

RESULTS REVIEW

Tata Steel Limited

Buy

Share Data

Market Cap	Rs. 510.6 bn
Price	Rs. 698.95
BSE Sensex	13,926.24
Reuters	TISC.BO
Bloomberg	TATA IN
Avg. Volume (52 Week)	1.0 mn
52-Week High/Low	Rs.1,048.8/533
Shares Outstanding	730.6 mn

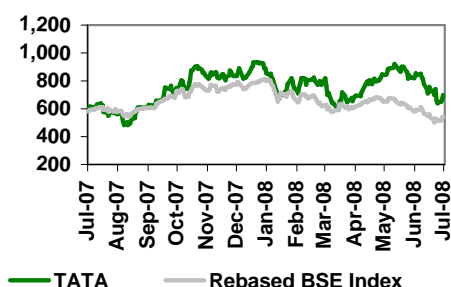
Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	86.9	110.9
+/- (%)	(23.8%)	27.6%
PER (x)	8.0x	6.3x
EV/ Sales (x)	0.6x	0.6x
EV/ EBITDA (x)	5.0x	4.1x

Shareholding Pattern (%)

Promoters	34
FII's	19
Institutions	22
Public & Others	25

Relative Performance



Rising steel prices to fuel growth

For FY08, Tata Steel's net sales increased 12.2% yoy to Rs. 196.9 bn on account of higher realisations due to the rise in steel prices. In addition, EBITDA margin improved 203 bps yoy to 41.8% supported by lower freight and handling charge. However, adj. net profit increased by a moderate 5% yoy to Rs. 45.4 bn in FY08. It was adversely affected by the exponential rise in interest expense due to the debt raised to fund the Corus acquisition.

We continue to hold a positive outlook on the stock because of the following factors:

Increase in Capacity: Global steel demand is expected to grow at a healthy rate of 6.7% and 6.3% in FY09 and FY10, respectively. To cater to the rising demand, Tata Steel is rapidly expanding its capacities. Tata Steel is on schedule to expand capacity at the Jamshedpur plant to 10 mt. Further, Corus is on track to add a total of 1.7 mtpa of capacity by FY10.

Rise in steel prices: Global steel prices have witnessed an unprecedented increase owing to the strong global demand and high raw material prices and are expected to continue with the same momentum in the near future. To benefit from the increase in steel prices, both Corus and Tata Steel India undertook various price hikes in the past few months. However, the government's pressure to curb the steel prices in order to contain inflation remains a cause of concern at the domestic level.

Increasing self-sufficiency: Though Tata Steel's Indian operations are self sufficient in terms of raw materials, post Corus, the consolidated entity is exposed to raw material price fluctuations. As a result, the Company is facing pressure on its margins. However, Tata Steel is proactively working towards increasing its self-sufficiency and has taken equity stakes in various international iron ore and coal projects.

Key Figures (Standalone)

Quarterly Data	Q4'07	Q3'08	Q4'08	YoY%	QoQ%	FY07	FY08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	49,804	49,739	57,367	15.2%	15.3%	175,511	196,933	12.2%
EBITDA	19,036	20,966	24,195	27.1%	15.4%	69,733	82,235	17.9%
Adj. Net Profit	11,304	10,803	13,669	20.9%	26.5%	43,259	45,428	5.0%
Margins(%)								
EBITDA	38.2%	42.2%	42.2%			39.7%	41.8%	
NPM	22.7%	21.7%	23.8%			24.6%	23.1%	
Per Share Data (Rs.)								
Adj. EPS	19.5	15.4	17.3	(11.2)%	11.9%	66.9	59.7	(10.7)%

Please see the end of the report for disclaimer and disclosures.

Valuation

At the current market price of Rs. 698.95, the stock is trading at a forward EV/EBITDA of 5x and 4.1x for FY09E and FY10E, respectively. At the CMP, we believe that the stock is undervalued and hence reiterate our Buy rating on the stock, maintaining our target price of Rs. 840.

Result Highlights

For FY08, Tata Steel's revenues increased 12.2% yoy to Rs. 196.9 bn due to higher realisation on account of rising steel prices. Average steel realisation increased 12.5% yoy to Rs. 41,183.4 per ton. As regards the consolidated firm, revenues increased many folds to Rs. 1,315.4 bn, compared with Rs. 252.1 bn in FY07 due to the acquisition of Corus. Revenues for Corus stood at USD 23.9 bn, against USD 20.9 bn in FY07.

EBITDA increased 17.9% yoy to Rs. 82.2 bn, and EBITDA margin improved 203 bps yoy to 41.8%, primarily due to higher realisation supported by a lower freight and handling charge. EBITDA of the consolidated entity stood at Rs. 179.9 bn as against Rs. 78.9 bn in FY07 as Corus's EBITDA increased by USD 600 mn, and EBITDA margin improved by 2 pts to 9% supported by improved sales mix.

Adj. net profit for Tata Steel increased by a moderate 5% yoy to Rs. 45.4 bn (compared with a 17.9% higher EBITDA) due to an exponential rise in interest expense on account of the Corus acquisition. Consolidated adj. net profit jumped 102% yoy to Rs. 86.5 bn.

Key Events

JV with Jasper Industries

Tata Steel has entered into a JV with Jasper Industries to set up a 135 MW coal-based power plant in Orissa. While Tata Steel and its subsidiaries will hold 26%, Jasper Industries will hold the remaining 74% stake.

Steel sales volumes declined by a marginal 0.3% to 4,781 kt

Production for Corus increased 7.1% to 23.08 mt

Revenues from Natsteel and Tata Steel Thailand stood at USD 1.9 bn and USD 1 bn, respectively

Fitch assigns 'AAA(ind)' rating to Tata Steel

Fitch Ratings has assigned a national rating of 'AAA(ind)' to Tata Steel's long-term debt aggregating Rs. 58.5 bn. Fitch has also assigned F1+(ind) rating to the Company's non-convertible debt programme of Rs. 20 bn and its commercial paper debt rating aggregating Rs. 9.27 bn.

Tata Steel eyeing stake in Krakatau Steel

Tata Steel is planning to buy a stake in an Indonesia-based steel firm, PT Krakatau Steel, with assets worth USD 1.2 bn. Global steel giants including ArcelorMittal and Bluescope Steel are also interested in this firm.

Key Risks

The key risks to our rating are:

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

Outlook

Over the past few months, steel prices have witnessed an unprecedented increase due to a strong global demand. Going forward, the world's steel consumption is expected to grow at healthy rate of 6.7% and 6.3% in CY08 and CY09, respectively, led by a strong growth in the BRIC countries. Particularly, consumption is expected to grow at 11.5% and 8.9% in China and India, respectively, in CY08.

To cater to this strong domestic and global steel demand environment, Tata Steel has embarked on an aggressive expansion. The Company has recently commissioned its 2.5 mtpa H-blast furnace at Jamshedpur and is also on scheduling to expand its capacity to 10 mtpa. Further, work has begun for setting up a 6 mtpa integrated steel plant in Orissa, the first phase (3 mtpa) of which is expected to be commissioned by

2010. In addition, the Company's subsidiaries like Corus and Tata Steel Thailand are also increasing their capacities. While Corus is in the process of expanding its capacities with a total of 1.3 mtpa of capacity expected to be commissioned during FY09 and another 0.4 mtpa in FY10, Tata Steel Thailand expects a 0.5 mtpa capacity to be commissioned by Sep'09.

Along with increasing its capacities, Tata Steel is also working towards improving its operational efficiencies. During FY08, the Company saved USD 49.25 mn at its Indian operations as a result of the various improvement projects undertaken by it. Moving forward, cost savings of around USD 49.75 mn are expected to be realised as the Company has undertaken around 270 performance improvement projects for the same. These projects will help reduce the cost pressures due to rising raw material costs.

Tata Steel's Indian operations are mostly self-sufficient in terms of raw materials; however post Corus acquisition, the consolidated entity is exposed to the fluctuations in raw material prices. The Company has been proactively working towards increasing its raw material self-sufficiency and has taken equity share in various iron ore and coal projects internationally to ensure raw material availability. Yet, with contract prices for iron ore and coal expected to increase (by at least 65% and 200%, respectively) in FY09, the Company's margins will be under pressure. Owing to a strong demand in Europe, Corus has been able to undertake price hikes in January and April, which have eased out the pressure on margins; however, domestically concerns still remain on the Company's ability to pass on the increase in costs, due to the government pressure to curb steel prices to contain inflation.

At the current market price of Rs. 698.95, the stock is trading at a forward EV/EBITDA of 5x and 4.1x for FY09E and FY10E, respectively. At the CMP, we believe that the stock is undervalued and hence reiterate our Buy rating on the stock, maintaining our target price of Rs. 840.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09E*	FY10E*	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	203,221	252,124	1,315,359	1,538,970	1,592,161	10.0%
EBITDA	65,912	78,882	179,931	175,089	214,576	9.2%
Adj. Net Profit	37,714	42,795	86,458	69,347	92,860	3.6%
Margins(%)						
EBITDA	32.0%	30.8%	13.7%	11.4%	13.5%	
NPM	18.3%	16.7%	6.6%	4.5%	5.8%	
Per Share Data (Rs.)						
Adj. EPS	68.3	74.8	114.1	86.9	110.9	(1.4)%
PER (x)	7.9x	6.0x	6.1x	8.0x	6.3x	

*Includes Corus results

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