

Domestic operation stable...Europe disappoints

14<sup>th</sup> Nov, 2014

CMP: Rs. 470  
Target Price: Rs. 586  
Recommendation: BUY

Tata Steel's result was lower than estimate mainly due to lower realization on account of increase competition from Chinese players.

At consolidated level revenues decreased by 2.4% YoY and 1.8% QoQ to Rs 35,777cr. EBITDA margins declined on QoQ by 150bps to 10.2%. However, profit after tax came in at Rs 1,254cr vs. Rs 917 cr. PAT was higher due to onetime income of Rs 1,147 crs from sale of borivali land to oberoi realty.

**Indian Operations:** Domestic operations performance was in line with expectation with revenues going up by 8.7% YoY to Rs 10,785cr. Volumes rose 3.4% YoY to 2.11mn tonnes. Blended realisations came in well above estimates at Rs 50,516/t. Better realisation was due to improved product mix. EBITDA margins were lower by 1% on YoY at 29% due to increased external purchase of iron ore. EBITDA per ton stood at Rs 14,664 vs. Rs 14,402 on YoY basis.

**European operations:** Deliveries were slightly below estimates at 3.36mn tonnes (2.9% YoY decline). EBITDA/t came below estimate at \$46/t (12% QoQ decline). Going forward we expect European operations should benefit from falling raw material prices.

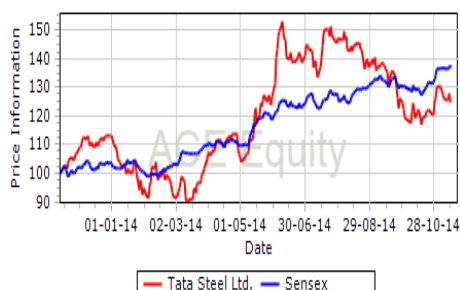
**South East Asia:** Volumes decreased by 12.0% QoQ to 0.95mn tonnes. At EBITDA level there was a loss of 281 crs . Profitability is impacted due to cheap imports from China.

**Valuations:** Tata Steel's performance was mix in our view with stable 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 have valued domestic operations at EV/EBITDA(x) of 6.0x, TSE at 5.0x and South-East Asia operations at 5.0x. 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 586 per share. At CMP of Rs 471 per share the stock is trading at FY16E P/E(x) of 6.5x and EV/EBITDA(x) 5.3x respectively. We recommend BUY rating on stock.**

Stock Info	
BSE Group	A/BSE100
BSE Code	500470
NSE Symbol	TATASTEEL
Bloomberg	TATA.IN
Reuters	TISC.BO
BSE Sensex	27,941
NSE Nifty	8,358

Market Info	
Market Capital	Rs 45,685cr
Equity Capital	Rs 971cr
Avg. Trading Vol. (NSE Qtly)	61,59,280
52 Wk High/ Low	579/332
Face Value	10

Shareholding Pattern (%)	(Sep 2014)
Promoters	31.4
Domestic Institutions	24.3
Foreign Institutions	19.0
Public & Others	25.3



(Rs Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	1,34,712	1,48,614	1,61,165	1,73,119
EBITDA	12,321	16,411	18,918	21,604
EBITDA%	9.1	11.0	11.7	12.5
Reported PAT	(7,058)	3,595	5,258	6,980
Reported EPS	(73)	37	54	72
EPS Growth (%)	NA	NA	46.3	32.7
Adj RONW (%)	1.0	8.9	11.1	13.1
P/E (x)	-6.5	12.7	8.7	6.5
EV/EBITDA (x)	7.8	7.4	6.0	5.3



## Q2FY15 Results

Rs in Crore Consolidated	Q2FY15	Q2FY14	YOY (%)	Q1FY15	QoQ (%)
<b>Net Sales</b>	<b>35777</b>	<b>36645</b>	<b>-2.4%</b>	<b>36427</b>	<b>-1.8%</b>
<b>Expenditure</b>	<b>32134</b>	<b>32940</b>	<b>-2.4%</b>	<b>32155</b>	<b>-0.1%</b>
EBITDA	3643	3705	-1.7%	4273	-14.7%
EBITD Margins (%)	10.2%	10.1%		11.7%	
Other Income	322	203		216	
Interest	1233	1067		1252	
Depreciation	1430	1444		1550	
Exceptional Items	1145	0		-262	
<b>PBT after exceptional items</b>	<b>2447</b>	<b>1398</b>	<b>75.0%</b>	<b>1424</b>	<b>71.9%</b>
Tax	1175	447		1080	
Tax rate (%)	48.0%	32.0%		75.9%	
Minority Int	-3	-37		-14	
Share of Associate	-15	3		9	
<b>Reported PAT</b>	<b>1254</b>	<b>917</b>	<b>36.8%</b>	<b>337</b>	<b>271.8%</b>
<b>Adj NPM (%)</b>	<b>3.5%</b>	<b>2.5%</b>		<b>0.9%</b>	

Source: Company data, Arihant Research

Rs in Crore ( India operations)	Q2FY15	Q2FY14	YOY (%)	Q1FY15	QoQ (%)
<b>Net Sales</b>	<b>10785</b>	<b>9921</b>	<b>8.7</b>	<b>10468</b>	<b>3.0</b>
<b>Expenditure</b>	<b>7691</b>	<b>6983</b>	<b>10.1</b>	<b>7212</b>	<b>6.6</b>
EBITDA	3094	2938	5.3	3256	-5.0
EBITD Margins (%)	29%	30%		31%	
Other Income	262	326	-19.4	144	82.9
Interest	489	437	12.0	492	-0.7
Depreciation	475	551	-13.9	493	-3.8
Exceptional Items	1147	0		788	45.5
<b>PBT after exceptional items</b>	<b>3540</b>	<b>2276</b>	<b>55.5</b>	<b>3202</b>	<b>10.6</b>
Tax	1064	717	48.3	934	13.9
Tax rate (%)	30%	32%		29%	
<b>Reported PAT</b>	<b>2476</b>	<b>1559</b>	<b>58.9</b>	<b>2268</b>	<b>9.2</b>
<b>Adj NPM (%)</b>	<b>23%</b>	<b>16%</b>		<b>22%</b>	<b>6.0</b>

Source: Company data, Arihant Research



**Profit & Loss Statement**

Y/E March (Rs Cr)	FY13	FY14	FY15E	FY16E
<b>Net Sales</b>	<b>1,34,712</b>	<b>1,48,614</b>	<b>1,61,165</b>	<b>1,73,119</b>
% chg	1.4%	10.3%	8.4%	7.4%
Total Expenditure	1,22,390	1,32,203	1,42,247	1,51,514
% chg	1.6%	8.0%	7.6%	6.5%
<b>EBITDA</b>	<b>12,321</b>	<b>16,411</b>	<b>18,918</b>	<b>21,604</b>
EBITDA Margin %	9.1%	11.0%	11.7%	12.5%
Other Income	479	517	645	692
Depreciation	5,575	5,841	6,003	6,345
EBIT	7225	11087	13560	15952
Interest	3,968	4,337	5,265	5,413
PBT before EI	3,257	6,750	8,295	10,538
Exceptional item	(7,390)	(28)	-	-
PBT	(4,133)	6,722	8,295	10,538
Tax	3,229	3,058	3,082	3,604
<b>Reported PAT</b>	<b>(7,362)</b>	<b>3,664</b>	<b>5,213</b>	<b>6,935</b>
% chg	NA	NA	42.3%	33.0%

**Balance Sheet**

As on 31st March (Rs. cr)	FY13	FY14	FY15E	FY16E
<b>LIABILITIES</b>				
Share Capital	971	971	971	971
Reserves & Surplus	33,201	39,561	46,517	52,215
Shareholder's Fund	34,172	40,532	47,488	53,186
Non Current Liabilities	56,490	62,957	66,295	70,672
Current Liabilities	52,279	64,123	59,544	62,830
<b>Total Liabilities</b>	<b>1,46,906</b>	<b>1,71,644</b>	<b>1,77,360</b>	<b>1,90,721</b>
<b>ASSETS</b>				
Fixed Assets	68,492	75,773	77,847	80,453
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	7,887	9,501	7,903	7,861
Current Assets	54,244	57,989	55,729	63,027
Cash & bank balance	9,860	8,605	3,118	6,948
<b>Total Assets</b>	<b>1,46,906</b>	<b>1,71,644</b>	<b>1,77,360</b>	<b>1,90,721</b>

**Cash Flow Statement, Year Ending March**

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
<b>Operating Activities</b>				
<b>PBT</b>	<b>(4,133)</b>	<b>6,722</b>	<b>8,295</b>	<b>10,538</b>
Add Depreciation	5,575	5,841	6,003	6,345
Others	11,321	4,865	45	45
Total	12,764	17,428	14,343	16,929
Cash Taxes	(2,569)	(3,013)	(3,082)	(3,604)
Changes in Working Cap	3,129	(1,270)	(7,805)	(181)
<b>Cash Flow from Operations</b>	<b>13,324</b>	<b>13,146</b>	<b>3,456</b>	<b>13,144</b>
<b>Investing Activities</b>				
Change in investments	2,901	(326)	-	-
Capex	(15,222)	(16,126)	(13,600)	(12,750)
<b>Cash Flow from Investing</b>	<b>(12,321)</b>	<b>(16,451)</b>	<b>(13,600)</b>	<b>(12,750)</b>
<b>Financing Activities</b>				
<b>Dividends + Taxes paid</b>	<b>(1,359)</b>	<b>(924)</b>	<b>(1,057)</b>	<b>(1,057)</b>
Change in Non Curr Liab	(685.7)	1,938.9	5,714.5	4,493.1
<b>Cash Flow from Financing</b>	<b>(2,045)</b>	<b>1,015</b>	<b>4,658</b>	<b>3,436</b>
Opening Cash	10,539	9,669	8,605	3,118
Changes during year	(1,042)	(2,291)	(5,486)	3,830
Effect of exchange rate on translation of foreign currency cash and bank balances	198	1,073	-	-
Earmarked balances with bank	165	153	-	-
<b>Closing Cash</b>	<b>9,860</b>	<b>8,605</b>	<b>3,118</b>	<b>6,948</b>

Source: Company data, Aриhant Research

**Ratio Analysis**

	FY13	FY14	FY15 E	FY16 E
<b>Profitability</b>				
<b>Operating EBITDA%</b>	<b>9.1</b>	<b>11.0</b>	<b>11.7</b>	<b>12.5</b>
Operating EBIT%	5.4	7.5	8.4	9.2
PAT%	(5.5)	2.5	3.2	4.0
<b>ROAE%</b>	<b>(19.2)</b>	<b>9.8</b>	<b>11.8</b>	<b>13.8</b>
<b>Du Pont ROAE breakup</b>				
PAT / Sales	(5.5)	2.5	3.2	4.0
Sales / Avg Total Assets	91.7	93.3	92.4	94.1
Avg Total Assets / Avg Eqty	3.8	4.3	4.0	3.7
<b>ROE</b>	<b>(21.5)</b>	<b>9.0</b>	<b>11.0</b>	<b>13.0</b>
<b>Other Ratios</b>				
<b>Current Ratio</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>
Long Term Debt / Equity	1.37	1.29	1.18	1.13
<b>EPS</b>	<b>(72.7)</b>	<b>37.0</b>	<b>54.1</b>	<b>71.9</b>
DPS	8.0	10.0	9.3	9.3
Dividend %	80.0	100.0	93.0	93.0
<b>Dividend Payout ratio</b>	<b>NA</b>	<b>27.0</b>	<b>17.2</b>	<b>13.0</b>
<b>P/E</b>	<b>NA</b>	<b>12.7</b>	<b>8.7</b>	<b>6.5</b>
BVPS	351.8	417.2	488.9	547.5
P/BV	1.3	1.1	1.0	0.9



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**Stock Rating Scale**

	<b>Absolute Return</b>
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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