



NEUTRAL

Price	Rs468
Target Price	-
Investment Period	-

Stock Info	
Sector	Steel
Market Cap (Rs cr)	41,530
Beta	1.4
52 WK High / Low	600/146
Avg Daily Volume	3915297
Face Value (Rs)	10

BSE Sensex	16,053
Nifty	4,751
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 (%)	5.8	77.5	24.4
Tata Steel (%)	5.9	149.9	5.8

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Performance Highlights

- Lower Realisations drag Top-line:** For 2QFY2010, the Top-line witnessed de-growth of 17.8% yoy to Rs5,630cr (flat qoq), and was below our estimates of Rs6,214cr. While the sales volume increased by 19.4% yoy and 2.7% qoq to 1.45mn tonnes, average steel realisations dipped by 26.2% yoy and 2.9% qoq, to Rs35,652. This was mainly due to the increased sale of long products, which accounted for 45% of the sales (as compared to 40% in 1QFY2010). While flat product realisations were up by 5.9% qoq, long-product prices declined by 6% qoq, leading to a dip in the overall average realisations.
- Cost reduction helps sustain margins on a qoq basis:** The EBITDA witnessed de-growth of 41.6% yoy to Rs 1,860cr, lower than our estimate by 14%. The EBITDA margin decreased by 1345bp yoy to 33%, but witnessed an improvement of 278bp qoq. This was mainly on account of 1) lower raw material cost/tonne (down 13.9%), and 2) lower power and fuel cost/tonne (down 11.7%)
- Net Profit below our estimates:** The Net Profit declined by 49.5% yoy to Rs903cr, 21% below our estimates. This was mainly on account of a 53.8% yoy jump in the interest expense to Rs392cr.
- Mozambique coking coal project on track:** The management expects 7mn tonnes of coking coal on an annualised basis from Mar 2011. The company's share will be 40% in the total production. The indicative FOB cost is US \$35/tonne. The company is going slow on the 'New Millennium' project and expects iron ore shipments from Mar 2012 only. The initial volume guidance is for 4mn tones.
- Outlook and Valuation:** With the increasing threat of Chinese exports and with clear signs of recovery not visible in European operations, we see limited upside for the stock from its current levels. **We maintain our Neutral rating on the stock, with a fair value of Rs488, based on SOTP valuation.**

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	131,091	145,686	102,136	114,255
% chg	646.9	11.1	(29.9)	11.9
Reported Net Profit	12,350	4,951	1,748	4,276
% chg	192.5	(59.9)	(64.7)	144.7
FDEPS(Rs)	162.6	59.0	20.2	49.5
OPM (%)	13.2	11.3	8.9	11.3
P/E (x)	2.9	8.0	23.2	9.5
P/BV (x)	1.0	1.2	1.2	1.1
RoE (%)	50.6	14.9	5.3	12.0
RoCE (%)	21.0	15.4	6.2	9.9
EV/Sales	0.6	0.6	0.8	0.7
EV/EBITDA	4.9	5.4	9.4	6.6

Source: Company, Angel Research

Exhibit 1: Valuation Matrix

	FY2011E EBITDA (Rs cr)	Target EV/EBITDA (x)	EV (Rs cr)
Tata Steel	9,053	7.5	67,895
Corus	4,160	4.0	16,638
NSA + TTH	359	4.0	1,437
Total EV			85,970
Debt			52,000
Cash			8,187
Market Cap			42,1578
No. of shares			86.3
Target Price (Rs)			488

Source: Company, Angel Research

Exhibit 2: 2QFY2010 Performance (Standalone)

Y/E March (Rs cr)	2QFY2010	2QFY2009	% chg	H1FY2010	H1FY2009	% chg
Net Sales	5,630	6,851	(17.8)	11,184	12,938	(13.6)
Consumption of Raw Material	1,422	1,118	27.2	3,027	2,037	48.6
(% of Net Sales)	25.3	16.3		27.1	15.7	
Power & Fuel	298	278	7.1	626	540	16.0
(% of Net Sales)	5.3	4.1		5.6	4.2	
Staff Costs	522	599	(12.8)	1,028	1,070	(4)
(% of Net Sales)	9.3	8.7		9.2	8.3	
Freight & Handling	308	331	(7.1)	623	636	(2.0)
(% of Net Sales)	5.5	4.8		5.6	4.9	
Other expenses	1,220	1,342	(9.0)	2,338	2,513	(7.0)
(% of Net Sales)	21.7	19.6		20.9	19.4	
Total Expenditure	3,770	3,668	2.8	7,643	6,796	12.5
Operating Profit	1,860	3,183	(41.6)	3,541	6,142	(42.4)
OPM (%)	33.0	46.5		31.7	47.5	
Interest	392.0	254.8	53.8	734	497	47.9
Depreciation	256	249	3.0	510	466	9.4
Other Income	138.3	238.4	(42.0)	246	316	(22.2)
Exceptional Items	-	(345.4)		-	(649)	
Profit before Tax	1,350	2,572	(47.5)	2,543	4,847	(47.5)
(% of Net Sales)	24.0	37.5		22.7	37.5	
Tax	447.0	784.5	(43.0)	850	1,571	(45.9)
(% of PBT)	33.1	26.9		33.4	28.6	
Profit after Tax	903	1,788	(49.5)	1,693	3,276	(48.3)
FDEPS	11.0	21.8	(49.5)	20.6	39.9	(48.3)

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%)	