

14 February 2013

**BUY**

TP: INR 440.00

▲ 17.0%

# Tata Steel

TATA IN

## Weak Q3, expect mild recovery ahead

**TATA's Q3FY13 results were disappointing as Indian operations underperformed (reporting the lowest EBITDA/t in the past 12 quarters) on weak realisations and higher raw material cost, and European operation continued with its EBITDA losses. The consolidated entity reported a net loss yet again after a weak Q2FY13. However, despite near-term headwinds, BUY into the weakness as the share of higher-RoCE Indian business is slated to rise over FY13-15. Maintain BUY with a TP of Rs 440.**

- ➔ **Weak realisations affect Indian operations:** Standalone revenues came in at Rs 92.7bn (+12% YoY, +3% QoQ) with sales realisations disappointing at Rs 49,038/t (-6% QoQ, -4% YoY) and sales volumes at 1.89mt (+17% YoY, +9% QoQ). Domestic EBITDA/t was at Rs 12,826/t (-19% YoY, -8% QoQ), the lowest in the past 12 quarters, further impacted by higher cost of imported coke.
- ➔ **Volumes, profitability disappoint for Corus:** TSE revenues were at \$ 3.3bn (-15% YoY, -12% QoQ) with sales volume weak on subdued demand at 3.02mt (-10% YoY, -12% QoQ) and sales realisations at \$ 1,092/t (-1% QoQ, -5% YoY). Profitability continued to disappoint with EBITDA/t of \$ -26/t (\$ -2/t in Q2FY13).
- ➔ **Consolidated entity reports a net loss again:** Consolidated EBITDA came in at Rs 22.4bn (+17% YoY, -3% QoQ) with South East Asian operations as the only outperformer. Post a weak Q2FY13, the consolidated entity reported a net loss of Rs -7.43bn (-23% YoY, -83% QoQ), significantly below street estimates, further aided by lower other income due to less liquid investment.
- ➔ **Maintain BUY:** We continue to like TATA as the share of higher-RoCE Indian business is slated to increase through FY13-FY15 and we expect Corus profitability to stabilise. Maintain BUY with a March'14 TP of Rs 440 6.5x FY14E EV/EBITDA .

### Financial Highlights

Y/E 31 Mar	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue (INR mln)	1,023,931	1,187,531	1,328,997	1,336,089	1,315,006
EBITDA (INR mln)	80,427	159,956	124,168	109,650	146,174
Adjusted net profit (INR mln)	(22,628)	89,827	53,898	5,121	37,846
Adjusted EPS (INR)	(3.7)	69.6	20.9	5.3	38.9
Adjusted EPS growth (%)	(103.0)	n.a.	(70.0)	(53.8)	375.4
ROIC (%)	(315.4)	10.6	4.9	1.3	6.2
Adjusted ROAE (%)	(9.0)	30.0	13.1	1.8	9.6
Adjusted P/E (x)	(172.1)	8.9	18.0	74.9	10.1
EV/EBITDA (x)	12.2	6.4	6.7	8.3	6.5
P/BV (x)	2.5	1.6	0.8	0.8	0.8

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (13 Feb 13)

INR 376.00

MARKET CAP

INR 83,893 mln

USD 1,559 mln

SHARES O/S

223.1 mln

FREE FLOAT

52.0%

3M AVG DAILY VOLUME./VALUE

4.3 mln/ USD 32.0 mln

52 WK HIGH

INR 495.15

52 WK LOW

INR 349.90

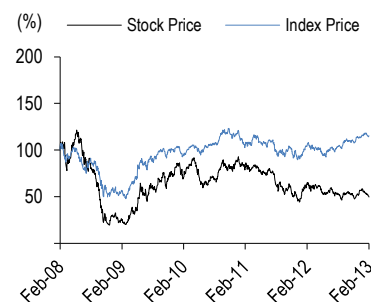




Fig 1 - Earnings revision

(Rs mn)	FY13			FY14		
	Old	New	% chg	Old	New	% chg
Revenues	1,356,089	1,336,089	-1%	1,342,613	1,315,006	-2%
EBITDA	130,910	109,650	-16%	155,765	146,174	-6%
Adj PAT	9,373	5,121	-45%	44,559	37,846	-15%

Source: RCML Research, Company

Fig 2 - Actual vs Estimate highlights

(Rs mn)	Q3FY13A	Q3FY13E	% diff	Q3FY12	% chg YoY
Revenue	321,071	312,862	3%	331,031	-3%
EBITDA	22,389	22,013	2%	19,133	17%
EBITDA margin (%)	7	7	flat	5.8	120 bps
Net income	(7,433)	(4,987)	-49%	(6,027)	-23%

Source: RCML Research, Company

Fig 3 - Quarterly highlights

(Rs mn)	Q3FY13	Q3FY12	% Chg YoY	Q2FY13	% Chg QoQ
Revenues	321,071	331,031	(3)	341,327	(6)
Expenditure	298,682	311,898	(4)	318,227	(6)
EBITDA	22,389	19,133	17	23,101	(3)
Other income	559	2,537	(78)	2,018	(72)
Depreciation	14,628	11,640	26	13,349	10
EBIT	8,319	10,030	(17)	11,769	(29)
Interest	10,323	10,600	(3)	9,721	6
Exceptional items	(198)	-		427	
PBT	(2,003)	(570)	251	2,048	(198)
Taxes	5,685	6,303	(10)	6,608	(14)
Share of associates/minority interest	256	847	(70)	493	(48)
Reported PAT	(7,631)	(6,027)	-27	(3,639)	-110
Adjusted PAT	(7,433)	(6,027)	-23	(4,066)	-83
EBITDA margin (%)	7.0	5.8	119.3	6.8	20.5
<b>Key ratios</b>	<b>Q3FY13</b>	<b>Q3FY12</b>	<b>% Chg YoY</b>	<b>Q2FY13</b>	<b>% Chg QoQ</b>
EBITDA margin (%)	7.0	5.8	119.3	6.8	20.5
EBIT margin (%)	2.6	3.0	(43.9)	3.4	(85.7)
PAT margin (%)	(2)	(1.8)	(49.4)	(1.2)	(112.4)

Source: RCML Research, Company



## Per Share Data

Y/E 31 Mar (INR)	FY10A	FY11A	FY12A	FY13E	FY14E
Reported EPS	(3.7)	69.6	20.9	9.6	45.9
Adjusted EPS	(3.7)	69.6	20.9	9.6	45.9
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	257.3	386.7	466.7	463.9	495.8

## Valuation Ratios

Y/E 31 Mar (x)	FY10A	FY11A	FY12A	FY13E	FY14E
EV/Sales	1.0	0.9	0.6	0.7	0.7
EV/EBITDA	12.2	6.4	6.7	8.3	6.5
Adjusted P/E	(172.1)	8.9	18.0	39.0	10.2
P/BV	2.5	1.6	0.8	0.8	0.8

## Financial Ratios

Y/E 31 Mar	FY10A	FY11A	FY12A	FY13E	FY14E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	7.9	13.5	9.3	9.7	11.6
EBIT margin	3.5	9.8	5.9	5.6	7.0
Adjusted profit margin	(2.2)	7.6	4.1	0.6	3.3
Adjusted ROAE	(9.0)	30.0	13.1	1.8	9.6
ROCE	(294.9)	9.7	4.4	1.2	5.7
<b>YoY Growth (%)</b>					
Revenue	(30.5)	16.0	11.9	2.0	(1.0)
EBITDA	(55.6)	98.9	(22.4)	5.4	19.0
Adjusted EPS	(103.0)	n.a.	(70.0)	(53.8)	375.4
Invested capital	(14.1)	24.5	8.6	7.5	6.1
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	44	40	41	41	42
Inventory (days)	104	100	96	98	101
Payables (days)	87	89	84	87	91
Current ratio (x)	1.6	2.0	1.8	1.8	1.8
Quick ratio (x)	1.0	1.3	1.1	1.1	1.1
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	1.1	1.2	1.3	1.1	1.0
Total asset turnover	0.9	1.0	1.0	0.9	0.9
Net interest coverage ratio	1.2	4.2	1.9	1.8	2.2
Adjusted debt/equity	2.3	1.6	1.3	1.5	1.4

## DuPont Analysis

Y/E 31 Mar (%)	FY10A	FY11A	FY12A	FY13E	FY14E
Tax burden (Net income/PBT)	(7299.5)	74.2	62.8	18.1	70.4
Interest burden (PBT/EBIT)	0.9	104.5	108.7	58.5	67.5
EBIT margin (EBIT/Revenue)	3.5	9.8	5.9	5.6	7.0
Asset turnover (Revenue/Avg TA)	90.1	98.4	95.6	91.2	86.1
Leverage (Avg TA/Avg equities)	449.7	402.9	337.4	328.9	334.4
Adjusted ROAE	(9.0)	30.0	13.1	1.8	9.6



## Income Statement

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12A	FY13E	FY14E
<b>Total revenue</b>	<b>1,023,931</b>	<b>1,187,531</b>	<b>1,328,997</b>	<b>1,336,089</b>	<b>1,315,006</b>
EBITDA	80,427	159,956	124,168	109,650	146,174
EBIT	35,509	115,808	79,001	75,563	93,725
Net interest income/(expenses)	(30,221)	(27,700)	(42,501)	(41,000)	(42,000)
Other income/(expenses)	11,859	9,810	15,730	11,011	11,562
Exceptional items	(16,837)	23,102	33,619	(1,384)	0
EBT	310	121,020	85,850	44,190	63,286
Income taxes	(21,518)	(32,459)	(36,365)	(36,459)	(18,986)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(1,420)	1,266	4,413	259	259
<b>Reported net profit</b>	<b>(22,628)</b>	<b>89,827</b>	<b>53,898</b>	<b>5,121</b>	<b>37,846</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>(22,628)</b>	<b>89,827</b>	<b>53,898</b>	<b>5,121</b>	<b>37,846</b>

## Balance Sheet

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12A	FY13E	FY14E
Accounts payables	233,925	266,711	287,030	297,225	294,271
Other current liabilities	65,942	70,899	90,014	94,515	99,241
Provisions	0	0	0	0	0
Debt funds	531,003	606,844	597,969	663,272	695,437
Other liabilities	20,722	17,857	18,990	20,285	20,690
Equity capital	8,867	11,369	9,714	9,714	9,714
Reserves & surplus	219,272	359,270	443,646	440,920	471,866
Shareholders' fund	228,139	370,639	453,360	450,634	481,581
<b>Total liabilities and equities</b>	<b>1,079,730</b>	<b>1,332,950</b>	<b>1,447,363</b>	<b>1,525,931</b>	<b>1,591,220</b>
Cash and cash eq.	122,329	187,399	148,228	140,213	140,213
Accounts receivables	115,124	148,163	148,785	156,043	154,492
Inventories	186,866	240,552	255,980	260,072	257,487
Other current assets	68,575	100,045	123,848	130,004	136,468
Investments	0	0	0	0	0
Net fixed assets	364,764	365,092	390,809	566,053	629,013
CWIP	93,194	158,842	230,591	125,000	125,000
Intangible assets	145,418	152,982	173,546	173,546	173,546
Deferred tax assets, net	(16,541)	(20,126)	(24,424)	(25,000)	(25,000)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>1,079,730</b>	<b>1,332,950</b>	<b>1,447,363</b>	<b>1,525,931</b>	<b>1,591,220</b>

## Cash Flow Statement

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12A	FY13E	FY14E
Net income + Depreciation	22,289	133,975	99,064	63,336	106,599
Interest expenses	30,113	27,749	44,524	41,405	42,405
Non-cash adjustments	0	0	0	0	0
Changes in working capital	104,020	(80,452)	(418)	(2,810)	(557)
Other operating cash flows	1,197	672	3,409	1,465	0
<b>Cash flow from operations</b>	<b>157,618</b>	<b>81,945</b>	<b>146,579</b>	<b>103,396</b>	<b>148,447</b>
Capital expenditures	(49,819)	(110,124)	(142,633)	(125,000)	(125,000)
Change in investments	18,164	(31,859)	17,697	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(31,655)</b>	<b>(141,983)</b>	<b>(124,936)</b>	<b>(125,000)</b>	<b>(125,000)</b>
Equities issued	(20,276)	65,808	42,335	(8,149)	0
Debt raised/repaid	(62,699)	75,841	(8,875)	65,303	32,165
Interest expenses	(30,221)	(27,700)	(42,501)	(41,000)	(42,000)
Dividends paid	(8,636)	(13,135)	(13,512)	(2,566)	(13,612)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(121,832)</b>	<b>100,814</b>	<b>(22,553)</b>	<b>13,588</b>	<b>(23,447)</b>
<b>Changes in cash and cash eq</b>	<b>4,131</b>	<b>40,775</b>	<b>(910)</b>	<b>(8,016)</b>	<b>0</b>
<b>Closing cash and cash eq</b>	<b>65,615</b>	<b>108,926</b>	<b>108,016</b>	<b>100,000</b>	<b>100,000</b>

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