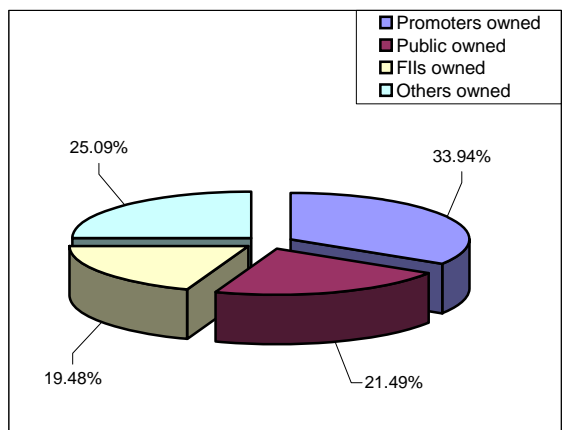


Stock statistics	04 July 2008
Market Cap (Rs Mn) :	4,55,268.11
52-Week high/low (Rs) :	1,049/533
Face value :	10
BSE Code :	500470
NSE Code :	TATASTEEL
Industry :	Steel
Shares outstanding :	73,07,67,427
Avg. daily vol. (30 days) :	1,027.70

Tata Steel is the largest private sector integrated steel producer in India. Being a century old company, it has an established presence across the entire value chain of steel manufacturing, from mining and processing iron ore and coal to producing and distributing finished products. The company ranks second in the domestic steel industry after SAIL. The company's major focus segments are the automotive and construction industries. The company's steel plant having a capacity of around five million tonnes is located at Jamshedpur in Jharkhand. Additionally, the company has a production facility in Jamshedpur which manufactures welded steel tubes. The company also has a ferro chrome plant in Orissa, bearings plant in West Bengal and wire manufacturing facilities in Maharashtra and Karnataka. Its marketing network spans 24 cities in India and 15 countries across the globe in North America, Europe, southern Africa and Asia.

In April 2007, the company acquired Corus, the second largest steel producer in Europe and the ninth largest steel producer in the world for USD 13.70 billion.

Shareholding Pattern (as on 31 Mar'08)



Investment Rationale

- The company acquired Corus in April 2007, the second largest steel producer in Europe and the ninth largest steel producer in the world for USD 13.70 billion. Corus has production facilities in the United Kingdom and the Netherlands and downstream manufacturing facilities in Germany, France, Norway and Belgium. With the acquisition of Corus, which is four times the size of the Indian operations of the company, Tata Steel became the world's sixth largest steel company, having an annual crude steel capacity of 28 million tonnes and a presence in nearly 50 countries. The synergies from this acquisition will be huge in terms of sales volumes, cost efficiencies and long – term growth, part of which got reflected in FY 08 result of Tata Steel in term of sales volume and profit, but lot more will be realized in coming years.
- The company had signed joint venture with Riversdale Mining to develop a hard coking and thermal coal project at key coal exploration license held by Riversdale in Mozambique primarily to feed the operations of Corus. The company being the lowest cost steel producers in the world is having technological and strategic tie-ups with world leaders such as Thyssen, Nippon Steel, Hitachi etc. This JV will provide company with huge coal and iron ore reserves which will help in bringing down the cost and thereby boost the margins for the combined entity.
- The company is leveraging its low cost advantage in India to feed the finishing mills of its global subsidiaries. The company is also focusing on expanding thin margins of Corus through reworking on product pricing, procuring of raw materials and improving the operational efficiencies thereby marking Corus as its suitable counterpart.

Key Statistics (as on 04 July 2008)

CMP	:	623
BV	:	392.76
PE	:	7.09
PB	:	1.59
Beta	:	1.13
Turnover (Rs Mn)	:	1,449.32
Net worth (Rs Mn)	:	2,87,014.60

FINANCIAL STATEMENT ANALYSIS

Rs. mn

Particulars	FY05	FY06	FY07	FY08
Total Income	1,76,972.70	2,23,191.40	2,52,133.10	13,24,264.10
Growth (%)	41.80	26.12	12.97	425.22
Total Expenditure	1,17,141.80	1,61,204.50	1,77,631.60	11,42,156.90
Operating Profit	59,830.90	61,986.90	74,501.50	1,82,107.20
Growth (%)	83.51	3.60	20.19	144.43
OPM	33.81	27.77	29.55	13.75
Other Income	3,866.60	3,811.70	4,380.70	5,742.10
EBIDTA	63,697.50	65,798.60	78,882.20	1,87,849.30
EBITDA margin	36.58	29.54	31.29	14.28
Interest	2,092.50	2,064.10	4,111.90	41,837.60
Depreciation	6,454.60	8,603.70	10,109.80	41,369.50
PBT	55,150.40	55,130.80	64,660.50	1,04,642.20
Tax	18,719.60	17,949.90	21,474.10	40,493.00
Adjusted PAT	36,430.80	37,180.90	43,186.40	64,149.20
Growth (%)	103.41	2.06	16.15	48.54
Adjusted NPM	20.59	16.66	17.13	4.84
Reported PAT	36,171.20	36,994.50	41,772.70	1,23,499.80
EPS	65.80	67.20	74.50	87.90
Book value	132.51	185.72	249.55	393.11
Equity Capital	5,536.70	5,536.70	5,800.00	7,301.10
Net Worth	73,364.60	1,02,825.10	1,44,740.90	2,87,014.60
Return on Net Worth	49.66	36.16	29.84	22.35

**Results are consolidated (including Corus results for FY08)

***Results for FY08 are not comparable with the FY07 results due to consolidation of Corus in FY08

The company has posted strong growth in sales revenues with the consolidation of Corus. The consolidated sales revenue for the company jumped to Rs 13,24,264.10 million along with sharp rise in EBITDA which stood at Rs 1,87,849.30 for the FY08. The margins for the combined entity were under pressure due to rising raw material cost, rising interest cost and higher effective tax rate. The adjusted net profit for the company rose to Rs 64,149.20 million for the FY08 whereas reported net profit stood at Rs 1,23,500 million due to inclusion of actuarial gain on adjustment of asset value on employee benefit scheme of Corus. The book value for the combined entity stood at Rs 393.11 for the FY08. The company has recently commissioned its brownfield capacity expansion of 1.80 mtpa and further expansion of 2.90 mtpa at Jamshedpur is likely to be commissioned by October 2010. This brownfield capacity expansion will get reflected in financials of the company in the coming years.

Valuation

We expect that the acquisition of Corus has opened a long way for the growth of the company across the globe and Corus being larger than the company is a suitable counterpart to leverage the overall growth for the company in terms of operational efficiency and huge production capacity which will drive the sales volume for the company as whole. We also expect that the steel demand across the globe to remain strong but major chunk of it will be driven by Chinese consumption of steel. The company will face some pressure due to rise in coking coal and iron ore prices but as Corus has already taken into account the price hike therefore it will be able to pass the cost increase and thereby provide some relief for the combined operations.

The stock at the current market price of Rs 623 is trading at 7.09 times to its earning per share of Rs 87.90 and 1.59 times to its book value of Rs 393.11. The stock is expected to provide huge upside potential in medium to long – term. Therefore, we are initiating ‘BUY’ signal on the stock with the target price of Rs 825 which is approximately 32 % up from the current market price of Rs 623.

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