

# TATA STEEL

## Margins disappoint

India Equity Research | Metals and Mining



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Tata Steel's Q3FY13 consolidated EBITDA of INR22.4bn disappointed (6% below estimate) led by lower realisations in India and lower volumes/higher costs in international operations. With higher depreciation and lower other income, the company posted a loss of INR7.9bn (higher than our estimate of INR3.7bn loss). In Q4FY13, the company's India volumes are expected to jump 29% with improving margin. European business should also improve led by surging volumes and rising steel prices. We cut our FY13E EBITDA ~6%, but retain our FY14 estimates. We maintain 'BUY' with target price of INR516.

### Realisation dip dents India operations

Tata Steel's standalone revenue at INR93.7bn was marginally above expectation led by 1.9mt volume being 5% higher than estimate. However, blended realisation dropped 6% QoQ instead of our assumption of 3% decline. As a result, in spite of operating cost per tonne coming in ~2% below estimate, EBITDA/t at USD247 was lower than our estimate of USD264. Standalone EBITDA at INR25.3bn was 2% below estimate. Other expense included forex loss of INR1.5bn.

### International operations: Weak

The disappointment in international operations was higher with an EBITDA loss of USD53mn (our estimate: loss of USD37mn) due to volumes being 2% below estimate at 3.8mt and cost per tonne coming in 5% above estimate. European operations recorded volume and EBITDA/t of 3.0mt and negative USD26, lower than our estimate of 3.2mt and negative USD9, respectively. One-off provisioning of USD46mn hit EBITDA.

### Outlook and valuations: Volume growth ahead; maintain 'BUY'

Management maintained 1mt volume growth in India in FY13E. This implies sales volume of ~2.4mt for Q4FY13 (29% QoQ volume growth). FY14 India volume guidance was 8.6mt (slightly lower than our 8.8mt assumption). The company also guided for QoQ improvement in volume and EBITDA in Europe in Q4FY13 led by modestly rising steel prices and availability of refurbished blast furnace. We cut our FY13E EBITDA ~6%, but retain our FY14 estimates. We maintain 'BUY/SO' with target price of INR516. The stock trades at FY14E EV/EBITDA of 5.8x. We introduce FY15 estimates with this report.

#### Financials (Consolidated)

(INR bn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	FY12	FY13E	FY14E
Net revenue	321	332	(3.4)	341	(5.9)	1,329	1,264	1,324
EBITDA	22	26	(13.8)	23	(3.1)	124	135	170
Net profit	(8)	(5)	64.5	(4)	NA	54	17	55
EPS (INR/share)	(7.9)	(4.8)	62.4	(3.7)	NA	55.5	18.1	56.8
P/E (x)						18.2	15.8	6.7
EV/EBITDA (x)						6.8	7.0	5.8
ROE (%)						4.3	5.0	11.7

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

#### MARKET DATA (R: TISC.BO, B: TATA IN)

CMP	: INR 381
Target Price	: INR 516
52-week range (INR)	: 501 / 339
Share in issue (mn)	: 971.2
M cap (INR bn/USD mn)	: 370 / 6,860
Avg. Daily Vol.BSE/NSE('000)	: 4,714.9

#### SHARE HOLDING PATTERN (%)

	Current	Q2FY13	Q1FY13
Promoters *	31.4	31.4	31.4
MF's, FI's & BK's	28.0	27.3	28.7
FII's	14.8	14.7	14.1
Others	25.9	26.6	25.9
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	(8.9)	(1.0)	1.7
3 months	(0.7)	4.4	(1.5)
12 months	(15.6)	11.8	1.8

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## Other highlights

### Net debt increases, but in line with expectations

Net debt at Q3FY13 end was INR579bn, which was higher than INR551bn at Q2FY13 end. However, this is along expected lines considering the ongoing capex.

## Conference call: Key highlights

### India business: Volume guidance intact for FY13; moderated for FY14

- Tata Steel retained its earlier guidance of 1mt YoY increase in volume in FY13 in India i.e., total volume of 7.6mt. For FY14, the company guided for 8.6mt volumes, which is lower than earlier guidance of 9.3mt. We retain our assumption of 8.8mt.
- The 3mtpa expansion is complete and the quarterly interest and depreciation in Q3FY13 will represent the full impact of the same. The new 2.9mtpa blast furnace is operating at full capacity utilisation. The coke oven battery No. 10 has been commissioned, thereby leading to reduction in coke purchases.
- Forex loss of INR1,550mn was included in other expenses.
- Indian steel demand is expected to improve in FY14 led by general economic pick up (GDP growth to rise from 5.4% to 6.0%) and policy initiatives.

### European business: Improvement in Q4FY13 likely

- European EBITDA was hit by one-time expenses of USD46mn consisting of USD11mn of inventory write-downs and USD35mn of restructuring expenses. A portion of the restructuring expense is expected to continue in the next one-two quarters.
- European apparent steel demand contracted ~9% in CY12. CY13 to see mild decline of 0.7%.
- Q4FY13 to see improved volumes and prices led by restocking.

### Expect to broadly maintain net debt at current level

- The company expects to maintain net debt at current level.
- Some discretionary capex has been curtailed. For FY14, capex is estimated at USD2.3bn.

**Table 1: Operational performance summary**

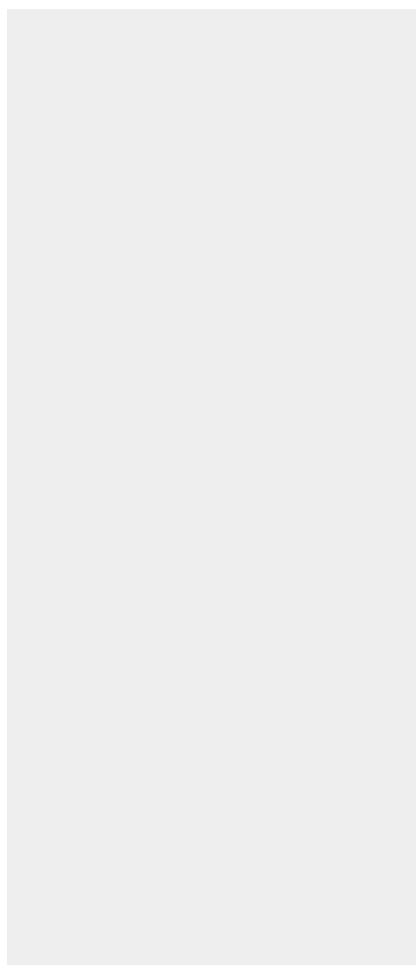
<b>Q313</b>	<b>India</b>	<b>Europe</b>	<b>SE Asia</b>	<b>Others</b>	<b>Overall</b>
Volume (mt)	1.9	3.0	0.8	0.1	5.8
Revenue (USD mn)*	1,704	3,297	630	209	5,840
Revenue/tonne (USD)	902	1,092	768		1,002
EBITDA (USD mn)*	459	(78)	26	3	410
EBITDA/tonne (USD)	243	(26)	32		70

<b>Q213</b>	<b>India</b>	<b>Europe</b>	<b>SE Asia</b>	<b>Others</b>	<b>Overall</b>
Volume (mt)	1.7	3.4	0.8	0.2	6.1
Revenue (USD mn)*	1,731	3,843	663	221	6,458
Revenue/tonne (USD)	1,001	1,124	861		1,064
EBITDA (USD mn)*	505	(8)	4	(37)	464
EBITDA/tonne (USD)	292	(2)	5		76

<b>Q113</b>	<b>India</b>	<b>Europe</b>	<b>SE Asia</b>	<b>Others</b>	<b>Overall</b>
Volume (mt)	1.6	3.2	0.7	0.2	5.7
Revenue (USD mn)*	1,685	3,861	622	231	6,399
Revenue/tonne (USD)	1,060	1,203	864		1,127
EBITDA (USD mn)*	528	117	17	15	677
EBITDA/tonne (USD)	332	36	24		119

Source: Company, Edelweiss research

\*includes other income



## Financials snapshot (standalone)

(INR mn)

Year to March	Q313	Q312	% change	Q213	% change	YTD13	FY13E	FY14E
Total net revenues	93,703	83,819	11.8	91,506	2.4	274,289	388,735	440,793
Dec/(inc) in stock	(2,430)	(1,129)	NM	(2,412)	NM	(9,807)	0	0
Purchase of semis	1,749	629	177.9	835	109.6	3,354	0	1,683
Raw material	24,989	21,877	14.2	25,372	(1.5)	74,587	98,034	102,279
Staff costs	8,839	7,332	20.6	8,300	6.5	25,730	35,043	36,796
Purchase of power	6,244	4,521	38.1	5,876	6.3	17,598	24,281	28,123
Freight & Handling	5,633	4,439	26.9	5,163	9.1	15,614	25,571	27,841
Other expenses	23,418	19,843	18.0	23,210	0.9	68,991	79,505	85,573
Total expenditure	68,441	57,513	19.0	66,343	3.2	196,067	262,435	282,294
EBITDA	25,262	26,306	(4.0)	25,162	0.4	78,222	126,301	158,499
Interest	5,090	2,020	152.0	4,539	12.1	14,174	19,263	20,357
Depreciation	4,339	2,891	50.1	3,913	10.9	11,796	16,236	19,010
Other income	357	(263)	NM	2,397	(85.1)	4,273	4,630	10,003
PBT	16,190	21,133	(23.4)	19,107	(15.3)	56,526	95,432	129,134
Tax	5,726	6,920	(17.3)	5,695	0.5	19,084	28,733	30,140
Adjusted net profit	10,464	14,213	(26.4)	13,412	(22.0)	37,442	66,699	98,994
Reported net profit	10,464	14,213	(26.4)	13,508	(22.5)	37,538	66,699	98,994
Equity capital (FV INR 10)	9,714	9,594		9,714		9,714	9,714	9,714
Outstanding shares (mn)	971	959		971		971	971	971
Basic EPS (INR)	10.8	14.8	(27.3)	13.9	(22.5)	38.6	68.7	101.9

## as % of net revenues

Raw material	24.1	24.8		25.1		23.6	25.2	23.2
Purchase of goods	1.9	0.8		0.9		1.2	0.0	0.4
Staff costs	9.4	8.7		9.1		9.4	9.0	8.3
Purchase of power	6.7	5.4		6.4		6.4	6.2	6.4
Freight & Handling	6.0	5.3		5.6		5.7	6.6	6.3
Other expenses	25.0	23.7		25.4		25.2	20.5	19.4
EBITDA	27.0	31.4		27.5		28.5	32.5	36.0
Adjusted net profit	11.2	17.0		14.7		13.7	17.2	22.5
Reported net profit	11.2	17.0		14.8		13.7	17.2	22.5
Tax rate	35.4	32.7		29.8		33.8	30.1	23.3

(INR/t)

Per tonne performance	Q313	Q312	% change	Q213	% change
Volume (mt)	1.9	1.6	16.3	1.7	9.1
Blended realisation	49,657	51,676	(3.9)	52,893	(6.1)
Dec/(inc) in stock	(1,288)	(696)	NM	(1,394)	NM
Purchase of semis	927	388	138.9	482	92.2
Raw material	13,243	13,488	(1.8)	14,666	(9.7)
Staff costs	4,684	4,520	3.6	4,798	(2.4)
Purchase of power	3,309	2,787	18.7	3,397	(2.6)
Freight & Handling	2,985	2,737	9.1	2,984	0.0
Other expenses	12,410	12,234	1.4	13,416	(7.5)
Cost	36,270	35,458	2.3	38,349	(5.4)
EBITDA	13,387	16,218	(17.5)	14,545	(8.0)

**Financial snapshot (Consolidated)**
**(INR mn)**

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13	FY13E	FY14E
Net revenues	321,071	332,420	(3.4)	341,327	(5.9)	1,000,611	1,263,827	1,323,976
Dec/(inc) in stock	2,026	(3,722)	(154.4)	12,650	(84.0)	(12,054)	-	-
Raw material	97,692	118,770	(17.7)	105,349	(7.3)	318,887	461,263	468,683
Freight and handling	18,722	17,207	8.8	17,952	4.3	54,032	102,537	105,706
Staff costs	47,372	42,938	10.3	45,393	4.4	140,590	201,389	209,621
Purchase of goods	39,491	52,651	(25.0)	46,973	(15.9)	147,845	-	-
Power purchase	14,431	12,511	15.3	14,047	2.7	42,384	-	-
Other expenses	78,949	66,085	19.5	75,863	4.1	229,404	363,929	369,749
Total expenditure	298,682	306,441	(2.5)	318,227	(6.1)	921,088	1,129,117	1,153,759
EBITDA	22,389	25,979	(13.8)	23,101	(3.1)	79,523	134,710	170,217
Depreciation	14,628	11,640	25.7	13,349	9.6	41,058	54,267	56,845
Other income	559	1,383	(59.6)	2,018	(72.3)	5,470	10,080	12,703
Interest	10,323	7,069	46.0	9,721	6.2	29,734	39,175	40,258
Profit before tax	(2,003)	8,653	NA	2,048	NA	14,202	51,347	85,817
Tax	5,685	6,720	(15.4)	6,608	(14.0)	21,279	29,714	31,534
Core profit	(7,689)	1,933	NA	(4,560)	NA	(7,078)	21,633	54,283
Extraordinary items	(198)	(7,417)	NA	427	NA	229	(5,900)	-
PAT	(7,886)	(5,484)	NA	(4,133)	NA	(6,849)	15,733	54,283
Minority interest	(80)	(641)	NA	(275)	NA	(754)	1,000	900
Share in profit from associates	176	206	(14.8)	218	(19.4)	804	-	-
Profit after tax and min. int.	(7,631)	(4,637)	NA	(3,639)	NA	(5,291)	16,734	55,184
Equity capital (FV INR 10)	9,714	9,587		9,714		9,714	9,714	9,714
No. of shares (mn)	971	959		971		971	971	971
Diluted EPS (INR)	(7.9)	(4.8)	NA	(3.7)	NA	(5.4)	23.3	56.8

**As % of net revenues**

Raw material	30.4	35.7		30.9		31.9	36.5	35.4
Employee cost	14.8	12.9		13.3		14.1	15.9	15.8
Purchase of power	4.5	3.8		4.1		4.2	-	-
Freight & handling	5.8	5.2		5.3		5.4	8.1	8.0
Other expenses	24.6	19.9		22.2		22.9	28.8	27.9
EBITDA	7.0	7.8		6.8		7.9	10.7	12.9
Reported net profit	(2.5)	(1.6)		(1.2)		(0.7)	1.2	4.1
Tax rate	-	77.7		-		149.8	57.9	36.7

**Per tonne performance**

	Q3FY13	Q3FY12	% change	Q2FY13	% change
Volume (mt)	5.8	5.8	(0.2)	6.1	(4.0)
Blended realisation (INR/t)	55,072	56,921	(3.2)	56,232	(2.1)
Cost (INR/t)	51,232	52,473	(2.4)	52,426	(2.3)
EBITDA (INR/t)	3,840	4,449	(13.7)	3,806	0.9

## Financials snapshot (International)

(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13
Total net revenues	227,368	248,601	(8.5)	249,822	(9.0)	726,322
Dec/(inc) in stock	4,456	(2,593)	NM	15,062	(70.4)	(2,247)
Purchase of semis	37,742	52,022	(27.5)	46,138	(18.2)	144,491
Raw material	72,703	96,893	(25.0)	79,977	(9.1)	244,301
Staff costs	38,533	35,607	8.2	37,094	3.9	114,860
Purchase of power	8,187	7,991	2.5	8,171	0.2	24,786
Freight & Handling	13,089	12,767	2.5	12,789	2.3	38,418
Other expenses	55,531	46,242	20.1	52,653	5.5	160,413
Total expenditure	230,241	248,928	(7.5)	251,883	(8.6)	725,021
EBITDA	(2,873)	(327)	NM	(2,061)	NM	1,300
Interest	5,233	5,049	3.6	5,182	1.0	15,560
Depreciation	10,289	8,749	17.6	9,437	9.0	29,262
Other income	201	1,646	(87.8)	(379)	(153.1)	1,197
PBT	(18,193)	(12,480)	NM	(17,059)	NM	(42,324)
Tax	(41)	(200)	NM	913	NM	2,195
Adjusted net profit	(18,153)	(12,280)	NM	(17,972)	NM	(44,519)
Extraordinary items	(198)	(7,417)	NM	331	NM	133
Reported net profit	(18,350)	(19,697)	NM	(17,641)	NM	(44,386)
Equity capital (FV INR 10)	9,714	9,587		9,714		9,714
Outstanding shares (mn)	971	959		971		971
Basic EPS (INR)	(18.9)	(20.5)	NM	(18.2)	NM	(45.7)
<b>as % of net revenues</b>						
Raw material	33.9	37.9		38.0		33.3
Purchase of goods	16.6	20.9		18.5		19.9
Staff costs	16.9	14.3		14.8		15.8
Purchase of power	3.6	3.2		3.3		3.4
Freight & Handling	5.8	5.1		5.1		5.3
Other expenses	24.4	18.6		21.1		22.1
EBITDA	(1.3)	(0.1)		(0.8)		0.2
Adjusted net profit	(8.0)	(4.9)		(7.2)		(6.1)
Reported net profit	(8.1)	(7.9)		(7.1)		(6.1)
Tax rate	0.2	1.6		(5.3)		(5.2)

Per tonne performance	Q3FY13	Q3FY12	% change	Q2FY13	% change
Volume (mt)	3.9	4.5	(11.9)	4.3	(9.2)
Blended realisation (INR/t)	57,708	55,616	3.8	57,563	0.3
Cost (INR/t)	58,437	55,689	4.9	58,038	0.7
EBITDA (INR/t)	(729)	(73)	897.6	(475)	NM

**Change in estimates**

	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	1,263,827	1,274,506	(0.8)	1,323,976	1,317,871	0.5	Reducing FY13 estimates led by disappointment in Q3FY13
EBITDA	134,710	143,649	(6.2)	170,217	170,069	0.1	
EBITDA Margin	10.7	11.3		12.9	12.9		
Adjusted profit	22,634	27,055	(16.3)	55,184	55,453	(0.5)	
PAT Margin	1.8	2.1		4.2	4.2		

(INR mn)	FY13E			FY14E			FY15
	New	Old	% change	New	Old	% change	
<b>Revenue</b>	<b>1,263,827</b>	<b>1,274,506</b>	<b>(0.8)</b>	<b>1,323,976</b>	<b>1,317,871</b>	<b>0.5</b>	<b>1,333,269</b>
India	388,735	390,577	(0.5)	440,793	439,689	0.3	463,819
Europe	779,364	787,306	(1.0)	780,697	775,714	0.6	760,763
SEA	95,728	96,622	(0.9)	102,486	102,468	0.0	108,687
<b>EBITDA</b>	<b>134,710</b>	<b>143,649</b>	<b>(6.2)</b>	<b>170,217</b>	<b>170,069</b>	<b>0.1</b>	<b>175,018</b>
India	126,301	133,197	(5.2)	158,499	157,822	0.4	168,169
Europe	6,032	7,180	(16.0)	8,128	8,675	(6.3)	3,021
SEA	2,377	3,272	(27.3)	3,591	3,573	0.5	3,828
EBITDA margins (%)	10.7	11.3		12.9	12.9		13.1
Adjusted PAT	22,634	27,055	(16.3)	55,184	55,453	(0.5)	56,327
Adjusted PAT margins (%)	1.8	2.1		4.2	4.2		4.2
Diluted EPS (INR)	23.3	27.9	(16.3)	56.8	57.1	(0.5)	58.0

**Key assumptions: Current vs. previous**

	FY13E			FY14E		
	New	Old	% change	New	Old	% change
<b>Shipments (mn tonnes)</b>	<b>23.8</b>	<b>24.0</b>	<b>(1.0)</b>	<b>25.5</b>	<b>25.5</b>	<b>(0.3)</b>
India	7.6	7.6	(0.9)	8.8	8.8	(0.5)
Europe	13.1	13.2	(1.3)	13.5	13.6	(0.3)
SEA	3.2	3.2	0.0	3.2	3.2	0.0
<b>EBITDA (USD/tonne)</b>	<b>104</b>	<b>110</b>	<b>(5.9)</b>	<b>124</b>	<b>128</b>	<b>(3.3)</b>
India	306	323	(5.2)	335	344	(2.8)
Europe	8	10	(11.9)	11	12	(10.5)
SEA	14	19	(28.0)	21	22	(3.2)

**Table 2: Target price unchanged at INR516/share**

	<b>FY14E</b>
Tata Steel Europe EBITDA less pension payment (INR mn)	(4,872)
EV/EBITDA multiple (x)	4.5
Tata Steel Europe EV (INR mn)	(21,926)
SEA EBITDA (INR mn)	3,591
EV/EBITDA multiple (x)	4.0
SEA EV (INR mn)	14,364
International business EV (INR mn)	(7,562)
Less : net debt of international business (INR mn)	265,758
Equity valuation of international business (INR mn)	(273,320)
<b>Equity valuation of international business per share (INR)</b>	<b>(281)</b>
Tata Steel India EBITDA (INR mn)	158,499
EV/EBITDA multiple (x)	6.5
Tata Steel India EV (INR mn)	1,030,241
Less: Net debt previous FY (INR mn)	313,676
CWIP - previous FY (INR mn)	140,500
Discount (%)	65
Add: Adjusted CWIP (INR mn)	49,175
Equity valuation of India business (INR mn)	765,739
<b>Equity valuation of India business per share (INR)</b>	<b>788</b>
Add : value of dhamra port @ 1.5x P/B	4
Add : value of stake in NML @ 25% discount	5
<b>Target price (INR)</b>	<b>516</b>
<b>Current market price (INR)</b>	<b>381</b>
<b>Upside (%)</b>	<b>35.4</b>

Source: Edelweiss research



### Company Description

Established 100 years ago in 1907, Tata Steel is Asia's first and India's second largest private sector steel company. With the take over of Corus Steel (Europe's second largest steel producer), Tata Steel is now the sixth largest steel company in the world with over 30mtpa of steel capacity. Tata Steel's Indian operations are amongst the lowest cost producers of steel in the world comprising 6.8 mtpa steel making facility at Jamshedpur in Jharkhand.

### Investment Theme

We believe the worst is behind us for the global steel sector. We expect steel margins to rise going forward. FY14E and FY15E are expected to see volume benefit from the recently commissioned 2.9mtpa steel plant at Jamshedpur. Lower raw material cost will help stabilize profitability in international operations.

### Key Risks

- Any delay in demand revival and/or renewed slump in European steel.
- Higher than anticipated Chinese/CIS steel exports into Europe.
- Delay in completion of 3mtpa expansion in India

## Financial Statements

### Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
<b>Macro</b>				
GDP(Y-o-Y %)	6.5	5.5	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
<b>Sector</b>				
HRC price - Europe (ex-works,USD/t)	734	640	626	626
HRC price - India (net, INR '000/t)	35	35	35	36
Hard coking coal price (FOB, USD/t)	291	192	180	205
Soft coking coal price (FOB, USD/t)	205	129	121	137
India steel demand growth (%)	7	5	9	8
<b>Company</b>				
<b>Shipments (mn tonnes)</b>				
India	6.6	7.6	8.8	9.2
Europe	14.0	13.1	13.5	13.5
SEA	3.0	3.2	3.2	3.2
<b>Blended Realisation (INR/t)</b>				
India	51,143	51,662	50,576	50,684
Europe	55,099	59,670	57,809	56,188
SEA	28,335	30,352	32,173	33,782
<b>Key costs (cost/t of steel)</b>				
<b>India - Key costs (cost/t of steel)</b>				
Iron ore (cost/t)	988	1,037	1,089	1,143
Coking coal (cost/t)	7,428	6,929	6,555	6,885
Power (cost/t)	14,670	20,324	24,281	28,123
<b>Europe (USD)</b>				
Iron ore (cost/t)	146	95	99	100
Coking coal (cost/t)	294	190	170	205
Staff Cost (GBP mn)	1,129	1,338	1,405	1,455
<b>EBITDA (USD/tonne)</b>				
India	401.2	306.1	334.8	351.3
Europe	6	8	11	4
SEA	4.4	13.8	20.9	22.9
Average Interest rate (%)	8.5	6.7	6.6	6.3
Average Depreciation rate (%)	11.6	11.4	10.7	9.6
Tax rate (%)	69.6	57.9	36.7	39.3
Dividend payout ratio (%)	25.3	77.6	24.7	20.7
Net borrowings (INR mn)	475,969	579,435	617,399	616,305
Capex (INR mn)	121,360	139,455	124,200	109,200
Debtor days	41	44	44	45
Inventory days	138	200	196	199
Payable days	108	154	146	153
Cash conversion cycle (days)	70	90	95	91

### Income statement

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Net revenue	1,328,997	1,263,827	1,323,976	1,333,269
Materials costs	454,575	461,263	468,683	470,997
Accretion to stock	(7,859)	-	-	-
Purchase of goods	210,734	-	-	-
Employee costs	172,286	201,389	209,621	211,505
Total SG&A expenses	259,342	363,929	369,749	366,089
Power and Freight	115,750	102,537	105,706	109,660
Total operating expenses	1,204,829	1,129,117	1,153,759	1,158,251
EBITDA	124,168	134,710	170,217	175,018
Depreciation & Amortization	45,167	54,267	56,845	56,124
EBIT	79,001	80,442	113,372	118,894
Other income	15,730	10,080	12,703	12,646
Interest expenses	42,501	39,175	40,258	40,131
Profit before tax	52,231	51,347	85,817	91,409
Provision for tax	36,365	29,714	31,534	35,892
Net profit	15,866	21,633	54,283	55,517
Extraordinary income/ (loss)	33,619	(5,900)	-	-
Profit After Tax	49,485	15,733	54,283	55,517
Minority interest	1,731	1,000	900	810
Share in profit of associates	2,681	834	-	-
Profit after minority interest	53,898	17,568	55,184	56,327
Basic EPS (INR)	20.9	24.2	56.8	58.0
Shares outstanding (mn)	971	971	971	971
Diluted EPS (INR)	20.9	24.2	56.8	58.0
Dividend per share (INR)	12.0	12.0	12.0	12.0
Dividend payout (%)	25.3	77.6	24.7	20.7

### Common size metrics

Year to March	FY12	FY13E	FY14E	FY15E
Operating expenses	90.7	89.3	87.1	86.9
Depreciation	3.4	4.3	4.3	4.2
Interest expenditure	3.2	3.1	3.0	3.0
EBITDA margins	9.3	10.7	12.9	13.1
Net profit margins	1.2	1.7	4.1	4.2

### Growth ratios (%)

Year to March	FY12	FY13E	FY14E	FY15E
Revenues	11.9	(4.9)	4.8	0.7
EBITDA	(25.9)	8.5	26.4	2.8
PBT	(42.3)	(1.7)	67.1	6.5
Net profit	(72.7)	36.3	150.9	2.3
EPS	(66.3)	15.7	135.1	2.1

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	9,714	9,714	9,714	9,714	
Reserves & surplus	420,497	424,426	465,972	508,661	
Shareholders funds	430,211	434,140	475,686	518,375	
Minority interest (BS)	10,912	7,147	6,247	5,437	
Preference capital	224	224	224	224	
Short term debt	46,991	80,714	80,714	80,714	
Long term debt	530,536	581,895	606,895	631,895	
Borrowings	577,527	662,610	687,610	712,610	
Deferred tax liability	25,039	23,141	17,413	19,925	
<b>Sources of funds</b>	<b>1,043,913</b>	<b>1,127,263</b>	<b>1,187,180</b>	<b>1,256,570</b>	
Goodwill	173,546	152,982	152,982	152,982	
Tangible assets	390,809	493,956	510,209	485,285	
Intangible assets	30,194	30,194	30,194	30,194	
CWIP (incl. intangible)	200,397	182,438	233,540	311,540	
Total net fixed assets	621,400	706,588	773,943	827,019	
Non current investments	26,229	26,229	26,229	26,229	
Other non current assets	85,447	86,424	86,424	86,424	
Current Investments	13,984	13,984	13,984	13,984	
Cash and equivalents	108,016	89,633	76,669	102,763	
Inventories	255,980	250,219	254,244	258,080	
Trade receivables	148,785	157,537	165,035	166,193	
Loans and advances	38,687	38,687	38,687	38,687	
Total current assets (ex cash)	457,763	460,428	471,950	476,945	
Trade payable	206,179	184,192	190,188	204,963	
Others current liabilities	222,310	210,829	210,829	210,829	
Total current liabilities &	428,489	395,021	401,017	415,792	
Net current assets (ex cash)	29,274	65,407	70,933	61,153	
<b>Uses of funds</b>	<b>1,043,913</b>	<b>1,127,263</b>	<b>1,187,180</b>	<b>1,256,570</b>	
Book value per share (INR)	442.9	446.9	489.7	533.6	

Free cash flow		(INR mn)			
Year to March	FY12	FY13E	FY14E	FY15E	
Net profit	53,898	17,568	55,184	56,327	
Depreciation	45,167	54,267	56,845	56,124	
Others	6,755	29,095	27,555	27,485	
Gross cash flow	105,819	100,930	139,583	139,937	
Less: Changes in WC	(11,590)	37,110	5,526	(9,780)	
Operating cash flow	117,409	63,820	134,058	149,717	
Less: Capex	121,360	139,455	124,200	109,200	
<b>Free cash flow</b>	<b>(3,951)</b>	<b>(75,635)</b>	<b>9,858</b>	<b>40,517</b>	

**Peer comparison valuation**

	Price (USD)	Market Cap (USD bn)	PE (x)		EV/EBITDA(x)		ROE(%)	
			2013E	2014E	2013E	2014E	2013E	2014E
POSCO	331.5	29	10.6	10.9	7.8	7.3	6.9	7.3
ArcelorMittal	16.6	28	21.0	9.3	6.8	5.8	2.4	4.8
Sid Nacional	5.4	8	11.6	9.2	6.0	5.3	16.9	18.6
JFE	22.4	14	30.2	10.4	11.5	7.5	2.5	6.2
Thyssenkrupp	24.0	12	30.1	12.3	6.8	5.4	5.0	14.0
Hyundai Steel	77.2	7	9.2	7.7	8.6	7.5	7.4	8.3
Tata Steel	6569.6	16	15.8	6.7	7.0	5.8	5.0	11.7

*Source: Bloomberg, Edelweiss research*

Cash flow metrics				
Year to March	FY12	FY13E	FY14E	FY15E
Operating cash flow	112,838	61,986	133,157	148,906
Investing cash flow	(36,663)	(106,976)	(110,597)	(95,744)
Financing cash flow	(83,043)	26,608	(35,524)	(25,087)
Net cash flow	(6,869)	(18,382)	(12,964)	28,076
Capex	(121,360)	(139,455)	(124,200)	(109,200)
Dividends paid	(13,638)	(13,638)	(13,638)	(11,657)
Share issuance/(buyback)	351	(224)	-	-

**Profitability & efficiency ratios**

Year to March	FY12	FY13E	FY14E	FY15E
ROAE (%)	4.3	5.0	11.7	11.0
ROACE (%)	8.3	7.7	10.1	10.1
Inventory day	138	200	196	199
Debtors days	41	44	44	45
Payable days	108	154	146	153
Cash conversion cycle (days)	70	90	95	91
Current ratio	1.3	1.4	1.4	1.4
Debt/EBITDA	4.7	4.9	4.0	4.1
Debt/Equity	1.3	1.5	1.4	1.4
Adjusted debt/equity	1.3	1.5	1.4	1.4

**Operating ratios**

Year to March	FY12	FY13E	FY14E	FY15E
Total asset turnover	1.3	1.2	1.1	1.1
Fixed asset turnover	2.4	1.9	1.8	1.7
Equity turnover	3.4	2.9	2.9	2.7

**Valuation parameters**

Year to March	FY12	FY13E	FY14E	FY15E
Diluted EPS (INR)	20.9	24.2	56.8	58.0
Y-o-Y growth (%)	(66.3)	15.7	135.1	2.1
CEPS (INR)	63.8	78.0	113.5	114.1
Diluted PE (x)	18.2	15.8	6.7	6.6
Price/BV (x)	0.9	0.9	0.8	0.7
EV/Sales (x)	0.6	0.8	0.7	0.7
EV/EBITDA (x)	6.7	7.0	5.8	5.5
Dividend yield (%)	3.2	3.2	3.2	3.2

## Additional Data

### Directors Data

Cyrus P Mistry	Chairman	B Muthuraman	Vice Chairman
Nusli N Wadia	Director	S M Palia	Director
Ishaat Hussain	Director	Subodh Bhargava	Director
Jacobus Schraven	Director	Andrew Robb	Director
A Anjeneyan	Company Secretary	H M Nerurkar	Managing Director
Karl Ulrich Koehler	Director		
Mallika Srinivasan	Additional Director		

Auditors - Deloitte Haskins & Sells

### Holding - Top 10

	Perc. Holding		Perc. Holding
Life Insurance Corp. of India	15.00	HDFC Asset Management Co. Ltd.	1.81
Government of Singapore Investment Corp. Pte Ltd. (Invst	1.60	ICICI Prudential Life Insurance Co. Ltd.	1.31
National Insurance Co. Ltd.	1.13	The New India Assurance Co. Ltd.	1.07
Dimensional Fund Advisors, Inc.	0.88	The Vanguard Group, Inc.	0.82
Templeton Asset Management Ltd.	0.59	Norges Bank Investment Management	0.42

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
06 Mar 2012	Kalimati Investment Company Ltd.	Sell	671455.00
22 Mar 2012	Tata Sons Ltd	Buy	671455.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bhushan Steel	REDUCE	SU	M	Coal India	BUY	SO	M
Hindalco Industries	BUY	SO	M	Hindustan Zinc	BUY	SP	L
Jindal Steel & Power	BUY	SP	M	JSW Steel	BUY	SO	M
National Aluminium Company	REDUCE	SU	M	Sesa Goa	BUY	SP	M
Steel Authority of India	BUY	SP	L	Sterlite Industries (India)	BUY	SO	M
Tata Steel	BUY	SO	M	Usha Martin	HOLD	SU	M

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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### Coverage group(s) of stocks by primary analyst(s): Metals and Mining

Bhushan Steel, Coal India, Hindalco Industries, Hindustan Zinc, Jindal Steel & Power, JSW Steel, National Aluminium Company, Steel Authority of India, Sesa Goa, Sterlite Industries (India), Tata Steel, Usha Martin

#### Recent Research

Date	Company	Title	Price (INR)	Recos
14-Feb-13	Coal India	e-auction realisations surprise; <i>Result Update</i>	351	Buy
13-Feb-13	SAIL	Realisations disappoint, but costs surprise positively; <i>Result Update</i>	79	Buy
13-Feb-13	Hindalco Industries	Novelis: One-offs impact EBITDA; <i>Result Update</i>	110	Buy

#### Distribution of Ratings / Market Cap

##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	118	46	17	181
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	117	57	7	

#### Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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