

Domestic operation steals the show...Europe disappoints

CMP:	Rs. 544
Target Price:	Rs. 561
Recommendation:	Hold

Stock Info

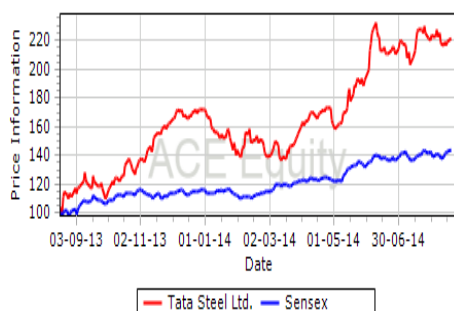
BSE Group	A/BSE100
BSE Code	500470
NSE Symbol	TATASTEEL
Bloomberg	TATA.IN
Reuters	TISC.BO
BSE Sensex	26,421
NSE Nifty	7,898

Market Info

Market Capital	Rs 53,078cr
Equity Capital	Rs 971cr
Avg. Trading Vol. (NSE Qtly)	68,67,470
52 Wk High/ Low	579/224
Face Value	10

Shareholding Pattern (%) (June 2014)

Promoters	31.4
Domestic Institutions	24.5
Foreign Institutions	18.4
Public & Others	25.7



Aug 19th, 2014

Tata Steel's result came better than estimate which was driven by stellar performance from Indian operations. Indian operations performance was driven by more than expected realisations and higher volumes. EBITDA margins remained stable at 31% on YoY basis.

At consolidated level revenues increased by 11% YoY but declined by 14% QoQ to Rs 36,427cr. EBITDA margins declined marginally on QoQ by 10bps to 11.7%, while profit after tax came in at Rs 337cr. PAT was impacted by extraordinary items which included a gain of Rs 1,310cr on sale of stake in Dhamra port and impairment loss of Rs 1,577cr in Mozambique mines.

Indian Operations: Domestic operations reported stellar performance with revenues going up by 10.7% yoy to Rs 10,468cr. Volumes rose 4.5% YoY to 2.1mn tonnes. Blended realisations came in well above estimates at Rs 49,418/t. Better realisation was due to improved product mix. EBITDA margins remained stable at 31% on YoY basis. EBITDA per ton stood at Rs 15,504 vs. Rs 13,643 on YoY basis.

European operations: Deliveries came in line with estimates at 3.2mn tonnes (21.9% qoq decline). EBITDA/t came in line with the estimate at \$52/t (estimate \$47/t). Going forward we expect European operations should benefit from falling raw material prices.

South East Asia: Volumes increased marginally by 0.9% QoQ to 1.08mn tonnes. EBITDA per ton stood at Rs 276. Profitability is impacted due to cheap imports from China.

Valuations: Tata Steel's performance was mix in our view with stellar domestic performance at one end and weak European performance at other. Nonetheless, we believe European operations will see improved performance going forward on increased spreads. We rollover our fair value for Tata Steel on FY16 estimates. **We have valued domestic operations at EV/EBITDA(x) of 6.5x, TSE at 6.5x and South-East Asia operations at 6.0x. We have valued Tata Steel's quoted investments (including holdings through Kalimati Investment Company Ltd.) at Rs 54 per share (assuming 25% discount). Our fair value, based on SoTP valuations, for Tata Steel stands at Rs 561 per share. At CMP of Rs 544 per share the stock is trading at FY16E P/E(x) of 9.8x and EV/EBITDA(x) 6.4x respectively. We recommend Hold rating on stock.**

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	1,34,712	1,48,614	1,52,432	1,58,493
EBITDA	12,321	16,411	17,606	19,214
EBITDA%	9.1	11.0	11.5	12.1
Reported PAT	(7,058)	3,595	4,248	5,398
Reported EPS	(73)	37	44	56
EPS Growth (%)	NA	NA	18.2	27.1
Adj RONW (%)	1.0	8.9	9.1	10.7
P/E (x)	-7.5	14.8	12.5	9.8
EV/EBITDA (x)	8.4	7.9	6.9	6.4

Source: Company data, Arian Research



Q1FY15 Results

Rs in Crore Consolidated	Q1FY15	Q1FY14	YOY (%)	Q4FY14	QoQ (%)
Net Sales	36427	32805	11.0%	42428	-14.1%
Expenditure	32155	29117	10.4%	37417	-14.1%
EBITDA	4273	3688	15.8%	5011	-14.7%
EBITD Margins (%)	11.7%	11.2%		11.8%	
Other Income	216	184		112	
Interest	1252	992		1169	
Depreciation	1550	1403		1472	
Exceptional Items (Loss)	-262	18		-46	
PBT after exceptional items	1424	1494	-4.7%	2436	-41.6%
Tax	1080	351		1365	
Tax rate (%)	75.9%	23.5%		56.0%	
Minority Int	-14	3		-38	
Share of Associate	9	-6		3	
Reported PAT	337	1139	-70.4%	1036	-67.4%
Adj NPM (%)	0.9%	3.5%		2.4%	

Source: Company data, Arianth Research

Rs in Crore (India operations)	Q1FY15	Q1FY14	YOY (%)	Q4FY14	QoQ (%)
Net Sales	10468	9455	10.7	12191	-14.1
Expenditure	7212	6621	8.9	8082	-10.8
EBITDA	3256	2835	14.9	4109	-20.8
EBITD Margins (%)	31%	30%		34%	
Other Income	144	144	-0.5	53	171.0
Interest	492	466	5.6	465	6.0
Depreciation	493	460	7.3	462	6.9
Exceptional Items (Loss)	788	0		-142	-655.8
PBT after exceptional items	3202	2053	56.0	3094	3.5
Tax	934	696	34.1	1115	-16.3
Tax rate (%)	29%	34%		36%	
Reported PAT	2268	1356	67.2	1979	14.6
Adj NPM (%)	22%	14%		16%	33.5

Source: Company data, Arianth Research



Profit & Loss Statement

Y/E March (Rs Cr)	FY13	FY14	FY15E	FY16E
Net Sales	1,34,712	1,48,614	1,52,432	1,58,493
% chg	1.4%	10.3%	2.6%	4.0%
Total Expenditure	1,22,390	1,32,203	1,34,827	1,39,278
% chg	1.6%	8.0%	2.0%	3.3%
EBITDA	12,321	16,411	17,606	19,214
EBITDA Margin %	9.1%	11.0%	11.5%	12.1%
Other Income	479	517	610	634
Depreciation	5,575	5,841	6,003	6,345
EBIT	7225	11087	12212	13503
Interest	3,968	4,337	5,229	5,355
PBT before EI	3,257	6,750	6,983	8,148
Exceptional item	(7,390)	(28)	-	-
PBT	(4,133)	6,722	6,983	8,148
Tax	3,229	3,058	2,780	2,794
Reported PAT	(7,362)	3,664	4,203	5,353
% chg	NA	NA	14.7%	27.4%

Balance Sheet

As on 31st March (Rs. cr)	FY13	FY14	FY15E	FY16E
LIABILITIES				
Share Capital	971	971	971	971
Reserves & Surplus	33,201	39,561	45,506	49,623
Shareholder's Fund	34,172	40,532	46,478	50,595
Non Current Liabilities	56,490	62,957	66,478	70,601
Current Liabilities	52,279	64,123	57,143	58,809
Total Liabilities	1,46,906	1,71,644	1,74,132	1,84,038
ASSETS				
Fixed Assets	24,875	23,917	22,901	25,589
Capital Works in progress	13,786	25,956	33,456	36,956
Non Current Investments	2,497	2,425	2,425	2,425
Long Term Loans and Advances	7,098	8,782	7,184	7,142
Current Assets	54,244	57,989	52,501	56,343
Total Assets	1,46,906	1,71,644	1,74,132	1,84,038

Source: Company data, Arihant Research



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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