

FPO - Buy

Tata Steel Ltd

Industry: Metals

Event Update

“Subscribe”

OBJECT OF THE FPO

1. The company plans to raise between ₹ 3385.8 crores to ₹ 3477 crores by offering shares in the price band of ₹ 594-610/share, of which ₹1,875 crore will be used to “part-finance the capital expenditure for expansion of its existing works at Jamshedpur”.
2. ₹1,090 crore from the FPO proceeds to pay the redemption amount of some of the maturing redeemable non-convertible debentures held by the Tata Group company.

KEY INVESTMENT THESIS

- Tata Steel capacity expansion plans of increasing its steel production from 6.8mtpa to 10mtpa at Jamshedpur by December 2011, start of coking coal production at Benga project, Mozambique by H2CY11E, and start of iron ore production at DSO, Canada also by H2CY11E. This will help boost revenue over next few years.
- As a part of deleveraging its balance sheet, TISCO sold its Teesside Cast Products' (TCP) slab plant for nearly USD 500 mn. This will also help in reducing earnings volatility in Tata Steel Europe. The company, which had a net debt of \$10.7 billion on September 30, 2010, plans to reduce its debt-equity to 1:1 (from the current 1.4:1) in the next 12 months through various ways like commissioning of 3 MTPA project in Jamshedpur and hiving off Teesside plant in UK.
- Steel prices have recovered by 10-15% over the past month. Demand is likely to pick up globally only post winters. Thus, a strong steel pricing scenario to be witnessed in the near future.
- RioTinto group's keen interest in Riversdale Mining (RIV) at an indicative price of AUD 15/share. Tata steel owns 21.14% of stake in RIV at a cost USD 240 mn, which is currently valued at USD 800 mn. Thus, the possible counterbid is likely to get reflected in Tata Steel's valuations sooner than expected.

We advise **SUBSCRIBE** to the follow-on public offer at higher end of the price band.

Tatasteel, based on our technical analysis has a 12 month target of ₹ 750, which is ~17% from the closing price of today at ₹ 640.

ISSUE DETAILS

BRLM	Kotak/ Citi/ Deutsche Equities/ HSBC Sec/ RBS Equities/ SBI Cap/ StanChart Sec.
Syndicate	Kotak Sec/ SBI Cap Sec
Issue Period	January 19, 2011– January 21, 2011
Price Band	₹ 594/- to ₹ 610/- per equity share
Lot Size	10 Equity Shares & Multiple of 10 shares thereof
Registrar	Link Intime India Private Limited
Retail Appl Size	₹ 2,00,000/-
Issue size	5,70,00,000 Equity Shares of FV ₹10 each.

CATEGORY	NO. OF SHARES
Employee Reservation	15,00,000
Net Issue	5,55,00,000
QIB Book	2,77,50,000
Retail Book	1,94,25,000
HNI Book	83,25,000

Disclaimer

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and is for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company makes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action. LKP Securities Ltd., and affiliates, including the analyst who have issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions. LKP Securities Ltd., and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.