

TATA STEEL

Mixed Bag

India Equity Research | Metals and Mining



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Ideas create, values protect

Tata Steel's consolidated EBITDA of INR34bn was ~4% above estimates, led by a better performance at European operations (EBITDA/t of USD36 vs our estimate of USD14) even as Indian operations disappointed with EBITDA/t of USD323 vs our estimate of USD337 (owing to external coke purchases and high power cost). During the concall, the company maintained that H2FY13 will see an improved performance in India with issues related to coke purchases, power costs and volume growth seeing a reversal from Q3FY13 onwards. It also expects volume in Europe to rise in H2FY13. Given the limited risk to our earnings estimates, we maintain 'BUY' with a TP of INR522. The stock trades at FY14E EV/EBITDA of 5.3X.

Indian operations: High cost negates realisation gains

The sales volume of 1.59mt (flat YoY) was broadly in line while blended realisations were above estimates, rising by 4.6% QoQ. However, standalone EBITDA at INR27.8bn was well below our estimates of INR29.6bn due to high cost of power and external coke purchases. The company bought ~INR4bn (incremental) of external coke owing to partial shutdown of the existing coke oven batteries even as new batteries in the recently commissioned 2.9mtpa facility are yet to be commissioned. The sequential increase of 19% in power cost was led by an increase in tariff.

International operations lead to PAT outperformance

Consolidated PAT at INR5.9bn was above our estimate of INR3.2bn due to a better than expected performance in TSE (Tata Steel Europe) wherein realisations increased 8% QoQ, leading to an EBITDA/t of USD36 vs our estimate of USD14. TSE sales volume (at 3.2mt) dipped 9.5% YoY, but was in line with our estimates.

Outlook and valuations: Improvement in H2FY13; maintain 'BUY'

The management maintains that H2FY13 will see an improved performance in India with issues related to coke purchases, power costs and volume growth seeing a reversal from Q3FY13 onwards. It also expects an uptick in TSE volume in H2FY13 even as our FY14E EBITDA estimate for TSE is conservative at USD172mn against USD114mn reported in Q1FY13. The consolidated net debt is likely to remain at the current levels. Thus, we retain our earnings and maintain 'BUY/Sector Outperformer'.

Financials (Consolidated)

(INR bn)

Year to March	Q1FY13	Q1FY12	% change	Q4FY12	% change	FY12	FY13E	FY14E
Net revenue	338	330	2.5	340	(0.5)	1,329	1,312	1,318
EBITDA	34	44	(23.1)	32	7.1	124	154	168
Net profit	6	53	(88.8)	4	37.9	54	44	58
EPS (INR/share)	6.2	55.8	(89.0)	4.5	37.9	20.9	47.8	59.6
P/E (x)						19.5	8.5	6.8
EV/EBITDA (x)						6.6	5.7	5.3
ROE (%)						4.2	10.3	12.0

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: TISC.BO, B: TATA IN)

CMP	: INR 406
Target Price	: INR 522
52-week range (INR)	: 504 / 332
Share in issue (mn)	: 971.2
M cap (INR bn/USD mn)	: 394 / 7,074
Avg. Daily Vol.BSE/NSE('000)	: 5,712.5

SHARE HOLDING PATTERN (%)

	Current	Q4FY12	Q3FY12
Promoters %	31.4	31.4	30.7
MF's, FI's & BK's	28.7	28.4	28.8
FII's	14.1	14.4	12.9
others	25.9	25.9	27.6
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	(4.4)	2.9	(1.2)
3 months	(0.5)	9.6	3.9
12 months	(14.5)	6.1	(7.9)

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Other highlights

Sequential increase in debt by INR63.6bn

Net debt at the end of June 2012 increased to INR540.2bn (USD9.71bn) compared to INR476.6bn (USD8.57bn) at the end of March 2012 due to issuance of 10-year NCDs of INR15bn in April 2012 (yield of 9.8% p.a.) and capitalization of forex losses.

Key takeaways from the concall

India business: Volume targets intact; power outages/coke purchases impact

- Tata Steel retained its volume guidance of 1mt YoY increase in FY13 in India (visible from Q3FY13 onwards) and expects to exit Q4FY13 at nearly full capacity of 9.7mtpa. In FY14, we are assuming a volume of 8.9mtpa for Indian operations.
- Q2 and Q3FY13 to see the impact of coke purchases (incremental volume of 0.2mt and value of INR4bn in Q1FY13) while Q2FY13 would experience the impact of power outages due to grid failures in July 2012, leading to slightly lower production. However, with new coke oven plants expected to become operational in Q3FY13, coke purchases would cease partly by Q3FY13 and fully from Q4FY13. Power tariffs have also increased in Q1FY13 leading to an impact of INR370mn in Q1FY13.
- The new blast furnace produced 0.6mt in Q1FY13 implying a capacity utilization of ~80% and is currently running at almost full capacity of 2.9mtpa. However, the company has undertaken the relining of an older blast furnace of 1mtpa, resulting in no significant increase in production volume in Q1FY13. Relineing is to be over by end of Q3FY13.

European business: Improvement seen in H2FY13

- Company believes that steel margins have bottomed out in Europe and should see an improvement in H2 vs H1 even though both steel and raw material prices are likely to witness a fall.
- Volume guidance for FY13 at ~14mt (i.e. flat YoY) is higher than our assumption of 13.5mt. This also implies a strong improvement in H2 over H1 since Q1FY13 witnessed a ~9.5% YoY decline in sales volume. The company would benefit from the completion of rebuild of Blast Furnace 4 in Port Talbot in Q3FY13 which would add 0.5mtpa to the capacity.
- Pension negotiations are underway and clarity would emerge only in September 2012. The company has planned additional cost savings and asset divestment initiatives but did not share details.

Expect net debt to remain at current level

- Debt for the CARS redemption of ~USD550mn in September 2012 has already been raised. The company expects a significant part of the capex for rest of FY13 to be funded by internal accruals.
- As a result, the net debt is expected to remain at Q1FY13 levels of INR540bn.

INR depreciation impacts financials adversely

- Standalone business had a forex loss of INR2050mn of which 35% was on account of higher coking coal costs and 65% due to forex loans.
- Depreciation in international operations was up on both YoY and QoQ basis due to INR depreciation (INR690mn impact in European operations).

Other points:

- Annual consolidated capex guidance retained at USD2.0bn-2.3bn
- Current capex for both Orissa greenfield project and CAPL is low but will accelerate going forward. Total capex in Phase I of the Orissa project (3mtpa + infrastructure for 6mtpa) is INR400bn.

Table 1: Operational performance summary

Q113	India	Europe	SE Asia	Others	Overall
Volume (mt)	1.6	3.2	0.7	0.2	5.7
Revenue (USD mn)*	1,644	3,766	622	209	6,242
Revenue/tonne (USD)	1,034	1,173	864		1,099
EBITDA (USD mn)*	513	114	17	17	661
EBITDA/tonne (USD)	323	36	24		116

Q412	India	Europe	SE Asia	Others	Overall
Volume (mt)	1.8	3.6	0.7	0.2	6.2
Revenue (USD mn)*	1,885	3,962	627	287	6,761
Revenue/tonne (USD)	1,071	1,116	859		1,087
EBITDA (USD mn)*	592	28	21	38	680
EBITDA/tonne (USD)	336	8	29		109

Q112	India	Europe	SE Asia	Others	Overall
Volume (mt)	1.6	3.5	0.8	0.2	6.1
Revenue (USD mn)*	1,759	4,594	746	284	7,383
Revenue/tonne (USD)	1,099	1,313	933		1,210
EBITDA (USD mn)*	704	274	20	(24)	974
EBITDA/tonne (USD)	440	78	25		160

Source: Company, Edelweiss research

*includes other operating income

Note: For Q1FY13, we have adjusted the geography-wise EBITDA with the average Q1FY13 exchange rate of INR/USD 54.2 as against the quarter end exchange rate of INR/USD 55.6 assumed by the company.

Financials snapshot (standalone)

(INR mn)

Year to March	Q113	Q112	% change	Q412	% change	FY12	FY13E	FY14E
Total net revenues	89,080	78,603	13.3	94,794	(6.0)	339,335	394,585	439,418
Dec/(inc) in stock	(4,966)	(2,547)	NM	1,872	NM	(2,207)	0	0
Purchase of semis	770	373	106.3	642	19.9	2,095	1,757	1,757
Raw material	24,226	17,903	35.3	21,474	12.8	80,144	85,041	96,249
Staff costs	8,591	6,870	25.1	9,363	(8.2)	30,473	29,004	30,454
Purchase of power	5,478	4,593	19.3	4,603	19.0	18,037	22,581	25,879
Freight & Handling	4,819	4,064	18.6	4,636	3.9	17,040	20,977	22,838
Other expenses	22,363	16,315	37.1	22,288	0.3	78,386	91,584	106,022
Total expenditure	61,282	47,571	28.8	64,878	(5.5)	223,967	250,943	283,199
EBITDA	27,798	31,032	(10.4)	29,916	(7.1)	115,368	143,642	156,219
Interest	4,544	2,273	100.0	5,140	(11.6)	19,254	22,808	25,058
Depreciation	3,544	2,853	24.2	2,900	22.2	11,514	15,100	18,600
Other income	1,519	5,526	(72.5)	1,829	(17.0)	8,864	8,472	10,021
PBT	21,229	31,432	(32.5)	23,706	(10.5)	98,574	114,206	122,582
Tax	7,663	9,238	(17.0)	8,101	(5.4)	31,609	31,720	33,768
Adjusted net profit	13,566	22,194	(38.9)	15,605	(13.1)	63,493	82,486	88,813
Reported net profit	13,566	22,194	(38.9)	15,605	(13.1)	66,964	82,486	88,813
Equity capital (FV INR 10)	9,714	9,594		9,714		9,714	9,714	9,714
Outstanding shares (mn)	971	959		971		971	971	971
Basic EPS (INR)	14.0	23.1	(39.6)	16.1	(13.1)	68.9	84.9	91.4

as % of net revenues

Raw material	21.6	19.5		24.6		23.0	21.6	21.9
Purchase of goods	0.9	0.5		0.7		0.6	0.4	0.4
Staff costs	9.6	8.7		9.9		9.0	7.4	6.9
Purchase of power	6.1	5.8		4.9		5.3	5.7	5.9
Freight & Handling	5.4	5.2		4.9		5.0	5.3	5.2
Other expenses	25.1	20.8		23.5		23.1	23.2	24.1
EBITDA	31.2	39.5		31.6		34.0	36.4	35.6
Adjusted net profit	15.2	28.2		16.5		18.7	20.9	20.2
Reported net profit	15.2	28.2		16.5		19.7	20.9	20.2
Tax rate	36.1	29.4		34.2		32.1	27.8	27.5

(INR/t)

Per tonne performance	Q113	Q112	% change	Q412	% change
Volume (mt)	1.59	1.59	(0.2)	1.77	(10.2)
Blended realisation	56,025	49,342	13.5	53,556	4.6
Dec/(inc) in stock	(3,123)	(1,599)	NM	1,058	NM
Purchase of semis	484	234	106.7	363	33.5
Raw material	15,237	11,238	35.6	12,132	25.6
Staff costs	5,403	4,313	25.3	5,290	2.1
Purchase of power	3,445	2,883	19.5	2,600	32.5
Freight & Handling	3,031	2,551	18.8	2,619	15.7
Other expenses	14,065	10,242	37.3	12,592	11.7
Cost	38,542	29,862	29.1	36,654	5.2
EBITDA	17,483	19,480	(10.3)	16,902	3.4

Financials snapshot (consolidated)
(INR mn)

Year to March	Q1FY13	Q1FY12	% change	Q4FY12	% change	FY12	FY13E	FY14E
Total net revenues	338,212	330,002	2.5	339,986	(0.5)	1,328,997	1,312,141	1,318,247
Dec/(inc) in stock	(26,730)	(23,914)	NA	9,111	NA	(7,859)		
Purchase of goods	61,381	60,581	1.3	54,285	13.1	210,734		
Raw material	115,846	112,277	3.2	102,249	13.3	454,575	492,665	481,933
Staff costs	47,825	42,316	13.0	47,221	1.3	172,286	193,314	199,886
Purchase of power	13,906	12,093	15.0	12,743	9.1	49,155		
Freight & Handling	17,358	15,937	8.9	17,611	(1.4)	66,595	109,295	109,823
Other expenses	74,593	66,484	12.2	64,977	14.8	259,342	362,928	358,212
Total expenditure	304,179	285,773	6.4	308,197	(1.3)	1,204,829	1,158,202	1,149,855
EBITDA	34,033	44,229	(23.1)	31,788	7.1	124,168	153,939	168,393
Interest	9,690	7,377	31.4	11,280	(14.1)	42,501	40,682	41,608
Depreciation	13,080	11,508	13.7	10,931	19.7	45,167	48,403	49,357
Other income	2,894	38,823	(92.5)	2,220	30.3	15,730	13,872	15,021
PBT	14,157	64,167	(77.9)	11,798	20.0	52,231	78,726	92,448
Tax	8,986	11,230	(20.0)	9,766	(8.0)	36,365	33,006	35,156
Adjusted net profit	5,170	52,937	(90.2)	2,032	NA	15,866	45,720	57,292
Extraordinary items	-	-	-	-	-	33,619	(2,430)	-
Reported net profit	5,170	52,937	(90.2)	2,032	NA	49,485	43,290	57,292
Share of profit of associates	410	248	65.1	2,002	(79.5)	2,681		
Minority interest	(399)	(281)	NA	(301)	NA	1,731	667	600
Profit after min. int. and taxes	5,979	53,466	(88.8)	4,335	37.9	53,898	43,957	57,892
Equity capital (FV INR 10)	9,714	9,587		9,714		9,714	9,714	9,714
No. of shares (mn)	971	959		971		971	971	971
EPS (INR)	6.2	55.8	(89.0)	4.5	37.9	20.9	47.8	59.6

As a % of revenue

Raw material	34.3	34.0		30.1		34.2	37.5	36.6
Staff costs	14.1	12.8		13.9		13.0	14.7	15.2
Purchase of power	4.1	3.7		3.7				
Freight & handling	5.1	4.8		5.2		5.0	8.3	8.3
Other expenses	22.1	20.1		19.1		19.5	27.7	27.2
EBITDA	10.1	13.4		9.3		9.3	11.7	12.8
Reported net profit	1.5	16.0		0.6		3.7	3.3	4.3
Tax rate	63.5	17.5		NM		69.6	41.9	38.0

Per tonne performance

	Q1FY13	Q1FY12	% change	Q4FY12	% change
Volume (mt)	5.7	6.1	(6.9)	6.2	(8.7)
Blended realisation (INR/t)	59,544	54,099	10.1	54,660	8.9
Cost (INR/t)	53,553	46,848	14.3	49,549	8.1
EBITDA (INR/t)	5,992	7,251	(17.4)	5,111	17.2

Financials snapshot (international)

(INR mn)

Year to March	Q1FY13	Q1FY12	% change	Q4FY12	% change
Total net revenues	249,132	251,399	(0.9)	245,191	1.6
Dec/(inc) in stock	(21,765)	(21,367)	NM	7,239	NM
Purchase of semis	60,611	60,208	0.7	53,643	13.0
Raw material	91,620	94,375	(2.9)	80,776	13.4
Staff costs	39,234	35,446	10.7	37,858	3.6
Purchase of power	8,428	7,500	12.4	8,141	3.5
Freight & Handling	12,539	11,873	5.6	12,975	(3.4)
Other expenses	52,229	50,169	4.1	42,689	22.3
Total expenditure	242,897	238,202	2.0	243,319	(0.2)
EBITDA	6,235	13,197	(52.8)	1,872	NM
Interest	5,146	5,104	0.8	6,140	(16.2)
Depreciation	9,536	8,655	10.2	8,031	18.7
Other income	1,375	33,296	(95.9)	391	NM
PBT	(7,072)	32,734	NM	(11,908)	NM
Tax	1,323	1,992	(33.6)	1,665	(20.5)
Adjusted net profit	(8,395)	30,742	NM	(13,573)	NM
Extraordinary items	0	0	NM	0	NM
Reported net profit	(8,395)	30,742	NM	(13,573)	NM
Equity capital (FV INR 10)	9,714	9,587		9,714	
Outstanding shares (mn)	971	959		971	
Basic EPS (INR)	(8.6)	32.1	NM	(14.0)	NM

as % of net revenues

Raw material	28.0	29.0		35.9	
Purchase of goods	24.3	23.9		21.9	
Staff costs	15.7	14.1		15.4	
Purchase of power	3.4	3.0		3.3	
Freight & Handling	5.0	4.7		5.3	
Other expenses	21.0	20.0		17.4	
EBITDA	2.5	5.2		0.8	
Adjusted net profit	(3.4)	12.2		(5.5)	
Reported net profit	(3.4)	12.2		(5.5)	
Tax rate	(18.7)	6.1		(14.0)	

Per tonne performance	Q1FY13	Q1FY12	% change	Q4FY12	% change
Volume (mt)	4.1	4.5	(9.1)	4.5	(8.3)
Blended realisation (INR/t)	60,912	55,866	9.0	54,976	10.8
Cost (INR/t)	59,388	52,934	12.2	54,556	8.9
EBITDA (INR/t)	1,524	2,933	(48.0)	420	263.1

Company Description

Established 100 years ago in 1907, Tata Steel is Asia's first and India's second largest private sector steel company. With the take over of Corus Steel (Europe's second largest steel producer), Tata Steel is now the sixth largest steel company in the world with over 28mtpa of steel capacity. Tata Steel's Indian operations are amongst the lowest producers of steel in the world comprising 9.7 mtpa steel making facility at Jamshedpur in Jharkhand.

Investment Theme

We believe the worst is behind us for the global steel sector. We believe steel margins have bottomed out and will see a gradual improvement going ahead. FY13E and FY14E are expected to see volume benefit from the recently commissioned 2.9mtpa steel plant at Jamshedpur. Lower raw material cost will help stabilize profitability in international operations.

Key Risks

- Any delay in demand revival and/or renewed slump in European steel.
- Higher than anticipated Chinese/CIS steel exports into Europe.
- Delay in ramp up of 2.9mtpa expansion in India.

Financial Statements

Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
Macro -	GDP(Y-o-Y %)	8.4	8.4	6.5	6.4	7.0
	Inflation (Avg)	3.6	9.9	8.8	7.0	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.3	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	50.0
Sector -	Hard coking coal price (FOB,	129	215	291	217	217
	India steel demand growth (%)	15	12	5	7	11
Company -	Shipments (mn tonnes)	23.6	24.5	24.2	24.4	25.8
	India	6.4	6.7	6.6	7.7	8.9
	Corus	13.8	14.6	14.0	13.5	13.8
	SEA	3.4	3.6	3.0	3.2	3.2
	EBITDA (USD/tonne)	153	153	117	117	130
	India	321	381	363	343	352
	Corus	64	70	26	10	12
SEA	22	16	15	19	22	

Income statement

(INR mn)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Net revenue	1,017,578	1,171,498	1,328,997	1,312,141	1,318,247
Materials costs	310,045	380,441	454,575	492,665	481,933
Employee costs	164,630	152,869	172,286	193,314	199,886
Total SG&A expenses	275,868	285,024	259,342	362,928	358,212
Other Expenses	192,962	209,240	318,625	109,295	109,823
EBITDA	74,073	143,923	124,168	153,939	168,393
Depreciation & Amortization	44,917	44,148	45,167	48,403	49,357
EBIT	29,156	99,775	79,001	105,536	119,035
Other income	18,212	25,843	15,730	13,872	15,021
Interest expenses	30,221	27,700	42,501	40,682	41,608
Profit before tax	17,147	97,917	52,231	78,726	92,448
Provision for tax	21,518	32,459	36,365	33,006	35,156
Net profit	(4,371)	65,458	15,866	45,720	57,292
Profit after minority interest	(20,092)	89,828	53,898	43,957	57,892
Shares outstanding (mn)	887	959	971	971	971
Diluted EPS (INR)	(4.2)	69.5	20.9	47.8	59.6
Dividend per share (INR)	8.0	12.0	12.0	12.0	12.0
Dividend payout (%)	(41.3)	15.0	21.1	31.0	23.6

Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating expenses	92.7	87.7	90.7	88.3	87.2
EBITDA margins	7.3	12.3	9.3	11.7	12.8
Net profit margins	(0.4)	5.6	1.2	3.5	4.3

Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	(30.9)	15.1	13.4	(1.3)	0.5
EBITDA	(59.1)	94.3	(13.7)	24.0	9.4
Net profit	NA	NA	(75.8)	188.2	25.3

Balance sheet					
(INR mn)					
As on 31st March	FY10	FY11	FY12E	FY13E	FY14E
Equity capital- Voting shares	8,867	9,587	9,714	9,714	9,714
Reserves & surplus	221,516	361,226	412,180	442,499	486,753
Shareholders funds	230,383	370,814	421,894	452,213	496,467
Minority interest (BS)	8,841	8,889	8,148	7,481	6,881
Secured loans	280,593	286,044	360,402	376,005	353,715
Unsecured loans	250,410	320,799	263,580	263,231	263,365
Borrowings	531,004	606,843	623,982	639,236	617,080
Deferred tax liability	16,541	20,126	20,126	20,126	20,126
Prov. for VRS	9,637	8,794	8,794	8,794	8,794
Sources of funds	796,405	1,015,466	1,082,943	1,127,849	1,149,347
Gross block	1,066,084	1,139,856	1,240,205	1,354,205	1,464,205
Depreciation	608,126	615,922	662,377	710,780	760,137
Net block	457,958	523,934	577,828	643,425	704,067
Total fixed assets	457,958	523,934	577,828	643,425	704,067
Goodwill	145,418	152,982	152,982	152,982	152,982
Investments	54,178	78,473	78,473	78,473	78,473
Inventories	186,866	240,552	229,205	243,682	238,374
Sundry debtors	116,240	148,163	146,679	163,560	164,321
Cash and equivalents	67,878	108,926	126,901	91,165	50,586
Other current assets	67,694	100,045	100,045	100,045	100,045
Total current assets	438,678	597,686	602,831	598,453	553,327
Sundry creditors and others	233,886	266,711	258,271	274,584	268,603
Provisions	65,942	70,899	70,899	70,899	70,899
Total current liabilities & provisions	299,827	337,610	329,170	345,484	339,502
Net current assets	138,851	260,077	273,660	252,969	213,825
Uses of funds	796,405	1,015,466	1,082,943	1,127,849	1,149,347
Book value per share (INR)	259.6	386.5	434.3	465.5	511.1

Free cash flow					
(INR mn)					
Year to March	FY10	FY11	FY12E	FY13E	FY14E
Net profit	(20,092)	89,828	53,898	43,957	57,892
Depreciation	44,917	44,148	46,456	48,403	49,357
Others	31,179	2,402	-	-	-
Gross cash flow	56,004	136,378	100,353	92,360	107,250
Less: Changes in WC	(49,017)	71,749	(4,392)	15,045	1,434
Operating cash flow	105,022	64,629	104,745	77,315	105,815
Less: Capex	(17,806)	73,771	100,349	114,000	110,000
Free cash flow	122,828	(9,142)	4,396	(36,685)	(4,185)

Cash flow metrics					
Year to March	FY10	FY11	FY12E	FY13E	FY14E
Operating cash flow	105,022	64,629	115,439	77,315	105,815
Investing cash flow	(47,003)	(83,785)	(100,349)	(114,000)	(110,000)
Financing cash flow	(51,350)	59,930	2,886	949	(36,394)
Net cash flow	6,669	40,774	17,976	(35,736)	(40,579)
Capex	(71,495)	(104,160)	(100,349)	(114,000)	(110,000)
Dividends paid	(8,306)	(13,469)	(13,638)	(13,638)	(13,638)
Share issuance/(buyback)	(53,160)	720	127	-	-

Profitability & efficiency ratios

Year to March	FY10	FY11	FY12E	FY13E	FY14E
ROAE (%)	(1.5)	21.8	4.2	10.3	12.0
ROACE (%)	3.7	11.9	8.1	10.3	11.2
Inventory day	165	148	130	175	183
Debtors days	44	41	40	43	45
Payable days	190	174	146	197	206
Cash conversion cycle (days)	19	16	25	21	22
Current ratio	1.5	1.8	1.8	1.7	1.6
Debt/EBITDA	7.2	4.2	5.0	4.2	3.7
Debt/Equity	2.3	1.6	1.5	1.4	1.2
Adjusted debt/equity	2.3	1.6	1.5	1.4	1.2

Operating ratios

Year to March	FY10	FY11	FY12E	FY13E	FY14E
Total asset turnover	1.2	1.3	1.3	1.2	1.2
Fixed asset turnover	2.2	2.4	2.4	2.1	2.0
Equity turnover	4.1	3.9	3.4	3.0	2.8

Valuation parameters

Year to March	FY10	FY11	FY12E	FY13E	FY14E
Diluted EPS (INR)	(4.2)	69.5	20.9	47.8	59.6
Y-o-Y growth (%)	NA	NA	(70.0)	128.8	24.8
CEPS (INR)	47.3	114.3	63.8	96.2	109.2
Diluted PE (x)	(97.0)	5.8	19.5	8.5	6.8
Price/BV (x)	1.6	1.1	0.9	0.9	0.8
EV/Sales (x)	0.8	0.7	0.6	0.7	0.7
EV/EBITDA (x)	10.5	5.7	6.6	5.7	5.3
Dividend yield (%)	2.0	3.0	3.0	3.0	3.0

Peer comparison valuation

	Price (USD)	Market Cap (USD bn)	PE (x)		EV/EBITDA(x)		ROE(%)	
			2013E	2014E	2013E	2014E	2013E	2014E
Global steel Companies								
POSCO	342.5	30	9.3	9.3	6.8	6.4	8.6	7.9
ArcelorMittal	15.7	25	7.2	5.8	4.7	4.5	5.7	6.9
Sid Nacional	5.3	8	7.2	7.1	4.5	4.1	26.7	20.9
JFE	13.8	8	9.0	6.3	7.4	6.3	4.4	5.8
Thyssenkrupp	19.7	10	18.5	9.4	5.5	4.4	4.9	10.6
Hyundai Steel	80.4	7	7.8	7.4	7.5	6.9	9.7	9.7
Average			9.8	7.6	6.1	5.4	10.0	10.3
Indian Steel Companies								
Tata Steel	7.3	7.1	8.5	6.8	5.7	5.3	10.3	12.0
SAIL	1.6	6.4	8.5	6.5	7.3	6.0	10.3	12.4
JSW Steel	13.4	3.0	9.2	6.2	4.1	3.3	10.7	14.0
JSPL	7.5	7.0	9.7	9.6	7.8	6.9	20.5	17.3
Bhushan Steel	8.4	1.9	13.8	9.1	10.6	6.8	10.5	13.8
Usha Martin	0.5	0.1	8.8	4.6	5.5	4.4	5.0	9.2
Average			9.7	7.1	6.8	5.4	11.2	13.1

Source: Bloomberg, Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bhushan Steel	REDUCE	SU	M	Coal India	BUY	SO	M
Hindalco Industries	BUY	SO	M	Hindustan Zinc	BUY	SP	L
Jindal Steel & Power	BUY	SP	M	JSW Steel	BUY	SO	M
National Aluminium Company	REDUCE	SU	M	Sesa Goa	HOLD	SP	M
Steel Authority of India	HOLD	SU	L	Sterlite Industries (India)	BUY	SO	M
Tata Steel	BUY	SO	M	Usha Martin	HOLD	SU	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Metals and Mining

Bhushan Steel, Coal India, Hindalco Industries, Hindustan Zinc, Jindal Steel & Power, JSW Steel, National Aluminium Company, Steel Authority of India, Sesa Goa, Sterlite Industries (India), Tata Steel, Usha Martin

Recent Research

Date	Company	Title	Price (INR)	Recos
13-Aug-12	Coal India	Satisfactory performance; <i>Result Update</i>	348	Buy
07-Aug-12	Coal India	Upwards revision in penalty structure; <i>EdelFlash</i>		
07-Aug-12	SAIL	Volume disappoints; <i>Result Update</i>	85	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	104	60	18	183
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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