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Tata Motors: Acquisition of Jaguar & Land Rover

Catching a Falling Knife ?



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Key Takeaways of this presentation

- Tata Motors has purchased Jaguar & Land Rover for \$2.3bn
- Investors wary due to its short-to-medium-term impact
 - Concerns on soft demand outlook and TAMO's execution
- We believe investor pessimism is unwarranted at current price
- TAMO has negotiated the deal from a position of strength
 - Current price of TAMO mostly discounts the risk of execution
- A look back of TAMO's corporate strategy and current valuation suggests this is the opportune time to BUY into the stock
- Maintain our BUY Recommendation and Target Price (Rs 920)

Deal highlights

TAMO has purchased Jaguar & Land Rover from FORD for \$2.3bn cash

- Acquired company is Debt-free and profitable

FORD commits long-term support

- Makes whole JLR's pension plan; ploughing back \$600m from sale proceeds
- Commits to supply engines, components etc for a period of 7-9 years
- Price includes several technologies on 'royalty-paid' basis

TAMO is raising a \$3bn bridge loan in an SPV to fund the purchase

- Looking at long-term funding options including stake sales in group companies

Is TAMO catching a falling knife...or

Investor concerns have centered around

- Price & Timing of the Buy
- Quality of the Asset
- Execution capability of TAMO to manage & turnaround Jaguar
- Financing Risk (price is c30% of TAMO EV)

We address investor concerns in the following slides

We are +ve about the deal especially AT CURRENT PRICE of Tata Motors

....Are investors missing the forest for the trees?

Deal dynamics & timing minimize the price risk

- TAMO was the sole credible buyer, no price tension. Deal covenants reflect strong bargaining position
- Unprecedented access to JLR stakeholders (pension trustees, labour unions etc)
- TAMO management has likely factored the soft demand environment into their price

Ideal environment to do a strategic deal

- TAMO has taken incremental steps towards 'internationalisation' in last 3-4 years... this is not a 'big-bang'
- Tatas best-placed Indian biz house to manage foreign assets

Deal Valuation and Impact (DB est)

- 2-3xCY2007 EV/EBITDA, 0.94x P/B & 0.2xCY2007 EV/Sales (*Slide 15 for details*)
- Pro forma FY09E PBT likely to fall by 10-12% (*Slide 16*)

TAMO auto biz is minimally leveraged which gives headroom for debt

- Headline leverage (Debt/equity of 0.8x) due to vehicle financing business

Reasons for our BUY reco

Investor pessimism is in the price

- Currently at lower–end of trading band & underperformed Ashok Leyland since Nov-07 (*slide 7 for charts*)

Funding options – TAMO willing sell stakes in group cos

- Headline leverage numbers reflect impact of financing biz (FY07Net Debt/Equity of 0.8x)
- We estimate auto business has current debt/equity of 0.15x giving reasonable headroom to take debt options
- Stake sales can help raise at least \$500-700m (*Slide 17*)

TAMO has strong tailwinds in its existing business

- Expected cyclical upswing in Medium & heavy commercial vehicles (50% of Revenues & EBIT), (*refer to slide 9*)
- Robust launch pipeline across its entire product platform

Trading at 10xFY09E EPS (pre-JLR)

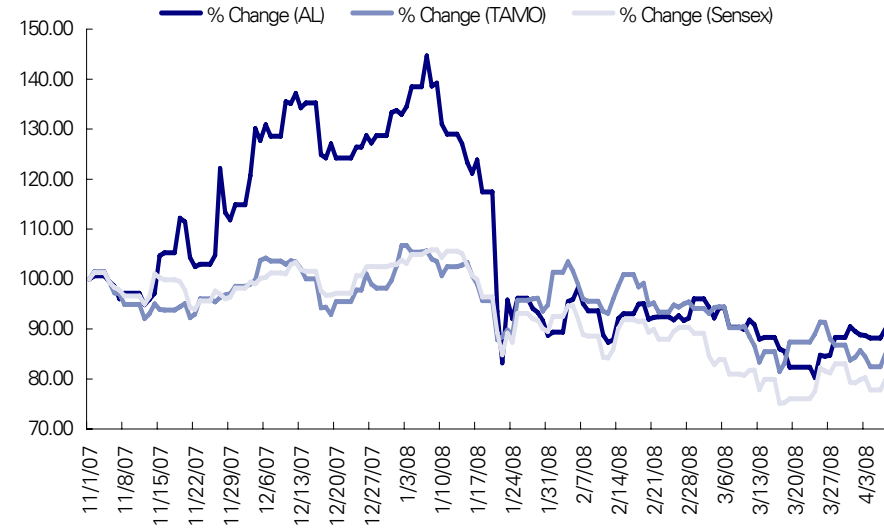
Investor pessimism is in the price

TAMO – 1-yr forward PE chart



Source: Deutsche Bank, Companies

Relative price perf of TAMO, AL and Sensex

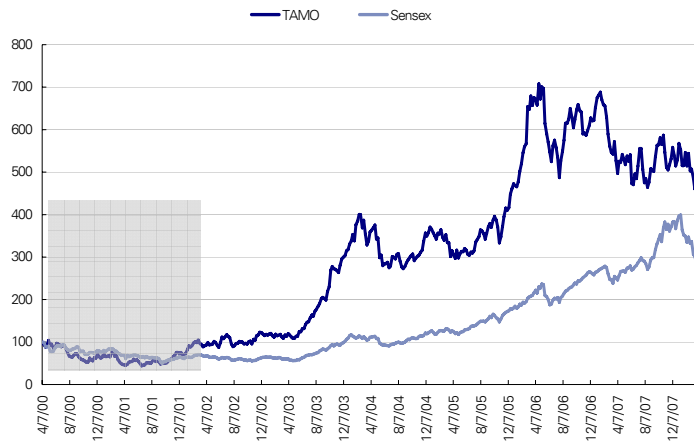


Source: Deutsche Bank, Companies

- TAMO trading range has been 10-18x 1-yr forward earnings.
- At the time the deal was first announced, it was trading close to its long term average and has since slid down to its historical low.
- The stock has also underperformed its domestic peer Ashok Leyland

Is this a repeat of FY01

TAMO – Long-term price performance

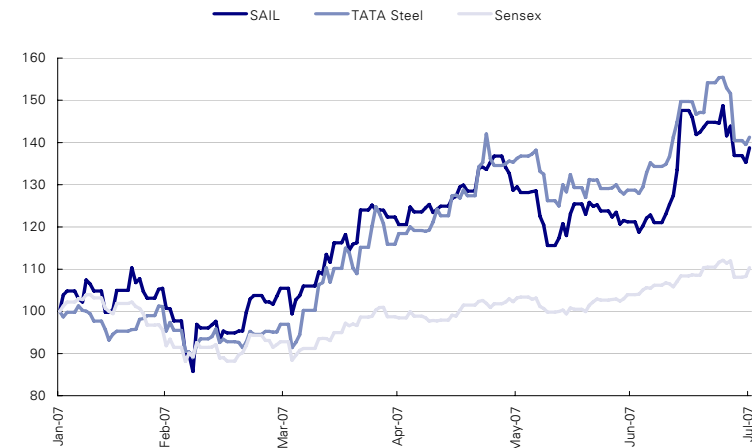


Source: Deutsche Bank, Mumbai stock exchange

TAMO- A similar dynamic was visible in FY2001

- TAMO's entry into passenger car business in FY2000 was greeted with same degree of investor skepticism
- A loss of Rs 5bn in FY01 (first ever in company's history) accentuated investor fears

Tata Steel: Perf relative to SAIL and Sensex after Corus acquisition



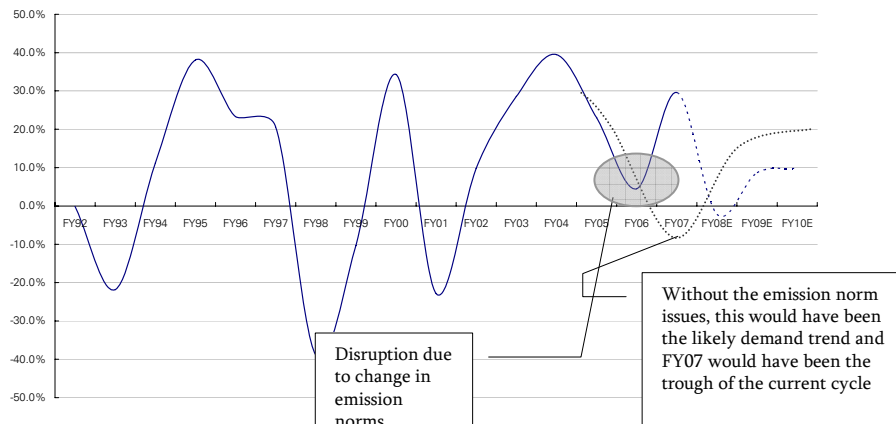
Source: Deutsche Bank, Mumbai stock exchange

TATA steel – Corus deal:

- Tata Steel bought Corus in an ascending price auction leading to significant uncertainty on deal price
- However, since the day of announcement of purchase price (Jan 31st 2007) Tata Steel has moved in line with SAIL (Steel authority of India – its closest peer)

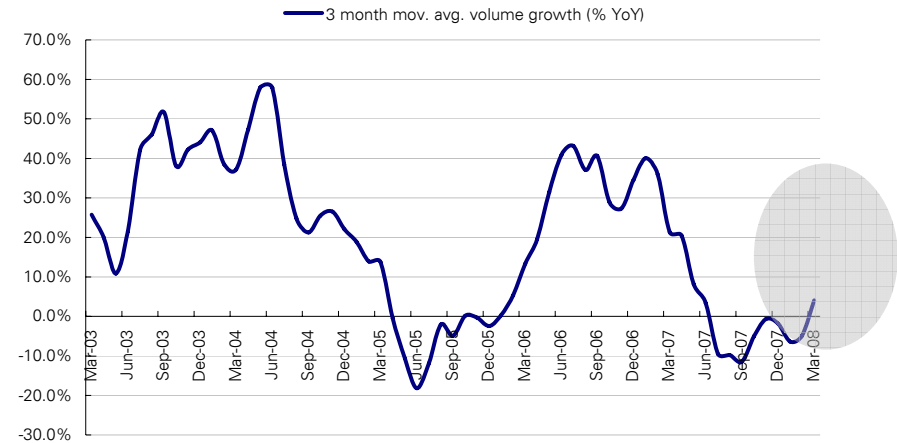
TAMO – Favorable tailwinds

Domestic Commercial vehicles (YoY)



Source: Deutsche Bank, Industry Data

TAMO heavy vehicle sales



Source: Deutsche Bank, Companies

CVs – cyclical upswing should offset impact of structural slowdown in IIP

- Both Tata Motors and Ashok Leyland have reported robust sales volumes in last 3 months

Robust launch pipeline in both trucks and passenger vehicles

- World Truck and new Indica (car) expected to be launched over next 6 months

TAMO: 2-year EPS CAGR (FY08E-10E) of 23% excluding the impact of Jaguar/Land Rover

TAMO – Low leverage of the auto biz provides funding flexibility

TAMO has current financed the purchase through a \$3bn, 15month bridge loan

- It intends to refinance the loan through long-term funds

TAMO's headline leverage appears high due to impact of vehicle financing business

- At end-FY07, TAMO had consolidated Debt of Rs 73bn against vehicle financing receivables of Rs 79bn; hence the auto-biz was effectively debt free
- We estimate that at the end of 3QFY07 (Dec-07), TAMO had debt of Rs 10bn with D/E of 13% giving room for TAMO to borrow and refinance the SPV debt.

TAMO has valuable stakes in group companies

- We estimate it owns \$400m of Tata Steel at current prices
- It also owns stake in Tata Sons (Tata Group's holding company) which would be worth at least \$600m based on the market value of Tata Sons' shareholding in key listed Tata group companies

Valuations and Risks

Valuations

- Trading at 10xFY09E P/E; close to lower end of its trading band
- Our DCF target price of Rs920 (Rf 7.2%, Rm 4.5%, CoE 12.6%, Kd 9%, WACC 10.9% & 4% terminal growth rate) values TAMO at 15xFY09E EPS (consolidated).
- We do not ascribe any separate value to the subsidiaries
 - Most of them are 100% owned by TAMO and hence consolidated EPS provides a fair basis for valuation.
- We have not ascribed any value to TAMO's holdings in group companies as we saw minimal chance of value unlocking.
 - However management comments after the JLR deal indicate that they would sell some of these holdings to fund the acquisition which we view as positive development.

Risks

- The key risk after this acquisition would be the performance of JLR. Any drop in profitability would have a material impact on TAMO's consolidated financials.
- A prolonged downturn in CV demand would stretch domestic profitability and cashflow.
- Any failure to launch the new products within the forecast timeframe is also a risk to our estimates.

Valuation Comparison

Tata Motors – Financial highlights and Valuation metrics

Period	Price	Net Sales (Rs mn)	Sales grth (%)	EBIDTA (Rs m)	Adj. PAT (Rs mn)	EBITDA Margin	Adj PAT Margin	FDEPS (Rs)	EPS gth %	ROCE (%)	ROE (%)	PE (X)	EV/ EBITDA(x)	Mkt Cap/ Sales (X)
FY05	414	192,792	41%	23,367	13,891	12.1	7.2	35.8	40	32	34	12	6.7	1.3
FY06	933	231,523	20%	28,519	17,306	12.3	7.5	42.9	20	31	32	22	13.3	1.1
FY07E	727	314,044	36%	36,814	20,393	11.7	6.5	50.1	17	27	29	15	9.3	0.8
FY08E	631	326,246	4%	38,826	21,059	11.9	6.5	49.8	(1)	19	24	13	9.2	0.7
FY09E	631	383,421	18%	47,856	26,198	12.5	6.8	61.2	23	17	25	10	7.9	0.6
FY10E	631	450,730	18%	58,483	32,360	13.0	7.2	75.6	24	17	26	8	6.7	0.5

Source: Deutsche Bank, Companies

Ashok Leyland – Financial highlights and Valuation metrics

Period	Price	Net Sales (Rs mn)	Sales grth (%)	EBIDTA (Rs m)	Adj. PAT (Rs mn)	EBITDA Margin	Adj PAT Margin	FDEPS (Rs)	EPS gth %	ROCE (%)	ROE (%)	PE (X)	EV/ EBITDA(x)	Mkt Cap/ Sales (X)
FY05	21	41,819	23%	4,240	2,407	10.1	5.8	1.8	16	14	22	12	6.1	1.1
FY06	40	52,476	25%	5,401	3,056	10.3	5.8	2.3	13	15	24	18	9.0	0.9
FY07	37	71,682	37%	6,859	4,376	9.6	6.1	3.3	43	19	27	11	6.9	0.6
FY08E	37	75,330	5%	7,059	3,819	9.4	5.1	2.9	(13)	15	19	13	8.0	0.6
FY09E	37	85,447	13%	8,288	4,299	9.7	5.0	3.2	13	14	19	12	7.5	0.5
FY10E	37	96,832	13%	9,877	4,996	10.2	5.2	3.8	16	14	20	10	6.8	0.5

Source: Deutsche Bank, Companies



Annexures

TAMO – Key assets acquired from FORD

Figure 1: What has TAMO paid for

Item	Description
100% stake in Jaguar and Land Rover business	TAMO has acquired the businesses and initially they will be operated independently of the parent. Most senior management to continue
3 plants in UK	These are well invested modern plants
2 advanced design and engineering centres	4-5000 engineers engaged in testing, prototype building, design and powertrain engineering, development and integration.
26 national sales companies	Both existing national sales companies of Jaguar/Land Rover and also those that are to be carved out of the current Ford operations
Intellectual property rights	This covers all key technologies to be transferred to JLR and perpetual royalty free licenses on technologies shared with Ford
Capital allowances	A minimum guaranteed amount of \$ 1.1bn which will help in managing tax going forward
Support from Ford Motor Credit	Ford Motor credit will continue to support the sales of Jaguar and Land Rover for around another 12 months
Pension contribution by Ford	Ford will contribute \$ 600mn to the pension fund and the next actuarial valuation will take place only in April 2009

Source: Company, Deutsche Bank

TAMO – JLR: Deal Valuations

Figure 2: Valuations appear reasonable

\$US m		
PAG- Recurring PBT (4Q07)	59	Based on FORD 10K. This also includes the impact of Volvo cars. However FORD in its Sept-07 10Q filing commented that JLR is profitable whereas Volvo cars made a loss. We have assumed the entire 4Q recurring PBT of PAG to come from Jaguar/Land Rover
PBT - Annualised	236	
JLR - Depr & Amort	699	Assuming share of Jaguar and Land Rover at 60% of 4Q07 PAG Depr & Amort
JLR - EBITDA	935	FORD does not allocate interest cost to its various business segments while reporting segmental pre-tax profit. Further, PAG has not generated any interest income. Hence we just add back depr & Amort to PBT to arrive at recurring EBITDA.
EV/EBITDA	2.46	We believe that JLR's EBITDA would range from \$1bn. Based on an EV of \$2.3bn
JLR Sales (4Q07)	3,554	Assuming share of Jaguar and Land Rover at 40% of 4Q07 PAG sales
JLR Sales - Annualised	14,214	
EV/Sales	0.16	
<i>JLR implicit EBITDA margin</i>	<i>6.58%</i>	Based on our assumption for JLR's share of PAG sales and depreciation, we are implying this margin which we believe is reasonable
JLR –shareholders' equity	2,456	FORD 10K indicates that shareholders' equity of JLR is \$2.5bn
Purchase price	2,300	As disclosed by company
Price to Book	0.94	

Source: Deutsche Bank, Companies

Impact on TAMO's PBT

Figure 3: Impact on Proforma PBT of Tata Motors

Rs bn	FY09E/CY08E				FY10E/CY09E			
	TAMO	JLR	SPV	Total	TAMO	JLR	SPV	Total
Sales	408	569		977	480	569		1,049
Cost synergies						2.8		
EBITDA	48	37		85.3	60	40		100
EBITDA margin	11.7%	6.6%		8.7%	12.4%	7.1%		9.5%
Depr	8.7	28.0		36.7	10.4	28.0		38.3
Interest	5.6	4.9		10.4	6.0	4.9		10.8
Other income	4.2			4.2	4.5	-		4.5
Current PBT	37.7	4.6		42.3	47.9	7.4		55.3
Interest cost of acquisition	-		9.0	9.0	-		9.0	9.0
PBT	37.7	4.6	(9.0)	33.3	47.9	7.4	(9.0)	46.4
Impact on TAMO FY09E PBT	-12%				-3%			

Source: Deutsche Bank, Companies

If JLR is able to improve its profitability by 50bps in CY09E, the purchase would be neutral at PBT level.

TAMO: Valuation of stakes in Group cos

Figure 4: TAMO – value of major stakes in group companies

Company	% stake	No of shares (mn) held by Tata motors	Price (Rs)	Implied Value	value of Holding
Tata Steel	4.3%	25.8	670		17,286
Tata Sons	3.1%	12375		760,264	23,282
Total value of holdings (Rs m)					40,568
Value of holdings (\$ mn)					1,014

Source: Deutsche Bank, Companies, CMIE

Figure 5: Value of Tata Sons' major public holdings

Company	Mkt cap (Rs m)	Stake of Tata Sons	Value for Tata Sons (Rs m)
TCS	853,299	75%	639,974
Tata Steel	489,673	27.60%	135,150
Tata Power	255,310	31%	79,146
Tata Communications	148,214	32%	47,428
Tata tea	52,192	23%	12,004
Tata Teleservices*	240,000	65%	156,000
Tata Chemical	69,730	15%	10,460
Tata Investcorp	14,822	40%	5,929
Implied value of Tata Sons' holdings			1,086,091
<i>Discount</i>			<i>30%</i>
Discounted value of holdings			760,264

Source: Deutsche Bank, Stock Exchange

* For Tata Teleservices we have estimated market cap from Tata Teleservices (Maharashtra) which is its listed subsidiary.

Appendix 1

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Tata Motors Ltd	TAMO.BO	627.15 (INR) 8 Apr 08	2,4,6
Ashok Leyland Ltd	ASOK.BO	37.10 (INR) 8 Apr 08	14
Steel Authority of India Limited	SAIL.BO	157.55 (INR) 8 Apr 08	6
Tata Steel Limited	TISC.BO	656.30 (INR) 8 Apr 08	1,7,8,17

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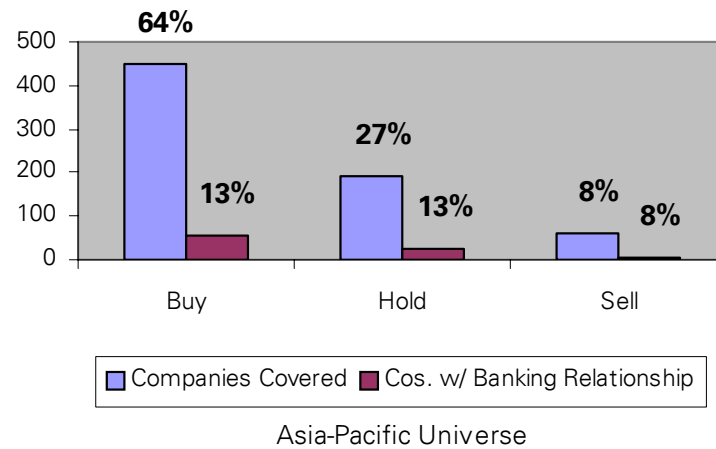
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