

Stellar performance from TSE

CMP: Rs. 390

Target Price: Rs. 421

Recommendation: Hold

Stock Info

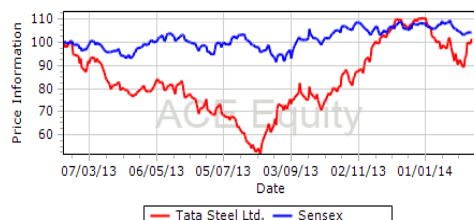
BSE Group	A/BSE100
BSE Code	500470
NSE Symbol	TATASTEEL
Bloomberg	TATA.IN
Reuters	TISC.BO
BSE Sensex	20363
NSE Nifty	6063

Market Info

Market Capital	₹ 36731cr
Equity Capital	₹ 971cr
Avg. Trading Vol. (NSE Qtly)	2594730
52 Wk High/ Low	435/195
Face Value	10

Shareholding Pattern (%) (Dec 2013)

Promoters	31.4
Domestic Institutions	25.4
Foreign Institutions	16.1
Non Promoters Corp.	5.3
Public & Others	21.8
Govt. Holdings	-



Feb 12, 2014

Tata Steel's result came better than estimates which was driven by stellar performance from Tata Steel Europe (TSE). TSE reported EBITDA per tonne of \$32/t (on an adjusted basis); an improvement of \$6/t qoq. Operating efficiencies coupled with higher realizations resulted in improved performance.

At consolidated level revenues rose 14% yoy and 0.2% qoq to Rs 36736cr. EBITDA margins improved qoq by 800bps to 10.9%, while profit after tax came in at Rs 503cr.

Indian Operations: Domestic operation reported subdued operating performance with revenues going up by 8.3% yoy to Rs 10143cr. Volumes rose 1.5% qoq and 9.5% yoy to 2.07mn tonnes. Blended realisations came in below estimates at Rs 48504/t (estimate was Rs 49130/t). Lower realisation was due to adverse mix in volumes. EBITDA margins declined qoq by 70bps to 28.9%. EBITDA per tonne declined qoq from Rs 14102/t to Rs 14183/t.

European operations: Deliveries came in line with estimates at 3.19mn tonnes (7.8% qoq decline). Blended realisations surprised positively with qoq improvement of 6.8% at \$ 1046/t. TSE reported EBITDA per tonne of \$43/t, however this includes Rs 230cr of electricity charge reversal. Adjusted for one-off, EBITDA per tonne came in at \$ 32/t, which is significantly ahead of our estimate of \$20/t.

South East Asia: Volumes rose 13.5% qoq to 1.09mn tonnes, while blended realisations declined 3.8% qoq to \$671/t. Revenues rose 9.2% qoq to \$ 731mn. EBITDA per tonne declined qoq from \$ 215/t to \$ 203/t. Volumes increased due to higher contribution from Singapore and Chinese facilities; however Thailand performance was affected by political instability there.

Valuations: Tata Steel Europe has reported one more quarter of stellar performance, while weakness continues in domestic market. 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 421 per share. At CMP of Rs 390 per share the stock is trading at FY15E P/E(x) of 9.3x and EV/EBITDA(x) 6.1x respectively. We recommend Hold rating on stock.**

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	134712	143145	146659	151405
EBITDA	12321	15725	17074	17662
EBITDA%	9.1	11.0	11.6	11.7
Reported PAT	-7058	3574	4069	4258
Reported EPS	-72.7	36.8	41.9	43.8
EPS Growth (%)	-230.9	-150.6	13.8	4.7
Adj RONW (%)	1.0	8.3	8.9	8.7
P/E (x)	-5.4	10.6	9.3	8.9
EV/EBITDA (x)	7.8	6.9	6.1	6.1

**Concall Update:**

- Domestic demand environment continues to be sluggish. Management expects 4QFY14 deliveries at 2.2mn tonnes, and expects ~8.8mn tonnes of deliveries in FY15.
- European steel demand expected to pick up gradually and expects TSE to report ~4mn deliveries in 4QFY14.
- Gross debt remains at elevated levels at Rs 76500cr.
- Company during 3QFY14 spent Rs 3900cr on capex and of these Rs 2500cr was spent on Odisha steel project. Till date capex spent on Odisha project is Rs 14500cr. Company is expected to spend Rs 9000cr on project over next two years.
- Benga Coal Project: Company shipped ~0.81mn tonne of coking coal in 2013.
- DSP project Canada: 0.24mn tonne of iron ore shipped in 2013.

3QFY14 Results

Rs in Crore Consolidated	3QFY14	3QFY13	YOY (%)	2QFY14	QoQ (%)
Net Sales	36736	32107	14.4	36645	0.2
Expenditure	32729	29868	9.6	32940	-0.6
EBITDA	4007	2239	79.0	3705	8.1
EBITD Margins (%)	10.9%	7%		10%	
Other Income	18	56	-67.6	203	-91.1
Interest	1108	1032	7.4	1067	3.9
Depreciation	1522	1463	4.1	1444	5.4
Exceptional Items (Loss)	0	-20	-	0	-
PBT after EI	1395	-220	-733.6	1398	-0.3
Tax	895	569	57.4	447	100.2
Tax rate (%)	64%	-258%		32%	
Minority Int	3	8	-65.7	-37	-107.3
Share of Associate	1	18	-94.3	3	-69.7
Reported PAT	503	-763	-166.0	917	-45.1
Adj NPM (%)	1%	-2%		3%	

Rs in Crore Standalone	3QFY14	3QFY13	YOY (%)	2QFY14	QoQ (%)
Net Sales	10143	9370	8.3	9921	2.2
Expenditure	7208	6601	9.2	6983	3.2
EBITDA	2936	2769	6.0	2938	-0.1
EBITD Margins (%)	29%	30%		30%	
Other Income	265	36	641.4	326	-18.7
Interest	453	509	-11.0	437	3.7
Depreciation	456	434	5.2	551	-17.2
Exceptional Items (Loss)	0	0		0	#DIV/0!
PBT after EI	2291	1862	23.1	2276	0.7
Tax	773	573	34.9	717	7.7
Tax rate (%)	34%	31%		32%	
Reported PAT	1519	1289	17.8	1559	-2.6
Adj NPM (%)	15%	14%		16%	-4.7



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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