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November 11, 2016

Tata Steel reports financial results for the quarter ended September 30, 2016(Q2FY17) and half year ended September 30, 2016(H1FY17)

Tata Steel Group Consolidated Performance Highlights for Q2FY17

- Deliveries of 5.65 mt and turnover of Rs.27,471crores.
- EBITDA of Rs. 2,992 crores was lower by 8.5% over Q1FY17, the drop in margins was due to lower realisations in India and ramp-up costs of Kalinganagar. EBITDA was 66% higher than Q2FY16 largely due to significant improvement in the operating performance at Tata Steel Europe.
- Pre-exceptional underlying Profit Before Tax of Rs.251 crores compared to a profit of Rs. 1,080 crores in Q1FY17 and a loss of Rs.569 crores in Q2FY16.
- Total Comprehensive Income for the period is a loss of Rs.2,656 crores due to Other Comprehensive Income loss of Rs 2,607 crores largely on account of remeasurement of acturial benefits on post-employment defined benefits.
- Gross debt during the quarter decreased by Rs.1,159 crores to Rs.84,316 crores and Net debt stoood at Rs.75,563 crores .
- Strong liquidity position with cash & cash equivalents, current investments including undrawn bank lines of ~Rs. 17,650 crores.

India Performance Highlights for Q2FY17

- Deliveries for the quarter of 2.62mt, 23% higher qoq and 13% higher yoy.
- The operations and rampup at Tata Steel Kalinaganagar has been as per plan, which helped increase overall deliveries. However, due to the ramp-up phase in the first full quarter of operations, operating costs and margins were adversely affected. It also led to an increase in interest and depreciation costs which affected the Profit After Tax. Tata Steel Kalinganagar is ramping up well and it has already achieved a major milestone production of 1mt of Hot Metal in less than 6 months of formal commissioning. The Company expects to produce and sell more than 1.3mt in FY17.
- EBITDA during the quarter stood at Rs.2,000 crores lower by 10.6%qoq, representing an EBITDA margin of 17%. Margins contracted due to fall in domestic realisations, higher ramp-up costs at Tata Steel Kalingangar and one-off regulatory costs in mining operations. EBITDA/tonne was Rs.7,620.
- Avalibility of additional volumes enabled 47% growth qoq in Industrial products and projects segment. Branded sales increased by ~15% qoq.The company continue to command leadership in Automotive sector.
- Blast furnaces at Jamshedpur achieved lowest ever half yearly coke rate of 365 kg/thm.

Europe Performance Highlights for Q2FY17

- Liquid steel production of 2.73mt for the quarter was 5% lower yoy and 2% higher qoq. Deliveries in the seasonally quieter quarter were lower by 17% yoy and 9% qoq. This reflects the company's decision to restructure and focus on higher-value markets, rather than volume.
- EBITDA for the quarter improved to Rs.1,035 crores, compared with Rs.856 crores in Q1FY17 following a stronger performance in Netherlands, impact of earlier restructuring in UK and depreciation of the pound relative to Euro. EBITDA/tonne for the quarter of Rs.4,500/t, improved by 33% compared to last quarter.
- Differentiated product sales increased by 14% yoy and now accounts for 35% of total sales.

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South East Asia Performance Highlights for Q2FY17:

- The operating and financial performance of Tata Steel Thailand improved significantly to Rs. 74 crores during the quarter as compared to Rs. 41 crores in the previuos quarter.
- Revenues for South East Asia decreased by 2.7% qoq on back of lower Singapore sales.
- EBITDA declined by 63% qoq largely on back of decline in downstream spreads at NatSteel due to continued dumping pressure from China.

Financial Highlights:

All figures in Rs. crores unless specified

As per Ind AS	Standalone					Consolidated				
	Q2FY17	Q1FY17	Q2FY16	H1 FY17	H1 FY16	Q2FY17	Q1FY17	Q2FY16	H1 FY17	H1 FY16
Steel Deliveries (mt)	**2.62**	2.14	2.33	**4.76**	4.48	**5.65**	5.41	5.84	**11.06**	11.66
Turnover	**11,718**	10,323	10,641	**22,042**	20,816	**27,471**	26,406	27,456	**53,877**	55,482
EBITDA	**2,000**	2,236	2,038	**4,236**	3,936	**2,992**	3,270	1,800	**6,262**	4,322
Profit after Taxes from Continuing Operations	**250**	575	(288)	**825**	137	**(172)**	172	6,115	**0**	6,136
Profit after Taxes from Discontinuing Operations	**-**	-	-	**-**	-	**123**	(3,355)	(505)	**(3,233)**	(844)
Net Profit after Taxes for the period	**250**	575	(288)	**825**	137	**(49)**	(3,183)	5,609	**(3,232)**	5,293
Other Comprehensive Income	**572**	638	(2,208)	**1,210**	(4,109)	**(2,607)**	350	(1,427)	**(2,257)**	(3,299)
Total Comprehensive Income	**822**	1,214	(2,496)	**2,035**	(3,972)	**(2,656)**	(2,833)	4,183	**(5,490)**	1,994
Earnings per Share for continuing operations (Rs.)	**1.97**	5.63	(3.57)	**7.60**	0.51	**(1.11)**	(33.11)	57.23	**(34.22)**	53.65

Transition to IND-AS Reporting and other Accounting changes in the Balance Sheet

The Group has adopted Indian Accounting Standard (IND-AS) with effect from April 1, 2016 and accordingly the financial results along with the comparatives have been prepared in accordance with the recognition and measurement principles laid down in the IND-AS 34 “Interim Financial Reporting”.

The financial results for the quarter ended June 30, 2016 and key changes in the Profit and Loss statement were disclosed in press release issued on September 12, 2016.

The financial results for the quarter and half year ended September 30, 2016 are announced today. The financial results for the quarter and half year ended September 30, 2015 have been restated to comply with IND-AS to make them comparable. The key changes in the Balance Sheet statement are given below:

Standalone:

- The Company has elected the option to treat fair value as deemed cost for items of its Property Plant & Equipment. The restated PPE is Rs 71,984 crores as on September 30, 2016.
- The Company elected to treat fair value as deemed cost of certain investments. Accordingly as at April 1, 2015, investments mainly representing investment in European business have been restated with a corresponding adjustment to retained earnings. As on September 30, 2016 the total non-current investments is Rs. 8,823 crores.
- Long term quoted equity investments (Other than investments in subsidiaries, JV’s and associates) are now carried in balance sheet at fair value. Accordingly at each reporting date the changes in their market value will be recorded in Other Comprehensive Incomes going forward.

Consolidated:

- Tata Steel elected to fair value the assets and liabilities of Tata steel Europe (Erstwhile Corus group plc) as on the date of acquisition. As a result on the date of transition(i.e 1st April 2015) goodwill and fixed assets have been restated. As on September 30, 2016, the restated goodwill is Rs.3,716 crores while the restated fixed assets are Rs.88,060 crores. This has aligned the IFRS financial statements of Tata Steel Europe with the accounts being used for consolidated reporting under IND AS.

Strategic Developments:

- Tata Steel Europe continues to be in discussion with thyssenkrupp to explore options for a strategic collaboration through a potential joint venture.
- Tata Steel UK is deeply engaged with all relevant stakeholders in the UK including the unions, the Pension Trustees and the Pension Regulators to find a structural solution and a way forward with regards to the affordability of the legacy pension scheme liabilities. Discussions are currently ongoing.
- The sale processes of Tata Steel UK’s Speciality Steels business and its Hartlepool pipe mills are ongoing. Shortlisted bidders have been given access to due diligence and management meetings.
- Tata Steel Europe continues to pursue improvement programmes to strengthen its Dutch operations and develop sustainable UK operations, including the supply chain transformation programme which went live during the quarter.
- Tata Steel has de-risked its Canadian Iron Ore operations by securing equity and debt investments of CAD 175 million from Government of Quebec. This will dilute Tata Steel’s shareholding from 94% to 77.68%.

Financing and Liquidity:

- Gross debt decreased by Rs.1,159 crores to Rs.84,316 crores as on September 30, 2016.
- Strong liquidity position with cash & cash equivalents, current investments including undrawn bank lines of ~Rs. 17,650 crores.
- Raised Rs.1000 crores through 10 year 8.15% unsecured, Redeemable Non convertible Debentures.

Business Outlook:

- **India:** A seasonal uptick in demand is expected to be backed by positive variables like 7th Pay Commission disbursements, good monsoons and penetration of organised financing in Tier 2/3 cities. The increase in tariff barriers globally on Chinese steel has opened exports opportunity for Indian steel players which will help the domestic demand supply balance . The the recently announced demonetisation is expected to cause short term disruptions.
- **Europe**: The EU economy is expected to grow gradually though UK's growth has been revised downwards following the Brexit referendum result. European steel mills are expected to continue to be under pressure from imports. The weaker pound is expected to improve UK's short-term competitive position, however it will add cost pressure due to higher cost of raw materials purchased in US dollars.
- **South East Asia:** Steel demand in Thailand is expected to maintain its growth rate on the back of expanding government expenditure and progress on infrastructure investment plans. Demand in Singapore is expected to be subdued on continued slower construction sector growth and low downstream spreads. Increasing trade barriers on Chinese steel in countries like Malaysia, Vietnam provides export opportunities.

Awards & Recognitions:

- World Steel Association recognised Tata Steel for setting highest standards of health and safety at workplace.
- Tata Steel has been declared as the global industry leader in the steel sector by the Dow Jones Sustainability Index (DJSI) assessment for the year 2016.
- Kalinganagar Steel Plant conferred with 'Kalinga Safety Award 2015' (Winner Gold Award) under construction category by Institute of Quality and Environment Management Services.
- Tata Steel conferred with 'Sustainable Manufacturing of Make in India' Award, 2016.
- Tata Steel ranked as the 7th most transparent company in the world, according to a report published by Transparency International.
- Tata Steel Thailand conferred with the 'Prime Minister Industry Award' for Safety Management.

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Management Comments:

Mr T V Narendran, Managing Director of Tata Steel India and South East Asia, Said: “The markets were challenging as strong monsoons affected steel demand across the country while the increase in domestic capacity added to the competitive pressure. Despite this, Tata Steel registered strong performance and increased volumes by 23% qoq to 2.6mt during the quarter. Sales improved across most customer segments including Branded Products and Industrial Products. There was a sharp drop in realisations which coupled with the ramp-up costs at the Kalinganagar plant kept margins under pressure. While realisations have since improved, rising coal prices will affect margins in the short run and will necessitate increase in steel realisations going forward.

The quality and volume ramp-up at the Kalinganagar plant is progressing well and during the quarter,it crossed a major milestone of one million tons of hot metal production in less than six months.

Our South East Asian business operations faced renewed pressure from China imports. While Thailand operations were stable on the back of an improvement in domestic demand and better management of spreads, Singapore operations were affected by contracting downstream spreads. We continue to focus on downstream products and solutions and exports to drive profitability”.

Mr. Koushik Chatterjee, Group Executive Director (Finance and Corporate), said:“The Group deliveries increased by 4.5% to 5.65mt during the quarter as India volumes grew sharply offsetting the planned reduction in European volumes. The operating performance in Tata Steel Europe has improved significantly compared to previous year due to significant improvement in the operating performance, impact of restructuring of structurally weak businesses and favorable market and currency movements especially in the UK. The European business reported EBITDA of Rs 1000 crores for the quarter which was 28% higher compared to the previous quarter. However, the Group EBITDA margin for the quarter was lower at 10.9%, due to the seasonally weaker quarter in India, ramp-up effect at Kalinganagar and regulatory mining costs.

Going forward, the Company will strive to continue to focus on the improvement in the European performance with special focus to make UK structurally sustainable and de-risked to future external volatility. We continue to explore strategic consolidation opportunities in Europe. We are also engaged with several stakeholders including unions, its pension Trustees, Regulators and the UK Government to find a structural solution to the UK pension scheme.

This quarter, we successfully de-risked our exposure to our DSO project in Canada by raising debt and equity funds from Government of Quebec for the project.

Group debt was stable at Rs. 84,316 crxores.The liquidity position continues to be strong with cash and cash equivalents of Rs. 17,653 crores as of quarter end”.

Mr Hans Fischer, MD & CEO of Tata Steel in Europe, said: “Our stronger cost and product mix position comnbined with currency tailwinds to improve our quarterly EBITDA performance.

“Our differentiation strategy continues to make progress with sales of differentiated products increasing by almost a seventh compared to a year ago. Among new product launches were an advanced high-strength steel offering carmakers weight savings in chassis components and a new product in our world-leading range called Coretinium® for electromagnetically shielded rooms and lighter-weight commercial vehicle trailers.

“We are continuing to focus on improving our competitive performance in the context of the continuing global supply-demand imbalance which led to steel imports into Europe increasing by a further 11% in the first half of 2016.”

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Disclaimer

Statements in this press release describing the Company's performance may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results may differ materially from those directly or indirectly expressed, inferred or implied. Important factors that could make a difference to the Company's operations include, among others, economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the Company operates, changes in or due to the environment, Government regulations, laws, statutes, judicial pronouncements and/or other incidental factors.

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