TATA STEEL LTD.

EQUITY REPORT

January 28, 2013

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Tata Steel Ltd. is part of the Tata Group, India's largest industrial conglomerate was founded in India in 1907. Since 2004 the Company has expanded globally, acquiring Asian steel producers NatSteel and Millennium Steel (now called Tata Steel Thailand) as well as Europe's second largest steel producer Corus (now called Tata Steel Europe Limited). The Company's products include steel ball bearing rings, alloy steel bearing rings, annular forgings, flanges, bearings, welded steel tubes, cold rolled strips and seamless tubes. Tata Steel also manufactures metallurgical machinery.

Investor's Rationale

- Tata Steel is set to capitalise on the significant demand growth potential in India by expanding its crude steel capacity by 8.9 mtpa in FY13-FY16. The company has completed the expansion of 2.9 mtpa expansion program at its Jamshedpur plant. Further, the company is planning 6.0 mtpa greenfield expansion in Odisha in two phases of 3.0 mtpa each. This would contribute substantially to the company's earnings after the plant reaches optimum capacity utilization.

- Tata Steel has achieved the highest ever quarterly steel production and sales in the October-December period backed by record production of crude and hot metal to reach an annual crude steel capacity at 8.35 mt. Production of hot metal production stood at 2.28 mt and the crude steel production stood at 2.09 mt. This reflects the company is witnessing strong demand in the domestic market.

- Tata Steel posted a moderate growth of 4.1% YoY in its consolidated revenues to ₹341.3 bn in Q2FY13, driven by 8.8% QoQ and 4.8% YoY increase in sales volume to 1.73 mt at Indian operations. Moreover, sales volume at its European operations and South Asia increased by 6.5% QoQ and 6.9% QoQ to 3.42 mt and 0.77 mt.

- Tata Steel's domestic business will be the key earnings driver over the next two years on account of new capacities and strong demand. In the growth of domestic business, cost factor would also play a bigger role as after stabilisation of the new capacities in India, initial costs would decline and economies of scale would improve. Further, the company has taken restructuring and capacity rationalising initiatives at Europe to reduce costs and under-utilisation.

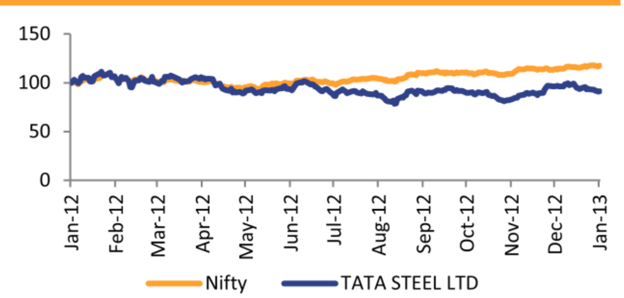
Market Data

Rating	**BUY**
CMP (₹)	405.75
Target (₹)	**481**
Potential Upside	~18.5%
Duration	Long Term
52 week H/L (₹)	501/348
All time High (₹)	1,048.0
Decline from 52WH (%)	19.0
Rise from 52WL (%)	16.6
Beta	1.3
Mkt. Cap (₹ bn)	394.1
Book Value (₹ bn)	466.7

Fiscal Year Ended

Y/E	FY11A	FY12A	FY13E	FY14E
Revenue (₹bn)	1,194.3	1,344.7	1,408.5	1,506.0
Net Profit (₹bn)	89.8	53.9	29.0	44.2
Share Capital (₹bn)	9.6	9.7	9.7	9.7
EPS (₹)	93.7	55.5	29.9	45.5
P/E (x)	4.3	7.3	13.6	8.9
P/BV (x)	1.0	0.9	0.8	0.8
EV/EBIDTA(x)	4.7	5.7	6.1	5.1
RoCE (%)	13.2	9.1	7.5	9.4
RoE (%)	24.2	11.9	6.1	8.6

One year Price Chart



Shareholding Pattern	Dec'12	Sep'12	Diff.
Promoters	31.35	31.35	0
FII	14.79	14.71	0.08
DII	27.95	27.35	0.6
Others	25.91	26.59	(0.68)

Tata steel- world's most geographically-diversified steel producers

Tata Iron and Steel Company Limited was incorporated in 1907 and later renamed to Tata Steel Limited in 2005. The company is engaged in manufacturing of steel, Ferro alloys and minerals. Other business of the company includes Tubes and Bearings. Tata Steel is among the top ten global steel companies with an annual crude steel capacity of over 28 million tonnes per annum (mtpa). In April 2007, Tata Steel acquired Corus for a purchase consideration of $12 bn. It is now one of the world's most geographically-diversified steel producers, with operations in 26 countries and a commercial presence in over 50 countries.

Tata Steel's larger production facilities are located in the United Kingdom and Netherlands with a combined production capacity of 17.9 mtpa in UK and Netherlands. The company has a steel production facility of 6.8 mtpa in Jamshedpur, India, in addition to the steel production capacity of 2.0 mtpa in Singapore and Thailand. Europe and India are the key markets for Tata Steel products, as both accounts for its major share of revenues.

Tata Steel has been pursuing growth in India through brownfield and new greenfield expansion projects as also through strategic partnerships. The company is in the final phase of commissioning the 2.9 mtpa expansion project at Jamshedpur and executing the 6 mtpa greenfield plant at Odisha in two phases of 3 mtpa each. After commissioning of expanded capacities, the company would have a global steel capacity of 36.5 mtpa. The Tata Steel Group, with a turnover of US$ 26.13 bn in FY12, has over 81,000 employees across five continents and is a Fortune 500 company.

The Company's products include steel ball bearing rings, alloy steel bearing rings, annular forgings, flanges, bearings, welded steel tubes, cold rolled strips and seamless tubes.

Tata Steel India – Business Overview

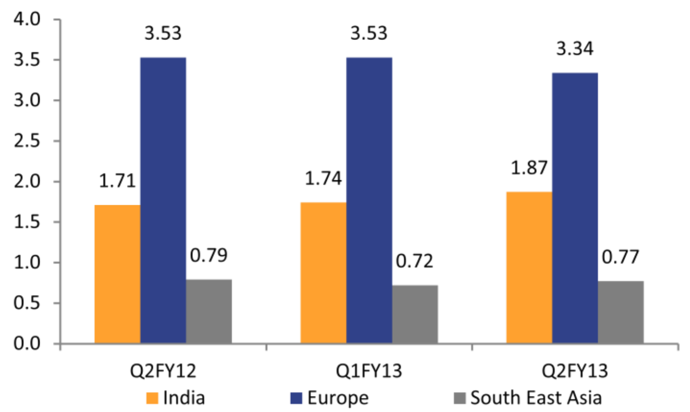
PROFIT CENTRE	FLATS	LONGS	TUBES	WIRES	AGRICO
Products	Hot Rolled , Cold Rolled & Coated	Re-bars & Wire Rods	Conveyance, Structual (Hollow sections) & Precision Tubes	Tyre Bead, Spring Steel, LRPC Strand, GI, ACSR, MS & Binding wire	Traditional & Mechanized Agri Implements, Hand Tools/Files
Turnover (Billion $)	3.5	2.07	0.42	0.30	0.04
Sales (mtpa) (Mn No*)	3.74	2.9	0.37	0.28	12*
Dom. Sales (%)	96%	95%	100%	96%	90%
Market Share (%)	12%	8%	25%	13%	30%
Sector - Market share	Auto- 38%; Roofing -25%; SME-15% Non auto direct OE: 9%	Constrn: Retail 14%; Projects 12%; Hi end wire 28%	CT - 23%; PT – 17%; Struct – 45%	Auto-16%; Infra 25%; Power-16%, GI- 4%	Agri Implements – 30%
Branded play(%)	29% 4 Brands	32% 3 Brands	65% 3 Brands	45% 1 Brand	90% 1 Brands

Higher volumes raised the consolidated revenues by 4.1% YoY in Q2FY13

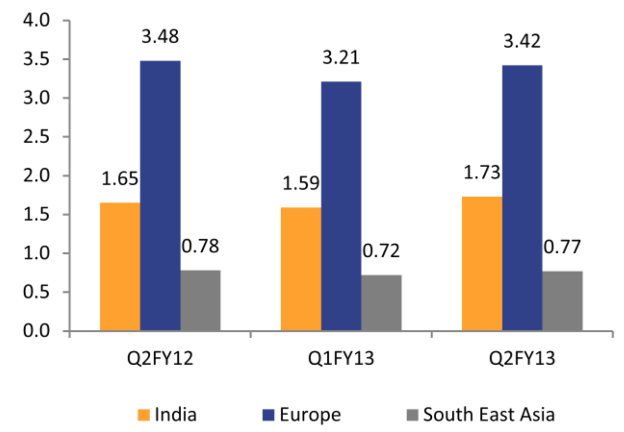
Tata Steel's consolidated revenues surged by 4.1% YoY to ₹341.3 bn in Q2FY13.

Tata Steel's consolidated revenues surged by 4.1% YoY to ₹341.3 bn in Q2FY13, driven by 8.8% QoQ and 4.8% YoY increase in sales volume to 1.73 mt at Indian operations. Moreover, sales volume at its European operations and South Asia increased by 6.5% QoQ and 6.9% QoQ to 3.42 mt and 0.77 mt. While, average blended realizations in India declined 5.6% QoQ and in Europe by 1.7% QoQ to US$1,124/ton in Q2FY13. On consolidated basis, the company registered an operating profit of ₹23.1 bn (US$464 mn) compared to ₹34 bn (US$644 mn) in Q1FY13. This was due to lower operating profit in Indian and South-East Asia operations. Further, European operations registered an adjusted operating loss of US$8 mn against an adjusted operating profit of US$111 mn in Q1FY13. EBIDTA/ton for European operations stood at negative US$2/ton, quite lower than US$35/ton achieved in Q1FY13. Besides, South East operations registered an operating profit of US$4 mn, impacted by one time expense related to its Chinese and Australian operations.

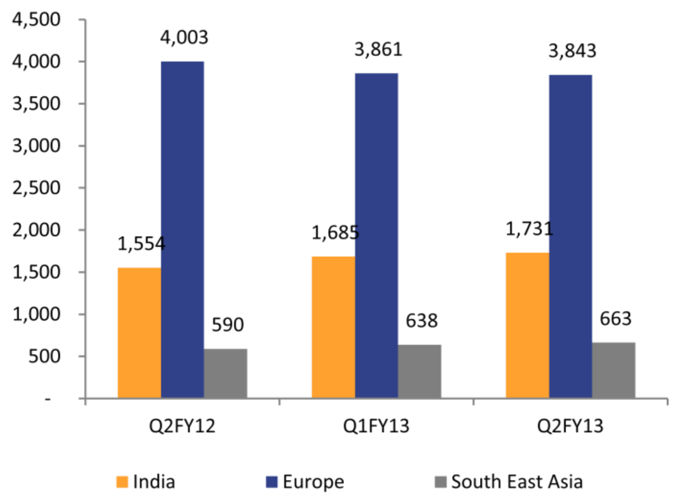
Rise in production at Indian operations (in mt)



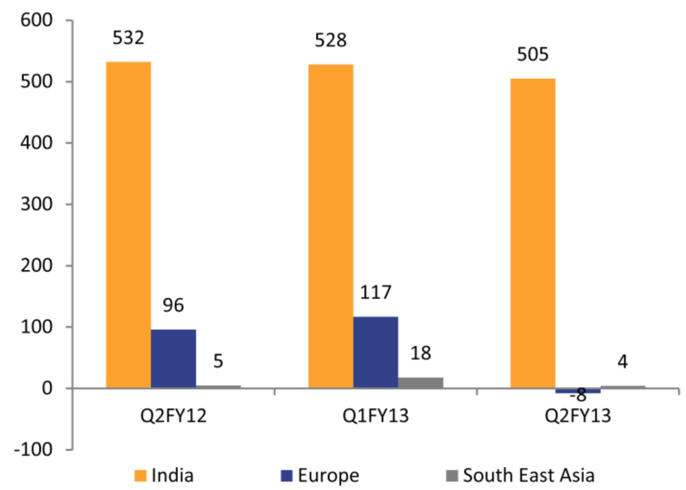
Increasing deliveries in Indian market (in mt)



Turnover surged except Europe (US$ mn)



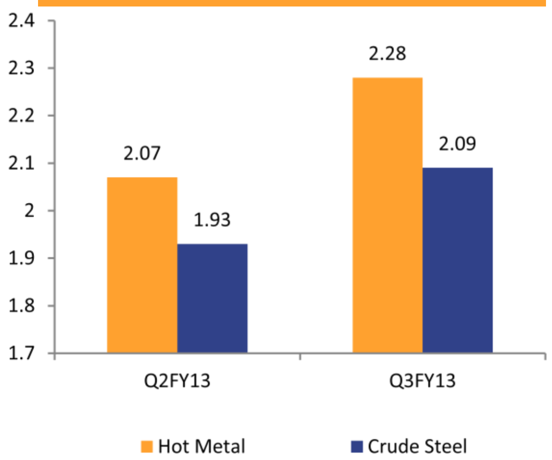
EBITDA declined due to lower realisations (US$ mn)



Ongoing expansion in West Bokaro's clean coal capacity from 2.3 to 2.8 mtpa would help integration on coking coal to rise to 45%.

Tata Steel India registered 11.4% YoY and 2.7% QoQ increase in revenues to ₹91.5 bn in Q2FY13. While, EBITDA declined by 9.7% YoY and 9.5% QoQ to ₹25.2 bn, due to decline in realizations and a jump in raw material costs. OPM during the quarter shrunk 643bps YoY and 371bps QoQ to 27.5%. Raw material costs per ton of steel increased by 6.4% QoQ to ₹12,646 due to the sourcing of imported coking coal. The company had to import coking coal as the coke ovens are expected to start operations only after December 2012. Further, ongoing expansion in West Bokaro's clean coal capacity from 2.3 to 2.8 mtpa would help integration on coking coal to rise to 45% once it gets commissioned. As 2.9 mtpa steel plant starts contributing meaningfully from Q4FY13E, increased sales volume is likely to see sharp jump in FY14E.

Steel output (in mt)



Robust steel production in October-December quarter

Tata Steel has achieved the highest ever quarterly steel production and sales in the October-December period backed by record production of crude and hot metal to reach an annual crude steel capacity at 8.35 mt. The company has achieved best ever Saleable Steel production of 2.07 mt during the quarter under review, whereas in Q2FY13, it had achieved 1.87 mt of the saleable steel output. Production of hot metal production stood at 2.28 mt and the crude steel production stood at 2.09 mt. Merchant mill production was at 0.104 mt and wire rod mill production came at 1.109 mt. The flat product sales during the quarter stood at 1.087 mt vs 1.008 mt in Q2FY13. Further, it commissioned two Lime Kilns and a Coke Battery in December.

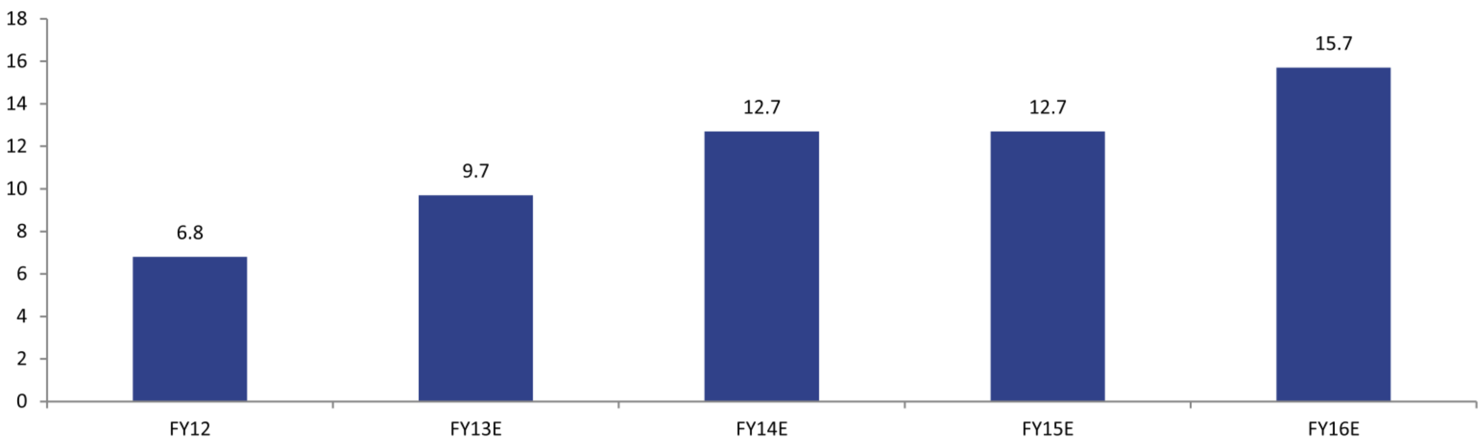
Working forcefully on expanded capacities to boost growth

Set to capitalise on the significant demand growth potential in India by expanding its crude steel capacity by 8.9 mtpa in FY13-FY16.

Tata Steel is set to capitalise on the significant demand growth potential in India by expanding its crude steel capacity by 8.9 mtpa in FY13-FY16. The company has partially commissioned its 2.9 mtpa brownfield expansion at Jamshedpur which has increased its crude steel capacity of Indian operations from 6.8 mtpa to 9.7 mtpa. The project comprises of a 6 mtpa pellet plant, two coke oven batteries of 0.7 mtpa each, 3 mtpa blast furnace, LD shop, thin slab caster, 2.54 mtpa rolling mill to produce HRC, expansion of captive mines at Noamundi and Joda, and expansion of ancillary support systems. The total project capex was ₹160 bn. We estimate incremental volumes of 2.5 mtpa by FY14 (1.0 mtpa in FY13 and 1.5 mtpa in FY14).

Further, the company is setting up 6.0 mtpa steel capacity at Kalinganagar, Odisha, comprising mainly of flat products. The project is expected to enrich the company's product mix with the production of premium grades of Auto-AHSS (Advanced High Strength Steel), high-end galvanised coil and cold-rolled coils for general engineering. It plans to complete the expansion in two phases of 3.0 mtpa each. Ordering of equipment for the first phase has been completed while civil and construction work is currently under progress. The first phase is scheduled for commissioning by CY14 while the second phase is on schedule to commission in 18-24 months after the commissioning of the first phase. This project is expected to have high returns on invested capital as it would be backed by captive iron ore. Moreover, Tata Steel has entered into an agreement with Chhattisgarh Government to set up a 5 mtpa Greenfield integrated steel plant in Bastar. Further, Tata Steel and Nippon have jointly entered into an agreement to set up a continuous annealing and processing line of 0.6 mpta downstream capacities to produce automotive cold rolled flat products, which is likely to come on stream in 2013.

Crude Steel capacity to be expanded at 15.7 mtpa by FY16



Raw material integration to augment European business

In a bid to enhance raw materials self-sufficiency, Tata Steel will continue to emphasize on long-term strategy. In 2007, it has acquired 35% stake in the Riversdale's Mozambique Coal project at Benga and Tete tenements to secure supply of hard cocking coal for Tata Steel Europe. Further, the Benga coal project has commenced production from March 2012 and the total production in Phase 1 is expected to be 1.5 mtpa coking coal and 0.9 mtpa thermal coal. In Phase 2, production is expected to increase to 3 mtpa coking coal and 1.8 mtpa thermal coal.

Moreover, the firm has acquired 80% stake in New Millennium Capital Corporation in Sept 2010. New Millenium in its development plan has scheduled to go for Direct Shipping Ore (DSO) Project, having estimated proven and probable reserves of 64.1 mt, and the Taconite Projects, namely Labmag and Kemag, with a combined resource size of 5.65 bt. Iron ore generated from this project would be dispatched to Tata Steel facilities located in Europe in order to strengthen the raw material integration capabilities. Also, it will create a shield for the company and prevent from shortages and quick price fluctuations in key raw materials such as iron ore and coal.

The company in its restructuring plan is focusing majorly on its UK operations to increase the competitiveness. Under its plan, it is going to resume Blast Furnace 4 - one of two blast furnaces in Port Talbot, South Wales, which is being rebuilt as part of a £250 mn investment programme in the first quarter of 2013 and also lead to the restarting of the hot strip mill at the company's Llanwern site in Newport, South Wales. Once these operations come to the advanced level, it is expected that the output will enhance and further allow restarting downstream steelmaking operations deferred because of lack of demand.

We expect that from H2'FY13, the crude steel volumes for Tata Steel Europe will show marginal improvement and by that time the company should be able to fully integrate 20-25% of its raw material requirements in Europe. Thus, it is projected that the margins of the company are likely to improve benefitting through access of cheaper coal supplies from the Benga project, combined with the recent raw material price correction. Amid negative growth in 2012, the management models 2.5% growth in FY14. Further, the existing growth drivers such as improved efficiencies, capacity & cost rationalisation, expected pickup of demand in Europe and the commencement of mining assets in Canada (iron ore) and Africa (coal), could improve EBITDA/ton of Tata Steel Europe significantly over the next two to three years.

Tata Steel's Indian operation- growth driving factor

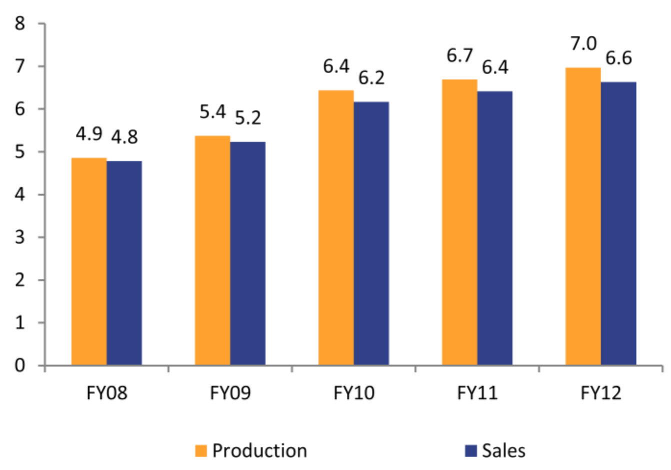
Tata Steel's Indian operations is solely playing a vital role in maintaining company's consolidated performance with posting strong margin profile as European operations continue to be under enormous stress as European steel demand is lower than expected and prices have weakened. Further, the contribution of Tata Steel India's turnover and EBITDA to consolidated turnover and EBITDA has reached 26% and 93%, respectively, in FY12 vs. 24% contribution to turnover and 54% contribution to EBITDA in FY10. While, the company is likely to invest in excess of £1.5 bn in its European operations till 2015-16 to spruce up its existing equipment and bring out new products, among others.

We believe that the fortunes of the company are set to change, even as its European subsidiary, Tata Steel Europe, continues to struggle. The volumes are expected to rise at 25.5 mt in FY14 to be driven by capacity expansion coupled with strong domestic demand. Higher volumes and the recent rise in steel prices could be key drivers. In terms of profitability, Tata Steel's domestic business is expected to come to its rescue, despite the fact that Tata Steel Europe accounts for major share of the company's sales. The investments, coupled with a series of other measures including lay-offs and production cut, is aimed at making Tata Steel Europe an "all-weather company", fit to sustain and withstand a much worse condition than the current one.

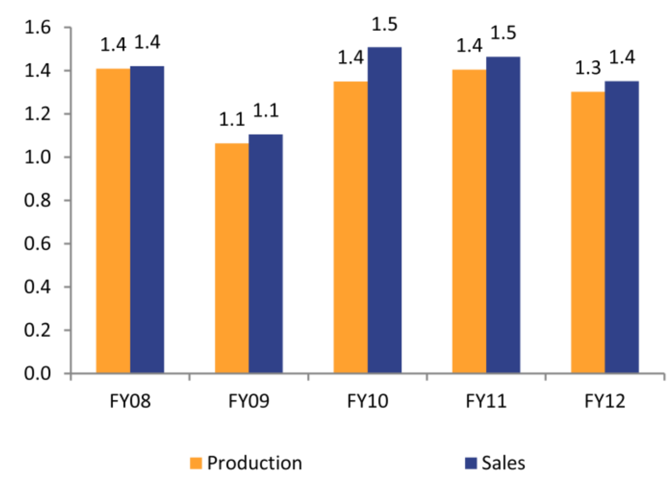
In the past few years, Tata Steel has scaled up the value chain towards differentiated products and services. The company has been focusing on downstream and value added products through new investments and product development. The company, on account of the weak European operations, has taken various cost measures to improve the profitability. One of the major initiatives taken in the previous quarter was to improve the product mix and focus on higher margin business. And now that raw material cost has come down from its high and they will further try to improve the margins with tight cost control and emphasis on increased product differentiation.

Further, the favorable industry dynamics will support the Indian operations of the company as we believe that the steel demand growth in India would exceed the crude steel production growth in FY13-FY18. World Steel Association (WSA) has revealed that India's total steel consumption in 2011 was 67.8 mt, up from 64.9 mt a year ago, the WSA said. China's consumption was the highest at 623.9 mt. Meanwhile, Tata Steel accounts for 30% or 10.8 mtpa of 36.2 mtpa total new capacity coming on stream in India during FY13-FY17. Besides, the government has imposed a 20% tax on imports of some varieties of the stainless steel from China to protect local producers. This move would stem the import from China to a certain extent on hot-rolled products and would provide the steel companies to encash the opportunity of domestic steel demand.

Production & Sales of Steel (in mt)



Production & Sales of FA&M (in mt)



Balance Sheet (Consolidated)

(₹billion)	FY11A	FY12A	FY13E	FY14E
Share Capital	9.6	9.7	9.7	9.7
Reserve and surplus	361.2	443.6	467.8	507.2
Net Worth	370.8	453.4	477.5	516.9
Minority Interest	8.9	10.9	10.9	10.9
Loans	530.5	499.4	479.5	472.4
Long term provision	45.9	47.2	47.6	48.6
Current Liability	368.5	428.5	445.6	470.1
Other liability	8.5	8.1	8.2	8.3
Deferred tax liability	21.9	25.0	25.0	25.0
Capital Employed	**1,354.9**	**1,472.4**	**1,494.4**	**1,552.3**
Goodwill	153.0	173.5	173.5	173.5
Fixed Asset	501.2	621.4	646.3	685.0
Long term loans & adv	86.8	80.4	81.2	82.8
Investment	78.5	40.2	40.2	40.2
Current Assets	533.3	551.8	552.2	569.7
Deferred tax assets	1.8	0.6	0.6	0.6
Other Assets	0.3	4.4	0.4	0.4
Capital Deployed	**1,354.9**	**1,472.4**	**1,494.4**	**1,552.3**

Profit & Loss Account (Consolidated)

(₹billion)	FY11A	FY12A	FY13E	FY14E
Total Income	1,194.3	1,344.7	1,408.5	1,506.0
Operating Expense	1,020.1	1,204.8	1,276.7	1,345.7
EBITDA	**174.3**	**139.9**	**131.8**	**160.3**
Depreciation	44.1	45.2	53.3	58.6
EBIT	130.1	94.7	78.5	101.7
Interest	39.6	42.5	41.8	42.2
Exceptional items	30.5	33.6	0.0	0.0
Profit Before Tax	121.0	85.8	36.7	59.4
Tax	32.5	36.4	12.1	19.6
Share of asso.	0.7	2.7	2.7	2.7
Minority Interest	0.6	1.7	1.7	1.7
Net Profit	**89.8**	**53.9**	**29.0**	**44.2**

Key Ratios (Consolidated)

Y/E	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	14.6	10.4	9.4	10.6
EBIT Margin (%)	10.9	7.0	5.6	6.8
NPM (%)	7.5	4.0	2.1	2.9
ROCE (%)	13.2	9.1	7.5	9.4
ROE (%)	24.2	11.9	6.1	8.6
EPS (₹)	93.7	55.5	29.9	45.5
P/E (x)	4.3	7.3	13.6	8.9
BVPS(₹)	386.8	466.7	491.6	532.1
P/BVPS (x)	1.0	0.9	0.8	0.8
EV/Operating Income (x)	0.7	0.6	0.6	0.5
EV/EBITDA (x)	4.7	5.7	6.1	5.1
EV/EBIT (x)	6.3	8.4	10.2	8.0

Valuation and view

Domestic operations of Tata Steel has aided the higher growth for the company and it would continue to be the earnings driver for Tata Steel over the next two years. Even though near term earnings in Europe would remain under pressure due to one-off items, Tata Steel is expected to report strong earnings over the next two years on account of new capacities at Jamshedpur and Kalinganagar, impact of restructuring exercise in Europe and benefits from overseas raw material projects and strong steel demand in domestic economy.

At a current CMP of ₹406, Tata Steel is attractively placed at EV/EBITDA of ~5.1x FY14E. Considering the above aspects, we rate the stock as 'BUY' with a potential upside of ~18% for the coming 12 months.

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