

# Tata Steel

Bloomberg: TATA IN Equity

Reuters: TISC.BO

Recommendation: BUY



## RESULT UPDATE

## Q4FY10 results – So far, so good

### Realisations lead to better than expected topline and operating profits

Tata Steel announced its annual FY10 results, which were ahead of our expectations. Q4 FY10 consolidated net sales came in at Rs 272.4bn, 2% ahead of our estimates (Rs266.2bn). The outperformance at the topline was on account of higher-than-expected realisations, both in the domestic and European operations. Sales volume in Europe came in at 3.9MT, in-line with our expectations, registering a marginal improvement sequentially. Sales volume in India, which was announced earlier, rose 6% QoQ to 1.7MT. Consolidated EBITDA (including other operating income) was Rs 47.5bn, ahead of our expectations of Rs 36.3BN, on account of better realisations, higher Other operating income and marginal cost improvements across regions. At the non-operating level, profitability was enhanced by stake sale in group companies. Net profit came in at Rs 24.3bn after a restructuring charge of Rs 3.6bn.

### Europe: the macro risks continue to be in focus

Europe has seen recovery off a slow base, and has been helped by restocking. On the positive side, the level of stocks still remains low, and the weak currency has kept import volumes low. The management mentioned the divergent recovery patterns at developing and developed world. The European construction industry in particular has been badly hit, and has yet to recover fully. With the governments' fiscal support possibly on the decline, steel demand growth could be negatively impacted, resulting in concerns over 2HFY11. Over 1HFY11, the company is expecting capacity utilisation of more than 85%, and steel prices are likely to remain firm in the period.

### Performance in SE Asia has been a mixed bag

Performance in Thailand has been hit by the political instability in the country. While realisations remained steady sequentially, EBITDA margins declined from 4.7% in Q3FY10 to 1.5% in Q4FY10. Natsteel's performance was steadier, with stable realisations and 3.3% EBITDA margins.

### Options for Teesside are being evaluated

No decisions have been taken as yet, and the company continues its efforts to find long term customers, partners or owners for the plant.

### Efforts to deleverage balance sheet to continue

The net debt for the group fell from \$10.4bn at the end of Q3FY10 to \$9.9bn at the end of March 2010. In FY11, the company plans to repay debt of \$250mn and prepay GBP112.5mn, and will continue to evaluate further stake sale.

### Outlook:

We will update our estimates post the analyst meet, and currently maintain our recommendation. While the economic environment in Europe needs to be closely monitored, we are positive on the restructuring taking place in the European operations. The depreciation of the GBP and EUR are however likely to negatively impact our FY11 and FY12 financial estimates.

### Analyst contact

Chandrani De, CFA

Tel: (022) 3043 3210  
chandrani@ambitcapital.com

### Recommendation

<b>CMP:</b>	Rs484
<b>Target Price (Period):</b>	Rs700
<i>Previous TP:</i>	Rs700
<i>Upside/Downside (%)</i>	45%
<b>EPS (FY10):</b>	Rs (24.9)

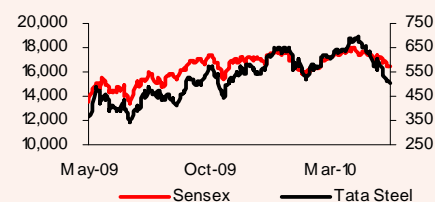
### Stock Information

Mkt cap:	Rs422,891mn/US\$9,002mn
52-wk H/L:	739/330
3M Avg. daily vol. (mn):	13
Beta (x):	1.5
BSE Sensex:	16022
Nifty:	4807

### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(26.5)	(16.3)	29.3	(22.8)
Rel. to Sensex	(18.8)	(15.1)	12.2	(15.9)

### Performance (%)



Source: Bloomberg, Ambit Capital research

**Other key points:**

- The domestic Ferro Alloys segment profitability continued to be on upswing - the segment revenues increased 3% QoQ while EBIT margins rose from 22% in Q3 to 26% in Q4.
- For the 2.9MTPA Jamshedpur expansion, all the major orders (for \$2.9bn) have been placed, and the company is on track to commission the plant in Q3FY12.
- The company plans to increase its stake in the New Millennium project to more than 20%. A production of 4MT Of Sinter fines is expected from 2Q FY12.

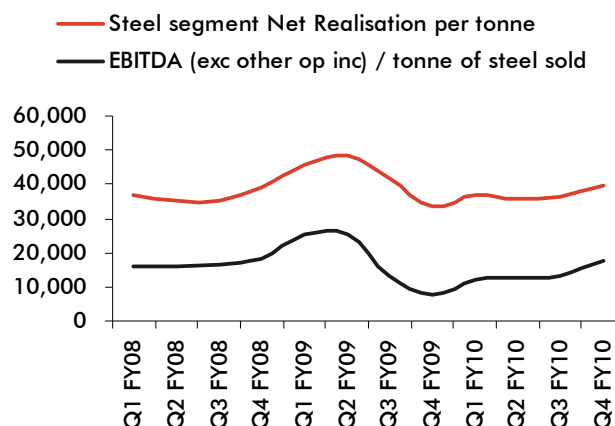
**Exhibit 1: Per tonne analysis of standalone operations**

Per Tonne of steel sold (Rs)	Q4 FY09	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	YoY%	QoQ%
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10		
Saleable Steel production (MT)	1.62	1.54	1.52	1.69	1.69	4%	0%
Steel sales volume (MT)	1.78	1.42	1.46	1.60	1.70	-5%	6%
Steel segment Net Realisation	33,796	36,717	35,671	36,522	39,591	17%	8%
Blended Net Realisation	36,283	39,173	38,667	39,496	42,503	17%	8%
Material Cost (inc. chge in stocks)	15,231	11,324	9,764	9,544	7,337	-52%	-23%
Staff Cost	3,743	3,570	3,586	4,084	4,005	7%	-2%
Power Cost	1,616	2,316	2,046	1,898	1,993	23%	5%
Freight Cost	1,985	2,223	2,114	2,243	2,212	11%	-1%
Others Cost	5,984	7,885	8,382	8,643	9,209	54%	7%
Total Costs (exc D&A)	28,559	27,319	25,892	26,412	24,757	-13%	-6%
EBITDA	7,724	11,854	12,775	13,084	17,746	130%	36%

Source: Company, Ambit Capital research

**Exhibit 2: Domestic steel sales volume (MT)**

Source: Company, Ambit Capital research

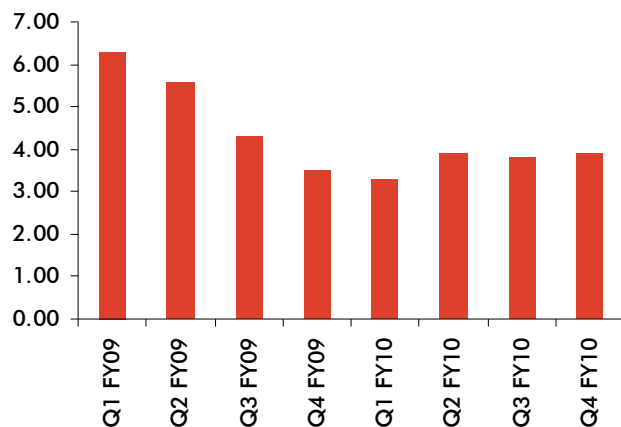
**Exhibit 3: Domestic realizations, profitability (Rs/t)**

Source: Company, Ambit Capital research

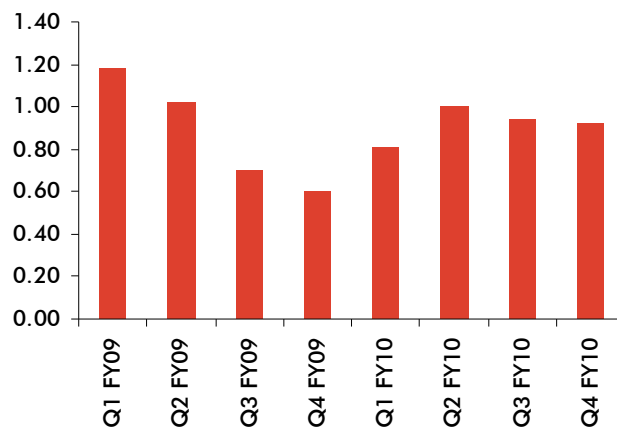
**Exhibit 4: Standalone quarter results**

Rs mn	Q4 FY09	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	YoY%	QoQ%
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10		
<b>Net Sales</b>	<b>64,607</b>	<b>55,540</b>	<b>56,299</b>	<b>63,075</b>	<b>72,255</b>	<b>12%</b>	<b>15%</b>
Other operating income	783	615	623	674	1,140	46%	69%
(Inc) / dec in stock-in-trade	9,329	456	(375)	423	846		
Purchases of finished, semi	292	278	327	595	490		
Raw materials consumed	17,499	15,322	14,265	14,223	11,137		
Total material cost	27,120	16,056	14,217	15,241	12,474	-54%	-18%
Staff Cost	6,666	5,062	5,221	6,523	6,809	2%	4%
Purchase of Power	2,878	3,284	2,979	3,032	3,389	18%	12%
Freight and handling	3,534	3,152	3,078	3,581	3,761	6%	5%
Other Exp. inc capitalised exp.	10,655	11,179	12,204	13,803	15,655	47%	13%
<b>Total Expenditure exc D&amp;A</b>	<b>50,853</b>	<b>38,733</b>	<b>37,699</b>	<b>42,180</b>	<b>42,087</b>	<b>-17%</b>	<b>0%</b>
<b>EBITDA (exc other op. income)</b>	<b>13,754</b>	<b>16,807</b>	<b>18,600</b>	<b>20,895</b>	<b>30,168</b>	<b>119%</b>	<b>44%</b>
Margin	21.3%	30.3%	33.0%	33.1%	41.8%		
<b>EBITDA (inc other op. income)</b>	<b>14,537</b>	<b>17,422</b>	<b>19,222</b>	<b>21,569</b>	<b>31,307</b>		
Margin	22.5%	31.4%	34.1%	34.2%	43.3%		
Depreciation	2,565	2,532	2,564	2,622	3,115	21%	19%
Operating Profit	11,972	14,891	16,659	18,947	28,193	135%	49%
Margin	18.5%	26.8%	29.6%	30.0%	39.0%		
Other income	435	463	761	2,636	4,678		
Net Finance Charges	3,079	3,422	3,920	4,157	3,585	16%	-14%
<b>Adjusted PBT</b>	<b>9,327</b>	<b>11,932</b>	<b>13,499</b>	<b>17,426</b>	<b>29,286</b>	<b>214%</b>	<b>68%</b>
Total Exceptional (Loss) Gain	0	0	0	0	0		
<b>Reported PBT</b>	<b>9,327</b>	<b>11,932</b>	<b>13,499</b>	<b>17,426</b>	<b>29,286</b>	<b>214%</b>	<b>68%</b>
Tax Expense	2,491	4,034	4,470	5,508	7,663	208%	39%
<b>Reported Net profit to shareholders</b>	<b>6,837</b>	<b>7,898</b>	<b>9,029</b>	<b>11,918</b>	<b>21,623</b>	<b>216%</b>	<b>81%</b>
<b>Adjusted Net profit to shareholders</b>	<b>6,837</b>	<b>7,898</b>	<b>9,029</b>	<b>11,918</b>	<b>21,623</b>	<b>216%</b>	<b>81%</b>

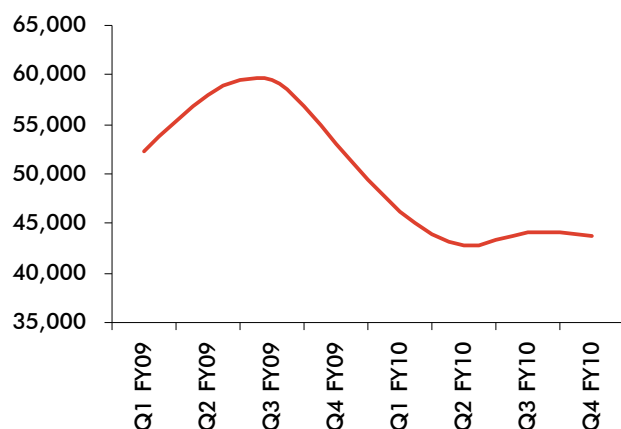
Source: Company, Ambit Capital research

**Exhibit 5: Europe - sales volume (MT)**

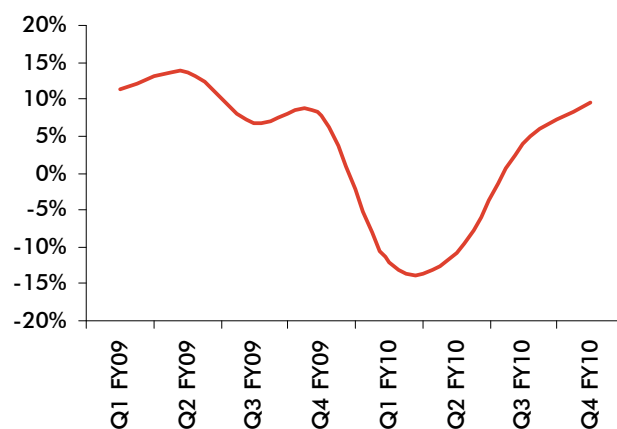
Source: Company, Ambit Capital research

**Exhibit 6: SE Asia - sales volume (MT)**

Source: Company, Ambit Capital research

**Exhibit 7: Net sales realisation (Rs/t) Europe**

Source: Company, Ambit Capital research

**Exhibit 8: EBITDA margin Europe**

Source: Company, Ambit Capital research

**Exhibit 9: Key parameters of international operations**

	Q4 FY09	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	YoY%	QoQ%
Europe - Liquid steel production (MT)	2.70	2.80	3.96	4.20	3.70	37%	-12%
SE Asia - Finished steel production (MT)	0.76	0.64	0.77	0.73	0.79	4%	9%
Europe steel sales (MT)	3.50	3.30	3.92	3.80	3.90	11%	3%
SE Asia Steel sales (MT)	0.60	0.81	1.00	0.94	0.92	53%	-2%
Net sales realisation (Rs/ tonne) Europe	53,097	46,145	42,776	44,096	43,823	-17%	-1%
Net sales realisation (Rs/ tonne) SE Asia	167,763	38,112	37,170	25,833	26,080	-84%	1%
EBITDA margin Europe	7.9%	-12.2%	-10.7%	3.9%	9.6%		
EBITDA margin SE Asia	3.6%	1.5%	4.9%	4.4%	2.6%		

Source: Company, Ambit Capital research

**Exhibit 10: Consolidated quarter results**

Rs mn	Q4 FY09	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	YoY%	QoQ%
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10		
<b>Net Sales</b>	<b>257,653</b>	<b>231,805</b>	<b>252,698</b>	<b>260,686</b>	<b>272,389</b>	<b>6%</b>	<b>4%</b>
Other operating income	6,880	1,118	1,252	1,335	2,649		
(Inc) / dec in stock-in-trade	51,741	13,342	(3,299)	(8,087)	4,644		
Purchases of finished, semi	28,213	34,986	37,027	32,589	26,269		
Raw materials consumed	72,870	70,522	84,862	80,326	74,335		
Total material cost	152,824	118,850	118,589	104,828	105,248	-31%	0%
Staff Cost	39,588	39,625	43,608	41,999	39,398	0%	-6%
Purchase of Power	11,229	9,664	10,128	10,845	9,881	-12%	-9%
Freight and handling	12,894	11,564	14,580	14,451	14,897	16%	3%
Other Exp. inc capitalised exp.	51,131	53,518	63,328	60,393	58,112	14%	-4%
<b>Total Expenditure exc D&amp;A</b>	<b>267,665</b>	<b>233,222</b>	<b>250,232</b>	<b>232,514</b>	<b>227,536</b>	<b>-15%</b>	<b>-2%</b>
<b>EBITDA (exc other op. income)</b>	<b>(10,012)</b>	<b>(1,417)</b>	<b>2,466</b>	<b>28,171</b>	<b>44,853</b>	<b>n.a.</b>	<b>59%</b>
Margin	-3.9%	-0.6%	1.0%	10.8%	16.5%		
<b>EBITDA (inc other op. income)</b>	<b>(3,133)</b>	<b>(299)</b>	<b>3,718</b>	<b>29,506</b>	<b>47,501</b>		
Margin	-1.2%	-0.1%	1.5%	11.3%	17.4%		
Depreciation	9,283	10,890	11,535	11,547	10,946	18%	-5%
Operating Profit	(12,415)	(11,188)	(7,817)	17,959	36,556	n.a.	104%
Margin	-4.8%	-4.8%	-3.1%	6.9%	13.4%		
Other income	1,034	2,039	179	4,099	5,541		
Net Finance Charges	7,336	8,819	7,172	7,630	6,600	-10%	-14%
<b>Adjusted PBT</b>	<b>(18,717)</b>	<b>(17,968)</b>	<b>(14,810)</b>	<b>14,428</b>	<b>35,497</b>	<b>n.a.</b>	<b>146%</b>
Total Exceptional (Loss) Gain	(28,544)	(2,188)	(9,113)	(1,957)	(3,579)		
<b>Reported PBT</b>	<b>(47,261)</b>	<b>(20,156)</b>	<b>(23,923)</b>	<b>12,471</b>	<b>31,918</b>	<b>n.a.</b>	<b>156%</b>
Tax Expense	(2,248)	2,229	3,275	8,148	7,866	n.a.	-3%
Net Profit	(45,012)	(22,385)	(27,198)	4,323	24,052	n.a.	456%
Share of profit of associates less MI	(343)	299	126	404	288		
<b>Reported Net profit to shareholders</b>	<b>(45,356)</b>	<b>(22,087)</b>	<b>(27,073)</b>	<b>4,726</b>	<b>24,341</b>	<b>n.a.</b>	<b>415%</b>
<b>Adjusted Net profit to shareholders</b>	<b>(16,812)</b>	<b>(19,899)</b>	<b>(17,959)</b>	<b>6,684</b>	<b>27,920</b>	<b>n.a.</b>	<b>318%</b>

Source: Company, Ambit Capital research

## Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	< 5%

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**Ambit Capital Pvt. Ltd.**  
 Ambit House, 3rd Floor  
 449, Senapati Bapat Marg, Lower  
 Parel, Mumbai 400 013, India.  
 Phone : +91-22-3043 3000  
 Fax : +91-22-3043 3100