

<b>Sector</b>	<b>Steel</b>
<b>Recommendation</b>	<b>Buy</b>
<b>CMP-</b>	<b>Rs 591.50</b>
<b>Target Price-</b>	<b>Rs 720</b>
<b>Potential upside -</b>	<b>22%</b>
<b>Tenure-</b>	<b>6 Months</b>

<b>Bloomberg-</b>	<b>TATA:IN</b>
<b>Reuters-</b>	<b>TATLY.PK</b>
<b>BSE--</b>	<b>TATASTL</b>
<b>NSE-</b>	<b>TATASTEEL</b>

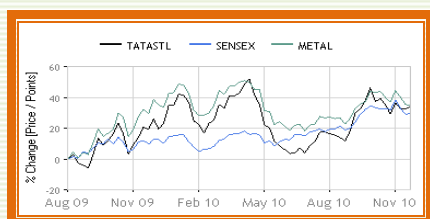
**Date:-** 29<sup>th</sup> Nov. 2010.

**Stock Info:**

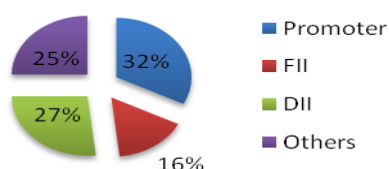
**Weekly H/L-** 626/596.60

**Monthly H/L-** 647.35/581.60

**52 Weeks H/L-** 737/448.65



#### Share Holding Pattern



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## Tata Steel Ltd.

### Industry outlook:

Indian steel industry was reserved for the Public Sector (Government controlled Companies) till the year 1991 except for Tata Iron & Steel Company Ltd, the then only private sector integrated steel plant. After the economic reforms of 1991, this sector was opened up to the private sector and India has seen an impressive growth in the production of steel since then.

**However, the government proactive incentive plans to boost economic growth by injecting funds in various industries like construction, infrastructure automobile and power will help the steel industry to again achieve its previous growth trajectory.**

- India's finished steel demand to grow at 12% CAGR over FY10-13, led by strong demand growth from Autos, Consumer Durables and Engineering sectors.
- India to remain a net steel importer over FY11-13, as demand likely to outpace supply
- Steel production in India is projected to grow to over 120 Million tonnes by the year 2015.

### Investment Rationale:

- **Better domestic sales volume led to top line growth:**

Tata Steel, on a consolidated basis reported revenue growth of 13% and 5% on y-o-y and q-o-q basis respectively mainly on the back of higher sales volume in the Indian markets. This was due to

*continuous robust demand and fall in imports during these years. Better price realization in the European operations also helped in top line growth at least to some extent.*

➤ ***Steel price outlook on the upturn:***

*The Indian Long Product Price Index ILPPI went up by 4 points on November 24th 2010 whereas Indian Flat Product Price Index IFPPI remains flat. The overall Indian Steel Price Index INDSPI went up by 1 point.*

➤ ***Brownfield expansion on track:***

*Tata Steel's 3 mn tonne brownfield expansion plan is on track and is expected to be commissioned by December 2011. We believe the company's profitability would be further supported by higher volumes from FY 2013.*

➤ ***Mozambique project to yield 5.3 MT of coal by 2011:***

*Tata Steel, the world's seventh largest steel producer, expects coal production from its joint venture project in Mozambique to touch 5.3 million tonnes (MT) by 2011.*

➤ ***TATA Steel is investing GBP 1.3 million in a new processing and distribution centre in Scunthorpe to take advantage of anticipated growth in the wind power sector and help realise the UK's ambitious renewable energy program over the next decade.***

*The new hub will handle up to 200,000 tonnes per year of steel plate manufactured at the company's adjacent Scunthorpe Plate Mill as well as at the Dalzell Plate Mill in Motherwell.*

➤ ***The company is set to invest close to CAD 300 million in Canada's New Millennium's direct shipping ore project by a mid September deadline. This will complete the 80% joint venture in the project and also ensure that the Indian firm secures raw material at a frenetic pace.***

***As the raw material (coking coal and iron ore) prices going up. The company has made many agreements with domestic and international companies for long-term requirements.***

## ***Company profile:***

*Tata Steel Limited is a diversified steel producer. It has a global presence in 50 markets and manufacturing operations in 26 countries. The Company provides steel for different industries, which include construction, automotive, aerospace, consumer goods, materials handling, energy and power, rail, engineering, shipbuilding, packaging, and security and defence. Tata Steel manufactures and processes steel, which includes hot-rolled coils, pre-painted perforated blanks, wire rod and wire, sections, plate, bearings and tubes. Tata Steel provides a range of products and infrastructure services to the international railway industry, which include rail section sizes, steel sleeper products and other specialized track components. The Company's operations relate to manufacturing of Steel. Companies other*

business segments consists of tubes, bearings, refractory's, pigments, port operations, town services and investment activities.

### **Business Segment:**

*Net sales income/operations.*

#### **Exhibit:-1**

	<b>FY 10</b>	<b>FY 09</b>	<b>Inc./.(Dec)</b>
Tata Steel	25,022	24,316	706
TS Europe	65,843	1,09,570	(43,727)
NatSteel Holdings	6,254	8,416	(2,162)
TS Thailand	3,157	3,965	(808)
Others	9,944	9,709	234
Eliminations & adjustments	(7,827)	(8,647)	821
<b>Group Total</b>	<b>1,02,393</b>	<b>1,47,329</b>	<b>(44,936)</b>

*Source: Company*

*(Figure in Crs.)*

#### **Exhibit:2 Division-Wise Net sales**

	<b>FY 10</b>	<b>FY 09</b>	<b>Change</b>	<b>Change %</b>
Steel	21,928	20,456	1,472	7%
Tubes	1,387	1,410	(22)	(2%)
Ferro Alloys and Minerals	1,553	2,324	(771)	(33%)
Bearings	153	127	27	21%
<b>Total</b>	<b>25,022</b>	<b>24,316</b>	<b>706</b>	<b>3%</b>

*Source: Company*

*(Figure in Crs.)*

### **Financial Performance:**

#### **Quarterly Results:**

Tata Steel has posted a consolidated net profit of Rs 19,788.1 million for the quarter ended Sep. 30, 2010 as compared to loss of Rs 27,072.5 million, quarter ended September 30, 2009. Consolidated net sales was at Rs 280,909 million for the quarter ended Sep. 30, 2010 against Rs 252,698 million for the quarter ended Sep. 30, 2009, rise of 11.16%.

*Exhibit:-3*

In Crs. Income Statement	10-Sep	10-Jun	10-Mar	9-Dec	9-Sep
<b>Revenue</b>	<b>7,106.75</b>	<b>6,551.48</b>	<b>7,339.44</b>	<b>6,374.88</b>	<b>5,692.11</b>
Other Income	732.67	48.43	467.84	263.56	76.05
Total Income	7,839.42	6,599.91	7,807.28	6,638.44	5,768.16
Expenditure	-4,477.73	-3,635.03	-4,208.70	-4,217.98	3,769.88
Interest	-342.48	-327.68	-358.52	-415.72	-392
PBDT	3,019.21	2,637.20	3,240.06	2,004.74	1,606.28
Depreciation	-281.46	-280.2	-311.46	-262.18	-256.37
PBT	2,737.75	2,357.00	2,928.60	1,742.56	1,349.91
Tax	-672.62	-777.61	-766.32	-550.81	-446.97
<b>Net Profit</b>	<b>2,065.13</b>	<b>1,579.39</b>	<b>2,162.28</b>	<b>1,191.75</b>	<b>902.94</b>
OPM %	47.3	45.26	53.27	37.97	35.11
<b>NPM %</b>	<b>29.06</b>	<b>24.11</b>	<b>29.46</b>	<b>18.69</b>	<b>15.86</b>

*Research-Cell Flourish Fincap Pvt. Ltd.**Annual results:*

*Tata Steel recorded a profit after tax of Rs. 5,047 cr. during the financial year ended 31st March 2010 (FY 09: Rs. 5,202 cr.).*

*Net sales and other operating income was higher by 3% as compared to FY 09 as the volume of steel sales during FY 10 was higher by around one million tonnes (18%) over FY 09 (6.17 million tonnes in FY 10 against 5.23 million tonnes in FY 09) with lower prices of Steel, Ferro Alloys and other product.*

**Exhibit:-4**

In Crs.	2009 - 10	2008 - 09	2007 - 08	2006 - 07	2005 - 06
<b>Income Statement</b>					
<b>Revenue</b>	<b>25,021.98</b>	<b>24,315.77</b>	<b>19,693.28</b>	<b>17,552.02</b>	<b>15,139.39</b>
Other Income	853.79	308.27	335	433.67	254.76
Total Income	25,875.77	24,624.04	20,028.28	17,985.69	15,394.15
Expenditure	-16,069.89	-15,182.34	-11,248.61	-10,578.75	-9,207.88
Interest	-1,508.40	-1,152.69	-878.7	-173.9	-118.44
PBDT	8,297.48	8,289.01	7,900.97	7,233.04	6,067.83
Depreciation	-1,083.18	-973.4	-834.61	-819.29	-775.1
PBT	7,214.30	7,315.61	7,066.36	6,413.75	5,292.73
Tax	-2,167.50	-2,113.87	-2,379.33	-2,039.50	-1,733.58
<b>Net Profit</b>	<b>5,046.80</b>	<b>5,201.74</b>	<b>4,687.03</b>	<b>4,222.15</b>	<b>3,506.38</b>
<b>EPS</b>	<b>60.26</b>	<b>69.45</b>	<b>67.17</b>	<b>73.76</b>	<b>63.35</b>
OPM %	39.19	38.83	44.58	42.2	40.86
<b>NPM %</b>	<b>20.17</b>	<b>21.39</b>	<b>23.8</b>	<b>24.06</b>	<b>23.16</b>

*Research-Cell Flourish Fincap Pvt. Ltd.*

**Peer Group Comparison:****Exhibit:5**

Company	D/E	NPM(%)	EPS	P/E(x)	BV	P/BV(x)	EV/EBIDTA	EV/NET SALES	ROE(%)
Bhushan Steel Ltd.	2.86	15.1	39.8	12.5	188.0	2.7	17.3	3.9	21.2
JSL Stainless Ltd.	3.89	6.6	20.4	5.5	103.1	1.1	5.2	1.5	19.8
JSW Steel Ltd.	1.19	11.1	92.3	13.8	443.1	2.9	6.4	2.2	20.8
Jindal Saw Ltd.	0.19	10.7	26.2	7.9	131.6	1.6	4.1	0.9	19.9
Maharashtra Seamless Ltd.	0.05	17.9	40.3	10.0	219.1	1.8	5.3	1.8	18.4
Monnet Ispat Ltd.	1.10	13.9	41.3	14.4	230.3	2.6	11.4	2.8	17.9
<b>Tata Steel Ltd.</b>	<b>0.68</b>	<b>20.2</b>	<b>55.9</b>	<b>11.1</b>	<b>409.7</b>	<b>1.5</b>	<b>6.9</b>	<b>3.1</b>	<b>13.7</b>
Welspun Corp Ltd.	0.72	8.2	26.4	9.6	133.8	1.9	4.3	1.0	19.7

*Research-Cell Flourish Fincap Pvt. Ltd.*

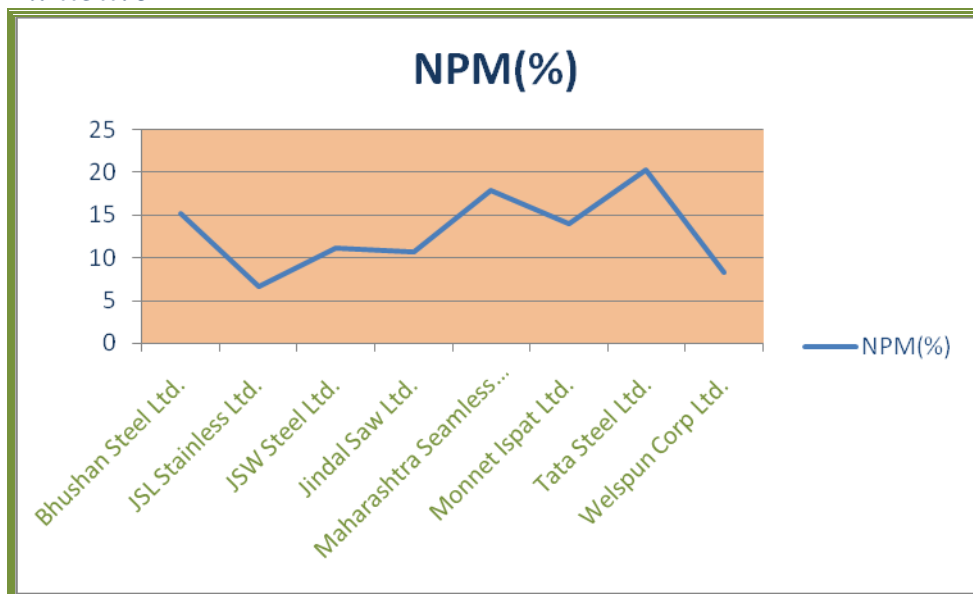
## Valuation Outlook:

On the basis of relative valuation, the enterprise value of the company is Rs 78252.65 cr. and stock is currently trading at Rs 616.60 of PE 11.1(x) with EPS 55.9Rs.

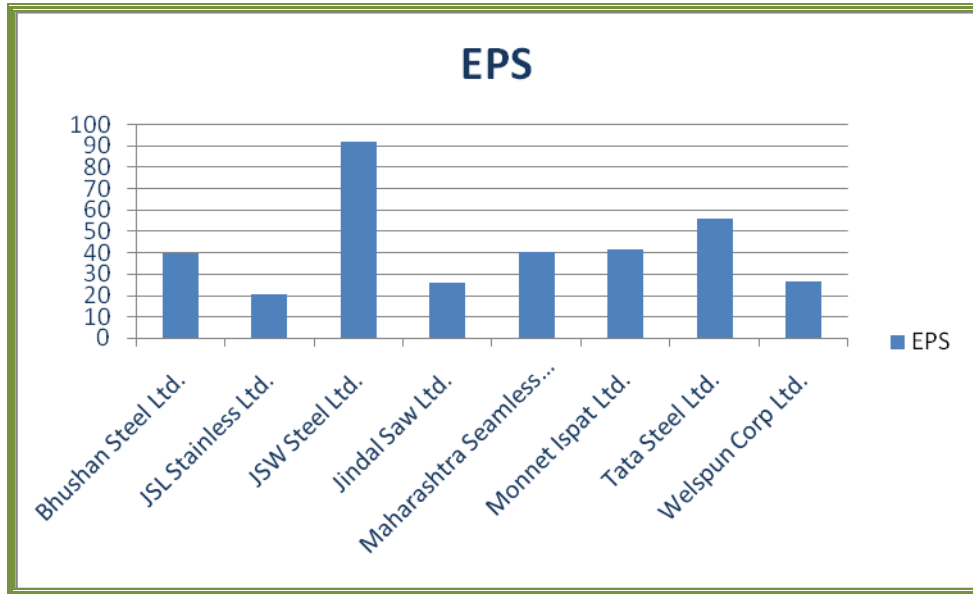
- Stock is trading at 1.5 times of book value (BV) Rs 409.10 per share and ROE is 13.7%. giving attractive return than peer group companies.
- We expect earnings to grow at a CAGR of 14% for next 3 years.
- Tata Steel Ltd has NPM of 20.2%, which is highest among the peers.

We recommend a **Buy** on the stock with target Rs 720 medium to long-term investment horizon.

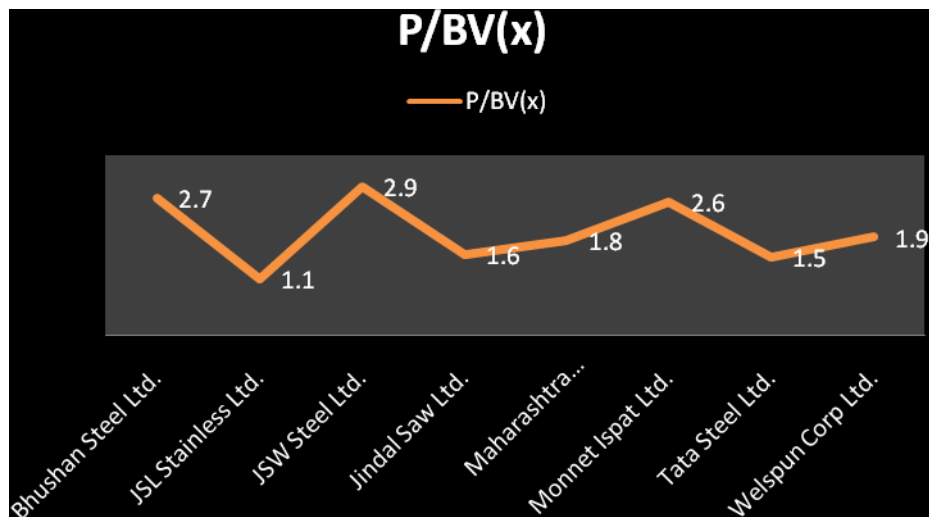
### Exhibit:6



Research-Cell Flourish Fincap Pvt. Ltd.

**Exhibit:7**

*Research-Cell Flourish Fincap Pvt. Ltd.*

**Exhibit:8**

*Research-Cell Flourish Fincap Pvt. Ltd.*

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