



NEUTRAL

Price	Rs543
Target Price	-
Investment Period	-

Stock Info

Sector	Steel
Market Cap (Rs cr)	48,215
Beta	1.4
52 WK High / Low	600 / 146
Avg Daily Volume	3801242
Face Value (Rs)	10
BSE Sensex	16,855
Nifty	5,006
BSE Code	500470
NSE Code	TATASTEEL
Reuters Code	TISC.BO
Bloomberg Code	TATA@IN

Shareholding Pattern (%)

Promoters	31.2
MF/Banks/Indian FIs	26.2
FII/ NRIs/ OCBs	20.3
Indian Public/others	22.3

Abs.	3m	1yr	3yr
Sensex (%)	6.9	86.7	23.0
Tata Steel (%)	18.1	250.8	27.3

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Performance Highlights

- **Higher Volumes lead to sequential increase in Top-line:** For 2QFY2010, Tata Steel's Consolidated Net Revenues increased 9% qoq to Rs25,395cr on the back of a 14% increase in Volumes to 6.2mn tonnes. Sales volume of the company's European operations increased 18% qoq to 3.9mn tonnes. Capacity utilisation increased to 78% in 2QFY2010 from 56% in 1QFY2010.
- **EBITDA turns positive:** The company recorded EBITDA of Rs372cr as against the loss of Rs30cr registered in 1QFY2010. This came mainly on the back of lower raw material costs, which constituted 46.7% of Net Revenues compared to 51% in 1QFY2010. Reported EBITDA included one-time expense of US \$170mn on account of restructuring of Teeside Cast Products (TCP), which is unlikely to be seen in the coming quarters.
- **Bottom-line continues to be in the red:** The company reported consolidated loss of Rs2,720cr compared to a loss of Rs2,239cr in 1QFY2010. This included restructuring costs of Rs911cr (Rs218cr in 1QFY2010) on account of a) reduction in headcount, b) TCP restructuring and, c) cancellation of long-term raw material contracts due to reduction in steel volumes.
- **Outlook and Valuation:** At the CMP of Rs543, Tata Steel is trading at a P/E of 8.5x and EV/EBITDA of 6.3x on FY2011 estimates. With the threat of exports from China increasing and sustainability of higher utilisation rates in Europe a question mark, **we remain Neutral on the stock with a Fair Value of Rs521.**

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	131,091	145,686	100,389	116,116
% chg	646.9	11.1	(31.1)	15.7
Reported Net Profit	12,350	4,951	201	5,519
% chg	192.5	(59.9)	(95.9)	2,644.6
FDEPS (Rs)	162.6	59.0	2.3	63.9
OPM (%)	13.2	11.3	6.7	12.5
P/E (x)	3.3	9.2	232.7	8.5
P/BV (x)	1.2	1.4	1.4	2.4
RoE (%)	50.6	14.9	0.6	15.8
RoCE (%)	21.0	15.4	3.6	11.8
EV/Sales	0.7	0.7	0.9	0.8
EV/EBIDTA	5.2	5.8	13.9	6.3

Source: Company, Angel Research

Key Highlights of Analyst Meet

- Domestic producers in Europe have gained market share as imports have decreased due to longer lead time.
- European operations are expected to achieve capacity utilisation of 80% in 3QFY2010 and 4QFY2010. The company is currently operating seven blast furnaces out of nine. Two blast furnaces producing long products in Scunthrope are still not operational due to a depressed construction market.
- As per the management, its European operations recorded positive EBITDA in October 2009. Management expects EBITDA/tonne of US \$45 in 2HFY2010. Full benefits of decline in raw material prices are expected in 2HFY2010
- The company is operating on a monthly basis in Europe as customers are not willing to commit to long-term contracts
- The company has received orders for its TCP facilities for Oct-Dec 2009 and expects to record marginal profit on it. In the long term, the company is still exploring various options like joint venture (JV), mothball or redeveloping it.
- The company has reduced its headcount by around 4,000 employees in Europe over the last one year. It targets to further trim workforce by 2,000 and have a total employee strength of 36,300.
- At the end of the quarter, the company had a net debt of US \$9.8bn.

Exhibit 1: Sales Volumes (MT)

Subsidiary	2QFY2010	2QFY2009	yoy %
Tata Steel India	1.4	1.2	17
Corus	3.9	5.7	(31)
NatSteel	0.7	0.8	(9)
Tata Steel Thailand	0.3	0.2	20
Total	6.2	7.9	(20)

Source: Company, Angel Research

Exhibit 2: Valuation Matrix

	FY2011E EBITDA (Rs cr)	Target EV/EBITDA (x)	EV (Rs cr)
Tata Steel	9,053	7.5	67,895
Corus	4,776	4.5	19,106
NSA + TTH	694	4.0	2,775
Total EV			89,776
Debt			52,000
Cash			7,159
Market Cap			44,935
No. of shares			86.3
Target Price (Rs)			521

Source: Company, Angel Research

Exhibit 3: 2QFY2010 Performance (Consolidated)

Y/E March (Rs cr)	2QFY2010	2QFY2009	% chg	1HFY2009	1HFY2009
Net Sales	25,395	44,199	(42.5)	48,687	87,707
- Consumption of Raw Material	11,859	21,206	(44.1)	23,744	41,383
(% of Net Sales)	46.7	48.0		48.8	47.2
- Power& Fuel	1,013	1,770	(42.8)	1,979	3,385
(% of Net Sales)	4.0	4.0		4.1	3.9
- Staff Costs	4,361	4,755	(8.3)	8,323	9,656
(% of Net Sales)	17.2	10.8		17.1	11.0
Freight & Handling	1,458	1,607	(9.3)	2,614	3,331
(% of Net Sales)	5.7	3.6		5.4	3.8
- Other expenses	6,333	6,613	(4.2)	11,685	14,716
(% of Net Sales)	24.9	15.0		24.0	16.8
Total Expenditure	25,023	35,949	(30.4)	48,345	72,470
Operating Profit	372	8,250	(95.5)	342	15,237
OPM (%)	1.5	18.7		0.7	17.4
Interest	717.2	820.8	(12.6)	1,599	1,645
Depreciation	1,154	1,147	0.6	2,243	2,252
Other Income	17.9	84.4	(78.7)	222	137
Exceptional Items	(911.3)	(396.2)		(1,130)	(700)
Profit before Tax	(2,392)	5,970	(140.1)	(4,408)	10,778
(% of Net Sales)	(9.4)	13.5		(9.1)	12.3
Tax	327.5	1,266.4	(74.1)	550	2,159
(% of PBT)	(22.1)	19.9		(16.8)	18.8
Profit after Tax	(2,720)	4,704	(157.8)	(4,958)	8,618
Reported PAT after Minority Interest	(2,707)	4,772	(156.7)	-	-
(% of Net Sales)	(10.7)	10.8		0.0	0.0
FDEPS (Rs)	-	58.0	(100.0)	(30.7)	105.2

Source: Company, Angel Research


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Ratings (Returns):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5% to 5%)
	Reduce (-5% to -15%)	Sell (< -15%)	