

## NEUTRAL

Price	Rs183
Target Price	-
Investment Period	-

### Stock Info

Sector	Steel
Market Cap (Rs cr)	13,026
Beta	1.2
52 WK High / Low	925 / 146
Avg Daily Volume	2000244
Face Value (Rs)	10

BSE Sensex	9,236
Nifty	2,824

BSE Code	500470
NSE Code	TATASTEEL
Reuters Code	TISC.BO
Bloomberg Code	TATA@IN

### Shareholding Pattern (%)

Promoters	34.0
MF/Banks/Indian FIs	28.6
FII/ NRIs/ OCBs	13.0
Indian Public/others	24.4

Abs.	3m	1yr	3yr
Sensex (%)	2.1	(49.1)	(6.4)
Tata Steel (%)	(2.2)	(73.8)	(47.6)

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## Performance Highlights

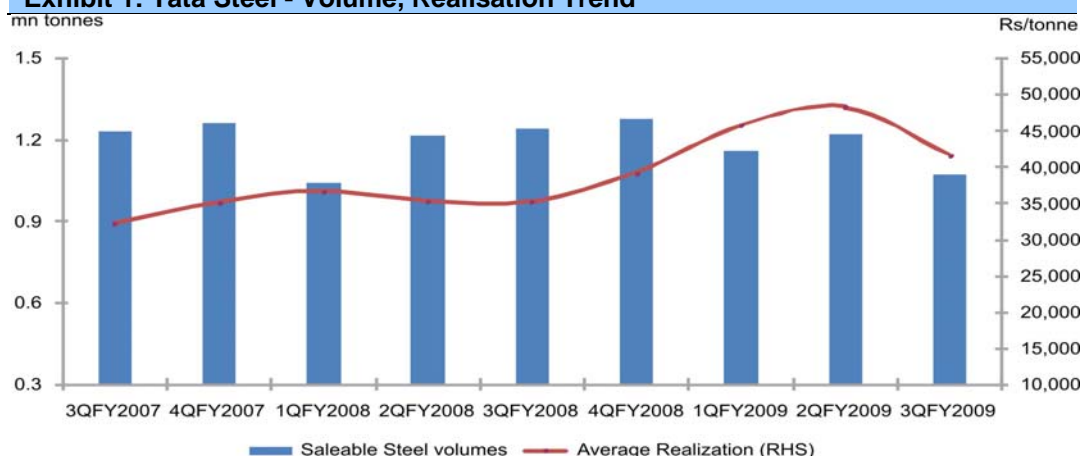
- Volumes disappoint...prices support Topline:** In 3QFY2009, Tata Steel posted yoy de-growth of 3.9% in its Standalone Topline Rs4,736cr (Rs4,928cr), which was much below our expectations. This was mainly on account of the decline in saleable steel volumes by 13.8% yoy 1.07mn tonnes (1.24mn tonnes), mainly due to shut down of its hot strip mill and lower off-take of steel due to the slowdown. However, average steel realisation increased by 18.4% yoy to Rs41,666/tonne (Rs35,201/tonne). Strong growth in realisation was led by robust steel prices during the quarter and higher proportion of value-added sales. However, it may be noted here that major steel price cuts happened in December 2008, and full impact of the same would reflect in 4QFY2009. Topline was also impacted by the 30% fall in volumes and decline in the prices of Ferro alloys. For 9MFY2009, Topline grew 28.2% yoy to Rs17,751cr (Rs13,851cr).
- Margins disappoint...fall by over 1,000bp:** On the Operating front, Tata Steel registered significant decline in Margins by 1,000bp yoy to 29.8% (40.3%). It may be noted that Tata Steel after reporting an improvement in Margins yoy for several quarters, in 3QFY2009 has reported a fall mainly due to the increase in coking coal costs and Rupee depreciation. However, Tata Steel, being the most integrated players in iron ore and coking coal, is to some extent insulated from the rise in raw material prices. Notably, it is 100% integrated in iron ore and around 70% in coking coal. The company's EBIDTA/tonne declined sharply by Rs12,900/tonne on sequential basis.
- Net Profit tumbles 56%:** Net Profit declined by a substantial 56% yoy to Rs466cr (Rs1,069cr) during the quarter, mainly due to lower volumes and higher cost of production. It may be noted that some part of the fall in Profit was also due to forex losses to the tune of Rs127cr arising from translation losses on the Convertible Alternative Reference Securities (CARS) issued in September 2007. For 9MFY2009, the company reported 7.5% yoy growth in Net Profit to Rs3,742cr (Rs3,482cr).

### Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
<b>Net Sales</b>	<b>17,552</b>	<b>131,790</b>	<b>138,291</b>	<b>116,373</b>
% chg	15.4	650.9	4.9	(15.8)
<b>Net Profit</b>	<b>4,222</b>	<b>6,938</b>	<b>7,481</b>	<b>3,322</b>
% chg	20.4	64.3	7.8	(55.6)
<b>FDEPS (Rs)</b>	<b>73.8</b>	<b>91.5</b>	<b>86.7</b>	<b>38.5</b>
OPM (%)	39.7	13.7	13.2	11.0
P/E (x)	2.5	2.0	2.1	4.8
P/BV (x)	0.7	0.4	0.34	0.32
RoE (%)	33.9	28.4	18.5	6.9
RoCE (%)	22.6	21.0	14.4	8.1
EV/Sales (x)	1.4	0.5	0.5	0.5
EV/EBITDA (x)	3.5	3.5	3.5	4.5

Source: Company, Angel Research

**Exhibit 1: Tata Steel - Volume, Realisation Trend**



Source: Company, Angel Research

In 3QFY2009, Tata Steel's saleable steel volumes were lower by 13.8% at 1.07mn tonnes, due to shut down of its hot strip mill. However, steel prices were ruling strong till October, which led to the increase in realisations by 18.4% yoy to Rs41,666/tonne (Rs35,201/tonne). However, on a sequential basis, realisations declined by 13.7%.

**Near-term expansions well on track**

Tata Steel increased its capacity from 5mtpa to 7mtpa during 1HFY2009 with the setting up of the new H - Blast furnace. Steel capacity would be further raised to 10mtpa by Dec 2010.

**Exhibit 2: Capacity Expansion plans**

Location	Project Type	Capacity Expansion	Expanded Capacity	Timeline
Jamshedpur	Brownfield	1.8	6.8	Commissioned
Jamshedpur	Brownfield	3	10	Dec '10
Orissa I	Greenfield	3	13	2011
Orissa II	Greenfield	3	16	2014

Source: Company

The company is continuing its 10mtpa expansion at Jamshedpur, which is to be completed by December 2010. However, its long-term Greenfield expansions plans like the Jharkhand and Chattisgarh projects are on hold, except Orissa phase I, which is to be completed by 2011.

### **Outlook and Valuation**

After witnessing a steep spike in prices since January 2008, steel prices have collapsed by more than 50% in the last couple of months owing to the sharp fall in Spot raw material prices and uncertainty over the demand for steel on the back of adverse macro-economic factors globally. In perspective, Benchmark World export HRC prices have declined to US \$525/tonne currently from US \$1,113/tonne in July 2008. Also, domestic prices in Europe, the key market for Corus, have declined to US \$650/tonne from US \$1,285/tonne in July 2008.

Tata Steel is however better placed to weather an industry downturn as it is the most integrated company in the world with 100% captive iron ore and 70% coking coal. However, Corus, which contributes around 75% of consolidated Revenues and 50% of consolidated EBIDTA, is a concern amidst the falling steel prices for Tata Steel consolidated. However, falling steel prices is a concern now for Corus as it is a non-integrated steel company unlike parent Tata Steel India. Hence, sensitivity of Earnings to steel prices is high for Corus compared to integrated companies in the world. Notably, EBIDTA/tonne for Corus was just US \$100/tonne in FY2008. However, with the falling steel prices, we believe that the EBIDTA/tonne for Corus would be under pressure. We have factored in EBIDTA/tonne of US \$50 for Corus in FY2010, as against our earlier estimate of US \$60/tonne.

For Tata Steel we are downgrading our consolidated EPS estimates for FY2009 and FY2010 by 22.1% and 38.3% respectively, to factor in the lower steel prices in the domestic and European markets as well as disappointing performance by Indian operations for the quarter under review. At the CMP of Rs183, Tata Steel is trading at a P/E of 4.8x and EV/EBIDTA of 4.5x FY2010E consolidated Earnings. We change our valuation parameter from EV/EBIDTA to P/B for Tata Steel due to much higher consolidated leverage and sharply declining operating profits. We now value Tata Steel consolidated at P/B of 0.3x and have arrived at a Fair Value of Rs172 (Rs210), at which it trades at an EV/EBIDTA of 4.4x and P/E of 4.5x FY2010E Earnings. **Hence, we remain Neutral on the stock.**

**Exhibit 3: 3QFY2009 Performance (Standalone)**

Y/E March (Rs cr)	3QFY2009	3QFY2008	% chg	9MFY2009	9MFY2008	% chg
<b>Net Sales</b>	<b>4,736</b>	<b>4,928</b>	<b>(3.9)</b>	<b>17,751</b>	<b>13,851</b>	<b>28.2</b>
Raw Material	1,068	934	14.4	3,139	2,563	22.5
(% of Net Sales)	22.6	19.0		17.7	18.5	
Power & Fuel	263.5	239.5	10.0	804	711	13.0
(% of Net Sales)	5.6	4.9		4.5	5.1	
Staff Costs	568.9	429.7	32.4	1,639	1,240	32.2
(% of Net Sales)	12.0	8.7		9.2	8.9	
Freight & Handling	262.2	298.4		887.5	835.2	
(% of Net Sales)	5.5%	6.1%		5.0%	6.0%	
Other expenses	1,161	1,041	11.6	3,663	2,907	26.0
(% of Net Sales)	24.5	21.1		20.6	21.0	
<b>Total Expenditure</b>	<b>3,324</b>	<b>2,942</b>	<b>13.0</b>	<b>10,132</b>	<b>8,257</b>	<b>22.7</b>
<b>Operating Profit</b>	<b>1,411</b>	<b>1,986</b>	<b>(28.9)</b>	<b>7,619</b>	<b>5,594</b>	<b>36.2</b>
OPM (%)	29.8	40.3		42.9	40.4	
Interest	348.2	342.7	1.6	844.8	611.8	-
Depreciation	251.3	209.2	20.1	716.9	625.5	14.6
Other Income	75.0	92.7	(19.2)	325.5	380.4	(14.4)
Exceptional Items	(126.8)	47.9		(775.6)	486.7	
<b>Profit before Tax</b>	<b>760</b>	<b>1,575</b>	<b>(51.7)</b>	<b>5,607</b>	<b>5,224</b>	<b>7.3</b>
(% of Net Sales)	16.1	32.0		31.6	37.7	
Current Tax	294	506	(41.9)	1,865	1,742	7.0
(% of PBT)	38.7	32.1		33.3	33.4	
<b>Profit after Tax</b>	<b>466</b>	<b>1,069</b>	<b>(56.4)</b>	<b>3,742</b>	<b>3,482</b>	<b>7.5</b>
(% of Net Sales)	9.8	21.7		21.1	25.1	
<b>EPS (Rs)</b>	<b>5.7</b>	<b>15.3</b>	<b>(62.9)</b>	<b>39.9</b>	<b>50.9</b>	<b>(21.7)</b>

Source: Company, Angel Research



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**Ratings (Returns) :** Buy (Upside > 15%)  
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)  
Sell (Downside > 15%)

Neutral (5 to -5%)