

Stellar performance from TSE

CMP:	Rs. 359
Target Price:	Rs. 429
Recommendation:	Accumulate

Tata Steel's results came better than estimates driven by better than estimated results of overseas operations; Tata Steel Europe (TSE) in particular. South-East operations too reported better numbers. TSE reported EBITDA per tonne of \$ 29/t against expectation of \$ 23/t. Operating efficiencies coupled with higher deliveries resulted in beat. South-East operations reported 12% qoq volume growth, while EBITDA per tonne improved qoq from \$ 194/t to \$ 215/t.

Stock Info

BSE Group	A/BSE100
BSE Code	500470
NSE Symbol	TATASTEEL
Bloomberg	TATA.IN
Reuters	TISC.BO
BSE Sensex	20194
NSE Nifty	5990

At consolidated level revenues rose 7% yoy and 12% qoq to Rs 36645cr. EBITDA margins declined qoq by 110bps to 10.0%, while profit after tax came in at Rs 917cr against estimate of Rs 379cr.

Market Info

Market Capital	₹ 34869cr
Equity Capital	₹ 971cr
Avg. Trading Vol. (NSE Qtly)	2594730
52 Wk High/ Low	448/195
Face Value	10

Indian Operations: Domestic operation reported inline operating performance with revenues going up by 8.4% yoy to Rs 9921cr. Volumes rose 1.5% qoq and 9.1% yoy to 2.04mn tonnes. Flat steel realisations were flat qoq to Rs 36196/t, while long steel prices declined 4.2%. EBITDA margins declined qoq by 40bps to 29.6%. EBITDA per tonne improved qoq from Rs 14103/t to Rs 14402/t.

European operations: Deliveries rose 10% qoq to 3.46 mn tonnes. Blended realisations declined qoq to \$ 980/t due to overall weak prices in European region. TSE reported EBITDA per tonne of \$29/t that was aided by better product mix and efficiency improvement measures that resulted in lower operating cost.

South East Asia: South East Asian operations reported strong numbers. Volumes rose 12% qoq to 0.96mn tonnes, while implied rupee realisations declined qoq by 4.2% to Rs 43531/t. Revenues in dollar terms declined by 4.5% to \$ 670mn. EBITDA per tonne improved qoq from \$ 194/t to \$ 215/t.

Shareholding Pattern (%)	(30 th Sept 2013)
Promoters	31.4
Domestic Institutions	26.1
Foreign Institutions	13.6
Non Promoters Corp.	5.3
Public & Others	23.6
Govt. Holdings	-

Valuations: Tata steel has showed marked improvement in operating performance across group companies; TSE in particular. We believe TSE will continue to post strong operating results on the back of improving operating environment in Europe. **We have valued domestic operations at FY15E EV/EBITDA(x) of 6.0x, TSE at 5.5x and South-East 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 429 per share. At CMP of Rs 359 per share the stock is trading at FY15E P/E(x) and EV/EBITDA(x) of 7.7x and 5.9x respectively, at which stock looks fairly valued. We recommend Accumulate rating on stock.**

(Rs Cr)	FY12	FY13	FY14E	FY15E
Net Revenue	132900	134712	138976	143116
EBITDA	12417	12321	15039	15807
EBITDA%	9.3	9.1	10.8	11.0
Reported PAT	5389.8	-7057.6	4108.5	4500.5
Reported EPS	55.5	-72.7	42.3	46.3
EPS Growth (%)	-40.7	-230.9	-158.2	9.5
Adj RONW (%)	4.8	1.0	9.7	10.2
P/E (x)	6.5	-4.9	8.5	7.7
EV/EBITDA (x)	6.8	7.5	6.2	5.9

Nov 14, 2013

**Concall Update:**

- Domestic demand environment continues to be sluggish. Company will undertake planned 60 day shutdown for long products unit in current quarter. Company has taken cumulative price hike of Rs 3500-4000/t over Sep-Oct period.
- Management expects European steel demand to remain weak during CY13. However, it expects demand recovery in CY14 by 1-2%. Management is confident of maintaining 1HFY14 delivery run rate in 2HFY14 too.
- European Steel prices have started moving up from September-13 and the same are expected to remain range bound on tepid demand during second half of December as Europe goes in Holidays season then.
- **Capex:** Company is going to spend \$ 2-2.5bn over next two years; major chunk of which will be on Orissa greenfield expansion. Company thus far has incurred ~Rs 8000cr of capex in FY14 of which on Orissa it incurred ~Rs 4600cr. Total of ~ Rs 8500cr of capex will be incurred on Orissa project in FY14.

2QFY14 Results

Rs in Crore Consolidated	2QFY14	2QFY13	YOY (%)	1QFY14	QoQ (%)
Net Sales	36645	34133	7.4	32805	11.7
Expenditure	32940	31823	3.5	29117	13.1
EBITDA	3705	2310	60.4	3688	0.5
EBITD Margins (%)	10.1%	7%		11%	
Other Income	203	202	0.8	184	10.7
Interest	1067	972	9.7	992	7.5
Depreciation	1444	1335	8.2	1403	2.9
Exceptional Items (Loss)	0	43	-	18	-100.0
PBT after EI	1398	247	464.9	1494	-6.4
Tax	447	661	-32.3	351	27.3
Tax rate (%)	32%	267%		24%	
Minority Int	-37	28	-236.2	3	-1383.6
Share of Associate	3	22	-84.9	-6	-152.9
Reported PAT	917	-364	-351.9	1139	-19.5
Adj NPM (%)	3%	-1%		3%	

Rs in Crore Standalone	2QFY14	2QFY13	YOY (%)	1QFY14	QoQ (%)
Net Sales	9921	9151	8.4	9455	4.9
Expenditure	6983	6393	9.2	6621	5.5
EBITDA	2938	2757	6.5	2835	3.6
EBITD Margins (%)	30%	30%		30%	
Other Income	326	240	35.9	144	125.8
Interest	437	454	-3.8	466	-6.4
Depreciation	551	391	40.8	460	19.9
Exceptional Items (Loss)	0	10		0	#DIV/0!
PBT after EI	2276	2161	5.3	2053	10.9
Tax	717	569	26.0	696	3.0
Tax rate (%)	32%	26%		34%	
Reported PAT	1559	1592	-2.1	1356	14.9
Adj NPM (%)	16%	17%		14%	9.5



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Stock Rating Scale

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

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