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September 12, 2016

Tata Steel reports financial results for the quarter ended June 30, 2016

Tata Steel Group (the "Company") today declared results for the three month period ended June 30, 2016 ("Q1FY17") and reported accounts under Indian Accounting Standards ("IND-AS").

Tata Steel Group Consolidated Performance Highlights:

- Deliveries of 5.41mt and turnover of Rs. 26,406 crores.
- EBITDA of Rs. 3,270 crores, 65% higher than Q4FY16 and 21% higher than Q1FY16 due to improved operating performance across India, Europe and South East Asia. EBITDA margin of 12.4% expanded by 520 bps as compared to 7.2% in Q4FY16 and 280 bps compared to 9.6% in Q1FY16.
- Pre-exceptional underlying Profit Before Tax of Rs. 1,080 crores compared to a loss of Rs. 234 crores in Q4FY16.
- Loss from discountinued operations of Rs. 3,296 crores recognised on account of divestment of Long Steel UK Limited. The sale was completed during the quarter.
- Total Comprehensive Income for the period is loss of Rs. 2,833 crores due to the above divestment.
- Gross debt of Rs. 85,475 crores as compared to Rs. 81,975 crores as of Q4FY16. Net debt of Rs. 75,259 crores, higher by Rs. 4,171 crores over Q4FY16.
- Strong liquidity position with cash & cash equivalents including drawn and undrawn bank lines of Rs. 12,746 crores.

India Performance Highlights:

- Deliveries of 2.14mt in line with Q1FY16. Automotive sales grew by 19% over Q1FY16. Branded products now account for 34% of total deliveries.
- EBITDA of Rs. 2,236 crores, representing EBITDA margin of 22% expanded by 250 bps compared to Q4FY16 due to higher realisations and focus on value added products. EBITDA/t for the quarter was Rs. 10,455, 27% higher compared to Q4FY16 and 19% higher compared to Q1FY16.
- Kalinganagar plant starts commercial production from June 1, 2016.

Europe Performance Highlights:

- Liquid steel production of 2.68mt in line with Q4FY16 but 15.7% lower than Q1FY16, following the strategic decision to reduce volumes in the UK and focus on higher-value added products.
- EBITDA for the quarter of Rs. 856 crores, as compared with a loss of Rs. 578 crores in Q4FY16 on the back of the depreciation of the Pound, short term improvements in steel prices, impact of restructuring undertaken earlier in the UK and stronger performance in Netherlands. EBITDA/t for the quarter of Rs. 3,384/t.
- Differentiated products and services increased by 8% in the quarter and now comprise 35% of the total sales.
- Focus on structural cost reduction and profitability improvement continues across all the sites.

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South East Asia Performance Highlights:

- EBITDA of Rs. 187 crores, 180% higher than Q4FY16 and 461% higher compared to Q1FY16 largely due to increase in international prices and cost improvement initiatives undertaken. EBITDA margin of 9.3% expanded by 560 bps as compared to 3.7% in Q4FY16 and 780 bps as compared to 1.5% in Q1FY16. EBITDA/t of Rs. 2,872, 188% higher compared to Q4FY16 and 497% higher compared to Q1FY16.

Other investments & subsidiaries :

- Other Indian subsidiaries reported around Rs. 124 crores of EBITDA during the quarter.

Financial Highlights

All figures in Rs. crores unless specified

	Standalone			Consolidated		
	Q1FY17	Q4FY16	Q1FY16	Q1FY17	Q4FY16	Q1FY16
Steel Deliveries (MT)	**2.14**	2.72	2.14	**5.41**	6.37	5.82
Turnover	**10,323**	11,736	10,175	**26,406**	27,558	28,025
EBITDA	**2,236**	2,240	1,897	**3,270**	1,982	2,693
Profit after Taxes from Continuing Operations	**575**	528	425	**172**	(3,222)	22
Profit after Taxes from Discontinuing Operations	**0**	0	0	**(3,355)**	(97)	(339)
Net Profit after Taxes for the period	**575**	528	425	**(3,183)**	(3,320)	(317)
Other Comprehensive Income	**638**	(102)	(1,901)	**350**	533	(1,872)
Total Comprehensive Income	**1,214**	427	(1,476)	**(2,834)**	(2,787)	(2,189)
Earnings per Share for continuing operations (Rs.)	**5.63**	4.85	4.08	**1.48**	(33.81)	(0.07)

Transition to IND-AS Reporting and other accounting changes:

The Company has adopted the IND-AS with effect from April 1, 2016 and the financial results for the quarter ended June 30, 2016 have been prepared in accordance with the recognition and measurement principles laid down in the IND-AS 34 Interim Financial Reporting The results for the quarter ended March 31, 2016, June 30, 2015 and year ended March 31, 2016 have been restated to comply with IND-AS to make them comparable.

Key changes are :

- In accordance with Ind AS 101, on transition, the Company elected fair value as deemed cost of certain assets including property, plant and equipment and investments in subsidiaries as at April 1, 2015. The net changes in the above has been reflected in the opening reserves on transition.
- During the quarter, the company has revised the useful life of certain property, plant and equipment based on past trend of plant performance, periodic repairs and refurbishment of plants, future usage potential and independent expert's judgement on life of similar plants. Had there been no change in the useful life of the assets, depreciation for the quarter would have been higher by Rs. 125.28 crores.
- Other Comprehensive Income primarily includes impact of fair valuation of quoted non-current investments and re-measurement gains/losses on actuarial valuation of post-employment defined benefits. The consolidated financial statements also include effect of foreign currency translation on consolidation.

Strategic Developments:

- Tata Steel UK is currently progressing with the divestment of the Specialty Steel business and the pipe mills in Hartlepool. The shortlisted bidders are being given access to due diligence and management meetings.
- As disclosed earlier, Tata Steel Europe continues to be in discussion with industry players to explore options for a strategic collaboration through a potential joint venture. Appropriate disclosure in the regard will be made in due course.
- Tata Steel UK is in engagement with all relevant stakeholders including the UK Government, the Trustee and the unions on the exposure to pensions of the UK business. The discussions are currently ongoing.
- The Quebec Government has extended financial contribution of CAD 175m to Tata Steel Minerals Canada for the DSO project by issuance of equity and debt.

Financing and Liquidity:

- During Q1FY17, cash flow from operations generated was Rs. 1,097 crores.
- Gross debt of Rs. 85,475 crores at June 30, 2016, was higher from Rs. 81,975 crores at March 31, 2016 primarily due to increase in India and Tata Steel Global Procurement. The Company tapped the Commercial Paper market in India to capitalise on lower yields in the short end of the market. Power purchase agreements of captive nature have also been classified as a finance lease under IND AS resulting in an increase in gross debt.
- As of June 30, 2016, net debt increased to Rs. 75,259 crores as compared with Rs. 71,087 crores in March 31, 2016.
- As of June 30, 2016 the Company had liquidity of Rs. 12,746 crores consisting of cash and cash equivalents (including drawn & undrawn credit lines).

Capital Investments and New Projects:

- Capex of Rs. 2,442 crores incurred in Q1FY17. Of this Rs. 1,118 crores was incurred in India, largely on the completion of the 3mtpa greenfield steel plant in Kalinganagar and the related projects. Rs.679 crores was incurred in Europe.
- Tata Steel has made certain critical capital investments in the UK on the Supply Chain Transformation program which will enhance TSE's ability to provide better customer service and on time delivery while improving the working capital cycle. The Company continues to invest in the Star Program in Netherlands that involves building a new caster and downstream assets to improve the competitive position of IJmuiden.

Business Outlook:

- India: Realisations in Q2FY16 are expected to be affected by lower demand from large steel consuming sectors such as construction and capital goods as well as seasonal sluggishness due to monsoons. Demand is expected to pick up post-monsoon and the festive season on the back of increase in disposable income due to the Pay Commission award, good harvest and easier liquidity. Supply side pressures from domestic steel companies likely to cap realisations and keep industry mill utilisation levels under check.
- Europe: EU economy is expected to continue to grow gradually though UK's stronger growth may slow down following the referendum result. Supply pressures from imports are expected to continue. The weaker pound is expected to improve UK's short term competitive position on exports, however it will add cost pressure due to higher cost of raw materials purchased in US dollars.

- South East Asia: Steel demand is expected to be stable on the back of infrastructure building. Margins will remain unders pressure as China's slowing growth and overcapacity is expected to result in continued exports to global markets, particularly South East Asia.
- While iron ore prices have been volatile, coking coal prices have surged upwards by almost 60% since the start of August'16. Prices of iron ore and coking coal are expected to remain volatile.

Management Comments:

Mr T V Narendran, Managing Director of Tata Steel India and South East Asia, said: "Seasonal headwinds and a slowdown in a large steel consuming sector like real estate affected steel demand in the quarter. While the regulatory changes have helped stem the flood of imports, domestic supply has increased and added to the competitive pressure.

Tata Steel deliveries were stable this quarter and we successfully maintained our market share in our chosen high-end segments. Our Auto business grew by 19% over the last year and Branded Products now contribute around 34% of overall sales. Stronger realisations and focus on value added products helped the business expand margins by 310 basis points and deliver an EBITDA of Rs. 2,236 crores. Tata Steel Kalinganagar commenced commercial production during the quarter and the plant is ramping up well both in terms of output and quality .

Despite continued imports from China, the South East Asia operations have shown a significant improvement in the business due to the focus on downstream products and solutions, exports and effective management of spreads."

Mr Koushik Chatterjee, Group Executive Director (Finance and Corporate), said: "The Group performance improved significantly this quarter across all major geographies with consolidated EBITDA margins expanding by 520 basis points sequentially and by 280 basis points over Q1FY16 with all geographies contributing to the performance improvement. Despite muted market demand, our India business improved its underlying EBITDA performance by 310 bps compared to the previous quarter and it is heartening to mention that the Kalinganagar start up is progressing as per plan.

In Europe, the positive impact of the structural restructuring undertaken in the UK in the last 6 months along with a weaker Pound, cost reduction measures and an effective hedging strategy on raw material imports have enabled the business to report better performance for the quarter. With the completion of the Long Products divestment, Tata Steel Europe will focus on being a premium strip player and the management and employees of Tata Steel Europe continues to strive to structurally improve the business performance. The strategy for exploring further strategic consolidation in Europe is a step in that direction. Tata Steel UK also continues to be engaged with several stakeholders including unions, the Trustee and the UK Government to find a structural solution to the pension exposure of the UK business.

The Company's liquidity position remains stable with significant undrawn lines of credit."

Mr Hans Fischer, MD & CEO of Tata Steel in Europe, said: "We are making progress as a result of business improvement initiatives and the restructuring announced last year. Our differentiation strategy is also starting to create more robustness in terms of higher-value sales, and we sold our highest percentage of differentiated products in June. These factors, combined with more favourable market and currency tail winds, led to an improving quarterly EBITDA result.

We remain committed to investing in our customers through new product development and enhancing our manufacturing capability. In July, we started construction of a new slab caster in IJmuiden which will enable us to make more higher-strength steels, particularly for car manufacturers.

Modest forecasted growth in European steel demand this year is still being undermined by increased imports which is leading to continued declines in domestic deliveries. That's why it's vital we continue every effort to improve our competitiveness."

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