

3QFY09 Standalone Result, below estimates

 4th February 2009

REDUCE

Price	Target Price
Rs171	Rs143

Sensex – 9,149

Price Performance

(%)	1M	3M	6M	12M
Absolute	(26)	(24)	(75)	(79)
Rel. to Sensex	(19)	(14)	(59)	(57)

Source: Bloomberg

Stock Details

Sector	Metals & Mining
Reuters	TISC.BO
Bloomberg	TATA@IN
Equity Capital (Rs mn)	7,306
Face Value (Rs)	10
Number of shares o/s (mn)	731
52 Week H/L (Rs)	925/146
Market Cap (Rs bn/USDmn)	125/2,558
Daily Avg Vol (No of shares)	12597163
Daily Avg Turnover (US\$ mn)	50.4

Shareholding Pattern (%)

	31/12/08	30/9/08	30/6/08
Promoters	34.0	33.9	33.9
FII/NRI	13.0	17.7	19.8
Institutions	25.2	22.5	22.1
Private Corp.	3.4	3.3	2.7
Public	24.5	22.6	21.5

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Tata Steel reported standalone 3QFY09 results, significantly below our estimates. Net sales stood at Rs47.4bn (yoy down 4.8%, qoq down 29.8%), EBITDA stood at Rs14.1bn (yoy down 32.7%, qoq down 54.1%) and adjusted PAT stood at Rs5.5bn (yoy down 49.1%, qoq down 72.7%). The company reported MTM forex loss of Rs1.27bn, which was in line with our estimates. The EBITDA margins declined by 1,235bps on yoy basis and by 1,581bps on sequential basis to 29.8%. The decline was primarily due to increase in raw material cost by 290bps on yoy basis and 598bps on sequential basis to 23% of net sales due to higher contract coking coal cost. Also, the staff cost increased by 468bps on yoy basis and by 314bps on sequential basis to 12% of net sales. During the quarter, average steel realization was down by Rs6,620/t on sequential basis and was up by Rs6,465/t on yoy basis. The 2.9mtpa expansion project is progressing as per schedule. As on 31st Dec '08, Tata Steel (standalone) has net debt of Rs240bn. At CMP of Rs171, the stock is trading at 2.3x FY09E FDEPS of Rs73.3 and at 2.8x FY10E FDEPS of Rs60.8. On EV/EBITDA basis the stock is trading at 4.3x FY09E EV/EBITDA and at 4.5x FY10E EV/EBITDA; while on P/B basis the stock is trading at 0.9x FY09E book value and at 0.7x FY10E book value. We are downgrading the stock from HOLD to REDUCE with target price of Rs143.

The key highlights of the concall are:

- In 3QFY09, the average cost of production increased by Rs600/t on sequential basis.
- 2.9mtpa capacity expansion project is progressing as per schedule and the company has already spent Rs21bn in first 9MFY09. Tata Steel plans to spend around Rs2bn in 4QFY09 and Rs35-40bn in FY10. However, major chunk of capex is estimated to be done in FY11
- In 2QFY09, the average steel realization has decreased by Rs6,620/t on sequential basis and increased by Rs6,465/t on yoy basis.
- Tata Steel (standalone) has net debt of Rs240bn (qoq up 11.6%).
- There has been no inventory write-down during the quarter.
- The company has guided for 4QFY09 crude steel production volume of 1.5mt and for around 6.5mt for FY10E.
- Tata Steel has built up slabs inventory of 140,000t, which is expected to be liquidated in next few months.
- In 3QFY09, out of the total sales volume of 1.07mt, majority were long products.

Emkay's views

The 3QFY09 standalone numbers were significantly below our estimates. The management had previously guided for 2HFY09 to be better than 1HFY09 for its Indian operations; however, looking at the dismal performance for the 3QFY09, we expect 2HFY09 to show a muted performance as compared to 1HFY09. On consolidated basis, we expect Tata Steel to report losses in 2HFY09 as the company has stopped purchasing any additional raw material for Corus since 3QFY09 and will be using the inventory, which has been purchased at higher rate. The realizations for its European operations are expected to be under severe pressure as compared to 1HFY09 due to severe demand destruction. At the CMP of Rs171, the stock is trading at 0.9x FY09E book value and at 0.7x FY10E book value. We are downgrading the stock from HOLD to REDUCE with target price of Rs143

Volume (t)

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	(%) yoy	(%) qoq
Steel production (t)	1,245,926	1,267,971	1,187,000	1,329,565	1,234,764	-0.9%	-7.1%
Steel sales (t)	1,243,500	1,369,058	1,159,000	1,220,050	1,071,805	-13.8%	-12.2%

Source: Company

Standalone financials results

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	(%) yoy	(%) qoq
Net Sales	49,739	57,367	61,650	67,442	47,357	-4.8%	-29.8%
Expenditure							
Raw Material Cost	9,309	8,693	10,231	13,818	16,112	73.1%	16.6%
Trading goods purchased	1,084	2,315	1,317	1,205	931	-14.1%	-22.7%
Change in stock	-614	1,157	-2,018	-3,844	-6,360	935.4%	65.5%
Net Raw material cost	9,778	12,164	9,530	11,179	10,683	9.3%	-4.4%
Gross profit	39,962	45,203	52,120	56,263	36,674	-8.2%	-34.8%
Gross margin	80.3%	78.8%	84.5%	83.4%	77.4%	-290bps	-598bps
Power Cost	2,395	2,218	2,619	2,781	2,635	10.0%	-5.2%
Employee Cost	3,646	4,766	4,719	5,985	5,689	56.0%	-5.0%
Frieght	2,877	2,844	2,938	3,315	2,622	-8.8%	-20.9%
Other Expenses	10,077	11,351	11,599	13,418	11,613	15.2%	-13.5%
Total operating exp	18,996	21,179	21,874	25,498	22,559	18.8%	-11.5%
EBITDA	20,966	24,023	30,246	30,765	14,115	-32.7%	-54.1%
EBITDA/t	16,860	17,547	26,096	25,216	13,169	-21.9%	-47.8%
Ebitda margin	42.2%	41.9%	49.1%	45.6%	29.8%	-1235bps	-1581bps
Depreciation & amortization	2,092	2,092	2,168	2,488	2,513	20.1%	1.0%
EBIT	18,874	21,932	28,078	28,276	11,602	-38.5%	-59.0%
EBIT margin	37.9%	38.2%	45.5%	41.9%	24.5%	-1345bps	-1743bps
Interest	3,627	2,339	2,417	2,548	3,482	-4.0%	36.6%
Other income	670	275	122	3,449	750	11.8%	-78.3%
Forex gain (loss)	479	-939	-3,034	-3,454	-1,268	-364.6%	-63.3%
PBT	15,746	18,426	22,749	25,723	7,601	-51.7%	-70.4%
Provision for tax	5,061	6,371	7,865	7,845	2,939	-41.9%	-62.5%
ETR (%)	32%	35%	35%	30%	39%	652bps	817bps
Current tax							
Deferred tax liability							
Fringe benefit tax							
PAT	10,686	12,055	14,884	17,878	4,662	-56.4%	-73.9%
Net margin	21.5%	21.0%	24.1%	26.5%	9.8%	-1164bps	-1666bps
less: Extraordinary Items adjusted for Tax	113	952	1,677	2,280	837	641.1%	-63.3%
Adjusted PAT	10,799	13,007	16,561	20,158	5,499	-49.1%	-72.7%
Adjusted net margin	30.7%	35.6%	26.9%	29.9%	11.6%	-1906bps	-1828bps
Equity capital	6,092	7,308	7,308	7,308	7,308	20.0%	0.0%
Diluted capital	8,717	8,717	8,717	8,717	8,717	0.0%	0.0%
Reported EPS							
- Basic	17.54	16.50	20.37	24.46	6.38	-63.6%	-73.9%
- Diluted	12.26	13.83	17.07	20.51	5.35	-56.4%	-73.9%
Adj EPS							
- Basic	17.73	17.80	22.66	27.58	7.53	-57.5%	-72.7%
- Diluted	12.39	14.92	19.00	23.12	6.31	-49.1%	-72.7%

All fig in Rs mn except per sh data and percentage

Common Size Ratios

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	(%) yoy	(%) qoq
Net Sales	100%	100%	100%	100%	100%	-	-
Raw material cost	19%	15%	17%	20%	34%	1531bps	1353bps
Trading goods purchased	2%	4%	2%	2%	2%	-21bps	18bps
Change in stock	-1%	2%	-3%	-6%	-13%	-1220bps	-773bps
Net Raw Material Cost	20%	21%	15%	17%	23%	290bps	598bps
Personal expenses	7%	8%	8%	9%	12%	468bps	314bps
Power cost	5%	4%	4%	4%	6%	75bps	144bps
Frieght	6%	5%	5%	5%	6%	-25bps	62bps
Other expenses	20%	20%	19%	20%	25%	426bps	463bps
EBITDA	42%	42%	49%	46%	30%	-1235bps	-1581bps
Depreciation	4%	4%	4%	4%	5%	110bps	162bps
Interest expense	7%	4%	4%	4%	7%	6bps	357bps
Other income	1%	0%	0%	5%	2%	24bps	-353bps
PAT	22%	23%	27%	30%	12%	-1010bps	-1828bps

Standalone Segment results

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	(%) yoy	(%) qoq
Segment Revenue							
Steel Business	43,772	50,085	53,032	58,912	44,658	2.0%	-24.2%
Ferro Alloys and minerals	5,730	6,801	8,390	9,540	3,770	-34.2%	-60.5%
Others	3,154	3,999	4,143	4,972	3,155	0.0%	-36.6%
Less: Intersegemt revenue	-2,917	-3,518	-3,915	-4,917	-3,561	22.1%	-27.6%
Net sales	49,739	57,367	61,650	68,507	48,021	-3.5%	-29.9%
Segment EBIT							
Steel Business	17,027	19,256	23,615	24,254	12,846	-24.6%	-47.0%
Ferro Alloys and minerals	2,337	3,094	4,779	5,568	1,435	-38.6%	-74.2%
Others	-1	132	367	300	-617	43985.7%	-305.7%
Unallocable income/(Exp)	182	-615	-562	1,603	-1,313	-821.2%	-181.9%
Less: Int and finance charges	-3,627	-2,339	-2,417	-2,548	-3,482	-4.0%	36.6%
Total	15,918	19,528	25,783	29,177	8,869	-44.3%	-69.6%
Segment Capital Employed							
Steel Business	116,231	118,932	119,610	129,708	13,841	-88.1%	-89.3%
Ferro Alloys and minerals	3,389	2,967	5,286	7,535	5,460	61.1%	-27.5%
Others	3,017	2,784	2,858	3,183	3,253	7.8%	2.2%
Total	122,636	124,682	127,754	140,426	22,554	-81.6%	-83.9%

All fig in Rs mn except percentage

Consolidated Financials

Income Statement

Y/E, Mar (Rs bn)	FY07	FY08	FY09E	FY10E
Gross Sales	274	1,341	1,180	1,055
Excise Duty	22	26	31	31
Net Revenue	252	1,315	1,149	1,024
Other Income	4	6	4	3
Total Income	257	1,321	1,153	1,027
Raw Material consumed	92	596	602	533
Employee Exp	19	167	134	124
Other Expenses	67	373	279	251
Total Operating Expenses	178	1,135	1,015	908
EBITDA	79	186	138	120
Depreciation	10	41	36	38
EBIT	69	144	102	81
Net Interest Cost	4	42	39	41
Other E/o and VRS exp	2	-55	2	2
PBT	63	158	60	39
Tax	21	40	31	26
PAT	42	123	29	13
Minority Interest/Associate	0	0	0	0
Pref Div	0	0	0	0
Net Inc available to SH	42	123	29	13
Basic Wtd Shares o/s (mn)	580	731	731	831
Basic EPS	72.0	169.0	39.6	15.6
Net Inc for FDEPS cal:				
Add: Int on CARS(net of Tax)	0	0	0	0
Add: Div on Pref Sh	0	0	0	0
Net Inc for FDEPS cal:	42	123	29	13
FD Shares o/s (mn)	580	872	872	872
FDEPS	72.0	141.7	33.2	14.9

Cash Flow Statement

Y/E, Mar (Rs bn)	FY07	FY08	FY09E	FY10E
PBT	63	164	95	79
Depreciation	10	41	36	38
Net Chg in WC	3	-20	-80	34
Others	1	33	36	38
Tax Paid	-21	-27	-46	-25
CFO	55	192	41	165
Assets Purchased/Capex	-29	-80	-79	-40
Net Investments made	-132	20	0	5
GW / Intangibles / Sub acq	-7	-407	0	0
Others Inv Activities	5	6	4	3
CFI	-163	-462	-75	-32
Change in Share capital	15	49	0	1
Change in Borrowings	202	152	50	-30
Issues/Red of Pref Sh Cap	0	55	0	-55
Int and Div Paid	-13	-52	-51	-52
Others	1	1	0	0
CFF	205	205	-1	-136
Total Cash Generated	97	-65	-35	-3
Cash Opening Balance	12	165	42	7
Cash Closing Balance	109	100	7	4

Balance Sheet

Y/E, Mar (Rs bn)	FY07	FY08	FY09E	FY10E
Equity Capital	6	7	7	8
Reserves & Surplus	141	280	330	369
Less: Misc Exp	-2	-2	-2	-2
Minorities	6	8	8	8
Networth	150	294	345	384
Total Debts	249	536	586	556
Preference Shares	0	55	55	0
Long Term Liabilities	19	35	41	45
Capital Employed	419	920	1,026	985
Gross Block	201	962	1,006	1,016
Less Depreciation	-92	-632	-668	-706
CWIP	33	89	124	154
Net Fixed Assets	142	420	462	464
Investments	165	34	34	29
Goodwill	2	180	180	180
Retirement benefit assets	0	0	0	0
Other Non current Assets	0	0	5	10
Inventory	39	231	302	269
Debtors	17	187	173	154
Cash and Bank	109	42	7	4
Loans & Advances	20	155	155	155
Other Current Assets	0	0	0	0
Total Curr. Assets	184	615	637	582
Current Liabilities	60	294	277	263
Provisions	15	35	17	17
Total Curr. Liabi. & Prov.	75	329	293	280
Net Current Assets	109	286	344	302
Total Assets	419	920	1,026	985

Y/E, Mar	FY07	FY08	FY09E	FY10E
EBITDA margin (Core) (%)	29.5	13.7	14.7	15.3
EBIT margin (%)	25.5	10.5	11.5	11.6
NPM (%)	16.5	9.4	5.6	5.2
Adj ROCE (%)	15.8	24.6	7.0	5.3
Adj ROE (%)	33.2	29.7	9.1	3.6
ROIC (%)	26.9	25.8	5.9	2.6
Adj EPS	72.0	67.7	73.3	60.8
Cash EPS	89.4	115.1	115.2	104.6
Book Value	255.1	130.2	188.2	233.4
DPS	16.2	13.7	13.1	14.3
Payout (%)	22.6	9.6	39.4	96.0
Net Debt to Equity (x)	0.9	1.9	1.8	1.4
PE (x)	5.5	10.2	2.3	2.8
P/BV (x)	1.6	5.3	0.9	0.7
EV/Sales (x)	1.5	0.8	0.7	0.7
EV/EBITDA (x)	5.0	6.1	4.3	4.5

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