

February 4, 2016

Tata Steel reports Consolidated Financial Results for the third quarter and nine-months ended December 31, 2015

Tata Steel Group (the "Company") today declared its Consolidated Financial Results for the third quarter (Q3 FY'16) and nine-months (9M FY'16) ended December 31, 2015. Group deliveries increased to 6.37 million tonnes while Group turnover came in at ₹28,039 crores and EBITDA at ₹841 crores for the quarter ended December 31, 2015. For the nine-months ended December 31, 2015, the Group recorded deliveries of 19 million tonnes, consolidated turnover of ₹87,644 crores and EBITDA of ₹9,031 crores.

1. Consolidated Performance Highlights

All figures in ₹crores, unless specified

9M FY'16	9M FY'15		Q3 FY'16	Q2 FY'16	Q3 FY'15
18.98	19.25	Steel Deliveries (million tons)	6.37	6.29	6.29
87,644	105,838	Turnover	28,039	29,305	33,633
9,031	11,165	EBITDA	841	4,694	3,090
5,622	11,112	EBITDA Underlying*	838	1,985	2,790
3,850	4,431	Depreciation	1,133	1,371	1,451
3,111	3,653	Finance Costs	964	1,049	1,167
(1,117)	883	Exceptional Items	(712)	(564)	-
1,099	4,449	PBT	(1,937)	1,785	578
164	1,749	Profit after Taxes, Minority Interest and Share of Associates	(2,127)	1,529	157
0.35	16.64	Basic and Diluted Earnings per Share (₹)	(22.38)	15.31	1.16

*excludes one offs and profit on sale of quoted investments

2. Overview

Over the last year, global steel prices have declined sharply from around US\$460/tonne to around US\$260/t in line with the glut in supply and the sharp decline in raw material prices. Iron ore has dropped from around US\$68/t to around US\$40/t while coking coal has dropped from US\$115/t to around US\$80/t. Steel exports from countries such as China, Russia, Korea and Japan have surged to all-time highs on the back of lacklustre domestic demand, excess capacity and competitive currencies. Imports to India are now around 12 mtpa, with China being the largest exporter to India. Similarly, imports to Europe have increased to around 30mtpa million tonnes, with shipments from China surging by 57%. These unfairly priced imports are distorting the demand-supply balance in many regions, depressing domestic prices and undermining the profitability of many large steel producers.

3. Indian Business

Indian steel demand remained subdued post monsoon quarter due to sluggish uptick across key steel consuming sectors like construction, general engineering and infrastructure. Rural demand also remained muted. The oversupply in global steel markets coupled with relative stability of Indian rupee versus dollar as compared to other currencies has made India a favoured import destination. India saw a surge in net imports from countries such as Japan, Korea and China which grew by 143% yoy in 9M FY'16 and 67% yoy in Q3 FY'16. As a result, the domestic steel prices retreated sharply in line with international steel prices. While the price drop in Hot Rolled Coils was marginally offset by the provisional safeguard duty imposed in September 2015, prices of value-added products like Cold Rolled products, galvanised products and rebars declined sharply.

Despite these macro headwinds, the Indian operations of the Company reported strong growth in production and deliveries in the third quarter of current fiscal. Our investments in developing our marketing franchise, new products and customer service teams helped us in growing faster than the markets during the quarter. Branded segment sales continue to increase with brands such as Astrum, Galvano and Steelium registering healthy growth while value-added segment such as LPG also increased significantly.

- Hot metal and crude steel production increased to 2.69 million tonnes and 2.55 million tonnes respectively in Q3 FY'16, while saleable steel production increased by 13.1% yoy to 2.51 million tonnes.
- In our continuing efforts towards efficiency improvement, the Blast Furnaces in Jamshedpur achieved best ever coke rate and highest best-ever coal rate. Various facilities like Pellet Plant, Sinter Plant, Steel Melting Shops, Hot Strip Mill and New Bar Mill have also achieved best-ever Q3 production.
- On an underlying basis, 9M FY'16 EBITDA declined to ₹5,200 crores from ₹8,441 crores in 9M FY'15 reflecting the drop in steel price realisations by almost ₹7,800 per tonne on a year on year basis. Q3 FY'16 EBITDA stood at ₹1,523 crores compared to ₹1,963 crores in Q2 FY'16 and ₹1,979 crores in Q3 FY'15.
- Profit after tax in 9M FY'16 was ₹4,224 crores compared to ₹5,625 crores in 9M FY'15. Q3 FY'16 profit was ₹453 crores compared to ₹2,523 crores in Q2 FY'16 and ₹881 crores in Q3 FY'15. Profits for 9M FY'16 included sale of investments of ₹3,508 crores and exceptional loss of ₹1,255 crores largely towards regulatory related provisions and employee separation scheme while 9M FY'15 included exceptional gain of ₹1,935 crores from the sale of land at Borivali and investments in Dhamra Port Company.

4. European Business

Surging imports into Europe exerted further pressure on margins in the last quarter. The unprecedented market conditions, made worse by the UK's regulatory costs and strong pound, led to announcements to reduce jobs and mothball assets in the UK – part of an ongoing transformation programme. Regulatory action on a European and national level is needed to enable the business to compete fairly.

- Liquid steel production in 9M FY'16 declined to 11.11 million tonnes versus 11.26 million tonnes in 9M FY'15. Q3 FY'16 production was 3.56 million tonnes compared to 3.58 million tonnes in the previous quarter and 3.74 million tonnes in Q3 FY'15. Deliveries held steady at 3.35 million tonnes in Q3 FY'16, but increased imports led to lower downstream sales
- Turnover in 9M FY'16 declined sharply to ₹51,147 crores as compared to ₹60,341 crores in 9M FY'15 due to weak business environment and restructuring of UK business in the current fiscal. Q3 FY'16 turnover declined to ₹16,344 crores compared to ₹16,948 crores in Q2 FY'16 and ₹19,399 crores in Q3 FY'15.
- 9M FY'16 EBITDA loss was ₹339 crores as compared to gains of ₹3,231 crores in 9M FY'15. Q3 FY'16 EBITDA loss increased to ₹675 crores largely due to the sharp deterioration of market spreads in Q3 FY'16 to €180 per tonne from €207 per tonne in Q2 FY'16. This compares to the loss of ₹238 crores in the previous quarter and gains of ₹1,308 crores in Q3 FY'15. There was also a impairment and restructuring charges of ₹687 crores during the quarter.
- The European business continued its customer focus journey by developing differentiated and innovative products and services which make its customers more competitive. The automotive sector was a key area of growth with differentiated product sales increasing by 18% year on year. Satisfaction scores from key customers has significantly improved, and the company's attention to quality, differentiation and delivery has been recognised by several customers, including Volvo cars which awarded its quality award to Tata Steel – the first time this was awarded to a steel supplier.

5. South East Asian Business

The South East Asian operations reported turnaround performance as compared to last year despite higher Chinese imports in the region. In this challenging environment, the Company continues its focus on cost saving initiatives, new markets, downstream sales and exports. NatSteel profitability remained stable despite mothballing of China operations. Thai

operations achieved best-ever quarterly sales volume for value added products, though profitability was affected due to lower realisations.

- Turnover in 9M FY'16 declined to ₹6,048 crores from ₹10,587 crores in 9M FY'15 largely due to mothballing of China operations and lower rebar-scrap spreads. Turnover in Q3 FY'16 was ₹1,785 crores compared to ₹2,001 crores in the previous quarter and ₹2,831 crores in Q3 FY'15.
- 9M FY'16 EBITDA turned to gains of ₹155 crores compared to loss of ₹268 crores in 9M FY'15 largely due to turnaround in profitability of NatSteel operations. The EBITDA gain for Q3 FY'16 was ₹52 crores compared to ₹70 crores in the previous quarter and loss of ₹18 crores in Q3 FY'15.

6. Kalinganagar Greenfield Project update

- Project has achieved major milestones with respect to the start of sinter production, heating of Blast furnace and trials of various systems commenced at steel melting shop.
- The Company will continue its facility set-up in a phased manner with trial runs at each of state-of-the-art facilities and processes in Q4 FY'16 with blow-in of the blast furnace and heating of steel melting shop.
- The commencement of Kalinganagar steel plant will enhance the footprint of Odisha state in Indian steel industry and cater to wider range of customers with high-grade steel products.
- As at end of Q3 FY16, ₹23,000 crores was spent on the KPO project, of which ₹7,000 crores through project finance debt and balance through internal equity.

7. Corporate Developments

- Tata Steel UK Limited has announced cost-saving proposals to improve the competitiveness of its UK business. Plate mills in Scunthorpe, Dalzell and Clydebridge will be mothballed while one of the two coke ovens at the Scunthorpe steelworks will be closed. Along with earlier restructurings announced this year the proposed plan would lead to ~3,000 job losses.
- As a part of its program to enhance productivity in the future, Tata Steel India announced an employee separation program during the current fiscal. 1,171 employees have been separated till January 2016. NatSteel Holdings has also completed separation of 300 people in China.

- Tata Steel has successfully refinanced its offshore loan facilities of US\$1.5 billion. The maturity has been further extended at lower interest costs.
- Tata Steel UK Limited has signed a Letter of Intent with Greybull Capital for the potential sale of its Long Products business.
- In 2005, Tata Steel had signed an MOU to set up a greenfield steel plant in Chhattisgarh. Due to the inability of the State Government to extend the time to complete the prospecting operations for Iron ore and the amendment in the MMDR Act 1957 for allocation of minerals, the Company has decided not to pursue the project.
- Standard & Poor's ("S&P") has lowered the long term corporate credit rating of 'Tata Steel Limited' by one notch to BB- from BB with a Stable outlook.
- An MoU has been signed with the Government of Quebec with respect to a government participation in the DSO Canada project on or before 31st March 2016.

Executive Comment

Mr T V Narendran, Managing Director of Tata Steel India and South East Asia, said: "Steel markets in India have been affected by depressed international steel prices and predatory imports. Tepid demand among steel consuming sectors has further exacerbated the problem. Despite all these challenges, we continue to operate at full capacity and delivered 10.3% volume growth over last year. However, the quarter saw a sharp decline in steel prices which has impacted our margins. To realign ourselves with the new market realities, we are sharpening our focus on effective management of costs. We also continue to invest in our marketing franchise and in increasing the share of value added products.

During the quarter, we have dedicated the Kalinganagar steel plant to the state of Odisha. We expect to commence the commercial production by end of this fiscal year.

Our South East Asian operations is stable despite the flood of cheap imports in the region. We continue to be focused on cost savings and on increasing downstream sales & exports.

I am also happy to mention that Tata Steel has won the 'Prime Minister's Trophy for the best Integrated Steel Plant' in the country for the year 2013-14."

Dr Karl-Ulrich Köhler, MD & CEO of Tata Steel in Europe, said: “Growing European steel demand continues to be undermined by a flood of imports into the region. Chinese steel shipments into Europe leapt more than 50% last year, while imports from Russia and South Korea jumped 25% and 30% respectively. The European steel association has identified that Chinese steel is being exported at prices below the cost of production. This unfair trade is undercutting domestic producers and harming the European steel industry which employs many thousands of people and is at the foundation of much of the region’s cutting-edge innovation. That’s why we are calling on the European Commission and national governments to speed up and strengthen action against unfair trade.

This perfect storm caused the deterioration of our financial performance in the last quarter and led to us announcing restructuring in the UK where our operations also face higher regulatory costs. These changes will continue to be a core focus in a bid to improve our competitiveness and enable us to concentrate on supplying higher-value products to customers.

Making our customers more successful is key to our long-term differentiation strategy. With another 30 new product launches this year, we are making progress.”

Mr Koushik Chatterjee, Group Executive Director (Finance and Corporate), said: "The current business conditions for the global steel industry are extremely challenging with confluence of elevated imports across regions, currency headwinds and depressed market sentiments affecting Tata Steel Group’s profitability. We are witnessing significant unfairly priced imports into countries like the UK, India and South East Asia which has disrupted the pricing discipline in most markets.

The Tata Steel Group has embarked on significant cost rationalisation program including fixed cost reduction, right sizing of manpower, productivity management and enriching the product mix across all geographies. These programs are expected to enhance the sustainable profitability profile of the Company. The Company has also undertaken significant portfolio restructuring and will continue to pursue the same in the future

During the quarter, we successfully refinanced US\$1.5 billion of debt which has given us further flexibility and extended tenure while reducing costs. Our liquidity remains strong at ₹18,600 crores apart from the undrawn project finance facilities at Kalinganagar. The Group's leverage remain stable despite the ongoing capex of ₹8,800 crores in 9M FY'16, largely towards our Kalinganagar Project in Odisha.”



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NEWS RELEASE

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