

TATA STEEL

BUY
CMP Rs476
TP Rs629

12 Aug 2011

Cautious outlook for Q2-Q3FY12; factored in!

Tata Steel's Q1FY12 consol. revenue grew 21% YoY to Rs330.0bn on better realisation and higher sales volume at Tata Steel India (TSI). However, operating profit at Rs44.2bn remained flat as blended operating cost rose 20% YoY to USD1,003 on higher raw material costs. Adj. net profit declined 24% YoY to Rs14.3bn on higher interest, depreciation and tax expenses. Reported PAT at Rs53.5bn was higher on Rs33.2bn gain on stake sale in Tata Refractories & Riversdale and on Rs6.0bn proceeds from settlement of TCP arbitration.

Tata Steel India (TSI): Sales volume grew 14% YoY to 1.59mnt; Blended EBITDA/t at USD437, though up 6% QoQ, declined 4% YoY on higher input cost despite improved realisations (up 8% YoY).

Tata Steel Europe: Adj. EBITDA/t at USD78 improved 48% QoQ on better realisations (up 10% QoQ) despite 15% QoQ decline in deliveries.

South East Asian operations (Natsteel + Tata Steel Thailand): Sales volume declined 13% YoY to 0.79mnt, EBITDA/t at USD25 (USD35 in Q1FY11 and USD29 in Q4FY11) was further impacted by higher material cost despite a 52% YoY improvement in realisations.

Balance Sheet: Consol. debt of USD13.6bn with cash & eq. of USD4.5bn; adj. net D/E at 0.76x, adj. net D/EBITDA (TTM) at 2.2x.

Projects update: 2.9mntpa brownfield expansion (Q4FY12E), Mozambique (end FY12) and New Millennium (FY13-14). Funding of capex (~USD2.2bn p.a.) for Jamshedpur, Odisha, TSE & mining projects to be met from internal accruals & current liquidity facilities.

VALUATIONS AND RECOMMENDATION

We believe Tata Steel is undergoing a positive transformation led by rising share of highly profitable Indian ops. (2.9mntpa expansion) and hedging of high RM cost at TSE with commencement of mining at Riversdale (coal) and New Millennium (iron ore). Further, reduced leverage provides comfort on the ability of company to fund annual capex of USD2.2-2.5bn. Although we estimate high RM cost to impact earnings in Q2 and Q3FY12E before improving Q4FY12E onwards, stock at 4.7x FY12E EV/EBITDA factors in the concerns. We reduce blended target multiple to 5.8x FY12E EV/EBITDA (6.3x earlier) to factor increased global uncertainty and high exposure to Europe. Maintain 'BUY' with a SOTP based revised target price of Rs629.

KEY FINANCIALS

	Rs mn				
	FY09	FY10	FY11	FY12E	FY13E
Revenue	1,473,293	1,023,931	1,187,531	1,186,784	1,193,305
YoY Gr. (%)	12.0	(30.5)	16.0	(0.1)	0.5
Op. Profit	181,277	80,427	159,956	138,723	148,525
OPM (%)	12.3	7.9	13.5	11.7	12.4
Adj. Net Profit	90,454	(14,414)	57,743	42,727	42,917
YoY Gr.(%)	50.4	(115.9)	-	(26.0)	0.4

KEY RATIOS

Dil. EPS (Rs)	104.1	(15.2)	56.5	41.3	41.5
ROCE (%)	13.7	-	8.8	6.2	6.5
RoE (%)	26.4	(5.0)	17.3	9.9	8.9
PER (x)	4.4	-	8.4	11.5	11.5
P/BV (x)	1.3	1.7	1.2	1.0	1.0
EV/EBITDA (x)	4.3	9.7	4.9	4.7	5.2

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QUARTERLY SNAPSHOT (Rs mn)

Consolidated	Quarter Ended		
	Dec-10	Mar-11	Jun-11
Net Revenue	290,895	338,227	330,002
YoY Gr. (%)	11.0	23.0	21.3
Op.Profit	34,246	39,940	44,229
OPM (%)	11.8	11.8	13.4
Adj.Net Profit	10,007	13,826	14,274
YoY Gr. (%)	139.2	(28.5)	(24.3)

STOCK DATA

Market cap	Rs487bn
Book Value per share	Rs388
Shares O/S (F.V. Rs10)	1,022mn
Free Float	69.4%
Avg Trade Value (6 months)	Rs2.6bn
52 week High/Low	Rs713/472
Bloomberg Code	TATA IN
Reuters Code	TISC.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(15.3)	(18.5)	(6.8)
Relative	(8.0)	(10.3)	(1.2)

RELATIVE PERFORMANCE

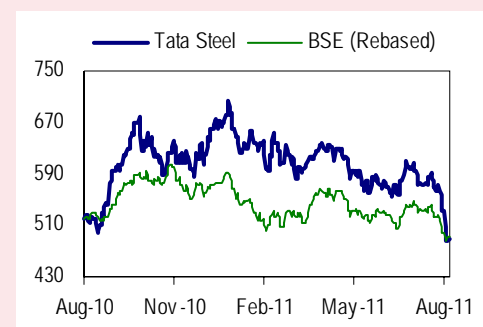


Exhibit 1 - Q1FY12 Quarterly snapshot - Consolidated

Rs Mn	Q1FY12	Q1FY11	YOY%	Q4FY11	QoQ %	FY12E	FY11	YOY%
Net Revenue	330,002	271,948	21.3	338,227	(2.4)	1,186,784	1,187,531	(0.1)
Operating Profit	44,229	44,326	(0.2)	39,940	10.7	138,723	159,956	(13.3)
OPM (%)	13.4	16.3		11.8		11.7	13.5	
Other Income	(369)	595	(162.0)	2,116	(117.4)	8,431	5,243	60.8
Depreciation	11,508	10,439	10.2	11,664	(1.3)	45,107	44,148	2.2
Interest	7,377	5,976	23.4	7,701	(4.2)	33,160	32,116	3.3
PBT	24,976	28,505	(12.4)	22,691	10.1	68,887	88,935	(22.5)
Total Tax	11,230	10,005	12.2	8,764	28.1	27,555	32,459	(15.1)
Effective tax rate (%)	45.0	35.1		38.6		40.0	36.5	
MI & share of ass.	529	351	50.8	(101)	(623.0)	1,395	1,266	10.2
Adjusted Net Profit	14,274	18,851	(24.3)	13,826	3.2	42,727	57,743	(26.0)
Extraordinary items*	39,191	(599)	-	27,560		39,191	32,039	22.3
Reported Net Profit	53,466	18,253	192.9	41,386	29.2	81,918	89,782	(8.8)
EPS (Rs)	14.0	19.5	(28.5)	13.5	3.2	41.3	56.5	(26.9)

Source: Company, PINC Research; * Q1FY12 - Rs4.4bn from sale of stake in Tata Refractories, Rs28.8bn from stake sale in Riversdale and Rs6.0bn on account of reversal of TCP adjustments

Exhibit 2 - Q1FY12 Quarterly snapshot - Standalone

Rs Mn	Q1FY12	Q1FY11	YOY%	Q4FY11	QoQ %	FY12E	FY11	YOY%
Net Revenue	78,603	65,515	20.0	83,408	(5.8)	316,568	293,964	7.7
Operating Profit	31,032	29,165	6.4	31,969	(2.9)	119,358	114,329	4.4
OPM (%)	39.5	44.5		38.3		37.7	38.9	
Other Income	416	484	(14.0)	674	(38.2)	7,141	4,784	49.3
Depreciation	2,853	2,802	1.8	2,982	(4.3)	11,750	11,462	2.5
Interest	2,273	3,277	(30.6)	2,949	(22.9)	17,898	16,931	5.7
PBT	26,322	23,570	11.7	26,712	(1.5)	96,851	90,721	6.8
Total Tax	9,238	7,776	18.8	7,644	20.9	30,992	29,089	6.5
Effective tax rate (%)	35	33.0		28.6		32.0	32.1	
Adjusted Net Profit	17,084	15,794	8.2	19,068	(10.4)	65,858	61,631	6.9
Extraordinary items*	5,110	-		(1,991)		5,110	6,980	(26.8)
Reported Net Profit	22,194	15,794	40.5	17,077	30.0	70,968	68,612	3.4
EPS (Rs)	16.7	15.5	8.2	18.7	(10.4)	63.7	60.3	5.6

Source: Company, PINC Research * Q1FY12 - Sale of stake in Tata Refractories

Exhibit 3 - Tata Steel: SOTP Valuation (Based on EV/EBITDA multiple)

In Rs mn	Target EV/EBITDA	Target EV	CWIP (on BV)	FY12 Net Debt*	Residual Equity	Target Price (Rs)
Tata Steel India	6.0	716,145	165,000	138,133	743,012	719
Corus (TSE)	4.5	75,412	10,573	190,419	(104,434)	(101)
Tata Steel Thailand	4.5	2,225	-	-	2,225	2
Natsteel	4.5	9,509	-	-	9,509	9
Tata Steel consolidated	5.8	803,291	175,573	328,552	650,313	629

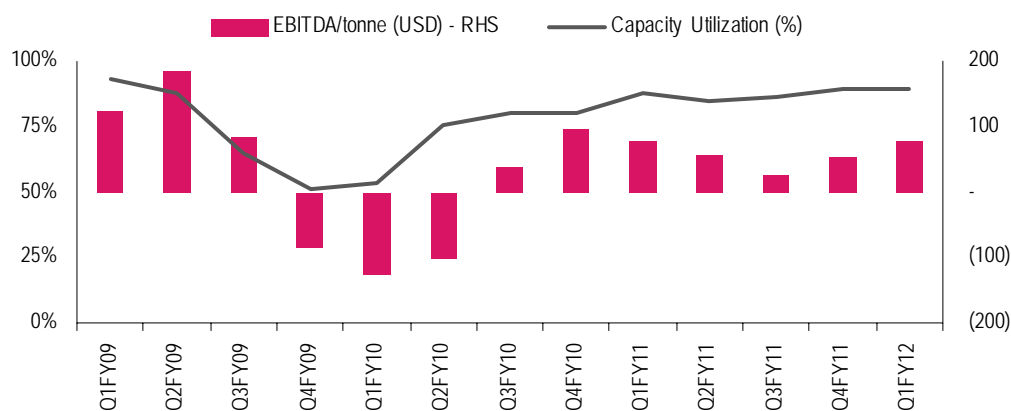
Source: PINC Research * includes market value of investments at 25% holding discount

Exhibit 4 - Quarterly performance trend

(mn tonnes)	Q1FY12	Q1FY11	YOY%	Q4FY11	QoQ %	FY12E	FY11	YOY%
Tata Steel India								
Steel deliveries	1.59	1.40	13.7	1.71	(7.0)	6.68	6.66	0.4
Net Revenues (USD mn)	1,758	1,437	22.4	1,842	(4.6)	7,035	6,447	9.1
Net Realisation (USD/tonne)	1,106	1,027	7.7	1,077	2.7	1,052	969	8.7
EBITDA (USD mn)	694	640	8.5	706	(1.7)	2,652	2,507	5.8
EBITDA/tonne (USD/tonne)	437	457	(4.5)	413	5.7	397	377	5.3
Tata Steel Europe								
Steel deliveries	3.50	3.71	(5.7)	4.13	(15.3)	13.92	14.87	(6.4)
Net Revenues(USD mn)	4,600	3,972	15.8	4,924	(6.6)	16,495	16,665	(1.0)
Net Realisation (USD/tonne)	1,314	1,071	22.8	1,192	10.2	1,185	1,121	5.7
EBITDA (USD mn)	273	293	(6.8)	217	25.8	372	659	(43.5)
EBITDA/tonne (USD/tonne)	78	79	(1.2)	53	48.5	27	44	(39.7)
South East Asian Operations								
Steel deliveries	0.79	0.91	(12.8)	0.77	2.6	3.34	3.09	8.0
Net Revenues(USD mn)	746	563	32.5	689	8.2	2,843	2,483	14.5
Net Realisation (USD/tonne)	944	621	52.0	895	5.5	852	804	6.0
EBITDA (USD mn)	20	32	(37.5)	22	(9.1)	58	52	10.6
EBITDA/tonne (USD/tonne)	25	35	(28.3)	29	(11.4)	17	17	2.4

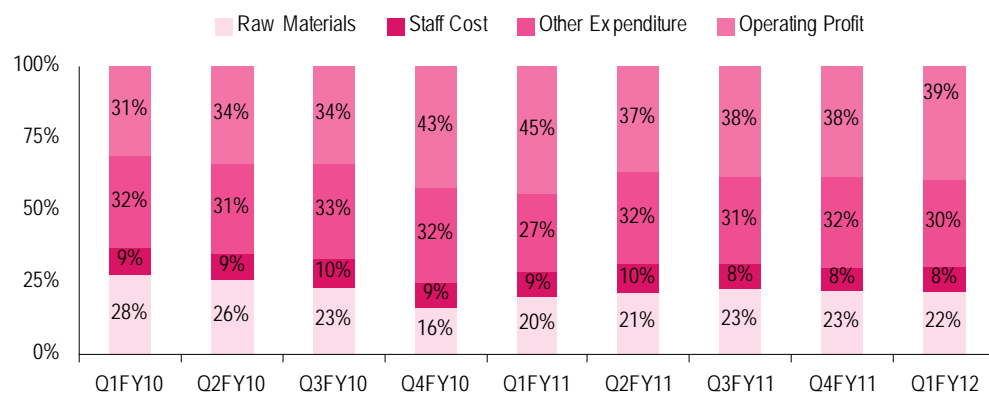
Source: Company, PINC Research

Exhibit 5 - TSE: EBITDA/t (at 4-qtr high) and CU (highest post GFC)



Source: Company, PINC Research

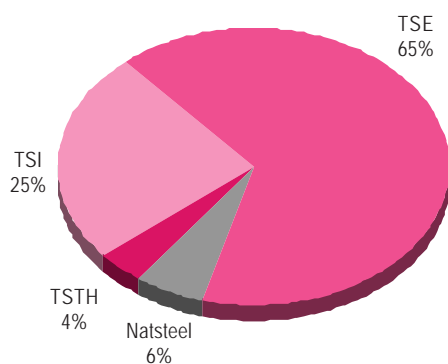
Exhibit 6 - Tata Steel India cost structure



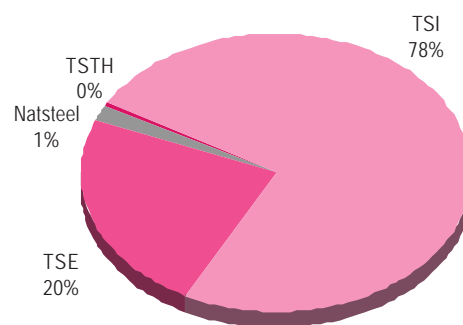
Source: Company, PINC Research

Exhibit 7 - Share of highly profitable Indian operations to increase

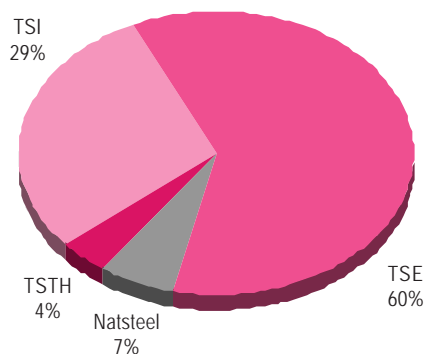
FY11 Revenue Share



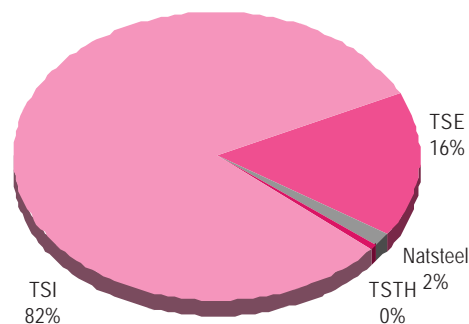
FY11 EBITDA Share



FY13E Revenue Share



FY13E EBITDA Share



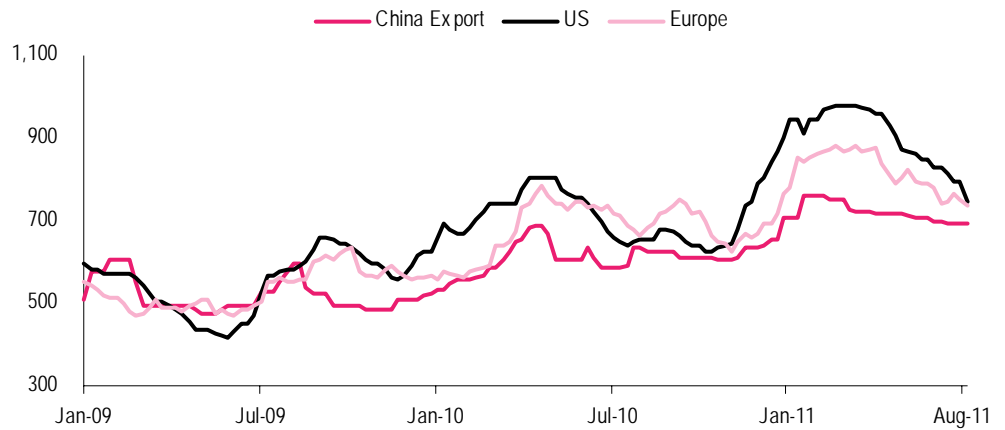
Source: Company, PINC Research

Exhibit 8 - Target price: Sensitivity to steel price and coking coal price

FY12E Coking coal contract prices (USD/t)	FY12E Benchmark HRC price estimate (USD/t)				
	680	730	780	830	880
275	156	418	680	943	1,205
285	130	392	655	917	1,179
295	105	367	(629)	892	1,154
305	79	341	604	866	1,128
315	53	316	578	840	1,103

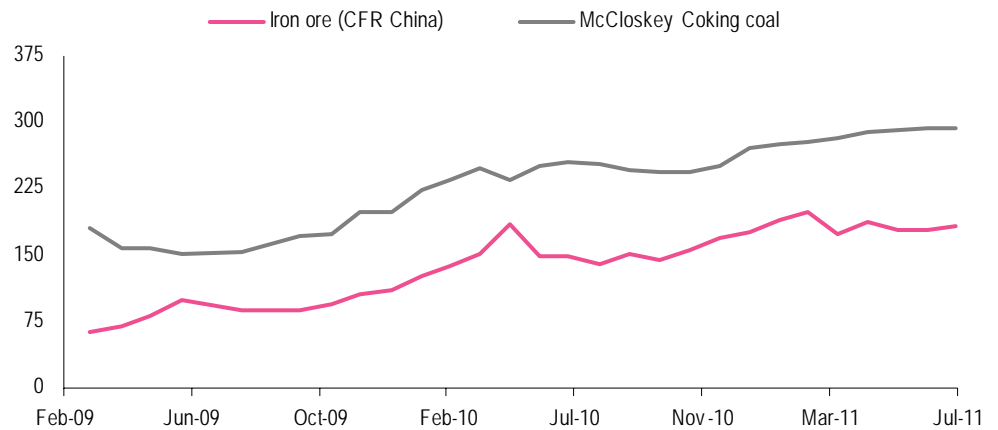
Source: PINC Research

Exhibit 9 - Global HRC price trends (USD/tonne)



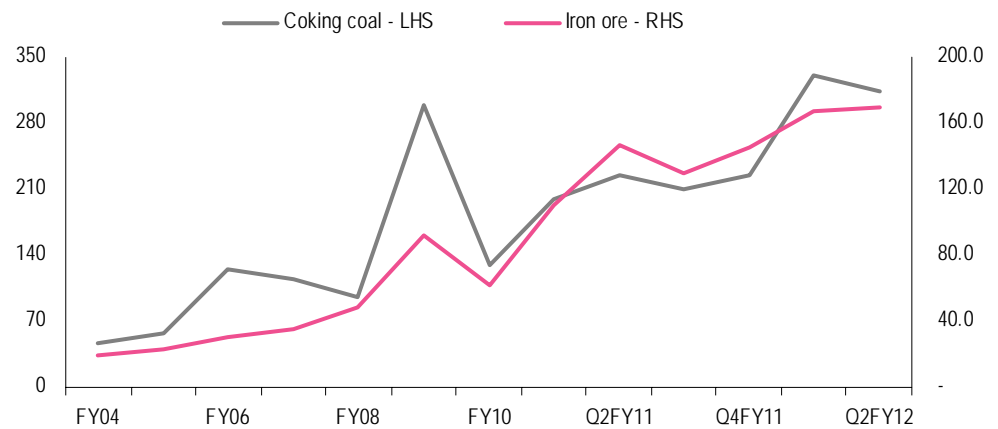
Source: Bloomberg, PINC Research

Exhibit 10 - Raw material spot prices (USD/tonne)



Source: Bloomberg, PINC Research; Iron ore price is for 63.5% grade; Coking coal price is China domestic price as collected by McCloskey

Exhibit 11 - Raw material Contract prices (USD/tonne)



Source: Industry, PINC Research

Consolidated

Year Ended March (Figures in Rs mn)

Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net Revenue	1,473,293	1,023,931	1,187,531	1,186,784	1,193,305
Growth (%)	12.0	(30.5)	16.0	(0.1)	0.5
Operating Profit	181,277	80,427	159,956	138,723	148,525
Other income	7,662	5,422	5,243	8,431	8,111
EBITDA	188,939	85,849	165,199	147,154	156,635
Growth (%)	1.0	(54.6)	92.4	(10.9)	6.4
Depreciation	42,654	44,917	44,148	45,107	52,535
EBIT	146,285	40,932	121,051	102,047	104,101
Interest Expense	37,907	34,943	32,116	33,160	36,080
PBT (before E/o items)	108,378	5,989	88,935	68,887	68,021
Tax Provision	18,940	21,518	32,459	27,555	25,848
Minority Interest	1,017	1,116	1,266	1,395	744
Adjusted Net Profit	90,454	(14,414)	57,743	42,727	42,917
Growth (%)	50.4	(115.9)	-	(26.0)	0.4
E/o (loss)/income	(40,945)	(5,679)	32,039	39,191	-
Reported Net profit	49,509	(20,092)	89,782	81,918	42,917
Adjusted EPS (Rs)	104.1	(15.2)	56.5	41.3	41.5
EPS Growth (%)	50.4	(114.6)	-	(26.9)	0.4

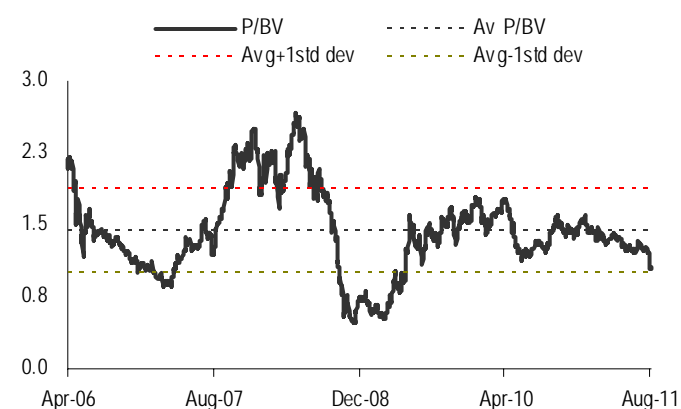
Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	108,378	5,989	88,935	68,887	68,021
Depreciation	42,654	44,917	44,148	45,107	52,535
Total Tax Paid	(33,813)	(24,586)	(32,351)	(27,555)	(25,848)
Chg in working capital	2,848	46,465	(71,749)	35,793	(10,325)
Other operating activities	36,893	31,925	35,645	24,729	27,969
Cash flow from oper (a)	156,959	104,710	64,629	146,962	112,351
Capital Expenditure	(83,611)	(69,498)	(101,636)	(105,500)	(94,800)
Chg in investments	(6,294)	6,413	(1,325)	21,980	-
Other investing activities	2,277	1,467	31,651	47,622	8,111
Cash flow from inv (b)	(87,628)	(61,619)	(71,310)	(35,898)	(86,689)
Free cash flow (a+b)	69,331	43,091	(6,681)	111,064	25,662
Equity raised/(repaid)	145	24,465	45,568	5,346	-
Debt raised/(repaid)	20,047	(29,944)	52,874	(75,000)	(10,000)
Change in minority interest	-	-	-	-	-
Dividend (incl. Tax)	(12,266)	(13,209)	(7,146)	(13,591)	(13,591)
Other financing activities	(35,473)	(32,662)	(31,366)	(33,160)	(36,080)
Cash flow from fin (c)	(27,548)	(51,350)	59,930	(116,405)	(59,671)
Net chg in cash (a+b+c)	41,783	(8,259)	53,249	(5,341)	(34,009)

Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity Share Capital	8,685	9,496	10,216	10,336	10,336
Reserves & surplus	299,703	261,619	386,329	459,883	489,210
Shareholders' funds	308,388	271,114	396,545	470,219	499,546
Minorities interests	8,949	8,841	8,889	8,489	8,989
Total Debt	563,218	490,272	581,112	506,112	496,112
Capital Employed	880,555	770,227	986,546	984,820	1,004,647
Net fixed assets	606,708	603,377	676,916	737,309	779,574
Cash & Cash Eq.	95,529	87,270	140,519	135,178	101,169
Net other curr. assets	164,224	61,257	142,357	106,563	116,889
Investments	30,134	34,865	46,881	25,896	27,141
Net Def. tax Assets	(16,040)	(16,541)	(20,126)	(20,126)	(20,126)
Total Assets	880,555	770,227	986,546	984,820	1,004,647

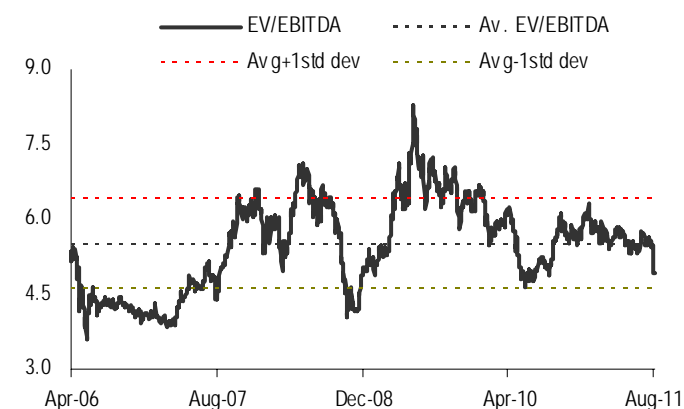
Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	12.3	7.9	13.5	11.7	12.4
Net Margin (%)	6.1	-	4.9	3.6	3.6
Yield (%)	3.2	1.7	2.4	2.4	2.4
Net debt/Equity (x)	1.4	1.3	1.0	0.7	0.7
Working Capital Days	28	34	37	33	37
RoCE (%)	13.7	-	8.8	6.2	6.5
RoE (%)	26.4	(5.0)	17.3	9.9	8.9
EV/Net Sales (x)	0.5	0.8	0.7	0.5	0.7
EV/EBITDA (x)	4.3	9.7	4.9	4.7	5.2
PER (x)	4.4	-	8.4	11.5	11.5
PCE (x)	3.0	-	4.8	5.6	5.2
Price/BV (x)	1.3	1.7	1.2	1.0	1.0

Note: TP and EV based valuation multiples calculated valuing CWIP at book value.

1-Year rolling forward P/BV Band



1-Year rolling forward EV/EBITDA Band



T E A M

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