RESULTS REVIEW

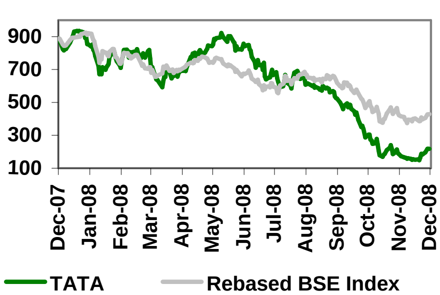
Share Data	
Market Cap	Rs. 159.2 bn
Price	Rs. 217.90
BSE Sensex	9,690.07
Reuters	TISC.BO
Bloomberg	TATA IN
Avg. Volume (52 Week)	1.7 mn
52-Week High/Low	Rs.952/146.35
Shares Outstanding	730.6 mn

Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	83.7	18.8
+/- (%)	(26.6%)	(77.6)%
PER (x)	2.6x	11.6x
EV/ Sales (x)	0.5x	0.8x
EV/ EBITDA (x)	4.2x	7.9x

Shareholding Pattern (%)	
Promoters	34
FIIs	18
Institutions	23
Public & Others	26

Relative Performance



Tata Steel Limited — Buy

Markets ignore long-term potential

We have downgraded our estimates for Tata Steel Limited to account for the greater-than-expected downturn in the global economy and the subsequent fall in steel prices. However, its stock has fallen by around 60% since our last quarterly report. At its current market price (CMP), we believe the market is more than factoring in the negative macroeconomic news and is ignoring the long-term potential of the Company. Our DCF based target price of Rs. 255 suggests a potential upside of 17% from the CMP. Hence, we upgrade our rating on the stock from Hold to Buy.

With the downturn in the global economy and the subsequent fall in investment and consumption, we believe the demand for steel will slow down significantly in the near term. Consequently, Corus has already announced a 30% cut in production; Natsteel and Tata Steel Thailand are also expected to follow suit. Also, we believe that steel prices, after falling around 50% from their highs, will fall further in the coming quarters. Thus, with lower volumes and a substantial decline in prices, Tata Steel's profitability will be significantly dented in the short run.

The Company, meanwhile, has launched a number of initiatives to improve its cash flow. It is working towards saving more than GBP 350 mn at its UK operations and Rs. 9 bn at its Indian operations through performance improvements, tightening of the working capital, and a revision of its CAPEX plans in FY09. Regarding debt, Tata Steel does not have any repayment liability before December 2009, and we believe it will be able to refinance its debt (when required) given its long-term potential and the Tata Group's goodwill. However, the Company may face some cash flow problems in the near term due to the falling sales volume and plummeting prices.

Key Figures (Consolidated)

Quarterly Data	Q2'08	Q1'09	Q2'09	YoY%	QoQ%	H1'08	H1'09	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	324,416	435,083	441,990	36.2%	1.6%	636,586	877,557	37.9%
EBITDA	46,030	69,876	82,497	79.2%	18.1%	94,695	152,857	61.4%
Adj. Net Profit	14,585	41,480	50,838	248.6%	22.6%	36,428	92,406	153.7%
Margins(%)								
EBITDA	14.2%	16.1%	18.7%			14.9%	17.4%	
NPM	4.5%	9.5%	11.5%			5.7%	10.5%	
Per Share Data (Rs.)								
Adj. EPS	23.7	56.4	69.2	192.1%	22.7%	52.0	125.7	141.7%

Valuation

We have valued Tata Steel by using the DCF methodology. We have assumed a WACC of 12.3% and a terminal growth rate of 5%. Based on our assumptions, we have reached a target price of Rs. 255 for Tata Steel's stock. Our target price suggests a potential upside of 17% from the CMP of Rs. 217.9. Hence, we have upgraded our rating from Hold to Buy.

Result Highlights

Sales volume for Indian operations increased 3.9% yoy to 1.33 mt

During Q2'09, while net sales for the consolidated company increased 36.2% yoy to Rs. 442 bn, Tata Steel's standalone net sales jumped 40.9% yoy to Rs. 67.4 bn. The increase in net sales was primarily due to improved realisations.

EBITDA surged 79.2% yoy to Rs. 82.5 bn, partially due to the trickle-down effect of the increase in net sales and the flat other expenses. As a result, the EBITDA margin improved by a substantial 448 bps yoy to 18.7%. However, the increase in EBITDA was restricted by a 45.1% yoy increase in raw material expenses and a 53.2% yoy increase in power costs. For the standalone company, EBITDA increased 57.1% yoy to Rs. 31.8 bn and the EBITDA margin rose 413 bps to 46.5%.

Adj. net profit jumped 248.6% yoy to Rs. 50.8 bn, supported by a 40.1% decline in the interest expense. Net profit margin increased 701 bps yoy to 11.5% on account of a lower effective tax rate. Adj. net profit for the standalone Company increased 80.7% yoy to Rs. 21.3 bn.

Key Events

Tata Steel rejigs CAPEX plans

Battered by the global slowdown and the prevailing liquidity crunch, Tata Steel has delayed its green field projects at Jharkhand and Chhattisgarh. However, the Company will continue with its expansion plans at Jamshedpur and the construction of a 3 mtpa plant in Orissa.

Fitch downgrades outlook on Tata Steel

Fitch Ratings downgraded the outlook on Tata Steel and Corus from stable to negative. Fitch has taken this step on the concern that Tata Sons, the parent company, may not be able to support Tata Steel after a sharp drop in its investments. The ratings outlook revision was also prompted by margin pressures at Corus. However, the Company's rating has not been changed.

Key Risks

The following factors may pose a threat to our rating:

- A slower-than-expected recovery of the global economy
- Any delay in the commissioning of new capacities

Outlook

After witnessing a six-year boom, the global commodity cycle has turned around sharply with metal prices falling more than 50% from their highs. Steel billet prices on the LME have declined by more than 60% since July to USD 315 per ton. HRC prices have also declined by around 50% from the highs of USD 1,200–USD 1,300 per ton to USD 550–USD 650 per ton, as demand for the alloy has fallen substantially due to the downturn in the global economy.

Crude steel production in China fell 17% yoy during October

The sharp decline in steel prices has led to a significant cut in production levels. Global steel production in September and October 2008 fell 3.2% yoy and 12.4% yoy, respectively. Though these production cuts will help reduce the surplus steel in the market, we do not expect any major recovery in steel prices in the medium term.

We expect steel demand to decelerate further in FY10 as advanced economies enter into a recession and emerging economies slow down due to the tightening credit markets, a reduction in consumer spending, and rising unemployment. Consequently, Corus has cut production by 30% in order to align supply with demand. Production will also be cut at

Natsteel and Tata Steel Thailand. However, as India is still a net importer of steel, the Company will increase its production in India on the back of its newly commissioned capacity.

The significant fall in steel prices, together with lower volumes, will lead to a sharp fall in Tata Steel's profitability. Though the Company's Indian operation will remain profitable in the current challenging price environment, we believe Corus might report losses in the December and March quarters. However, Tata Steel is aggressively working towards cutting costs across its operations. It has a FY09 target of saving GBP 350 mn at Corus and of Rs. 9 bn at its Indian operations through performance improvement and CAPEX reviews.

Corus has an aluminium production capacity of 250 ktpa

The Company is progressing well on its plan to secure raw material availability for Corus. It has invested USD 22 mn to acquire a 19.9% stake in New Millenium Capital Corporation, Canada, which has estimated reserves of more than 100 mt of iron ore. The Company is also in the process of developing its Mozambique coal mine (in a JV with Riversdale Mining). We believe these initiatives will help restrict the fall in profitability for the consolidated firm.

Meanwhile, the Tata Steel group has taken several steps to improve its liquidity. Corus has sold its 50% stake in Grant Rail (valued at an EV of GBP 25 mn) and is in talks to sell its aluminium plants. Tata Steel has revised its CAPEX plans and has delayed its projects at Jharkhand and Chhattisgarh. All these measures should improve the Company's liquidity situation amid the global financial turmoil and the economic slowdown.

At the current market price of Rs. 217.9, the Company's stock is trading at a forward EV/EBITDA of 4.2x and 7.9x its FY09E and FY10E earnings, respectively. Our DCF-based target price of Rs. 255 suggests a potential upside of 17% from the CMP. Given the sharp decline in Tata Steel's stock and its long-term growth potential, we upgrade our rating on the stock from Hold to Buy.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08*	FY09E*	FY10E*	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY08-10E)
Net Sales	203,221	252,124	1,315,359	1,407,723	923,339	(16.2)%
EBITDA	65,912	78,882	179,931	168,597	90,693	(29.0)%
Adj. Net Profit	37,714	42,795	86,458	69,291	15,540	(57.6)%
Margins(%)						
EBITDA	32.0%	30.8%	13.7%	12.0%	9.8%	
NPM	18.3%	16.7%	6.6%	4.9%	1.7%	
Per Share Data (Rs.)						
Adj. EPS	68.3	74.8	114.1	83.7	18.8	(59.4)%
PER (x)	7.9x	6.0x	1.9x	2.6x	11.6x	

**Includes Corus results*

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.