

Disappointing numbers

10th Feb, 2015

CMP: Rs. 358
Target Price: Rs. 380
Recommendation: HOLD

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 8.4% YoY and 6.0% QoQ to Rs 33,633 cr. EBITDA margins declined on QoQ by 103bps to 9.1%. Profit after tax came in at Rs 157 cr decline of 68.8% on YoY basis.

Indian Operations: Domestic operations suffered due to closure of iron ore mines and correction in steel prices. Revenues for standalone operations were down 2.4% on YoY basis to Rs 9,897 crs. Volumes, however, was up by 2.9% on YoY basis to 2.13 mn tonnes. Blended realisations decreased by 9.1% QoQ to Rs 46,107 per ton much below our estimates. EBITDA declined by 32.6% on YoY basis to Rs 1,980 crs with EBITDA margins declining to 20% from 28.9% last year. EBITDA per ton stood at Rs 9,295 vs. Rs 14,183 on YoY basis.

Management is not very optimistic about recovery in prices due to softening demand and higher imports (Primarily from China & Russia).

European operations: Deliveries were up 3.8% on YoY basis to 3.31 mn tonnes. Revenues were down by 6.3% due to lower realisations. EBITDA/t, however, increased to Rs 3,952 from Rs 2,696. Going forward we expect European operations should benefit from falling raw material prices.

South East Asia: Volumes decreased by 15.8% QoQ to 0.80mn tonnes. At EBITDA level there was a loss of 18 crs . Profitability is impacted due to cheap imports from China.

Valuations: Tata Steel's faces an uphill task in both domestic business (mining ban, cheap imports) and Europe business (modest growth). Nonetheless, we believe European operations will see improved performance going forward on increasing spreads. We have valued domestic operations at EV/EBITDA(x) of 6.0x, TSE at 6.0x 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 380 per share. At CMP of Rs 358 per share the stock is trading at FY16E P/E(x) of 8.6x and EV/EBITDA(x) of 5.8. We recommend HOLD rating on stock.

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	1,34,712	1,48,614	1,57,014	1,70,103
EBITDA	12,321	16,411	15,224	18,775
EBITDA%	9.1	11.0	9.7	11.0
Reported PAT	(7,058)	3,595	3,583	4,025
Reported EPS	(73)	37	37	41
EPS Growth (%)	NA	NA	-0.3	12.3
Adj RONW (%)	1.0	8.9	3.6	8.3
P/E (x)	-4.9	9.7	9.7	8.6
EV/EBITDA (x)	6.9	6.7	6.9	5.8

Source: Company data, Arianth Research

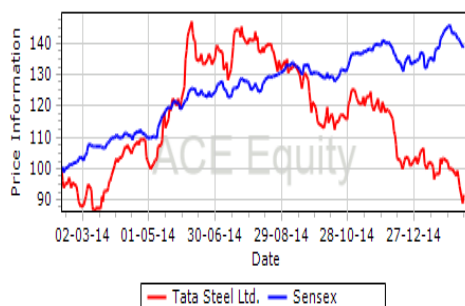
Stock Info

BSE Group	A/BSE100
BSE Code	500470
NSE Symbol	TATASTEEL
Bloomberg	TATA.IN
Reuters	TISC.BO
BSE Sensex	28,356
NSE Nifty	8,566

Market Info

Market Capital	Rs 34,742cr
Equity Capital	Rs 971cr
Avg. Trading Vol.	60,35,050
52 Wk High/ Low	579/332
Face Value	10

Shareholding Pattern (%)	(Dec 2014)
Promoters	31.4
Domestic Institutions	25.4
Foreign Institutions	17.4
Public & Others	25.8





Q3FY15 Results

Rs in Crore Consolidated	Q3FY15	Q3FY14	YOY (%)	Q2FY15	QoQ (%)
Net Sales	33633	36736	-8.4%	35777	-6.0%
Expenditure	30556	32729	-6.6%	32134	-4.9%
EBITDA	3077	4007	-23.2%	3643	-15.5%
EBITD Margins (%)	9.1%	10.9%		10.2%	
Other Income	119	18		322	
Interest	1167	1108		1233	
Depreciation	1451	1522		1430	
Exceptional Items	0	0		-2	
PBT after exceptional items	578	1395	-58.6%	2447	-76.4%
Tax	447	895		1175	
Tax rate (%)	77.3%	64.2%		48.0%	
Minority Int	16	3		-3	
Share of Associate	10	1		-15	
Reported PAT	157	503	-68.8%	1254	-87.5%
Adj NPM (%)	0.5%	1.4%		3.5%	

Source: Company data, Arihant Research

Rs in Crore (India operations)	Q3FY15	Q3FY14	YOY (%)	Q2FY15	QoQ (%)
Net Sales	9897	10143	-2.4	10785	-8.2
Expenditure	7917	7208	9.8	7691	2.9
EBITDA	1980	2936	-32.6	3094	-36.0
EBITD Margins (%)	20%	29%		29%	
Other Income	108	265	-59.1	262	-58.7
Interest	462	453	2.1	489	-5.4
Depreciation	457	456	0.2	475	-3.6
Exceptional Items	0	0		0	#DIV/0!
PBT after exceptional items	1168	2291	-49.0	3540	-67.0
Tax	288	773	-62.7	1064	-72.9
Tax rate (%)	25%	34%		30%	
Reported PAT	881	1519	-42.0	2476	-64.4
Adj NPM (%)	9%	15%		23%	-61.2

Source: Company data, Arihant Research



Profit & Loss Statement				
Y/E March (Rs Cr)	FY13	FY14	FY15E	FY16E
Net Sales	1,34,712	1,48,614	1,57,014	1,70,103
% chg	1.4%	10.3%	5.7%	8.3%
Total Expenditure	1,22,390	1,32,203	1,41,791	1,51,328
% chg	1.6%	8.0%	7.3%	6.7%
EBITDA	12,321	16,411	15,224	18,775
EBITDA Margin %	9.1%	11.0%	9.7%	11.0%
Other Income	479	517	628	680
Depreciation	5,575	5,841	6,003	6,345
EBIT	7225	11087	9849	13110
Interest	3,968	4,337	5,460	5,607
PBT before EI	3,257	6,750	4,389	7,503
Exceptional item	(7,390)	(28)	1,935	-
PBT	(4,133)	6,722	6,324	7,503
Tax	3,229	3,058	2,786	3,523
Reported PAT	(7,058)	3,595	3,583	4,025
% chg	NA	NA	-0.3%	12.3%

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	44,842	47,585
Shareholder's Fund	34,172	40,532	45,813	48,556
Non Current Liabilities	56,490	62,957	69,233	73,659
Current Liabilities	52,279	64,123	58,403	62,001
Total Liabilities	1,46,906	1,71,644	1,77,482	1,88,249
ASSETS				
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	55,851	60,555
Cash & bank balance	9,860	8,605	4,444	5,351
Total Assets	1,46,906	1,71,644	1,77,482	1,88,249

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Operating Activities				
PBT	(4,133)	6,722	6,324	7,503
Add Depreciation	5,575	5,841	6,003	6,345
Others	11,321	4,865	45	45
Total	12,764	17,428	12,372	13,893
Cash Taxes	(2,569)	(3,013)	(2,786)	(3,523)
Changes in Working Cap	3,129	(1,270)	(7,742)	(199)
Cash Flow from Operations	13,324	13,146	1,844	10,171
Investing Activities				
Change in investments	2,901	(326)	-	-
Capex	(15,222)	(16,126)	(13,600)	(12,750)
Cash Flow from Investing	(12,321)	(16,451)	(13,600)	(12,750)
Financing Activities				
Dividends + Taxes paid	(1,359)	(924)	(1,057)	(1,057)
Change in Non Curr Liab	(685.7)	1,938.9	8,652.6	4,542.0
Cash Flow from Financing	(2,045)	1,015	7,596	3,485
Opening Cash	10,539	9,669	8,605	4,444
Changes during year	(1,042)	(2,291)	(4,160)	907
Effect of exchange rate on translation of foreign currency cash and bank balances	198	1,073	-	-
Earmarked balances with bank	165	153	-	-
Closing Cash	9,860	8,605	4,444	5,351

Ratio Analysis				
	FY13	FY14	FY15 E	FY16 E
Profitability				
Operating EBITDA%	9.1	11.0	9.7	11.0
Operating EBIT%	5.4	7.5	6.3	7.7
PAT%	(5.2)	2.4	2.3	2.4
ROAE%	(18.4)	9.6	8.3	8.5
Du Pont ROAE breakup				
PAT / Sales	(5.2)	2.4	2.3	2.4
Sales / Avg Total Assets	91.7	93.3	89.9	93.0
Avg Total Assets / Avg Eqty	3.8	4.3	4.0	3.9
ROE	(20.7)	8.9	7.8	8.3
Other Ratios				
Current Ratio	1.0	0.9	1.0	1.0
Long Term Debt / Equity	1.37	1.29	1.30	1.30
EPS	(72.7)	37.0	36.9	41.4
DPS	8.0	10.0	9.3	9.3
Dividend %	80.0	100.0	93.0	93.0
Dividend Payout ratio	NA	27.0	25.3	22.5
P/E	NA	9.7	9.7	8.6
BVPS	351.8	417.2	471.6	499.9
P/BV	1.0	0.9	0.8	0.7

Source: Company data, Arihant Research



Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254827

Head Office

#1011, Solitaire Corporate park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road,
Chakala, Andheri (E).
Mumbai - 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

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

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