

# Tata Steel Ltd

₹ 323

**At the Best Price in the last 1 Year****Buy**

Mar 22, 2013

## Company Background

Established in 1907, Tata Steel Ltd (Tata Steel) is among the top ten global steel companies with an annual crude steel capacity of over 28 mn mtpa. It is now one of the world's most geographically-diversified steel producers, with operations in 26 countries and a commercial presence in over 50 countries. The Tata Steel Group, with a turnover of USD 26.13 bn in FY 2011-2012, has over 81,000 employees in 5 continents & is a Fortune 500 company. Tata Steel's production facilities include those in India, UK, China, Thailand, Singapore, Netherlands & Australia. Operating companies within the Group include Tata Steel Ltd, Tata Steel Europe Limited (Corus), NatSteel, & Tata Steel Thailand (Millennium Steel).

## Key Highlights

- ➔ Tata Steel through its subsidiary Tata Steel Minerals Canada Limited ("TSMC"), entered into a framework arrangement with Labrador Iron Mines Holdings Ltd. to establish a strategic relationship between TSMC and LIM whereby the two have agreed to co-operate with each other in various aspects of their respective iron ore operations in the Labrador Trough which is a 1,100-kilometre long, 160-kilometre wide iron ore bed in the Labrador Quebec region in Canada.
- ➔ Tata Steel has restarted its second blast furnace at the Port Talbot steelworks in the UK following the completion of a £185 mn rebuilding project. The restarting of Blast Furnace No. 4 - the UK's largest industrial engineering project last year - will improve Tata Steel's operational flexibility and enable it to better serve customers in the UK and the rest of Europe.
- ➔ The implementation of the 0.6 mn mtpa Continuous Annealing and Processing Line project at Jamshedpur for the production of automotive cold rolled flat products is progressing as per schedule for commissioning in end 2013. The above project is being undertaken as part of the Tata Nippon Steel JV.
- ➔ Tata Steel's new 6 mn mtpa greenfield steel plant in Odisha is under construction and, subject to essential captive mining approvals, the 1st phase of 3 mn mtpa is scheduled in 2014. Therefore by 2014 it, would have a global steel capacity of 33.5 mn mtpa, and will add a further 3 mn mtpa on full implementation.

## Key Financials

Year Ended 31st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	262,287.6	307,437.6	353,362.6
<b>Rev. growth (%)</b>	<b>4.91</b>	<b>17.21</b>	<b>14.94</b>
EBITDA (INR mn)	98,101.6	124,621.4	127,923.4
Net profit (INR mn)	50,468.0	68,611.5	65,231.2
Shares outstanding (mn)	887.2	971.2	971.2
EPS (INR)	56.9	70.6	67.2
<b>EPS growth (%)</b>	<b>(20.11)</b>	<b>24.19</b>	<b>(4.93)</b>
P/E (x)	11.1	8.8	7.0
RONW (%)	16.3	16.1	13.1
<b>ROCE (%)</b>	<b>8.4</b>	<b>9.9</b>	<b>8.6</b>

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## Info Codes

Reuters	: TISC.BO
Bloomberg	: TATA@IN
NSE	: TATASTEEL
BSE	: 500470

## Market Data

52 Wk Range (₹)	: 482 / 321
Shares in Issue (mn)	: 971.2
Mkt. Cap (₹ bn)	: 312.82
BSE 2 Wk Avg Vol	: 639000

## Share Holding Pattern (%)

Promoters	: 31.35
DII's	: 27.95
FII's	: 14.79
Others	: 25.91

## Investment Theme

The crude steel capacity at Tata Steel's Jamshedpur plant will increase by almost 3 mn mtpa to 9.7 mn mtpa. There are substantial market opportunities, in India particularly, that warrant further expansion of capacity. Consolidation & continuous improvement are important values within Tata Steel's performance culture. Faced with the challenges of a sluggish global economy, it has been consolidating through expansion in India, strengthening its raw material procurement processes and a series of continuous improvement projects. The greenfield project in Odisha, India, is progressing and capacity is planned to increase by 6 mn mtpa in two phases of 3 mn mtpa each. The Dhamra Port commenced commercial operations in May 2011 and Tata Steel is seeing an integrated logistics cost benefit on the cargo moved through Dhamra Port, which is expected to further increase.

**Expanding since many Years**

## Financial Statements

## Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	267576.0	319019.4	19.23	370055.1	16.00
Other Income	12881.1	14110.2	9.54	12647.7	(10.36)
Change in Stocks	(1349.7)	1736.5	(228.66)	2207.2	27.11
Raw Material Con.	69868.1	78192.5	11.91	98964.2	26.56
Employee Exp.	24702.2	28374.6	14.87	30472.6	7.39
Indirect Taxes	20538.6	28853.2	40.48	35389.1	22.65
Other Exp.	65896.9	74824.4	13.55	92160.7	23.17
Operating Exp.	182355.5	208508.2	14.34	254779.4	22.19
Operating Profit	85220.5	110511.2	29.68	115275.7	4.31
Total Interest	18792.2	17357.0	(7.64)	24344.6	40.26
Gross Profit	79309.4	107264.4	35.25	103578.8	(3.44)
Net Dep.	7156.4	9528.5	33.15	6721.3	(29.46)
Total Taxation	21685.0	29124.4	34.31	31626.3	8.59
Net Profit/Loss	50468.0	68611.5	35.95	65231.2	(4.93)

## 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11	Mar 12
<b>SOURCES OF FUNDS</b>	<b>571,226.8</b>	<b>622,011.4</b>	<b>767,463.6</b>	<b>810,687.8</b>
Equity Share capital	7,307.9	8,874.1	9,594.1	9,714.1
Share Application Money	2.4	1.4	15,006.1	22,751.7
Preference Share Capital	54,726.6	0.0	0.0	0.0
Reserves & Surplus	239,728.1	360,743.9	459,852.2	516,499.5
Long Term Loans	268,561.8	252,392.0	281,519.9	261,722.5
Short Term Loans	900.0	0.0	1,491.3	0.0
<b>USES OF FUNDS</b>	<b>571,226.8</b>	<b>622,011.4</b>	<b>767,463.6</b>	<b>810,687.8</b>
Gross Block	199,565.4	222,000.0	229,725.6	236,188.3
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	89,620.0	100,375.6	111,674.6	122,525.7
Net Block	109,945.4	121,624.4	118,051.0	113,662.6
Capital Work in Progress	34,876.8	38,435.9	56,122.8	160,584.9
Investments	426,193.9	468,510.7	465,649.4	502,825.2
Current Assets	118,964.9	116,252.4	267,090.2	195,124.0
Less : Current Liabilities	119,804.9	122,812.0	139,449.8	161,508.9
Total Net Current Assets	(840.0)	(6,559.6)	127,640.4	33,615.1
Misc. Expenses not written	1,050.7	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	386,439.1	443,954.1	429,001.8	484,133.8
Mkt Val. Quoted Investments	47,612.2	61,170.2	79,147.4	61,156.0
Contingent Liabilities	137,930.7	148,065.5	145,008.0	180,395.7
Dividend (%)	160	80	120	120

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 12	Jun 12	Sep 12	Dec 12
Net Sales	94,794.30	89,080.30	91,505.60	93,703.10
Cost Of Sales	64,878.20	61,282.10	66,343.40	68,441.30
Operating Profit	29,916.10	27,798.20	25,162.20	25,261.80
Recurring Income	1,829.30	1,518.90	2,492.90	357.20
Adjusted PBDIT	31,745.40	29,317.10	27,655.10	25,619.00
Financial Expenses	5,139.60	4,544.40	4,539.30	5,089.80
Depreciation	2,899.60	3,543.90	3,912.80	4,339.40
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	23,706.20	21,228.80	19,203.00	16,189.80
Tax Charges	8,101.10	7,663.20	5,694.90	5,725.90
Adjusted PAT	15,605.10	13,565.60	13,508.10	10,463.90
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	15,605.10	13,565.60	13,508.10	10,463.90

## 52 Week Index Relative Percentage Appreciation



## Tata Steel vs SENSEX vs Metal

## Points to Ponder

The demand for steel in India remains robust and in fact continues to outstrip supply. Unfortunately, major greenfield projects which would substantially increase domestic steel capacity are facing enormous delays due to hurdles in land acquisition and approvals for the necessary mining rights to feed these new plants. Steel will remain the undisputed major foundation material in the world. Its predominance in building construction, infrastructure, ship-building, automobiles has not been substantially challenged and is unlikely to be for the foreseeable future. At the same time, steel consumption will be closely linked to the economic growth and prosperity of a nation or a particular region.

## Risks Associated

The prolonged economic slowdown in the developed world, particularly in the European Union and the UK has resulted in a significant decline in steel consumption in several geographies in the western hemisphere. Steel plants are being closed or mothballed to conserve costs and to control over-supply. While Tata Steel's operations in India are expected to remain strong, its operations in Europe will continue to be under enormous stress for the next year or two until the Western European economy recovers. The unprecedented rise in iron ore and coking coal prices coupled with the acute decline in market demand will continue to negatively impact the Company's European operations. Restructuring and capacity rationalising initiatives are under way to reduce costs and under-utilisation. The real growth will most likely be in Asia, Africa and Latin America.

**In a Nutshell**

Tata Steel is a part of the Tata Group. The pioneer Steel maker in India, the company has performed exceptionally since its inception and after 100 years it's still the leading Indian company in the metal sector. Tata Steel's 2.9 mn mtpa expansion in Jamshedpur is expected to go onstream during the Financial Year 2012-13, taking Jamshedpur's capacity to 9.7 mn mtpa. The Company's new 6 mn mtpa greenfield steel plant in Odisha is under construction and, subject to essential captive mining approvals from the Government, the first phase of 3 million tonnes is scheduled to commence in 2014. Therefore, Tata Steel by 2014, would have a global steel capacity of 33.5 mn mtpa, and will add a further 3 mn mtpa on the full implementation of the Odisha project. There are substantial market opportunities, in India particularly, that warrant further expansion of steel capacity. Consolidation and continuous improvement are important values within Tata Steel's performance culture. Faced with the challenges of a sluggish global economy, Tata Steel has been consolidating through expansion projects in India, strengthening of its raw material procurement processes and a series of continuous improvement projects. Tata Steel and Krosaki Harima Corporation (KHC) signed definitive agreements on 21st April, 2011 to induct KHC as a strategic partner in Tata Refractories Limited (TRL). Under this arrangement, KHC acquired an equity stake of 51% out of TSL's 77.46% stake in TRL. Tata Steel continues to hold a 26.46% equity stake. The transaction was based on an equity valuation of TRL amounting to approximately ₹ 1,130 crores (US\$222 mn). Tata Steel believes that the strategic association with KHC will allow TRL Krosaki to build a hightech, developed product portfolio. We believe long term future offer bright potential & therefore recommend to accumulate this stock.

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**Rating Interpretation**

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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