

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	TICS.BO
Bloomberg code	TATAIN
Market cap. (US\$ mn)	9,090
6M avg. daily turnover (US\$ mn)	111.3
Issued shares (mn)	887
Target price (Rs)	457

Performance (%)	1M	3M	12M
Absolute	(26)	(16)	34
Relative	(20)	(15)	11

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	(24.4)	52.8
+/- (%)	(120.2)	NA
PER (x)	NA	10.4
PBV (x)	2.0	1.7
Dividend/Yield (%)	1.9	1.9
EV/Sales (x)	1.0	0.9
EV/EBITDA (x)	13.6	6.7

Major shareholders (%)

Promoters	31
FII's	20
MF's	3
BFSI's	21
Public & Others	25

Financial highlights (Consolidated)

(Rs mn)	4QFY09	3QFY10	4QFY10	QoQ (%)	YoY (%)	FY09	FY10P	YoY (%)	FY11E	YoY (%)	FY12E	YoY (%)
Net Sales	264,310	262,020	275,038	5.0	4.1	1,450,775	1,023,931	(29.4)	1,160,810	13.4	1,235,047	6.4
EBITDA	330	29,506	47,502	61.0	14,281.3	187,039	80,427	(57.0)	151,762	88.7	189,685	25.0
Margins (%)	0.1	11.3	17.3	-	-	12.7	7.9	-	13.0	-	15.3	-
Other Income	970	4,099	5,541	35.2	471.0	2,657	11,859	346.4	6,500	(45.2)	6,500	-
Interest	7,337	7,630	6,600	(13.5)	(10.0)	38,664	30,221	(21.8)	33,617	11.2	33,817	0.6
Depreciation	9,283	11,547	10,946	(5.2)	17.9	42,654	44,917	5.3	45,865	2.1	46,399	1.2
PBT before exceptional items (15,319)	14,428	35,497	146.0	(331.7)	108,378	17,147	(84.2)	78,780	-	115,969	-	-
Exceptional items (40,945)	(1,957)	(3,579)	82.9	(91.3)	(40,945)	(16,837)	-	-	-	-	-	-
PBT after exceptional items (47,261)	12,471	31,918	155.9	(167.5)	67,432	310	(99.5)	78,780	25,313.0	115,969	-	-
Tax (2,247)	8,148	7,866	(3.5)	-	18,940	21,518	13.6	33,011	53.4	37,911	14.8	-
Reported PAT (44,354)	4,726	24,341	415.0	(154.9)	48,492	(21,208)	-	45,770	(315.8)	78,058	70.5	-
before minority interest												
Adjusted PAT (21,356)	6,136	26,918	338.7	(226.0)	88,421	(3,255)	-	44,716	-	77,005	72.2	-
Margins (%)	-	2.3	9.8	-	-	6.1	-	-	3.9	-	6.2	-
Adjusted EPS	-	6.9	30.3	338.7	-	121.0	-	-	50.4	-	86.8	72.2

Tata Steel

Maintain Underperformer

Price: Rs 484

BSE Index: 16,388

26 May 2010

4QFY10 Consolidated Result – But expect outperformance over a 12-month period

As expected, higher realisations coupled with a largely unchanged material cost matrix, led to impressive improvement in operating profits for both Tata Steel India and Corus on a sequential basis. 1Q performance may not be significantly different but 2Q and 3Q will be successive quarters of sequential decline (in profits) for both Tata Steel India and Corus. Reasons: lower product price and higher material cost.

However, we think that if steel prices come down quite sharply even from these levels, iron ore prices and coking coal (quarterly contract) prices will also fall sequentially. Hence, while non-integrated players will be hit, it will surely not be “opposite direction movements” for final product and raw material prices all the way.

A steady positive development in progress in Tata Steel is that the integrated Indian operations are expanding (capacity going up from 7 to 10 mn tonnes in a year's time) while the non-integrated British operations are shrinking (20 mn tonnes to 15 mn tonnes, along with gradual cutback of associated fixed costs). Thus, Tata Steel India will soon contribute to 40% of consolidated volumes versus 20% some time back. The profitability mix of the consolidated entity is thus steadily improving. This mix will only keep on getting better.

Given the global supply-demand dynamics in steel today (excess capacity in the Western world down from over 200 mn tonnes to ~100 mn tonnes now), we expect gradual but steady improvement in FY12, even after factoring in some negative “demand delta” from current levels. We also believe that the 2HFY11

negatives are to a large extent factored into the CMP and the stock price could start reflecting the FY12 outlook post a further decline of 12-15%. More importantly, the upside from that floor level could be pretty significant over a 12-month period.

Highlights

Standalone

- Volume sales at 1.70 mn tonnes versus 1.60 mn tonnes in 3Q and 1.78 mn tonnes in 4QFY09.
- Realisation per tonne at Rs. 39,616 versus Rs 36,534 in 3Q and Rs 33,770 in 4QFY09. (Realisation per tonne had peaked in 2QFY09, at Rs 48,286, before crashing in 3Q).
- EBITDA per tonne at Rs 18,428 versus Rs 13,510 in 3Q and Rs 8,141 in 4QFY09. (EBITDA/tonne had peaked in 2QFY09, at Rs 26,089, before almost halving in 3Q and falling by another 40% in 4Q).

Corus and Subsidiaries

- EBITDA at Rs 16.2 bn and net profit at Rs 5.3 bn versus Rs 7.9 bn and Rs (5.8) bn in 3Q.
- FY10 EBITDA at Rs (9.1) bn and net at Rs (53.7) bn.

Financial highlights

Rs. mn	Standalone						Consolidated					
	4QFY09	3QFY10	4QFY10	FY10P	FY11E	FY12E	4QFY09	3QFY10	4QFY10	FY10P	FY11E	FY12E
Net sales	64,979	63,749	73,394	250,220	294,360	316,611	264,310	262,020	275,038	1,023,931	1,160,810	1,235,047
EBITDA	14,479	21,569	31,307	89,521	122,134	133,322	330	29,506	47,502	80,427	151,762	189,685
Adjusted PAT	6,837	11,918	21,623	50,468	67,632	74,882	-21,356	6,136	26,918	-3,255	44,716	77,005

Industry dynamics and outlook

The fundamental problem of global excess capacity in the Western World still remains. However, the excess capacity has come down significantly to ~100 mn tonnes from over 200 mn tonnes a year back.

China is over-producing though; it has become a net exporter for some time now, to this world still grappling with the problems of excess capacity. One cannot really have any sharp steel price rise sustaining in this environment. *However, going forward, we expect China to be stricter in controlling its steel production and the Western world to increasingly appreciate that commissioning surplus capacity on a short term view will not help.* So while in the short term there could be some fresh demand erosion in China (and Europe), we expect things to stabilise and progressively improve in the medium term

Valuation

Our target price (fair price to expect today) of Tata Steel is at Rs 457. This is at an FY11E EV/EBITDA of 5.8x versus a 5-year average of 5.8x on one-year forward EV/EBITDA. Assigning the same multiple on our FY12E EBITDA would throw up a price of Rs 749. After providing for some discount in the multiple (because of lower visibility for FY12 earnings amidst the current concerns and uncertainties), one could still expect a price of ~Rs 675-700, within a 12-month period.

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Net sales	1,450,775	1,023,931	1,160,810	1,235,047
<i>Growth (%)</i>	<i>11.1</i>	<i>(29.4)</i>	<i>13.4</i>	<i>6.4</i>
Operating expenses	(1,286,254)	(943,505)	(1,012,648)	(1,049,143)
Operating profit	164,522	80,427	148,162	185,905
Other operating income	22,517		3,600	3,780
EBITDA	187,039	80,427	151,762	189,685
<i>Growth (%)</i>	<i>4.0</i>	<i>(57.0)</i>	<i>88.7</i>	<i>25.0</i>
Depreciation	(42,654)	(44,917)	(45,865)	(46,399)
Other income	2,657	11,859	6,500	6,500
EBIT	147,042	47,368	112,397	149,786
Interest paid	(38,664)	(30,221)	(33,617)	(33,817)
Pre-tax profit (before non-recurring)	108,378	17,147	78,780	115,969
Non-recurring items	(40,945)	(16,837)	–	–
Pre-tax profit (after non-recurring)	67,432	310	78,780	115,969
Tax (current + deferred)	(18,940)	(21,518)	(33,011)	(37,911)
Net profit (before Minority Interest, Pref. Dividend, etc.)	48,492	(21,208)	45,770	78,058
Minority interests	(1,017)	(1,421)	(1,053)	(1,053)
Reported PAT	47,476	(20,092)	44,716	77,005
Adjusted net profit	88,421	(3,255)	44,716	77,005
<i>Growth (%)</i>	<i>42.0</i>	<i>(106.6)</i>	<i>NA</i>	<i>72.2</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Cash & Marketable sec.	95,391	38,717	33,369	34,811
Other current assets	477,229	409,645	422,258	439,750
Investments	30,203	30,203	30,203	30,203
Net fixed assets	606,705	611,788	615,923	594,524
Total assets	1,209,528	1,090,353	1,101,754	1,099,289
Current liabilities	312,934	293,967	318,342	331,563
Total debt	653,732	513,732	468,732	388,732
Other non-current liab.	17,094	17,094	17,094	17,094
Total liabilities	983,760	824,793	804,168	737,389
Share capital	7,301	8,875	8,875	8,875
Reserves & surplus	215,290	254,928	288,007	353,375
Less: Misc. expenditure	(5,771)	(5,771)	(5,771)	(5,771)
Shareholders' funds	216,819	258,033	291,111	356,479
Minorities interests	8,949	7,528	6,474	5,421
Total equity & liab.	1,209,528	1,090,353	1,101,754	1,099,289
Capital employed	896,594	796,386	783,412	767,726

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Pre-tax profit	67,432	310	78,780	115,969
Depreciation	42,654	44,917	45,865	46,399
Change in working capital	68,741	48,617	11,762	(4,271)
Total tax paid	(26,390)	(21,518)	(33,011)	(37,911)
Cash flow from oper. (a)	152,437	72,325	103,396	120,186
Capital expenditure	(5,782)	(50,000)	(50,000)	(25,000)
Change in investments	(7,646)	–	–	–
Others	(47,662)	–	–	–
Cash flow from inv. (b)	(66,336)	(50,000)	(50,000)	(25,000)
Free cash flow (a+b)	86,101	22,325	53,396	95,186
Equity raised/(repaid)	(91,878)	55,469		
Debt raised/(repaid)	63,079	(140,000)	(45,000)	(80,000)
Dividend (incl. tax)	(14,950)	(8,463)	(11,637)	(11,637)
Others	(395)	(2,842)	(2,107)	(2,107)
Cash flow from fin. (c)	(44,143)	(95,837)	(58,744)	(93,744)
Net chg in cash (a+b+c)	41,958	(73,511)	(5,348)	1,442

Key Ratios

Yr end 31 Mar (%)	FY09	FY10P	FY11E	FY12E
Adjusted EPS (Rs)	121.0	(3.7)	50.4	86.8
Growth	42.0	(105.4)	NA	72.2
Book NAV/share (Rs)	308.9	299.2	335.3	407.8
Dividend/share (Rs)	17.5	8.0	11.0	11.0
Dividend payout ratio	16.9	(146.1)	26.0	15.1
Tax	28.1	6,941.4	41.9	32.7
EBITDA margin	12.7	7.9	13.0	15.3
EBIT margin	10.0	4.6	9.7	12.1
RoCE	16.3	5.6	14.2	19.3
Net debt/Equity	247.3	178.9	146.3	97.8

Valuations

Yr end 31 Mar (x)	FY09	FY10P	FY11E	FY12E
PER	4.0	NA	9.6	5.6
PCE	2.7	11.0	4.7	3.5
Price/Book	1.6	1.6	1.4	1.2
Yield (%)	3.6	1.7	2.3	2.3
EV/Net sales	0.6	0.9	0.8	0.7
EV/EBITDA	4.8	11.3	6.0	4.8

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10P	FY11E	FY12E
Net margin (%)	6.1	(0.3)	3.9	6.2
Asset turnover	1.2	0.9	1.1	1.1
Leverage factor	4.7	4.7	3.9	3.3
Return on equity (%)	34.0	(1.3)	15.9	23.4

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