

**Tata Steel Ltd. - Consolidated 3QFY09 Result Analysis**

**March 4, 2009**

**Price: Rs157**

**Sensex: 8,447**

**Market Cap: Rs114bn**

Tata Steel is among the top six steel makers globally with a consolidated capacity of 30mn tonnes post acquisition of UK-based Corus Group Plc. Tata Steel's Indian operations have a capacity of 6.8mn tonnes, which makes it the second largest steel manufacturer in India. The installed capacity is bifurcated into 3.3mn tpa of flat products and 3.5mn tpa of long products.

The company's Indian operations are largely integrated with access to captive mines for iron ore and coking coal. It is therefore in a position to secure 100% of its domestic iron ore requirement and atleast 60% of its coking coal requirement.

**Key Statistics**

Particulars	3QFY08	3QFY09	% change Y-o-Y
Steel - Production (mn tonnes)	6.94	5.08	-26.8%
Steel - Sales (mn tonnes)	7.94	6.07	-23.6%
Net Sales - Steel (RsCr)	31,899	33,191	4.1%
Blended Realizations (Rs/tonne)	40,174	54,680	36.1%
EBITDA/tonne (Rs)	4,874	7,581	55.5%
Raw-material/tonne (Rs)	11,733	19,448	65.8%
Power cost/tonne (Rs)	1,763	2,840	61.1%
Employee cost/tonne (Rs)	5,330	7,344	37.8%

**Highlights of the Consolidated Results**

- Volumes:** The finished steel production and sales (in tonnes) stood at 5.08mn and 6.07mn respectively, down 26.8% and 23.6% (y-o-y) respectively. Thailand (TS - Thai) experienced the highest production cut among all the units (of 50%), due to chaotic political scenario followed by TS - Europe at 32.3%. TS - Thai also saw the largest impact on shipments, down 21.1%, followed by the Indian operations, down 14.4% (y-o-y). For TS - Europe and Nat Steel, shipments were down 12.1% and 4.8% respectively (y-o-y). The overall volume decline of 23.6% is attributable to the slump in global demand and in the auto sector in geographies incl. the UK, India. It expects steel volumes of 1.5mn tonnes for 4QFY09, for Indian operations. For the month of January, Indian operations sold 0.5mn tonnes of steel.
- Realizations:** The average blended realization (which includes sale of steel tubes) was robust at \$1127 per tonne, was higher by 12.23% y-o-y. However we note that realizations for Indian operations were probably boosted by sales of steel tubes, as the latter is a higher value item. Its European operations enjoyed the highest realizations of \$1251, whereas for India and Nat Steel it was at \$926 and \$857.5 respectively. TS - Thai reported the lowest realizations at about \$423 per tonne.
- Write-down of inventories:** Tata Steel charged the write-down of inventories amounting to Rs1744Cr, to its profit & loss statement for the quarter, so that the balance sheet would reflect the true value of inventories. We however think that such a significant inventory write-down is an exceptional item, due to extremely tough market conditions wherein average steel prices fell by 50%. We therefore treat the inventory write-down as an extraordinary item and re-calculate EBITDA of normal operations and also to compare with international steel companies.
- Long term contracts save the day:** Steel net sales marginally increased 2.9% y-o-y to Rs331.91bn. Sales was boosted by long term contracts at erstwhile higher rates.

However PAT declined by 44.2% y-o-y to Rs732.21Cr on account of loss from other and unallocated businesses, write-down of inventories and forex losses.
- Accounting policy helps avoid loss:** Tata Steel would have reported loss for the quarter, but for the policy of adjusting actuarial loss against reserves (Rs42.5bn). However this policy was followed in Q2 FY09 as well.

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### Expected price trends

We expect destocking in the global market to lead to falling realizations in 4QFY09. We expect realizations for Indian operations to further drop to \$515-535 / tonne, especially for flat products in 4QFY09 i.e., a correction of over 20% from average realizations in 3QFY08.

We expect the effect of lower steel prices, combined with a lag in the decrease in raw material costs to squeeze margins with a substantial drop in earnings for 4QFY09.

### Highlights of Quarterly Results

(RsCr)

Particulars	3QFY08	3QFY09	% change Y-o-Y
Net Sales	31,898.54	33,191.01	4.1%
Total Expenditure	28,028.32	28,589.64	2.0%
EBITDA	3,870.22	4,601.37	18.9%
EBITDA margin (%)	12.1%	13.9%	170bps
Other income	175.80	31.58	-82.0%
Interest	1,059.19	911.44	-13.9%
PBT	2,027.82	691.68	-65.9%
Tax	716.06	(40.53)	-105.7%
Tax rate (%)	35.3%	-5.9%	(41.2pps)
PAT	1,311.76	732.21	-44.2%

### Costs Break-up

Particulars	3QFY08	3QFY09	% change Y-o-Y
Raw Material Consumed	8,142.57	9,879.44	21.3%
as % of sales	25.5%	29.8%	420 bps
Stock Adjustment	190.07	608.45	220.1%
Purchase of Finished Goods	6,072.22	6,119.55	0.8%
Employee Expenses	4,231.87	4,457.89	5.3%
as % of sales	13.3%	13.4%	20bps
Power, Oil & Fuel	1,223.31	1,442.85	17.9%
as % of sales	3.8%	4.3%	50bps
Freight and handling	1,680.41	1,389.29	-17.3%
as % of sales	5.3%	4.2%	(110bps)
Other Expenses	6,487.87	4,692.17	-27.7%
as % of sales	20.3%	14.1%	(620bps)

### Re-worked EBITDA

Particulars	3QFY08	3QFY09
Reported EBITDA (Rs Cr)	3,870.22	2,857.37
(+) inventory write down (Rs Cr)	-	1,744.00
Re-worked EBITDA (Rs Cr)	3,870.22	4,601.37
Reported EBITDA margin	12.1%	8.6%
Re-worked EBITDA margin	12.1%	13.9%
Reported EBITDA/tonne (Rs)	4,874.33	4,707.36
Re-worked EBITDA/tonne (Rs)	4,874.33	7,580.51

**Steel: Review of Key Indicators - Tata Steel and ArcelorMittal**

**March 4, 2009**

We compared Key Operational Parameters of Tata Steel (TSL) with those of ArcelorMittal (MT) for the quarter ended December 2008, y-o-y, with a view to compare the performance of these two companies in the extremely turbulent times. Both companies have been forced to undertake production cuts, resulting in decline in sales for MT and TSL as stated in the table below.

Destocking led to a free fall in steel prices. The steel market experienced exceptional weakness, influenced by major destocking from its main customers. In December, crude steel production (month-on-month) was down 15.1% in Japan, 25.4% in Europe, 29.2% in Brazil, 11.3% in Russia and 16.6% in the US.

Similar was the case in January. Crude steel production m-o-m was down 14.9% in Japan, 1.8% in Brazil, 0.3% in Russia and 52% in the US, whereas production grew m-o-m by 5.9% in Europe and by 4.4% in US. China, in both December and January, reported a production growth of 7.4% and 9.9% m-o-m respectively.

**Key Statistics - MT and TSL**

Particulars	MT	TSL	MT	TSL	MT	TSL
	Sept-Dec 07	Sept-Dec 07	Sept-Dec 08	Sept-Dec 08	y-o-y % change	y-o-y % change
Production(in mn tonnes)	27.7	6.94	14.9	5.08	-46.2%	-26.8%
Sales(in mn tonnes)	28.0	7.94	17.1	6.07	-38.9%	-23.6%
Sales (\$ mn)	27,993	7,974.64	22,089	6842.00	-21.1%	-14.2%
Blended Realization(\$/tonne)	1,000	1,004.36	1,292	1,127	29.2%	12.2%
EBITDA (\$ mn)	4,847	967.56	2,808	948.74	-42.1%	-1.9%
EBITDA/tonne (\$)	173.10	121.86	164.20	156.30	-5.1%	28.3%
Blended cost/tonne (\$)	826.60	882.50	1127.50	970.88	36.4%	10.0%

Note - Sept-Dec 07 - \$1=Rs 40, Sept- Dec 08 - \$1=48.5. Impact of inventory write- down - taken below EBITDA line for both the companies

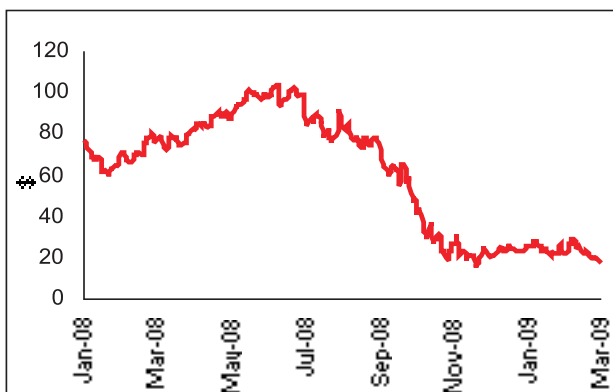
The unprecedented production cuts and destocking apparently has concluded in some regions. Also in China, restocking apparently has kicked in; however we will remain extremely cautious till successive consistency is achieved, Industrial production in China for December 2008 was a tad encouraging, up 5.7% vis-à-vis growth of 5.4% in November. This seems to indicate that things are a little different in China, as compared with elsewhere in the world.

In fact, Chinese HRC prices are now significantly higher than US and European prices (please refer to page 4 - HRC price trends in various markets). Long product prices have marginally fared better than flat products prices.

We expect market conditions to worsen in the next quarter for both Tata Steel and MT, as the full impact of the price decline gets reflected in their respective earnings.

**Price Performance**

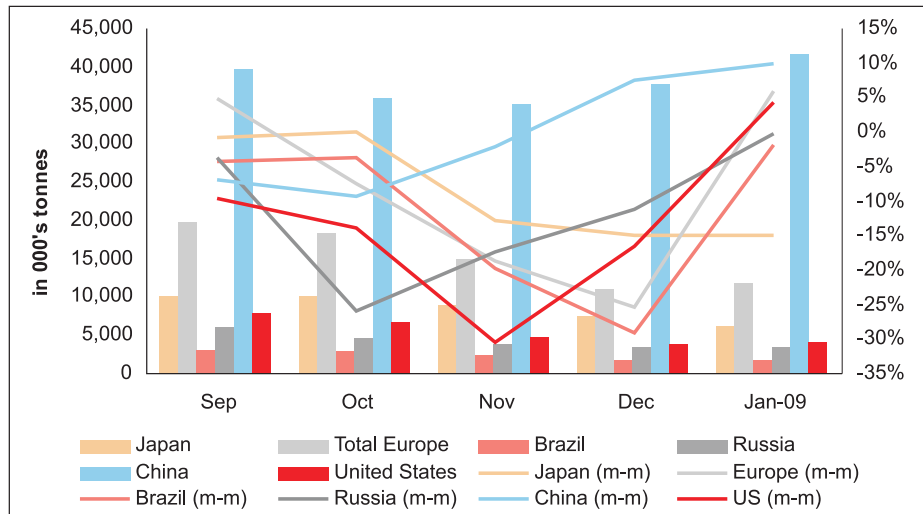
**ArcelorMittal**



**Tata Steel**



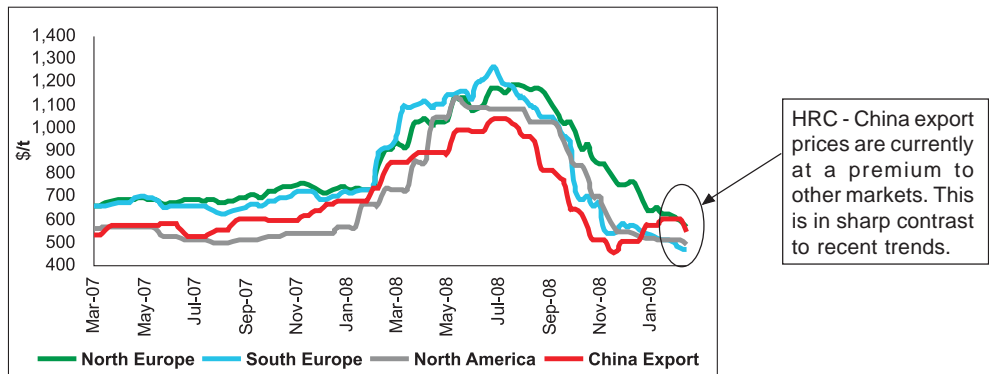
**Crude Steel Production seen bottoming out**



**Production of crude steel is gradually picking up, seen bottoming out soon**

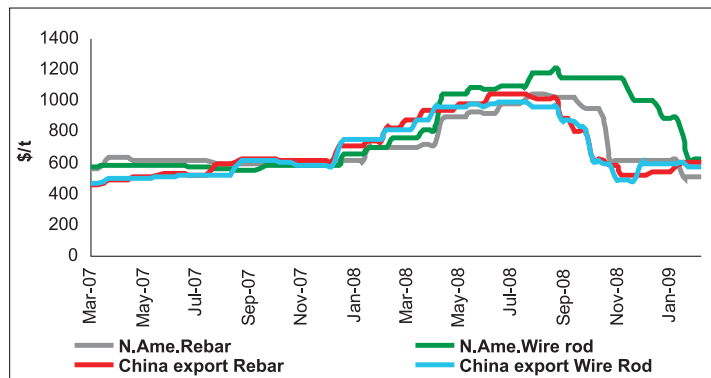
It is only in China that crude steel production has reported positive growth for two successive months, viz., December and January. US and Europe are the only other two markets exhibiting production growth for January only, indicating that production cuts and destocking is gradually approaching the bottom. However, during this period, steel prices in US and Europe, which were at a premium to China are now trading at a discount. Hence our prediction in our report "Steel: Still not a Steal?" dated November 14, 2008 that China will continue to determine steel prices going forward, has come true.

**HRC price trends in various markets**

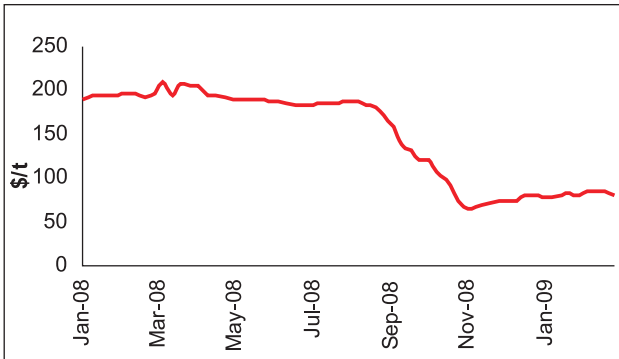


HRC - China export prices are currently at a premium to other markets. This is in sharp contrast to recent trends.

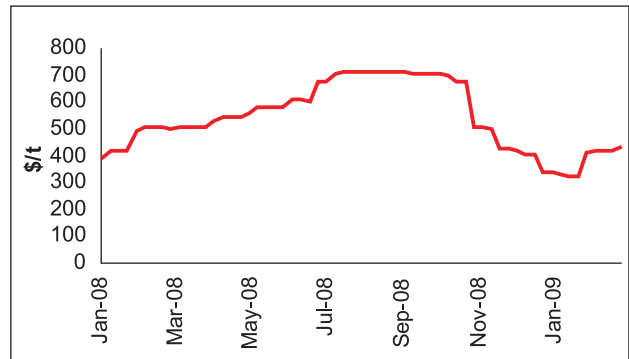
**Long product price trends in various markets**



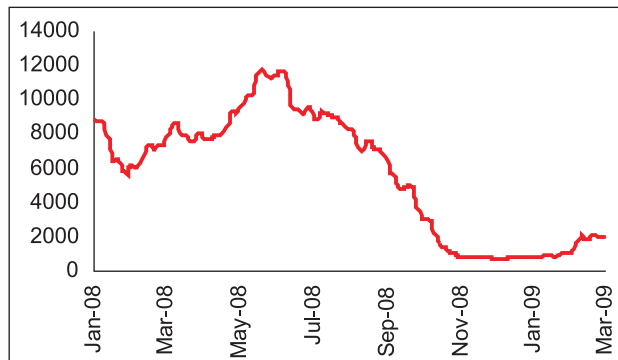
**China Import Indian Iron Ore 63% Fe (CFR)**



**China Export Coke 10.5-12.5% ash (FOB)**



**Baltic Dry Index**



**Keynote Capitals Ltd.**

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