendix IV

Corus – funding and equity dilution

SCHEMATIC OF FUNDING



Source: Company

Tata Steel - Singapore has yet to tie up US$1.25b of quasi equity and US$1.41b of long-term capital

Tata Steel - Singapore has yet to tie up US$1.25b of quasi equity and US$1.41b of long-term capital. The actual mode of funding is yet to be finalized by the company. Therefore, we are considering a total of US$2.66b as debt on the books of Corus and have accordingly calculated interest expense for Corus.

CALCULATION OF DILUTED NUMBER OF SHARES

A. Rights Issue 1:5 (Rs m)	36,550
Issue Price	300
Million Shares (a)	122
B. Rights Issue of Conv.Pref. Shares 1:7 ;2% Coupon (Rs m)	52,215
Issue Price Assumed*	600
Million Shares (b)	87
C. Foreign Offering of Equity (Rs m)	20,500
Issue Price Assumed*	600
Million Shares (c)	34
New Funds Raised (A+B+C)	**109,265**
d. Additional Shares Issued (a+b+c) m	243
e. Existing Shares	609
f. Total no. of Shares (d+e)	852
Dilution (%)	40

** Actual price will depend upon sebi guidelines at the time of allotment Source: Motilaloswal Securities*

Rights issue, foreign offering to be finalized by September 2007

The rights issue of equity shares in the ratio 1:5 at Rs300 and 2% convertible preference shares in the ratio of 1:7, and foreign offering of equity are likely to be finalized by September 2007. Bridge loan has been arranged till the actual cash flows from these issues are received.

INCOME STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Net sales	**159,986**	**202,444**	**252,133**	**1,206,123**	**1,263,837**
Change (%)	*43.8*	*26.5*	*24.5*	*378.4*	*4.8*
Total Expenses	97,973	139,061	177,632	1,037,202	1,073,841
EBITDA	**62,013**	**63,383**	**74,502**	**168,921**	**189,996**
% of Net Sales	*38.8*	*31.3*	*29.5*	*14.0*	*15.0*
Depn. & Amortization	6,455	8,604	10,110	33,647	34,647
EBIT	**55,558**	**54,780**	**64,392**	**135,273**	**155,349**
Net Interest	1,981	1,555	4,112	34,769	32,310
Other income	1,824	2,466	4,381	1,000	1,000
PBT before EO	**55,401**	**55,691**	**64,660**	**101,505**	**124,039**
EO income	-977	-541	-1,521	-1,620	-1,620
PBT after EO	**54,424**	**55,150**	**63,139**	**99,885**	**122,419**
Tax	18,712	17,939	21,474	24,713	31,022
Rate (%)	*34.4*	*32.5*	*34.0*	*24.7*	*25.3*
Reported PAT	**35,712**	**37,211**	**41,665**	**75,171**	**91,397**
Minority interests	260	186	675	800	800
Share of asso. PAT	580	322	792	2,698	2,698
Attributable PAT	**36,033**	**37,346**	**41,782**	**77,070**	**93,295**
Adjusted PAT	**36,674**	**37,711**	**42,786**	**78,289**	**94,505**
Change (%)	*90.3*	*2.8*	*13.5*	*83.0*	*20.7*

E: MOSt Estimates

BALANCE SHEET (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	5,537	5,537	5,807	8,522	8,522
Reserves	65,653	94,722	141,695	323,594	401,933
Net Worth	**71,189**	**100,258**	**147,502**	**332,116**	**410,455**
Minority Interest	935	1,236	1,911	3,036	3,836
Total Loans	33,156	33,774	30,899	512,738	512,738
Deferred Tax Liability	23,818	23,947	23,513	20,903	24,507
Capital Employed	**129,098**	**159,216**	**203,825**	**868,792**	**951,536**
Gross Block	142,235	167,447	172,447	689,887	739,887
Less: Accum. Deprn.	63,039	72,000	82,110	115,757	150,404
Net Fixed Assets	**79,196**	**95,447**	**90,337**	**574,130**	**589,482**
Capital WIP	18,994	13,574	28,574	13,574	13,574
Investments	25,942	34,789	40,567	52,825	52,825
Curr. Assets	**50,720**	**59,081**	**94,339**	**539,078**	**617,578**
Inventory	20,892	22,765	24,495	211,458	219,341
Account Receivables	13,247	12,198	13,848	169,135	172,474
Cash and Bank Balance	4,657	7,768	33,212	130,301	192,733
Others	11,924	16,350	22,784	28,184	33,030
Curr. Liability & Prov.	**45,752**	**43,675**	**49,992**	**310,815**	**321,924**
Account Payables	31,417	30,269	34,510	229,474	239,009
Provisions & Others	14,335	13,406	15,482	81,340	82,915
Net Current Assets	**4,967**	**15,406**	**44,347**	**228,263**	**295,654**
Appl. of Funds	**129,098**	**159,216**	**203,825**	**868,792**	**951,536**

E: MOSt Estimates

RATIOS

Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	**66.2**	**68.1**	**70.2**	**91.9**	**110.9**
Cash EPS	76.2	82.7	89.2	127.7	147.9
BV/Share	128.6	181.1	254.0	389.7	481.6
DPS	13.0	13.0	15.0	15.0	15.0
Payout (%)	22.4	21.8	23.2	19.1	15.8
Valuation (x) *					
P/E		8.0	7.8	6.0	4.9
Cash P/E		6.6	6.1	4.3	3.7
P/BV		3.0	2.2	1.4	1.1
EV/Sales		1.6	1.3	0.7	0.6
EV/EBITDA		5.2	4.2	5.0	4.1
Dividend Yield (%)		2.4	2.7	2.7	2.7
Return Ratios (%)					
RoE	51.5	37.6	27.6	23.6	23.0
RoCE	43.0	34.4	31.6	15.6	16.3
RoIC	45.9	35.9	41.9	15.1	16.8
Working Capital Ratios					
Asset Turnover (x)	1.2	1.3	1.2	1.4	1.3
Debtor (Days)	30.2	22.0	20.0	51.2	49.8
Inventory (Days)	13.1	11.2	9.7	17.5	17.4
Working Capital Turnover (Days)	0.2	3.8	4.4	8.1	8.1
Leverage Ratio (x)					
Current Ratio	1.1	1.4	1.9	1.7	1.9
Interest Cover Ratio	28.0	35.2	15.7	3.9	4.8
Debt/Equity	0.4	0.3	0.0	1.2	0.8

*E: MOSt Estimates; * Valuations at effective cost of ownership of Rs547 per share.*

CASHFLOW STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Pre-tax Profit	54,424	55,150	63,139	99,885	122,419
Depreciation	6,455	8,604	10,110	33,647	34,647
(Inc)/Dec in Wkg. Cap.	-1,095	-7,328	-3,496	-86,828	-4,959
Tax Paid	-18,751	-16,490	-21,629	-21,054	-27,238
CF from Op. Activity	**41,034**	**39,936**	**48,124**	**25,650**	**124,869**
(Inc)/Dec in FA + CWIP	-25,161	-19,793	-20,000	-502,440	-50,000
(Pur)/Sale of Investments	-3,392	-8,847	-5,778	-12,258	
CF from Inv. Activity	**-28,553**	**-28,640**	**-25,778**	**-514,698**	**-50,000**
Equity raised/(repaid)	1,845		270	109,550	
Chg in minorities	449	301	675	1,125	800
Debt raised/(repaid)	-1,734	618	-2,875	481,838	
Dividend (incl. tax)	-8,214	-8,204	-9,932	-14,956	-14,956
Other financing activities	-2,947	-900	14,961	8,580	1,718
CF from Fin. Activity	**-10,602**	**-8,186**	**3,099**	**586,137**	**-12,438**
(Inc)/Dec in Cash	**1,879**	**3,110**	**25,445**	**97,089**	**62,431**
Add: opening Balance	2,779	4,657	7,768	33,212	130,301
Closing Balance	**4,657**	**7,768**	**33,212**	**130,301**	**192,733**

E: MOSt Estimates

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4. Investment Banking relationship with company covered	Yes