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Tata Steel

3QFY2009 Consolidated Result Update

REDUCE

Price	**Rs172**
Target Price	**Rs146**
Investment Period	**12 Months**

Stock Info

Sector	Steel
Market Cap (Rs cr)	12,592
Beta	1.2
52 WK High / Low	925 / 146
Avg Daily Volume	2213334
Face Value (Rs)	10
BSE Sensex	8,892
Nifty	2,764
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 (%)	(1.5)	(50.1)	(13.5)
Tata Steel (%)	11.3	(78.7)	(53.8)

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Performance Highlights

- **Realisations surprise, drive Revenues:** For 3QFY2009, Tata Steel posted yoy consolidated Top-line growth of 4% to Rs33,191cr (Rs31,899cr). Revenues grew despite the 30% production cuts announced by Corus during October 2008, mainly due to higher realisations. Led by production cuts in Corus and Asian Subsidiaries, consolidated Sales volumes declined by 23.6% yoy to 6.1mn tonnes (8.0mn tonnes). However, blended realisations improved by 36% yoy to US $1,127/tonne. It may be noted here that Spot prices of steel in Europe have declined by more than 50% from their peak during July-August 2008. However, Corus managed to clock better realisations due to higher contract prices and better product mix. For 9MFY2009, the company delivered almost 26.6% yoy growth in consolidated Top-line to Rs1,20,898cr (Rs95,502cr).

- **Inventory write downs dent Margins:** On the Operating front, Tata Steel registered a decline in consolidated Margins by 350bp yoy to 8.6% (12.1%). Margins declined yoy due to higher raw material costs of Iron ore and Coking coal, and Inventory write down of Rs1,744cr during the quarter. However, better realisations during the quarter and cost cutting initiatives of the company cushioned the fall in Margins. Decline in the market value of raw material inventory and finished goods, impacted inventory valuations and led to inventory write down of Rs1,744cr, which negatively impacted Margins. Tata Steel's India operations also posted a decline in Margins by 1,050bp yoy due to higher coking coal prices and fall in steel realisations.

- **Net Profit beats street expectations:** Consolidated Net Profit fell 39% yoy to Rs814cr (Rs1,325cr) beating street expectations. The company registered Exchange loss of Rs201cr on account of Rupee fluctuation on Convertible Alternate Reference Securities (CARS) issued by it in September 2007. However, the company received Tax refund of Rs40.5cr (Rs716cr) due to Tax restructuring and Tax Profits coming in from Corus, which restricted the decline in Bottom-line.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	**1,7,552**	**1,31,790**	**1,47,663**	**1,11,627**
% chg	*15.4*	*650.9*	*12.0*	*(24.4)*
Reported Net Profit	**4,222**	**6,938**	**8,976**	**3,290**
% chg	*20.4*	*64.3*	*29.4*	*(63.4)*
FDEPS (Rs)	**73.8**	**91.5**	**104.0**	**38.1**
OPM (%)	39.7	13.7	13.3	11.3
P/E (x)	2.3	1.9	1.7	4.5
P/BV (x)	0.7	0.4	0.4	0.4
RoE (%)	33.9	28.4	24.4	8.1
RoCE (%)	22.6	21.0	16.4	8.5
EV/Sales (x)	1.4	0.5	0.4	0.5
EV/EBITDA (x)	3.4	3.5	2.9	4.1

Source: Company, Angel Research

Realisations exceed…Volumes dip

Tata Steel's consolidated Revenues increased by 4% yoy despite the 30% production cuts announced by Corus. This was mainly due to strong realisations during the quarter led by higher Contract steel prices. Surprisingly thus, despite the significant drop in the Spot steel prices in Europe and other parts of the world, Corus managed to register better realisation of US $1,250/tonne. It appears that the Contract prices are still ruling at the old high prices but, we believe it would track the Spot prices and decline in 4QFY2009. The Group's volumes however, declined 24% yoy during the quarter due to the production cuts announced by Corus and other Asian subsidiaries on account of the slowdown in steel demand. Management has guided similar volumes in 4QFY2009. Moreover, fall in realisations is inevitable.

Exhibit 1: Deliveries (mtpa)

Subsidiary	3QFY2009	3QFY2008	*yoy %*	2QFY2009	*qoq %*
Tata Steel India	1.1	1.2	*(14.0)*	1.2	*(13.7)*
Corus	4.3	5.6	*(23.2)*	5.7	*(24.4)*
Natsteel	0.4	0.7	*(42.9)*	0.8	*(48.1)*
Millennium Steel	0.3	0.4	*(25.0)*	0.3	*20.0*
Total	**6.07**	**7.9**	*(23.6)*	**8.0**	*(23.6)*

Source: Company, Angel Research

Exhibit 2: Consolidated Volumes & Realisations

Particulars	9MFY2009	9MFY2008	*yoy %*
Total Shipment (mn tonnes)	22.6	23.5	*(4.1)*
Net Revenues (Rs cr)	1,20,898	95,502	*26.6*
Blended Realisations (Rs/tonne)	53,565	40,564	*32.0*

Source: Company, Angel Research

Corus Pension Fund surplus fell significantly – Erodes Networth

The Pension Fund surplus in Corus declined to GBP 236mn in Dec 2008 from GBP 819mn in September 2008. For 9MFY2009, the shortfall in the Pension Fund has been to the tune of Rs8,635cr, which will erode the company's Networth to a similar extent.

Tata Steel India – Registers strong Volumes

Tata Steel sold 0.5mtpa steel in January 2009, up 27% yoy. Management is confident of achieving 1.5mtpa Sales in 4QFY2009. Management has also guided around additional 1.4mtpa of Sales during FY2010 led by capacity expansion of 3mtpa. We have factored in 6.3mn tonnes Sales volumes for FY2010, up 29% yoy.

Tata Steel India – Near-term expansion plans on track

Tata Steel enhanced 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 to 10mtpa by Dec 2010 at Jamshedpur.

Exhibit 3: 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

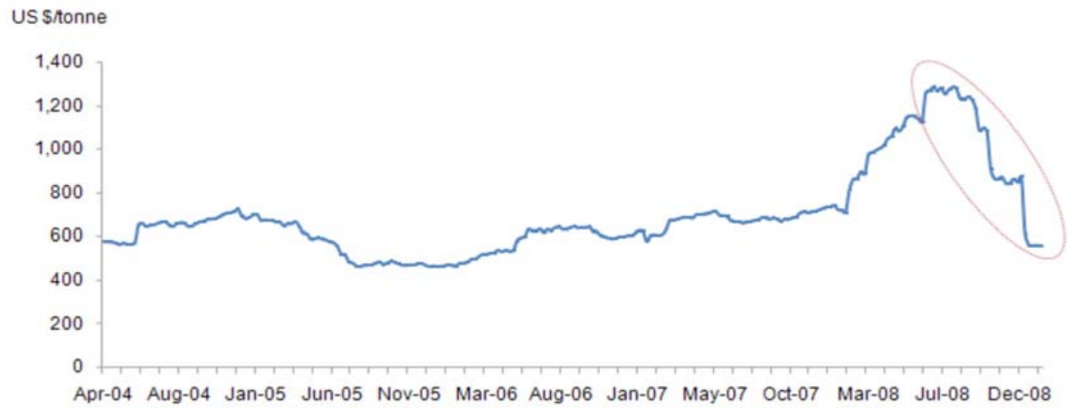
Source: Company

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

Worse yet to reflect - Realisations to decline

Post the steep run up in the steel prices beginning January 2008, steel prices have collapsed over the last 3-4 months owing to the sharp fall in the Spot prices and uncertainty over demand on account of the adverse global macro-economic factors. In perspective, the Benchmark World Export HRC prices have declined from US 1,100/tonne in July 2008 to US $480/tonne currently. China's export prices have also collapsed from US $1,030/tonne to US $580/tonne in the mentioned period. Steel prices in Europe, the key market for Corus, have fallen to US $575/tonne from US $1,285/tonne in July 2008.

Exhibit 4: EU Domestic HRC prices



Source: Bloomberg

Exhibit 5: Benchmark HRC World Export prices

Source: Bloomberg

Outlook and Valuation

For 9MFY2009, steel prices in Europe averaged US $1,088/tonne, up almost 58% yoy from the average US $691/tonne in 9MFY2008. This helped Corus achieve better realisations and maintain its Margins. However, in the last 1-2 months, prices have declined significantly in Europe, which will drag Corus's realisations. Also, production cuts announced by Corus in October 2008 still continue. We believe that the recent fall in the steel prices and lower volumes due to slowdown will impact Corus's Profitability in the ensuing quarters.

For Tata Steel, we are upgrading our FY2009 consolidated EPS estimates by 20% to factor in the better-than-expected 3QFY2009 results, better realisation registered during 9MFY2009 and lower-than-expected Tax. Tata Steel has also re-negotiated its coking coal contract for the remaining of FY2009, which will help it save on coking coal costs. However, we maintain our FY2010 EPS estimate at Rs38. At the CMP of Rs172, Tata Steel is trading at a P/E of 4.5x, EV/EBIDTA of 4.1x and P/B of 0.4x on FY2010 estimates. **We continue to value Tata Steel at P/B of 0.3x and arrive at the Fair Value of Rs146 (Rs172). Hence, we downgrade the stock from Neutral to Reduce.**

Exhibit 6: 3QFY2009 Performance (Consolidated)

Y/E March (Rs cr)	3QFY09	3QFY08	*% chg*	9MFY09	9MFY08	*% chg*
Net Sales	**33,191**	**31,899**	***4.1***	**1,20,898**	**95,502**	***26.6***
Consumption of Raw Material	12,232	8,333	*46.8*	31,882	23,649	*34.8*
(% of Net Sales)	*36.9*	*26.1*		*26.4*	*24.8*	
Purchase of Trading Goods	6,120	6,072	*0.8*	27,852	19,082	*46.0*
(% of Net Sales)	*18.4*	*19.0*		*23.0*	*20.0*	
Power& Fuel	1,443	1,223	*17.9*	4,828	3,504	*37.8*
(% of Net Sales)	*4.3*	*3.8*		*4.0*	*3.7*	
Staff Costs	4,458	4,232	*5.3*	1,4114	12,293	*15.0*
(% of Net Sales)	*13.4*	*13.3*		*11.7*	*12.9*	
Freight & Handling	1,389	1,680	*(17.3)*	4,721	4,559	*3.5*
(% of Net Sales)	*4.2*	*5.3*		*3.9*	*4.8*	
Other expenses	4,692	6,488	*(27.7)*	19,408	19,129	*1.5*
(% of Net Sales)	*14.1*	*20.3*		*16.1*	*20.0*	
Total Expenditure	**30,334**	**28,028**	***8.2***	**1,02,804**	**82,217**	***25.0***
Operating Profit	**2,857**	**3,870**	***(26.2)***	**18,095**	**13,285**	***36.2***
OPM (%)	*8.6*	*12.1*		*15.0*	*13.9*	
Interest	911.4	1,059	*(13.9)*	2,557	3,281	*(22.1)*
Depreciation	1,085	1,004	*8.1*	3,337	3,038	*9.9*
Other Income	31.6	175.8	*(82.0)*	169	389	*(56.6*
Exceptional Items	(200.7)	44.8		(900)	539	
Profit Before Tax	**692**	**2028**	***(65.9)***	**11,469**	**7,893**	***45.3***
(% of Net Sales)	*2.1*	*6.4*		*9.5*	*8.3*	
Current Tax	(40.5)	716.1	*(105.7)*	2,119	2,683	*(21.0)*
(% of PBT)	*(4.5)*	*36.1*		*17.1*	*36.5*	
Profit After Tax	**732**	**1,312**	***(44.2)***	**9,350**	**5,210**	***79.5***
PAT after MI & Assc.	**814**	**1,325**	***(38.6)***	**9,486**	**5,281**	***79.6***
(% of Net Sales)	*2.5*	*4.2*		*7.8*	*5.5*	
FDEPS (Rs)	**9.9**	**17.3**	***(42.7)***	**115**	**99**	***16.2***

Source: Company, Angel Research

Angel Broking Limited

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Ratings (Returns) :	**Buy (Upside > 15%)**	**Accumulate (Upside upto 15%)**	**Neutral (5 to -5%)**
	Reduce (Downside upto 15%)	**Sell (Downside > 15%)**	