

27 May 2011

MF Global Quarterly Report

Tata Steel

| One-offs boost profitability

METALS

TATA IN: **NEUTRAL**

RS 573

Tata Steel's Q4FY11 results were boosted by some one-offs (sale of Teeside assets, provision reversal, one-time employee provisions). However, adjusting for these items, the numbers were below expectations. We revise our FY12E EPS to Rs 68.9 from Rs 75 earlier due to company's FPO and 2.4% downward revision in net profits. We also introduce our FY13E estimates with an EPS of Rs 89, we however, value the company based on FY12E estimates. **We maintain our Neutral rating on the stock with a target price of Rs 645.**

Q4FY11 results highlights

- » Consolidated sales stood at Rs 334.4bn, up 22.8% yoy and 11% against our estimates. Standalone/Europe revenues stood at Rs 82.4bn/US\$ 4.9bn, up 3.6%/9.2%, respectively, against estimates. Inventory clearance in Europe aided higher-than-estimated volumes. Tata Steel's domestic/Europe operations reported deliveries of 1.71/4.13mn tonnes as against an estimate of 1.76/3.67mn tones, respectively. Higher deliveries from European operations more than offset lower deliveries from the domestic regions.
- » Standalone operating profits stood at Rs 30.7bn, down 8.8% from the estimate of Rs 33.6bn. Adjusting to one-time provisioning in employee expenses (gratuity and medical) of Rs.1.3bn leads to standalone operating profit 4.9% below expectation. Consolidated operating profits stood at Rs 44.7bn against an expectation of Rs 41bn, up 9%. It includes US\$ 133mn towards reversal of provisions made for the Teeside facility. Operating profits were 2.3% below our estimates after the above two adjustments at Rs 40bn. EBITDA/tonne for domestic/Europe stands at US \$427/US\$ 53, respectively.
- » Standalone net profit stood at Rs 17.1bn against an estimate of Rs 19.7bn, 13.4% below estimates. Consolidated net profit stood at Rs 41.8bn against an estimate of Rs 16.6bn. Excluding the various adjustments (Teeside adjustments and one of employee provisions in India), consolidated profits stood at 13.9% below expectations at Rs 14.3bn.

Valuation: At the CMP of Rs 573, the stock trades at a P/E of 8.3x FY12E EPS of Rs 68.9 and Ev/Ebitda of 6.1x FY12E. **We retain our Neutral rating on the stock with a target price of Rs 645.**

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	1,473,293	1,023,931	1,187,531	1,234,184	1,295,675
GROWTH, %	12.0	-30.5	16.0	3.9	5.0
EBIDTA	181,277	80,427	159,956	166,108	209,303
EBIDTA MARGINS, %	12.3	7.9	13.5	13.5	16.2
NET PROFIT	49,509	-20,092	89,827	66,911	86,498
NET PROFIT MARGIN, %	3.4	-2.0	7.6	5.4	6.7
NET PROFIT (ADJUSTED)	49,509	-20,092	66,725	66,911	86,498
MF EPS, RS	67.8	(22.7)	69.6	68.9	89.0
EPS GROWTH, %	(20.5)	(133.4)	(407.2)	(1.0)	29.3
PER, X	8.4	(25.3)	8.2	8.3	6.4
EV/EBIDTA, X	5.6	12.1	6.6	6.1	4.8
EV/NET SALES, X	0.7	0.9	0.9	0.8	0.8
PRICE/BOOK VALUE, X	1.9	2.1	1.5	1.4	1.1
ROIC, %	11.4	(56.3)	10.5	9.2	11.7
ROE, %	19.1	(8.6)	22.2	17.3	19.2

Source: Company, MF Global India Research Estimates

Target Rs 645 (12.6%)

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	959MN
MARKET CAP (RS) :	549BN
MARKET CAP (USD) :	12.1BN
52 - WK HI/LO (RS) :	714 / 449
LIQUIDITY 3M (USD) :	58.9MN
FACE VALUE (RS) :	10

SHARE HOLDING PATTERN, %

PROMOTERS :	30.6
FII / NRI :	18.4
FI / MF :	25.6
NON-PROMOTER CORP. HOLDINGS :	3.9
PUBLIC & OTHERS :	21.6

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-8.5	5.8	18.2
REL TO BSE	-0.8	-7.8	8.1

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

TATA STEEL: QUARTERLY RESULTS (CONSOLIDATED)

Y/E MAR, RS MN	Q4FY11	Q4FY10	% CHG	Q3FY11	% CHG	FY11	FY10	% CHG
SALES	334,427	272,254	22.8%	286,062	16.9%	1,171,498	1,017,578	15.1%
OTHER OPERATING INCOME	3,811	2,784	36.9%	4,833	-21.1%	16,033	6,354	152.4%
TOTAL OPERATING INCOME	338,238	275,038	23.0%	290,895	16.3%	1,187,531	1,023,931	16.0%
OPERATING EXPENDITURE	293,577	227,536	29.0%	256,648	14.4%	1,027,575	943,505	8.9%
RAW MATERIALS	159,242	105,478	51.0%	138,887	14.7%	525,785	447,751	17.4%
EMPLOYEE COST	40,751	39,519	3.1%	36,087	12.9%	152,884	164,751	-7.2%
PURCHASE OF POWER	10,154	9,890	2.7%	10,314	-1.6%	40,148	40,513	-0.9%
FREIGHT & HANDLING	17,425	14,907	16.9%	15,935	9.4%	63,896	55,537	15.1%
OTHER EXP	66,005	57,742	14.3%	55,426	19.1%	244,862	234,953	4.2%
OPERATING PROFITS	44,661	47,502	-6.0%	34,246	30.4%	159,956	80,427	98.9%
OPM (%)	13.2%	17.3%		11.8%		13.5%	7.9%	
OTHER INCOME	2,116	5,541	-61.8%	(1,043)	-302.8%	9,810	11,859	-17.3%
DEPRECIATION	11,664	10,946	6.6%	11,264	3.5%	44,148	44,917	-1.7%
INTEREST	7,655	6,600	16.0%	7,432	3.0%	27,700	30,221	-8.3%
EBT	27,458	35,497	22.6%	14,506	89.3%	97,917	17,147	471.0%
NON-RECURRING GAIN/(LOSS)	(22,794)	3,579	-736.8%	(1,223)	1763.8%	(23,102)	16,837	-237.2%
PBT	50,252	31,918	57.4%	15,729	219.5%	121,020	310	38938.5%
TAX	8,764	7,866	11.4%	6,240	40.4%	32,459	21,518	50.8%
EFFECTIVE TAX RATE	17.4%	24.6%		39.7%		26.8%	6941.4%	
NET PROFIT	41,487	24,052	72.5%	9,489	337.2%	88,560	(21,208)	517.6%
MINORITY INTEREST	(185)	43	-532.0%	(380)	-51.4%	(603)	152	-495.5%
PROFIT FROM ASSOCIATES	84	331	-74.7%	161	-48.0%	664	1,269	-47.7%
CONSOLIDATED PROFIT	41,756	24,341	71.5%	10,030	316.3%	89,827	(20,092)	547.1%
PAT MARGIN (%)	12.3%	8.8%		3.4%		7.6%	-2.0%	

Source: Company, MF Global India Research

TATA STEEL: SEGMENTAL RESULTS

Y/E MAR, RS MN	Q4FY11	Q4FY10	% CHG	Q3FY11	% CHG	FY11	FY10	% CHG
SEGMENT REVENUE								
STEEL	319,674	264,665	20.8%	275,784	15.9%	1,130,348	973,890	16.1%
OTHERS	39,617	28,757	37.8%	32,357	22.4%	130,749	108,771	20.2%
UNALLOCATED	3,813	3,424	11.3%	3,993	-4.5%	14,705	14,291	2.9%
LESS:- INTERSEGMENT REVENUE	24,866	21,809	14.0%	21,239	17.1%	88,271	73,020	20.9%
NET SALES AND OPERATING REVENUE	338,238	275,038	23.0%	290,895	16.3%	1,187,531	1,023,931	16.0%
SEGMENT RESULTS								
STEEL	37,182	34,309	8.4%	21,651	71.7%	123,048	40,824	201.4%
OTHERS	2,763	2,881	-4.1%	2,036	35.7%	10,418	10,313	1.0%
UNALLOCATED	(2,621)	5,442	148.2%	(727)	260.6%	(3,716)	(143)	2498.5%
LESS: INTER SEGMENT ELIMINATIONS	2,211	536	312.9%	1,021	116.6%	4,133	3,626	14.0%
PBIT	35,113	42,097	16.6%	21,939	60.1%	125,618	47,368	
MARGINS								
STEEL	11.6%	13.0%		7.9%		10.9%	4.2%	
OTHERS	7.0%	10.0%		6.3%		8.0%	9.5%	
UNALLOCATED	-68.7%	158.9%		-18.2%		-25.3%	-1.0%	

Source: Company, MF Global India Research

Other updates

- Certain customers in Europe have advanced their purchases in anticipation of higher prices ahead, which led to higher volumes during the quarter. This could impact the volumes during Q1FY12. Demand from the European region is looking soft, especially in anticipation of lower prices by the customers. The customers are deferring their purchases, which could impact the volumes, going forward.
- Higher volumes during the quarter has seen the inventory going down from 2.78mn tonnes as on Dec 2010 to 2.27mn tonnes as on March 2011.
- The company is expected to face significant increases in raw material costs, largely from Q2FY12 onwards as it carries the low-cost inventory in Q1FY12.
- Tata Steel Europe is restructuring its loss-making long steel product division and plans to invest £ 400mn over a period of 5 years. The company will mothball the Queen Bess blast furnace, which will lead to a reduction of 1mn tonnes annually. The company will also shut bloom and billet mills in Scunthorpe. The company has impaired £ 90mn towards these facilities. The company could face certain one-time expenses with regard to the 1500 employees laid off. With an additional focus on the value-added products and energy efficiency, the company plans to have an annual benefit of £ 250mn, inclusive of cost savings to the tune of £ 130mn.
- The company has estimated FY12 capex at US\$ 2-2.5bn, of which US\$ 650mn will be spent on European operations and the remaining (US\$ 1.35-US\$ 1.55bn) for Indian operations and raw material projects.
- Construction work for the greenfield plant in Odisha has commenced. Tata Steel expects to invest US\$ 7.8bn to set up 6mn tonnes (in 2 phases), inclusive of the Cold Rolling Mill. The company has already commissioned five power sub-stations. Piling and other civil works in the Sinter plant area are already in progress. Piling work in the Blast Furnace and Steel Melting Shop areas has commenced.
- Net debt as on March 2011 stood at US\$ 10.5bn. The company has raised Rs 49.8bn during the quarter through equity issuance (Rs 34.8bn) and hybrid instruments (Rs 15bn). Tata Steel followed it up with an additional issue of hybrid instruments worth Rs 7.75bn.

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
NET SALES	1,473,293	1,023,931	1,187,531	1,234,184	1,295,675
GROWTH, %	12	-31	16	4	5
TOTAL INCOME	1,473,293	1,023,931	1,187,531	1,234,184	1,295,675
OPERATING EXPENSES	-1,292,016	-943,505	-1,027,575	-1,068,076	-1,086,372
EBITDA (CORE)	181,277	80,427	159,956	166,108	209,303
GROWTH, %	0.7	(55.6)	98.9	3.8	26.0
MARGIN, %	12.3	7.9	13.5	13.5	16.2
DEPRECIATION	-42,654	-44,917	-44,148	-51,620	-53,168
EBIT	138,623	35,509	115,808	114,488	156,136
GROWTH, %	0.0	(74.4)	226.1	(1.1)	36.4
MARGIN, %	9.4	3.5	9.8	9.3	12.1
INTEREST PAID	-32,902	-30,221	-27,700	-31,607	-37,416
OTHER NON-OPERATING INCOME	2,657	11,859	9,810	8,372	2,910
NON-RECURRING ITEMS	0	0	23,102	0	0
PRE-TAX PROFIT	68,040	1,579	121,683	91,982	122,433
TAX PROVIDED	-18,940	-21,518	-32,459	-25,644	-36,479
PROFIT AFTER TAX	49,100	-19,940	89,224	66,338	85,954
NET PROFIT	49,509	-20,092	89,827	66,911	86,498
MF NET PROFIT	49,509	-20,092	66,725	66,911	86,498
GROWTH, %	(20.5)	(140.6)	(432.1)	0.3	29.3
NET PROFIT (ADJUSTED)	49,509	(20,092)	66,725	66,911	86,498
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	-40,945	-16,837	23,102	0	0
UNADJ. SHARES (M)	730	887	959	971	971
WTD AVG SHARES (M)	730	887	959	971	971

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
PRE-TAX PROFIT	68,040	1,579	121,683	91,982	122,433
DEPRECIATION	42,654	44,917	44,148	51,620	53,168
CHG IN WORKING CAPITAL	68,744	102,956	-66,021	881	-30,903
TOTAL TAX PAID	-26,390	-22,072	-28,874	-23,362	-32,836
OTHER OPERATING ACTIVITIES	-67,860	-97,548	-10,297	11,884	6,249
CASH FLOW FROM OPERATING ACTIVITIES	85,187	29,832	60,639	133,006	118,110
CAPITAL EXPENDITURE	-84,335	17,806	-110,124	-85,900	-90,000
CHG IN INVESTMENTS	-30,437	9,933	-24,296	3,642	-2,602
CASH FLOW FROM INVESTING ACTIVITIES	-114,771	27,739	-134,419	-82,258	-89,114
FREE CASH FLOW	-29,584	57,571	-73,780	50,748	28,996
EQUITY RAISED/(REPAID)	0	80,754	50,628	-621	7,008
DEBT RAISED/(REPAID)	63,079	-122,728	77,622	98	13,500
DIVIDEND (INCL. TAX)	-14,950	-9,094	-13,470	-13,639	-13,639
CASH FLOW FROM FINANCING ACTIVITIES	48,751	-51,177	114,828	-13,716	7,880
NET CHG IN CASH	19,167	6,394	41,048	37,031	36,876

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
CASH & BANK	61,484	67,878	108,926	145,957	182,833
DEBTORS	130,316	116,240	148,163	152,160	159,741
INVENTORY	216,684	186,866	240,552	253,599	283,984
LOANS & ADVANCES	129,987	67,615	99,947	89,952	98,947
OTHER CURRENT ASSETS	68	79	98	98	98
TOTAL CURRENT ASSETS	538,540	438,678	597,686	641,766	725,603
INVESTMENTS	64,111	54,178	78,473	74,832	77,433
GROSS FIXED ASSETS	1,148,236	1,118,308	1,141,272	1,240,474	1,226,705
LESS: DEPRECIATION	-630,832	-608,126	-652,274	-703,894	-757,062
ADD: CAPITAL WIP	89,304	93,194	187,918	159,318	249,318
NET FIXED ASSETS	606,708	603,377	676,916	695,898	718,962
TOTAL ASSETS	1,210,120	1,097,381	1,354,831	1,414,251	1,523,754
CURRENT LIABILITIES	230,933	233,886	266,711	260,699	273,695
PROVISIONS	81,831	75,578	79,693	85,884	88,946
TOTAL CURRENT LIABILITIES	312,764	309,464	346,404	346,584	362,641
NON-CURRENT LIABILITIES	671,762	548,868	645,682	655,813	672,955
TOTAL LIABILITIES	984,526	858,332	992,085	1,002,396	1,035,596
PAID-UP CAPITAL	7,301	8,867	9,587	9,714	9,714
RESERVES & SURPLUS	210,398	221,341	344,270	392,807	468,643
SHAREHOLDERS' EQUITY	225,594	239,049	362,746	411,855	488,157
TOTAL EQUITY & LIABILITIES	1,210,120	1,097,381	1,354,831	1,414,251	1,523,754

PER-SHARE DATA

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
MF EPS (INR)	67.8	(22.7)	69.6	68.9	89.0
GROWTH, %	(20.5)	(133.4)	(407.2)	(1.0)	29.3
BOOK NAV/SHARE (INR)	309.0	269.6	378.4	424.0	502.5
FDEPS (INR)	67.8	(22.7)	69.6	68.9	89.0
CEPS (INR)	126.2	28.0	91.5	122.0	143.8
CFPS (INR)	261.2	147.8	63.1	112.6	108.6
DPS (INR)	17.5	8.5	12.0	12.0	12.0

FINANCIAL STRUCTURE

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
TOTAL DEBT/EQUITY (%)	289.9	222.2	167.8	147.8	127.5
NET DEBT/EQUITY (%)	262.6	193.8	137.8	112.4	90.0

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
RETURN ON ASSETS (%)	5.7	(0.1)	8.7	6.3	8.4
RETURN ON EQUITY (%)	19.1	(8.6)	22.2	17.3	19.2
RETURN ON INVESTED CAPITAL (%)	11.4	(56.3)	10.5	9.2	11.7
ROIC/COST OF CAPITAL (X)	1.2	(5.8)	1.1	1.0	2.0
ROIC - COST OF CAPITAL (%)	1.5	(66.0)	0.9	(0.2)	5.8
RETURN ON CAPITAL EMPLOYED (%)	7.1	(0.1)	11.0	7.7	10.3
COST OF CAPITAL (%)	9.8	9.7	9.5	9.5	5.9
ROCE - COST OF CAPITAL (%)	(2.7)	(9.8)	1.4	(1.7)	4.4
ASSET TURNOVER (X)	1.7	1.3	1.5	1.4	1.4
SALES/TOTAL ASSETS (X)	1.2	0.9	1.0	0.9	0.9
SALES/NET FA (X)	2.4	1.7	1.9	1.8	1.8
WORKING CAPITAL/SALES (X)	0.2	0.1	0.2	0.2	0.2
FIXED CAPITAL/SALES (X)	0.8	1.1	1.0	1.0	0.9
RECEIVABLE DAYS	32.3	41.4	45.5	45.0	45.0
INVENTORY DAYS	53.7	66.6	73.9	75.0	80.0
PAYABLE DAYS	65.2	90.5	94.7	89.1	92.0
CURRENT RATIO (X)	2.3	1.9	2.2	2.5	2.7
QUICK RATIO (X)	1.4	1.1	1.3	1.5	1.6
INTEREST COVER (X)	4.2	1.2	4.2	3.6	4.2
DIVIDEND COVER (X)	3.9	(2.7)	5.8	5.7	7.4
PER (X)	8.4	(25.3)	8.2	8.3	6.4
PRICE/BOOK (X)	1.9	2.1	1.5	1.4	1.1
YIELD (%)	3.1	1.5	2.1	2.1	2.1
EV/NET SALES (X)	0.7	0.9	0.9	0.8	0.8
EV/EBITDA (X)	5.6	12.1	6.6	6.1	4.8
EV/EBIT (X)	7.3	27.3	9.1	8.9	6.4
EV/NOPLAT (X)	6.2	16.5	8.2	7.3	5.8

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
NEUTRAL	645	641	17-FEB-2011
BUY	691	584	1-DEC-2010
NEUTRAL	691	636	18-OCT-2010

VINEET BHATNAGAR	MANAGING DIRECTOR	91-22-2300 2999	VBHATNAGAR@MFGLOBAL.COM
SAJID KHALID	HEAD – INSTITUTIONAL EQUITIES	91-22-6667 9972	SAKHALID@MFGLOBAL.COM
JIGNESH SHAH	HEAD – EQUITY DERIVATIVES	91-22-6667 9735	JSHAH@MFGLOBAL.COM

EQUITY RESEARCH

MANISH AGARWALLA	VP - BANKING	91-22-6667 9962	MAGARWALLA@MFGLOBAL.COM
ABHISHEK RANGANATHAN, CFA	RETAIL, REAL ESTATE	91-22-6667 9952	ABHISHEKR@MFGLOBAL.COM
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ANJALI VERMA	ECONOMIST	91-22-6667 9969	ANVERMA@MFGLOBAL.COM
ANKUR SHARMA	ENGINEERING, CAPITAL GOODS	91-22-6667 9759	ASHARMA@MFGLOBAL.COM
DEEPAK JAIN	AUTOMOBILES & AUTO ANCILLARIES	91-22-6667 9758	DJAIN@MFGLOBAL.COM
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ENNETTE FERNANDES	FMCG	91-22-6667 9764	EFERNANDES@MFGLOBAL.COM
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VIHANG NAIK, CFA	IT SERVICES, MIDCAP	91-22-6667 9768	VNAIK@MFGLOBAL.COM
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JISHAR THOOMBATH	RESEARCH ASSOCIATE	91-22-6667 9986	JTHOOMBATH@MFGLOBAL.COM
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SAURABH RATHI	RESEARCH ASSOCIATE	91-22-6667 9951	SRATHI@MFGLOBAL.COM
VARUN VIJAYAN	RESEARCH ASSOCIATE	91-22-6667 9766	VVIJAYAN@MFGLOBAL.COM
GANESH DEORUKHKAR	PRODUCTION	91-22-6667 9966	GDEORUKHKAR@MFGLOBAL.COM
ROSHNI KALLOOR	RESEARCH COMPLIANCE OFFICER	91-22-6667 9762	RKALLOOR@MFGLOBAL.COM

TECHNICAL & QUANT RESEARCH

NEPPOLIAN PILLAI	CHIEF TECHNICAL STRATEGIST	91-22-6667 9989	PNEPPOLIAN@MFGLOBAL.COM
SHIKHA KHURANA	QUANT ANALYST	91-22-6667 9948	SKHURANA@MFGLOBAL.COM

INSTITUTIONAL CASH EQUITY SALES

SUDHIR PADDIYAR	VP - EQUITY SALES (ASIAPAC)	91-22-6667 9991	SPADIYAR@MFGLOBAL.COM
KINSHUK TIWARI	EQUITY SALES	91-22-6667 9946	KTIWARI@MFGLOBAL.COM
NASIR MOHAMED	EQUITY SALES	91-22-6667 9973	NMOHAMED@MFGLOBAL.COM
PAWAN KAKUMANU	EQUITY SALES	91-22-6667 9934	PKAKUMANU@MFGLOBAL.COM
SHIV CHANANI	EQUITY SALES	91-22-6667 9944	SCHANANI@MFGLOBAL.COM
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Rating Rationale

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