Annual Report Analysis
Sector: Metals & Mining
BSE Sensex : 18,507

PINC RESEARCH

TATA STEEL

BUY
CMP Rs572
TP Rs701

Annual Report Analysis

P&L and balance sheet improves; Cash flow takes a hit

In FY11, Tata Steel's profitability turned around (FY11 adj. PAT at Rs57.7bn vs FY10 loss of Rs14.4bn) led by turn around in European ops. and growth in India amidst higher steel prices. Furthermore, the company strengthened balance sheet with ~USD1.0bn equity infusion and monetisation of investments (net D/E of 1.0x vs 1.3x in FY10) and improved liquidity by refinancing GBP3.5bn of debt. However, operating cash flow (CFO) & free cash flow (FCF) declined due to increased investment in working capital and capex.

Tata Steel India (TSI): Volume growth of 2% YoY and higher steel prices resulted in EBITDA/t expanding 31% YoY to USD377. Consequently, FY11 operating profit and adj. PAT for TSI grew by 28% and 39% YoY respectively.

Tata Steel Europe (TSE) turns around: FY11 EBITDA/t of USD44 (vs loss of USD18 in FY10) on higher steel prices, increased utilisation, cost cutting & low base as H1FY10 performance was poor on low steel prices amidst high RM cost on usage of carry over coking coal. Further, share of profitable Ijmuiden (EBITDA/t of USD79 vs blended USD15 for other TSE operations) increased to 46% (39% in FY10).

South East Asian operations: Volume growth negated by higher input cost and MBF mothballing in Thailand resulting in EBITDA/t contraction.

Balance sheet improvement: Net D/E improved to 1.0x (from 1.3x in FY10) on ~USD1.0bn equity infusion and monetisation of investments.

However, cashflow took a hit: CFO and FCF declined 38% and 205% YoY respectively due to increased working capital requirement and capex. Net current assets increased 132% YoY to Rs142bn, while company incurred Rs102bn in capex in FY11 (incl. Rs56bn for 2.9mntpa expansion).

Project udpates: Tata Steel invested Rs56bn (incl. Rs19.6bn incurred by 100% subsidiary Centennial Steel) for 2.9mntpa brownfield expansion in Jamshedpur. CWIP stands at Rs106bn (total capex of Rs163bn) and the project is on schedule for completion by Q4FY12.

VALUATIONS AND RECOMMENDATION

Although there are near term concerns on Tata Steel's profitability owing to high RM cost and uncertain demand situation in EU and India, we believe the company is undergoing +ve transformations 1) rising share of highly profitable Indian ops. 2) Financial de-leveraging 3) resource integration with foray in merchant mining (Benga project, New Millennium). Further, we expect cash generation in FY12 to improve despite lower profitability and higher capex due to release of excess working capital.

*At 5.3x FY12E EV/EBITDA, we find the stock attractively valued. Maintain '**BUY**' with a revised TP of Rs701 (6.3x FY12E EV/EBITDA).*

KEY FINANCIALS (CONSOLIDATED)

Rs mn

	FY09	FY10	FY11	FY12E	FY13E
Net Revenue	*1,473,293*	*1,023,931*	*1,187,531*	*1,186,784*	*1,193,305*
YoY Gr. (%)	*12.0*	*(30.5)*	*16.0*	*(0.1)*	*0.5*
Op. Profit	181,277	80,427	159,956	138,723	148,525
OPM (%)	*12.3*	*7.9*	*13.5*	*11.7*	*12.4*
Adj. Net Profit	90,454	(14,414)	57,743	42,727	42,857
YoY Gr.(%)	*50.4*	*(115.9)*	-	*(26.0)*	*0.3*
KEY RATIOS					
Dil. EPS (Rs)	104.1	(15.2)	56.5	41.3	41.5
ROCE (%)	13.7	-	8.8	6.2	6.5
RoE (%)	26.4	(5.0)	17.3	9.9	8.9
PER (x)	4.4	-	10.1	13.8	13.8
P/BV (x)	1.3	1.7	1.5	1.3	1.2
EV/EBITDA (x)	4.3	9.6	5.5	5.3	5.9

19 July 2011

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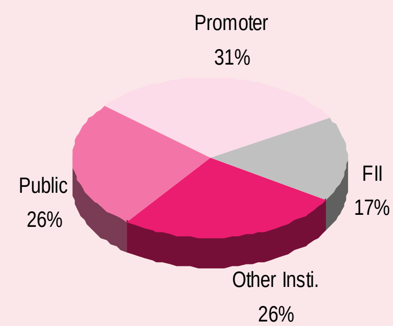
SHAREHOLDING PATTERN



STOCK DATA

Market Cap	Rs585bn
Book Value per share	Rs388
Shares O/S (F.V. Rs10)	1,022mn
Free Float	69.4%
Avg Trade Value (6 months)	Rs3,058mn
52 week High/Low	Rs714/449
Bloomberg Code	TATA IN
Reuters Code	TISC.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(0.3)	(9.4)	11.8
Relative	(3.8)	(4.8)	8.6

RELATIVE PERFORMANCE

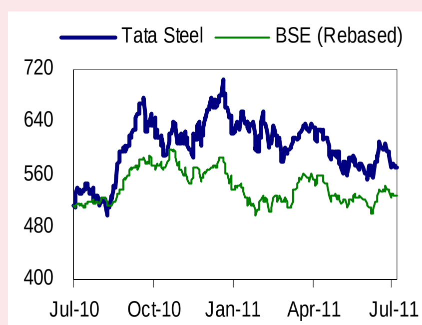


Exhibit 1 - FY11 Profit and Loss analysis (Tata Steel Consolidated)

(Rs mn)	FY09	FY10	FY11	% YoY	Comments
Group sales volume (mnt)	28.81	24.32	24.62	1.2	
Net Revenue	1,473,293	1,023,931	1,187,531	16.0	
Blended realisation (USD/t)	1,112	887	1,058	19.2	Higher steel prices
Total Expenditure	1,292,016	943,505	1,027,575	8.9	
Total operating cost (USD/t)	*975*	*818*	*915*	*12.0*	
Raw Material consumed	729,377	441,151	539,345	22.3	Hike in key RMs cost (iron ore & coking coal)
RM Cost (as a % of sales)	*49.5*	*43.1*	*45.4*	*233bps*	
Employee cost	179,751	164,751	152,869	(7.2)	Cost rationalisation in TSE
Employee cost (as a % of sales)	*12.2*	*16.1*	*12.9*	*-322bps*	
Power & Fuel	59,535	40,513	40,148	(0.9)	
Power cost (as a % of sales)	*4.0*	*4.0*	*3.4*	*-58bps*	
Other Mfg expenses	189,476	196,356	201,961	2.9	
Other mfg cost (as a % of sales)	*12.9*	*19.2*	*17.0*	*-217bps*	
Freight & Handling charges	60,269	55,537	63,896	15.1	
Admin and Selling Expenses	53,847	38,597	42,916	11.2	
Freight, Admin, Selling (as a % of sales)	*7.7*	*9.2*	*9.0*	*-20bps*	
(Increase)/decrease in stock	19,762	6,600	(13,560)	NA	Finished goods stocking mainly in TSE
Operating profit	181,277	80,427	159,956	98.9	TSE's performance turnedaround
Blended EBITDA (USD/t)	137	70	143	104.5	
OPM (%)	*12.3*	*7.9*	*13.5*	*561bps*	
Other Income	7,662	5,422	5,243	(3.3)	
Depreciation	42,654	44,917	44,148	(1.7)	
EBIT	146,285	40,932	121,051	195.7	
Interest	37,907	34,943	32,116	(8.1)	
PBT	108,378	5,989	88,935	1,385.1	
Total Tax	18,940	21,518	32,459	50.8	
Effective tax rate (%)	*17.5*	*359.3*	*36.5*	*NA*	
Minority interest/Share in associate	1,017	1,116	1,266	13.5	
Adjusted Net Profit	90,454	(14,414)	57,743	NA	
Extraordinary income/(expense)	(40,945)	(5,679)	32,039	NA	
Reported Net Profit	49,509	(20,092)	89,782	NA	
Adjusted FDEPS (Rs)	104.1	(15.2)	56.5	NA	
DPS (Rs)	16.0	8.0	12.0	50.0	

Source: Company, PINC Research

Exhibit 2 - FY11 Profit and Loss analysis (Standalone - TSI)

(Rs mn)	FY09	FY10	FY11	% YoY	Comments
Sales volume (mnt)	5.43	6.54	6.66	1.8	Crude steel output at 6.86mnt, CU > 100%
Net Revenue	243,158	250,220	293,964	17.5	
Blended realisation (USD/t)	*973*	*806*	*969*	*20.1*	
Total Expenditure	151,823	160,699	179,635	11.8	
Total operating cost (USD/t)	*607*	*518*	*592*	*14.3*	
Raw Material consumed	60,688	56,638	64,242	13.4	Backward integration helped in keeping RM cost
RM Cost (USD/t)	*243*	*182*	*212*	*16.0*	hike under control
Employee cost	23,058	23,615	26,183	10.9	
Employee cost (USD/t)	*92*	*76*	*86*	*13.4*	
Power & Fuel	10,914	12,683	14,049	10.8	
Power cost (USD/t)	*44*	*41*	*46*	*13.3*	
Royalty Cost	2,277	2,757	6,150	123.1	Full impact of revision in royalty rate during FY10
Other Mfg expenses	42,161	46,641	50,745	8.8	
Royalty + Other mfg cost (USD/t)	*178*	*159*	*187*	*17.8*	
Freight & Handling charges	12,512	13,573	15,408	13.5	
Admin and Selling Expenses	3,106	3,443	4,595	33.5	
Freight, Admin, Selling cost (USD/t)	*62*	*55*	*66*	*20.2*	
(Increase)/decrease in stock	(2,893)	1,350	(1,737)	NA	
Operating profit	91,334	89,521	114,329	27.7	Benefits of volume growth and backward
EBITDA (USD/t)	*365*	*288*	*377*	*30.6*	integration
OPM (%)	*37.6*	*35.8*	*38.9*	*312bps*	
Other Income	6,451	5,885	4,784	(18.7)	
Depreciation	9,734	10,832	11,462	5.8	
EBIT	88,051	84,574	107,651	27.3	
Interest	14,895	18,482	16,931	(8.4)	
PBT	73,156	66,092	90,721	37.3	
Total Tax	21,139	21,675	29,089	34.2	
Effective tax rate (%)	*28.9*	*32.8*	*32.1*	*-73bps*	
Adjusted Net Profit	52,017	44,417	61,631	38.8	
Extraordinary income/(expense)	-	6,051	6,980	15.4	Gain on sale of stake in Tata Motors, Tata Power
Reported Net Profit	52,017	50,468	68,612	36.0	

Source: Company, PINC Research

Exhibit 3 - FY11 Profit and Loss statement analysis (Tata Steel Europe)

(Rs mn)	FY09	FY10	FY11	% YoY	Comments
Sales volume (mnt)	19.90	14.80	14.87	0.5	Higher CU resulting in volume growth despite reduced capacity post mothballing of TCP
Net Revenue	1,095,700	658,430	759,910	15.4	
Blended realisation (USD/t)	*1,197*	*937*	*1,121*	*19.5*	
Total Expenditure	988,110	671,300	729,850	8.7	
Total operating cost (USD/t)	*1,079*	*956*	*1,076*	*12.6*	
Raw Material consumed	575,760	316,460	390,960	23.5	Sharp hike in iron ore and coking coal cost
RM Cost (USD/t)	*629*	*451*	*577*	*28.0*	
Employee cost	149,310	132,690	116,910	(11.9)	Benefits of cost cutting, lower employee count
Employee cost (USD/t)	*163*	*189*	*172*	*(8.7)*	
Power & Fuel	42,880	20,220	17,580	(13.1)	
Power cost (USD/t)	*47*	*29*	*26*	*(9.9)*	
Freight & Handling charges	41,340	33,800	37,040	9.6	
Freight & Handling cost (USD/t)	*45*	*48*	*55*	*13.5*	
Other Mfg expenses	178,820	168,130	167,360	(0.5)	
Other mfg cost (USD/t)	*195*	*239*	*247*	*3.1*	
Operating profit	107,590	(12,870)	30,060	NA	Turn around, led by cost reduction and low
EBITDA (USD/t)	*117.5*	*(18.3)*	*44.3*	*NA*	base, as H1FY10 profitability was impacted by
OPM (%)	*9.8*	*(2.0)*	*4.0*	*591bps*	consumption of high cost carry over coal

Source: Company, PINC Research

Exhibit 4 - FY11 Profit and Loss statement analysis (Natsteel)

(Rs mn)	FY09	FY10	FY11	% YoY	Comments
Sales volume (mnt)	2.37	1.78	1.80	1.1	Volume growth in Singapore, Australia
Net Revenue	84,160	62,540	74,130	18.5	
Blended realisation (USD/t)	*772*	*740*	*903*	*22.0*	
Total Expenditure	81,800	59,890	72,010	20.2	
Total operating cost (USD/t)	*750*	*709*	*877*	*23.7*	Sharper rise in cost of input, mainly scrap
Operating profit	2,360	2,650	2,120	(20.0)	Decline in steel profitability despite higher
EBITDA (USD/t)	*21.6*	*31.4*	*25.8*	*(17.7)*	steel prices
OPM (%)	*2.8*	*4.2*	*2.9*	*-138bps*	

Source: Company, PINC Research

Exhibit 5 - FY11 Profit and Loss statement analysis (Tata Steel Thailand)

(Rs mn)	FY09	FY10	FY11	% YoY	Comments
Sales volume (mnt)	1.11	1.20	1.29	7.7	
Net Revenue	39,650	31,570	39,110	23.9	
Blended realisation (USD/t)	*777*	*555*	*665*	*19.7*	
Total Expenditure	38,130	30,140	38,840	28.9	High cost of operations, low CU and losses
Total operating cost (USD/t)	*747*	*530*	*660*	*24.5*	due to shutdown of mini blast-furnace
Operating profit	1,520	1,430	270	(81.1)	High cost offset increased steel prices and volume
EBITDA (USD/t)	*29.8*	*25.2*	*4.6*	*(81.8)*	benefit
OPM (%)	*3.8*	*4.5*	*0.7*	*-384bps*	

Source: Company, PINC Research

Exhibit 6 - Balance Sheet analysis (Consolidated)

(Rs mn)	FY09	FY10	FY11	% YoY	Comments
Equity Capital	8,685	9,496	10,216	7.6	Equity dilution through FPO, preferential allotment
Reserves and Surplus	299,703	261,619	386,329	47.7	
Net worth	308,388	271,114	396,545	46.3	
Book Value (Rs/share)	355	286	388	36.0	
Minority interest	8,949	8,841	8,889	0.5	
Loan funds	563,218	490,272	581,112	18.5	
Deferred tax liabilities	17,094	16,541	20,126	21.7	
Total capital employed	897,649	786,768	1,006,672	28.0	
Net fixed assets	363,755	364,764	365,676	0.3	
Capital WIP	89,304	93,194	158,258	69.8	Incl. ~Rs54bn of non-performing CWIP at TSE
Investments	30,134	34,865	46,881	34.5	Increased investment in Riversdale, NML
Goodwill	153,649	145,418	152,982	5.2	
Current assets	573,572	457,990	629,279	37.4	
Inventory	216,684	186,866	240,552	28.7	Higher raw material inventory at TSE
# of inventory days	*70*	*87*	*83*	*(4.5)*	
Debtors	130,316	116,240	148,163	27.5	Higher debtors at TSE
# of debtor days	*32*	*41*	*46*	*9.9*	
Cash and bank balances	95,529	87,270	140,519	61.0	Liquid investments in MF re-classified as cash
Loans & Advances	131,042	67,615	100,045	48.0	
Current liabilities and provisions	312,764	309,464	346,404	11.9	
Creditors	218,149	220,200	253,157	15.0	
# of creditor days	*75*	*95*	*92*	*(2.6)*	
Other current liabilities	12,784	13,686	13,554	(1.0)	
Provisions	81,831	75,578	79,693	5.4	
Total assets	897,649	786,768	1,006,672	28.0	
Net working capital	128,852	82,906	135,559	63.5	
Net debt - Adjusted *	418,610	353,924	391,515	10.6	
Net D/E - Adjusted	*1.36*	*1.31*	*0.99*		
Net debt - As reported	503,476	443,734	481,325	8.5	
Net D/E - Reported	*1.82*	*1.94*	*1.35*		

*Source: Company, PINC Research; Note: * Adjusted for convertible debt instruments, market value of investment in listed equities*

Exhibit 7 - Balance Sheet analysis (Standalone)

Tata Steel India	FY09	FY10	FY11	% YoY	Comments
Equity Capital	8,692	9,503	10,223	7.6	Equity dilution through FPO, preferential allotment
Reserves and Surplus	324,141	402,916	499,955	24.1	
Net worth	332,834	412,419	510,178	23.7	
Book Value (Rs/share)	383	434	499	15.0	
Loan funds	233,674	211,661	265,692	25.5	
Deferred tax liabilities	5,857	8,677	9,368	8.0	
Total capital employed	572,365	632,756	785,238	24.1	
Net fixed assets	109,945	121,624	118,051	(2.9)	
Capital WIP	34,877	55,128	105,944	92.2	Includes CWIP as part of Centennial Steel
Investments *	395,376	439,644	518,251	17.9	
Current assets	132,074	115,927	161,683	39.5	
Inventory	34,805	30,778	39,538	28.5	
# of inventory days	*80*	*84*	*80*	*(5.4)*	
Debtors	6,360	4,348	4,280	(1.6)	Prudent debtor management
# of debtor days	*9*	*8*	*5*	*(31.4)*	
Cash and bank balances	48,599	49,537	71,413	44.2	
Loans & Advances *	42,310	31,265	46,452	48.6	Reclassified (refer note below)
Current liabilities and provisions	99,907	99,568	118,692	19.2	
Creditors	38,428	40,463	47,211	16.7	
# of creditor days	*93*	*101*	*99*	*(2.0)*	
Other current liabilities	21,971	26,068	27,268	4.6	
Provisions	39,508	33,037	44,213	33.8	
Total assets	572,365	632,756	785,238	24.1	
Net working capital	2,737	(5,337)	(3,393)	(36.4)	

Source: Company, PINC Research; Note: Loans and advances given to subsidiaries and/or against equities is reclassified as investments; Further investment/ loans to 100% subsidiary Centennial Steel is re-classified as CWIP, as the company is setting up 2.9mntpa brownfield expansion along with Tata Steel.

Exhibit 8 - Cash flow statement analysis (Consolidated)

(Rs mn)	FY09	FY10	FY11	% YoY	Comments
Cash flow from operations	156,959	104,710	64,629	(38.3)	Decline despite increased profit due to rise in WC
PAT + Depreciation	117,219	26,320	100,733	282.7	
Changes in NWC	2,848	46,465	(71,749)	(254.4)	Working capital requirement increased
Other CFO adjustments	36,893	31,925	35,645	11.7	
Cash flow from investing	(87,628)	(61,619)	(71,310)	15.7	
Capital expenditure	(83,611)	(69,498)	(101,636)	46.2	~Rs56bn capex in Jamshedpur for 2.9mntpa project
Change in Investments	(6,294)	6,413	(1,325)	(120.7)	
Other CFI adjustments	2,277	1,467	31,651	2,058.3	Mainly gain on sale of TCP, investments
Cash flow from financing	(27,548)	(51,350)	59,930	(216.7)	
Fund from equity	145	24,465	45,568	86.3	Equity dilution
Debt funding/(repayment) - net	20,047	(29,944)	52,874	NA	
Dividend paid	(12,266)	(13,209)	(7,146)	(45.9)	
Interest paid	(35,473)	(32,662)	(31,366)	(4.0)	
Free cash flow	73,348	35,212	(37,007)	(205.1)	
Net Inc/(dec) in cash and eq.	41,783	(8,259)	53,249	NA	

Source: Company, PINC Research

Exhibit 9 - Cash flow statement analysis (Standalone)

(Rs mn)	FY09	FY10	FY11	% YoY	Comments
Cash flow from operations	66,187	83,540	80,484	(3.7)	
PAT + Depreciation	61,751	55,249	73,093	32.3	Higher profit on volume growth, steel price
Changes in NWC	(4,009)	15,694	(4,756)	(130.3)	Increased working capital requirement
Other CFO adjustments	8,444	12,597	12,146	(3.6)	
Cash flow from investing	(77,083)	(75,075)	(123,060)	63.9	
Capital expenditure	(26,977)	(42,742)	(56,218)	31.5	Includes capex done in Centennial Steel
Change in Investments	(56,557)	(44,268)	(78,607)	77.6	Increase in loans to subsidiaries
Other CFI adjustments	6,451	11,936	11,765	(1.4)	
Cash flow from financing	56,636	(18,298)	68,314	(473.3)	
Issue of equity	(2,788)	26,038	44,291	70.1	Equity dilution through FPO, preferential allotment
Debt funding/(repayment) - net	89,245	(17,070)	54,032	NA	
Dividend paid	(14,925)	(8,785)	(13,078)	48.9	
Interest paid	(14,895)	(18,482)	(16,931)	(8.4)	
Free cash flow	39,210	40,798	24,266	(40.5)	Due to increased investment in Capex, WC
Net Inc/(dec) in cash and eq.	45,740	(9,832)	25,738	NA	

Source: Company, PINC Research

Exhibit 10 - Du pont Analysis (Consolidated)

	FY09	FY10	FY11	Comments
EBIT/ Sales (%)	9.9%	4.0%	10.2%	Margin expansion on higher steel prices and turnaround in TSE
PBT/ EBIT (%)	74.1%	14.6%	73.5%	Fixed interest cost, lower share of increased EBIT
PAT/ PBT (%)	83.5%	-240.7%	64.9%	Inefficient tax structure, Profit in TSI not set-off by losses in UK
Sales/ Avg Assets (x)	1.6	1.2	1.3	Higher CU and increased steel prices
Avg Assets/ Avg NW (x)	2.6	2.9	2.7	Financial leverage declines
RoE (%)	26.4%	-5.0%	17.3%	RoE turns around, Profit in FY11 vs. loss in FY10

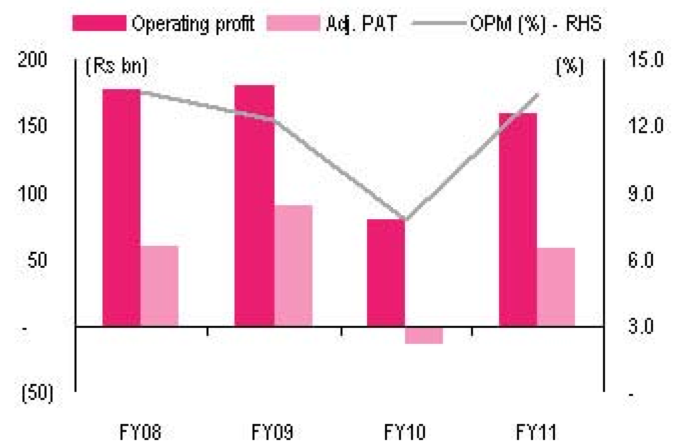
Source: Company, PINC Research

P&L improves led by growth in India and turn around in TSE

Tata Steel's consolidated performance improved in FY11 led by stronger Indian operations (volume grew 2% YoY, EBITDA/t rose 31% YoY to USD377) and turn around in Tata Steel Europe (TSE, EBITDA/t of USD44 vs loss of USD18 in FY10) on higher steel prices, benefits of cost cutting measures undertaken in FY09 and FY10 and low base as H1FY10 profit was poor on low steel prices amidst usage of high cost carry over coking coal.

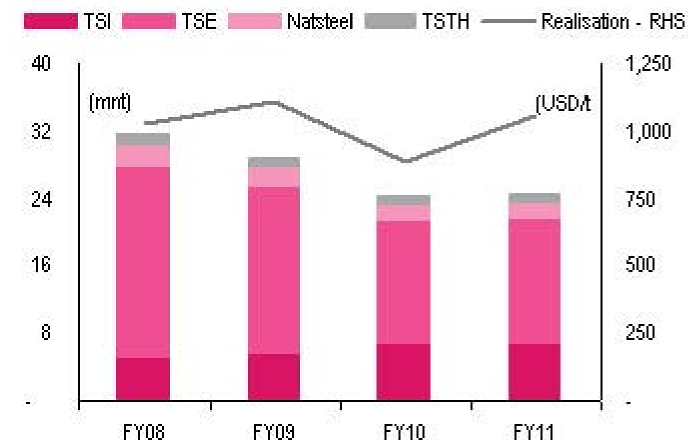
Despite lower consolidated sales volume, operating profit grew 99% YoY to Rs160.0bn with consol. EBITDA/t rising to USD143 (USD70 in FY10) and OPM expanding 561bps YoY to 13.5%. Performance turned around at adj. PAT level (profit of Rs57.7bn in FY11 vs. loss of Rs14.4bn in FY10). Reported profit at Rs89.8bn was higher mainly due to Rs23.1bn gain on disposal of TCP and Rs6.3bn gain on sale of investments in group companies.

Exhibit 11 - Consol. performance turns around



Source: Company, PINC Research

Exhibit 12 - Aided by improved realisation



Source: Company, PINC Research; Realisation is blended for all the operations

Indian operation witnessed robust growth ...

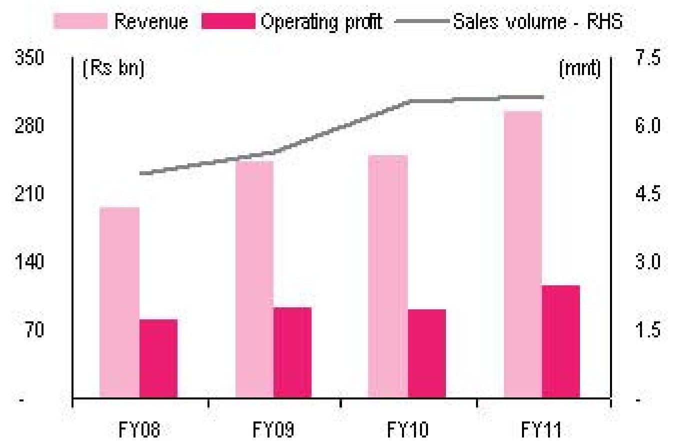
Tata Steel India's (TSI) profitability strengthened further in FY11, with EBITDA/t expanding 31% YoY to USD377, benefiting from 2% YoY volume growth (operating at >100% CU) and higher steel prices. Integration benefits (100% iron ore, 50% coal) and tight input management kept RM cost under control, while processing cost (employee, power and other mfg cost) declined to 27.6% of revenue from 30.4% in FY10. Consequently, OPM expanded 312bps YoY to 38.9%.

Exhibit 13 - TSI's raw material inputs

Input output ratios	FY10	FY11	% YoY
Iron ore (tonnes/ thm*)	1.55	1.56	1.2
Coal Injection (kg/ thm*)	155	149	(3.6)
Coke (kg/ thm*)	473	475	0.4
Limestone/ Dolomite (kg/ thm*)	337	349	3.5
Crude steel CU (%)	96.5	100.8	429bps
Yield loss - Crude Steel (%)	9.2	8.6	(63)bps
Yield loss - Saleable Steel (%)	1.9	2.4	50bps

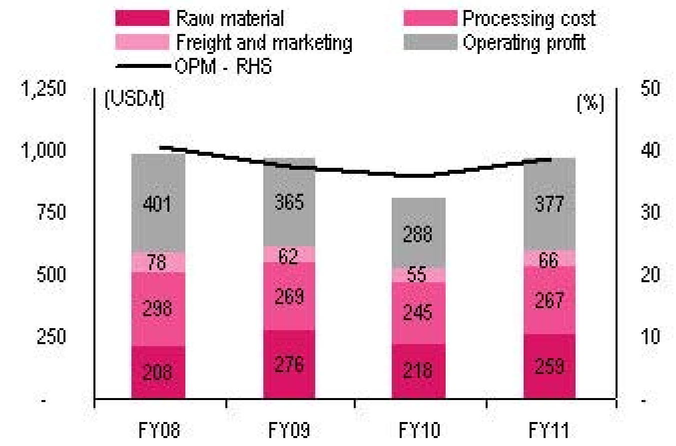
*Source: Company, PINC Research; Note: * thm - tonnes of hot metal*

Exhibit 14 - TSI - Strong performance continues



Source: Company, PINC Research

Exhibit 15 - Steel prices aids in OPM expansion



Source: Company, PINC Research

Exhibit 16 - TSE

	Capacity	Output	
(mntpa)		FY10	FY11
Port Talbot	4.9	3.3	3.8
Scunthorpe	4.5	2.7	3.4
Rotherham	1.3	0.4	0.6
Ijmuiden	7.7	5.7	6.8
Total	18.4	12.1	14.6

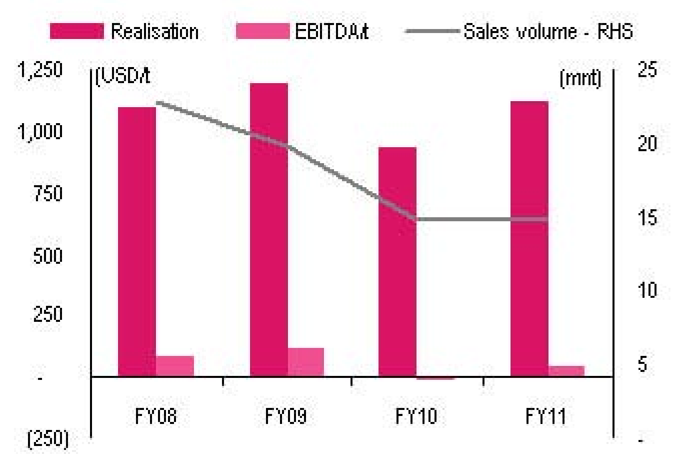
Source: Company; Note: Excludes output from TCP mothballed in Feb'10, including TCP, FY10 output is at 14.7mnt.

… and Tata Steel Europe (TSE) turns around

Despite flat deliveries, TSE's performance turned around in FY11 led by higher steel prices, increased operational efficiency (as capacity utilisation improved to 79.3% from 65.9% in FY10) and benefits of restructuring and cost cutting undertaken in FY09 and FY10.

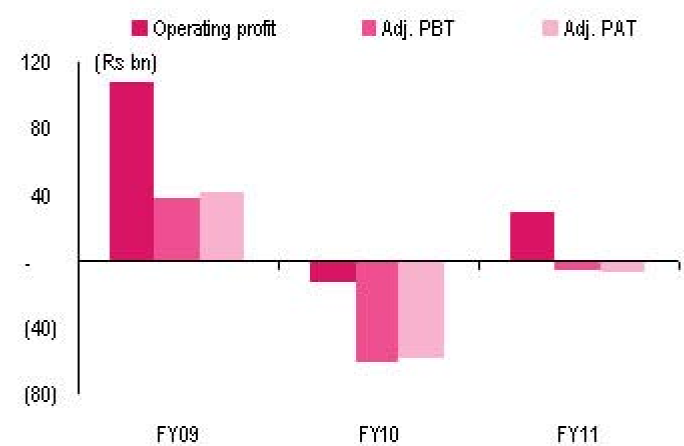
Although, TSE's operating cost at USD1,076/t inflated 13% YoY, the rise is mainly on account of raw material cost, which rose 28% YoY to USD577/t. The RM cost rise would have been higher, if not for the base effect. In H1FY10, consumption of high cost carry over coking coal resulted in high RM cost during the period. Other operating cost (processing, selling and admin) declined 1% YoY to USD500/t on benefits of restructuring, cost cutting and increased share of profitable Ijmuiden operations.

Exhibit 17 - TSE turns around at EBITDA level



Source: Company, PINC Research

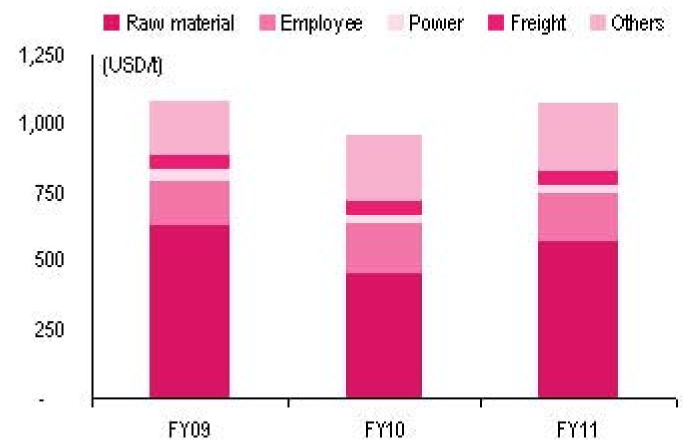
Exhibit 18 - But losses at PBT, PAT continues



Source: Company, PINC Research

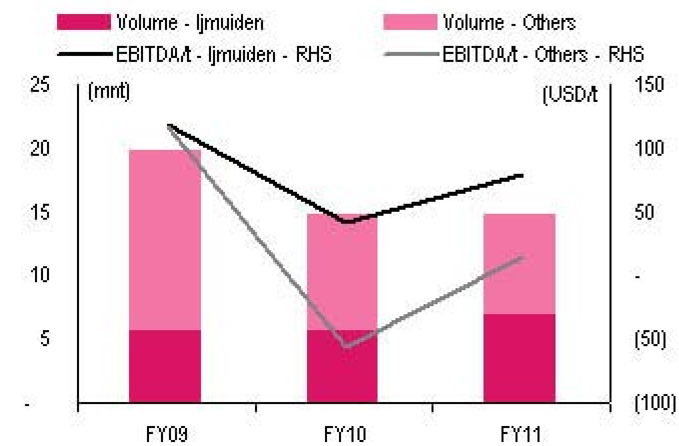
Share of profitable Ijmuiden rose: Based on analysis of subsidiary accounts, we estimate Ijmuiden's FY11 EBITDA/t at USD79 grew 85% YoY from USD43 for FY10. We estimate EBITDA/t for TSE's other operations (Port Talbot, Scunthorpe and Rotherham) at USD15 in FY11 vs. loss of USD57 in FY10. Share of profitable Ijmuiden rose to 46% in FY11 from 29% in FY09 and 39% in FY10.

Exhibit 19 - RM cost rise, processing cost lower



Source: Company, PINC Research

Exhibit 20 - Share of profitable Ijmuiden rose



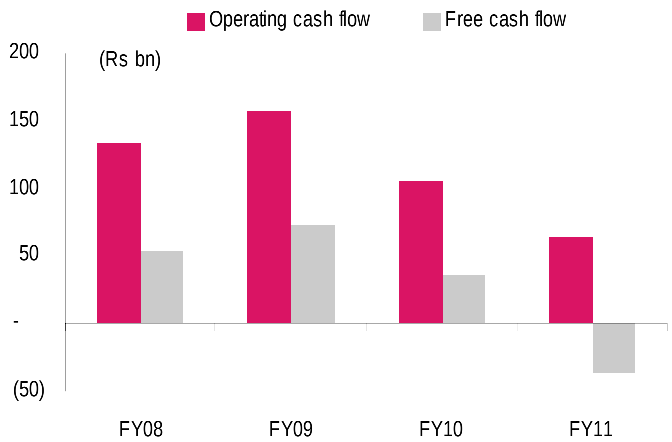
Source: Company, PINC Research

Further restructuring in place for TSE's long products: Given, lack of revival of demand for long products in UK, in May'11, TSE announced restructuring of its long products division, which will help in reducing the cost further to make the operations profitable and viable. The company has announced action plan to close bloom and billet mill in Scunthorpe, along with mothballing of Queen Bess blast furnace with a capacity of ~1.0mntpa. Further, the company has launched a GBP100mn fund for short payback capital projects to improve operational efficiency across Europe.

However, cash generation takes a hit

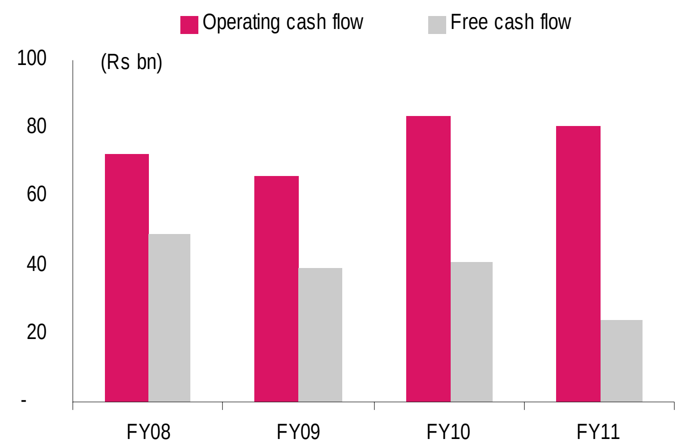
Despite improved profitability, Tata Steel's cash generation (both cash flow from operations and free cash flow) took a hit in FY11 on increased working capital requirement and capex for growth projects.

Exhibit 21 - Consol. cash generation declines



Source: Company, PINC Research

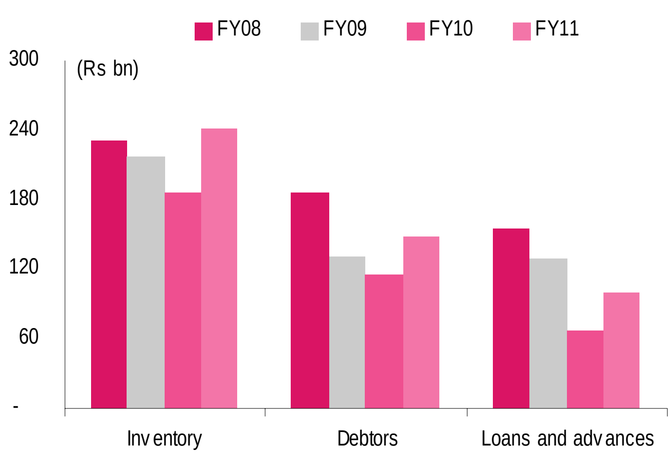
Exhibit 22 - TSI's FCF declines due to capex



Source: Company, PINC Research

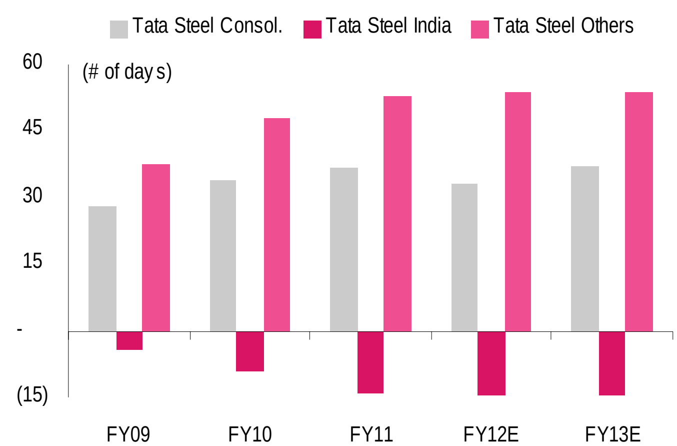
Tata Steel's working capital requirement increased as net current asset (net of cash and eq.) grew 132% YoY to Rs142bn due to higher inventory (up Rs53.7bn) - mainly raw materials on rise in volume and prices, increased debtors (up 31.9bn) mainly for TSE and higher loans and advances (up Rs32.4bn). Consolidated working capital cycle expanded to 37 days from 34 days earlier, despite reduction in TSI's working capital cycle.

Exhibit 23 - Consol. current asset increases



Source: Company, PINC Research

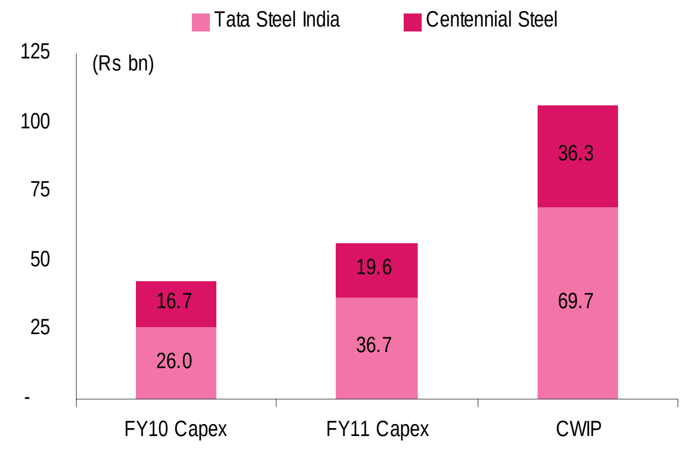
Exhibit 24 - Consol. WC cycle expands



Source: Company, PINC Research

Further, the company incurred Rs101.6bn on capital expenditure, out of which Rs56.2bn (adjusted) was spent in Tata Steel India on 2.9mntpa brownfield expansion project at Jamshedpur (total capex of USD3.3bn, Rs163bn). This includes Rs19.6bn incurred by TSI's 100% subsidiary Centennial Steel (formed in FY10 for the purpose of constructing and owning part of 2.9mntpa expansion project), with assets of Rs36.3bn. The CWIP pertaining to the 2.9mntpa project is ~Rs100bn, requiring additional ~Rs60bn in FY12 for timely completion. Tata Steel has achieved board approval for merger of Centennial Steel with itself.

Exhibit 25 - Capex on 2.9mntpa project



Source: Company, PINC Research

Exhibit 26 - Details of 2.9mntpa project

Particulars	Rs mn
Procuring equipment and upgrading facilities in certain existing mines	11,000
Blast furnace with a 3.05 mtpa capacity and upgrading certain existing blast furnaces	21,790
Coke oven which comprises two coke oven batteries each having a capacity of 0.7mntpa	25,570
Lime calcining plant and upgradation of an existing LD converter	3,320
Pellet plant with a capacity of 6.0 mntpa.	18,500
A New LD Converter and a thin slab caster to convert 2.4mntpa of hot metal in HRC	43,230
Upgrading Raw Material Handling System	8,220
Power Distribution System	7,850
Upgrading existing supporting facilities and others	20,170
Contingency	4,070
Total	163,720

Source: Company

Further, TSI invested Rs78.6bn in FY11, as loans against equities and loans to subsidiary companies, primarily to Tata Steel Holdings, which is the holding company through which Tata Steel holds stakes in TSE, Natsteel and Tata Steel Thailand. This investment is net of investments/ loans in Centennial Steel, which is re-classified as part of Tata Steel Standalone.

Product mix moving towards flat products

Flat product sales grew 2% YoY to 3.54mnt in FY11, maintaining share at 53% of total sales volume. With the commissioning of 2.9mntpa brownfield expansion with 2.4mntpa thin slab caster, Tata Steel's flat product capacity would expand to 6.4mn tpa, taking flat's share to >65%. Further, the company is setting up 6.0mntpa Greenfield project in Kalinganagar, Orissa, which is also focusing on flat products. With these, Tata Steel is moving towards becoming a predominantly flat product maker.

FY11 – The year of balance sheet de-leveraging

Apart from improving profitability, FY11 saw massive de-leveraging of Tata Steel's balance sheet as a result of equity dilution (FPO, preferential allotment to Tata Sons), sale of strategic assets (TCP), debt refinancing (GBP3.7bn to improve liquidity) and monetisation of investment in group companies (Tata Power, Tata Motors). Consequently, despite increased investment in working capital and capex, adjusted net D/E of Tata Steel improved to 1.0x in FY11 from 1.3x in FY10. Further, post proceeds from TCP settlement and sale of investment in Riversdale, Tata Refractories during Q1FY12, current net D/E (adjusted) is improved to 0.83.

Exhibit 27 - Improved balance sheet in FY11

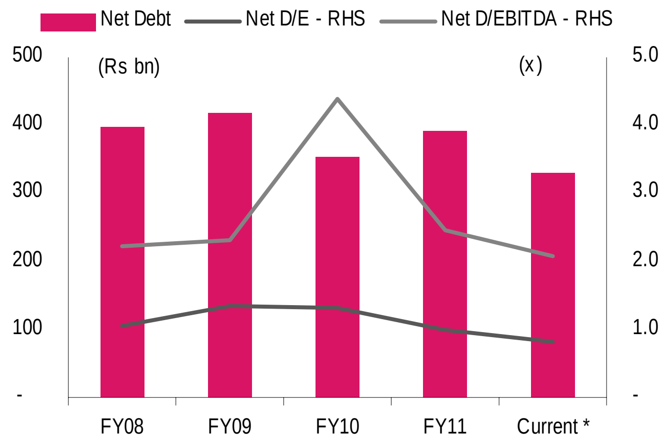


Exhibit 28 - Why our net D/E ratio differs from that reported by the company

	FY10	FY11	Current *
Reported Networth	228,314	355,814	355,814
Reported net debt	443,540	466,325	404,712
Reported net D/E (x)	1.94	1.31	1.14
Adjustments			
Debt instruments convertible into equity (CARS and FCCB)	40,731	40,731	40,731
Perpetual hybrid securities	-	15,000	15,000
Mkt value of Investments in listed equities and debentures	49,078	49,078	49,078
Adjusted Networth	269,045	396,545	396,545
Adjusted net debt	353,730	391,515	329,902
Adjusted net D/E (x)	1.31	0.99	0.83

*Source: Company, PINC Research; Note: * Current is after adjusting for proceeds from TCP settlement and sale of stake in Riversdale, Tata Refractories; Leverage ratios based on FY11 equity and EBITDA.*

Details of Tata Steel's mining projects

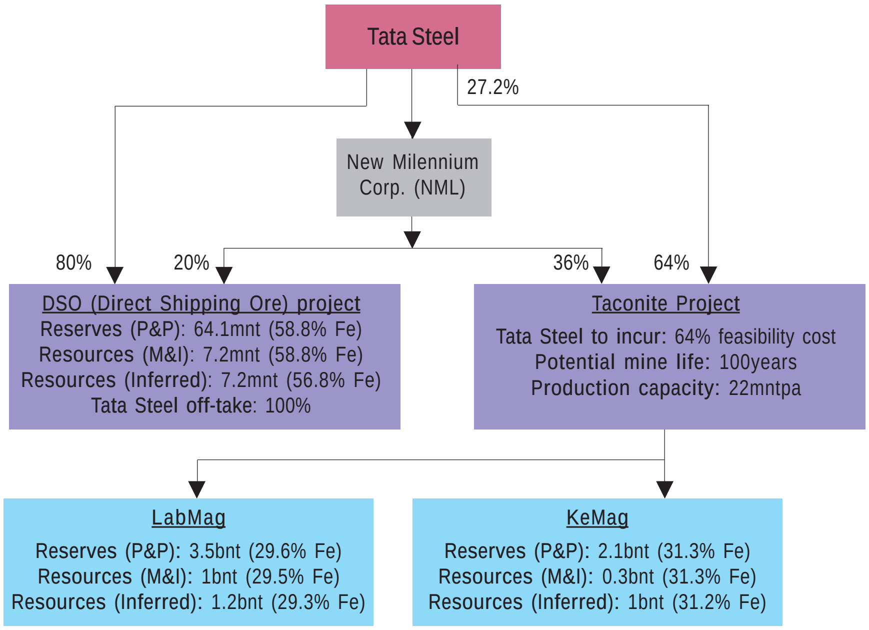
Benga coal project, Mozambique: Tata owns 35% stake, while remaining 65% is owned by Riversdale mining of Australia (Rio Tinto recently completed acquisition of Riversdale Mining). The total inferred resources of the Benga project is 4.0bn tonnes and reserves of 502mnt. The 1st phase of 5.3mntpa run-of-mine (ROM) with 1.7mntpa of hard coking coal and 0.3mntpa of thermal coal is expected by Q3FY12. The project is planned to be ramped up to 10.6mntpa of ROM in 2nd phase and to 20mntpa of ROM subsequently by 2013.

Coal Mining project in Australia (CDJV): Tata Steel has a 5% equity stake and 20% offtake rights in the coal mining project in Australia in partnership with Vale, Nippon Steel, JFE and POSCO. The mine is currently producing ~1.5mntpa of coal (20% of this i.e. 0.3mnt is shipped to TSI) and expected to produce ~3.0mnt of coking and PCI coal in FY12.

New Millennium Capital Corporation (NML, Iron ore): During FY11, Tata Steel has increased its stake in NML to 27.2%. NML is developing two greenfield iron ore projects in Canada with reserves and resources of >9.0bn tonnes and annual output target of 24mnt.

- From 2012 onwards, DSO project to produce 4mnt iron ore every year
- Taconite: Tata Steel has to arrange the required equity portion of the financing based on a max. capex of up to USD4.85bn if both deposits are developed and up to USD4.68bn/ USD3.76bn, if only the KeMag or LabMag deposits are developed.

Exhibit 29 - New Millennium Capital Corporation: Iron ore integration



Source: Company, PINC Research

Apart from these mining projects, Tata Steel's foray in port operations through completion of phase-I of the **Dhamra Port Company (50:50 JV with Larsen & Toubro (L&T))** is significant. In phase-I, two fully mechanised berths, one for handling imports and one for exports, have been built with an estimated capacity of 27mntpa.

Outlook

We expect profitability of Indian operations to rise in FY12E on higher steel prices, while significant resource integration (100% iron ore, 50% coal) keeps the cost under check. However, despite higher steel prices, we estimate performance of non-integrated TSE to decline in FY12E, mainly Q2FY11 onwards, when the impact of high contract prices of key raw materials comes through. Consequently, in FY12E, we expect consolidated operating profit to decline 13% YoY to Rs138.7bn and EPS to decline 27% YoY to Rs41.3.

Nevertheless, we expect Tata Steel's operating cash flow to improve 127% YoY to Rs146.9bn in FY12E, supported by release of Rs35.7bn excess working capital tied up in FY11. Sale of stake in Riversdale, Tata Refractories and proceeds from TCP settlement provides additional cash flow. We believe cash flow is adequate to reduce net debt by ~Rs70bn in FY12E even after incurring capex of Rs105.5bn (~USD2.3bn).

In FY13, we expect gradual improvement in steel profitability, led by softening of raw material prices and revival of demand in India, reducing concerns of oversupply.

Valuation and Recommendation

Although we don't estimate EPS growth in FY12 and FY13 for Tata Steel, we believe the company is undergoing structural transformation that would reap benefits FY13 onwards. We remain positive on Tata Steel due to 1) rising share of highly profitable Indian operations with commissioning of 2.9mntpa brownfield capacity in Jamshedpur, which will not only help in providing volume and EPS growth, but also reduce concerns of disproportionately large share of non-integrated TSE; 2) Financial leverage under control with adequate liquidity and 3) Foray in merchant mining to provide raw material hedge at consolidated levels.

*At 5.3x FY12E EV/EBITDA, we find the stock attractively valued. Maintain **'BUY'** with a revised SOTP-based target price of Rs701 (blended 6.3x FY12E EV/EBITDA).*

Exhibit 30 - PINC's revised assumptions and estimates

	FY12E			FY13E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Benchmark HRC price (USD/t)	780	780	-	735	735	-
Contract coking coal (USD/t)	295	295	-	250	250	-
USD/INR	45.0	45.0	-	43.5	43.5	-
Sales volume (S) - mnt	6.8	6.7	(2.1)	8.4	8.2	(1.8)
Sales volume (C) - mnt	24.3	23.9	(1.5)	26.8	26.3	(1.9)
Revenue (C) - Rs mn	1,211,085	1,186,784	(2.0)	1,232,271	1,193,305	(3.2)
EBITDA (C) - Rs mn	151,886	138,723	(8.7)	171,873	148,525	(13.6)
- EBITDA (S) - USD/t	416	397	(4.6)	362	340	(6.1)
- EBITDA (TSE) - USD/t	31	27	(14.8)	55	38	(31.7)
Adj. PAT (C) - Rs mn	53,118	42,727	(19.6)	64,812	42,857	(33.9)
EPS (Rs)	51.4	41.3	(19.6)	62.7	41.5	(33.9)
Target EV/EBITDA (x)	6.0	6.3	4.6			
Target Price (Rs)	713	701	(1.6)			

Source: PINC Research

Exhibit 31 - Target price: Based on FY12 EV/EBITDA estimates

In Rs mn	Target EV/ EBIDTA	Target EV	CWIP (on BV)	FY12E Net Debt	Residual Equity	Target Price (Rs)
Tata Steel India	6.5	775,824	165,000	131,387	809,437	783
Corus (TSE)	5.0	83,791	10,573	192,081	(97,717)	(95)
Tata Steel Thailand	5.0	2,472	-	-	2,472	2
Natsteel	5.0	10,566	-	-	10,566	10
Tata Steel consolidated	6.3	872,652	175,573	323,467	724,758	701

Source: PINC Research; Note: Liquid investments valued at a 25% disc. to market value is adjusted in net debt; ~Rs55bn of non-performing CWIP in TSE excluded from CWIP valuation

Exhibit 32 - Target price: Sensitivity to steel price and coking coal price

FY12E Coking coal contract prices (USD/t)	FY12E Benchmark HRC price estimate (USD/t)				
	680	730	780	830	880
275	186	472	757	1,043	1,328
285	158	444	729	1,015	1,300
295	130	416	701	987	1,272
305	102	388	673	959	1,244
315	74	360	645	931	1,216

Source: PINC Research

Tata Steel

Consolidated

Year Ended March (Figures in Rs mn)

Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net Revenue	1,473,293	1,023,931	1,187,531	1,186,784	1,193,305
Growth (%)	*12.0*	*(30.5)*	*16.0*	*(0.1)*	*0.5*
Operating Profit	181,277	80,427	159,956	138,723	148,525
Other income	7,662	5,422	5,243	8,431	8,014
EBITDA	188,939	85,849	165,199	147,154	156,539
Growth (%)	1	(55)	92	(11)	6
Depreciation	42,654	44,917	44,148	45,107	52,535
EBIT	146,285	40,932	121,051	102,047	104,004
Interest Expense	37,907	34,943	32,116	33,160	36,080
PBT (before E/o items	108,378	5,989	88,935	68,887	67,924
Tax Provision	18,940	21,518	32,459	27,555	25,811
Minority Interest	1,017	1,116	1,266	1,395	744
Adjusted Net Profit	90,454	(14,414)	57,743	42,727	42,857
Growth (%)	*50.4*	*(115.9)*	*-*	*(26.0)*	*0.3*
E/o (loss)/income	(40,945)	(5,679)	32,039	37,653	-
Reported Net profit	49,509	(20,092)	89,782	80,380	42,857
Adjusted EPS (Rs)	104.1	(15.2)	56.5	41.3	41.5
EPS Growth (%)	*50.4*	*(114.6)*	*-*	*(26.9)*	*0.3*

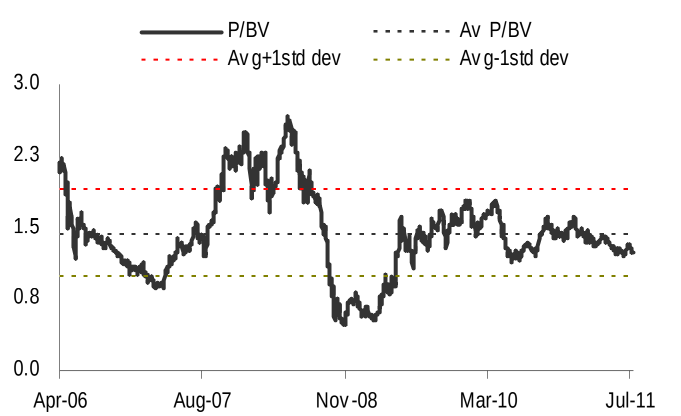
Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	108,378	5,989	88,935	68,887	67,924
Depreciation	42,654	44,917	44,148	45,107	52,535
Total Tax Paid	(33,813)	(24,586)	(32,351)	(27,555)	(25,811)
Chg in working capital	2,848	46,465	(71,749)	35,720	(10,341)
Other operating activities	36,893	31,925	35,645	24,729	28,066
Cash flow from oper (a)	156,959	104,710	64,629	146,889	112,372
Capital Expenditure	(83,611)	(69,498)	(101,636)	(105,500)	(94,800)
Chg in investments	(6,294)	6,413	(1,325)	21,980	-
Other investing activities	2,277	1,467	31,651	46,084	8,014
Cash flow from inv (b)	(87,628)	(61,619)	(71,310)	(37,436)	(86,786)
Free cash flow (a+b)	69,331	43,091	(6,681)	109,452	25,586
Equity raised/(repaid)	145	24,465	45,568	5,346	-
Debt raised/(repaid)	20,047	(29,944)	52,874	(75,000)	(10,000)
Change in minority interest	-	-	-	-	-
Dividend (incl. Tax)	(12,266)	(13,209)	(7,146)	(13,591)	(13,591)
Other financing activities	(35,473)	(32,662)	(31,366)	(33,160)	(36,080)
Cash flow from fin (c)	(27,548)	(51,350)	59,930	(116,405)	(59,671)
Net chg in cash (a+b+c)	41,783	(8,259)	53,249	(6,952)	(34,084)

Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity Share Capital	8,685	9,496	10,216	10,336	10,336
Reserves & surplus	299,703	261,619	386,329	458,345	487,612
Shareholders' funds	308,388	271,114	396,545	468,681	497,947
Minorities interests	8,949	8,841	8,889	8,489	8,989
Total Debt	563,218	490,272	581,112	506,112	496,112
Capital Employed	880,555	770,227	986,546	983,282	1,003,048
Net fixed assets	606,708	603,377	676,916	737,309	779,574
Cash & Cash Eq.	95,529	87,270	140,519	133,566	99,482
Net other curr. assets	164,224	61,257	142,357	106,637	116,978
Investments	30,134	34,865	46,881	25,896	27,141
Net Def. tax Assets	(16,040)	(16,541)	(20,126)	(20,126)	(20,126)
Total Assets	880,555	770,227	986,546	983,282	1,003,048

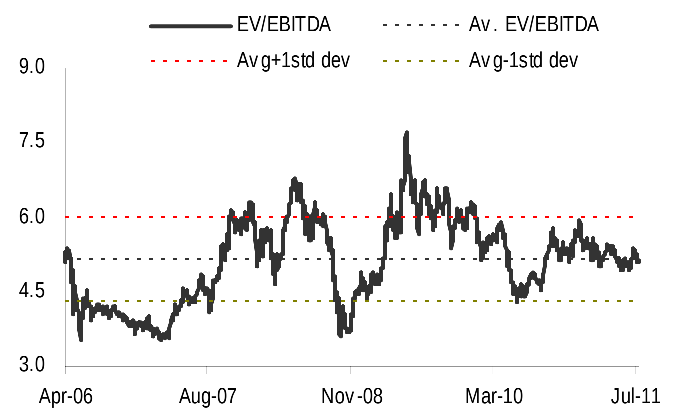
Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	12.3	7.9	13.5	11.7	12.4
Net Margin (%)	6.1	-	4.9	3.6	3.6
Yield (%)	3.2	1.7	2.0	2.0	2.0
Net debt/Equity (x)	1.4	1.3	1.0	0.7	0.7
Working Capital Days	28	34	37	33	37
RoCE (%)	13.7	-	8.8	6.2	6.5
RoE (%)	26.4	(5.0)	17.3	9.9	8.9
EV/Net Sales (x)	0.5	0.8	0.7	0.6	0.7
EV/EBITDA (x)	4.3	9.6	5.5	5.3	5.9
PER (x)	4.4	-	10.1	13.8	13.8
PCE (x)	3.0	-	5.7	6.7	6.2
Price/BV (x)	1.3	1.7	1.5	1.3	1.2

Note: TP and EV based valuation multiples calculated valuing CWIP at book value.

1-Year rolling forward P/BV Band



1-Year rolling forward EV/EBIDTA Band



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