

November 15, 2010

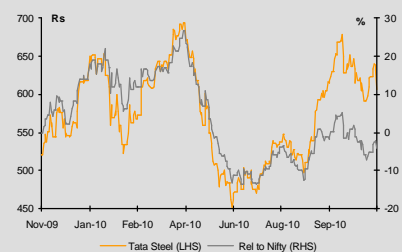
Reco	Previous Reco
Accumulate	Buy
CMP	Target Price
Rs 606	Rs 712
EPS change FY11E/12E (%)	20
Target Price change (%)	17.5
Nifty	6,072
Sensex	20,157

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	17	11	18
Rel. to Nifty	(2)	4	(7)	(3)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Metals & Mining
Bloomberg	TATA@IN
Equity Capital (Rs mn)	9022
Face Value(Rs)	10
No of shares o/s (mn)	902
52 Week H/L	737/449
Market Cap (Rs bn/USD mn)	547/12,228
Daily Avg Volume (No of sh)	8515563
Daily Avg Turnover (US\$mn)	112.9

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	32.5	31.3	31.3
FII/NRI	17.0	17.2	21.3
Institutions	26.2	25.2	23.9
Private Corp	3.4	4.1	2.9
Public	20.9	22.2	20.6

Source: Capitaline

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- **Higher volume in Indian operations and slightly higher realization in European operation helped revenue growth of 5% to Rs 286.5 bn, in line with our expectations**
- **Higher raw material costs (up ~20% QoQ) weighed on the EBITDA margin, which fell 348 bps QoQ to 12.8%. EBITDA/tonne for Tata Steel Europe remained at ~US\$60**
- **Higher other income due to stake sales in Tata Motors and Tata Power helped consolidated PAT to grow 8.4% on QoQ to Rs 19.8 bn**
- **Revising up our earnings estimates for FY11E and FY12E to Rs 81.4 and Rs 97.8 respectively. We assign Accumulate on the stock**

Better domestic sales volume led to topline growth

Tata Steel, on a consolidated basis reported revenue growth of ~13% and ~5% on YoY and QoQ basis respectively mainly on the back of higher sales volume in the Indian markets. This was due to continuous robust demand and fall in imports during the quarter. Better price realization in the European operations also helped in top line growth at least to some extent

Rise in raw material costs dented operating margins

Both iron ore and coking coal contract prices rose during the quarter helping raw material costs as a percentage to sales to go up by 520 bps on QoQ. This contracted the EBITDA margins by 348 bps on QoQ to 12.8% for Q2FY11. On YoY basis it has been a robust performance, as the industry as a whole remained under severe pressure during the corresponding quarter previous year. EBITDA/tonne for the consolidated business stood at Rs 6309.8, down by 16% QoQ. For Tata Steel Europe the EBITDA/tonne remained at US\$60, down from US\$79 during Q1FY11

Profit of Rs 627 crore from sale of investments boosted bottomline

Though, there has been a drop in operating margins, the net profit for the quarter grew by 8.4% QoQ to Rs 19.8 bn against the loss of Rs 27.2 bn in Q2FY10. This was primarily due to the profit from the sale of investments to the tune of Rs 627 crore that accrued during Q2FY11. Removing that part the bottom line performance remained pretty much in line with our estimates of Rs 13.8 bn

Outlook and Valuations

The company has been consciously focusing on improving its balance sheet by way of restructuring debt, divestments, increasing stakes in mining resources. Some benefits of that have already started flowing in and we believe going forward this would be more prominent. At the CMP of RS 606, the stock is trading at 6x its FY12E EPS and 4.1x FY12E EV/ EBITDA. We value the standalone business at 5x its FY12E EV/ EBITDA and oversea subsidiaries 4x FY12E EV/ EBITDA to arrive at a target price of Rs 712/ share. We assign ACCUMULATE rating on the stock.

Financials

(Rs bn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY09	1,456.9	181.3	12.4	49.5	60.4	-63.0	17.4	8.9	5.1	3.6
FY10	1,017.6	80.4	7.9	-20.1	-22.6	-	-8.5	-26.7	11.8	6.5
FY11E	1,116.5	172.5	15.5	73.4	81.4	LP	24.5	7.3	5.1	3.5
FY12E	1,230.2	199.8	16.2	89.4	97.8	20.1	23.6	6.0	4.1	2.1

LP- Loss to profit

Key Financials – Quarterly (Consolidated)

(Rs mn)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	253,950	262,020	275,038	271,948	286,462	12.8	5.3	558,410	486,874	14.7
Expenditure	(250,232)	(232,514)	(227,536)	(227,622)	(249,739)	(0.2)	9.7	(477,361)	(483,454)	(1.3)
<i>as % of sales</i>	98.5	88.7	82.7	83.7	87.2			85.5	99.3	
Consumption of RM	(118,589)	(104,828)	(105,248)	(103,481)	(124,064)	4.6	19.9	(227,545)	(237,440)	(4.2)
<i>as % of sales</i>	46.7	40.0	38.3	38.1	43.3			40.7	48.8	
Employee Cost	(43,608)	(41,999)	(39,398)	(37,771)	(38,275)	(12.2)	1.3	(76,046)	(83,234)	(8.6)
<i>as % of sales</i>	17.2	16.0	14.3	13.9	13.4			13.6	17.1	
Other expenditure	(88,035)	(85,688)	(82,890)	(86,370)	(87,400)	(0.7)	1.2	(173,770)	(162,781)	6.8
<i>as % of sales</i>	34.7	32.7	30.1	31.8	30.5			31.1	33.4	
EBITDA	3,718	29,506	47,502	44,326	36,723	887.7	(17.2)	81,049	3,419	2,270.3
Depreciation	(11,535)	(11,547)	(10,946)	(10,439)	(10,781)	(6.5)	3.3	(21,220)	(22,425)	(5.4)
EBIT	(7,817)	17,959	36,556	33,887	25,942	(431.9)	(23.4)	59,829	(19,006)	LP
Other Income	179	4,099	5,541	595	8,143	4,438.8	1,269.2	8,737	2,218	293.9
Interest	(7,172)	(7,630)	(6,600)	(5,976)	(6,637)	(7.5)	11.1	(12,613)	(15,991)	(21.1)
PBT	(14,810)	14,428	35,497	28,505	27,448	(285.3)	(3.7)	55,953	(32,778)	LP
Total Tax	(3,275)	(8,148)	(7,866)	(10,005)	(7,450)	127.5	(25.5)	(17,454)	(5,505)	217.1
Adjusted PAT	(18,085)	6,280	27,631	18,501	19,998	(210.6)	8.1	38,499	(38,283)	LP
(Profit)/loss from JV's/Ass/MI	126	404	288	351	106	(15.7)	(69.8)	457	424	7.7
Adj.PAT after MI	(17,959)	6,684	27,920	18,851	20,104	(211.9)	6.6	38,955	(37,859)	LP
Extra ordinary items	(9,113)	(1,957)	(3,579)	(599)	(316)	(79,099)		(915)	(11,301)	(91.9)
Reported PAT	(27,073)	4,726	24,341	18,253	19,788	LP	8.4	38,041	(49,159)	(177.4)
Reported EPS	(30.5)	5.3	27.4	20.6	22.3	LP	8.4	42.9	(60.8)	(170.6)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	1.5	11.3	17.3	16.3	12.8	1,136	(348)	14.5	0.7	1,381
EBIT	(3.1)	6.9	13.3	12.5	9.1	LP	(340)	10.7	(3.9)	LP
EBT	(5.8)	5.5	12.9	10.5	9.6	LP	(90)	10.0	(6.7)	LP
PAT	(7.1)	2.4	10.0	6.8	7.0	LP	18	6.9	(7.9)	LP
Effective Tax rate	22.1	56.5	22.2	35.1	27.1	503	(796)	31.2	16.8	1,440

LP- Loss to profit

Key Financials – Quarterly (Standalone)

(Rs mn)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	56,921	63,749	73,394	65,515	71,071	24.9	8.5	136,585	113,077	20.8
Expenditure	(37,699)	(42,180)	(42,087)	(36,350)	(44,777)	18.8	23.2	(81,128)	(76,432)	6.1
<i>as % of sales</i>	66.2	66.2	57.3	55.5	63.0			59.4	67.6	
Consumption of RM	(14,217)	(15,241)	(12,474)	(9,649)	(15,637)	10.0	62.1	(25,285)	(30,273)	(16.5)
<i>as % of sales</i>	25.0	23.9	17.0	14.7	22.0			18.5	26.8	
Employee Cost	(5,221)	(6,523)	(6,809)	(5,781)	(6,837)	31.0	18.3	(12,619)	(10,283)	22.7
<i>as % of sales</i>	9.2	10.2	9.3	8.8	9.6			9.2	9.1	
Other expenditure	(18,261)	(20,416)	(22,804)	(20,920)	(22,303)	22.1	6.6	(43,223)	(35,876)	20.5
<i>as % of sales</i>	32.1	32.0	31.1	31.9	31.4			31.6	31.7	
EBITDA	19,222	21,569	31,307	29,165	26,293	36.8	(9.8)	55,458	36,645	51.3
Depreciation	(2,564)	(2,622)	(3,115)	(2,802)	(2,815)	9.8	0.4	(5,617)	(5,095)	10.2
EBIT	16,659	18,947	28,193	26,363	23,479	40.9	(10.9)	49,841	31,549	58.0
Other Income	761	2,636	4,678	484	7,327	863.4	1,412.8	7,811	1,224	538.2
Interest	(3,920)	(4,157)	(3,585)	(3,277)	(3,425)	(12.6)	4.5	(6,702)	(7,342)	(8.7)
PBT	13,499	17,426	29,286	23,570	27,381	102.8	16.2	50,951	25,431	100.3
Total Tax	(4,470)	(5,508)	(7,663)	(7,776)	(6,726)	50.5	(13.5)	(14,502)	(8,504)	70.5
Adjusted PAT	9,029	11,918	21,623	15,794	20,654	128.7	30.8	36,448	16,928	115.3
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
Adj.PAT after MI	9,029	11,918	21,623	15,794	20,654	128.7	30.8	36,448	16,928	115.3
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	9,029	11,918	21,623	15,794	20,654	128.7	30.8	36,448	16,928	115.3
Reported EPS	10.2	13.4	24.4	17.8	22.9	124.9	28.6	40.7	10.2	299.9

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	33.8	33.8	42.7	44.5	37.0	323	(752)	40.6	32.4	820
EBIT	29.3	29.7	38.4	40.2	33.0	LP	(720)	36.5	27.9	859
EBT	23.7	27.3	39.9	36.0	38.5	LP	255	37.3	22.5	1,481
PAT	15.9	18.7	29.5	24.1	29.1	LP	495	26.7	15.0	1,172
Effective Tax rate	(33.1)	31.6	26.2	33.0	24.6	5,768	(843)	28.5	(33.4)	6,190

Sales volume rose in domestic markets, fell in Europe

Backed by robust demand and fall in imports from China, the company reported a rise in sales volume by 14% and 18.5% on YoY and QoQ basis respectively to 1.66 mt. The European business however, saw a decline in sales volume by 8% and ~5% respectively on YoY and QoQ to 3.53 mt due to lower offtakes on seasonal weakness. The consolidated sales volume for Q2FY11 remained at 5.82 mt against 5.9 mt in Q1FY11 and 6.05 mt in Q2FY10. For the H1FY11, the company reported however reported an improvement in sales volume to 11.72 mt over H1FY10 (11.28 mt).

Performance snapshot in different geographies

Particulars (Rs mn)	Tata Steel-India	Tata Steel-Europe	Natsteel	Tata Steel-Thailand	Tata Steel - Group
Deliveries (mt)	1.7	3.5	0.5	0.3	5.8
Turnover	71070.0	183870.0	17010.0	9880.0	286462.0
Realization/ tonne (Rs)	428132.5	520878.2	369782.6	299393.9	492202.7
EBITDA	26293.2	8860.0	1160.0	140.0	36723.3
EBITDA Margin (%)	37.0	4.8	6.8	1.4	12.8
EBITDA/ tonne (Rs)	158392.8	25099.2	25217.4	4242.4	63098.5

Restructuring to be fit for the future

Despite some improvement, the European business continues to remain a concern for the company, as demand trend has not showing any stabilization. However, the company has been consciously focusing on improving its balance sheet by way of restructuring debt, divestments, increasing stakes in mining resources. Some benefits of that have already started flowing in and we believe going forward this would be more prominent. Along with this if European operations starts witnessing some sustainable recovery, it would provide optimum benefits to the company as far as its overall performance is concerned.

Revising earning estimates; Accumulate

We believe the domestic business would continue to do well. The 2.9 mtpa expansion at Jamshedpur is likely to be commissioned in Q3FY12, which is likely to be visible only in FY13 numbers. Thus, we have not take any impact of that in FY12E estimates. We have revised up our estimates for both FY11E as well as for FY12E

Revised estimates

(Rs mn)	FY11E			FY12E		
	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Revenue	1116499.1	1069807.2	4.4	1230168.3	1191322.0	3.3
EBITDA	172546.0	156117.1	10.5	199778.4	178874.5	11.7
APAT	73422.2	53846.6	36.4	89360.6	72438.2	23.4
EPS (Rs)	81.4	59.7	36.4	97.8	79.2	23.4

Valuation

At the CMP of RS 606, the stock is trading at 6x its FY12E EPS and 4.1x FY12E EV/EBITDA. Looking at the short-term concerns on Tata Steel Europe's performance and some softness in steel prices for coming 3-4 months we value the stock at 5x its standalone FY12E EV/EBITDA and overseas subsidiaries including Tata Steel Europe 4x EV/EBITDA to arrive at a target price of Rs 712/ share. We assign ACCUMULATE rating on the stock.

Financials (consolidated)

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	1,456,863	1,017,578	1,116,499	1,230,168
Growth (%)	10.8	-30.2	9.7	10.2
Expenditure	1,292,016	943,505	948,944	1,035,390
Raw Materials	415,317	310,045	323,607	359,985
Freight & handling	60,249	55,491	59,230	64,146
Employee Cost	179,751	164,630	153,044	167,253
Other Exp	105201.7	72338.34	73667.04	80399.11
EBITDA	181,277	80,427	172,546	199,778
Growth (%)	-2.4	-55.6	114.5	15.8
EBITDA margin (%)	12.4	7.9	15.5	16.2
Depreciation	42653.9	44917.3	44455.05	45805.05
EBIT	138,623	35,509	128,091	153,973
EBIT margin (%)	9.5	3.5	11.5	12.5
Other Income	2656.7	11858.5	11311	5000
Interest expenses	32901.8	30220.6	30647.46	28429.72
PBT	108,378	17,147	108,754	130,544
Tax	18940	21518.4	34874.18	42082.96
Effective tax rate (%)	17.5	125.5	32.1	32.2
Adjusted PAT	89,438	-4,371	73,880	88,461
(Profit)/loss from JV's/Ass/MI	1016.6	1116.2	456.5	900
Adjusted PAT after MI	90,454	-3,255	74,337	89,361
Growth (%)	-58.8	PL	LP	20.2
Net Margin (%)	6.2	14.1	14.3	15.1
E/O items	-49941.1	-16837.2	-914.6	0
Reported PAT	40,513	-20,092	73,422	89,361
Growth (%)	-59.9	PL	LP	21.7

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	64,776	-11,549	96,529	125,544
Depreciation	42,654	44,917	44,455	45,805
Interest Provided	32,902	30,221	30,647	28,430
Other Non-Cash items	-33,836	-41,107	-1,774	-17,610
Chg in working cap	69,403	103,746	-12,438	-15,888
Tax paid	-18,940	-21,518	-34,874	-42,083
Operating Cashflow	156,959	104,710	122,546	124,197
Capital expenditure	32,600	-17,803	-40,000	-50,000
Free Cash Flow	189,559	86,907	82,546	74,197
Other income	2,657	11,859	11,311	5,000
Investments	-143,476	-41,021	0	0
Investing Cashflow	-140,819	-29,163	11,311	5,000
Equity Capital Raised	1	-53,160	150	120
Loans Taken / (Repaid)	67,019	-6,709	-32,343	-15,000
Interest Paid	-32,902	-30,221	-30,647	-28,430
Dividend paid (incl tax)	-14,950	-8,300	-10,500	-10,500
Income from investments	0	0	0	0
Others	21,521	-133,141	0	0
Financing Cashflow	-27,548	-51,350	-73,340	-53,809
Net chg in cash	21,192	6,394	20,516	25,388
Opening cash position	40,291	61,484	67,878	88,394
Closing cash position	61,484	67,878	88,394	113,782

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	62027.8	8867.4	9017.4	9137.4
Reserves & surplus	223,241	228,387	291,169	370,030
Net worth	285,269	237,254	300,186	379,167
Minority Interest	8948.8	8840.7	8840.7	8840.7
Secured Loans	342,439	280,593	272,512	254,012
Unsecured Loans	256,566	250,410	218,067	203,067
Loan Funds	599,005	531,004	490,579	457,079
Net deferred tax liability	17094.3	16541	16541.1	16541.1
Total Liabilities	912,790	794,336	825,958	871,439
Gross Block	994,587	972,890	1,002,890	1,032,890
Less: Depreciation	630,832	608,126	652,581	698,386
Net block	363,755	364,764	350,309	334,504
CWIP	89300.7	93194	103194.3	123194.3
Investment	64,111	54,178	54,178	54,178
Current Assets	408,555	371,063	372,943	430,057
Inventories	216,687	186,866	177,794	197,623
Sundry debtors	130,316	116,240	106,676	118,574
Cash & bank balance	61,484	67,878	88,394	113,782
Loans & advances	130,157	67,615	78,155	86,112
Other current assets	0	0	0	0
Current lia & Prov	302,510	299,827	279,294	303,089
Current liabilities	230,933	233,886	213,353	237,147
Provisions	71,577	65,942	65,942	65,942
Net current assets	236,202	138,851	171,804	213,080
Total Assets	912,790	794,336	825,958	871,439

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	12.3	7.9	15.5	16.2
Net Margin	3.4	-2.0	6.6	7.3
ROCE	15.6	5.6	17.4	19.0
ROE	16.1	-8.0	27.8	26.4
RoIC	19.4	5.7	22.5	27.0
Per Share Data (Rs)				
EPS	67.8	-22.7	81.4	97.8
CEPS	126.2	28.0	132.9	167.7
BVPS	169.1	93.3	174.5	290.0
DPS	15.4	7.3	10.0	10.0
Valuations (x)				
PER	8.9	-26.7	7.3	6.0
P/CEPS	4.8	21.6	4.6	3.6
P/BV	3.6	6.5	3.5	2.1
EV / Sales	0.6	0.9	0.8	0.7
EV / EBITDA	5.1	11.8	5.1	4.1
Gearing Ratio (x)				
Net Debt/ Equity	1.9	2.0	1.3	0.9
Net Debt/EBIDTA	3.0	5.8	2.3	1.7

Recommendation History: Tata Steel – TATA IN

Date	Reports	Reco	CMP	Target
28/05/2008	Tata Steel Consolidated 4QFY10 Result Update	Buy	493	636
27/11/2009	Tata Steel - Consolidated 2QFY10 Result Update	Reduce	545	466
02/09/2009	Tata Steel - Consolidated 1QFY10 Result Update	Hold	416	409
29/06/2009	Tata Steel - Consolidated FY09 Result Update	Hold	397	409

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