

BUY

Price	Rs600
Target Price	Rs875
Investment Period	12 Months

Stock Info

Sector	Steel
Market Cap (Rs cr)	43,860
Beta	1.05
52 WK High / Low	970 / 557
Avg Daily Volume	1049913
Face Value (Rs)	10
BSE Sensex	14,565
Nifty	4,360
BSE Code	500470
NSE Code	TATASTEEL
Reuters Code	TISC.BO
Bloomberg Code	TATA IN

Shareholding Pattern (%)

Promoters	33.9
MF/Banks/Indian FIs	21.8
FII/ NRIs/ OCBs	19.5
Indian Public/others	24.8

Abs.	3m	1yr	3yr
Sensex (%)	(10.7)	(2.9)	90.8
Tata Steel (%)	(33.0)	2.9	76.8

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Performance Highlights

- Strong Global steel prices drive Top-line:** For 1QFY2009, Tata Steel posted a yoy Topline growth of 39.6% to Rs43,508cr (Rs31,162cr). This was mainly on account of the delivery growth of 11.5% and strong steel prices in the European markets. Blended realisations grew 25.2% yoy to Rs50,887/tonne (Rs40,629/tonne). Corus, which contributed the most to the consolidated Revenues of the group, announced price hikes several times during the year to pass on the incremental cost burden to customers on account of the high iron ore and coking coal prices. Also, an improved product mix of the group helped the company achieve better realisations and boost its Top-line.
- Margins supported by Indian Operations:** On the Operating front, Tata Steel registered an improvement in consolidated Margins by 700bp yoy to 16.1% (15.4%) even as prices of raw materials, viz., iron ore and coking coal went through the roof. Margins improved mainly due to Tata India operations clocking better Margins, which increased by 860bp during the quarter. Notably, Tata Steel, India is 100% integrated in iron ore and around 70% in coking coal, and to a large extent insulated from the volatility in the prices of these raw materials. Corus also passed on the increase in the raw material prices and maintained Margins.
- Lower Tax Rate aided substantial growth in Bottom-line:** Reported Bottom-line registered a substantial growth of 60.4% yoy to Rs3,901cr (Rs2,432cr) mainly due to the lower effective Tax rate during the quarter, which stood at 17.5% (34.4%). Decline in the Tax rate was mainly due to the tax restructuring, tax synergies and tax benefits achieved by Tata Steel, Netherlands. Management has guided for 20-22% consolidated effective Tax rate for FY2009 as against around 40% in FY2008.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	17,552	1,31,536	1,59,087	1,44,051
% chg	15.4	649.4	20.9	(9.5)
Adj. Net Profit	4,326	6,276	12,537	9,964
% chg	22.1	45.1	99.8	(20.5)
FDEPS (Rs)	75.6	82.8	145.2	115.4
OPM (%)	39.7	13.5	15.5	15.4
P/E (x)	7.9	7.2	4.1	5.2
P/BV (x)	2.3	1.3	1.0	0.9
RoE (%)	34.7	25.7	29.5	18.1
RoCE (%)	22.6	21.0	19.6	15.5
EV/Sales (x)	2.8	0.7	0.6	0.6
EV/EBITDA (x)	6.9	5.3	4.0	4.2

Source: Company, Angel Research

High Volumes and Realisations helped boost Top-line

Tata Steel's consolidated Revenues received a boost by the overall growth in deliveries. Total shipment of the group grew by 11.5% yoy to 8.55mtpa in 1QFY2009 from 7.67mtpa in 1QFY2008. Subsidiaries, Natsteel and Millennium Steel, posted a substantial growth of 57% and 16.7% in shipments, respectively.

Exhibit 1: Deliveries (mtpa)

Subsidiary	1QFY2009	1QFY2008	yoy %
Tata Steel India	1.16	1.04	11.5
Corus	6.21	5.8	7.1
Natsteel	0.83	0.53	56.6
Millennium Steel	0.35	0.3	16.7
Total	8.55	7.67	11.5

Source: Company, Angel Research

Exhibit 2: Consolidated Volumes and Realisations

Particulars	1QFY2009	1QFY2008	yoy %
Total Shipment	8.55	7.67	11.5
Net Revenues (Rs cr)	43,508	31,162	39.6
Blended Realisations (Rs/tonne)	50,887	40,629	25.2

Source: Company, Angel Research

Strong Steel prices in the global market helped Tata achieve almost 25.2% growth in blended realisations. Corus announced price hikes several times since January 2008 to pass on the incremental cost arising from the skyrocketing iron ore and coking coal prices. Blended realisation for the group stood at Rs50,887/tonne (Rs40,629/tonne) during the quarter.

Change in Pension Fund Accounting

During the quarter, the surplus pension funds of Tata Steel, UK (asset base of Rs1,20,000cr) witnessed a decline by around Rs5,352cr. This was accounted under the Reserves and Surplus head in the consolidated financial statement in accordance with IFRS principles. The treatment is consistent with the accounting principles followed by Tata Steel, UK and earlier by the Corus Group plc. as per IFRS. If the company had followed the previous practice of recognising changes in actuarial valuations of the pension plans of Tata Steel, UK, in the Profit and Loss account, Profit from ordinary activities after Exceptional Items and before Tax for the quarter would have been lower by Rs5,352cr.

Tata Steel India - Expansion Plans

Tata Steel proposes to increase its steel capacity through brown and green-field expansion. The company increased capacity at its Jamshedpur plant from 5mtpa to 7mtpa in June 2008 through brown-field expansion. The company plans to add another 3mtpa to take its total capacity to 10mtpa by 2010. It proposes to incur capex of around Rs42,000cr for the expansion, which would be met through internal accruals and borrowings.

Exhibit 3: Tata Steel – Expansion Plans (mtpa)

Location	Project Type	Capacity Expansion	Expanded Capacity	Timeline	Capex (Rs cr)
Jamshedpur	Brownfield	1.8	6.8	Completed	6,000
Jamshedpur	Brownfield	3	10	Dec,10	10,000
Orissa I	Greenfield	3	13	2011	15,800
Orissa II	Greenfield	3	16	2014	10,000

Source: Company

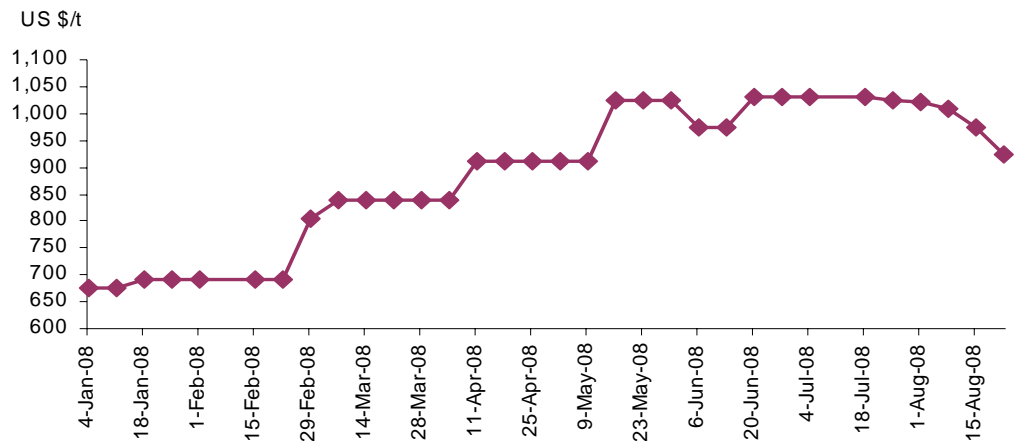
The company also plans to set up green-field plants, in phases, at Jharkhand and Chhattisgarh with capacities of 12mtpa and 5mtpa, respectively. The project schedule has still to be finalised. Required capex for the two plants would be Rs50,000cr.

Global Steel prices correct, Domestic prices still ruling at a discount

Globally, the steel prices have been riding high since January 2008, due to increase in input costs like iron ore, coking coal and scrap. Contract iron ore prices globally have increased by as much as 100%, while coking coal prices have tripled to US \$300/tonne in the FY2009 contract. Scrap prices globally have increased by almost 100% in the past six months from US \$350/tonne to US \$650/tonne currently.

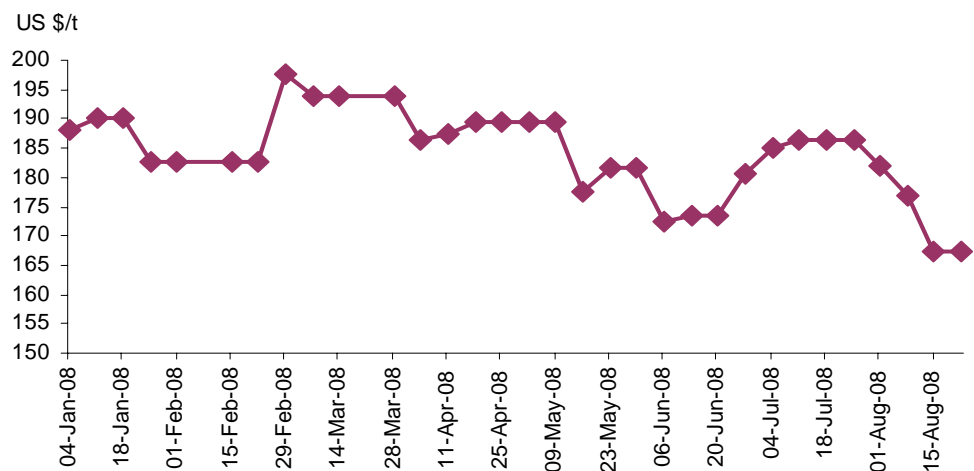
In the recent past however, steel prices have cooled off globally by around US \$100/tonne (refer Exhibit 4) owing to correction in the spot raw material prices of iron ore and scrap, and overall slowdown in global demand due to tightening of Interest rates. Correction in the steel prices globally has resulted in the discount in domestic steel prices v/s the global prices narrowing to 25% from the earlier 35%. As for the domestic steel players, they have taken a hit on Margins due to the rising input costs as they have not been able to pass on the same due to the government's intervention to curb high inflationary pressures, which has prevented the steel companies from raising prices. Hence, the domestic prices of steel have not kept pace with the global prices, due to the government intervention to control rising inflation. Further, we believe that since the domestic prices are still ruling at a discount to the global prices, chances of the domestic prices cooling off appear remote.

Exhibit 4: World HR Steel Prices



Source: Metal Bulletin, Angel Research

Exhibit 5: China CIF Iron ore Prices



Source: Metal Bulletin, Angel Research

Outlook and Valuation

The domestic steel players have been struggling to maintain their Margins, due to intervention by the government to control prices. Tata Steel has, however, been an exception on account of being the most efficient player and being the most integrated player in both iron ore and coking coal compared to its peers. However, correction in the global steel prices remains as a major risk for Corus's profitability.

We upgrade our Earnings estimates for FY2009 by around 20% on account of the better-than-expected 1QFY2009 results, better realisation from Corus and lower Tax rate of 20-22% guided by the management. We have marginally upgraded the Earnings estimates for FY2010 by 1.4%. At the CMP of Rs600, Tata Steel is trading at a P/E of 5.2x and EV/EBIDTA of 4.2x FY2010E consolidated Earnings. We believe that the stock is quoting at attractive valuations considering the better-than-expected performance by Corus, higher synergistic benefits (US \$600mn, earlier US \$450mn), strong prices in the European markets, diversified markets and scale of operations. However, the biggest risks to our assumptions are correction in the global prices and consequently Corus' ability to pass on additional costs to consumers in the medium term and no change in the government's restrictive attitude towards steel prices. **We maintain a Buy on the stock, with a Target Price of Rs875.**

Exhibit 6: 1QFY2009 Performance (Consolidated)

Y/E March (Rs cr)	1QFY2009	1QFY2008	% chg	FY2008	FY2007	% chg
Net Sales	43,508	31,162	39.6	131,536	17,552	649.4
Consumption of Raw Material (% of Net Sales)	10,142 23.3	7,107 22.8	42.7	32,434 24.7	3,039 17.3	967.3
Purchase of Trading Goods (% of Net Sales)	10,035 23.1	6,604 21.2	52.0	26,270 20.0	450.6 2.6	5,730
Power & Fuel (% of Net Sales)	1,615 3.7	1,126 3.6	43.4	4,929 3.7	921.7 5.3	434.8
Staff Costs (% of Net Sales)	4,901 11.3	4,055 13.0	20.9	16,900 12.8	1,455 8.3	1,062
Freight & Handling (% of Net Sales)	1,725 4.0	1,409 4.5	22.4	6,005 4.6	1,117 6.4	437.4
Other expenses (% of Net Sales)	8,103 18.6	6,049 19.4	34.0	27,231 20.7	3,595 20.5	657.4
Total Expenditure	36,521	26,350	38.6	113,770	10,579	975.5
Operating Profit	6,988	4,812	45.2	17,766	6,973	154.8
OPM (%)	16.1	15.4		13.5	39.7	
Interest	824.3	852.0	(3.3)	4,085	173.9	-
Depreciation	1,105	1,012	9.1	4,137	819.3	404.9
Other Income	52.7	134.1	(60.7)	475.9	433.7	9.7
Exceptional Items	(303.4)	387.9		6,352	(152.1)	
Profit before Tax	4,808	3,469	38.6	16,371	6,262	161.4
(% of Net Sales)	11.0	11.1		12.4	35.7	
Current Tax	893.0	1,060	(15.8)	4,049	2,040	98.5
(% of PBT)	17.5	34.4		40.4	31.8	
Profit after Tax	3,915	2,409	62.5	12,322	4,222	191.8
Minority Interest	114.0	16.8	579.1	(139.9)	-	
Share of Profit/loss of associates	100.3	39.2	156.1	168.2	-	
Reported PAT after Minority Interest	3,901	2,432	60.4	12,350	4,222	192.5
Adjusted PAT	4,151	2,177	90.7	6,276	4,326	45.1
(% of Net Sales)	9.5	7.0		4.8	24.6	
FDEPS (Rs)	47.1	35.7	32.2	82.8	75.6	9.6

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%)