



## ACCUMULATE

Price	Rs424
Target Price	Rs448
Investment Period	12 Months

### Stock Info

Sector	Steel
Market Cap (Rs cr)	33,774
Beta	1.4
52 WK High / Low	605/146
Avg Daily Volume	3793579
Face Value (Rs)	10
BSE Sensex	15,667
Nifty	4,662
BSE Code	500470
NSE Code	TATASTEEL
Reuters Code	TISC.BO
Bloomberg Code	TATA@IN

Shareholding Pattern (%)	
Promoters	34.0
MF/Banks/Indian FIs	26.9
FII/ NRIs/ OCBs	14.5
Indian Public/others	24.6

Abs.	3m	1yr	3yr
Sensex (%)	7.1	7.6	33.9
Tata Steel (%)	4.4	(29.3)	(3.2)

### Hitesh Agrawal

Tel: 022 – 4040 3800 Ext: 341  
E-mail: hitesh.agrawal@angeltrade.com

### Laxmikant Waghmare

Tel: 022 – 4040 3800 Ext: 313  
E-mail: laxmikant.w@angeltrade.com

## Performance Highlights

- Lower volumes, fall in realisations drag the Top-line:** For 1QFY2010, Tata Steel posted a consolidated Top-line de-growth of 47% yoy, to Rs23,181cr (Rs43,375cr). This was on account of the decline in sales volumes and average realisations in its overseas operations. Tata Steel Europe's (TSE) sales volume declined by 48% yoy to 3.3mn tonnes (MT) (6.3MT), while Tata Steel Thailand's and NatSteel's sales volumes were down by 25% yoy and 35% yoy, to 0.3MT and 0.5MT, respectively. However, Tata Steel India posted a 22% yoy growth in its sales volume to 1.4MT. Hence, the consolidated sales volumes of the company fell by 37% yoy to 5.4MT (8.6MT). The Top-line was also impacted by the 1% yoy decline in the average realisation of TSE to US \$925/tonne (US \$950/tonne), while realisations on the South-Asian operations front declined by 32% yoy.
- EBITDA turns negative on lower volumes and higher costs:** On the Operating front, Tata Steel registered a consolidated loss of Rs142cr (profit of Rs7,214cr), due to lower sales volumes and higher raw material costs. Operating margins at Tata Steel's Indian operations declined by 1,830bp to 30.3%, while Tata Steel Europe registered a loss of Rs1,853cr at the EBITDA level, on account of lower capacity utilisation and higher raw material costs. Tata Steel's other overseas operations i.e. NatSteel and Tata Steel Thailand also reported 80% and 98% fall in operating margins. Termination of an off-take agreement by four parties also affected the EBIT by Rs244cr. However, cost savings to the tune of Rs2,200cr, on account of the "Fit for Future" and "Weathering the Storm" initiatives averted a significant drop at the EBITDA level.
- Bottom-line turns negative:** The company reported a consolidated loss of Rs2,209cr (profit of Rs3,901cr) for the quarter, on account of the significant damage done at the Top-line and at the operating levels. The Interest cost was higher by 7% yoy in 1QFY2010, at Rs882cr. During the quarter, the company repaid Rs3,891cr of debt, and pre-paid an additional amount to the banking syndicate of Tata Steel Europe.

## Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
<b>Net Sales</b>	<b>131,091</b>	<b>145,686</b>	<b>100,121</b>	<b>112,008</b>
% chg	646.9	11.1	(31.3)	11.9
<b>Net Profit</b>	<b>12,350</b>	<b>4,951</b>	<b>2,825</b>	<b>5,151</b>
% chg	192.5	(59.9)	(42.9)	82.3
<b>FDEPS (Rs)</b>	<b>162.6</b>	<b>59.0</b>	<b>32.7</b>	<b>59.7</b>
OPM (%)	13.2	11.3	12.5	13.8
P/E (x)	2.6	7.2	13.0	7.1
P/BV (x)	0.9	1.1	1.1	0.9
RoE (%)	50.6	14.9	8.4	13.9
RoCE (%)	21.0	15.4	8.8	11.2
EV/Sales (x)	0.6	0.6	0.8	0.7
EV/EBITDA (x)	4.7	5.2	6.1	4.9

Source: Company, Angel Research

### Overseas operations drag down performance

Tata Steel's consolidated sales volumes were down by 37% yoy to 5.4MT. The decline in volumes was owing to the poor show put up by the company's international operations, as demand has failed to pick up in the other markets where Tata Steel operates. However, notably, Tata Steel India had earlier reported a 22% yoy growth in its sales volumes to 1.4MT, as the demand has been robust in the domestic markets. The management has guided for a 20-25% growth in the volumes of Tata Steel India in FY2010E, which will be supported by its capacity expansion of 2MTPA. Accordingly, we have factored in a sales volume growth of 25% to 6.3MT in FY2010E.

However, the company's overseas operations have registered a dismal performance, on the back of the weak global environment. Accordingly, the sales of Tata Steel Europe, NatSteel and Tata Steel Thailand were down by 48% yoy, 35% yoy and 25% yoy, respectively. Yet, we concur with the management view, that stability has set in the global environment and that volumes in the company's international operations would witness an uptick from 2HFY2010 onwards.

### Steel outlook improving in Europe

Tata Steel expects an improvement in the steel demand outlook for Europe. As per its management, steel demand has stabilised in Europe and steel output has moved up by 25% since December 2008. With a pick-up in demand and the near culmination of destocking, prices have stabilised in the European region. The company's capacity utilisation has also improved from around 50% in the beginning of the year, to around 70% recently. Corus has started a blast furnace in Ijmuiden, and is temporarily reopening the Llanwern HSM. On the back of an improving demand outlook, the company expects capacity utilisation to improve steadily in the subsequent quarters.

#### Exhibit 1: Sales Volumes (MT)

Subsidiary	1QFY2010	1QFY2009	yoy %
Tata Steel India	1.4	1.2	22.3
Corus	3.3	6.3	(47.9)
NatSteel	0.5	0.8	(34.7)
Tata Steel Thailand	0.3	0.4	(24.5)
<b>Total</b>	<b>5.4</b>	<b>8.6</b>	<b>(36.8)</b>

Source: Company, Angel Research

### Tata Steel India – Near-term expansion plans on track

Tata Steel enhanced its capacity from 5MTPA to 7MTPA during 1HFY2009, with the setting up of the new H-Blast furnace. The company expects to further raise its steel capacity at Jamshedpur to 10MTPA by December 2010.

#### Exhibit 2: Capacity Expansion Plans

Location	Project Type	Capacity Expansion	Expanded Capacity	Timeline
Jamshedpur	Brownfield	1.8	6.8	Commissioned
Jamshedpur	Brownfield	3.0	10.0	Dec '10
Orissa I	Greenfield	3.0	13.0	2011
Orissa II	Greenfield	3.0	16.0	2014

Source: Company, Angel Research

However, its long-term Greenfield expansions plans at Jharkhand and Chattisgarh are on hold, except Orissa Phase I, which is to be completed by 2011E.

**Outlook and Valuation**

At the CMP of Rs424, Tata Steel is trading at a P/E of 7.1x, an EV/EBITDA of 4.9x and a P/BV of 0.9x, on our FY2011E estimates. We assign a mid-cycle EV/EBITDA of 5.5x to the company's Indian operations, due to the strong volume growth, robust demand in India and a better pricing environment. However, we assign an EV/EBITDA of 4x to Corus and the other subsidiaries, due to their non-integrated operations, a comparatively lower visibility in demand and prices, and high leverage. **Our SOTP valuation gives a Fair Value of Rs448, at which level the stock will trade at a P/E of 7.5x, an EV/EBITDA of 5x and a P/BV of 1x. Thus, even as concerns with respect to liquidity tightening in China could adversely affect the near-term performance of the stock, we recommend an Accumulate on Tata Steel, considering the company's strong domestic performance and the expected recovery at its European operations 3QFY2010 onwards.**

<b>Exhibit 3: Valuation Matrix</b>			
	<b>FY2011E EBITDA (Rs cr)</b>	<b>Target EV/EBITDA (x)</b>	<b>EV (Rs cr)</b>
Tata Steel	10,381	5.5	57,093
Corus	4,501	4.0	18,002
NSA + TTH	565	4.0	2,261
<b>Total EV</b>			<b>77,357</b>
Debt			57,000
Cash			18,339
Market Cap			38,696
No. of shares			86.3
<b>Target Price (Rs)</b>			<b>448</b>

Source: Company, Angel Research

**Exhibit 4: 1QFY2010 Performance (Consolidated)**

Y/E March (Rs cr)	1QFY10	1QFY09	% chg	FY2009	FY2008	% chg
<b>Net Sales</b>	<b>23,181</b>	<b>43,375</b>	<b>(46.6)</b>	<b>145,686</b>	<b>131,091</b>	<b>11.1</b>
Consumption of Raw Material (% of Net Sales)	8,386 36.2	11,003 25.4	(23.8)	43,508 29.9	31,610 24.1	37.6
Purchase of Trading Goods (% of Net Sales)	3,499 15.1	9,144 21.1	(61.7)	31,406 21.6	26,969 20.6	16.0
Power & Fuel (% of Net Sales)	966.4 4.2	1,616 3.7	(40.2)	5,957 4.1	4,929 3.8	20.9
Staff Costs (% of Net Sales)	3,963 17.1	4,815 11.1	(17.7)	17,975 12.3	16,900 12.9	6.0
Freight & Handling (% of Net Sales)	1,156 5.0	1,732 4.0	(33.2)	6,025 4.1	6,039 4.6	(0.2)
Other expenses (% of Net Sales)	5,352 23.1	7,852 18.1	(31.8)	24,331 16.7	27,304 20.8	(10.9)
<b>Total Expenditure</b>	<b>23,322</b>	<b>36,161</b>	<b>(35.5)</b>	<b>129,202</b>	<b>113,751</b>	<b>13.6</b>
<b>Operating Profit</b>	<b>(142)</b>	<b>7,214</b>	<b>(102.0)</b>	<b>16,485</b>	<b>17,340</b>	<b>(4.9)</b>
OPM (%)	(0.6)	16.6		11.3	13.2	
Interest	881.9	824.3	7.0	3,290	4,085	(19.5)
Depreciation	1,089	1,105	(1.4)	4,265	4,137	3.1
Other Income	315.7	174.3	81.0	1,909	919	107.8
Exceptional Items	(218.8)	(651.4)		(4,095)	6,335	
<b>Profit Before Tax</b>	<b>(2,016)</b>	<b>4,808</b>	<b>(141.9)</b>	<b>6,743</b>	<b>16,371</b>	<b>(58.8)</b>
(% of Net Sales)	(8.7)	11.1		4.6	12.5	
Current Tax (% of PBT)	222.9 (12.4)	893.0 16.4	(75.0)	1,894 17.5	4,049 40.3	(53.2)
<b>Profit After Tax</b>	<b>(2,239)</b>	<b>3,915</b>	<b>(157.2)</b>	<b>4,849</b>	<b>12,322</b>	<b>(60.6)</b>
<b>PAT after MI &amp; Assoc.</b>	<b>(2,209)</b>	<b>3,901</b>	<b>(156.6)</b>	<b>4,951</b>	<b>12,350</b>	<b>(59.9)</b>
(% of Net Sales)	(9.5)	9.0		3.4	9.4	
<b>FDEPS (Rs)</b>	<b>(30.7)</b>	<b>47.1</b>	<b>(165.2)</b>	<b>59.0</b>	<b>162.6</b>	<b>(63.7)</b>

Source: Company, Angel Research



**Research Team: Tel: 4040 3800**

**E-mail: [research@angeltrade.com](mailto:research@angeltrade.com)**

**Website: [www.angeltrade.com](http://www.angeltrade.com)**

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<b>Ratings (Returns) :</b>	<b>Buy (Upside &gt; 15%)</b> <b>Reduce (Downside upto 15%)</b>	<b>Accumulate (Upside upto 15%)</b> <b>Sell (Downside &gt; 15%)</b>	<b>Neutral (5 to -5%)</b>
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