TATA STEEL

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Tata Steel reports Consolidated Financial Results for the Quarter and year ended March 31, 2017

- Consolidated quarterly revenues up by 22% sequentially and by 30% over the last year driven by volume growth and supportive pricing environment.
- Launched 31 new products in India and 20 new products in Europe in FY17. Branded products contribute 45% of revenues in India. Differentiated products mix at Europe improved from 32% to 37% in the current fiscal.
- Consolidated EBITDA at Rs. 6,982 crore for Q4FY17 and Rs 17,025 crore for FY17.
- Consolidated quarterly EBITDA margin improved by 700 bps sequentially and 1200 bps over the last year. FY17 EBITDA margin improved by 700 bps over FY16.
- Consolidated PAT from continuing operations before exceptional items at Rs 3,352 crore for Q4FY17 (loss of Rs 453 crore in Q4FY16) and Rs 4,020 crore for the full year (loss of Rs 1,948 crore in FY16).
- Exceptional items, including non cash pension curtailment charges, aggregating to Rs 4,069 crore in Q4FY17 and Rs 4,324 crore in FY17, resulted in a PAT loss of Rs 1,168 crore for the quarter and Rs 4,169 crore for the year.

Tata Steel Standalone and Consolidated Highlights

(Figures in Rs. crore unless otherwise specified)

As per Ind AS	Standalone					Consolidated*				
	Q4FY17	Q3FY17	Q4FY16	FY17	FY16	Q4FY17	Q3FY17	Q4FY16	FY17	FY16
Steel Deliveries (Million Tonnes)	**3.21**	2.99	2.72	**10.97**	9.54	**6.83**	6.07	6.32	**23.88**	23.54
Turnover	**17,113**	14,106	11,736	**53,261**	42,697	**35,305**	29,025	27,071	**1,17,420**	1,06,340
EBITDA	**4,324**	3,393	2,238	**11,953**	7,792	**6,982**	3,647	2,197	**17,025**	7,951
Pre-Exceptional PAT from Continuing Operations	**1,857**	1,246	809	**4,148**	2,605	**3,352**	301	(453)	**4,020**	(1,948)
Exceptional Charges	**(442)**	(42)	(289)	**(703)**	(1,649)	**(4,069)**	(29)	(2,296)	**(4,324)**	3,990
PAT from Discontinued Operations	**-**	-	-	**-**	-	**(451)**	(41)	(293)	**(3,864)**	(2,540)
Reported PAT	**1,415**	1,205	520	**3,445**	956	**(1,168)**	232	(3,042)	**(4,169)**	(497)
Other Comprehensive Income	**24**	(558)	(102)	**676**	(3,407)	**1,393**	292	505	**(563)**	(1,898)
Total Comprehensive Income	**1,439**	646	419	**4,120**	(2,451)	**225**	524	(2,537)	**(4,732)**	(2,395)
EPS (Continuing & Discontinued Operations) (Rs.)	**14.12**	11.95	4.91	**33.67**	8.05	**(12.48)**	1.94	(31.80)	**(44.77)**	(6.92)

**Long Products and Specialty Steels businesses have been re-classified as held for sale/ discontinued operations. The previous year's figures have also been re-stated accordingly.*

Key Operating and Financial Highlights:

India Operations:

- Deliveries grew by 7% sequentially and 18% Year-on-Year (YoY), outperforming the domestic markets which grew by 8% sequentially and by 0.6% YoY. Full year volumes were 10.97 million tonnes.
- Kalinganagar Steel plant crossed 2.2 million tonnes of Hot Metal and 1.5 million tonnes of Hot Rolled Coil production since commissioning in May 2016.
- Automotive sales grew by 9% YoY, while Industrial Products, Projects & Exports vertical witnessed a 47% YoY growth.
- The performance of Ferro Alloys & Minerals division registered sharp improvement on the back of improved market conditions. Quarterly operating profit of the division at Rs. 573 crore is higher by Rs. 271 crore compared to the previous quarter and the full year operating profit of Rs 1,165 crore is higher by Rs 1,040 crore compared to the previous fiscal.
- EBITDA improved to Rs. 4,324 crore for the quarter, up 28% sequentially and 93% YoY on the back of supportive realisations, strong growth in deliveries and ramp-up of Kalinganagar plant. Full year EBITDA was Rs 11,953 crore for the Company.
- Tata Steel Jamshedpur continues to be the benchmark in India for Coke & Pulverized Coal Injection (PCI) usage and achieved lowest best-ever coke rate of 360 kg/tonne of hot metal and highest best-ever PCI rate of 181 kg/ tonne of hot metal in FY17.

European Operations:

- Liquid steel production in the fourth quarter of 2.62 million tonnes was flat on a sequential and YoY basis. Over the full year, production was 5% lower due to the focus on higher-value sales.
- Deliveries in the fourth quarter were 22% higher on a sequential basis, leading to a 25% uplift in revenue. Fourth-quarter deliveries were flat on a YoY basis but revenue was 33% higher, reflecting stronger sales of higher-value products as well as better market conditions. FY17 revenue was up 9%, despite lower deliveries. The proportion of differentiated products in the European sales mix increased over the last year from 32% to more than 37%.
- Measures to improve the competitive position of the UK operations, coupled with an improving sales mix and more favourable market conditions led to quarterly EBITDA of £230 million (Rs. 1,972 crore), up by £267m (Rs. 2,327 crore) YoY and up by £144m (Rs. 1,265 crore) sequentially. This was the highest quarterly EBITDA since 2008.
- FY17 European EBITDA was £536 million (Rs. 4,705 crore), compared to the loss of £52 million (Rs. 513 crore) in FY16, due to stronger market conditions, currency tailwinds, restructuring of UK operations as well as the ongoing improvement programmes, including the supply chain transformation programme which went live during the year.

South-East Asian Operations:

- Revenue for South East Asia operations grew by 26% YoY to Rs. 2,275 crore, on the back of improved deliveries at Tata Steel Thailand and supportive realisations.
- EBITDA increased by 117% YoY on better costs and spreads, reflecting improved market conditions at both NatSteel & Tata Steel Thailand.

Consolidated Debt and Liquidity position:

- Gross debt at Rs. 83,014 crore as on March 31, 2017, reduced by over Rs 1,700 crore from the previous quarter despite capital expenditure of Rs 2,092 crore during the quarter, and increased by Rs 1,028 crore over FY16. Net debt at Rs. 72,367 crore, reduced by over Rs 4,300 crore over the previous quarter and increased by Rs 1,268 crore over FY16.
- Strong liquidity position with cash & cash equivalents, current investments including undrawn bank lines of Rs. 19,800 crore.

Developments on UK Pensions:

- The accounting for exceptional items in the consolidated financial statements of Tata Steel Limited includes a significant accounting treatment arising from the closure of the defined benefit section of the British Steel Pension Scheme (BSPS) to future accruals in March 2017. This follows the completion of the consultation process by Tata Steel UK Limited (TSUK) with employees in the UK following which, the BSPS has been closed to future accruals with effect from the end of 31 March 2017. The closure of the scheme meant that all active members of the scheme became deferred pensioners which resulted into a crystallized non-cash curtailment strain of Rs 3,627 crore. The closure also serves as the first step in the restructuring of the UK pensions (below).
- After prolonged and intense discussions and negotiations with the BSPS Trustee, the Pensions Regulator (TPR) and the Pension Protection Fund (PPF), the key commercial terms of a Regulated Apportionment Arrangement (RAA) have been agreed in principle between TSUK and the BSPS Trustee. These terms are in line with the published principles of TPR and PPF. However, the RAA is subject to detailed documentation and formal approval by TPR and non-objection from the PPF, and the formal agreement of the individual entities who would be party to the RAA. These parties are in positive discussions and are hopeful of reaching final agreement shortly. If agreement is reached and the necessary approvals are obtained, the RAA will become effective once agreed conditions are satisfied, including the payment by a member of the Tata Steel group of an agreed settlement amount of GBP 550 million to the BSPS and the provision of a 33% equity stake in TSUK.
- TSUK has also agreed in principle, that subsequent to an RAA, TSUK would sponsor a closed new pension scheme (the New Scheme). TSUK sponsorship of a New Scheme is conditional upon satisfaction of certain qualifying conditions. If those conditions are satisfied, members of the BSPS would be offered an option to transfer to the New Scheme. The New Scheme would have lower future annual increases for pensioners and deferred members than the BSPS and therefore a improved funding position which would pose significantly less risk for TSUK. There is presently no certainty with regards to the eventual existence, size, terms or form of the New Scheme and the

funding position and membership of any New Scheme would be dependent on a voluntary membership transfer exercise.

- Each of the above events would be reflected in the books of accounts of Tata Steel entities on a standalone as well as consolidated level, as applicable. Apart from the accounting for the agreed settlement amount, all accounting impact in the financial statements relating to the above RAA process will be non-cash in nature. The financial accounting of the above process will be undertaken as per the applicable accounting practices and standards and the impact of the same will be disclosed, based on the certainty of trigger events in the future.

Other Corporate Developments:

- Tata Steel UK completed the sale of its Specialty Steels business for a total consideration of £100 million.

Major Awards & Recognitions during the year:

- Tata Steel Group recognised by World Steel Association for setting highest standards of health and safety at workplace.
- Tata Steel India declared as the global industry leader in the steel sector by the Dow Jones Sustainability Index (DJSI) assessment for the year 2016.
- Tata Steel India 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.
- Tata Steel India became India's first steel manufacturing company to receive Greenco platinum rating by CII Green Building Council (GBC).
- Tata Steel India gets First Prize in the Integrated Steel Sector at the National Energy Conservation Award 2016 for its excellence in Energy Conservation and Management.
- Tata Steel India conferred with First Prize for IIM National Sustainability Award for its recognition of Quality Control aspects in the Steel Sector.
- Tata Steel India recognised as 'World's Most Ethical Company' for the year 2017 by Ethisphere institute for fifth time.
- Tata Steel Europe conferred with quality award from Jaguar Land Rover, which means all of Tata Steel's automotive-focused sites in Europe have now earned the right to be considered as a supplier for the prestige carmakers' new vehicles.
- Tata Steel Europe became the first steel manufacturer ever to be recognised with the Volvo Cars Quality Excellence award.

Management Comments:

Mr T V Narendran, Managing Director, Tata Steel India and South East Asia, said: “Tata Steel continued to outperform the market in this quarter as well. We recorded robust sales across all our target segments and our overall volumes stood at 3.21 million tonnes which was higher by 7% sequentially. We are committed to investing in our customer relationships and on our marketing franchise to consolidate our position in India.

Further, our focus on cost improvement initiatives and our integrated operations helped us to contain the impact of rising raw material prices.

Increasing emphasis for domestically manufactured steel in government projects coupled with renewed thrust on infrastructure, affordable housing and tax reforms are expected to be supportive for demand and margins. Our Kalinganagar facility, which continues to ramp up smoothly, is well positioned to serve the expected increase in demand in FY’18 and beyond.

Our SEA operations continued to strengthen supported by higher exports, better market conditions and cost rationalisation initiatives, which helped improve operating results."

Mr. Koushik Chatterjee, Group Executive Director (Finance and Corporate), said: “The Consolidated EBITDA for Tata Steel Group was in excess of Rs 17,000 crore for the fiscal year 2017, which is the highest in the last 6 years. This is on the back of a 1200 basis points of expansion of EBITDA in the fourth quarter compared to the previous year, of which 600 basis points expansion was in India and 1600 basis points in Europe. The ongoing transformation programme in the UK, performance improvements in India and Netherlands contributed to the strong underlying performance. The market support and favourable currencies also helped the business to achieve this significantly improved performance.

The capex was lower than plan due to prioritisation of our capital expenditure programme and we have been able to keep the debt stable despite price related impact on working capital.

A significant milestone during the quarter was the completion of the consultation process and closure of the defined benefit scheme in the UK to future accruals. All employees in the UK can now opt into a defined contribution scheme. Following the above, we are in positive discussions with the BSPS Trustee, the Pension Regulator and the Pension Protection Fund in relation to an RAA, and are hopeful of reaching final agreement shortly."

Mr Hans Fischer, MD & CEO of Tata Steel in Europe, said: “Our focus remains on developing differentiated products and services – products which few of our competitors are able to make. These products and services help make our customers more competitive and they provide substantial margin uplifts for us. As a proportion of our overall mix, sales of differentiated products increased 32% to 37% last year.

Last year our researchers and engineers launched a further 20 new products. They include automotive steels which are unmatched among our European competitors, tubular products to meet emerging requirements for agricultural, construction and energy markets, and products which help our customers reduce their manufacturing costs.

Our improving sales mix, combined with a focus on reducing stock levels and increasing our delivery performance, strengthened our EBITDA result in the fourth quarter. Our full-year EBITDA result benefited from more favourable market and currency tailwinds, helped also by the strategic changes we've made in the UK.

While the majority of our positive earnings results came from our Mainland European supply chain, our UK operations are making positive strides forward to improve their competitiveness.

Steel imports into Europe rose by a further 9% last year which continues to restrict domestic growth. We must continue our transformation programmes to improve our competitive performance and continue to focus on developing innovative products and services for our customers."

Disclaimer:

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