

Tata Steel Ltd.

January 18, 2010

Price Band	: ₹594 - 610per share
Minimum Bid Lot Size	: 10 Equity Share
Maximum Bid Lot Size	: 320 Equity Shares
IPO open during	: January 19 - 21, 2010
Book Running Lead Managers	: Kotak Mahindra, Citigroup, Deutsche Equities, HSBC Securities, RBS Equities, SBI Capital and Standard Chartered Securities
To list on	: NSE & BSE
PE	: 10.37x (based on base price)*
	: 10.64x (based on cap price)*
Market Cap post-listing	: ₹58,512Cr or \$12.85bn (based on the cap price)
Market Cap of Free-Float	: ₹40,637Cr or \$8.9bn (based on the cap price)

*Based on FY10 Diluted EPS

FPO of 57mn equity shares of ₹10 each, aggregating to ₹3477Cr or \$763mn (at the cap price)

Shareholding Pattern

Shareholder Categories	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters	293,035,480	32%	293,035,480	31%
QIBs excl. Mutual Funds	609,178,716	68%	666,178,716	69%
Mutual Funds				
Non-Institutional Investors				
Public				
Total	90,22,14,196	100%	95,92,14,196	100%

Note: The portion of the Issue, being not less than 35% of the net issue, or 19,425,000 equity shares at the issue price, available for allocation to retail bidders while not more than 50% of the net issue or 27,750,000 equity shares available for allocation to QIBs, including the anchor investor portion.

Executive Summary

- Tata Steel Ltd. was incorporated as 'The Tata Iron and Steel Company Ltd' in 1907 as a public limited company. The Company was established by Jamsetji N. Tata, the founder of the Tata companies and is one of the flagship Tata companies.
- Tata Steel manufactures a diversified portfolio of steel products with a product range that includes flat products and long products, as well as some non-steel products such as ferro alloys and minerals, tubes and bearings.
- Tata Steel Ltd. is one of the world's largest steel companies with a steel production capacity of approximately 27.2 mtpa. According to WSA, the company was the seventh largest steel company in the world in terms of crude steel production volume in 2009.
- Tata Steel has grown significantly in recent years with its steel production capacity increasing from approximately 5.0 mtpa in FY06 to 27.2 mtpa currently. This growth was primarily due to the company's acquisition in April 2007 of Corus Group plc (Corus), which at the time was estimated by WSA to be the ninth largest steel producer in the world.
- Tata Steel has its principal operations in Europe, India and Asia Pacific. Its global presence in the steel market enhances its ability to attract multi-national customers.
- Tata Steel manufactures flat products used in the automotive, roofing and general engineering industries and

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long products used in the construction industry, including in the industrial, commercial, infrastructure and housing sectors.

- Europe is the most important market for Tata Steel's operations and accounted for 46.4% of its net sales in FY10. Its European operations consist of its principal production facilities in the UK and the Netherlands
- Tata Steel has access to raw materials for steel production and a skilled workforce with a relatively low cost of labour at its operations in India.

Company Background

Tata Steel Ltd. was incorporated as 'The Tata Iron and Steel Company Ltd' in 1907 as a public limited company. The Company was established by Jamsetji N. Tata, the founder of the Tata companies and is one of the flagship Tata companies. The name of the company was changed to 'Tata Steel Ltd.' in August 2005.

Tata Steel manufactures a diversified portfolio of steel products with a product range that includes flat products and long products, as well as some non-steel products such as ferro alloys and minerals, tubes and bearings. The company, through its Indian operations, is a large manufacturer of ferro chrome and steel wires in India and a supplier of chrome ore internationally. The main facilities of Tata Steel has been historically concentrated around Jamshedpur, Jharkhand, where it operates a 6.8mtpa crude steel production plant and a variety of finishing plants close to the iron ore and coal reserves.

Promoters and Management

Mr. Ratan N. Tata is Chairman of the Board of Tata Steel since April 1993. He is presently Chairman of Tata Sons Ltd., the Promoter of the company and also the chairman of other major Tata companies including Tata Motors Ltd., Tata Power Ltd. and Tata Chemicals Ltd. Under his leadership, the company has scaled new heights and established a presence as one of the leading steel conglomerates in the world. Mr. Ratan Tata is on the Board of a number of prestigious companies and Government bodies. He has been conferred an honorary doctorate in business administration by the Ohio State University, an honorary doctorate in technology by the Asian Institute of Technology, Bangkok, an honorary doctorate in science by the University of Warwick, and an honorary fellowship by the London School of Economics.

Mr. B. Muthuraman joined the company in 1966 and currently Vice Chairman of the company. He was awarded the Tata gold medal from the Indian Institute of Metals in 2002, CEO of the Year Award from the Institute of Materials Management in 2002, National HRD Network Pathfinders Award 2004 in the CEO Category, Business Standard Award, CEO of the year 2005 and CEO with HR Orientation Award in 2005, at the World HRD Congress at Mumbai.

Industry Overview

The global steel industry is cyclical and the growth or decline of the steel industry is linked to the economic cycle of a country and in particular, to industrial production and infrastructure development. Global production capacity, trade policies of countries and the regional demand-supply scenario also strongly influence the industry. Steel producers may attempt to reduce the impact of cyclicity through various measures like diversification of manufacturing operations to various geographies (preferably emerging markets with low-cost operations), diversification of customer base and focus on value-added products.

Global Steel Production

Overall global crude steel production in 2009 was 1,224 mt, a 7.9% decrease in production over the previous year. According to the World Steel Association (WSA), crude steel production in 2009 increased by 3.6% in Asia, decreased by 33.8% in North America, decreased by 29.9% in the EU of 27 countries, decreased by 8.4% in other Europe while decreased by 14.6% in CIS Countries.

Over the past decade, steel production has continued to shift, from its traditional base in heavily industrialized countries to fast-growing developing markets such as China and India. According to the WSA, in 2009, China was the largest single producer of crude steel in the world, producing approximately 567.8 mt of crude steel, which represents a 13.5% increase in production over 2008. In 2009, India was the third largest producer of crude steel, producing approximately 62.8 mt of crude steel. The recent production shift to Asia has largely been the result of proximity to the major growth markets for steel consumption and the greater availability of key raw materials.

Global Steel Consumption

Overall apparent steel consumption in 2009 was 1,127.3 mt, a 6.7% decrease over the previous year. According to the WSA, in 2009, China was the largest single apparent steel consumer of finished steel products in the world, consuming approximately 542.4 mt of finished steel products, which represents a 24.8% increase over 2008. In 2009, India was the fourth largest apparent steel consumer consuming approximately 55.3 mt of crude steel.

Global Steel Prices

Steel prices are volatile and fluctuate in response to changes in global supply and demand, raw material costs and general economic conditions. After a downturn in demand beginning in 1998, global steel prices reached a historic low in the third quarter of 2001. Since then, global steel prices have generally increased, reflecting stronger global demand, notably led by China. In the third quarter of 2008, global steel prices declined sharply due to weak global economic conditions which led to a fall in global demand. The steel industry also fluctuates in response to a combination of factors, including the availability and cost of raw materials, global production capacity, changes in steel imports, exchange rates, transportation and labour costs, and protective trade measures. In recent years, global steel prices have also been increasingly volatile due to increased communications across global markets and levels of steel trading as a percentage of total steel production.

Key Growth Drivers for Indian Steel Industry

According to the WSA, apparent steel consumption in India is projected to grow 13.9% in 2010 and 13.7% in 2011 after recording growth of 7.7% in 2009. In addition, India's per capita consumption of finished steel is relatively low at 47.8 kg as compared to China at 405.2 kg, Japan at 418.9 kg, the United States at 192.9 kg and a world average at 181.5 kg in 2009.

Growth in steel demand in India is projected to increase, spurred by the increasing local need for steel based products including from the infrastructure and automobile industries. For example, the Central Government set out its Eleventh Five Year Plan establishing targets for increased total investment in domestic infrastructure from approximately 5% of GDP in FY07 to 9% by FY12. The Eleventh Five Year Plan included addition of 78,577MW of power capacity and 830 mtpa of new capacity in

ports, the expansion of India's four-laned and six-laned highway systems and an expansion of its railway system's freight capacity. The total projected investment in infrastructure during the Eleventh Five Year Plan was ₹20,561bn (including projected investment in infrastructure during the Financial Year 2012 to total approximately ₹5,959bn). In addition, the automobile and automobile components industries are also expected to drive the growth of steel in India. According to the Society of Indian Automotive Manufacturers (SIAM), the Indian automobile sector has grown rapidly in recent years with total production growing at a CAGR of 21.7% from FY04 to FY10, driven by growth in production of all of its major segments such as passenger vehicles, commercial vehicles and utility vehicles. This growth has been supported by increases in domestic sales and exports.

Business Operations

Tata Steel Ltd. is one of the world's largest steel companies with a steel production capacity of approximately 27.2 mtpa. According to WSA, the company was the seventh largest steel company in the world in terms of crude steel production volume in 2009. The company is also one of the most geographically diversified steel producers, with operations in 26 countries and a commercial presence in more than 50 countries.

Tata Steel was established as India's first integrated steel company in 1907 by Jamsetji N. Tata, the founder of the Tata Group, and is currently one of the flagship companies of the Tata Group. The company has a presence across the entire value chain of steel manufacturing, including producing and distributing finished products as well as mining and processing iron ore and coal for its steel production. The company's operations are primarily focused in India, Europe and other countries in Asia Pacific.

Tata Steel has grown significantly in recent years with its steel production capacity increasing from approximately 5.0 mtpa in FY06 to 27.2 mtpa currently. This growth was primarily due to the company's acquisition in April 2007 of Corus Group plc (Corus), which at the time was estimated by WSA to be the ninth largest steel producer in the world. As a result of this acquisition, the majority of the company's steel production capacity is currently located in the United Kingdom and the Netherlands where it has four facilities with a total steel production capacity of 18.4 mtpa.

Tata Steel also has significant operations in Jamshedpur, India, where it operates a 6.8 mtpa steel production plant and a variety of finishing plants. The company's Indian operations also include captive iron ore and coal mines. The remaining 2.0 mtpa of the company's steel production capacity is located in Singapore and Thailand. The company plans to further increase its steel production capacity by an additional 2.9 mtpa through the brownfield expansion of the Jamshedpur facility and is also planning to expand steel production capacity through greenfield investments.

Competitive Strengths

Global Scale

Tata Steel has its principal operations in Europe, India and Asia Pacific. Its global presence in the steel market enhances its ability to attract multi-national customers. As customers of large steel companies are also globalising and consolidating and are increasingly relying on a select few global suppliers for their products, Tata Steel can attract new customers and maintain its relationships with existing customers through its international production capabilities and downstream operations, as well as its extensive distribution and production capabilities.

Strong Position in the Indian Market

Tata Steel manufactures flat products used in the automotive, roofing and general engineering industries and long products used in the construction industry, including in the industrial, commercial, infrastructure and housing sectors. Over the past decade, these industries have been growing and competition from other Indian producers is relatively limited as there are high barriers of entry to the production and commercialization of high-grade steel. In recent years, through continued investment in flat steel technologies, the company has established itself as a major supplier of high-grade steel products to certain key markets in India. In addition, as a member company of the Tata Group, the Company also benefits from being identified with the Tata brand, which is a widely recognized brand in India.

Strong Position in Western Europe

Europe is the most important market for Tata Steel's operations and accounted for 46.4% of its net sales in FY10. Its European operations consist of its principal production facilities in the UK and the Netherlands and a sales and trading network, with sales offices, stockholder wholesalers, service centres and joint venture and associate arrangements for distribution and further processing of steel products. Tata Steel Europe brand name and product brands will continue to generate customer loyalty after being rebranded from Corus in September 2010.

Cost Competitiveness of its Indian Operations

Tata Steel has access to raw materials for steel production and a skilled workforce with a relatively low cost of labour at its operations in India. These factors have allowed the company's Indian operations to benefit from low production costs. In addition, with respect to its Indian operations, the company obtained all of its iron ore requirements, ~49% of its coal requirements and a significant amount of its ferro-alloy requirements from captive mines leased by the company. Consequently, its exposure to the volatility of raw material prices for its Indian operations is significantly more limited than for its non-Indian operations.

Diversified Product Offering

Through its acquisition of Corus and capacity expansions in India, Tata Steel has significantly enhanced its portfolio of downstream steel products. Historically, the company's steel products included only flat and long products. With the acquisition of Corus, the company added a portfolio of high value-added downstream products including advanced high strength steel, superior automotive steel, rods for tyre cord, structural sections of railways and packaging steel. With its capacity expansions in India, the company has further strengthened its ability to provide a greater variety of and more value-added products, including steel wires, tin plates and welded tubes. A majority of its steel production is rolled into hot rolled coils, and most of the remainder is processed into structured sections, plates, engineering steels or wire rods, or sold in semi-finished form. The Company is also a large producer of ferro alloys in India.

Efficient Project Implementation

Tata Steel has a proven track record in implementing significant projects, including cost reduction plans and the expansion of its major production facilities, on schedule and within budget.

Economies of Scale and Cost Reductions

The Corus acquisition significantly enlarged Tata Steel's production, sales and asset base, which allowed the company as a whole to achieve greater economies of scale and cost efficiencies. The company has integrated Corus' business and operations to develop a large global network of procurement and sales offices and production plants, which allow it to manage its supply and distribution chain costs more effectively, with lower procurement and logistics costs, increased bargaining power, improved product flow and better management of inventory.

Experienced Management Team

Tata Steel's senior management team comprises members with extensive experience and professional qualifications in the steel industry. Their rich experience and understanding of the company have been instrumental in building a sustainable business and supporting the Company's domestic and international operations.

Objects of the Issue

The objects of the issue are

- Part finance the company's share of capital expenditure for expansion of existing works at Jamshedpur;
- Payment of redemption amounts on maturity of certain redeemable non-convertible debentures issued by the Company on a private placement basis; and
- General corporate purposes.

Utilisation of Net Proceeds	(₹Cr)
Part-finance the company's share of capital expenditure for expansion of existing works at Jamshedpur.	1,875
Payment of redemption amounts on maturity of certain redeemable non-convertible debentures issued by the Company on a private placement basis.	1,090
General corporate purposes	[•]
Total Net Proceeds	[•]

Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

- The steel industry is affected by global economic conditions. A slower than expected recovery of the global economy or a renewed global recession could have a material adverse effect on the steel industry and the Company.
- The steel industry is highly cyclical and a decrease in steel prices may have an adverse effect on the Company's results of operations and financial condition.
- Europe is the Company's largest market, and its current business and future growth could be materially and adversely affected if economic conditions in Europe deteriorate.
- The Company relies on leased mines and if it is unable to renew these leases, obtain new leases or is required to pay more royalties under these leases, it may

KEYNOTE

be forced to purchase such minerals for higher prices in the open market, which may negatively impact its results of operations and financial condition.

- The Company is subject to certain restrictive covenants in its financing arrangements which may limit the Company's operational and financial flexibility and the Company's future results of operations and financial condition may be adversely affected if the Company fails to comply with these covenants.

Financials

Restated Profit & Loss Statements

(₹Cr)

Particulars	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	30-Sep-10
Income						
Sales and Other Operating Income	17,140.24	19,767.36	22,189.55	26,843.73	26,757.80	14,819.61
Less: Excise Duty	1,928.72	2,211.48	2,498.52	2,527.96	1,735.82	1,161.38
Net Sales	15,211.52	17,555.88	19,691.03	24,315.77	25,021.98	13,658.23
Other Income	150.55	215.30	242.80	308.27	853.79	781.10
Total	15,362.07	17,771.18	19,933.83	24,624.04	25,875.77	14,439.33
Expenditure						
Cost of Materials	3,029.36	3,577.58	3,743.14	6,068.78	5,663.82	2,824.26
Accretion/(Reduction) in Stocks of Finished and Semi-finished products and Work-in-progress	-104.91	-82.47	-38.73	-289.27	134.97	-295.72
Payment to and Provision for Employees	1,404.28	1,606.93	1,815.95	2,305.81	2,361.48	1,261.88
Manufacturing, Selling and Other Expenses	4,997.98	5,632.67	6,156.89	7,097.02	7,909.62	4,322.34
Net Finance Charges	20.3	-44.47	786.50	1,152.69	1,508.40	670.16
Depreciation	775.10	819.29	834.61	973.40	1,083.18	561.66
Total Expenditure	10,122.11	11,509.53	13,298.36	17,308.43	18,661.47	9,344.58
Profit before Exceptional Items and Tax	5,239.96	6,261.65	6,635.47	7,315.61	7,214.30	5,094.75
Exceptional Items						
Contribution for Sports Infrastructure	0	0	-150.00	0	0	0
Exchange Gain	0	0	580.89	0	0	0
Profit after Exceptional Items before tax	5,239.96	6,261.65	7,066.36	7,315.61	7,214.30	5,094.75
Provision for Taxation						
Current Tax	1,579.00	2,076.01	2,252.00	2,173.00	1,998.00	1,373.00
Deferred Tax	127.58	-52.51	108.33	-75.13	169.50	77.23
Fringe Benefits Tax	27	16	19	16	0	0
Net Profit after Tax Adjustments	3,506.38	4,222.15	4,687.03	5,201.74	5,046.80	3,644.52
Prior Period Adjustments	-40.2	-57.29	0	0	0	0
Tax Impact of Adjustments	13.53	19.28	0	0	0	0
Total of Adjustments	-26.67	-38.01	0	0	0	0
Adjusted Profit	3,479.71	4,184.14	4,687.03	5,201.74	5,046.80	3,644.52
Basic EPS	55.64	64.69	66.8	69.4	60.3	40.8
Diluted EPS	55.64	64.69	62.1	62.9	57.3	38.7
Book Value	152.53	214.79	362.87	340.91	421.45	437.46

Restated Balance Sheets

(₹Cr)

Particulars	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	30-Sep-10
Fixed Assets						
Gross Block	15,407.17	16,029.49	16,479.59	20,057.01	22,306.07	22,362.08
Depreciation	6,605.66	7,385.96	8,123.01	8,962.00	10,037.56	10,350.38
Impairment	94.19	100.41	100.47	100.47	106.07	118.14
Net Block	8,707.32	8,543.12	8,256.11	10,994.54	12,162.44	11,893.56
Capital Work in Progress (Net)	1,157.73	2,497.44	4,367.45	3,487.68	3,843.59	5,466.14
Total	9,865.05	11,040.56	12,623.56	14,482.22	16,006.03	17,359.70
Investments	4,069.96	6,106.18	4,103.19	42,371.78	44,979.67	43,504.54
Current Assets, Loans and Advances						
Inventories	2,174.75	2,332.98	2,604.98	3,480.47	3,077.75	4254.47
Sundry Debtors	539.40	631.63	543.48	635.98	434.83	618.12
Cash and Bank Balances	288.39	7,681.35	465.04	1,590.60	3,234.14	1,596.14
Interest Accrued on Investments	0.2	0.2	0.2	0	0	0
Loans and Advances	1,233.86	3,038.73	33,331.74	4,561.04	5,499.97	11,871.32
Total	4,236.60	13,684.89	36,945.44	10,268.09	12,246.69	18,345.05
Liabilities and Provisions						
Secured Loans	2,191.74	3,758.92	3,520.58	3,913.05	2,259.32	1,932.60
Unsecured Loans	324.41	5,886.41	14,501.11	23,033.13	22,979.88	23,824.99
Deferred Tax Liability	957.00	748.94	681.80	585.73	867.67	943.89
Provision for Employee Separation Compensation	1,388.71	1,107.08	1,071.30	1,033.60	957.16	909.83
Current Liabilities	2,778.70	3,523.20	3,855.26	6,039.86	6,653.09	7,272.66
Provisions	991.01	1,913.46	2,896.52	2,917.19	2,346.52	2,495.40
Total	8,631.57	16,938.01	26,526.57	37,522.56	36,063.64	37,379.37
Net Worth	9,540.04	13,893.62	27,145.62	29,599.53	37,168.75	41,829.92
Net Worth Represented by						
Share Capital	553.67	580.67	6,203.30	6,203.45	887.41	902.41
Share Warrants	0	147.06	0	0	0	178.20
Reserves and Surplus	9,239.64	13,368.42	21,097.43	23,972.81	36,074.39	40,604.30
Foreign currency monetary item translation difference account	0	0	0	0	-471.66	206.95
145.01						
Miscellaneous Expenditure	253.27	202.53	155.11	105.07	0	0
Net Worth	9,540.04	13,893.62	27,145.62	29,599.53	37,168.75	41,829.92

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