

Tata Steel : Trading Strategy

Sell Tata Steel Buy Tata Steel Compulsory Convertible Preference Shares (CCPS)

Face Value of CCPS	Rs. 100
Conversion Date	September 1, 2009
Conversion Ratio	1 Equity Share for every 6 CCPS
Coupon Rate	2%
CMP	~ Rs 25.2
Dividend Entitlements per CCPS	Rs 2 for (April 1, 2008 to March 31, 2009) Rs 0.83 for (April 1, 2009 to August 31, 2009)
Effective cost in September for getting 1 equity share	$(25.2*6) - ((2+0.83)*6) = \text{Rs } 134$
Current CMP of ordinary share	Rs 172
Effective saving	22% in 7 months

Important Factor

In this Strategy, Tata Steel Ordinary Equity Shareholder will lose their right of final dividend, which we believe is going to be significantly lower than previous year dividends. The interaction with Tata Steel management reveals that their main focus would be maintaining FY2010 debt covenants, which would be possible by preserverness of cash. Therefore, we believe a 50% reduction in dividend rate to 80% is quite likely and one possibility suggest the full skip of current year dividend.

Year	200203	200303	200403	200503	200603	200703	200803
Dividend Rate (%) (FV Rs 10)	40	80	100	130	130	155	160

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