



Q1FY13 Result Update

August 24, 2012

HDFC Sec Scrip code	Industry	CMP (Rs.)	Recommended Action	Time Horizon
TATSTEEQNR	Metals	398.60	Exit the stock between CMP and Rs.419 and look to re enter on dips to Rs.331-353	1 quarter

Tata Steel Limited (TSL) is one of the leading steel manufacturers having manufacturing facilities spread across the Asian continent and European continent. In the South East Asian continent the company has manufacturing facilities located at Thailand, Singapore under the name of Tata Steel Thailand and National Steel Holdings (Nat Steel) respectively. In the European continent it has presence through Corus and is present in a big way in the Indian markets.

TSL has recently declared its Q1FY13 results and we present an update on the same.

Q1FY13 Consolidated Results:

Particulars (Rs mn)	Q1 FY13	Q1 FY12	% Y-o-Y	Q4 FY12	% Q-o-Q	FY12	FY11	% Y-o-Y
Net Sales	335477.3	329,256.8	1.9	338600.8	(0.9)	1,322,573.6	1,171,497.8	12.9
Other Operating Income	2734.7	744.9	267.1	1384.9	97.5	6,423.4	16,033.4	-59.9
Other Income	2893.8	7,612.5	(62.0)	2220.2	30.3	15,730.3	9,809.8	60.4
Total Income	341,105.8	337,614.2	1.0	342,205.9	(0.3)	1,344,727.3	1,197,341.0	12.3
Raw Material Consumed	115846.4	115,202.3	0.6	102249	13.3	454,575.4	380,441.2	19.5
Stock Adjustment	-26730.1	(23,914.4)	11.8	9110.7	(393.4)	(7,859.3)	(13,559.8)	-42.0
Purchase of Finished Goods	61381.4	60,580.9	1.3	54285.1	13.1	210,734.3	158,904.0	32.6
% of net sales	44.5%	46.0%		48.7%		49.5%	44.3%	
Employee Expenses	47824.8	42,315.9	13.0	47221	1.3	172,286.4	152,884.2	12.7
% of net sales	14.1%	12.8%		13.9%		13.0%	12.9%	
Power, Oil & Fuel	13906.1	12,092.9	15.0	12743.4	9.1	49,154.5	40,147.6	22.4
% of net sales	4.1%	3.7%		3.7%		3.7%	3.4%	
Other Expenses	91950.6	79,151.8	16.2	82588.2	11.3	325,937.8	308,757.8	5.6
% of net sales	27.2%	24.0%		24.3%		24.5%	26.0%	
TOTAL EXPENDITURE	304,179.2	285,429.4	6.6	308,197.4	(1.3)	1,204,829.1	1,027,575.0	17.2
% of net sales	89.9%	86.5%		90.7%		90.7%	86.5%	
PBIDT (Inc OI)	36,926.6	52,184.8	(29.2)	34,008.5	8.6	139,898.2	169,766.0	-17.6
PBIDT (Exc OI)	34,032.8	44,572.3	(23.6)	31,788.3	7.1	124,167.9	159,956.2	-22.4
Interest	9,690.1	10,129.5	(4.3)	11,280.0	(14.1)	42,501.1	27,700.4	53.4
PBDT	27,236.5	42,055.3	(35.2)	22,728.5	19.8	97,397.1	142,065.6	-31.4
Depreciation	13,079.8	11,507.9	13.7	10,930.7	19.7	45,166.5	44,148.2	2.3
Exceptional Item	0	(33,619.2)	(100.0)	-		(33,619.2)	(23,102.1)	45.5
PBT	14,156.7	64,166.6	(77.9)	11,797.8	20.0	85,849.8	121,019.5	-29.1
Tax	8986.3	11,229.9	(20.0)	9766	(8.0)	36,364.6	32,459.0	12.0
Reported Profit After Tax	5,170.4	52,936.7	(90.2)	2,031.8	154.5	49,485.2	88,560.5	-44.1
Minority Interest After NP	398.9	248.1	60.8	301.0	32.5	1,731.4	602.8	187.2
Share of profit from the Associates	409.5	280.7	45.9	2,001.8	(79.5)	2,681.1	663.6	304.0
PAT after Minority Interest	5,978.8	53,465.5	(88.8)	4,334.6	37.9	53,897.7	89,826.9	-40.0
Deliveries (mn tons)	5.7	6.1	(6.6)	6.2	(8.1)	24.22	24.5	-1.1
Realizations (Rs / ton)	58,855.7	53,976.5	9.0	54,613.0	7.8	54,606.7	47,816.2	14.2
EBITDA (Rs / ton)	5,970.7	7,306.9	(18.3)	5,127.1	16.5	5,126.7	6,528.8	-21.5
OPM (%)	10.1%	13.5%		9.3%		9.3%	13.5%	
NPM(%)	1.8%	16.2%		1.3%		4.1%	7.7%	
EPS	6.2	55.8	(89.0)	4.5	-	55.5	92.5	-40.0

(* PAT after minority interest adjusted for other income (net of tax))

Q1FY13 Consolidated Results Review:

- The consolidated revenues for Q1FY13 have risen by a meager 1.9% on a y-o-y basis to Rs 338.6 bn. This is primarily on the back of 9.0% rise in the realizations. The overall deliveries for the quarter registered a de-growth of 6.6% (y-o-y) to 5.7 mn tons. Sequentially the revenues were down 0.9% led by 8.1% fall in the deliveries, which fully offset the rise of 7.8% in realizations.
- The deliveries for the European operations and the South Asian operations registered a decline of 9.6% and 7.7% respectively on a y-o-y basis for Q1FY13 while the volumes at the Indian operations were flat on a y-o-y basis. The following table depicts the volumes and realizations for TSL's consolidated operations.



Particulars	Q1FY13	Q1 FY12	% Y-o-Y	Q4 FY12	% Q-o-Q	FY12	FY11	% Y-o-Y
NatSteel Holdings & Tata Steel Thailand								
Deliveries (MT)	0.7	0.8	-7.7%	0.7	0.0%	3.0	3.1	-4.5%
Revenues (\$ mn)	606.0	599.0	1.2%	620.0	-2.3%	2,498.0	2,540.0	-1.7%
Realisations (\$ per ton)	841.7	767.9	9.6%	861.1	-2.3%	846.8	822.0	3.0%
Corus (Europe)								
Deliveries (MT)	3.2	3.6	-9.6%	3.6	-9.6%	14.0	14.9	-5.7%
Revenues (\$ mn)	3,669.0	3,692.0	-0.6%	3,916.0	-6.3%	16,150.0	17,044.0	-5.2%
Realisations (\$ per ton)	1,143.0	1,040.0	9.9%	1,103.1	3.6%	1,151.9	1,146.2	0.5%
Tata Steel (India Operations)								
Deliveries (MT)	1.6	1.6	0.0%	1.8	-10.2%	6.6	6.4	3.3%
Revenues (\$ mn)	1,601.0	1,413.0	13.3%	1,863.0	-14.1%	6,671.0	6,593.0	1.2%
Realisations (\$ per ton)	1,006.9	888.7	13.3%	1,052.5	-4.3%	1,006.2	1,026.9	-2.0%

- The consolidated operating margins have dipped 340 bps on a y-o-y basis to 10.1%. Sequentially the operating margins improved 80 bps.
- The consolidated PAT for the quarter after minority interest and share of Associates is at Rs 5.98 bn, which is down from a level of Rs 53.47 bn as of Q1FY12. The PAT figures are not comparable y-o-y as the reported PAT number for the corresponding quarter last year (Q1FY12) included profit on US\$604 million on sale of shares in Riverdale mining and Tata Refractories (TRL).
- EBITDA/tonne in Europe surprised positively at US\$35 (vs \$7.32 in Q4FY12) due to better spreads between RM costs and realizations, which rose q-o-q to US\$1146/ tonne. This could be due to lag impact of price hike taken by the company during end March. Since then global steel prices (including Europe) have come down by 10%. Thus Q2FY13 realizations could be lower than the Q1. Also, as fall in steel prices remained sharper than raw material prices, maintaining margins would be difficult. Further the over capacity situation in Europe and demand contraction is a structural problem and would continue to dent optimism. Volume growth should be a concern for the European business. Realizations started falling in June-July. During August as market goes to summer holidays, demand as well as realizations are expected to fall further.

Q1FY13 Standalone Results:

Particulars	Q1 FY13	Q1 FY12	% Y-o-Y	Q4 FY12	% Q-o-Q	FY12	FY11	% Y-o-Y
Net Sales	88201.9	77,922.0	13.2	93759.1	(5.9)	336,148.8	290,735.0	15.6
Other Operating Income	878.4	680.5	29.1	1035.2	(15.1)	3,185.8	3,228.5	-1.3
Other Income	1518.9	2,563.6	(40.8)	1829.3	(17.0)	8,864.3	7,906.7	12.1
Total Income	90,599.2	81,166.1	11.6	96,623.6	(6.2)	348,198.9	301,870.2	15.3
Raw Material Consumed	24226.2	17,902.5	35.3	21473.5	12.8	80,143.7	62,440.1	28.4
Stock Adjustment	-4965.6	(2,547.4)	94.9	1871.8	(365.3)	(2,207.2)	(1,736.5)	27.1
Purchase of Finished Goods	770.3	373.4	106.3	642.4	19.9	2,095.2	1,802.0	16.3
% of net sales	22.5%	20.0%		25.3%		23.6%	21.3%	
Employee Expenses	8591.3	6,870.0	25.1	9363.3	(8.2)	30,472.6	26,197.7	16.3
% of net sales	9.6%	8.7%		9.9%		9.0%	8.9%	
Power, Oil & Fuel	5477.8	4,593.3	19.3	4602.8	19.0	18,037.2	14,048.6	28.4
% of net sales	6.1%	5.8%		4.9%		5.3%	4.8%	
Other Expenses	27182.1	20,262.6	34.1	26924.4	1.0	95,425.4	76,883.0	24.1
% of net sales	30.5%	25.8%		28.4%		28.1%	26.2%	
TOTAL EXPENDITURE	61,282.1	47,454.4	29.1	64,878.2	(5.5)	223,966.9	179,634.9	24.7
PBIDT (Inc OI)	29,317.1	33,711.7	(13.0)	31,745.4	(7.6)	124,232.0	122,235.3	1.6
PBIDT (Exc OI)	27,798.2	31,148.1	(10.8)	29,916.1	(7.1)	115,367.7	114,328.6	0.9
Interest	4,544.40	4,536.5	0.2	5,139.60	(11.6)	19,254.2	13,004.9	48.1
PBDT	24,772.7	29,175.2	(15.1)	26,605.8	(6.9)	104,977.8	109,230.4	-3.9
Depreciation	3,543.90	2,853.0	24.2	2,899.60	22.2	11,514.4	11,461.9	0.5
Extra-ordinary Items (Gain) / Loss	-	(5,110.1)				(5,110.0)		
PBT	21,228.8	26,322.2	(19.4)	23,706.2	(10.5)	98,573.4	97,768.5	0.8
Tax	7663.2	9,238.0	(17.0)	8101.1	(5.4)	31,609.3	29,111.6	8.6
Reported Profit After Tax	13,565.6	22,194.3	(38.9)	15,605.1	(13.1)	66,964.1	68,656.9	-2.5
EPS (Rs.)	14.0	23.1	(39.6)	16.1	(13.1)	68.9	70.7	-2.5



Fully Diluted Equity	9,714.1	9,594.1		9,714.1		9,714.1	9,714.1	0.0
Face Value	10.0	10.0		10.0		10.0	10.0	0.0
PBIDT-M(%)	31.2%	39.6%		31.6%		34.0%	38.9%	-12.6
PAT-M (%)	15.4%	28.5%		16.6%		19.9%	23.6%	-15.6
Deliveries (Mn tons)	1.59	1.59	-	1.77	(10.2)	6.63	6.41	3.4
Realizations (Rs / ton)	55,472.9	49,007.5	13.2	52,971.2	4.7	50,701.2	45,356.5	11.8
EBITDA (Rs / ton)	17,483.1	19,590.0	(10.8)	16,901.8	3.4	17,400.9	17,836.0	-2.4

Q1FY13 Standalone Results Review:

- TSL's standalone net sales were up 13.8% y-o-y to Rs 88.2 bn for the quarter triggered by a 13.2% rise in realization on flat volumes. The deliveries for the quarter stood at 1.59 mn tons as against 1.59 mn tons in Q1FY12. Sequentially the revenues fell 5.9% triggered by a 4.7% rise in the realizations more than offset by 10.2% fall in the deliveries.
- The standalone operating margins for the quarter were at 31.2% down 840 bps y-o-y.
- The net profit margins for the quarter dropped 1310 bps y-o-y to 15.4% mainly because of an exceptional gain in Q1FY12.
- Energy outage affected production resulting in lower Flat and Long Products deliveries in Q1FY13.
- Improved demand and depreciating rupee led to higher export realization in Ferro alloys division.
- Realizations in the domestic business rose but its impact was offset by lower volume, higher employee costs (due to higher provisioning for pension) higher power costs on account of increased rates and rise in per tonne cost of raw material.
- Long products volume was down due to maintenance shutdown while their prices were higher; galvanized flat products prices remained higher.
- Capex spent was US\$641 mn during the quarter
- Forex loss of Rs 2.05 bn was due to foreign debt (65%) and coal import (35%)
- Incremental volume is expected from Q3 onwards and shutdowns should be over by Q2.
- Tata Steel has started the blast furnace (BF) operations – the new blast furnace produced close to 0.6mn tonnes during Q1FY13. However, this was masked by maintenance shutdown at older BF and hence there is no perceptible increase in hot metal production. The company has said that this was deliberate given coke oven batteries have not yet been commissioned and this should be completed by Q3FY13. The company maintained its guidance of a 1mn tonne increase in volumes in FY13

Other Highlights:

During the current quarter, the company has undertaken two voluntary open offers for acquisition of (i) up to 14,653,470 equity shares from the equity shareholders of The Tinsplate Company of India Limited (TCIL), constituting 14% of the equity share capital of TCIL, at Rs 60 per equity share; (ii) and up to 1,734,040 equity shares from the equity shareholders of Tata Sponge Iron Limited (TSIL), constituting 11.26% of the equity share capital of TSIL, at Rs 375 per equity share.

TSL has, on April 23, 2012 issued Unsecured Redeemable Non Convertible Debentures of face value of Rs 1,500 crores at a discount of 15% to face value with a coupon of 2% per annum and a YTM of 9.8% per annum.

Conclusion:

Tata Steel reported consolidated debt of Rs.540 bn, up from Rs.476 bn reported in 4QFY12. The translation impact from GBP-denominated to local currency may have contributed to Rs.35 bn of the Rs.64 bn q-o-q increase in debt. While Tata Steel gains from Rupee depreciation at the consolidated level valuations of TSE erode. Debt also increased due to aggressive capex of the company. Tata Steel spent US\$650 mn on capex in Q1FY13; and the company's guidance is for US\$2.4 bn of capex for each of the next two years.

Tata Steel indicated that it had a marginal surplus in the TSE pension fund. Notes to 1QFY13 results indicate that the profit would have been lower by Rs14.4 bn if the actuarial loss on funds for employee benefits were routed through the P&L. The pension surplus at the end of FY2012 was Rs12 bn. This pension surplus is likely to turn into material deficit once the triennial actuarial valuation exercise has been done. The company expects this exercise to be completed soon.

The above two are material negatives for the company for the time being.

The company's standalone performance could be volatile until capitalization of the Jamshedpur expansion is complete. The stock may not perform in the near term due to the economic slowdown and fears of steel dumping from China (as its domestic demand falters). Global steel capacity utilization remains around 80%, implying significant overcapacity and downward pressure on steel prices. Raw material prices are falling sharply, which should help non-integrated steel manufacturers. Steel makers are attempting price increases, however falling raw material prices may drag steel prices further. India's domestic steel demand outlook remains soft however supply issues (mostly with secondary manufacturers) have balanced the situation. Sovereign debt issues and austerity measures in the Eurozone are hurting consumer sentiment and steel demand.

In our report dated 24 May 2012 we had stated that the stock could trade in the band of Rs 338 (5.0x FY13E EPS) - Rs. 437 (6.5x FY13E EPS) for the next quarter. Post the issue of the report the stock touched a high of Rs 455.60 on 4th July 2012 and a low of Rs 382 on 26th July 2012.

We revise our FY13E estimates lower on the back of lower realizations assumptions and also lower volume assumptions for Europe.

Based on the above we feel that investors could look to exit the stock between CMP and Rs.419 (9.5x FY13RE EPS) and look to reenter on dips to Rs.331-353 (7.5x-8x FY13E EPS).

Consolidated Financials:

Particulars (Rs Mn)	FY09	FY10	FY11	FY12	FY13OE	FY13RE
Net Sales	1,473,293	1,017,578	1,171,498	1,322,574	1,389,530	1,339,300
PBIDT (Excluding OI)	181,277	80,427	159,956	124,168	159,821	131,690
PBIDT (%)	12.3%	7.9%	13.7%	9.4%	11.8%	9.8%
PAT*	49,510	-20,092	89,827	53,898	65,308	42,860
PAT (%)	3.4%	-2.0%	7.7%	4.1%	4.7%	3.2%
Adjusted PAT	78,437	-15,305	72,922	20,278	65,308	42,860
Adjusted NPM (%)	5.3%	-1.5%	6.2%	1.5%	4.7%	3.2%
Adjusted EPS	80.7	-15.8	75.1	20.9	67.2	44.1
Reported EPS	51.0	-20.7	92.5	55.5	67.2	44.1
P/E (x) (adjusted EPS)	4.95	-25.39	5.33	19.16	5.95	9.04

(OE=Original estimates, RE=Revised Estimates, *=PAT after minority interest & Share of Associates)

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