Deutsche Bank

7 September 2009

Tata Steel Limited

Reuters: **TISC.BO** Bloomberg: **TATA IN** Exchange: **BSE** Ticker: **TISC**

Earnings turnaround at Corus; Upgrade to Buy

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Worst is behind; upgrade to Buy with revised TP of INR540/share
We have upgraded Tata Steel to Buy (see our Alert of earlier today), with the upgrade premised on three key factors: (1) our overriding view that the worst is over for Corus and that each quarter at Corus should be incrementally better, following the record negative EBITDA of US$387mn in 1Q'FY10, (2) 132% CAGR in consolidated EPS over FY10-12E, and (3) what we see as attractive valuation - the stock currently trades at a FY11E EV/EBITDA of 4.9x, an 18% discount to the average valuation of its global peers.

Earnings turnaround at Corus – a compelling catalyst for investors
The tempest in the global steel industry - which has savaged profitability of almost all world steel majors – now appears to be in retreat. Worries over long-drawn earnings uncertainty at Corus have been a key stock overhang since late last year. Nascent recovery in steel consumption in Europe, a rising capacity utilization rate and a decline in coking coal prices should drive an EBITDA turnaround at Corus. We forecast Corus EBITDA to rise at a CAGR of 260% over FY10-12.

Contribution from high-margin Indian operations to increase
Tata Steel's India operations (among the most competitive in the world) look set to benefit impressively from aggressive organic growth. EBITDA at Indian operations is likely to rise at 21% CAGR over our forecast period. Increasing production in India should result in Indian operations constituting an overwhelming 67% of consolidated EBITDA by FY12 from 46% in FY08 when Corus was acquired.

Raising TP to INR540/share; Upgrade to Buy
Our TP of INR540 is based on a SOTP valuation: Indian operations valued at FY11E EV/EBITDA of 6.4x, UK ops valued at FY11E EV/EBITDA of 5.1x, Asia ops valued at FY11E EV/EBITDA of 2x. Our TP translates into a blended FY11E EV/EBITDA multiple of 5.4x. Key risk: Delay in steel demand recovery. (See pages 8 and 12.)

Forecasts and ratios

Year End Mar 31	2008A	2009A	2010E	2011E	2012E
Sales (INRm)	1,315,358.8	1,473,292.6	**1,123,338.1**	1,237,632.5	1,420,245.4
EBITDA (INRm)	179,931.2	181,276.7	**96,577.7**	157,851.8	194,127.7
EBIT(INRm)	138,562	138,623	**52,638**	113,192	147,998
Reported EPS FD(INR)	171.30	57.44	**17.58**	65.63	90.88
Reported NPAT (INRm)	123,499.8	49,509.0	**15,741.1**	61,647.2	86,275.4
DB EPS growth (%)	13.3	21.5	**-83.3**	273.4	38.5
DB EPS FD(INR)	86.35	104.94	**17.58**	65.63	90.88
PER (x)	7.8	4.3	**25.1**	6.7	4.9
EV/EBITDA (x)	5.4	4.9	**8.7**	5.0	3.9
DPS (net) (INR)	16.31	17.51	**14.82**	17.36	23.05
Yield (net) (%)	2.4	3.8	**3.4**	3.9	5.2

Source: Deutsche Bank estimates, company data

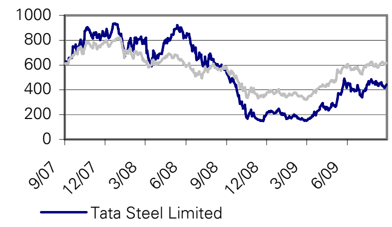
[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Forecast Change

Buy

Price at 7 Sep 2009 (INR)	**441.85**
Price target - 12mth (INR)	**540.00**
52-week range (INR)	**569.00 - 148.65**
BSE 30	**15,689**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-3.1*	*-4.8*	*-21.3*
BSE 30	*3.5*	*3.9*	*8.3*

Stock data

Market cap (INRm)	**410,594**
Market cap (USDm)	**8,439**
Shares outstanding (m)	**895.6**
Major shareholders	**Tata family (27%)**
Free float(%)	**66**
Avg daily value traded (USDm)	**143.4**

Key indicators (FY1)

ROE (%)	**5.4**
Net debt/equity (%)	**157.5**
Book value/share (INR)	**162.12**
Price/book (x)	**2.7**
Net interest cover (x)	**1.5**
Operating profit margin (%)	**4.7**

Related recent research	Date
Tata Steel Limited - Paying the penalty for low capacity utilization	
Abhay Laijawala	31 Aug 2009
The MetalScope - Ore for more	
Abhay Laijawala	14 Aug 2009
SAIL - 1Q'FY10 results surprise on the upside; reiterate buy	
Abhay Laijawala	31 Jul 2009

Deutsche Bank AG/Hong Kong

Model updated:07 September 2009

Running the numbers

Asia

India

Metals & Mining

Tata Steel Limited

Reuters: TISC.BO Bloomberg: TATA IN

Buy

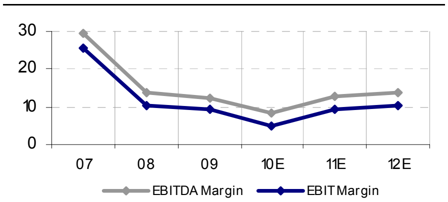
Price (7 Sep 09)	INR 441.85
Target price	INR 540.00
52-week Range	INR 148.65 - 569.00
Market Cap (m)	INRm 410,594 USDm 8,439

Company Profile

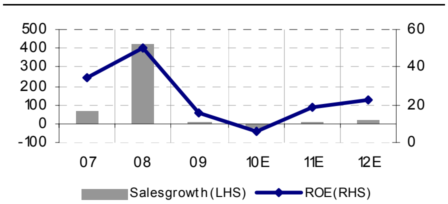
Tata Steel is India's largest private sector steel manufacturer with capacity of 5mn tonnes. With its captive iron ore and coal mines and one of the world's most modern steel making and finishing facilities at Jamshedpur in eastern India, Tata Steel is among the lowest cost producer of steel in the world.

Price Performance

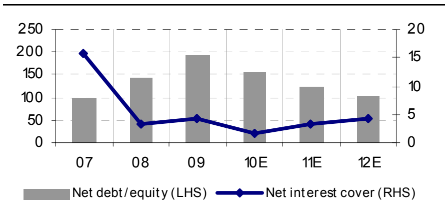
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (INR)	76.19	86.35	104.94	17.58	65.63	90.88
Reported EPS (INR)	73.49	171.30	57.44	17.58	65.63	90.88
DPS (INR)	16.26	16.31	17.51	14.82	17.36	23.05
BVPS (INR)	252.4	187.3	143.5	162.1	207.3	438.3
Weighted average shares (m)	567	721	862	896	939	949
Average market cap (INRm)	251,724	486,662	392,624	410,594	410,594	410,594
Enterprise value (INRm)	244,291	965,727	885,407	842,740	790,956	758,323
Valuation Metrics						
P/E (DB) (x)	5.8	7.8	4.3	25.1	6.7	4.9
P/E (Reported) (x)	6.0	3.9	7.9	25.1	6.7	4.9
P/BV (x)	1.57	3.70	1.44	2.73	2.13	1.01
FCF Yield (%)	nm	1.1	47.3	14.4	17.9	17.7
Dividend Yield (%)	3.7	2.4	3.8	3.4	3.9	5.2
EV/Sales (x)	1.0	0.7	0.6	0.8	0.6	0.5
EV/EBITDA (x)	3.3	5.4	4.9	8.7	5.0	3.9
EV/EBIT (x)	3.8	7.0	6.4	16.0	7.0	5.1
Income Statement (INRm)						
Sales revenue	**252,124**	**1,315,359**	**1,473,293**	**1,123,338**	**1,237,633**	**1,420,245**
Gross profit	**74,502**	**179,931**	**181,277**	**96,578**	**157,852**	**194,128**
EBITDA	**74,502**	**179,931**	**181,277**	**96,578**	**157,852**	**194,128**
Depreciation	10,110	41,370	42,654	43,940	44,660	46,130
Amortisation	0	0	0	0	0	0
EBIT	**64,392**	**138,562**	**138,623**	**52,638**	**113,192**	**147,998**
Net interest income(expense)	-4,112	-41,838	-32,902	-35,449	-34,920	-35,100
Associates/affiliates	0	1,682	607	0	0	0
Exceptionals/extraordinaries	-1,530	61,244	-40,945	0	0	0
Other pre-tax income/(expense)	4,381	5,742	2,657	8,200	8,200	8,200
Profit before tax	**64,661**	**102,466**	**108,378**	**25,389**	**86,472**	**121,098**
Income tax expense	21,474	40,493	18,940	9,648	24,825	34,822
Minorities	0	1,399	-409	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**41,656**	**123,500**	**49,509**	**15,741**	**61,647**	**86,275**
DB adjustments (including dilution)	1,530	-61,244	40,945	0	0	0
DB Net profit	**43,186**	**62,255**	**90,454**	**15,741**	**61,647**	**86,275**
Cash Flow (INRm)						
Cash flow from operations	**63,372**	**85,247**	**218,243**	**94,053**	**114,676**	**120,824**
Net Capex	-69,394	-79,935	-32,632	-36,953	-40,400	-46,400
Free cash flow	**-6,023**	**5,312**	**185,611**	**57,100**	**74,276**	**74,424**
Equity raised/(bought back)	1,734	54,756	2	661	0	0
Dividends paid	-9,429	-14,057	-15,094	-13,776	-16,479	-21,884
Net inc/(dec) in borrowings	221,390	286,290	62,701	-89,081	30,810	-15,462
Other investing/financing cash flows	-124,275	0	-35,153	-6,096	-7,120	-17,120
Net cash flow	**83,397**	**332,300**	**198,066**	**-51,192**	**81,487**	**19,958**
Change in working capital	*8,545*	*-19,777*	*44,598*	*34,372*	*8,368*	*-11,582*
Balance Sheet (INRm)						
Cash and other liquid assets	108,880	42,316	61,484	26,945	102,418	102,469
Tangible fixed assets	142,205	419,631	453,056	446,069	441,809	442,079
Goodwill/intangible assets	4,294	182,056	154,704	155,149	155,149	155,149
Associates/investments	164,975	33,674	64,111	70,207	77,327	94,447
Other assets	75,562	572,351	481,945	389,421	428,563	502,775
Total assets	**495,916**	**1,250,029**	**1,215,300**	**1,087,791**	**1,205,266**	**1,296,919**
Interest bearing debt	260,438	546,728	609,429	520,348	551,158	535,696
Other liabilities	83,097	353,059	319,604	254,195	294,746	336,213
Total liabilities	**343,535**	**899,787**	**929,034**	**774,543**	**845,904**	**871,909**
Shareholders' equity	146,397	341,914	277,317	304,299	350,413	416,062
Minorities	5,984	8,327	8,949	8,949	8,949	8,949
Total shareholders' equity	**152,381**	**350,241**	**286,266**	**313,248**	**359,362**	**425,010**
Net debt	*151,559*	*504,412*	*547,946*	*493,403*	*448,740*	*433,227*
Key Company Metrics						
Sales growth (%)	66.5	421.7	12.0	-23.8	10.2	14.8
DB EPS growth (%)	18.5	13.3	21.5	-83.3	273.4	38.5
EBITDA Margin (%)	29.5	13.7	12.3	8.6	12.8	13.7
EBIT Margin (%)	25.5	10.5	9.4	4.7	9.1	10.4
Payout ratio (%)	22.1	9.5	30.5	84.3	26.4	25.4
ROE (%)	34.2	50.6	16.0	5.4	18.8	22.5
Capex/sales (%)	27.5	6.1	2.2	3.3	3.3	3.3
Capex/depreciation (x)	6.9	1.9	0.8	0.8	0.9	1.0
Net debt/equity (%)	99.5	144.0	191.4	157.5	124.9	101.9
Net interest cover (x)	15.7	3.3	4.2	1.5	3.2	4.2

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

We have upgraded our recommendation on Tata Steel to Buy from Hold. Our upgrade is premised on three key factors (1) our overriding view that the worst is over for Corus. Over the course of current fiscal year, each quarter at Corus should be incrementally better, following the record negative EBITDA of US$387mn in 1Q'FY10, (2) 132% CAGR in consolidated EPS over FY10-FY12E, driven by organic volume growth in India and a steady improvement in capacity utilization in Europe, and (3) what we see as attractive valuation - the stock currently trades at a FY11E EV/EBITDA of 4.9x, an 18% discount to the average valuation of its global peers.

We believe that the tempest in the global steel industry - which has savaged profitability of almost all world steel majors (Indian steel producers have escaped this contagion) - is now in retreat. We expect to see an earnings turnaround at Corus, with a sharp sequential improvement in EBITDA in every quarter beginning with the current quarter. We expect the company to halve its negative EBITDA in 2Q and move to a positive EBITDA trajectory from 3Q'FY11. We expect Corus to report an EBITDA of US$75mn in the current year, with 2H'FY10 performance more than reversing the projected losses in 1H'FY10. The company's Indian operations (among the most competitive in the world) also look set to benefit impressively from the recent (completed last year) and ongoing brown field expansions which should result in the EBITDA (of Indian operations) rising at a CAGR of 21% over our forecast period. Increasing production in India should result in Indian operations constituting an overwhelming 67% of consolidated EBITDA by FY12 from 46% in FY08 when the company acquired Corus. Beyond FY12, the company should benefit from increasing captive raw material linkage at Corus, which should allow EBITDA margins at Corus to rise sharply and move Corus from being a converter of steel to a partially integrated steel producer. The company aspires to source almost 50% of its raw materials captively by 2015 versus 25% currently.

Valuation

We continue to use a sum-of-the-parts valuation methodology to value Tata Steel. We have valued the Indian operations at a multiple of 6.4x FY11E EV/EBITDA - in line with the average valuation at which the stock has traded over the last 15 years (before the Corus acquisition). We have assigned a valuation of 5.1x to Tata Steel's European operations - a 20% discount to the Indian operations. We expect this discount to narrow once raw material self sufficiency is enhanced at Corus. Our SOTP methodology leads to a target price of INR540/share, which translates into a blended FY11E EV/EBITDA multiple of 5.4x – still at a discount to the average multiple of its global peers.

Risks

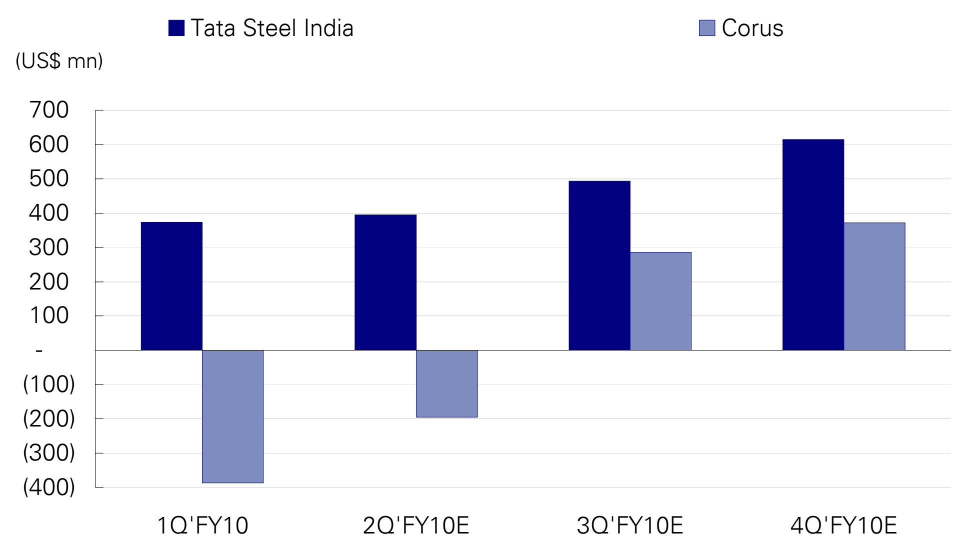
Downside risks primarily stem from:
(1) Steel demand environment remaining challenging into 2H'FY10 against our expectations of beginning of demand recovery, (2) Steel prices in all three key geographies - India, Asia and Europe - continuing on a decline trajectory., (3) If the company is unable to find suitable off-takers for the slab production at Teesside, there could be mothballing and other costs at Teesside, which could depress earnings in FY10.

Is the worst over at Corus?

Corus to report an improving EBITDA trajectory, beginning 2Q'FY10

Tata Steel surprised investors negatively in 1Q'FY10 by reporting a negative EBITDA of US$387mn, which came in sharply below analyst estimates (DB included). The negative EBITDA was attributed to the impact of a sharp decline in capacity utilization levels (down to 53% in 1Q'FY10) which prevented the company from covering its fixed overhead cost. In addition, coking coal costs at Corus stayed high at about US$260-270/tonne, contrary to expectations, as the company is yet to conclude its coking coal negotiations. The delay in the resolution over sale of Teesside facility exacerbated the negative EBIT by about US$51mn.

Figure 1: Tata Steel India and Corus EBITDA trajectory – FY10E



Source: Deutsche Bank estimates, Company

2Q'FY10 EBITDA loss likely to halve to US$195mn

Nascent signs of recovery in steel demand – albeit driven so far mainly by restocking – have resulted in rising steel production across all world geographies. We expect increasing demand to result in an improving capacity utilization rate at Corus. While the jury is still out on estimated capacity utilization rates at Corus in the current quarter, we expect capacity utilization to improve to about 65% in 2Q'FY10 from an average 53% in 1Q. In addition, we expect coking coal costs to decline by about US$30-35/tonne in 2Q over 1Q. We expect 2Q'FY10 EBITDA loss at Corus to almost halve to US$195mn from US$387mn loss recorded in 1QFY10.

EBITDA to turn positive in December, rise sharply in 4Q'FY10

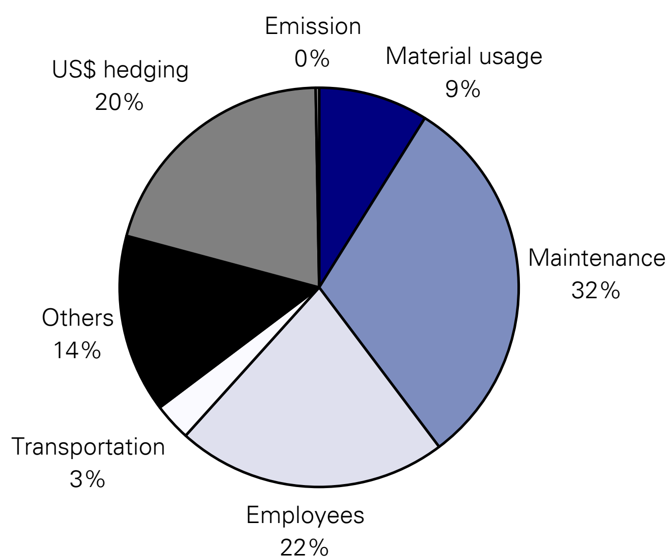
An anticipated continuous improvement in capacity utilization driven by improving steel demand in Europe and the positive impact of a sharp decline in coking coal prices should drive a continuous improvement in Corus EBITDA over the next three quarters. We expect the blended cost of coking coal to decline to about US$120/tonne in 3Q and about US$115/tonne in 4Q (from about US$280/tonne in 1Q). The company's weighted average coking coal price should be lower than the benchmark hard coking coal price as Corus is to be be using a higher blend of semi soft and soft coking coal blends, moving forward.

In addition, we forecast that the company will continue with its key cost-saving initiatives under the 'Fit for the Future' and 'Weathering the Storm' projects. Consequently, we expect EBITDA at Corus to improve sharply over every quarter from here on. We believe our assumptions are conservative, and our EBITDA improvement expectation is premised primarily on declining coking coal prices and improving capacity utilization. We have assumed a very modest increase in prices (no increase in FY10 over the next three quarters and a marginal 2% yoy increase in FY11) as rising capacity utilization may keep pricing improvement sedate until next year. Given the high degree of operating leverage at Corus, improvement in Corus' EBITDA could be significantly above our expectations if the pricing improvement at Corus is ahead of our estimates with volumes and coking coal prices falling in line with our forecasts.

"Weathering the Storm" and "Fit for Future" initiatives provide additional comfort

Corus's two flagship cost savings initiatives – "Weathering the Storm" and "Fit for Future" – continue to be focus areas and remain on track to yield tangible benefits. Management is targeting US$1.3bn of cost savings in the current fiscal year.

Figure 2: Cost savings 1Q'FY10 - ~80% were recurring in nature



Source: Deutsche Bank, Company

We understand that the company has already achieved US$460mn of the targeted cost savings in 1Q, with a major portion of the same being recurring in nature (~80% according to our estimates) compared to FY09 when only 44% of the savings were of a recurring nature. Our recent interaction with management provides us comfort that the trend seen in 1Q is likely to continue with recurring savings forming a major portion of the company's cost-saving initiatives. We have been conservative in our assumptions and have assumed only ~60% of the cost savings for the current year to be recurring (compared to ~80% in 1Q'FY10). Also, a major portion of savings under the "Fit for Future" – I and II relate to removing redundancies and consequent reduction in employee costs. We expect a significant portion of this cost-saving initiative to come only in FY11 with the impact in the current year likely to be negated by one-time costs related to severance etc. We estimate that if the company is able to fully adhere to its cost-saving targets, it could result in additional recurring cost savings of approximately US$500mn over the next three quarters of the current year.

Sensitivity Analysis

Our sensitivity analysis for FY11e EPS for Tata Steel shows that the company's earnings are highly sensitive to steel prices in Europe. For every US$10/MT change (increase/decrease) in the steel realizations at the European operations, Tata Steel's consolidated FY11E EPS is impacted to the extent of 10% (increase/decrease).

Figure 3: Tata Steel – FY11E EPS sensitivity to weighted average steel realizations at Corus

Corus realizations (US$/MT)	US$20 decline	US$10 decline	US$ 974 /MT	US$10 increase	US$20 increase
			Base case		
Consolidated FY11E EPS (INR)	51.7	58.3	64.9	71.6	78.2
Change from base	(13.3)	(6.6)		6.6	13.3
% chg from base	*-20%*	*-10%*		*10%*	*20%*

Source: Deutsche Bank

As expected, Tata Steel's earnings have low sensitivity to Indian steel prices. This is mainly due to lower volumes at the Indian operations in comparison to company's European operations. For every INR500/MT change (increase/decrease) in the steel realizations at the Indian operations, Tata Steel's consolidated FY11E EPS is impacted to the extent of 3% (increase/decrease).

Figure 4: Tata Steel – FY11E EPS sensitivity to weighted average steel realizations at India operation

Gross realizations (INR/mt)	INR1000 decline	INR500 decline	INR 36,234 /MT	INR 500 increase	INR 1000 increase
			Base case		
Consolidated FY11E EPS	60.9	62.9	64.9	66.9	69.0
Change from base	(4.0)	(2.0)		2.0	4.0
% chg from base	*-6%*	*-3%*		*3%*	*6%*

Source: Deutsche Bank

Capacity ramp-up in India – a long-term positive

Increasing contribution from high-margin India operations provides a case for re-rating

Investors have been keenly watching out for two critical initiatives from Tata Steel - the pace of its capacity ramp up in India and roadmap towards enhancing raw material security at Corus. We cannot underscore enough the criticality and urgency of a quick ramp-up of India operations, where assets are among the most competitive globally.

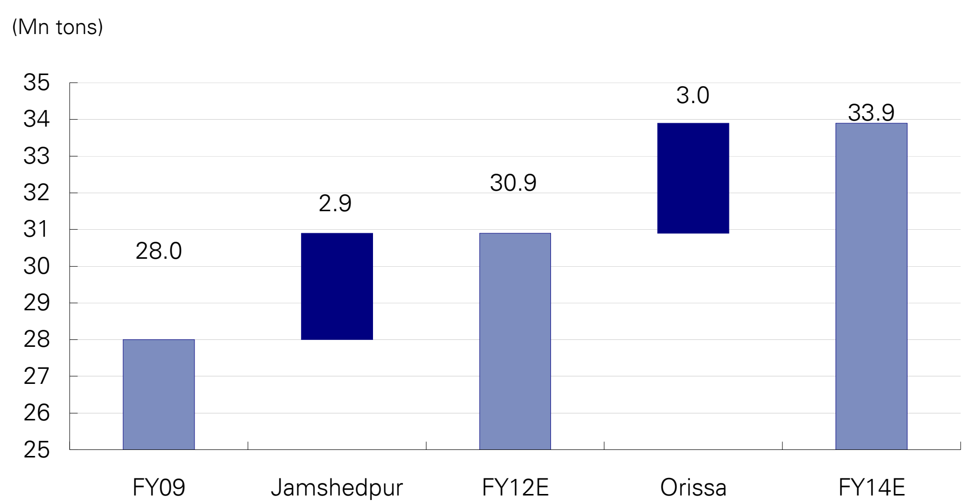
Figure 5: Tata Steel – EBITDA margins (%)

EBITDA margins	FY08	FY09	FY10E	FY11E	FY12E
Tata Steel India	41.8%	37.6%	36.7%	36.9%	39.3%
Corus	8.6%	7.8%	0.5%	6.3%	5.7%
Asia	9.7%	2.5%	1.6%	3.7%	7.4%
Consolidated	**13.7%**	**12.3%**	**8.5%**	**12.9%**	**13.8%**

Source: Deutsche Bank, Company

Consequently, raising the proportion of low-cost steel production in India is likely to be the most important determinant in raising the blended EBITDA margins at the consolidated entity level.

Figure 6: Tata Steel volume growth trajectory

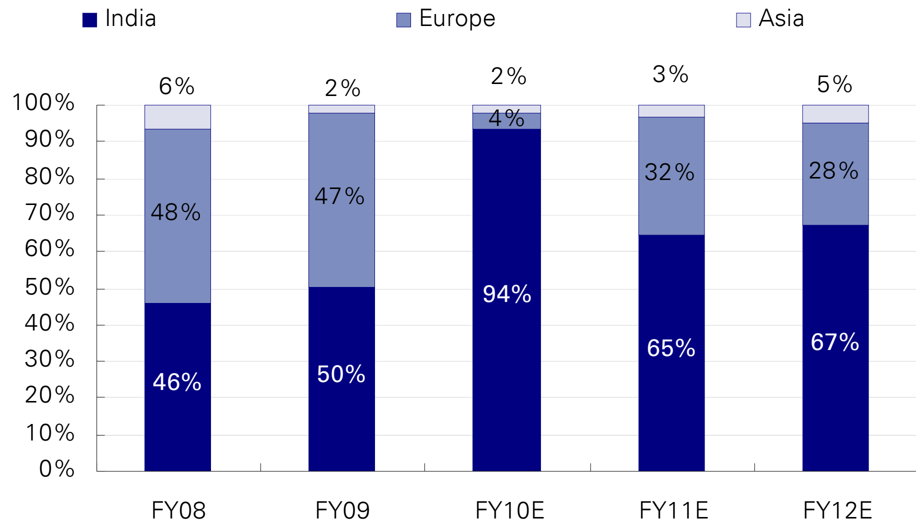


Source: Deutsche Bank, Company

Tata Steel has recently completed its 1.8mn tonne expansion at Jamshedpur and has commenced work on an additional 2.9mn tonne expansion, which is set to be completed by April 2011. Following the expansion, Tata Steel India will have a ~10mn tonne capacity at its legacy operations in Jamshedpur. The expansion should enable company to strengthen its market share in flats (currently the leading supplier of auto grade steels to almost all automobile companies in India) and reduce the operating cost of production.

Following the organic expansion at Jamshedpur, we expect the company to move ahead on its now-delayed Orissa green field plant (which is likely to be even more cost competitive than its Jamshedpur plant). The first phase of 3mn tonnes in Orissa – which was expected to have been commissioned by FY2012 – is now unlikely to be commissioned anytime before FY2014.-2015. We expect Tata Steel to be a 40mn tonne steel producer by FY2020.

Figure 7: Tata Steel EBITDA – Regional breakdown



Source: Deutsche Bank, Company

Risks

Downside risks primarily stem from:

(1) Steel demand environment remaining challenging into 2H'FY10 and delay in steel demand recovery against our expectations of beginning of demand recovery.

(2) If the company's cost-saving initiatives deliver below our expectations, there could be downside risks to our estimates.

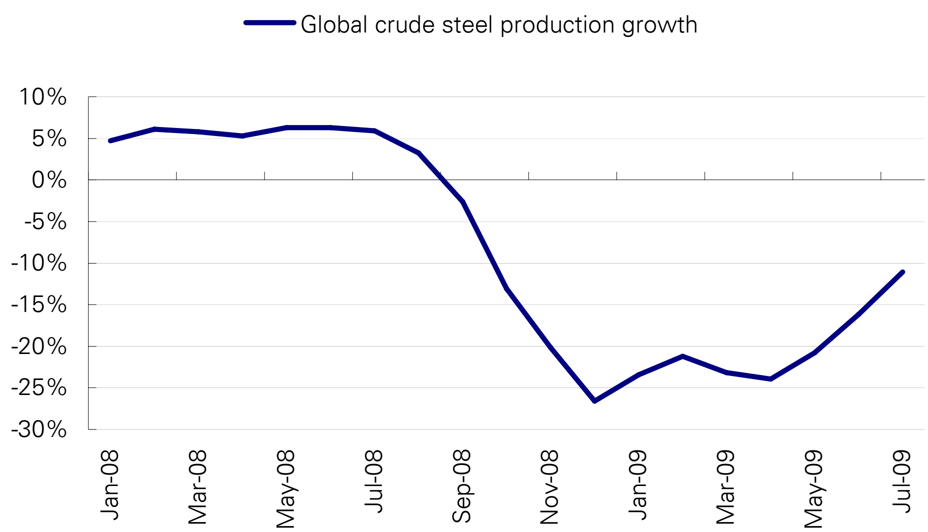
(3) Decline in steel prices in all three key geographies - India, Asia and Europe - shouldput downside pressure on Tata Steel's earnings.

(4) If the company is unable to find suitable off-takers for the slab production at Teesside, there could be mothballing and other costs at Teesside which could depress earnings in FY10.

Global industry overview

Cavalry of production cuts now in retreat; capacity utilization rising globally

Figure 8: Global crude steel production in July'09 is 26.5% higher than Dec'08



Source: World Steel Association, Deutsche Bank

Global production of steel in July 2009 was down 11% yoy. In comparison, steelmaking in the first six months of this year was almost 20 percent below the figures recorded in the same period of 2008. Global crude steel production for July'09 is higher by 26.5% over Dec'09 when the global steel capacity cuts were at their peak and global crude steel production had bottomed. The month of May was perhaps the lowest point in the current pricing down cycle with prices having bottomed across most world geographies. We have seen steel prices recovering in almost all regions globally over past three months. China has been an exception where prices recovered earlier and after a better-than-expected recovery, some of the gains were given up in the month of August.

Flat product pricing has outpaced long product pricing

Flat product pricing, across world geographies, has outpaced the pricing trend in longs. Government incentives have improved demand for automobiles through car scrappage schemes, which has incentivised automobile producers. North American market has shown the fastest rate of price growth, where steel prices are now up almost 40.5% qoq. In Europe as well, we have observed a strong pricing recovery with HRC prices up 10.7% qoq. According to MEPS, shortages are now being noted for several key products which should provide support to this global steel pricing momentum, though the steel price rise is likely to be capped by increased capacity utilization at steel makers across the globe, in our view.

Prices rise in Europe, more price hikes seen in North America

Corus has stated that it will be increasing its sections and plate prices for all newly booked UK deliveries wef 4 October'09. It aims to raise sections prices by GBP25/tonne (€29/t) due to "improving demand" and is targeting increases of GBP30/t (€34/t) for commodity plate and of GBP40/t for non-commodity plate.

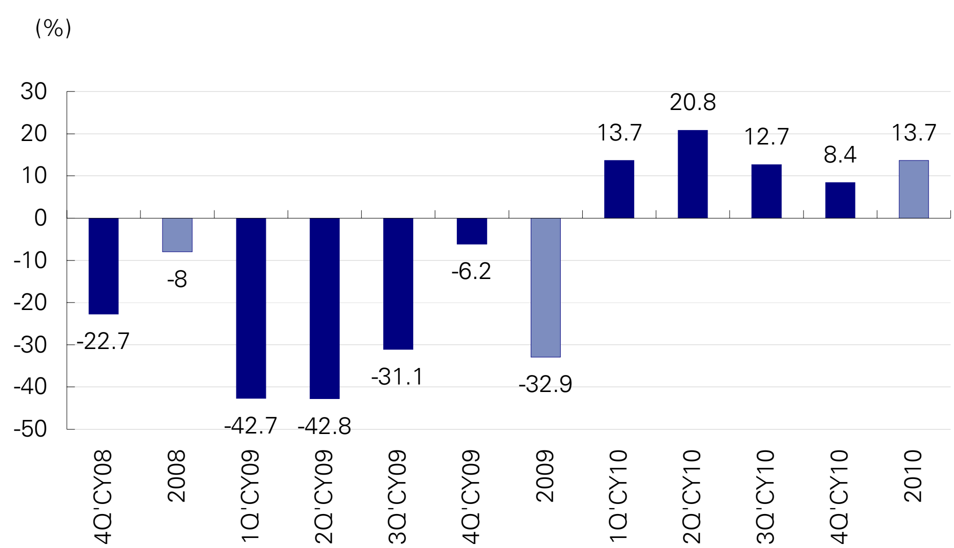
Arcelor Mittal also aims to increase base prices for sections in Europe by €25/t (GBP22/t) for orders wef October. Salzgitter also recently announced price increases of €25/t for sections and of €20-30/t for plate for Q4, as reported. In North America too, mills are contemplating raising October and November delivery prices by about US$40-60/tonne taking prices to about US$650/tonne.

In contrast to the trajectory in flat product pricing, recent price rises in the long products categories have been modest because much of the output from this product segment is used for the construction industry. While infrastructure projects have received massive assistance from governments around the world, it takes longer for approval of finance to translate into steel purchases due to the need for new design and often statutory approvals for major projects.

The month of May was the low point in the flat products sector in most parts of the world. Since that time, the North American market has shown the fastest rate of price growth. This is partly due to the savage cuts in output since the final quarter of 2008. Shortages are now being noted for several key products. There are reports of blast furnaces planning to restart in the near future to meet the expanding demand. This should lead to a slower rate of price escalation over the next twelve months though modest flat product rises have occurred in the EU since May.

European apparent consumption to rise by 14% in 2010

Figure 9: EU apparent steel consumption growth forecasts



Source: Deutsche Bank, Eurofer

According to Eurofer (European confederation of iron and steel industries) apparent consumption of steel is forecast to rise by 13.7% in 2010 after an estimated sharp decline of 33% in 2009. In 1Q'CY09, apparent consumption declined by 43% yoy due to sharp consumer de-stocking. In 2Q, the decline was also steep and consumption is provisionally estimated to have declined by 43% yoy. Eurofer estimates that while de-stocking and weak real consumption will depress apparent consumption in 3Q09, the pace of decline will be sharply lower and the negative impact of the stock cycle will start to ease from 4Q09. In 2010, Eurofer forecasts the first two quarters to see sharp yoy increases in steel consumption of 13.7% and 20.8% respectively. Further, Eurofer forecasts apparent consumption in CY2010 to rise by 13.7% yoy.

Figure 10: Global steel price trend

Steel prices	USA	China Domestic	China Export	CIS	Europe
	USD / MT	Rmb / MT	USD / MT	USD / MT	Eur / MT
H R Coil	578	3,700	535	548	415
C R Coil	689	4,975	NA	610	485
Rebars	609	3,925	535	475	380
Price change WoW %					
H R Coil	0.0%	-2.6%	-2.7%	0.0%	0.0%
C R Coil	0.0%	0.0%	NA	0.0%	0.0%
Rebars	0.0%	-3.7%	-3.6%	0.0%	1.3%
Price change MoM %					
H R Coil	4.0%	-15.2%	-10.8%	4.3%	6.4%
C R Coil	3.3%	-6.6%	NA	1.7%	4.3%
Rebars	0.1%	-17.5%	-13.0%	6.7%	13.4%
Price change YoY %					
H R Coil	NA	-29.4%	-38.9%	-51.5%	-47.5%
C R Coil	NA	-19.1%	NA	-47.8%	-41.9%
Rebars	NA	-21.2%	-42.3%	-48.1%	-47.6%
Price change YTD %					
H R Coil	-7.1%	3.1%	1.9%	40.4%	-2.4%
C R Coil	-4.6%	13.1%	NA	40.2%	-10.2%
Rebars	-18.9%	-1.4%	-18.9%	9.2%	-10.6%

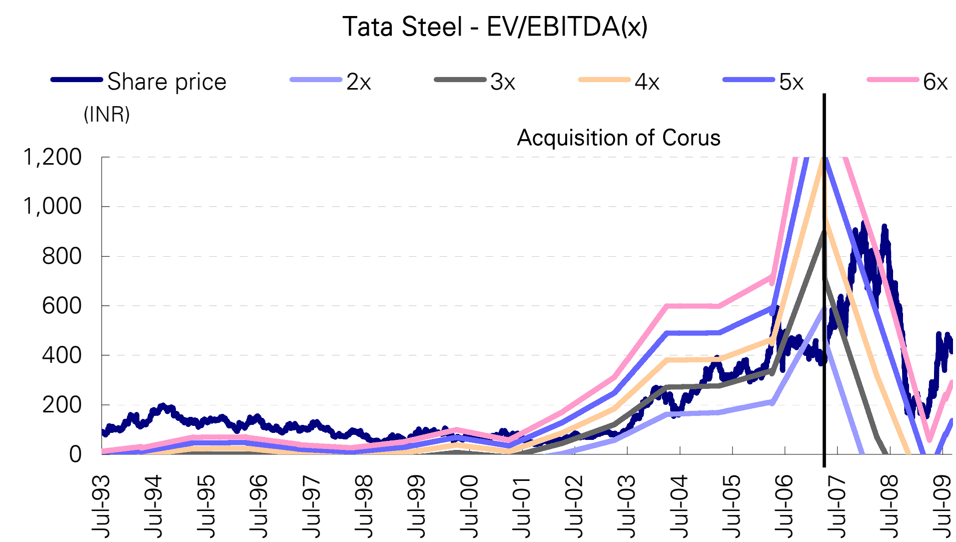
Source: Bloomberg, Prices updated as on 04 Sept'09

Valuation

Valuation methodology and argument

We continue to believe that EV/EBITDA is an appropriate methodology to value Tata Steel, as this approach best captures the dynamics of the Corus transaction and eliminates the biases of the funding structure, typical of leveraged buyouts. We prefer to use a sum-of-the-parts valuation given the dynamics of three key regional geographies and divergent nature of individual steel assets. The diverging dynamics and profitability of each geographical region that Tata Steel operates in require us to assign a different multiple to each region.

Figure 11: Tata Steel – EV/EBITDA (x) band chart



Source: Deutsche Bank

We have valued the Indian operations at a multiple of 6.4x FY11E EBITDA - in line with the average valuation at which stock has traded over the last 15 years (before the Corus acquisition).

Figure 12: Tata Steel – SOTP valuation

SOTP	Methodology	Multiple used	FY11E EBITDA	EV (INR bn)
Tata Steel India	EV/EBITDA	6.4	102,052	653
Corus	EV/EBITDA	5.1	50,950	261
Asia	EV/EBITDA	2	4,850	10
Total EV (INR bn)				**924**
Net Debt (INR bn)				421
Derived Equity Value (INR bn)				**502**
Number of shares (mn)				929
Target price (INR/share)				**540**

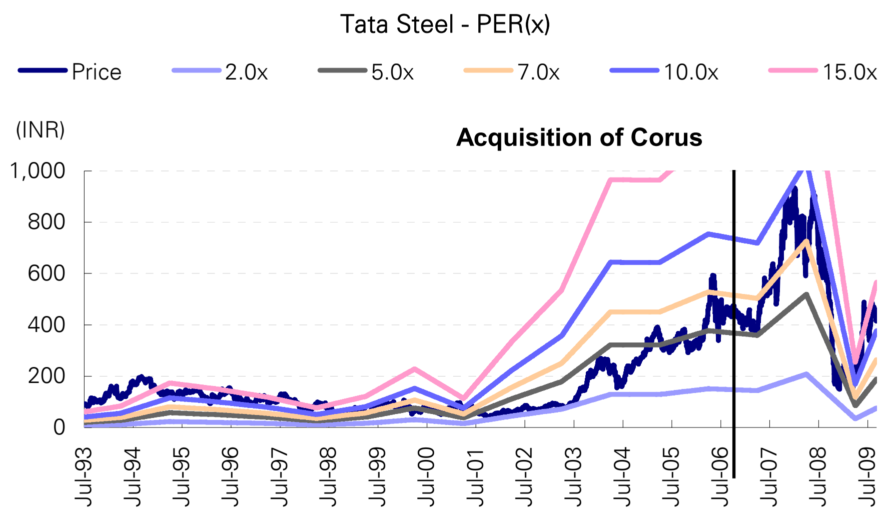
Source: Deutsche Bank

We have assigned a valuation of 5.1x to Tata Steel's European operations which is at a 20% discount to the Indian operations. Given Corus's lower profitability relative to the Indian operations and lack of captive access to raw materials, we assign a 20% discount to the valuation multiple of Tata Steel India. Asian operations are converters and do not have upstream steelmaking capacity. Hence, we believe they should be valued at a marked discount to the Indian and European operations - both of which are integrated steel producers. We thus assign a multiple of 2x. Our SOTP methodology leads to a target price of INR540/share, which translates into a blended FY11E EV/EBITDA multiple of 5.4x.

Tata Steel – PER(x)

Our TP of INR540 implies a FY11E PER(x) of 8.3x. Comparison with historical multiples is not very meaningful as historical multiples do not capture the impact of the Corus acquisition, which was completed in Apr'07.

Figure 13: Tata Steel – PER (x) band chart

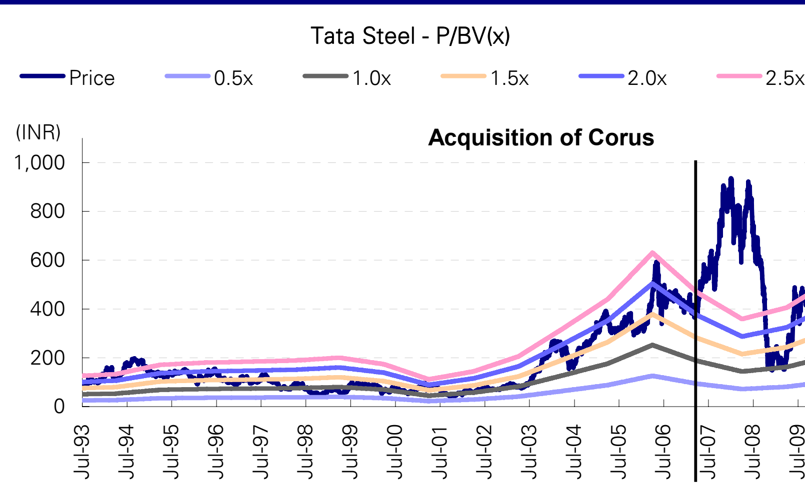


Source: Deutsche Bank

P/BV

At our TP of INR540/share, Tata Steel would trade at FY11E P/BV of 2x (BV adjusted for the goodwill on Tata's books due to the Corus acquisition).

Figure 14: Tata Steel – P/BV (x) band chart



Source: Deutsche Bank

Global peer valuation

Figure 15: Tata Steel Global Peer Valuation

Company	Year End	Rating	Currency	Price	Target price	Mkt cap	PER(x)		EV/EBITDA		P/BV		P / CFPS		Dividend Yield
				4-Sept-09		USD bn	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E (%)
China							**29.0**	**14.1**	**8.8**	**6.7**	**1.6**	**1.5**	**8.2**	**5.7**	**2.6**
Angang Steel	31-Dec	Hold	HKD	15.5	13.2	14.5	37.7	16.1	12.1	8.8	1.7	1.7	12.3	8.1	2.8
Maanshan-H	31-Dec	Sell	HKD	5.1	4.2	4.4	31.6	13.4	6.9	5.0	1.2	1.1	6.6	4.5	0.0
Russia							**165.5**	**10.0**	**14.6**	**5.0**	**1.1**	**1.0**	**8.9**	**4.0**	**3.6**
Evraz Group	31-Dec	Hold	USD	23.7	19.3	10.4	85.3	7.7	10.1	4.8	1.6	1.4	5.1	3.8	4.0
Severstal	31-Dec	Hold	USD	6.3	6.0	6.4	NM	11.3	17.2	4.6	0.8	0.8	4.7	4.0	6.2
Mechel	31-Dec	Sell	USD	12.7	5.0	5.3	NM	11.6	21.3	6.3	1.3	1.2	15.6	4.2	2.1
Magnitogorsk Steel	31-Dec	Buy	USD	8.4	9.0	7.1	245.8	9.3	9.9	4.2	0.8	0.7	10.3	4.0	2.1
India							**16.3**	**8.6**	**8.1**	**5.8**	**3.2**	**2.4**	**6.6**	**6.3**	**2.4**
Tata Steel Limited	31-Mar	Buy	INR	430.2	540.0	8.2	24.5	6.6	8.6	4.9	2.7	2.1	4.1	3.5	4
Steel Authority Of India	31-Mar	Buy	INR	164.3	180.0	13.9	10.6	8.6	6.2	5.0	2.1	1.7	5.3	7.2	2.4
Jindal Steel & Power	31-Mar	Buy	INR	3,280.2	4,150.0	10.3	13.8	10.7	9.5	7.5	4.9	3.4	10.3	8.2	0.6
Asia							**38.1**	**9.9**	**8.1**	**4.6**	**1.3**	**1.2**	**7.0**	**7.6**	**13.8**
China Steel	31-Dec	Buy	TWD	30.1	32.0	11.7	81.5	13.8	10.8	6.0	1.7	1.5	9.3	10.2	5.4
Posco	31-Dec	Buy	KRW	462,000	590,000	30.4	13.1	8.3	7.0	4.2	1.3	1.1	5.4	5.8	2.2
Bluescope Steel Ltd	30-Jun	Buy	AUD	2.9	3.7	4.5	19.8	7.8	6.5	3.7	0.9	0.9	6.4	6.8	33.8
Europe							**16.9**	**18.6**	**-22.1**	**7.0**	**1.0**	**1.0**	**7.1**	**10.2**	**2.2**
Arcelor-Mittal	31-Dec	Buy	USD	35.8	42.0	53.9	NM	9.5	20.2	5.9	0.9	0.9	10.8	10.7	2.5
Voest-Alpine	31-Mar	Hold	EUR	22.0	18.0	5.1	NM	19.6	8.5	6.0	0.9	0.9	4.1	3.5	1.6
SSAB	31-Dec	Hold	SEK	100.8	93.5	4.5	NM	34.8	-124.2	10.2	1.0	1.0	8.0	21.8	1.4
Thyssenkrupp	30-Sep	Sell	EUR	22.9	13.0	15.9	16.9	10.6	7.0	5.8	1.1	1.0	5.8	4.8	3.1
Americas							**28.0**	**12.0**	**20.2**	**7.0**	**2.6**	**2.2**	**12.3**	**11.8**	**2.8**
Nucor	31-Dec	Buy	USD	44.2	58.0	13.9	NM	11.0	43.1	5.7	1.9	1.7	19.0	13.7	3.2
CSN	31-Dec	Hold	USD	27.1	27.0	20.6	25.7	14.0	13.6	8.5	5.1	4.0	NM	12.7	1.8
Usiminas	31-Dec	Buy	BRL	44.0	48.0	11.7	47.3	11.8	18.0	7.8	1.5	1.4	6.6	11.1	3.0
Tenaris	31-Dec	Buy	USD	29.3	30.0	17.3	11.0	11.3	6.0	6.0	1.9	1.7	11.4	9.7	3.1
Global average							**47.7**	**12.5**	**5.8**	**6.0**	**1.6**	**1.5**	**8.4**	**7.8**	**4.5**

Source: Deutsche Bank

Price performance

Figure 16: Steel stocks price performance

Stock	Currency	LTP 4-Sept-09	Mkt Cap USD bn	Return 1 Week	1 Month	3 Month	6 Month	1 Year
China								
Angang Steel	HKD	15.5	14.5	2.6%	-14.4%	14.4%	135.5%	68.0%
Baogang	CNY	7.0	18.0	1.9%	-26.4%	5.7%	27.8%	7.5%
Maanshan Iron	HKD	5.1	4.4	2.6%	-18.4%	-1.6%	121.9%	62.2%
Japan								
Nippon steel	JPY	344.0	23.3	-6.8%	-8.0%	-6.8%	38.2%	-29.2%
JFE holding	JPY	3,150.0	17.9	-4.8%	-13.7%	0.0%	52.2%	-26.7%
Russia								
Evraz Group	USD	23.7	10.4	-12.7%	2.4%	7.8%	150.5%	-65.2%
Severstal	USD	6.3	6.4	-14.4%	-8.9%	12.8%	73.7%	-58.8%
Mechel	USD	12.7	5.3	1.2%	17.1%	19.3%	283.9%	-39.6%
Maginitogorsk steel	USD	8.4	7.1	-5.5%	8.4%	47.1%	236.1%	-20.5%
India								
Tata Steel	INR	430.15	8.2	-1.9%	-9.1%	-7.3%	174.2%	-26.1%
SAIL	INR	164.25	13.9	-0.9%	-6.0%	-6.6%	114.0%	9.1%
Asia								
China steel	TWD	30.1	11.5	1.0%	-3.7%	3.3%	36.9%	-17.2%
POSCO	KRW	462,000	30.4	-2.0%	-6.5%	14.4%	44.6%	2.0%
Bluescope steel	AUD	2.9	4.5	-1.4%	-5.9%	10.7%	26.8%	-65.8%
Europe								
Arcelor-mittal	USD	35.8	53.9	-2.6%	-6.4%	2.3%	93.7%	-45.4%
Voestalpine	EUR	22.0	5.1	-2.9%	5.5%	7.2%	80.3%	-33.3%
SSAB	SEK	100.8	4.5	-5.0%	-0.7%	-4.7%	50.4%	-24.2%
Thyssenkrupp	SEK	22.9	15.9	-5.6%	1.1%	11.9%	67.1%	-24.5%
Americas								
Nucor	USD	44.2	13.9	-3.7%	-7.9%	-7.1%	36.6%	-6.8%
CSN	USD	27.1	20.6	1.0%	-0.8%	8.9%	108.1%	-5.0%
Usiminas	BRL	44.0	11.7	-3.3%	-2.2%	9.0%	81.1%	-8.8%
Tenaris SA	USD	29.3	17.3	-1.8%	-7.3%	-5.3%	79.2%	-37.9%

Source: Deutsche Bank

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Tata Steel Limited	TISC.BO	441.85 (INR) 7 Sep 09	7,8,17

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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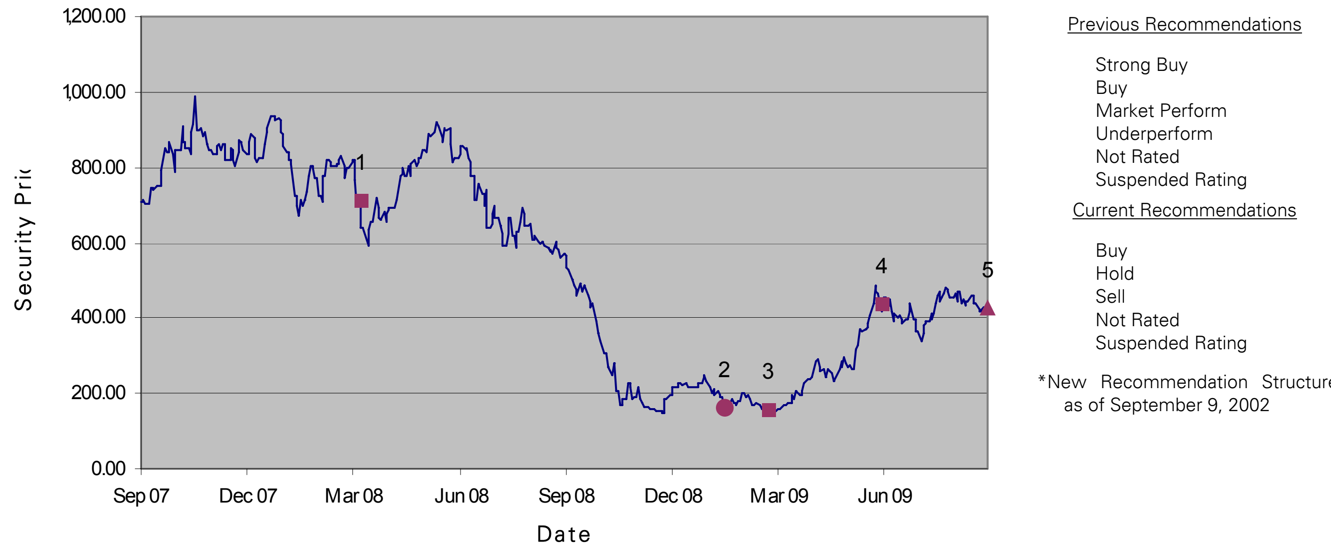

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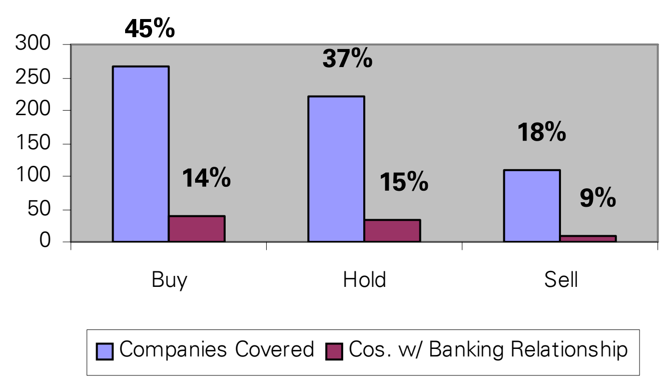

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