

## Tata Steel

### Performance Highlights

| Standalone (₹ cr) | 1QFY16 | 1QFY15 | % chg (yoy) | 4QFY15 | % chg (qoq) |
|-------------------|--------|--------|-------------|--------|-------------|
| Net revenue       | 9,094  | 10,468 | (13.1)      | 10,635 | (14.5)      |
| EBITDA            | 1,689  | 3,256  | (48.1)      | 1,679  | 0.6         |
| Margin (%)        | 18.6   | 31.1   | (1253bp)    | 15.8   | 278bp       |
| Adj. PAT          | 1,143  | 1,480  | (22.8)      | 858    | 33.2        |

Source: Company, Angel Research

**Raw Material cost savings offset impact of lower realisation:** For 1QFY2016, Tata Steel's standalone sales volume increased 2% yoy at 2.14MT, while blended realisation declined by 15% to ₹42,434/tonne, resulting in a 13% yoy decline in revenue. Raw material expenses however were below our estimates at ₹2,368cr, on account of lower than estimated consumption of imported iron ore (0.3MT vs our estimate of 0.8MT). Staff costs for the quarter declined by 4.2% yoy to ₹1082cr. Despite an increase in other operating expenses, the fall in raw material expenses and staff costs resulted in the EBITDA margin coming in higher than expected at ~18.6%, (vs our estimate of ~15.9%).

| Consolidated (₹ cr) | 1QFY16 | 1QFY15 | % chg (yoy) | 4QFY15 | % chg (qoq) |
|---------------------|--------|--------|-------------|--------|-------------|
| Net revenue         | 30,300 | 36,427 | (16.8)      | 33,666 | (10.0)      |
| EBITDA              | 2,774  | 4,273  | (35.1)      | 1,543  | 79.8        |
| Margin (%)          | 9.2    | 11.7   | (257bp)     | 4.6    | 457bp       |
| Adj. PAT            | 605    | 600    | 0.8         | (863)  | -           |

Source: Company, Angel Research

**Overseas operations remain under pressure:** The EBITDA for the quarter was affected by currency losses, led by unfavourable movement of the GBP against the USD and EUR, and pressure from imports. The EBITDA/tonne declined sharply to \$26 as against \$52 in 1QFY2015 and well below our estimate of \$43. The SEA and other subsidiaries however posted a strong increase in EBITDA at ₹510cr as against ₹64cr in 1QFY2015.

**Outlook and valuation:** We downgrade our recommendation on the stock to 'Neutral' led by sustained pressure on steel realisations and high leverage levels.

#### Key financials (Consolidated)

| Y/E March (₹ cr)  | FY2014   | FY2015E  | FY2016E  | FY2017E  |
|-------------------|----------|----------|----------|----------|
| Net sales         | 1,48,614 | 1,39,504 | 1,26,760 | 1,37,307 |
| % chg             | 10.3     | (6.1)    | (9.1)    | 8.3      |
| Reported PAT      | 3,595    | (3,926)  | 618      | 2,242    |
| % chg             | -        | -        | -        | 262.7    |
| Adj. EPS (₹)      | 37.3     | 0.0      | 6.4      | 23.1     |
| EBITDA margin (%) | 11.0     | 9.0      | 8.9      | 11.3     |
| P/E (x)           | 6.4      | -        | 37.3     | 10.3     |
| P/BV (x)          | 0.6      | 0.7      | 0.7      | 0.7      |
| RoE (%)           | 9.7      | 0.0      | 2.0      | 7.1      |
| RoCE (%)          | 8.8      | 5.6      | 4.5      | 6.3      |
| EV/Sales (x)      | 0.6      | 0.7      | 0.8      | 0.7      |
| EV/EBITDA (x)     | 5.5      | 7.3      | 8.5      | 6.3      |

Source: Company, Angel Research; Note: CMP as of August 14, 2015

## NEUTRAL

|              |      |
|--------------|------|
| CMP          | ₹237 |
| Target Price | -    |

|                   |   |
|-------------------|---|
| Investment Period | - |
|-------------------|---|

| Stock Info         |           |
|--------------------|-----------|
| Sector             | Steel     |
| Market Cap (₹ cr)  | 23,028    |
| Net Debt (₹ cr)    | 73,265    |
| Beta               | 1.3       |
| 52 Week High / Low | 554 / 229 |
| Avg. Daily Volume  | 17,60,998 |
| Face Value (₹)     | 10        |
| BSE Sensex         | 28,067    |
| Nifty              | 8,519     |
| Reuters Code       | TISC.BO   |
| Bloomberg Code     | TATA IN   |

| Shareholding Pattern (%) |      |
|--------------------------|------|
| Promoters                | 31.4 |
| FII / NRIs / OCBs        | 12.4 |
| MF / Banks / Indian FIIs | 28.8 |
| Indian Public / Others   | 27.5 |

| Abs. (%)   | 3m     | 1yr    | 3yr    |
|------------|--------|--------|--------|
| Sensex     | 3.2    | 7.5    | 58.3   |
| Tata Steel | (35.2) | (56.2) | (41.6) |

#### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: 1QFY2016 performance (Standalone)**

| Y/E March (₹ Cr)              | 1QFY16       | 1QFY15        | % chg (yoy)   | 4QFY15        | % chg (qoq)   | FY2015        | FY2014        | yoy %         |
|-------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net Sales</b>              | <b>9,094</b> | <b>10,468</b> | <b>(13.1)</b> | <b>10,635</b> | <b>(14.5)</b> | <b>41,785</b> | <b>41,711</b> | <b>0.2</b>    |
| - Consumption of Raw Material | 2,368        | 2,288         | 3.5           | 3,490         | (32.2)        | 11,651        | 9,875         | 18.0          |
| (% of Net Sales)              | 26.0         | 21.9          |               | 32.8          |               | 27.9          | 23.7          |               |
| - Power & Fuel                | 694          | 721           | (3.7)         | 635           | 9.4           | 2,570         | 2,565         | 0.2           |
| (% of Net Sales)              | 7.6          | 6.9           |               | 6.0           |               | 6.2           | 6.1           |               |
| - Staff Costs                 | 1,082        | 1,130         | (4.2)         | 1,168         | (7.3)         | 4,606         | 3,673         | 25.4          |
| (% of Net Sales)              | 11.9         | 10.8          |               | 11.0          |               | 11.0          | 8.8           |               |
| Freight & Handling            | 695          | 691           | 0.6           | 771           | (9.8)         | 2,883         | 2,755         | 4.7           |
| (% of Net Sales)              | 7.6          | 6.6           |               | 7.3           |               | 6.9           | 6.6           |               |
| - Other expenses              | 2,565        | 2,381         | 7.7           | 2,892         | (11.3)        | 10,065        | 10,026        | 0.4           |
| (% of Net Sales)              | 28.2         | 22.7          |               | 27.2          |               | 24.1          | 24.0          |               |
| Total Expenditure             | 7,405        | 7,212         | 2.7           | 8,956         | (17.3)        | 31,776        | 28,894        | 10.0          |
| <b>Operating Profit</b>       | <b>1,689</b> | <b>3,256</b>  | <b>(48.1)</b> | <b>1,679</b>  | <b>0.6</b>    | <b>10,009</b> | <b>12,817</b> | <b>(21.9)</b> |
| OPM (%)                       | 18.6         | 31.1          |               | 15.8          |               | 24.0          | 30.7          |               |
| Interest                      | 532          | 492           | 8.2           | 532           | 0.0           | 1,976         | 1,821         | 8.5           |
| Depreciation                  | 573          | 493           | 16.1          | 572           | 0.0           | 1,998         | 1,929         | 3.6           |
| Other Income                  | 69           | 144           | (52.1)        | 69            | 0.1           | 583           | 788           | (26.0)        |
| Exceptional Items             | (44)         | 788           |               | (44)          |               | 1,891         | (142)         |               |
| <b>Profit before Tax</b>      | <b>608</b>   | <b>3,202</b>  | <b>(81.0)</b> | <b>599</b>    | <b>1.6</b>    | <b>8,509</b>  | <b>9,714</b>  | <b>(12.4)</b> |
| (% of Net Sales)              | 6.7          | 30.6          |               | 5.6           |               | 20.4          | 23.3          |               |
| Tax                           | (215)        | 934           | (123.1)       | (215)         | (0.0)         | 2,070         | 3,301         | (37.3)        |
| (% of PBT)                    | (35.4)       | 29.2          |               | (36.0)        |               | 24.3          | 34.0          |               |
| <b>Net income</b>             | <b>824</b>   | <b>2,268</b>  | <b>(63.7)</b> | <b>814</b>    | <b>1.2</b>    | <b>6,439</b>  | <b>6,412</b>  | <b>0.4</b>    |
| <b>Adjusted net income</b>    | <b>868</b>   | <b>1,480</b>  | <b>(41.4)</b> | <b>858</b>    | <b>1.1</b>    | <b>4,548</b>  | <b>6,554</b>  | <b>(30.6)</b> |

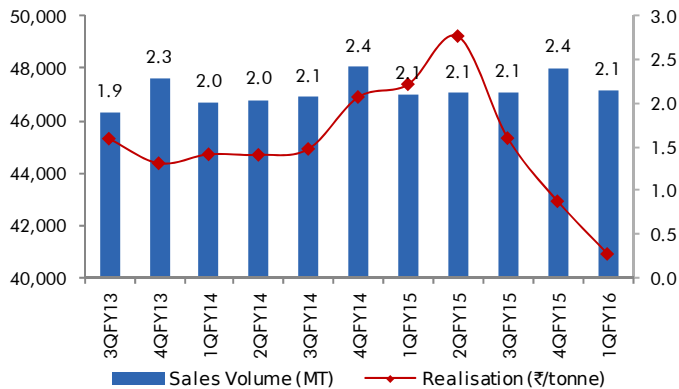
Source: Company, Angel Research

## Result highlights

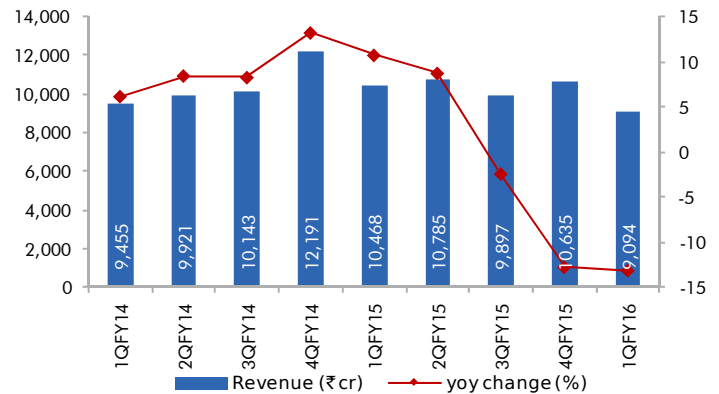
### Raw Material cost savings offset impact of lower realisation

The company's standalone revenues for the quarter declined by 13% yoy and 14% on a sequential basis to ₹9,094cr (3% ahead of our estimate of ₹8,871cr). Standalone sales volume increased 2% yoy at 2.14MT, while blended realisation declined by 15% yoy to ₹42,434/tonne, 3% higher than our estimate of ₹41,674. Steel realisation declined 14% yoy to ₹40,913, lower than the decline in domestic average landed HRC prices which declined by 21% on a yoy basis.

Raw material expenses however were below our estimates at ₹2,368cr (~26% of revenues), vs our estimate of ₹2,734cr. The cost was below expectations on account of lower than estimated consumption of imported iron ore (0.3MT vs our estimate of 0.8MT). Tata Steel purchased 5MT of iron ore and used ~3.5MT in FY2015. Other expenses (including freight and fuel) were however higher than expected at ₹3,955cr (~43% of revenues) as against our estimate of ₹3,575cr. Staff cost also came ahead of expectations at ₹1,082cr (~12% of revenues) as against our estimate of ₹976cr.

**Exhibit 2: Blended realisation continues to fall**


Source: Company, Angel Research

**Exhibit 3: Standalone top-line declines ~13% yoy**


Source: Company, Angel Research

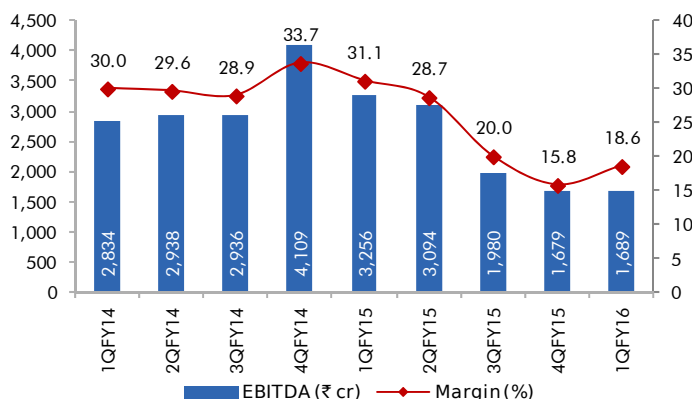
Despite the increase in staff costs and other operating expenses, the sharp fall in raw material expenses resulted in EBITDA margin coming in higher than expected at ~18.6%, which is well ahead of our estimate of ~15.9%. EBITDA though declined 48% yoy led by the sharp fall in realisation and increased other expenses. The company's EBITDA/tonne declined by ~49% yoy to ₹7,880.

**Exhibit 4: Quarterly Performance Trend (Standalone)**

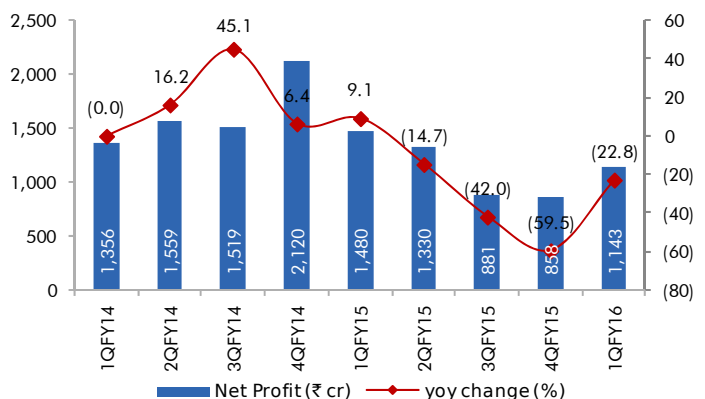
|                                | 1QFY14 | 2QFY14 | 3QFY14 | 4QFY14 | 1QFY15 | 2QFY15 | 3QFY15 | 4QFY15 | 1QFY16 |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Steel Realisation (US\$/tonne) | 799    | 720    | 725    | 759    | 775    | 813    | 731    | 689    | 644    |
| EBITDA (US\$/tonne)            | 258    | 232    | 229    | 276    | 259    | 242    | 150    | 112    | 124    |

Source: Company, Angel Research

Other income jumped sharply to ₹749cr led by gains on sale of investments worth ~₹900cr, while depreciation and interest expenses were lower on account of one-time expenses in 1QFY2015. The better than expected EBITDA and higher other income along with exceptional gains boosted the net profit to ₹1,249cr vs our expectations of ₹544cr.

**Exhibit 5: Standalone EBITDA margin expands to ~19%**


Source: Company, Angel Research

**Exhibit 6: Standalone net profit declines 23% yoy**


Source: Company, Angel Research

**Exhibit 7: 1QFY2016 performance (Consolidated)**

| Y/E March (₹ Cr)              | 1QFY16        | 1QFY15        | % chg (yoy)   | 4QFY15         | % chg (qoq)    | FY2015          | FY2014          | yoy %          |
|-------------------------------|---------------|---------------|---------------|----------------|----------------|-----------------|-----------------|----------------|
| <b>Net Sales</b>              | <b>30,300</b> | <b>36,427</b> | <b>(16.8)</b> | <b>33,666</b>  | <b>(10.0)</b>  | <b>1,39,504</b> | <b>1,48,614</b> | <b>(6.1)</b>   |
| - Consumption of Raw Material | 11,045        | 14,546        | (24.1)        | 13,434         | (17.8)         | 55,667          | 62,737          | (11.3)         |
| (% of Net Sales)              | 36.5          | 39.9          |               | 39.9           |                | 39.9            | 42.2            |                |
| - Power& Fuel                 | 1,448         | 1,607         | (9.8)         | 1,435          | 0.9            | 5,913           | 6,036           | (2.0)          |
| (% of Net Sales)              | 4.8           | 4.4           |               | 4.3            |                | 4.2             | 4.1             |                |
| - Staff Costs                 | 4,896         | 5,632         | (13.1)        | 5,426          | (9.8)          | 21,408          | 20,303          | 5.4            |
| (% of Net Sales)              | 16.2          | 15.5          |               | 16.1           |                | 15.3            | 13.7            |                |
| Freight & Handling            | 2,031         | 2,190         | (7.3)         | 2,301          | (11.7)         | 8,811           | 9,008           | (2.2)          |
| (% of Net Sales)              | 6.7           | 6.0           |               | 6.8            |                | 6.3             | 6.1             |                |
| - Other expenses              | 8,106         | 8,179         | (0.9)         | 9,527          | (14.9)         | 35,168          | 34,119          | 3.1            |
| (% of Net Sales)              | 26.8          | 22.5          |               | 28.3           |                | 25.2            | 23.0            |                |
| Total Expenditure             | 27,526        | 32,155        | (14.4)        | 32,123         | (14.3)         | 1,26,968        | 1,32,203        | (4.0)          |
| <b>Operating Profit</b>       | <b>2,774</b>  | <b>4,273</b>  | <b>(35.1)</b> | <b>1,543</b>   | <b>79.8</b>    | <b>12,536</b>   | <b>16,411</b>   | <b>(23.6)</b>  |
| OPM (%)                       | 9.2           | 11.7          |               | 4.6            |                | 9.0             | 11.0            |                |
| Interest                      | 1,098         | 1,252         | (12.3)        | 1,195          | (8.1)          | 4,848           | 4,337           | 11.8           |
| Depreciation                  | 1,347         | 1,550         | (13.1)        | 1,513          | (11.0)         | 5,944           | 5,841           | 1.8            |
| Other Income                  | 762           | 216           | 252.6         | 139            | 446.7          | 796             | 517             | 54.1           |
| Exceptional Items             | 158           | (262)         |               | (4,811)        |                | (3,929)         | (28)            |                |
| <b>Profit before Tax</b>      | <b>1,250</b>  | <b>1,424</b>  | <b>(12.2)</b> | <b>(5,837)</b> | <b>(121.4)</b> | <b>(1,388)</b>  | <b>6,722</b>    | <b>(120.6)</b> |
| (% of Net Sales)              | 4.1           | 3.9           |               | (17.3)         |                | (1.0)           | 4.5             |                |
| Tax                           | 515           | 1,080         | (52.3)        | (134)          | (483.3)        | 2,567           | 3,058           | (16.0)         |
| (% of PBT)                    | 41.2          | 75.9          |               | 2.3            |                | (185.0)         | 45.5            |                |
| <b>Profit after Tax</b>       | <b>735</b>    | <b>343</b>    | <b>114.2</b>  | <b>(5,702)</b> | <b>(112.9)</b> | <b>(3,955)</b>  | <b>3,664</b>    | <b>(208.0)</b> |
| Share of profit               | 21            | 9             |               | 13             |                | 13              | (70)            |                |
| Minority interest             | 7             | (14)          |               | 15             |                | 17              | 1               |                |
| <b>Profit after Tax</b>       | <b>763</b>    | <b>337</b>    | <b>126.2</b>  | <b>(5,674)</b> | <b>(113.4)</b> | <b>(3,926)</b>  | <b>3,595</b>    | <b>(209.2)</b> |
| (% of Net Sales)              | 2.5           | 0.9           |               | (16.9)         |                | (2.8)           | 2.4             |                |
| <b>Adjusted net income</b>    | <b>605</b>    | <b>600</b>    | <b>0.8</b>    | <b>(863)</b>   | <b>(170.0)</b> | <b>3</b>        | <b>3,623</b>    | <b>(99.9)</b>  |

Source: Company, Angel Research

**Exhibit 8: Consolidated – 1QFY2016 Actual vs Angel estimates**

| (₹ cr)            | Actual | Estimates | Variation (%) |
|-------------------|--------|-----------|---------------|
| Net sales         | 30,300 | 31,096    | (2.6)         |
| EBITDA            | 2,774  | 2,211     | (25.5)        |
| EBITDA margin (%) | 9.2    | 7.1       | 205bp         |

Source: Company, Angel Research

## Result highlights - Consolidated

### Overseas operations remain under pressure

On a consolidated basis, the company's net sales declined by ~17% yoy to ₹30,300cr (~3% below our estimate of ₹31,096cr). Tata Steel Europe's sales volumes increased by 7.5% yoy to 3.44MT, in line with our expectations. Realisation declined 25% to \$817/tonne as against \$1,084/tonne in 1QFY2015. The EBITDA/tonne declined sharply to \$26/tonne as against \$52 in 1QFY2015 and well below our estimate of \$43. Europe EBITDA was affected by currency losses, led by unfavourable movement of the GBP against the USD and EUR, and pressure from imports. The Management indicated that steel demand is increasing at a slower pace than expected and that most of the incremental demand would be catered to by imports.

SEA volumes continued to remain under pressure, with deliveries declining 36% yoy to 0.69MT. However, SEA posted an EBITDA of ₹34cr for 1QFY2016, as against an EBITDA of ₹30cr in 1QFY2015 and an EBITDA loss of ₹232cr in the sequential previous quarter. The other subsidiaries posted a strong performance with EBITDA of ₹476cr as against ₹34cr in 1QFY2015.

### Exhibit 9: Quarterly Performance Trend (Tata Steel Europe)

|                          | 1QFY14 | 2QFY14 | 3QFY14 | 4QFY14 | 1QFY15 | 2QFY15 | 3QFY15 | 4QFY15 | 1QFY16 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Deliveries (MT)          | 3.1    | 3.5    | 3.2    | 4.1    | 3.2    | 3.4    | 3.3    | 3.8    | 3.4    |
| Realisation (US\$/tonne) | 1049   | 985    | 1047   | 969    | 1084   | 992    | 945    | 824    | 817    |
| EBITDA (US\$/tonne)      | 44.2   | 25.8   | 43.5   | 32.5   | 52.0   | 45.7   | 49.1   | 44.4   | 26.3   |

Source: Company, Angel Research

## **Investment arguments**

### **Capacity expansion remains on track**

Tata Steel is setting up a 6mn-tonne integrated steel plant (including cold rolling mill) in two phases of 3mn tonne each. The Kalinganagar Steel Plant is a state-of-the-art steel plant that will increase production capacity, widen the product portfolio and help Tata Steel to diversify the customer base. Commercial production at Phase-1 of the new Kalinganagar plant is expected to commence in 2HFY2016. The Management expects ramp up to remain slow as it is a greenfield capacity. We factor in an additional production of just 0.5MT for FY2016, in-line with the guidance. We expect an additional production of 1MT over each of the next two fiscals, leading to a CAGR of ~10% in production volumes.

### **Mining issues continue to trouble**

The provisions of the MMDR Act 2015 stipulate extension of all captive mines of Tata Steel till March 31, 2030 from the date of expiry of the last renewal period. In accordance with the act, the Odisha Government has allowed the extension of the mines (Joda East, Katamati, Bamebari and Joda West), which is a positive. However, the Jharkhand Government has taken a different interpretation and has stipulated certain terms and conditions, which according to the company are onerous and not in conformity with the Act. This disagreement with the Jharkhand Government's interpretations has resulted in stoppage of despatches of iron ore from the Naomundi mine (which supplies ~1/3<sup>rd</sup> of its iron ore requirement). Any prolonged disruption of supply from this mine will affect the financials adversely.

## Outlook and valuation

We believe with the sharp rise in imports, domestic realisations would continue to remain under pressure in the coming quarters. Europe would also continue to suffer from higher Chinese imports. The discussions regarding the potential sale of the Long Products business to Klesch have been discontinued. The company has now spun-off the business into a separate subsidiary. Any move to exit this business could provide a trigger. We however downgrade the stock to Neutral, in line with the deteriorating fundamentals of the business and high leverage levels.

### Exhibit 10: SOTP valuation (FY2017E)

|                         | EBITDA | Multiple | EV (₹ cr)       |
|-------------------------|--------|----------|-----------------|
| Tata Steel India        | 10,098 | 6.5      | 65,640          |
| CWIP                    | 9,996  | 0.8      | 7,497           |
| TSE                     | 4,618  | 5.0      | 23,089          |
| SEA                     | 804    | 5.0      | 4,020           |
| <b>Total EV</b>         |        |          | <b>1,00,246</b> |
| Debt                    |        |          | 84,701          |
| Cash                    |        |          | 6,181           |
| Investments             |        |          | 2,450           |
| Minority Interest       |        |          | 1,713           |
| Equity Value            |        |          | 22,462          |
| <b>Target price (₹)</b> |        |          | <b>237</b>      |

Source: Angel Research

## Company background:

Incorporated in 1907, Tata Steel is the world's tenth largest steel company and the world's second most geographically diversified steel producer with major operations in India and Europe. During April 2007, the company acquired Corus (now Tata Steel Europe), the second largest steel producer in Europe, for a consideration of US\$12bn. Its India operations' capacity stands at ~13mn tonne, while its European operations' capacity stands at ~17MT.

**Profit & Loss Statement (Consolidated)**

| Y/E March (₹ cr)                | FY2013          | FY2014          | FY2015E         | FY2016E         | FY2017E         |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Total operating income</b>   | <b>1,34,712</b> | <b>1,48,614</b> | <b>1,39,504</b> | <b>1,26,760</b> | <b>1,37,307</b> |
| % chg                           | 1.4             | 10.3            | (6.1)           | (9.1)           | 8.3             |
| <b>Total Expenditure</b>        | <b>1,22,390</b> | <b>1,32,203</b> | <b>1,26,968</b> | <b>1,15,448</b> | <b>1,21,787</b> |
| Net raw materials               | 60,536          | 62,737          | 55,667          | 42,122          | 42,248          |
| Other mfg costs                 | 12,988          | 15,044          | 14,725          | 11,408          | 12,358          |
| Personnel                       | 18,918          | 20,303          | 21,408          | 19,523          | 20,183          |
| Other                           | 29,948          | 34,119          | 35,168          | 42,395          | 46,998          |
| <b>EBITDA</b>                   | <b>12,321</b>   | <b>16,411</b>   | <b>12,536</b>   | <b>11,312</b>   | <b>15,520</b>   |
| % chg                           | (0.8)           | 33.2            | (23.6)          | (9.8)           | 37.2            |
| (% of Net Sales)                | 9.1             | 11.0            | 9.0             | 8.9             | 11.3            |
| Depreciation & Amortisation     | 5,575           | 5,841           | 5,944           | 6,897           | 8,024           |
| <b>EBIT</b>                     | <b>6,746</b>    | <b>10,570</b>   | <b>6,592</b>    | <b>4,415</b>    | <b>7,497</b>    |
| % chg                           | (14.6)          | 56.7            | (37.6)          | (33.0)          | 69.8            |
| (% of Net Sales)                | 5.0             | 7.1             | 4.7             | 3.5             | 5.5             |
| Interest & other Charges        | 3,968           | 4,337           | 4,848           | 4,854           | 4,973           |
| Other Income                    | 479             | 517             | 796             | 1,336           | 800             |
| (% of PBT)                      | 14.7            | 7.7             | 31.3            | 149.0           | 24.1            |
| Share in profit of Associates   | -               | -               | -               | -               | -               |
| <b>Recurring PBT</b>            | <b>3,257</b>    | <b>6,750</b>    | <b>2,541</b>    | <b>897</b>      | <b>3,324</b>    |
| % chg                           | (37.6)          | 107.2           | (62.4)          | (64.7)          | 270.6           |
| Extra. Inc/(Expense)            | (7,390)         | (28)            | (3,929)         | 0               | 0               |
| <b>PBT (reported)</b>           | <b>(4,133)</b>  | <b>6,722</b>    | <b>(1,388)</b>  | <b>897</b>      | <b>3,324</b>    |
| Tax                             | 3,229           | 3,058           | 2,567           | 296             | 1,097           |
| (% of PBT)                      | -               | 45.5            | -               | 33.0            | 33.0            |
| <b>PAT (reported)</b>           | <b>(7,362)</b>  | <b>3,664</b>    | <b>(3,955)</b>  | <b>601</b>      | <b>2,227</b>    |
| Add: Share of earnings of asso. | 90              | 1               | 17              | 19              | 22              |
| Less: Minority interest (MI)    | 214             | (70)            | 13              | (2)             | (7)             |
| <b>PAT after MI (reported)</b>  | <b>(7,058)</b>  | <b>3,595</b>    | <b>(3,926)</b>  | <b>618</b>      | <b>2,242</b>    |
| <b>ADJ. PAT</b>                 | <b>332</b>      | <b>3,623</b>    | <b>3</b>        | <b>618</b>      | <b>2,242</b>    |
| (% of Net Sales)                | 0.2             | 2.4             | 0.0             | 0.5             | 1.6             |
| <b>Adjusted EPS (₹)</b>         | <b>3.4</b>      | <b>37.3</b>     | <b>0.0</b>      | <b>6.4</b>      | <b>23.1</b>     |



**Balance Sheet (Consolidated)**

| Y/E March (₹ cr)            | FY2013          | FY2014          | FY2015E         | FY2016E         | FY2017E         |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>SOURCES OF FUNDS</b>     |                 |                 |                 |                 |                 |
| Equity Share Capital        | 971             | 984             | 984             | 984             | 984             |
| Reserves & Surplus          | 33,201          | 39,561          | 30,378          | 29,860          | 30,962          |
| <b>Shareholders Funds</b>   | <b>34,172</b>   | <b>40,532</b>   | <b>31,349</b>   | <b>30,831</b>   | <b>31,934</b>   |
| Share Warrants              | 21              | 20              | 20              | 20              | 20              |
| Hybrid perpetual securities | 2,275           | 2,275           | 2,275           | 2,275           | 2,275           |
| Minority Interest           | 1,669           | 1,738           | 1,704           | 1,706           | 1,713           |
| Total Loans                 | 68,507          | 81,609          | 80,701          | 83,201          | 84,701          |
| Deferred Tax Liability      | 3,155           | 2,596           | 2,885           | 2,885           | 2,885           |
| Other LT liabilities        | 6,477           | 7,994           | 9,211           | 9,211           | 9,211           |
| <b>Total Liabilities</b>    | <b>1,16,277</b> | <b>1,36,764</b> | <b>1,28,145</b> | <b>1,30,129</b> | <b>1,32,739</b> |
| <b>APPLICATION OF FUNDS</b> |                 |                 |                 |                 |                 |
| Gross Block                 | 1,34,774        | 1,56,143        | 1,77,511        | 1,90,331        | 2,00,588        |
| Less: Acc. Depreciation     | 79,838          | 96,984          | 1,02,928        | 1,09,825        | 1,17,849        |
| <b>Net Block</b>            | <b>54,937</b>   | <b>59,158</b>   | <b>74,583</b>   | <b>80,506</b>   | <b>82,740</b>   |
| Capital Work-in-Progress    | 14,277          | 26,822          | 8,788           | 8,110           | 9,996           |
| Goodwill                    | 13,065          | 15,749          | 13,408          | 13,408          | 13,408          |
| Investments                 | 3,258           | 5,093           | 3,455           | 3,063           | 3,063           |
| <b>Current Assets</b>       | <b>53,464</b>   | <b>55,321</b>   | <b>52,220</b>   | <b>49,459</b>   | <b>50,572</b>   |
| Cash                        | 9,834           | 8,605           | 8,750           | 7,476           | 6,181           |
| Loans & Advances            | 4,061           | 3,193           | 4,603           | 4,603           | 4,603           |
| Other                       | 38,085          | 42,886          | 38,460          | 36,973          | 39,380          |
| <b>Current liabilities</b>  | <b>30,636</b>   | <b>34,881</b>   | <b>30,800</b>   | <b>30,909</b>   | <b>33,531</b>   |
| Net Current Assets          | <b>22,829</b>   | <b>20,440</b>   | <b>21,420</b>   | <b>18,550</b>   | <b>17,041</b>   |
| Mis. Exp. not written off   | 0               | 0               | 0               | 0               | 0               |
| <b>Total Assets</b>         | <b>1,16,277</b> | <b>1,36,764</b> | <b>1,28,145</b> | <b>1,30,129</b> | <b>1,32,739</b> |

**Cash flow statement (Consolidated)**

| Y/E March (₹ cr)                 | FY2013          | FY2014          | FY2015E        | FY2016E         | FY2017E         |
|----------------------------------|-----------------|-----------------|----------------|-----------------|-----------------|
| Profit before tax                | (4,133)         | 6,722           | (1,388)        | 897             | 3,324           |
| Depreciation                     | 5,575           | 5,841           | 5,944          | 6,897           | 8,024           |
| Change in Working Capital        | 3,841           | (1,270)         | (834)          | 1,595           | 215             |
| Less: Other income               | 11,321          | 4,865           | 2,712          | -               | -               |
| Direct taxes paid                | (2,569)         | (3,013)         | (2,567)        | (296)           | (1,097)         |
| <b>Cash Flow from Operations</b> | <b>14,035</b>   | <b>13,146</b>   | <b>3,866</b>   | <b>9,093</b>    | <b>10,465</b>   |
| (Inc.)/ Dec. in Fixed Assets     | (15,222)        | (16,126)        | (3,334)        | (12,143)        | (12,143)        |
| (Inc.)/ Dec. in Investments      | 1,926           | (326)           | 1,638          | 393             | -               |
| (Inc.)/ Dec. in loans and adv.   | -               | -               | -              | -               | -               |
| Other income                     | -               | -               | -              | -               | -               |
| <b>Cash Flow from Investing</b>  | <b>(13,297)</b> | <b>(16,451)</b> | <b>(1,696)</b> | <b>(11,750)</b> | <b>(12,143)</b> |
| Issue of Equity                  | 262             | 12              | -              | -               | -               |
| Inc./(Dec.) in loans             | 2,918           | 5,875           | (908)          | 2,500           | 1,500           |
| Dividend Paid (Incl. Tax)        | (1,359)         | (924)           | (1,117)        | (1,117)         | (1,117)         |
| Others                           | (3,602)         | (3,948)         | -              | -               | -               |
| <b>Cash Flow from Financing</b>  | <b>(1,780)</b>  | <b>1,015</b>    | <b>(2,025)</b> | <b>1,383</b>    | <b>383</b>      |
| Other Adjustments                | 198             | 1,073           | -              | -               | -               |
| Inc./(Dec.) in Cash              | (844)           | (1,218)         | 145            | (1,274)         | (1,295)         |
| <b>Opening Cash balances</b>     | <b>10,513</b>   | <b>9,669</b>    | <b>8,605</b>   | <b>8,750</b>    | <b>7,476</b>    |
| <b>Closing Cash balances</b>     | <b>9,669</b>    | <b>8,451</b>    | <b>8,750</b>   | <b>7,476</b>    | <b>6,181</b>    |

### Key ratios

| Y/E March                       | FY2013 | FY2014 | FY2015E | FY2016E | FY2017E |
|---------------------------------|--------|--------|---------|---------|---------|
| <b>Valuation Ratio (x)</b>      |        |        |         |         |         |
| P/E (on FDEPS)                  | 69.3   | 6.4    | -       | 37.3    | 10.3    |
| P/CEPS                          | -      | 2.4    | 11.4    | 3.1     | 2.2     |
| P/BV                            | 0.7    | 0.6    | 0.7     | 0.7     | 0.7     |
| P/BV (ex Goodwill)              | 1.1    | 0.9    | 1.3     | 1.3     | 1.2     |
| Dividend yield (%)              | -      | 4.2    | 4.2     | 4.2     | 4.2     |
| EV/Sales                        | 0.6    | 0.6    | 0.7     | 0.8     | 0.7     |
| EV/EBITDA                       | 6.4    | 5.5    | 7.3     | 8.5     | 6.3     |
| EV/Total Assets                 | 0.7    | 0.7    | 0.7     | 0.7     | 0.7     |
| <b>Per Share Data (₹)</b>       |        |        |         |         |         |
| EPS (Basic)                     | 3.4    | 37.3   | (40.4)  | 6.4     | 23.1    |
| Adjusted EPS (fully diluted)    | 3.4    | 37.3   | 0.0     | 6.4     | 23.1    |
| Cash EPS                        | (15.3) | 97.1   | 20.8    | 77.4    | 105.7   |
| DPS                             | 8.0    | 10.0   | 10.0    | 10.0    | 10.0    |
| Book Value                      | 351.8  | 417.2  | 322.7   | 317.4   | 328.7   |
| Book Value (adj. for Goodwill)  | 217.3  | 255.1  | 184.7   | 179.4   | 190.7   |
| <b>Dupont Analysis</b>          |        |        |         |         |         |
| EBIT margin                     | 5.0    | 7.1    | 4.7     | 3.5     | 5.5     |
| Tax retention ratio (%)         | -      | 54.5   | -       | 67.0    | 67.0    |
| Asset turnover (x)              | 1.4    | 1.4    | 1.2     | 1.0     | 1.1     |
| ROIC (Post-tax)                 | 12.0   | 5.4    | 15.9    | 2.4     | 4.1     |
| Cost of Debt (Post Tax)         | 13.1   | 3.6    | 19.1    | 4.4     | 4.3     |
| Leverage (x)                    | 1.7    | 1.8    | 2.3     | 2.5     | 2.5     |
| Operating ROE                   | 10.2   | 8.8    | 8.8     | (2.6)   | 3.6     |
| <b>Returns (%)</b>              |        |        |         |         |         |
| ROCE (Pre-tax)                  | 6.3    | 8.8    | 5.6     | 4.5     | 6.3     |
| Angel ROIC (Pre-tax)            | 23.8   | 27.3   | 20.3    | 19.1    | 24.2    |
| ROE                             | 0.9    | 9.7    | 0.0     | 2.0     | 7.1     |
| <b>Turnover ratios (x)</b>      |        |        |         |         |         |
| Asset Turnover (Gross Block)    | 1.1    | 1.0    | 0.8     | 0.7     | 0.7     |
| Inventory (days)                | 73     | 69     | 74      | 74      | 74      |
| Receivables (days)              | 39     | 36     | 38      | 38      | 38      |
| Payables (days)                 | 53     | 51     | 54      | 54      | 54      |
| WC cycle (ex-cash) (days)       | 34     | 30     | 32      | 34      | 29      |
| <b>Solvency ratios (x)</b>      |        |        |         |         |         |
| Net debt to equity              | 1.7    | 1.8    | 2.3     | 2.5     | 2.5     |
| Net debt to EBITDA              | 4.8    | 4.4    | 5.7     | 6.7     | 5.1     |
| Interest Coverage (EBIT / Int.) | 1.7    | 2.4    | 1.4     | 0.9     | 1.5     |

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### Disclosure of Interest Statement

### Tata Steel

|  |    |
|--|----|
| 1. Analyst ownership of the stock                                  | No |
| 2. Angel and its Group companies ownership of the stock            | No |
| 3. Angel and its Group companies' Directors ownership of the stock | No |
| 4. Broking relationship with company covered                       | No |

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)