

## India Steel Industry

### Selective Steel Story: Prefer Tata Steel, Downgrade SAIL

- **Tata Steel and SAIL should diverge further amid tough backdrop** — Global steel stocks delivered positive returns in the past three months, driven by a steel price rally supported by global re-stocking. We believe oversupply in China/Europe leaves little room for more price upside in 2013. Even amid this backdrop, we remain positive on Tata Steel, raising our target price to Rs508 (from Rs430) given inexpensive valuations and that 3QFY13 is likely the bottom for Tata Steel Europe. We downgrade SAIL to Sell (from Neutral) post its 12% rally in past three months.
- **Steel prices unlikely to rise, but margins should improve** — We forecast \$657/t for European HRC prices in FY14 (current price \$675/t), with our European analysts expecting overcapacity of ~40-50mt. Our Chinese steel analyst believes overcapacity will become perpetual. And India prices are not insulated either, as they are based on import parity. Despite muted pricing, margins for non-integrated producers are likely to improve in FY14 vs. FY13 on lower raw material prices.
- **Tata Steel is our preferred play** — 1) TSL's valuations at 6.2x FY14E EV/EBITDA are more attractive than SAIL's at 7.3x and global average 6.5x, following 7% underperformance vs. the Sensex in the past three months. 2) TSL's European operations are likely to bottom in 3QFY13, despite expectations of low utilization levels/volatile European demand in Europe in 2013, suggesting more upside risk than downside. 3) While we cut earnings for TSL, we see greater visibility for TSL's India's earnings vs. other India steel makers as volumes have been more resilient. As a bonus, TSL is an option on a European recovery/improvement scenario – a \$5 EBITDA/t swing in TSE impacts consolidated earnings by 11%.
- **Downgrading SAIL to Sell (from Neutral)** — SAIL's stock is up 12% over the past three months, in our view already discounting expectations of margin improvement in FY14 (higher volumes; lower coking coal costs). At 7.3x FY14E EV/EBITDA (global average 6.5x), valuations look stretched given limited upside to steel prices, downside risk to volumes (three successive years of declining volumes, inventory buildup), and cost concerns (uncertainty on wages).

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Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Steel Authority	SAIL.BO	2	3	Rs80.00	Rs75.00	Rs9.77	Rs7.40
Tata Steel	TISC.BO	1	1	Rs430.00	Rs508.00	Rs26.65	Rs6.59

**See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.**

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# Investment Thesis

## Selective India steel story amid tough backdrop

We believe the global steel price rally in December (following a correction in the previous months) amid the challenging steel backdrop was driven by restocking; a breather in a tough steel environment. Most global steel stocks have delivered positive returns in the past three months; multiples have expanded (1-year fwd average EV/EBITDA is ~6.5x vs 5.5x in Sep-12). We continue to forecast a muted steel outlook and believe oversupply in China/Europe leaves little room for more price upside in 2013.

However, we remain positive on **Tata Steel**, raising our target price 18% to Rs508, given inexpensive valuations (6.2x EV/EBITDA vs. global peers at 6.5x), a likely bottom for Tata Steel Europe in 3QFY13, and leveraged position allowing more upside in a global uptick scenario. We downgrade **SAIL** to Sell (from Neutral) post its 12% rally in the past three months.

## Europe: Limping into 2013; what if...?

Link to our European steel analyst's report: [European Steel Outlook groundhog Day: The title cliché for 2013](#)

Thomas O'Hara and our other European sector analysts believe the industry will remain significantly oversupplied to the tune of 30-40mt, while demand will be around 2% or 3-4mt lower than 2012. The two key end-markets are construction, ~28% of steel demand in Europe, and automotive, making up 16% of demand. We estimate a 2.3% (1.1mt) decline in construction steel demand, 3% (0.9mt) decline in automotive steel demand and a 2.1% decline in fixed investment in 2013. EU27 capacity utilization should remain at the ~70% in 2013 – below the 75-80% utilization rate we calculate for blast furnaces to break even at EBIT.

Our European team remains neutral on the sector on a 12-month view and expects that the seasonality trade, predicated on 1H earnings momentum and a 2H decline, will continue to reign.

Link to our European steel analyst's report: [European Steel: What If There Is Upside Surprise?](#)

However, questions that have started to emerge are "What if there is an upside surprise?", "What if the global economy is actually stronger this year?" Upside could come from strong construction activity in the US, as non-res construction catches up with gains posted by residential construction in 2012. In Europe, automotive demand could hold up better than the ~1mt reduction we forecast. Ultimately, the biggest driver would be if Chinese steel demand were to demonstrate strength beyond Lunar New Year. If this were the case, we argue that investors would want to play the more leveraged (within reason) steel equities to gain exposure to this beta.

## India Steel: Muted demand; pricing likely capped

Our pricing outlook is more conservative vs earlier.

We do not expect a significant uptick in domestic steel demand and prices. India's steel consumption rose 4% yoy during Apr-Dec (10.6% in FY11 and 5.5% in FY12). Steel companies are facing an inventory buildup. HRC prices have corrected from Rs36,000/t in Apr12 to ~Rs32,000-33,000/t now. While producers have announced hikes of ~Rs1,000/t in Jan13, they are unsure about being able to push through the hike given demand trends. Pricing upside is capped as imports (+ 15% yoy in Apr-Dec12), particularly from China/FTA countries, are high (and could worsen if China increases exports/export rebates). While we expect players like Tata Steel to be able to push volumes, our pricing outlook is more conservative vs earlier.

## China: Perpetual overcapacity

Link to our China steel analyst's report:  
[PRC Metals & Mining: 2013 Outlook](#)

Our Chinese steel analyst Scarlett Chen expects the demand/supply picture to worsen for 2013 vs. 2012, as capacity additions overwhelm demand growth. End-user demand is weak, as represented by PMI below 50 for Nov and Dec12. We expect a very short spike for seasonal reason by Mar13, followed by a drop. The median of the PMI index has trended down continuously, as China deviates away from investment-driven growth.

Citi estimates China steel demand to reach 742mt in 2013E (+3.9%), with the assumption that flats grow at 2.5% and longs increase by 5.0%. We see 40-50mt of capacity to be under construction in 2013 based on channel checks, and channel checks almost always underestimate instead of overestimating capacity additions.

## Global steel price trends

European HRC prices corrected from their peak of \$720/t in Apr12 to ~\$590/t in Nov12 and have now rebounded to ~\$675/t.

Chinese export prices corrected from ~\$645/t in Apr12 to \$505 in Sep12 and have now rebounded to \$590/t.

With the surge in imports into India, Indian producers have been pricing steel in line/at a discount to import parity prices. Current HRC prices in India are in the range of Rs32,000-33,000/t vs Rs35,000-36,000/t in Apr-May12. We do not expect steel prices to rise much from current levels.

## Key Assumptions

We lower our global steel price assumptions to \$648 for FY13 (vs \$671 earlier); \$657 (vs \$676). We cut FY14 coking coal estimates vs earlier; leave our FY14 iron ore estimates largely unchanged. We expect average steel realisations for the Indian steel companies to rise by 1-4% yoy in FY13, decline ~1-2% in FY14.

Figure 1. Key Price Assumptions – HRC, Iron Ore, Coking Coal

	FY11	FY12	FY13E	FY14E	FY15E
Steel HRC (US\$/t)	743	744	648	657	676
- yoy chg (%)	33%	0%	-13%	1%	3%
Iron ore (62% Fe US\$/t) - spot – CIF **	147	168	129	120	122
- yoy chg (%)	67%	14%	-23%	-7%	2%
Coking coal (US\$/t) **	190	289	211	174	213
- yoy chg (%)	10%	52%	-27%	-18%	22%

Source: Citi Research estimates. \*\*Note: Prices at a quarter lag to spot.

EBITDA/t in FY13 is expected at \$100 for SAIL; \$281 for Tata Steel India and \$13 for Tata Steel Europe; likely to improve in FY14.

Debt Equity levels: We expect SAIL's FY13 capex at \$2bn; Tata Steel at \$2.3bn. Net D/E is expected to rise for both companies in FY13. We expect net D/E at 0.40x for SAIL in FY13 (0.55x in FY14) and 1.3x for Tata Steel (1.3x in FY14)

Raw material integration: SAIL has 5% captive coal and 100% iron ore. Tata Steel India has 100% captive iron ore and ~40% coking coal. At a consolidated level, Tata Steel's iron ore integration would be 33% in FY13; coking coal 14%.

Figure 2. Indian Steel Majors Comparisons

	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
<b>EBITDA margin (%)</b>							
SAIL	21%	24%	17%	13%	13%	17%	17%
Tata Steel India	38%	36%	39%	34%	29%	30%	29%
Tata Steel Europe	8%	-2%	5%	1%	1%	3%	2%
<b>EBITDA/t (US\$)</b>							
SAIL	147	152	118	98	100	125	126
Tata Steel India	323	269	331	322	281	284	279
Tata Steel Europe	86	-19	45	15	13	28	24
<b>Revenue/t (US\$/t)</b>							
SAIL	717	633	684	751	760	749	762
Tata Steel India	861	751	848	948	979	950	963
Tata Steel Europe	1,068	846	930	1,087	1,144	1,104	1,102
<b>Net debt/Equity (x)</b>							
SAIL	-0.4	-0.2	0.1	0.2	0.4	0.6	0.5
Tata Steel consolidated	1.8	1.9	1.3	1.1	1.3	1.3	1.3
<b>Net debt/EBITDA (x)</b>							
SAIL	-1.0	-0.5	0.2	1.3	2.5	2.7	2.4
Tata Steel consolidated	2.8	5.5	2.8	3.8	4.6	3.6	3.7
<b>% of captive iron ore</b>							
SAIL	100%	100%	100%	100%	100%	100%	100%
Tata Steel India	100%	100%	100%	100%	100%	100%	100%
Tata Steel consolidated	23%	27%	28%	29%	33%	40%	42%
<b>% of captive coking coal</b>							
SAIL	4%	4%	4%	5%	5%	4%	4%
Tata Steel India	55%	49%	47%	46%	38%	34%	33%
Tata Steel consolidated	12%	13%	13%	14%	14%	17%	17%
<b>P/E (x)</b>							
SAIL	6.0	5.5	7.6	10.5	12.1	9.7	9.4
Tata Steel consolidated	3.9	-	6.3	19.5	61.5	12.0	11.1
<b>EV/EBITDA (x)</b>							
SAIL	2.9	3.1	5.2	7.8	9.1	7.3	6.1
Tata Steel consolidated	4.4	10.0	5.2	7.2	8.0	6.2	6.1
<b>P/B (x)</b>							
SAIL	1.3	1.1	1.0	0.9	0.9	0.8	0.8
Tata Steel consolidated	2.4	4.4	1.9	1.5	1.6	1.4	1.3
<b>RoE (%)</b>							
SAIL	22%	20%	13%	9%	7%	9%	8%
Tata Steel consolidated	28%	-1%	17%	5%	2%	8%	8%
<b>RoCE (%)</b>							
SAIL	26%	21%	13%	11%	8%	9%	10%
Tata Steel consolidated	15%	6%	13%	9%	7%	9%	9%
<b>FCF yield (%)</b>							
SAIL	2%	-14%	-23%	-22%	-18%	-17%	3%
Tata Steel consolidated	25%	10%	-10%	-2%	-9%	6%	1%

Source: Citi Research estimates. Price as of 28<sup>th</sup> Jan 2013

## Valuations Less Attractive

Steel stocks globally have delivered positive returns in the last three months as steel prices rose (potentially a re-stocking rally). Global EV/EBITDA multiples are ~5-7x (largely) vs. 4-6x earlier. TSL's valuations are at 6.2x FY14 EV/EBITDA look more attractive relative to SAIL at 7.3x.

**Tata Steel target EV/EBITDA 6.8x (overall).**

We raise the target multiple for TSL India from 6x to 7x; for TSE from 5x to 5.5x in line with the global re-rating. We believe the Indian operations warrant premium valuations to global peers given raw material integration; a steadier earnings stream.

**SAIL target EV/EBITDA 6.5x.**

We value SAIL at 6.5x EV/EBITDA (vs. 6x earlier). We raise the multiple as global steel stocks have re-rated from 5.5x in Sep12 to 6.5x (average) currently. We no longer ascribe a premium to SAIL vs. global peers given the uncertainty around volume/price trends.

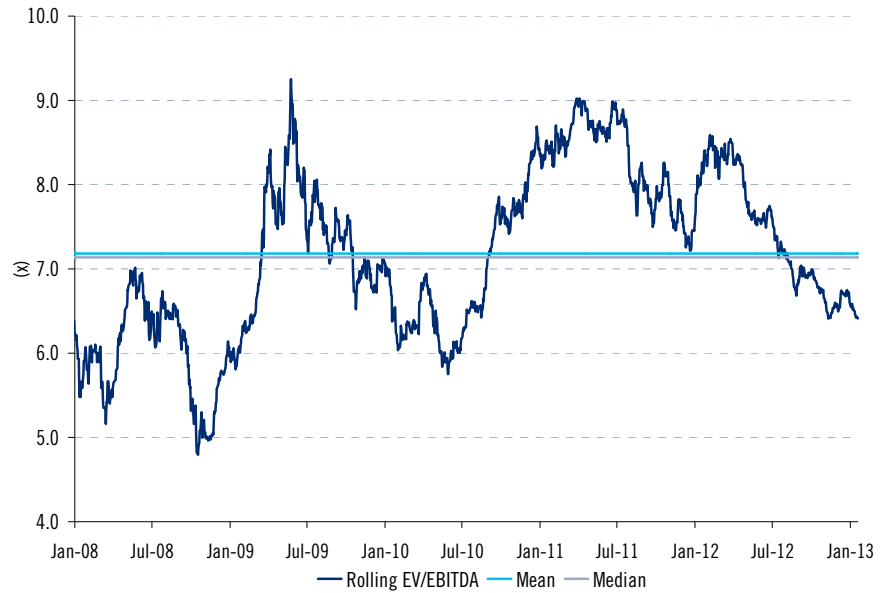
Figure 3. India Metals & Mining Sector – Stock Price Performance

	Code	Rating	28-Jan		Absolute Performance (%)						Relative Performance (%)					
			TP	CMP	1W	1M	3M	6M	1Y	YTD	1W	1M	3M	6M	1Y	YTD
Sensex Index					0%	3%	8%	19%	17%	3%						
Metals Index					-1%	-4%	6%	7%	-9%	-4%	-1%	-7%	-2%	-12%	-26%	-7%
Hindalco Industries	HALC.BO	3	118	118	-4%	-9%	4%	1%	-18%	-9%	-4%	-12%	-4%	-19%	-35%	-13%
Hindustan Zinc	HZNC.BO	2	141	128	-2%	-6%	-3%	9%	-5%	-6%	-2%	-10%	-11%	-10%	-21%	-10%
National Aluminium	NALU.BO	3	45	47	-3%	-5%	-1%	-9%	-21%	-4%	-3%	-8%	-9%	-29%	-37%	-8%
Sesa	SESA.BO	2	189	183	-2%	-6%	9%	0%	-14%	-6%	-2%	-9%	1%	-19%	-31%	-10%
Jindal Steel & Power Ltd	JNSP.BO	1	574	430	1%	-3%	11%	9%	-19%	-4%	1%	-7%	3%	-10%	-35%	-7%
<b>Steel Authority of India</b>	<b>SAIL.BO</b>	<b>3</b>	<b>75</b>	<b>90</b>	<b>-2%</b>	<b>-1%</b>	<b>12%</b>	<b>8%</b>	<b>-15%</b>	<b>-1%</b>	<b>-2%</b>	<b>-4%</b>	<b>4%</b>	<b>-11%</b>	<b>-31%</b>	<b>-4%</b>
<b>Tata Steel</b>	<b>TISC.BO</b>	<b>1</b>	<b>508</b>	<b>406</b>	<b>-2%</b>	<b>-5%</b>	<b>1%</b>	<b>2%</b>	<b>-12%</b>	<b>-5%</b>	<b>-2%</b>	<b>-9%</b>	<b>-7%</b>	<b>-18%</b>	<b>-28%</b>	<b>-9%</b>
Coal India	COAL.BO	1	400	342	-3%	-3%	-3%	-3%	0%	-4%	-3%	-7%	-10%	-23%	-16%	-7%
MOIL	MOIL.BO	3	260	257	0%	-4%	4%	-2%	-2%	-3%	0%	-7%	-4%	-21%	-19%	-7%

Source: Citi Research estimates

Tata Steel: 1-yr fwd average EV/EBITDA  
7.2x.

Figure 4. Tata Steel – 1 yr Forward Rolling EV/EBITDA



Source: Company Reports, Datastream, Citi Research estimates. Price as of 28<sup>th</sup> Jan 2013

SAIL: 1-yr fwd average EV/EBITDA 8.8x.

Figure 5. SAIL – 1 yr Forward Rolling EV/EBITDA



Source: Company Reports, Datastream, Citi Research estimates. Price as of 28<sup>th</sup> Jan 2013

Figure 6. Global Steel Valuations

Name	Code	Rating	Mkt Cap. USD \$m	Ccy	Share			P/E (x)			P/B (x)			EV/EBITDA (x)		
					Price	Target	Upside	2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E
<b>UK/Europe</b>																
ArcelorMittal	ISPA.AS	2	29,514	EUR	13.17	11.30	(14%)	nm	41.0	15.9	0.5	0.5	0.5	6.2	6.6	5.5
SSAB	SSABa.ST	3	2,569	SEK	53.05	50.00	(6%)	nm	25.3	21.9	0.6	0.6	0.6	12.5	8.4	8.4
Salzgitter AG	SZGG.DE	1	2,891	EUR	35.73	43.00	20%	nm	16.1	6.8	0.5	0.5	0.4	11.3	6.3	4.0
voestalpine AG	VOES.VI	1	6,375	EUR	27.46	34.00	24%	11.8	9.8	9.0	0.9	0.9	0.8	6.2	5.7	5.3
<b>China</b>																
Maanshan Iron and Steel	0323.HK	3H	2,602	HKD	2.62	1.79	(32%)	(4.4)	28.5	9.5	0.6	0.7	0.6	10.2	4.9	3.6
Angang Steel	0347.HK	3H	5,635	HKD	6.04	4.39	(27%)	(10.3)	87.7	80.2	0.7	0.7	0.7	21.9	10.1	9.5
Baoshan Iron & Steel	600019.SS	2H	13,790	CNY	5.01	5.00	(0%)	7.3	15.6	12.6	0.7	0.8	0.7	6.7	5.6	4.8
<b>Korea</b>																
Dongkuk Steel Mill	001230.KS	3H	741	KRW	12,900	12,000	(7%)	(9.3)	nm	(10.6)	0.3	0.3	0.3	17.5	11.4	10.9
Hyundai Steel	004020.KS	2	6,480	KRW	81,700	91,000	11%	9.9	9.5	9.1	0.8	0.7	0.6	8.8	8.3	6.3
POSCO	005490.KS	2	28,655	KRW	353,500	380,000	7%	9.5	8.7	8.2	0.7	0.6	0.6	7.2	6.6	5.9
<b>Others</b>																
China Steel	2002.TW	1	14,225	TWD	27.30	29.60	8%	89.5	42.9	32.0	1.5	1.4	1.3	17.1	12.3	10.0
Eastern Material Technology	5009.TWO	1	343	TWD	23.60	29.00	23%	11.5	9.4	8.6	1.4	1.3	1.1	8.3	7.3	6.6
<b>Eastern Europe, South Africa and Latin America</b>																
Severstal	CHMFq.L	1	10,965	USD	12.92	16.00	24%	11.6	12.0	12.9	1.0	1.0	0.9	6.3	6.2	6.2
Cia. Siderurgica Nacional	CSNA3.SA	3	8,173	BRL	11.38	10.00	(12%)	nm	12.1	10.9	2.2	1.8	1.5	7.0	6.1	5.7
Erdemir	EREGL.IS	2	4,563	TRY	2.61	2.22	(15%)	11.4	10.6	9.1	1.0	1.0	0.9	8.5	7.7	6.7
Ezzsteel	ESRS.CA	1H	812	EGP	9.92	13.50	36%	17.4	5.5	4.7	1.1	0.9	0.8	5.4	3.8	3.2
Evrax Group	EVRE.L	2	6,981	GBP	3.00	2.76	(8%)	(12.0)	(16.2)	(9.7)	1.1	1.2	1.1	6.2	7.0	8.8
Gerdau	GGBR4.SA	2	14,296	BRL	17.69	20.00	13%	19.9	14.9	10.7	1.1	1.0	0.9	9.7	7.9	6.4
Ezz Dekheila	IRAX.CA	1H	974	EGP	483.7	625.0	29%	6.4	5.2	4.7	1.7	1.6	1.3	3.2	2.7	2.3
Kumba Iron Ore Ltd	KIOJ.J	3	20,959	ZAR	582.1	360.0	(38%)	15.1	12.7	14.2	12.4	10.1	10.1	7.7	6.9	7.6
MMK	MAGNq.L	1	4,014	USD	4.74	9.00	90%	6.3	9.7		0.4	0.5		3.0	3.9	
Mechel	MTL.N	3	3,270	USD	6.82	2.00	(71%)	26.2	nm	(15.2)	0.9	0.9	1.0	8.8	10.3	11.9
NLMK	NLMKq.L	3	13,365	USD	22.09	15.50	(30%)	14.4	17.9	18.0	1.2	1.2	1.3	7.1	8.1	7.7
TMK	TRMKq.L	1	3,315	USD	15.36	18.00	17%	5.2	4.9	4.9	1.2	1.0	0.9	4.7	4.3	4.0
Ternium	TX.N	2	4,711	USD	23.50	26.00	11%	9.4	6.6	5.8	0.8	0.7	0.7	4.0	3.5	3.1
Usiminas	USIM5.SA	2	5,453	BRL	10.57	10.00	(5%)	nm	26.5	14.6	0.7	0.5	0.5	19.6	8.1	6.2
<b>North America</b>																
AK Steel Holding Corporation	AKS.N	3H	589	USD	4.44	3.50	(21%)	(8.2)	nm	14.6	(1.6)	(1.5)	(1.7)	13.5	9.8	7.9
Allegheny Technologies Incorporated	ATI.N	1	3,251	USD	30.29	39.00	29%	20.2	16.8	9.2	1.3	1.2	1.1	9.8	9.0	5.8
Avalon Rare Metals	AVL.TO	1H	137	CAD	1.33	4.50	238%	(12.3)	(10.3)	(10.0)	1.3	1.3	1.1	(8.1)	(8.8)	(9.4)
Commercial Metals Co	CMC.N	1	1,931	USD	16.57	18.00	9%	15.5	12.0	8.7	1.3	1.4	1.2	6.9	6.1	5.0
Carpenter Technology Corp	CRS.N	2	2,766	USD	52.55	54.00	3%	17.4	15.0	12.4	2.3	2.1	1.8	10.1	8.5	7.1
Nucor Corporation	NUE.N	1	15,145	USD	47.68	52.00	9%	26.7	17.0	13.2	1.8	1.9	1.8	9.6	7.5	6.1
Steel Dynamics Inc	STLD.O	1	3,341	USD	15.24	17.00	12%	19.2	13.8	10.2	1.3	1.3	1.2	8.0	6.4	5.0
United States Steel Corporation	X.N	2H	3,539	USD	24.53	25.00	2%	44.4	24.6	17.5	0.9	0.9	0.7	6.7	6.9	5.7
<b>Steel</b>			<b>395,980</b>					<b>14.9</b>	<b>12.7</b>	<b>10.6</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>7.3</b>	<b>6.6</b>	<b>5.8</b>

Source: Citi Research estimates



## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (29 Jan 13)	Rs405.30
Target price	Rs508.00
from Rs430.00	
Expected share price return	25.3%
Expected dividend yield	2.5%
<b>Expected total return</b>	<b>27.8%</b>
Market Cap	Rs393,633M
	US\$7,282M

### Price Performance (RIC: TISC.BO, BB: TATA IN)



## Tata Steel (TISC.BO) Reiterate Buy: Leveraged to an Uptick

- **Reiterate Buy on Tata Steel (TSL)** — 1) Valuations look inexpensive at 6.2x FY14 EV/EBITDA (global avg 6.5x) after a 7% underperformance vs. Sensex in 3 months. 2) 3QFY13 is likely to be a trough for TSE despite expectations of low utilization levels/volatile demand in Europe in 2013. We cut earnings for TSL India; but are relatively more confident on earnings visibility vs. other India steel producers. TSL is essentially an option on any European recovery/improvement – a \$5 EBITDA/t swing in TSE impacts consolidated earnings by 11%.
- **Raising target price 18%; steel stocks have re-rated** — Current average global EV/EBITDA is at ~6.5x vs. 5.5x in Sep12. We roll forward from Dec13E to Mar14E basis and raise target multiple for TSL India from 6x to 7x and for TSE from 5x to 5.5x in line with the global re-rating. TSL India warrants premium valuations to global peers given raw material integration; steadier earnings. At our new TP of Rs508, TSL would trade at 6.8x FY14E EV/EBITDA; 1.8x P/B.
- **India: relatively more stable** — TSL India's earnings should be buoyed by volume growth of 19% in FY14 (8.7mt sales) as the 2.9mtpa expansion ramps up. We expect EBITDA/t to sustain ~\$280-285/t; 100% iron ore integration; 35-40% captive coking coal. Low coking coal prices benefit SAIL vs. TSL India as SAIL's coal integration is only 5%. With limited downside to coking coal prices, we prefer TSL India to SAIL given better visibility on earnings/volumes.
- **TSE, earnings bottoming?** — After an EBITDA loss in 2QFY13 (and potentially in 3QFY13) – benefits of low raw material prices, rebuild of Port Talbot BF4 (1QFY14) and better volumes should help arrest profitability decline by 4QFY13. We expect EBITDA/t to rise from \$13 in FY13 to \$28 in FY14. We maintain muted volume forecasts (+2%, 13.5mt in FY14) given the uncertainty in Europe.
- **Cut EBITDA by 18%/7% for FY13E/14E** — Our cut is largely attributed to TSL India. We lower EBITDA/t for TSL India to \$281 (from \$319) for FY13; to \$284 (from \$313) for FY14 as we lower realisations on trends so far; do not expect steel prices to rise much from current levels. We forecast TSE's EBITDA/t at \$13 (vs \$18) in FY13; \$28 (vs \$24) in FY14. Lower cons. PAT by 70/21% for FY13/14.
- **Projects update** — Benga coal started production in Mar12. New Millennium mining should start by 1QFY14. The Orissa expansion (3mtpa, Rs230bn) should be commissioned by FY15. TSL's overall capex is estimated at \$2bn in FY14.
- **Risks/sensitivity** — Every 1% change in steel impacts consolidated PAT by 18%; a 1% change in Rs/\$ rate impacts PAT by 14%.

Figure 7. Tata Steel (Consolidated) – Statistical Abstract

YE 31 Mar	PAT (Rs bn)	PAT growth (%)	EPS (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY10	(3.3)		(4.2)		(96.7)	10.0	-1%
FY11	61.3		63.8		6.3	5.2	17%
FY12	21.9	-64%	20.8	-67%	19.5	7.2	5%
FY13E	8.3	-62%	6.6	-68%	61.4	8.0	2%
FY14E	34.7	319%	33.8	413%	12.0	6.2	8%
FY15E	37.4	8%	36.6	8%	11.1	6.1	8%

Source: Citi Research estimates. Price as of 28<sup>th</sup> Jan 2013. Note – PAT differs from the Datacentral sheet as the Datacentral PAT excludes hybrid securities payout and preference dividend.

TISC.BO: Fiscal year end 31-Mar						Price: Rs405.30; TP: Rs508.00; Market Cap: Rs393,633m; Recomm: Buy					
Profit & Loss (Rsm)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	1,187,531	1,328,997	1,391,525	1,438,414	1,515,400	PE (x)	6.3	19.5	61.5	12.0	11.1
Cost of sales	-1,064,213	-1,249,996	-1,323,718	-1,335,134	-1,406,335	PB (x)	1.1	0.9	0.9	0.9	0.8
Gross profit	123,319	79,001	67,807	103,280	109,065	EV/EBITDA (x)	5.0	6.9	7.5	6.0	5.9
Gross Margin (%)	10.4	5.9	4.9	7.2	7.2	FCF yield (%)	-9.8	-1.7	-8.6	5.6	1.4
<b>EBITDA (Adj)</b>	<b>167,467</b>	<b>124,168</b>	<b>121,843</b>	<b>161,255</b>	<b>169,160</b>	Dividend yield (%)	3.0	3.0	2.0	2.5	3.0
EBITDA Margin (Adj) (%)	14.1	9.3	8.8	11.2	11.2	Payout ratio (%)	19	58	121	30	33
Depreciation	-44,148	-45,167	-54,036	-57,976	-60,095	ROE (%)	21.0	5.1	1.5	7.5	7.7
Amortisation	0	0	0	0	0	<b>Cashflow (Rsm)</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>EBIT (Adj)</b>	<b>123,319</b>	<b>79,001</b>	<b>67,807</b>	<b>103,280</b>	<b>109,065</b>	EBITDA	167,467	124,168	121,843	161,255	169,160
EBIT Margin (Adj) (%)	10.4	5.9	4.9	7.2	7.2	Working capital	-77,508	11,590	-3,161	3,712	-19,780
Net interest	-39,558	-42,501	-39,581	-41,626	-42,800	Other	-34,834	-22,920	-27,291	-33,863	-37,114
Associates	0	0	0	0	0	<b>Operating cashflow</b>	<b>55,125</b>	<b>112,838</b>	<b>91,391</b>	<b>131,104</b>	<b>112,266</b>
Non-op/Except	6,800	15,730	8,433	8,799	8,809	Capex	-93,360	-119,586	-125,370	-109,113	-106,861
<b>Pre-tax profit</b>	<b>90,561</b>	<b>52,231</b>	<b>36,659</b>	<b>70,453</b>	<b>75,073</b>	Net acq/disposals	26,283	59,120	-1,044	0	0
Tax	-30,529	-34,726	-30,623	-38,016	-40,673	Other	5,276	12,546	8,433	8,799	8,809
Extraord./Min.Int./Pref.div.	1,221	2,680	365	405	1,155	<b>Investing cashflow</b>	<b>-61,800</b>	<b>-47,920</b>	<b>-117,982</b>	<b>-100,314</b>	<b>-98,052</b>
<b>Reported net profit</b>	<b>61,252</b>	<b>20,184</b>	<b>6,401</b>	<b>32,842</b>	<b>35,556</b>	Dividends paid	-7,162	-11,639	-13,536	-10,908	-13,165
Net Margin (%)	5.2	1.5	0.5	2.3	2.3	<b>Financing cashflow</b>	<b>59,731</b>	<b>-83,043</b>	<b>2,547</b>	<b>-18,791</b>	<b>-20,244</b>
Core NPAT	61,252	20,184	6,401	32,842	35,556	<b>Net change in cash</b>	<b>53,055</b>	<b>-18,125</b>	<b>-24,044</b>	<b>11,999</b>	<b>-6,030</b>
<b>Per share data</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>FCF ex acquisns &amp; explorn</b>	<b>-11,952</b>	<b>52,372</b>	<b>-35,024</b>	<b>21,992</b>	<b>5,405</b>
Reported EPS (Rs)	63.84	20.78	6.59	33.81	36.61						
Core EPS (Rs)	63.84	20.78	6.59	33.81	36.61						
DPS (Rs)	12.00	12.00	8.00	10.00	12.00						
CFPS (Rs)	57.46	116.18	94.10	134.99	115.59						
FCFPS (Rs)	-39.85	-6.95	-34.99	22.64	5.57						
BVPS (Rs)	370.69	442.96	440.27	462.47	485.13						
Wtd avg ord shares (m)	959	971	971	971	971						
Wtd avg diluted shares (m)	959	971	971	971	971						
<b>Growth rates</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>						
Sales revenue (%)	16.0	11.9	4.7	3.4	5.4						
EBIT (Adj) (%)	247.3	-35.9	-14.2	52.3	5.6						
Core NPAT (%)	nm	-67.0	-68.3	413.1	8.3						
Core EPS (%)	nm	-67.4	-68.3	413.1	8.3						
<b>Balance Sheet (Rsm)</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>						
Cash & cash equiv.	140,519	122,393	98,349	110,348	104,318						
Accounts receivables	148,119	148,785	158,327	163,239	172,775						
Inventory	240,552	255,980	258,263	257,175	277,096						
Net fixed & other tangibles	501,193	621,400	692,735	743,872	790,638						
Goodwill & intangibles	154,738	178,210	178,210	178,210	178,210						
Financial & other assets	169,761	145,634	146,678	146,678	146,678						
<b>Total assets</b>	<b>1,354,882</b>	<b>1,472,402</b>	<b>1,532,562</b>	<b>1,599,522</b>	<b>1,669,714</b>						
Accounts payable	267,724	304,272	312,937	320,472	330,149						
Short-term debt	0	0	0	0	0						
Long-term debt	605,771	597,969	653,632	687,374	723,095						
Provisions & other liab	116,859	129,038	126,282	129,937	132,545						
<b>Total liabilities</b>	<b>990,354</b>	<b>1,031,279</b>	<b>1,092,851</b>	<b>1,137,784</b>	<b>1,185,789</b>						
Shareholders' equity	355,639	430,211	427,599	449,155	471,168						
Minority interests	8,889	10,912	12,112	12,582	12,757						
<b>Total equity</b>	<b>364,528</b>	<b>441,123</b>	<b>439,711</b>	<b>461,737</b>	<b>483,925</b>						
<b>Net debt</b>	<b>465,252</b>	<b>475,575</b>	<b>555,283</b>	<b>577,026</b>	<b>618,777</b>						
Net debt to equity (%)	127.6	107.8	126.3	125.0	127.9						

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com  
For definitions of the items in this table, please click [here](#).

## Estimates revisions

Figure 8. Tata Steel – Estimate Revisions, FY13-15E

	FY13E			FY14E			FY15E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Rs/\$rate	55.0	54.4	-1%	54.3	53.9	-1%	53.3	52.9	-1%
HRC (US\$/t)	671	648	-3%	676	657	-3%	676	676	0%
<b>Tata Steel India</b>									
Sales volumes (mt)	7.6	7.3	-4%	8.7	8.7	0%	9.3	9.3	0%
Net sales (Rs bn)	412.9	387.6	-6%	464.6	446.7	-4%	494.0	482.5	-2%
EBITDA (Rs bn)	131.8	111.4	-15%	147.4	133.7	-9%	150.2	139.7	-7%
EBITDA/t (\$)	319	281	-12%	313	284	-9%	300	279	-7%
Net profit (Rs bn)	71.5	57.3	-20%	79.1	69.7	-12%	79.8	72.9	-9%
EPS (Rs)	73.6	59.0	-20%	81.4	71.8	-12%	82.1	75.0	-9%
<b>Tata Steel Europe</b>									
Sales volumes (mt)	12.5	13.3	6%	13.2	13.5	2%	14.2	14.2	0%
EBITDA (Rs bn)	12.2	9.6	-21%	17.4	20.3	16%	20.1	18.4	-8%
EBITDA/t (\$)	18	13	-25%	24	28	16%	26	24	-7%
<b>Consolidated</b>									
EBITDA (Rs bn)	148.3	121.8	-18%	174.1	161.3	-7%	181.4	169.2	-7%
Net profit (Rs bn)	27.8	8.3	-70%	44.0	34.7	-21%	46.9	37.4	-20%
EPS (Rs)	26.7	6.6	-75%	43.3	33.8	-22%	46.3	36.6	-21%

Source: Citi Research estimates. Rs/\$ rate at 54

- Citi has cut its' global HRC forecasts to \$648 for FY13 (vs. \$671 earlier) and \$657 for FY14 (vs. \$676). We now forecast Rs/\$ at 54.4 in FY13 (vs. 55 earlier) and 53.9 in FY14 (vs. 54.3). Subsequently, TSL India's average realizations have been reduced by 2-4% for FY13/14.
- We lower our domestic sales volumes by 4% for FY13 incorporating trends so far but keep FY14 volumes unchanged.
- Our EBITDA/t for TSL India is expected at \$281 (vs. \$319 earlier) in FY13 and at \$284 in FY14 (vs. \$313); largely attributed to the decline in realizations (vs. our earlier estimates).
- We cut EBITDA/t for TSL Europe to \$13 from \$18 for FY13 (we now expect an EBITDA loss in 3QFY13 vs. our expectation of a profit earlier). We raise EBITDA/t for FY14 to \$28 from \$24 in FY14 as we lower raw material costs. We increase TSL Europe's volumes from 12.5mt to 13.3mt in FY13 (on trends so far) and from 13.2mt to 13.5mt in FY14.
- The above changes result in our forecast consolidated PAT falling by 70% for FY13 and 21% for FY14.

## Valuation

At our TP, TSL would trade at 6.8x FY14E EV/EBITDA (a discount to its 5-year average of 7.2x) and 1.8x P/B (5-year low 1.3x; 5-year average 2.5x).

Figure 9. Tata Steel – SOTP Valuation

	New (based on Mar-14)	Old (based on Dec-13)
<b>Tata Steel India</b>		
EBITDA (Rs m)	133,740	143,461
Target EV/EBITDA (x)	7.0	6.0
EV (Rs m)	936,180	860,768
Net debt (Rs m)	237,817	216,833
Preference share capital (Rs m)	224	224
Hybrid perpetual securities (Rs m)	22,750	22,750
<b>Implied market value (Rs m) - (A)</b>	<b>675,388</b>	<b>620,961</b>
<b>Non-India EV based on other European majors</b>		
Steady state EBITDA (Rs m)	28,500	28,000
Target EV/EBITDA (x)	5.5	5.0
EV (Rs m)	156,750	140,000
Net debt (Rs m)	339,209	343,076
<b>Implied market value (Rs m) - (B)</b>	<b>-182,459</b>	<b>-203,076</b>
<b>Total implied market value - (A) + (B)</b>	<b>492,930</b>	<b>417,886</b>
Number of shares (m)	971	971
<b>Implied price per share (Rs)</b>	<b>508</b>	<b>430</b>

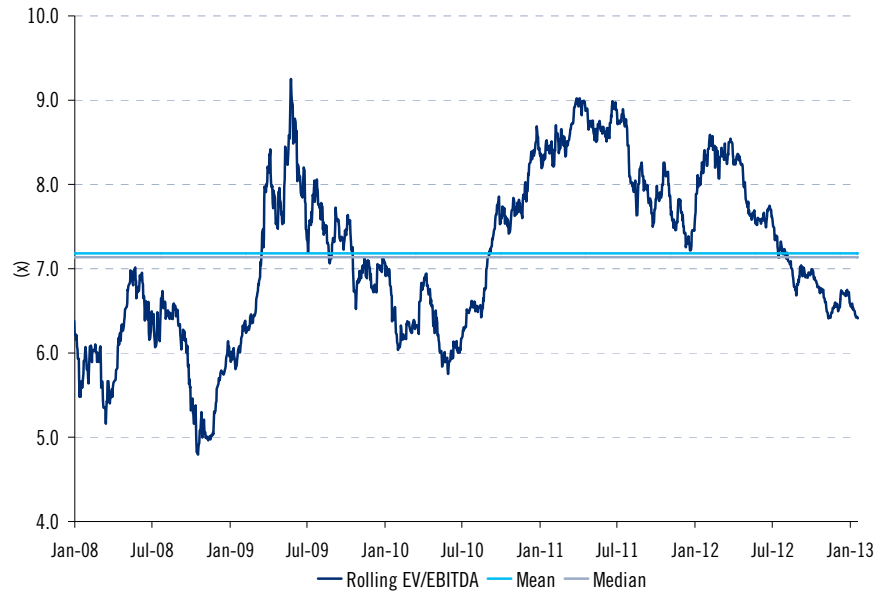
Source: Citi Research estimates

We roll forward to Mar14E basis from Dec13E and arrive at our revised target price of Rs508.

Current average global EV/EBITDA multiples are at ~6.5x vs. 5.5x in Sep12. We raise the target multiple for TSL India from 6x to 7x; for TSE from 5x to 5.5x in line with the global re-rating. We believe the Indian operations warrant premium valuations to global peers given raw material integration; a steadier stream of earnings.

We value the other businesses below global peers as the uncertainty/volatility around the European operations' profitability is a concern. We assume a steady-state EBITDA to value the non-Indian operations.

Figure 10. Tata Steel — 1 yr Forward Rolling EV/EBITDA



Source: Company Reports, Datastream, Citi Research estimates. Price as of 28<sup>th</sup> Jan 2013

Figure 11. Tata Steel — 1 yr Forward Rolling P/B



Source: Company Reports, Datastream, Citi Research estimates. Price as of 28<sup>th</sup> Jan 2013

## Volumes/capacity: India growing

### Tata Steel India

TSL's 2.9mtpa expansion at Jamshedpur in FY13 (capex \$2.8bn) takes its crude steel capacity to 9.7mtpa. The project is being commissioned in a phased manner and is expected to add 1mt in FY13 and 2mt in FY14. We expect TSL India's production to rise 12% yoy to 7.8mt in FY13, to 8.9mt in FY14 (+14% yoy). Sales volumes are expected at 7.3mt in FY13, +11% yoy; 8.7mt in FY14, +19%.

TSL will commission its 6mtpa (flat products) in Orissa in two stages of 3mt each. It aims to complete the first phase by FY15 at a capex of Rs230bn (\$4.3bn). Capex for the second phase is \$3bn.

### Tata Steel Europe

We expect volumes to fall 5% yoy to 13.3mt in FY13 (capacity utilization 79%) and rise marginally to 13.5mt in FY14 (capacity utilization 80%). Port Talbot blast furnace-4 is being rebuilt (rebuilding commenced in July12) and is expected to come on stream by 1QFY14. The rebuild on BF-4 will enhance productivity by 400kt taking overall productivity to 2.9mtpa.

Figure 12. Tata Steel India – Volumes and EBITDA/t, FY11-15E

	FY11	FY12	FY13E	FY14E	FY15E
Sale volumes (mt)	6.4	6.6	7.3	8.7	9.3
- % chg yoy	4%	3%	11%	19%	6%
EBITDA/tonne (\$)	331	322	281	284	279
- % chg yoy	23%	-3%	-13%	1%	-2%

Source: Company Reports, Citi Research estimates. Rs/\$ rate at 54

Figure 13. Tata Steel Europe – Volumes and EBITDA/t, FY11-15E

	FY11	FY12	FY13E	FY14E	FY15E
Sale volumes (mt)	14.7	14.0	13.3	13.5	14.2
- % chg yoy	2%	-5%	-5%	2%	5%
EBITDA/tonne (\$)	45	15	13	28	24
- % chg yoy		-67%	-8%	107%	-13%

Source: Company Reports, Citi Research estimates. Rs/\$ rate at 54

## Raw Materials

### Tata Steel India

TSL India has 100% captive iron ore. TSL is upgrading its Joda and Noamundi mines to meet the requirements of its 2.9mt expansion and will continue to be self-sufficient in iron ore post the expansion. The company has captive coal mines in West Bokaro and Jharia producing ~7.2mtpa of coal. Imports account for ~54% of coking coal requirements in FY12. With the commissioning of 2.9mtpa expansion, imports would rise to 60-65% of total requirement.

**Figure 14. Tata Steel India – Raw Material Integration**

	FY11	FY12	FY13E	FY14E	FY15E
- % of captive iron ore	100%	100%	100%	100%	100%
- % of captive coking coal	47%	46%	38%	34%	33%

Source: Company Reports, Citi Research estimates

## Tata Steel Europe

TSL Europe does not have captive iron ore coal. Coal mining from Benga Project (35% stake), Mozambique commenced in Mar12 and will provide a hedge to TSL Europe's coal requirement. The project is expected to produce 5.3mtpa ROM coal in Phase 1: 1.5mtpa coking coal and 0.9mtpa thermal coal. The ROM coal is expected to rise to 10.6mtpa in Phase 2: 3mtpa of coking coal and 1.8mtpa thermal coal. We estimate FY13 coking coal production at 0.5mt and thermal coal production at 0.2mt. Iron ore from the New Millennium Project, Canada is expected to become available from 1QFY14. Initial output is estimated at 2mtpa; and should increase to 4mtpa. TSL will get 100% of the off take.

**Figure 15. Tata Steel Consolidated – Raw Material Integration (incl New Millennium and Benga)**

	FY11	FY12	FY13E	FY14E	FY15E
- % of captive iron ore	28%	29%	33%	40%	42%
- % of captive coking coal	13%	14%	14%	17%	17%

Source: Company Reports, Citi Research estimates

## Capex

Capex is estimated at \$2.3bn in FY13 and \$2bn in FY14. This includes spending on the India brownfield and greenfield expansions; rebuild of BF-4 at Port Talbot; Mozambique and Canada raw material assets.

**Figure 16. Tata Steel – Consolidated Debt Break-up, FY11-15E**

	FY11	FY12	FY13E	FY14E	FY15E
Gross debt (\$ m)	11,218	11,073	12,104	12,729	13,391
Net debt (\$ m)	8,616	8,807	10,283	10,686	11,459
Net Debt / Equity (x)	1.3	1.1	1.3	1.3	1.3
Net Debt / EBITDA (x)	2.8	3.8	4.6	3.6	3.7

Source: Company Reports, Citi Research estimates. Rs/\$ rate at 54.

## Financial Summary

Figure 17. Tata Steel – Financial Summary Table

Operating metrics	FY11	FY12	FY13E	FY14E	FY15E	P&L Account (Rs m)	FY11	FY12	FY13E	FY14E	FY15E
HRC price (\$/t)	743	744	648	657	676	Net sales	1,187,531	1,328,997	1,391,525	1,438,414	1,515,400
Rs/\$ rate	45.6	48.1	54.4	53.9	52.9	- Tata Steel India	25%	26%	28%	31%	32%
Total Capacity (mt)	27.8	30.1	29.2	29.2	29.2	- Tata Steel Europe	62%	62%	59%	56%	56%
<b>Total Production (mt)</b>	<b>23.6</b>	<b>24.2</b>	<b>23.8</b>	<b>24.0</b>	<b>25.3</b>	- NatSteel	6%	6%	7%	7%	7%
- Tata Steel India (mt)	6.4	6.7	7.0	7.8	8.9	- Tata Steel Thailand	3%	3%	3%	3%	3%
- Tata Steel Europe (mt)	14.4	14.6	14.0	13.3	13.5	- Others	4%	3%	3%	3%	3%
- NatSteel (mt)	1.6	1.6	1.6	1.8	1.8	Total expenses	1,020,065	1,204,829	1,269,682	1,277,158	1,346,240
- Tata Steel Thailand (mt)	1.2	1.3	1.2	1.1	1.1	<b>EBITDA</b>	<b>167,467</b>	<b>124,168</b>	<b>121,843</b>	<b>161,255</b>	<b>169,160</b>
<b>Total Sales (mt)</b>	<b>24.2</b>	<b>23.6</b>	<b>23.7</b>	<b>25.3</b>	<b>26.6</b>	<b>EBITDA margin (%)</b>	<b>14.1%</b>	<b>9.3%</b>	<b>8.8%</b>	<b>11.2%</b>	<b>11.2%</b>
- Tata Steel India (mt)	6.4	6.6	7.3	8.7	9.3	<b>EBITDA/t (US\$)</b>					
- Corus (mt)	14.7	14.0	13.3	13.5	14.2	- Tata Steel India	331	322	281	284	279
- NatSteel (mt)	1.8	1.8	2.0	2.0	2.0	- Tata Steel Europe	45	15	13	28	24
- Tata Steel Thailand (mt)	1.3	1.1	1.1	1.1	1.1	Other income	6,800	15,730	8,433	8,799	8,809
<b>Balance sheet (Rs m)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>	Depreciation	44,148	45,167	54,036	57,976	60,095
Goodwill	152,982	173,546	173,546	173,546	173,546	Interest	39,558	42,501	39,581	41,626	42,800
Fixed assets	501,193	621,400	692,735	743,872	790,638	PBT	121,020	85,850	36,659	70,453	75,073
Investments	78,473	40,213	41,257	41,257	41,257	Tax	32,459	36,365	30,623	38,016	40,673
- Liquid investments	31,593	13,984	13,984	13,984	13,984	Tax rate (%)	26.8%	42.4%	83.5%	54.0%	54.2%
Current assets	620,478	632,579	620,361	636,183	659,610	PAT after MI/associates	89,827	53,898	8,280	34,721	37,435
Deferred tax asset	1,756	614	614	614	614	<b>Adjusted PAT</b>	<b>61,298</b>	<b>21,917</b>	<b>8,280</b>	<b>34,721</b>	<b>37,435</b>
Current Liabilities/ provisions	338,733	377,396	383,305	394,496	406,780	<b>Key valuation metrics</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>
<b>Overall Capital employed</b>	<b>1,016,149</b>	<b>1,095,006</b>	<b>1,149,257</b>	<b>1,205,026</b>	<b>1,262,934</b>	No. of shares (m)	959	971	971	971	971
Shareholders Funds	355,639	430,211	427,599	449,155	471,168	EPS (Rs)	63.8	20.8	6.6	33.8	36.6
Preference capital	0	224	224	224	224	BVPS (Rs)	211	264	262	284	306
Warrants issued	175	175	175	175	175	Net debt/EBITDA (x)	2.8	3.8	4.6	3.6	3.7
Minority Interest	8,889	10,912	12,112	12,582	12,757	Net debt/equity (x)	1.3	1.1	1.3	1.3	1.3
<b>Total Debt</b>	<b>605,771</b>	<b>597,969</b>	<b>653,632</b>	<b>687,374</b>	<b>723,095</b>	DPS (Rs)	12.0	12.0	8.0	10.0	12.0
Deferred tax liability	21,882	25,039	25,039	25,039	25,039	Dividend payout (%)	15%	27%	150%	35%	39%
<b>Total Sources of Funds</b>	<b>1,016,149</b>	<b>1,095,006</b>	<b>1,149,257</b>	<b>1,205,026</b>	<b>1,262,934</b>	P/E (x)	6.3	19.5	61.5	12.0	11.1
<b>Cash flow statement (Rs m)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>	EV/EBITDA (x)	5.2	7.2	8.0	6.2	6.1
Cash flow from operations	55,125	112,838	91,391	131,104	112,266	P/B (x)	1.9	1.5	1.6	1.4	1.3
Cash flow from investments	-61,800	-47,920	-117,982	-100,314	-98,052	ROCE (%)	13%	9%	7%	9%	9%
Cash flow from financing	59,731	-83,043	2,547	-18,791	-20,244	FCF yield (%)	-10%	-2%	-9%	6%	1%
<b>Net cash flow</b>	<b>53,055</b>	<b>-18,125</b>	<b>-24,044</b>	<b>11,999</b>	<b>-6,030</b>						

Source: Citi Research estimates. Price as of 28<sup>th</sup> Jan 2013



## Tata Steel

### Company description

Tata Steel Ltd (TSL) has a crude-steel capacity of 9.7mtpa in India with flats accounting for 55-60% of production. It sells ferro alloys, tubes, bearings and some mineral products. TSL Europe (earlier called Corus), TSL's 100% subsidiary, is a North European Steel long and flat steel producer with ~17mtpa of operational crude steel capacity. TSL Europe makes steel using the basic oxygen method at three integrated steelworks located at Port Talbot and Scunthorpe in the UK and IJmuiden (43% of Europe's capacity) in the Netherlands. It produces engineering steels at Rotherham, UK using the electric arc furnace method. TSL Europe sells mainly flat products (~70% of volumes). TSL has a presence in Asia through NatSteel (100%-owned) and Tata Steel Thailand (67.9%-owned). India accounts for ~30% of TSL's consolidated steel production.

### Investment strategy

We reiterate a Buy on Tata Steel (TSL) shares. 3QFY13 is likely to be a trough for Tata Steel Europe (TSE) despite expectation of low utilization levels/volatile demand in Europe in 2013 (lower raw material costs). TSL has underperformed the Sensex in recent months; valuations look inexpensive at 6.2x FY14 EV/EBITDA (global average 6.5x). And we are relatively more confident on its earnings visibility vs. other steel producers. TSL is also essentially an option on a European recovery/improvement scenario – a \$5 EBITDA/t swing in TSE impacts consolidated earnings by 11%.

### Valuation

We use EV/EBITDA as our preferred valuation metric for TSL largely due to its high leverage. Our target price of Rs508 is based on Mar14E EV/EBITDA. Average global EV/EBITDA multiples are at ~6.5x. We set a target multiple for TSL India at 7x and for TSE at 5.5x in line with the global valuations. We believe the Indian operations warrant premium valuations to global peers given raw material integration; a steadier stream of earnings. We value the other businesses below global peers as the uncertainty/volatility around the European operations' profitability is a concern. We assume a steady-state EBITDA to value the non-Indian operations. At our TP, TSL would trade at 6.8x FY14E EV/EBITDA and 1.8x P/B.

### Risks

Downside risks include: 1) weaker steel prices; 2) higher raw material prices; 3) FX trends; and 4) lower volumes than we expect, especially for TSL Europe. Any of these risk factors could cause the shares to fail to reach our target price.

## Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

<b>Sell</b>	<b>3</b>
<i>from Neutral</i>	
Price (29 Jan 13)	Rs88.95
Target price	Rs75.00
<i>from Rs80.00</i>	
Expected share price return	-15.7%
Expected dividend yield	2.5%
<b>Expected total return</b>	<b>-13.2%</b>
Market Cap	Rs367,410M US\$6,797M

### Price Performance (RIC: SAIL.BO, BB: SAIL IN)



## Steel Authority of India (SAIL.BO) Downgrade to Sell: In Irons

- **Downgrade to Sell** — SAIL's stock is up 12% in the past three months, largely discounting expectations of margin improvement in FY14 (higher volumes; lower coking coal costs). At 7.3x FY14E EV/EBITDA (global average at 6.5x), valuations seem stretched – limited upside to steel prices; downside risk to volumes (three successive years of declining volumes, inventory buildup); cost concerns (uncertainty on wages). Lacking visibility on upside triggers, we downgrade to Sell (from Neutral).
- **India: muted demand; pricing uncertainty** — SAIL's sales are largely in the domestic market. We do not expect a significant uptick in domestic demand and prices (upside capped as imports are high). India's steel consumption rose 4% yoy in Apr-Dec12; inventories have been on the rise. HRC prices have corrected from Rs36,000 in Apr12 to ~Rs32,000/t now (discount to import parity). While a price hike has been taken in Jan13, there are concerns around sustainability.
- **Lower EBITDA by 17%/8% for FY13E/14E** — We lower estimates on trends so far; cut sales volumes by 4-7%; realisations by 2-4%. We expect sales to fall 4% to 11mt in FY13 but rise 14% to 12.6mt in FY14. We now expect FY14 coking coal costs (imports) to be ~\$174/t vs. \$200/t earlier. We forecast FY13 EBITDA/t at \$100 (\$115 earlier); \$125 for FY14 (\$126 earlier). Lower PAT by 24%/15% for FY13/14. Our debt estimates are higher vs. earlier incorporating 1HFY13 trends.
- **TP trimmed to Rs75 (from Rs80)** — We roll forward to a Mar14E basis (from Dec13) and value SAIL at 6.5x EV/EBITDA (vs. 6x earlier). We raise the multiple as global steel stocks have re-rated from 5.5x in Sep12 to avg. 6.5x currently. We no longer ascribe a premium to global peers given uncertainty on volume/price trends in India. At our TP, SAIL would trade at 0.7x P/B and 8.1x P/E.
- **Financial leverage to increase** — SAIL plans to raise saleable steel capacity from 12.5mtpa in FY12 to 20.2mtpa in FY14 at a capex of \$13bn (including raw material augmentation). We estimate FY13 capex at Rs106bn (\$2bn); expect net D/E to rise from 0.25x in FY12 to 0.4x in FY13 and 0.55x in FY14.
- **Raw material integration** — SAIL has 3.8bn tonnes of iron ore reserves. Its captive mines meet 100% of ore requirements (including planned expansions). It has ~5% captive coking coal; imports ~70%; purchases the rest from Coal India.
- **Sensitivity/risks** — Every 1% change in HRC prices results in 9% change in FY14E PAT. 1% change in Rs/\$ rate impacts PAT by 7%. Key upside risks: higher steel prices/volumes; rupee depreciation; lower coal/wage costs.

Figure 18. Steel Authority of India (SAIL) – Statistical Abstract

YE 31 Mar	Net Profit (Rs m)	EPS (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY10	66,791	16.2	9%	5.5	3.1	20%
FY11	47,338	11.5	-29%	7.6	5.2	13%
FY12	37,239	9.0	-21%	10.5	7.8	9%
FY13E	30,578	7.4	-18%	12.1	9.1	7%
FY14E	38,212	9.3	25%	9.7	7.3	9%
FY15E	39,705	9.6	4%	9.4	6.1	8%

Source: Citi Research estimates. Price as of 28<sup>th</sup> Jan 2013

SAIL.BO: Fiscal year end 31-Mar						Price: Rs88.95; TP: Rs75.00; Market Cap: Rs367,410m; Recomm: Sell					
Profit & Loss (Rsm)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	433,074	463,418	452,332	510,057	623,047	PE (x)	7.8	9.9	12.0	9.6	9.3
Cost of sales	-373,533	-418,636	-409,104	-448,483	-552,983	PB (x)	1.0	0.9	0.9	0.8	0.8
Gross profit	59,541	44,782	43,228	61,574	70,064	EV/EBITDA (x)	5.4	7.9	9.4	7.5	6.7
Gross Margin (%)	13.7	9.7	9.6	12.1	11.2	FCF yield (%)	-23.0	-22.6	-17.7	-16.8	2.8
<b>EBITDA (Adj)</b>	<b>74,399</b>	<b>60,452</b>	<b>59,498</b>	<b>84,877</b>	<b>102,746</b>	Dividend yield (%)	2.7	2.2	2.2	2.5	2.5
EBITDA Margin (Adj) (%)	17.2	13.0	13.2	16.6	16.5	Payout ratio (%)	21	22	27	24	23
Depreciation	-14,858	-15,670	-16,270	-23,303	-32,682	ROE (%)	13.9	9.2	7.5	8.8	8.6
Amortisation	0	0	0	0	0	<b>Cashflow (Rsm)</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>EBIT (Adj)</b>	<b>59,541</b>	<b>44,782</b>	<b>43,228</b>	<b>61,574</b>	<b>70,064</b>	EBITDA	74,399	60,452	59,498	84,877	102,746
EBIT Margin (Adj) (%)	13.7	9.7	9.6	12.1	11.2	Working capital	-32,625	-32,642	-5,995	-2,952	-15,523
Net interest	-4,748	-6,777	-7,777	-13,052	-19,261	Other	-20,201	-16,114	-12,454	-16,213	-16,984
Associates	0	0	0	0	0	<b>Operating cashflow</b>	<b>21,573</b>	<b>11,697</b>	<b>41,049</b>	<b>65,712</b>	<b>70,238</b>
Non-op/Except	14,859	16,230	8,232	6,066	5,918	Capex	-106,208	-94,874	-106,250	-127,600	-60,000
<b>Pre-tax profit</b>	<b>69,652</b>	<b>54,234</b>	<b>43,683</b>	<b>54,589</b>	<b>56,721</b>	Net acq/disposals	-153	-8	0	0	0
Tax	-22,896	-16,082	-13,105	-16,377	-17,016	Other	17,028	19,533	8,232	6,066	5,918
Extraord./Min.Int./Pref.div.	2,291	-2,726	0	0	0	<b>Investing cashflow</b>	<b>-89,333</b>	<b>-75,349</b>	<b>-98,018</b>	<b>-121,534</b>	<b>-54,082</b>
<b>Reported net profit</b>	<b>49,047</b>	<b>35,427</b>	<b>30,578</b>	<b>38,212</b>	<b>39,705</b>	Dividends paid	-14,025	-11,543	-3,841	-9,624	-10,586
Net Margin (%)	11.3	7.6	6.8	7.5	6.4	<b>Financing cashflow</b>	<b>18,198</b>	<b>-46,992</b>	<b>28,382</b>	<b>52,325</b>	<b>-14,847</b>
Core NPAT	47,338	37,239	30,578	38,212	39,705	<b>Net change in cash</b>	<b>-49,563</b>	<b>-110,644</b>	<b>-28,587</b>	<b>-3,498</b>	<b>1,309</b>
<b>Per share data</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>FCF ex acquisns &amp; explorn</b>	<b>-84,789</b>	<b>-83,185</b>	<b>-65,201</b>	<b>-61,888</b>	<b>10,238</b>
Reported EPS (Rs)	11.87	8.58	7.40	9.25	9.61						
Core EPS (Rs)	11.46	9.02	7.40	9.25	9.61						
DPS (Rs)	2.40	2.00	2.00	2.20	2.20						
CFPS (Rs)	5.22	2.83	9.94	15.91	17.01						
FCFPS (Rs)	-20.49	-20.14	-15.79	-14.98	2.48						
BVPS (Rs)	89.75	96.39	101.46	108.15	115.20						
Wtd avg ord shares (m)	4,130	4,130	4,130	4,130	4,130						
Wtd avg diluted shares (m)	4,130	4,130	4,130	4,130	4,130						
<b>Growth rates</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>						
Sales revenue (%)	4.7	7.0	-2.4	12.8	22.2						
EBIT (Adj) (%)	-30.7	-24.8	-3.5	42.4	13.8						
Core NPAT (%)	-29.1	-21.3	-17.9	25.0	3.9						
Core EPS (%)	-29.1	-21.3	-17.9	25.0	3.9						
<b>Balance Sheet (Rsm)</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>						
Cash & cash equiv.	174,801	64,157	35,570	32,072	33,382						
Accounts receivables	41,303	47,613	42,811	48,298	59,085						
Inventory	113,028	137,424	153,106	153,631	172,811						
Net fixed & other tangibles	371,338	451,765	541,745	646,042	673,360						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	60,360	62,411	62,911	63,411	63,911						
<b>Total assets</b>	<b>760,830</b>	<b>763,370</b>	<b>836,143</b>	<b>943,455</b>	<b>1,002,549</b>						
Accounts payable	31,865	31,904	33,289	32,850	43,793						
Short-term debt	0	0	0	0	0						
Long-term debt	193,747	163,195	203,195	278,195	293,195						
Provisions & other liab	164,523	170,158	180,591	185,717	189,749						
<b>Total liabilities</b>	<b>390,135</b>	<b>365,257</b>	<b>417,075</b>	<b>496,762</b>	<b>526,737</b>						
Shareholders' equity	370,695	398,113	419,067	446,693	475,812						
Minority interests	0	0	0	0	0						
<b>Total equity</b>	<b>370,695</b>	<b>398,113</b>	<b>419,067</b>	<b>446,693</b>	<b>475,812</b>						
<b>Net debt</b>	<b>18,946</b>	<b>99,038</b>	<b>167,625</b>	<b>246,123</b>	<b>259,813</b>						
Net debt to equity (%)	5.1	24.9	40.0	55.1	54.6						

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com  
For definitions of the items in this table, please click [here](#).

## Estimates revisions

We cut our sales volumes by 4% for FY13 and 7% for FY14; lower realizations by 2-4% for FY13/FY14. Lower EBITDA/t to \$100 for FY13 (vs \$115 earlier); \$125 for FY14 (vs \$126).

Figure 19. Estimate Revisions, FY13-15E

	FY13E			FY14E			FY15E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Rs/\$rate	55.0	54.4	-1%	54.3	53.9	-1%	53.3	52.9	-1%
HRC (US\$/t)	671	648	-3%	676	657	-3%	676	676	0%
Production volumes (mt)	12.6	12.4	-1%	14.6	13.8	-5%	16.7	16.4	-2%
Sales volumes (mt)	11.5	11.0	-4%	13.6	12.6	-7%	15.5	15.1	-2%
Net sales (Rs bn)	485.8	452.3	-7%	572.5	510.1	-11%	651.8	623.0	-4%
EBITDA (Rs bn)	71.4	59.5	-17%	92.3	84.9	-8%	112.3	102.7	-8%
EBITDA/t (\$)	115	100	-13%	126	125	-1%	134	126	-6%
Net profit (Rs bn)	40.3	30.6	-24%	45.0	38.2	-15%	50.6	39.7	-22%
EPS (Rs)	9.8	7.4	-24%	10.9	9.3	-15%	12.3	9.6	-22%

Source: Citi Research estimates, Rs/\$ rate at 54

## Valuation

We increase SAIL's target multiple to 6.5x from 6.0x as global steel stocks have re-rated from 5.5x in Sep12 to 6.5x currently. We no longer ascribe a premium to global peers given the uncertainty on volume/price trends. At our TP, SAIL would trade at 0.7x P/B and 8.1x P/E.

Figure 20. SAIL – Valuations

SAIL	New (based on Mar14)	Old (based on Dec13)
EBITDA (Rs m)	84,877	87,099
Target EV/EBITDA (x)	6.5	6.0
EV (Rs m)	555,097	531,257
Net debt (Rs m)	246,123	200,825
Implied market value (Rs m)	308,975	330,432
Number of shares (Rs m)	4,130	4,130
<b>Implied price per share (Rs)</b>	<b>75</b>	<b>80</b>

Source: Citi Research estimates

Figure 21. SAIL — 1 yr Forward Rolling EV/EBITDA



Source: Company Reports, Datastream, Citi Research estimates. Price as of 28<sup>th</sup> Jan 2013

Figure 22. SAIL — 1 yr Forward Rolling P/B



Source: Company Reports, Datastream, Citi Research estimates. Price as of 28<sup>th</sup> Jan 2013

## Volumes/expansions update

SAIL has plans to enhance its saleable steel capacity from 12.5mtpa to 20.2mt in FY14 (hot metal capacity from 14.1mtpa to 23.4mtpa).

Figure 23. SAIL – Volumes and EBITDA/t, FY11-15E

	FY11	FY12	FY13E	FY14E	FY15E
Sales volumes (mt)	11.7	11.4	11.0	12.6	15.1
- % chg yoy	-3%	-3%	-4%	14%	20%
EBITDA/tonne (\$)	118	98	100	125	126
- % chg yoy	-23%	-17%	2%	25%	1%

Source: Company Reports, Citi Research estimates. Rs/\$ rate at 54

## Raw material update

SAIL's current iron ore reserves are ~3.8b tonnes.

SAIL has 100% captive iron ore. Requirement of the increased capacity shall be met through captive mines. Iron ore capacity is expected to rise from 20mtpa currently to ~58mt as new capacity gets commissioned. SAIL plans to outsource the development of the Rowghat (Chhattisgarh) and Chiria (Jharkhand) mines.

SAIL imports ~70% of its coking coal requirements. Domestic coal is largely sourced from Coal India (~3.5mtpa) and its own coking coal production (0.5mtpa).

## Balance sheet update

SAIL's gross debt was Rs210bn (~\$3.9bn) and net debt Rs149bn (\$2.8bn) as of 30 Sep12; net D/E was 0.36x. We expect net debt to be Rs168bn (\$3.1bn) and net D/E to be 0.40x by end FY13; 0.55x in FY14.

Figure 24. SAIL – Debt Break-up, FY11-15E

	FY11	FY12	FY13E	FY14E	FY15E
Gross debt (\$ m)	3,588	3,022	3,763	5,152	5,430
Net debt (\$ m)	351	1,834	3,104	4,558	4,811
Net Debt / Equity	0.05	0.25	0.40	0.55	0.55
Net Debt / EBITDA	0.2	1.3	2.5	2.7	2.4

Source: Company Reports, Citi Research estimates. Rs/\$ rate at 54

## Financial Summary

Figure 25. SAIL – Financial Summary Table

Operating metrics	FY11	FY12	FY13E	FY14E	FY15E	P&L Account (Rs m)	FY11	FY12	FY13E	FY14E	FY15E
Rs/\$ rate	45.6	48.1	54.4	53.9	52.9	Net sales	427,187	456,540	446,454	503,680	616,170
HRC US\$/t	743	744	648	657	676	Total expenses	358,675	402,966	392,833	425,180	520,301
Saleable steel capacity (mt)	12.9	12.5	12.7	20.2	20.2	<b>EBITDA</b>	<b>74,399</b>	<b>60,452</b>	<b>59,498</b>	<b>84,877</b>	<b>102,746</b>
Saleable steel production (mt)	12.9	12.4	12.4	13.8	16.4	<b>EBITDA margin (%)</b>	<b>17.4%</b>	<b>13.2%</b>	<b>13.3%</b>	<b>16.9%</b>	<b>16.7%</b>
- % chg yoy	2%	-4%	1%	11%	18%	<b>EBITDA/t (US\$)</b>	<b>118</b>	<b>98</b>	<b>100</b>	<b>125</b>	<b>126</b>
Saleable steel sales (mt)	11.7	11.4	11.0	12.6	15.1	Other income	14,859	16,230	8,232	6,066	5,918
- % chg yoy	-3%	-3%	-4%	14%	20%	Depreciation	14,858	15,670	16,270	23,303	32,682
						Interest	4,748	6,777	7,777	13,052	19,261
<b>Balance Sheet (Rs m)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>	PBT	69,652	54,234	43,683	54,589	56,721
Net fixed Assets	150,585	171,274	112,745	636,042	653,360	Total Tax	22,896	16,082	13,105	16,377	17,016
Investments	6,841	6,849	6,849	6,849	6,849	Tax rate (%)	33%	30%	30%	30%	30%
Current Assets	382,650	304,756	287,548	290,564	322,340	Reported PAT	46,756	38,153	30,578	38,212	39,705
- Cash And Bank Balance	64,157	35,570	32,072	33,382	41,386	<b>Adjusted PAT</b>	<b>47,338</b>	<b>37,239</b>	<b>30,578</b>	<b>38,212</b>	<b>39,705</b>
Current Liabilities/provisions	181,478	185,617	197,436	202,122	217,097						
<b>Overall Capital employed</b>	<b>579,352</b>	<b>577,753</b>	<b>638,707</b>	<b>741,333</b>	<b>785,451</b>	<b>Key valuation metrics</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>
Shareholders Funds	370,695	398,113	419,067	446,693	475,812	No. of shares (m)	4,130	4,130	4,130	4,130	4,130
<b>Total Debt</b>	<b>193,747</b>	<b>163,195</b>	<b>203,195</b>	<b>278,195</b>	<b>293,195</b>	EPS (Rs)	11.3	9.2	7.4	9.3	9.6
Deferred tax liability	14,911	16,445	16,445	16,445	16,445	BVPS (Rs)	89.7	96.4	101.5	108.1	115.2
<b>Total Sources of Funds</b>	<b>579,352</b>	<b>577,753</b>	<b>638,707</b>	<b>741,333</b>	<b>785,451</b>	Net debt/EBITDA (x)	0.2	1.3	2.5	2.7	2.4
Net Debt	18,946	99,038	167,625	246,123	259,813	Net debt/equity (x)	0.1	0.2	0.4	0.6	0.5
						DPS (Rs)	2.4	2.0	2.0	2.2	2.2
<b>Cash flow statement (Rs m)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>	Dividend payout (%)	24%	27%	31%	28%	27%
Cash from operations	21,573	11,697	41,049	65,712	70,238	P/E (x)	7.6	10.5	12.1	9.7	9.4
Cash flow from investments	-89,333	-75,349	-98,018	-121,534	-54,082	EV/EBITDA (x)	5.2	7.8	9.1	7.3	6.1
Cash flow from financing	18,198	-46,992	28,382	52,325	-14,847	P/B (x)	1.0	0.9	0.9	0.8	0.8
<b>Net cash flow</b>	<b>-49,563</b>	<b>-110,644</b>	<b>-28,587</b>	<b>-3,498</b>	<b>1,309</b>	ROE (%)	13%	9%	7%	9%	8%
						ROCE (%)	13%	11%	8%	9%	10%
						FCF yield (%)	-23%	-22%	-18%	-17%	3%

Source: Citi Research estimates. Price as of 28<sup>th</sup> Jan 2013

## Steel Authority of India

### Company description

Steel Authority of India (SAIL) is an integrated steel producer with crude steel capacity of 13.4mtpa and saleable steel capacity of 12.5mtpa. It has five integrated steel plants and three special steel plants, mostly located in eastern and central India. It has 100% captive iron ore and 5% captive coking coal. SAIL is a Public Sector Undertaking (PSU) in which the Government of India owns 85.8%. It plans to expand its capacity gradually, taking its crude steel capacity to 21.4mtpa and saleable steel capacity to 20.2mtpa by FY15 at a total capex of ~Rs720bn, which includes capex on value addition, modernization and raw material augmentation. The company makes both flat (59% of sales) and long (34%) products, including value added products such as pipes, plates and coated products. Most of SAIL's output is sold within India and exports account for only ~2% of sales.

### Investment strategy

SAIL's stock is up in the past three months, largely discounting expectations of margin improvement in FY14 (higher volumes; lower coking coal costs). At 7.3x FY14E EV/EBITDA (global average at 6.5x), valuations seem stretched – limited upside to steel prices; downside risk to volumes (three successive years of declining volumes, inventory buildup); cost concerns (uncertainty on wages). Lacking visibility on upside triggers, we rate the shares as Sell.

### Valuation

We use EV/EBITDA as our preferred valuation metric for the Indian steel companies given the high debt/equity levels for some steel majors under coverage. Global steel stocks are trading at ~6.5x EV/EBITDA (average) currently. Our target price of Rs75 is based on Mar14E EV/EBITDA of 6.5x in-line with the global peers. We no longer ascribe a premium to global peers given the uncertainty concerning volume/price trends. At our TP of Rs75, SAIL would trade at a PE of 8.1x and 0.7x P/B.

### Risks

Key upside risks that could sustain the shares above our target price include higher steel prices/volumes vs. expectations; lower coal/wage costs than we expect; rupee depreciation.



# Appendix A-1

## Analyst Certification

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#### Steel Authority of India (SAIL.BO)

##### Ratings and Target Price History

##### Fundamental Research

Analyst: Raashi Chopra, CFA  
Covered since July 30 2012



	Date	Rating	Target Price	Closing Price
1	17-May-10	*2M	*234.00	209.75
2	21-Apr-11	*2L	*185.00	172.50
3	18-Sep-11	*1L	*130.00	109.55

	Date	Rating	Target Price	Closing Price
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*1	130.00	103.45
6	26-Feb-12	*2	*108.00	105.15

	Date	Rating	Target Price	Closing Price
7	30-Jul-12	2	*90.00	86.00
8	7-Sep-12	2	*80.00	77.50

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

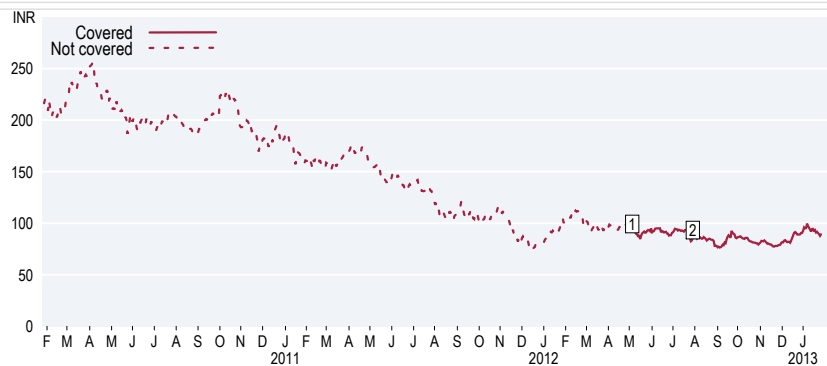
#### Steel Authority of India (SAIL.BO)

##### Ratings and Target Price History

##### Best Ideas Research

##### Relative Call (3 Month)

Analyst: Raashi Chopra, CFA  
Covered since July 30 2012



	Date	Rating	Target Price	Closing Price
1	4-May-12	*ADD LP	-	93.80

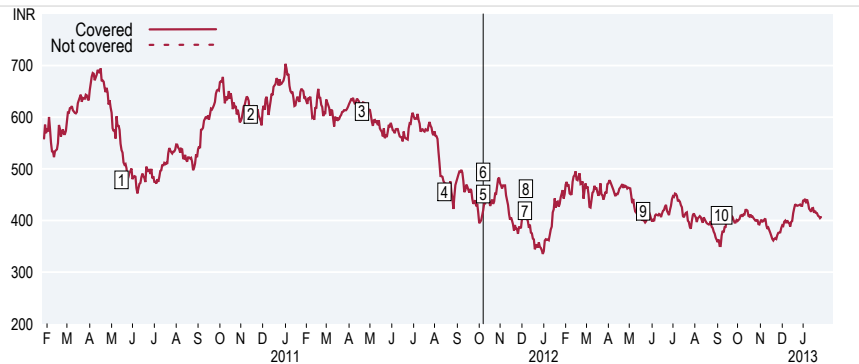
	Date	Rating	Target Price	Closing Price
2	30-Jul-12	*REM LP	-	86.00

\* Indicates change

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**Tata Steel (TISC.BO)**  
**Ratings and Target Price History**  
**Fundamental Research**

Analyst: Raashi Chopra, CFA  
Covered since July 30 2012



	Date	Rating	Target Price	Closing Price
1	17-May-10	2M	*590.00	536.20
2	15-Nov-10	*1M	*740.00	617.15
3	20-Apr-11	1M	*777.00	625.00
4	14-Aug-11	1M	*632.00	476.35

	Date	Rating	Target Price	Closing Price
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*1	632.00	419.60
7	6-Dec-11	1	*442.00	411.60
8	7-Dec-11	*2	442.00	416.55

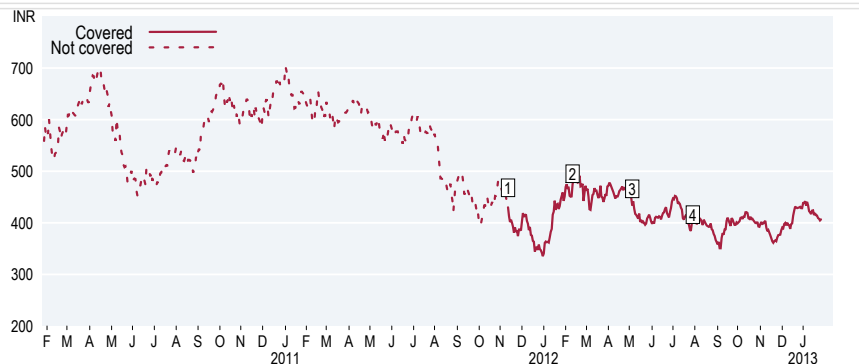
	Date	Rating	Target Price	Closing Price
9	20-May-12	2	*446.00	399.85
10	7-Sep-12	*1	*430.00	370.70

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

**Tata Steel (TISC.BO)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Raashi Chopra, CFA  
Covered since July 30 2012



	Date	Rating	Target Price	Closing Price
1	11-Nov-11	*ADD MP	-	430.00
2	10-Feb-12	*REM MP	-	475.00

	Date	Rating	Target Price	Closing Price
3	4-May-12	*ADD LP	-	433.55
4	30-Jul-12	*REM LP	-	410.20

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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ArcelorMittal, voestalpine AG, Allegheny Technologies Incorporated, SSAB, Ternium, Ezz Dekheila, Usiminas, Salzgitter AG, Hyundai Steel, Carpenter Technology Corp, MMK, Gerdau, Sesa Goa, Nucor Corporation, Cia. Siderurgica Nacional, Hindalco Industries, POSCO in the past 12 months.

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